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July 7, 2016

VIA E-FILING

Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

Re:

- *Docket No. 160021-EI, In re: Petition for Rate Increase by Florida Power & Light Company; and*
- *Docket No. 160062-EI, In re: 2016 Depreciation and dismantlement study by Florida Power & Light Company (consolidated)*

Dear Ms. Stauffer:

Please find enclosed for electronic filing in the above-referenced dockets the Direct Testimony and exhibits of witnesses Richard Baudino (Exhibits RAB-1 through RAB-13), Lane Kollen (Exhibits LK-6 through LK-36), and Stephen Baron (Exhibits SJB-1 through SJB-17), filed on behalf of intervenor South Florida Hospital & Healthcare Association.

If you have any questions, please do not hesitate to contact me at (202) 662-2715 or by e-mail at kwiseman@andrewskurth.com.

Very truly yours,

/s/ Kenneth L. Wiseman
Kenneth L. Wiseman

cc: All parties of record

CERTIFICATE OF SERVICE
DOCKET NO. 160021-EI

I HEREBY CERTIFY that a copy of the foregoing has been furnished by electronic mail and U.S. Mail to the following parties on this 7th day of July, 2016:

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/s/ Kevin C. Siqveland
Kevin C. Siqveland

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**IN RE: PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT)
COMPANY AND SUBSIDIARIES)** **DOCKET NO. 160021-EI**

**DIRECT TESTIMONY
AND EXHIBITS
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTH CARE ASSOCIATION**

July 2016

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE: PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) **DOCKET NO. 160021-EI**
COMPANY AND SUBSIDIARIES)

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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE: PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) **DOCKET NO. 160021-EI**
COMPANY AND SUBSIDIARIES)

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
16 of issues in the ratemaking field. Areas in which I testified included cost of service,

1 rate of return, rate design, revenue requirements, analysis of sale/leasebacks of
2 generating plants, utility finance issues, and generating plant phase-ins.

3
4 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a
5 Senior Consultant where my duties and responsibilities covered substantially the
6 same areas as those during my tenure with the New Mexico Public Service
7 Commission Staff. I became Manager in July 1992 and was named Director of
8 Consulting in January 1995. Currently, I am a consultant with Kennedy and
9 Associates.

10
11 Exhibit No. ____ (RAB-1) summarizes my expert testimony experience.

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

13 A. I am testifying on behalf of the South Florida Hospital and Healthcare Association
14 (“SFHHA”).

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

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

19 **Q. Please summarize your Direct Testimony regarding the cost of equity.**

20 A. I recommend that the Florida Public Service Commission (“Commission”) approve a
21 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”). Those results are set forth below. In
4 my opinion, a return on equity of 9.00% is a reasonable estimate of the required
5 return on equity for a low-risk, financially robust electric company such as FPL. As
6 I will demonstrate in the following sections of my testimony, the market evidence I
7 examined supports my ROE recommendation.

8
9 The Commission should reject the return on equity recommendation of 11.0% of
10 FPL witness Robert Hevert. I will demonstrate in detail in Section IV of my Direct
11 Testimony that Mr. Hevert’s ROE analyses significantly inflated the investor
12 required return for FPL. Mr. Hevert’s recommended return on equity of 11.0% is
13 unsupported by an objective evaluation of current financial markets. Moreover, a
14 11.0% ROE would burden Florida ratepayers with excessive rate levels.

15
16 In addition to FPL’s excessive ROE request of 11.0%, several FPL witnesses also
17 supported the addition of 0.50% to Mr. Hevert’s recommended ROE, raising the
18 Company’s requested ROE to 11.50%. I will explain later in my testimony that the
19 addition of a ROE adder for allegedly “excellent performance” is unwarranted,
20 unreasonable and should be rejected by the Commission.

21 **Q. Please summarize your testimony regarding the cost of debt.**

1 A. FPL included two forecasted rates of long-term issuances with assumed coupon rates
2 that are excessive and failed to reflect the reality of current debt costs. FPL assumed
3 a 6.16% cost rate for these forecasted debt issuances in its 2017 rate year and a
4 6.50% rate for an additional issuance in its 2018 rate year. In order to reflect current
5 and far more realistic debt costs, I recommend that these three issuances be assigned
6 coupon rates of 4.10%.

7 **Q. Please summarize your conclusions and recommendations regarding capital**
8 **structure.**

9 A. FPL witness Dewhurst recommended a capital structure that consists of
10 approximately 60% common equity. This proposed equity ratio is clearly excessive
11 and completely unnecessary for FPL to maintain an A credit rating. Under either my
12 recommended ROE or that of FPL, *the carrying cost of each dollar of equity is three*
13 *times as expensive as a dollar of debt.* Yet during the past four years, FPL failed to
14 conduct analyses relevant to ensuring that ratepayers are not burdened with an
15 excessive, unjust, and unreasonable amount of common equity in its capital
16 structure. FPL did not benchmark its target capitalization against other utilities. In
17 fact, FPL's proposed cost of equity and capital structure in this case will cost
18 ratepayers approximately \$723 million at a 9% equity return for the 2017 test year,
19 according to Mr. Kollen's calculations. *See SFHHA Witness Kollen Direct*
20 *Testimony at page 5.* I shall show later in my testimony that a 60% common equity
21 ratio is significantly greater than prevalent in *any* of the electric utility comparison
22 groups used to estimate the return on equity for FPL. In this proceeding, I
23 recommend that the Commission set FPL's equity ratio at 55%. A 55% equity ratio

1 is still higher than the average of the electric utility comparison groups used by Mr.
2 Hevert and myself and is consistent with and A/A credit rating.

3
4 In a period of record low or near record low interest rates, it is wholly inconsistent
5 with protecting the interests of FPL's ratepayers' to simply presume the capital
6 structure of FPL should be set at 60%, above the level used by any of the comparison
7 group members advanced by FPL or in my testimony. As recently as 2014, FPL's
8 equity component of capital structure, as shown in MFRs, was 55%. FPL suffered
9 no diminution in its credit and bond ratings from this lower common equity
10 percentage.

11
12 I recognize that the Commission declined to adopt my recommendation in Docket
13 No. 080677-EI to lower FPL's common equity ratio. In that proceeding, FPL's
14 requested common equity ratio from investor-supplied capital was 59.6%. In that
15 case, the Company imputed off-balance sheet purchased power agreements ("PPAs")
16 of \$950 million, which lowered its "adjusted" common equity ratio to 55.8%. Since
17 FPL's last rate case, its PPA liabilities have declined substantially. To the extent that
18 the Commission felt in 2012 it was necessary for FPL to increase its common equity
19 ratio to offset its purchased power contract obligations, the reduction in FPL's PPA
20 liabilities substantially reduces that concern.

21

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. Generally speaking, interest rates have declined over the last few years. Exhibit No.
5 ___ (RAB-2) presents a graphic depiction of the trend in interest rates from January
6 2008 through May 2016. The interest rates shown in this exhibit are for the 20-year
7 U.S. Treasury Bond and the average public utility bond from the Mergent Bond
8 Record. In January 2008, the average public utility bond yield was 6.08% and the
9 20-year Treasury Bond yield was 4.35%. As of May 2016 the average public utility
10 bond yield was 4.06%, representing a decline of 202 basis points, or 2.02 percentage
11 points, from January 2008. Likewise, the 20-year Treasury bond declined to 2.22%
12 in May 2016, a decline of 2.13 percentage points (213 basis points) from January
13 2008.

14 **Q. Was there a significant change in Federal Reserve policy during the historical**
15 **period shown in Exhibit No. ___(RAB-2)?**

16 A. Yes. In response to the 2007 financial crisis and severe recession that followed in
17 December 2007, the Federal Reserve ("Fed") undertook a series of steps to stabilize
18 the economy, ease credit conditions, and lower unemployment and interest rates.
19 These steps are commonly known as Quantitative Easing ("QE") and were
20 implemented in three distinct stages: QE1, QE2, and QE3. The Fed's stated purpose
21 of QE was "to support the liquidity of financial institutions and foster improved
22 conditions in financial markets." Exhibit No. ___ (RAB-3) at pp. 1-2 (also available
23 at: http://www.federalreserve.gov/monetarypolicy/bst_crisisresponse.htm).

1

2 QE1 was implemented from November 2008 through approximately March 2010.

3 During this time, the Fed cut its key Federal Funds Rate to nearly 0% and purchased

4 \$1.25 trillion of mortgage-backed securities and \$175 billion of agency debt

5 purchases.

6

7 QE2 was implemented in November 2010 with the Fed announcing that it would

8 purchase an additional \$600 billion of Treasury securities by the second quarter of

9 2011. Exhibit No. ____ (RAB-3) at pp. 3-4 (also available at:

10 <http://www.federalreserve.gov/newsevents/press/monetary/20101103a.htm>).

11

12 Beginning in September 2011, the Fed initiated a "maturity extension program" in

13 which it sold or redeemed \$667 billion of shorter-term Treasury securities and used

14 the proceeds to buy longer-term Treasury securities. This program, also known as

15 "Operation Twist," was designed by the Fed to lower long-term interest rates and

16 support the economic recovery.

17

18 QE3 began in September 2012 with the Fed announcing an additional bond

19 purchasing program of \$40 billion per month of agency mortgage backed securities.

20 On June 19, 2013, the Federal Open Market Committee ("FOMC") issued a press

21 release indicating that it intended to extend "Operation Twist." In its press release,

22 the Federal Reserve stated:

23 To support a stronger economic recovery and to help ensure

1 that inflation, over time, is at the rate most consistent with its
2 dual mandate, the Committee decided to continue purchasing
3 additional agency mortgage-backed securities at a pace of \$40
4 billion per month and longer-term Treasury securities at a pace
5 of \$45 billion per month. The Committee is maintaining its
6 existing policy of reinvesting principal payments from its
7 holdings of agency debt and agency mortgage-backed
8 securities in agency mortgage-backed securities and of rolling
9 over maturing Treasury securities at auction. Taken together,
10 these actions should maintain downward pressure on longer-
11 term interest rates, support mortgage markets, and help to
12 make broader financial conditions more accommodative.

13 [Exhibit No. ____ (RAB-3) at pp. 5-6 (also available at:
14 [https://www.federalreserve.gov/newsevents/press/monetary/20](https://www.federalreserve.gov/newsevents/press/monetary/20130619a.htm)
15 [130619a.htm](https://www.federalreserve.gov/newsevents/press/monetary/20130619a.htm)).]

16 More recently, the Fed began to pare back its purchases of securities. For example,
17 on January 29, 2014 the Fed stated that beginning in February 2014 it would reduce
18 its purchases of long-term Treasury securities to \$35 billion per month. The Fed
19 continued to reduce these purchases throughout the year and in a press release issued
20 October 29, 2014 announced that it decided to close this asset purchase program in
21 October. Exhibit No. ____ (RAB-3) at pp. 7-8 (also available at:
22 <http://www.federalreserve.gov/newsevents/press/monetary/20141029a.htm>).

23 **Q. Since the Fed's announcements of scaling back and finally ending its purchases**
24 **of long-term Treasury securities, what has the trend been in long-term**
25 **Treasury yields from 2014 through 2016?**

26 A. The yield on the 20-year Treasury bond has actually declined since the beginning of
27 2014. The January 2014 yield on the 20-year Treasury bond was 3.52%. Exhibit
28 No. ____ (RAB-2). The closing yield for May 2016 was 2.22%, a decline of 130
29 basis points since January 2014. Exhibit No. ____ (RAB-2).

1 **Q. Has the Fed recently indicated any important changes to its monetary policy?**

2 A. Yes. Recently the Fed raised its target range for the federal funds rate to 1/4% to
3 1/2% from 0% to 1/4%. The Federal Reserve also issued a press release on March
4 16, 2016 stating that it would continue to maintain this target range at present.
5 Exhibit No. ____ (RAB-3) at pp. 9-10 (also available at:
6 <http://www.federalreserve.gov/newsevents/press/monetary/20160316a.htm>). This
7 press release also stated:

8 The Committee currently expects that, with gradual
9 adjustments in the stance of monetary policy, economic
10 activity will expand at a moderate pace and labor market
11 indicators will continue to strengthen. However, global
12 economic and financial developments continue to pose risks.
13 Inflation is expected to remain low in the near term, in part
14 because of earlier declines in energy prices, but to rise to 2
15 percent over the medium term as the transitory effects of
16 declines in energy and import prices dissipate and the labor
17 market strengthens further. The Committee continues to
18 monitor inflation developments closely.

19 Against this backdrop, the Committee decided to maintain the
20 target range for the federal funds rate at 1/4 to 1/2 percent. The
21 stance of monetary policy remains accommodative, thereby
22 supporting further improvement in labor market conditions
23 and a return to 2 percent inflation.

24 **Q. Why is it important to understand the Fed's actions with respect to monetary
25 policy since 2007?**

26 A. The Fed's monetary policy actions since 2007 were deliberately undertaken to lower
27 interest rates and support economic recovery. The Fed's actions have been quite
28 successful in lowering interest rates given that the 20-year Treasury Bond yield in
29 June 2007 was 5.29% and the public utility bond yield was 6.34%. The U.S.
30 economy is currently in a low interest rate environment that, in my opinion, will

1 likely continue at least through this year. As I will demonstrate later in my
2 testimony, low interest rates have also significantly lowered investors' required
3 return on equity for the stocks of regulated utilities.

4 **Q. Have recent developments reinforced the prevailing low interest rate**
5 **environment?**

6 A. Yes. Several central banks have implemented *negative* interest rates. Exhibit No. __
7 (RAB-3) at pp. 11-12 (noting that the Swiss National Bank set its benchmark interest
8 rate at minus 0.75% and that nearly the entirety of Switzerland's yield curve was
9 negative; yield curves for Japan and Germany are also provided showing negative
10 interest rates for bonds with a duration of up to 10 years). Indeed, Federal Reserve
11 Chairman Yellen has discussed the possibility of negative interest rates (available at:
12 [http://www.bloomberg.com/news/articles/2016-05-12/yellen-doesn-t-rule-out-](http://www.bloomberg.com/news/articles/2016-05-12/yellen-doesn-t-rule-out-negative-rates-in-letter-to-congressman)
13 [negative-rates-in-letter-to-congressman](http://www.bloomberg.com/news/articles/2016-05-12/yellen-doesn-t-rule-out-negative-rates-in-letter-to-congressman) (last visited July 2, 2016) (in written
14 responses Thursday to questions from Representative Brad Sherman, Yellen said that
15 "while I would not completely rule out the use of negative interest rates in some
16 future very adverse scenario, policy makers would need to consider a wide range of
17 issues before employing this tool in the United States, including the potential for
18 unintended consequences.").

19 **Q. Is NextEra Energy obtaining significant financing from outside of the U.S.?**

20 A. Yes. *See* Exhibit No. __ (RAB-4) at p. 5.

21 **Q. Are current interest rates indicative of investor expectations regarding future**
22 **policy actions by the Federal Reserve?**

1 A. Yes. Securities markets are efficient and most likely reflect investors' expectations
2 about future interest rates. As Dr. Roger Morin pointed out in *New Regulatory*
3 *Finance*:

4 A considerable body of empirical evidence indicates that U.S.
5 capital markets are efficient with respect to a broad set of
6 information, including historical and publicly available
7 information.

8 I acknowledge that the U.S. economy is operating in a low interest rate environment.
9 It is likely at some point in the near future that the Fed will raise short-term interest
10 rates further. However, the timing and the level of any such move are not known at
11 this time. It is important to realize that investor expectations of higher interest rates,
12 if any, are already embodied in current securities prices, which include debt
13 securities and stock prices.

14
15 The current low interest rate environment favors lower risk regulated utilities. As I
16 shall demonstrate in Section III, market evidence indicates that investors require
17 lower rates of return on equity on regulated utility stocks than many other types of
18 enterprises. It would not be advisable for utility regulators to raise ROEs in
19 anticipation of higher interest rates that may or may not occur.

20 **Q. Please compare current financial market conditions with the conditions that**
21 **were present during FPL's last rate case, Docket No. 1200015-EI.**

22 A. When I submitted my Direct Testimony in July 2012, Treasury bond yields were
23 2.22%, virtually unchanged from their present levels. I noted in my testimony that
24 the June 13, 2012 Moody's average public utility bond yield was 4.28%. As of June

1 13, 2016, Moody's average public utility bond yield was 3.90%, 38 basis points
2 lower than 2012. Moreover, public utility bond yields have declined this year from
3 the 4.62% yield in January.

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

6 A. The Value Line Investment Survey noted the following in its May 20, 2016 report on
7 the Electric Utility (East) Industry:

8 So far, 2016 has been an excellent year for electric utility
9 stocks. Every issue we cover is up, year to date, and most have
10 risen at a low double-digit pace. With interest rates as low as
11 they are, some investors are reaching for yield. This is
12 reflected in the high valuation of many electric company
13 equities. Most are trading at a market premium, and have
14 recent quotations within our 2019-2021 Target Price Range.
15 The average dividend yield of this group is just 3.4%, which is
16 low by historical standards. The average 3- to 5-year total
17 return potential is just 3%, which is low by any standard.

18 Value Line also noted the following in its June 17, 2016 report on the Electric
19 Utility (Central) Industry:

20
21
22 Merger and acquisition activity (or speculation of deals) is just
23 one factor in the strong performance of electric utility equities
24 so far in 2016. The price of every issue under our coverage is
25 up, year to date, and in most cases, the rise has been
26 significant: between 10% and 20%. Another factor is the
27 ongoing low-interest rate environment, and the belief that the
28 Federal Reserve will be slow to raise rates. With minuscule
29 returns available on savings accounts, CDs, and money-market
30 funds, many income-oriented investors have reached for yield
31 by putting money into utility stocks.

32 As long as the interest-rate environment remains benign, this
33 would be good for electric utility stocks. If interest rates are
34 higher over the 3- to 5-year period, as we expect, that would
35 probably be unfavorable for the equities in the group.

1 **Q. Briefly describe FPL.**

2 A. FPL is a wholly owned subsidiary of NextEra Energy, Inc. ("NextEra Energy").
3 NextEra Energy's other principal subsidiary is NextEra Energy Resources, which
4 engages in the competitive energy business and produces its energy primarily from
5 clean and renewable fuels. FPL's 2015 SEC Form 10-K noted that NextEra Energy
6 is one of the largest electric power companies in North America, servicing over 5.3
7 million customers and having over 46,000 megawatts ("mW") of generating capacity
8 in 27 states and 4 provinces in Canada. Exhibit No. __ (RAB-4) at p. 13. As of
9 December 31, 2015, FPL's resources for serving load consisted of 26,073 mWs.

10 **Q. How has FPL described its generation fleet?**

11 A. On page 8 of its 2015 10-K report, FPL noted: "FPL relies upon a mix of fuel
12 sources for its generation facilities, along with purchased power, in order to maintain
13 the flexibility to achieve a more economical fuel mix by responding to market and
14 industry developments." Exhibit No. ____ (RAB-4) at p. 14.

15 **Q. How does FPL's generation fleet position it with regard to possible
16 implementation of the Clean Power Plan or similar environmental regulation?
17**

18 A. FPL derived approximately 69% of its 2015 Mwh produced from natural gas fired
19 generating plants. Exhibit No. ____ (RAB-4) at p. 14. Compared to electric utilities
20 that rely on coal-fired capacity, FPL's risk from carbon-based environmental rules
21 and legislation is lower.

22 **Q. How does FPL recover its fuel costs?**

1 A. FPL collects fuel costs through a recovery mechanism approved by the Commission
2 that enables the company to true-up differences between actual and projected costs.

3 **Q. Is that the only tracker FPL enjoys?**

4 A. No. In addition, FPL receives substantial benefits from a number of other cost
5 recovery clauses that have been approved by the Commission over the years. The
6 Company stated the following on page 12 of its 2015 10-K report:

7 Cost recovery clauses, which are designed to permit full
8 recovery of certain costs and provide a return on certain assets
9 allowed to be recovered through the various clauses, *include*
10 *substantially all fuel, purchased power and interchange*
11 *expense, certain construction-related costs and conservation*
12 *and certain environmental-related costs.* Cost recovery clause
13 costs are recovered through levelized monthly charges per
14 kWh or kW, depending on the customer's rate class. These
15 cost recovery clause charges are calculated at least annually
16 based on estimated costs and estimated customer usage for the
17 following year, plus or minus true-up adjustments to reflect
18 the estimated over or under recovery of costs for the current
19 and prior periods. An adjustment to the levelized charges may
20 be approved during the course of a year to reflect revised
21 estimates. [Exhibit No. ___ (RAB-4) at p. 16 (emphasis
22 added)].

23

24 Regarding the cost of compliance with environmental laws and regulations, FPL
25 noted on page 13 of its 2015 10-K that the Company "expects to seek recovery
26 through the environmental clause for compliance costs associated with any new
27 environmental laws and regulations." *Id.* at p. 17.

28 With respect to capitalization, FPL's regulated utility operations are far less
29 leveraged, and far less risky, than NextEra Energy's unregulated operations. As of
30 December 31, 2015, FPL's utility operations were capitalized with 60.4% common

1 equity compared to NextEra Energy’s unregulated operations, which were supported
2 by only 27.8% common equity. This information came from FPL’s Schedule D-2.

3 **Q. What else have ratings agencies stated about FPL’s regulatory approach?**

4 A. Following its discussion of the Commission’s order on FPL’s 2012 rate case, Fitch
5 noted that “[w]hile the order spans a four-year term (till December 2016), *FPL could*
6 *potentially delay filing a rate case for a longer period by proactively managing its*
7 *costs.*” Exhibit No. ____ (RAB-5) at p. 2 (SFHHA 007530) (emphasis added).

8 **Q. What has happened with respect to the credit rating of FPL since FPL’s last**
9 **base rate case?**

10 A. In January 2014, Moody's upgraded the ratings of FPL, including its long term issue
11 rating, to A1 from A2 with an outlook of stable. According to a Moody’s Senior
12 Vice President, “FPL is one of the strongest regulated electric utilities in the
13 U.S. . . .” See FPL Response to OPC POD No. 12 (OPC 009813). “Because a high
14 percentage of FPL’s revenues are recovered through cost recovery clauses and its
15 leverage is low, FPL’s credit metrics are among the strongest in the utility sector . . .
16 .” *Id.*

17 **Q. What else has happened since FPL’s last base rate case that signals increased**
18 **confidence in FPL’s ability to maintain or grow its earnings?**

19 A. In August 2015, NextEra Energy announced its intention to increase its proportion of
20 dividend payouts, from 55% in 2014 to 65% in 2018. Exhibit No. ____ (RAB-5) at
21 p. 27 (OPC 009881).

1 **Q. Does FPL’s messaging to investors about its service territory support an**
2 **increased payout ratio?**

3 A. According to an investor presentation provided in June 2016, NextEra states that
4 FPL “is one of the best utility franchises in the U.S.” Exhibit No. ____ (RAB-4) at p.
5 9.

6 **Q. Do the rating agencies have a comparable outlook regarding FPL’s service**
7 **territory?**

8 A. Fitch’s November 2015 credit report states:

9 Florida's economy is recovering well after the recent
10 prolonged recession, with most key indicators such as housing
11 starts, employment statistics and consumer sentiment on an
12 upward trend. Adjusted for weather, FPL’s retail kilowatt
13 hour sales grew 1.3% in 2014, driven by 1.2% customer
14 growth and 0.1% usage increase. Fitch’s financial forecasts for
15 FPL are based on a 1% cumulative annual growth rate in retail
16 sales over 2015-2018; any upside in sales growth would be
17 positive for FPL’s credit metrics.

18 *See* Exhibit No. ____ (RAB-5) at p. 4 (OPC 009887).

19 **Q. How is FPL’s capital structure described by the credit rating agencies?**

20 A. According to Moody’s, FPL’s “debt-to-capitalization of 30.4% at 31 December 2015
21 is among the lowest in its peer group” FPL Response to OPC POD No. 12 at
22 OPC 009810.

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

24 A. FPL’s senior secured ratings are A by Standard & Poor’s (“S&P”) and Aa2 by
25 Moody’s. These are basically the same bond ratings that the Company had during its

1 last base rate case before this Commission, although Moody's rating actually
2 improved from Aa3 in 2012.

3 **Q. What commentary accompanies these ratings of extremely high credit quality?**

4 A. In its March 31, 2016 report on FPL, Moody's noted that FPL is "one of the strongest
5 regulated utilities in the US" with "good cost recovery mechanisms that produce
6 consistently above-average financial performance." FPL Response to OPC POD No.
7 12 at OPC 009807.

8

9 According to Moody's, "FPL has some of the strongest cash flow metrics in the US
10 utilities sector, because a high degree of its revenues is recovered through cost
11 recovery clauses and it is well capitalized . . . These metrics are strongly positioned
12 for the company's current rating category." FPL Response to OPC POD No. 12 at
13 OPC 009809.

14

15 S&P found FPL's business risk is "excellent" in its June 15, 2015 report on the
16 Company. This is the category for enterprises with the lowest level of business risk
17 according to S&P. Standard and Poor's noted that it attributed "significantly higher
18 business risk" to NextEra Energy 's non-utility operations compared to its regulated
19 utility operations (Exhibit No. ____ (RAB-5) at p. 10 (OPC 009834)), meaning that
20 NextEra Energy has higher business risk overall than FPL.

1 **Q. How does FPL's capital structure compare to that of its owner, NextEra**
2 **Energy?**

3 A. With respect to capitalization, FPL's regulated utility operations are far less
4 leveraged, and thus involve much less financial risk, than NextEra Energy's
5 unregulated operations. As of December 31, 2015, FPL's utility operations were
6 capitalized with 60.4% common equity compared to NextEra Energy's unregulated
7 operations, supported by only 27.8% common equity. These numbers are based on
8 FPL's Schedule D-2. Yet, FPL's utility operations also have far less business risk
9 than NextEra Energy's other operations as well.

10 **Q. What does S&P's outlook say?**

11 A. S&P states that:

12 Our rating outlook on NextEra and its subsidiaries is stable
13 and reflects a business risk profile that is equally affected by
14 higher-risk merchant energy activities and a utility that still
15 presents a better credit profile than its peers. [Exhibit No. ____
16 (RAB-5) at p. 41 [SFHHA 007583]; *id.* at p. 49 [SFHHA
17 007592]].

18 **Q. Are those the only statements highlighting the difference in risks between FPL**
19 **and other NextEra Energy investments?**

20 A. No. S&P notes that while the "[r]egulated utility operations have low business risk
21 and support the overall credit profile," "[n]on-utility operations are primarily
22 engaged in unregulated power generation and materially increase business risk."
23 Exhibit No. ____ (RAB-5) at p. 8 (OPC 009832).

24 **Q. Is there additional credit rating agency analysis of the difference between the**
25 **risk of FPL and its NextEra Energy affiliates?**

26 A. Yes.

1 NextEra's regulated utility operations have low business risk
2 and provide about 60% of consolidated operating income,
3 lending support to the company's overall business risk
4 profile within the "strong" category. The regulated business
5 is conducted through Florida Power & Light (FPL) and
6 benefits from operations under a constructive regulatory
7 framework that provides for timely investment and fuel cost
8 recovery. FPL has historically managed its regulatory risk
9 effectively and this has resulted in earned returns that are
10 consistently close to or at the authorized levels. The
11 customer base is large with no meaningful industrial
12 exposure and demonstrates above-average growth. The
13 company has material exposure to natural-gas-fired
14 generation, which, in combination with low natural gas prices
15 and the company's efficient operations, contributes to overall
16 competitive customer rates.

17 The company's non-utility operations are conducted under
18 NextEra Energy Capital Holdings Inc. (NEECH). We ascribe
19 significantly higher business risk to these non-utility
20 operations compared to the regulated utility operations
21 because they focus largely on unregulated generation, both
22 merchant and contracted, with an emphasis on renewable
23 energy projects and to a lesser extent on fossil-fired and
24 nuclear generation. Integral to our view of NextEra's
25 business risk profile as "strong" is that all merchant
26 generation projects that are financed in a nonrecourse
27 manner provide NextEra with only residual cash flows, an
28 arrangement that we view as inherently weaker compared
29 to NextEra having full access to all project cash flows.
30 NextEra's non-utility operations also engage in proprietary
31 trading and marketing as well as retail supply and wholesale
32 full requirements contracts, businesses which can have
33 significant liquidity needs and are generally characterized
34 by small margins on a per unit basis, relying on large
35 volumes to generate a meaningful contribution. Moreover,
36 these operations require excellent risk management and
37 disciplined hedging practices to limit a company's exposure
38 to the fluctuation in commodity prices. [Exhibit No. ____
39 (RAB-5) at p. 10 (OPC 009834)].

40 **Q. Does Fitch's link FPL's credit ratings to that of NextEra Energy?**

1 A. Yes. Fitch's observed that with regard to potential "Positive Rating Action,"
2 "Given strong rating linkage with its parent company, NextEra Energy Inc. . . . future
3 positive rating actions appear unlikely." Exhibit No. ____ (RAB-5) at p. 5 (OPC
4 009888).

5 Fitch's also noted that NextEra Energy's "continued shift away from merchant
6 businesses toward regulated investments and contracted non-regulated renewable
7 assets is also supportive of its credit profile." Exhibit No. ____ (RAB-5) at p. 2
8 (SFHHA 007530).

9 Finally, Fitch's states that if "parent [NextEra Energy] increases its debt leverage or
10 changes its corporate strategy such that its risk profile materially worsens, it could
11 adversely affect *FPL's ratings*" Exhibit No. ____ (RAB-5) at p. 3 (SFHHA
12 007531) (emphasis added).

13 **Q. What does S&P say about the impact of FPL's affiliates upon their affiliates'**
14 **ratings.**

15 A. S&P states that:

16 Standard & Poor's Ratings Services' ratings on all NextEra
17 entities reflect *the strength of the regulated cash flows from*
18 *integrated electric utility FP&L*, and the diverse and
19 substantial cash-generation capabilities of its unregulated
20 operations at subsidiary NextEra Energy Resources (NER).
21 FP&L represents about half of the consolidated credit profile
22 and has better business fundamentals than most of its
23 integrated electric peers, with a better-than-average service
24 territory, sound operations, and a credit-supportive regulatory
25 environment in which the company has been able to manage
26 its regulatory risk very well. A willingness to expand through
27 acquisitions, fluctuating cash flows from NER's rapidly
28 expanding portfolio of merchant generation assets and
29 growing marketing and trading activities, and significant
30 exposure at the utility to natural gas detract from credit

1 quality, in our view.

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

6 * * * *

7 NER, the main subsidiary under unregulated NextEra Energy
8 Capital Holdings Inc., engages in electric generation,
9 marketing, and trading throughout the U.S. NER's focus is
10 on geographic and fuel diversity and on developing
11 environmentally advantageous facilities that benefit from
12 public policy trends. The merchant generator's capacity of
13 almost 16,600 MW consists of more than half wind turbines,
14 one-quarter natural-gas-fired stations, and the rest mainly
15 nuclear facilities. More than three-quarters of the wind
16 projects and almost 60% of the total portfolio operate under
17 largely fixed-price, long-term contracts. The rest of the
18 portfolio, including one nuclear plant, is merchant capacity
19 that can be exposed to market prices for its output. While a
20 policy of actively hedging the commodity price risk of plant
21 inputs and outputs helps to reduce the risks associated with
22 merchant energy activities, NER faces an inherent level of
23 commodity price risk. In addition, NER's extensive project
24 financing (approximately 46% of installed capacity) of its
25 assets diminishes its cash flow quality, but this is offset by
26 lower financial risk. NER's risks permanently hinder
27 NextEra's credit quality, especially in light of the influence
28 that marketing and high-risk proprietary trading results have
29 on NER's earnings and cash flows. [Exhibit No. ____ (RAB-5)
30 at pp. 33-34 (SFHHA 007574-75) (emphasis added)].

31 **Q. Does NextEra Energy's group credit profile affect FPL?**

32 **A.** Yes. S&P states:

33 FPL is subject to our group rating methodology criteria. We
34 assess FPL as a "core" subsidiary of NextEra because it
35 is closely linked to the parent's reputation. As a result, the
36 issuer credit rating on FPL is 'A-', in line with the 'a-' group
37 credit profile of NextEra. [Exhibit No. ____ (RAB-5) at p. 58
38 (OPC 008063)].

1 **Q. Is there another reason why FPL's credit rating and NextEra Energy's credit**
2 **rating are linked?**

3 A. Yes. S&P explains that:

4 We assess the status of NextEra's subsidiaries, Florida Power
5 & Light Co. and NextEra Energy Capital Holdings, Inc., as
6 core subsidiaries Because there are no structural or
7 regulatory insulation provisions in place that could restrict
8 NextEra's access to the assets and cash flow of its
9 subsidiaries, the issuer credit rating on each subsidiary is 'A-',
10 based on the group credit profile of NextEra. [Exhibit No. ____
11 (RAB-5) at pp. 64-65 (OPC 008151-52)].

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

14 A. FPL remains a low cost and low risk electric utility with strong A/A ratings.

15
16
17 FPL benefits from several Commission-approved cost recovery clauses that
18 significantly reduce its business and financial risk profiles and help stabilize its
19 earnings. Its excellent bond ratings currently enjoy a stable credit outlook from
20 Moody's and S&P. Overall FPL remains a low risk electric utility with rock solid
21 financial health and overall better credit metrics than its electric utility peers.

22 Further, as I mentioned earlier, current interest rates are at or near historic lows.

23 Although the Fed may increase interest rates later this year, I expect the Fed to
24 support the current low interest rate environment in order to foster economic growth.

25 This interest rate environment supports lower expected returns from investors and
26 my ROE analysis in the next section of my testimony will demonstrate that this is the
27 case.

28

1 **III. DETERMINATION OF FAIR RATE OF RETURN**

2 **Q. Please describe the methods you employed in estimating a fair rate of return for**
3 **FPL.**

4 A. I employed a Discounted Cash Flow (“DCF”) analysis for a group of comparison
5 electric companies to estimate the cost of equity for the Company’s regulated electric
6 operations. I also employed several Capital Asset Pricing Model (“CAPM”) analyses using both historical and forward-looking data.

8 **Q. What are the main guidelines to which you adhere in estimating the cost of**
9 **equity for a firm?**

10 A. Generally speaking, the estimated cost of equity should be comparable to the returns
11 of other firms with similar risk and should be sufficient for the firm to attract capital.
12 These are the basic standards set out by the United States Supreme Court in *Federal*
13 *Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) and *Bluefield W.W. &*
14 *Improv. Co. v. Public Service Comm'n*, 262 U.S. 679 (1922).

15
16 From an economist’s perspective, the notion of “opportunity cost” plays a vital role
17 in estimating the return on equity. One measures the opportunity cost of an
18 investment equal to at least what one would have obtained in the next best
19 alternative. For example, let us suppose that an investor decides to purchase the
20 stock of a publicly traded electric utility. That investor made the decision based on
21 the expectation of dividend payments and perhaps some appreciation in the stock’s
22 value over time; however, that investor’s opportunity cost is measured by at least
23 what she or he could have invested in as the next best alternative. That alternative

1 could have been another utility stock, a utility bond, a mutual fund, a money market
2 fund, or any other 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 comparable to the
9 return 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

1 shareholders. Additional debt means additional variability in the firm's earnings,
2 leading to additional risk.

3
4 Liquidity risk refers to the ability of an investor to quickly sell an investment without
5 a substantial price concession. The easier it is for an investor to sell an investment
6 for cash, the lower the liquidity risk will be. Stock markets, such as the New York
7 and American Stock Exchanges, help ease liquidity risk substantially. Investors who
8 own stocks that are traded in these markets know on a daily basis what the market
9 prices of their investments are and that they can sell these investments fairly quickly.
10 The stocks of numerous enterprises owning electric utilities are traded on the New
11 York Stock Exchange and are considered liquid investments.

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

14 A. Bond and credit ratings are tools that investors use to assess the risk comparability of
15 firms. Bond rating agencies such as Moody's and Standard and Poor's perform
16 detailed analyses of factors that contribute to the risk of a particular investment. The
17 end result of their analyses is a bond and/or credit rating that reflects these risks.

18 **Discounted Cash Flow ("DCF") Model**

19 **Q. Please describe the basic DCF approach.**

20 A. The basic DCF approach is rooted in valuation theory. It is based on the premise that
21 the value of a financial asset is determined by its ability to generate future net cash
22 flows. In the case of a common stock, those future cash flows generally take the

1 form of dividends and appreciation in stock price. The value of the stock to
2 investors is the discounted present value of future cash flows. The general equation
3 then is:

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

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 important assumption is that financial
14 markets are reasonably efficient; that is, they correctly evaluate the cash flows
15 relative to the appropriate discount rate, thus rendering the stock price efficient
16 relative to other alternatives. Finally, the model I employ also assumes a constant
17 growth rate in dividends. The fundamental relationship employed in the DCF
18 method is described by the formula:

$$k = \frac{D_1}{P_0} + g$$

19 Where: *D*₁ = the next period dividend
20 *P*₀ = current stock price
21 *g* = expected growth rate
22 *k* = investor-required return

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

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

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

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

A. I used several criteria to select a comparison group. First, using the June 2016 issue of AUS Utility Reports, I selected electric companies whose bonds were rated at least A by Moody’s and/or Standard and Poor’s. FPL currently carries senior secured bond ratings of A from S&P and Aa2 from Moody’s, so using the either/or criterion for an A rating assures that the companies in the comparison group carry bond ratings that are similar to FPL.

1 From that group, I selected companies that had at least 50% of their revenues from
 2 electric operations and that had long-term earnings growth forecasts from Value Line
 3 and either Zacks Investment Research (“Zacks”) or Thomson Financial. I will
 4 describe Zacks and Thomson Financial later in my testimony. From this group, I
 5 then eliminated companies that had recently cut or eliminated dividends, or were
 6 recently or currently involved in significant merger activities.

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

10

TABLE 1			
COMPARISON GROUP			
	<u>Company</u>	<u>S&P Bond Rating</u>	<u>Moody's Bond Rating</u>
1	ALLETE, Inc. (NYSE-ALE)	A-	A3
2	Alliant Energy Corporation (NYSE-LNT)	A-	A2/A3
3	Avista Corporation (NYSE-AVA)	A-	Baa1
4	Consolidated Edison, Inc. (NYSE-ED)	A-/BBB+	A3
5	Edison International (NYSE-EIX)	BBB+	A2/A3
6	Eversource Energy (NYSE-ES)	A-	A3/Baa1
7	IDACORP, Inc. (NYSE-IDA)	A-	A3
8	NorthWestern Corporation (NYSE-NWE)	NR	A3
9	OGE Energy Corp. (NYSE-OGE)	BBB+	A3
10	Portland General Electric Company (NYSE-POR)	A-	A3
11	Wisconsin Energy Corporation (NYSE-WEC)	A-/BBB+	A1/A2
12	Xcel Energy Inc. (NYSE-XEL)	A-	A3

Source: AUS Monthly Utility Report, June 2016

11

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

1 A. I first determined the current dividend yield, D_1/P_0 , from the basic equation. My
2 general practice is to use six months as the most reasonable period over which to
3 estimate the dividend yield. The six-month period I used covered the months from
4 December 2015 through May 2016. I obtained historical prices and dividends from
5 Yahoo! Finance. The annualized dividend divided by the average monthly price
6 represents the average dividend yield for each month in the period.

7

8 The resulting average dividend yield for the group is 3.44%. These calculations are
9 shown in Exhibit No. ____ (RAB-6).

10

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

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

20

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

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

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

9

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

16

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

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

21 A. Return on equity analysis is a forward-looking process. Five-year or ten-year
22 historical growth rates may not accurately represent investor expectations for

1 dividend growth. Analysts' forecasts for earnings and dividend growth provide
2 better proxies for the expected growth component in the DCF model than historical
3 growth rates. Analysts' forecasts are also widely available to investors and one can
4 reasonably assume that they influence investor expectations.

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

7 A. Exhibit No. ____ (RAB-7) presents the Value Line, Zacks, and Thomson Financial
8 forecasted growth estimates. These earnings and dividend growth estimates for the
9 comparison group are summarized on Columns (1) through (5) of Exhibit No. ____
10 (RAB-7).

11
12 I also utilized the sustainable growth formula in estimating the expected growth rate.
13 The sustainable growth method, also known as the retention ratio method, recognizes
14 that the firm retains a portion of its earnings to fuel growth in dividends. These
15 retained earnings, which are plowed back into the firm's asset base, are expected to
16 earn a rate of return. This, in turn, generates growth in the firm's book value, market
17 value, and dividends.

18
19 The sustainable growth method is calculated using the following formula:

20
$$G = B * R$$

21 *Where: G = expected retention growth rate*
22 *B = the firm's expected retention ratio*
23 *R = the expected return*

1

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

6

7 The expected sustainable growth estimates for the comparison group are presented in
8 Column (3) on page 1 of Exhibit No. ____ (RAB-7). The data came from the Value
9 Line forecasts for the comparison group.

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

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

19

20 The expected growth rates produced from these two methods fall in a range from
21 3.75% to 6.00%.

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 Exhibit No. ____ (RAB-7), page 2.

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

12 A. Exhibit No. ____ (RAB-7) presents the DCF results utilizing the two different
13 methods I described earlier. I used the Value Line earnings and dividend growth
14 forecasts and the consensus analysts' forecasts. Using the average group growth rate
15 in Method 1, the DCF results range from 8.15% to 9.50%, with an average ROE for
16 the group of 8.64%. For Method 2, which employs median growth rates, the DCF
17 results range from 8.52% to 9.54%, with an average ROE of 8.87%.

18 **Capital Asset Pricing Model**

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

20 A. The theory underlying the CAPM approach is that investors, through diversified
21 portfolios, may combine assets to minimize the total risk of the portfolio.
22 Diversification allows investors to diversify away all risks specific to a particular

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

9
10 Within the CAPM framework, the expected return on a security is equal to the risk-
11 free rate of return plus a risk premium that is proportional to the security's market, or
12 non-diversifiable, risk. Beta is the factor that reflects the inherent market risk of a
13 security and measures the volatility of a particular security relative to the overall
14 market for securities. For example, a stock with a beta of 1.0 indicates that if the
15 market rises by 15%, that stock will also rise by 15%. This stock moves in tandem
16 with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall
17 50% as much as the overall market. So with an increase in the market of 15%, this
18 stock will only rise 7.5%. Stocks with betas greater than 1.0 will rise and fall more
19 than the overall market. Thus, beta is the measure of the relative risk of individual
20 securities vis-à-vis the market.

21
22 Based on the foregoing discussion, the equation for determining the return for a
23 security in the CAPM framework is:

1

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

2

Where: K = Required Return on equity

3

Rf = Risk-free rate

4

MRP = Market risk premium

5

β = Beta

6

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

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

19 A. Yes. There is some controversy surrounding the use of the CAPM.¹ There is
20 evidence that beta is not the primary factor for determining the risk of a security. For
21 example, Value Line's "Safety Rank" is a measure of total risk, not its calculated

1 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. 206 - 211, 2007 edition.

1 beta coefficient. Beta coefficients usually describe only a small amount of total
2 investment risk.

3
4 There is also substantial judgment involved in estimating the required market return.
5 In theory, the CAPM requires an estimate of the return on the total market for
6 investments, including stocks, bonds, real estate, etc. It is nearly impossible for the
7 analyst to estimate such a broad-based return. Often in utility cases, a market return
8 is estimated using the S&P 500 or the return on Value Line's stock market
9 composite. However, these are limited sources of information with respect to
10 estimating the investor's required return for all investments. In practice, the total
11 market return estimate faces significant limitations to its estimation and, ultimately,
12 its usefulness in quantifying the investor required ROE.

13
14 In the final analysis, a considerable amount of judgment must be employed in
15 determining the risk-free rate and market return portions of the CAPM equation.
16 The analyst's application of judgment can significantly influence the results obtained
17 from the CAPM. My past experience with the CAPM indicates that it is prudent to
18 use a wide variety of data in estimating investor-required returns. Of course, the
19 range of results may also be wide, indicating the difficulty in obtaining a reliable
20 estimate from the CAPM.

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

1 A. The first source I used was the Value Line Investment Analyzer, Plus Edition, for
2 June 12, 2016. This edition covers several thousand stocks. The Value Line
3 Investment Analyzer provides a summary statistical report detailing, among other
4 things, forecasted growth rates for earnings and book value for the companies Value
5 Line follows as well as the projected total annual return over the next 3 to 5 years. I
6 present these growth rates and Value Line's projected annual return on page 2 of
7 Exhibit No. ____ (RAB-8). I included median earnings and book value growth rates.
8 The estimated market returns using Value Line's market data range from 9.88% to
9 11.0%. The average of these two market returns is 10.44%.

10 **Q. Why did you use median growth rate estimates rather than the average growth**
11 **rate estimates for the Value Line companies?**

12 A. Using median growth rates is likely a more accurate method of estimating the central
13 tendency of Value Line's large data set compared to the average growth rates.
14 Average earnings and book value growth rates may be unduly influenced by very
15 high or very low 3 - 5 year growth rates that are unsustainable in the long run. For
16 example, Value Line's Statistical Summary shows both the highest and lowest value
17 for earnings and book value growth forecasts. For earnings growth, Value Line
18 showed the highest earnings growth forecast to be 98% and the lowest growth rate to
19 be -30.7%. The highest book value growth rate was 73.5% and the lowest was -
20 40.0%. None of these levels of growth is compatible with long-run growth prospects
21 for the market as a whole. The median growth rate is not influenced by such
22 extremes because it represents the middle value of a very wide range of earnings
23 growth rates.

1 **Q. Please continue with your market return analysis.**

2 A. I also considered a supplemental check to the Value Line projected market return
3 estimates. Morningstar publishes a study of historical returns on the stock market in
4 its *Ibbotson SBBI 2015 Classic Yearbook*. Some analysts employ historical data to
5 estimate the market risk premium of stocks over the risk-free rate. The assumption is
6 that a risk premium calculated over a long period of time is reflective of investor
7 expectations going forward. Exhibit No. ____ (RAB-9) presents the calculation of the
8 market returns using the historical data.

9 **Q. Please explain how this historical risk premium is calculated.**

10 A. Exhibit No. ____ (RAB-9) shows both the geometric and arithmetic average of
11 yearly historical stock market returns over the historical period from 1926 - 2014.
12 The average annual income return for 20-year Treasury bond is subtracted from
13 these historical stocks returns to obtain the historical market risk premium of stock
14 returns over long-term Treasury bond income returns. The historical market risk
15 premium range is 5.03% - 7.03%.

16 **Q. Did you add an additional measure of the historical risk premium in this case?**

17 A. Yes. Morningstar reported the results of a study by Dr. Roger Ibbotson and Dr. Peng
18 Chen indicating that the historical risk premium of stock returns over long-term
19 government bond returns has been significantly influenced upward by substantial
20 growth in the price/earnings ("P/E") ratio for stocks from 1980 through 2001.²
21 Morningstar recommended adjusting this growth in the P/E ratio for stocks out of the

2 ² 2015 *Ibbotson SBBI Classic Yearbook*, Morningstar, pp. 156 - 158.

1 historical risk premium because "it is not believed that P/E will continue to increase
2 in the future." Morningstar's adjusted historical arithmetic market risk premium is
3 6.19%, which I have also included in Exhibit No. ____ (RAB-9).

4 **Q. Mr. Baudino, you testified that you used the SBBI 2015 Yearbook. Does**
5 **Morningstar still publish the SBBI Yearbook?**

6 A. No. Morningstar discontinued publication of the SBBI Yearbook this year.
7 However, I present the analyses in Exhibit No. ____ (RAB-9) as additional
8 information and perspective with respect to historical risk premiums of common
9 stocks over long-term Treasury bonds.

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

11 A. I used the average yields on the 20-year Treasury bond and five-year Treasury note
12 over the six-month period from December 2015 through May 2016. The 20-year
13 Treasury bond may be used as a proxy for the risk-free rate, but it contains a
14 significant amount of interest rate risk. The five-year Treasury note carries less
15 interest rate risk than the 20-year bond and is more stable than three-month Treasury
16 bills. Therefore, I have employed both of these securities as proxies for the risk-free
17 rate of return. This approach provides a reasonable range over which the CAPM
18 return on equity may be estimated.

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

20 A. I obtained the betas for the companies in the electric distribution group from the
21 most recent Value Line reports. The average of the Value Line betas for the
22 comparison group is 0.73.

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

2 A. For my forward-looking CAPM return on equity estimates, the CAPM results are
3 8.03% - 8.28%. Using historical risk premiums, the CAPM results are 6.02% -
4 7.49%.

5 **Conclusions and Recommendations Regarding Authorized ROE**

6 **Q. Please summarize the cost of equity you recommend the Commission adopt for**
7 **FPL.**

8 A. I recommend that the Commission adopt the DCF model I developed and the cost of
9 equity estimates for the comparison group of electric utility companies that I
10 compiled. Table 2 below summarizes the results of my ROE analyses.

11

1

TABLE 2	
SUMMARY OF ROE ESTIMATES	
Baudino DCF Methodology:	
Average Growth Rates	
- High	9.50%
- Low	8.15%
- Average	8.64%
Median Growth Rates:	
- High	9.54%
- Low	8.52%
- Average	8.87%
CAPM:	
- 5-Year Treasury Bond	8.03%
- 20-Year Treasury Bond	8.28%
- Historical Returns	6.02% - 7.49%

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The results for the electric company comparison group averages using the constant-growth DCF model and the expected growth rate forecasts ranged from 8.64% to 8.87%. Based on this range of results, I recommend that the Commission adopt a 9.00% return on equity for FPL in this proceeding. Based on a comparison of current bond ratings, FPL is a lower risk utility company relative to my comparison group. Nonetheless, for purposes of the ROE ranges I recommend, I am placing FPL at the top of the range and rounding upward to 9.0%. I offer this recommendation to the Commission as a just and reasonable estimate of investor return on equity requirements for a lower risk electric utility such as FPL.

Finally, it should be noted that the CAPM results are significantly lower than the DCF results in this proceeding. This is the case with both the forward-looking and

1 the historical versions of the CAPM. I do not rely on the CAPM for my ROE
2 recommendation, but these results suggest that my recommended ROE of 9.00% is
3 reasonable, even generous, based on current capital market conditions.

4 **Capital Structure**

5 **Q. Please explain what a capital structure is and how it affects a utility's rates.**

6 A. A utility's capital structure consists of the percentages of debt, equity or other
7 financial components that are used to finance a utility's investments. Equity and
8 debt are two primary components for a capital structure and affect a utility's costs
9 and rates in different ways.

10
11 Utilities are permitted an allowed return on common equity by regulatory
12 commissions. Those returns are not tax deductible and an income tax gross-up is
13 added to the calculated equity return. Therefore, equity financing is more expensive
14 than debt financing when income taxes are considered. In this proceeding, for
15 example, FPL's debt cost rate is 4.62% and its requested cost of equity, including the
16 proposed performance adder, is 11.50%. Using the Company's gross-up factor of
17 1.63, the gross-up cost of equity is 18.75%. FPL's grossed-up requested cost of
18 equity, then, is 400% greater than its cost of debt.

19
20 In addition, from the investors' perspective, equity investment is more risky than
21 debt investment. Thus, equity investors require a higher return than debt investors to
22 compensate them for the additional risks that they incur.

1

2 Selecting a utility's capital structure for ratemaking purposes involves balancing
3 different considerations. Two extreme examples may help illustrate those
4 considerations. If a utility were completely financed by equity, the utility would not
5 have any leverage and would therefore be less risky. However, its overall rate of
6 return, and therefore costs to consumers, would be higher because its capital
7 structure would consist completely of higher cost equity. In this example, the manner
8 in which the utility financed its rate base results in unreasonable and burdensome
9 costs for ratepayers.

10

11 On the other hand, if a utility was completely financed by debt, the utility would
12 experience a high amount of financial risk and the utility's cost of debt would
13 substantially increase. In both of these examples, ratepayers would not be well
14 served by the utility's management of its capital structure.

15

16 Setting a utility's target capital structure involves balancing the risk of using lower
17 cost debt against the cost of equity financing, including both the actual cost of equity
18 and the tax implications. A utility and its regulator must consider the risks and costs
19 of various capitalization ratios to ensure that ratepayers are provided with a prudent
20 capitalization ratio at the least overall cost.

21 **Q. Do the incentives of regulated and unregulated enterprises differ when it comes**
22 **to capital structures?**

1 A. FPL has acknowledged that there is a distinction between rate regulated entities and
2 unregulated entities. Exhibit No. ____ (RAB-10) at p. 8 (Tr. at 459). FPL has
3 acknowledged that if an unregulated enterprise substitutes more debt in lieu of a
4 thicker equity component, earnings per share would increase because of spreading
5 such earnings over a smaller equity base. Exhibit No. ____ (RAB-10) at p. 5
6 (Tr. at 456:14-21).

7

8 However, if within FPL's capital structure existing equity was replaced with debt,
9 earnings per share of FPL would not automatically increase, in contrast to
10 unregulated entities. Exhibit No. ____ (RAB-10) at p. 8 (Tr. at 459:6-10).

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

12 A. Yes. The Company's requested capital structure and weighted cost of capital is
13 presented in Schedule D-1A and is supported by the Direct Testimony of FPL
14 witnesses Hevert and Dewhurst. On page 23 of his Direct Testimony, Mr. Dewhurst
15 recommended an equity ratio of 59.6% based on investor sources of capital. Mr.
16 Dewhurst states that FPL has maintained its equity ratio at around 59% - 60% for
17 "well over a decade". On lines 14 through 16, Mr. Dewhurst testified that "the
18 current equity ratio will continue to support FPL's strong financial position and the
19 benefits its provides to customers."

20 **Q. When asked during discovery in this case to produce written documentation**
21 **from NextEra Energy or FPL over the last 4 years discussing capital structures,**
22 **how many documents were produced?**

23 A. None. Exhibit No. ____ (RAB-5) at p. 68 (Response to OPC POD No. 35).

1 **Q. What is FPL’s position concerning capitalization structure?**

2 A. FPL claims that FPL’s current financial policies, including its capitalization, resulted
3 in customers enjoying “a low total cost of capital” (Dewhurst Direct at 9:1). Yet
4 FPL has no documents regarding how “increasing, decreasing or maintaining FPL’s
5 equity ratio would affect its ‘total cost of capital.’ ” Exhibit No. ____ (RAB-5) at p.
6 69 (Response to SFHHA POD No. 62).

7

8 FPL Witness Dewhurst also claims that FPL’s financial policies, including its
9 capitalization, “resulted in an excellent credit rating.” Dewhurst Direct at 16:7-9.
10 Yet, when asked in discovery to provide “all documents prepared by or for FPL in
11 the past four years but prior to March 15, 2016 that discuss or analyze how FPL’s
12 equity ratio affected its credit ratings,” FPL could not provide any responsive
13 documents. Exhibit No. ____ (RAB-5) at p. 70 (Response to SFHHA POD No. 65).

14 **Q. As you described earlier, there is a tradeoff between cost and risk that must be**
15 **considered when selecting a utility’s capital structure. How has FPL**
16 **documented its analysis of that trade off?**

17 A. In discovery, FPL admitted that it had no “documents prepared by or for FPL in the
18 past four years but prior to March 15, 2016 that discuss the costs and benefits of FPL
19 maintaining its current credit rating” or “improving FPL’s financial strength.” Exhibit
20 No. ____ (RAB-5) at pp. 72-73 (Responses to SFHHA POD Nos. 66 and 67).

21 **Q. Did FPL provide any documents, created prior to filing this rate case, that**
22 **described FPL’s target capital structure?**

23 A. No. Exhibit No. ____ (RAB-5) at p. 74 (Response to SFHHA POD No. 60).

1 **Q. Did FPL provide any analysis, performed prior to filing the instant rate case, of**
2 **the costs and benefits of maintaining FPL’s credit ratings?**

3 A. No. Exhibit No. ____ (RAB-5) at p. 73 (Response to SFHHA POD No. 67).

4 **Q. Did FPL provide any analysis, performed prior to filing this rate case,**
5 **concerning whether changing or retaining FPL’s equity ratio would affect its**
6 **total cost of capital?**

7 A. No. Exhibit No. ____ (RAB-5) at p. 75 (Response to SFHHA POD No. 62).

8 **Q. Did FPL provide any documents, prepared before filing this case, that analyzed**
9 **how FPL’s equity ratio affected its “financial strength” or access to capital?**

10 A. No. Exhibit No. ____ (RAB-5) at p. 76 (Response to SFHHA POD No. 64).

11 **Q. Did FPL document any analysis of how FPL’s equity ratio affected its credit**
12 **ratings?**

13 A. No. Exhibit No. ____ (RAB-5) at p. 70 (Response to SFHHA POD No. 65).

14 **Q. How many other vertically-integrated utilities did FPL identify as having an**
15 **approved equity ratio equivalent to that of FPL based on investor-sourced**
16 **funds?**

17 A. None. Exhibit No. ____ (RAB-5) at pp. 77-78 (Responses to FIPUG Int. No. 3 and
18 FIPUG POD No. 2).

19 **Q. Did FPL adequately consider how other utilities finance their operations?**

20 A. No. FPL Witness Dewhurst claimed that FPL “employed a balanced capital
21 structure consistent with other financially strong utilities.” However, when asked in
22 discovery to “provide FPL’s study of the capital structures employed by ‘other
23 financially strong utilities’ ”, FPL could not provide any analyses. Exhibit No. ____
24 (RAB-5) at p. 79 (Response to SFHHA POD No. 61).

1

2

FPL also failed to conduct any studies “that compare the financial strength of FPL to

3

that of other U.S. electric utilities.” Exhibit No. ____ (RAB-5) at p. 80 (Response to

4

SFHHA POD No. 63).

5

Q. Mr. Baudino, is FPL’s proposed proportion of investor-sourced capitalization composed of equity comparable to that of the companies in your comparison group?

6

7

8

A. No. The Company's proposed proportionate share composed of equity is

9

significantly higher than that used by the companies in my comparison group. Table

10

3 below presents the common equity ratios for my comparison group. I obtained the

11

data from the most recent Value Line Investment Survey reports and from AUS

12

Utility Reports, June 2016.

TABLE 3
Comparison Group Capital Structure

	Value Line 2015 Common <u>Equity</u>	AUS Common <u>Equity</u>
ALLETE, Inc.	53.7%	54.1%
Alliant Energy Corp.	51.4%	48.3%
Avista Corporation	50.0%	50.3%
Consolidated Edison, Inc.	52.1%	48.2%
Edison International	46.7%	44.8%
Eversource Energy	53.6%	50.4%
IDACORP, Inc.	54.4%	52.4%
NorthWestern Corp.	46.9%	45.2%
OGE Energy	55.7%	53.9%
Portland General Electric	52.2%	51.0%
WEC Energy	48.6%	46.9%
Xcel Energy Inc.	45.9%	43.3%
Averages	50.9%	49.1%

Sources: Value Line Investment Survey, AUS Utility Monthly Reports

1

2

3

It is abundantly clear from Table 3 that FPL's equity ratio greatly exceeds the comparison group equity ratio. In fact, none of the companies has an equity ratio near 60%, the highest being OGE Energy at 55.7%.

4

5

6 **Q.**

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

7

8 **A.**

In my opinion, it does not. The utilities in my comparison have similar bond ratings to FPL and have much lower common equity ratios. In my view, this suggests that FPL could materially reduce its equity ratio and very likely be able to maintain an A/A bond rating.

9

10

11

1

2 Furthermore, FPL Witness Dewhurst's comparison group of regulated utilities in
3 Southeast States have authorized equity ratios that range from approximately 43% to
4 just 54%. Exhibit No. ____ (RAB-5) at pp. 81-82 (Response to Staff ROG No. 146,
5 Attachment No. 1).

6

7 Likewise, the average capital structure for Mr. Hevert's proxy group of utilities is
8 53%, slightly higher than my comparison group but very far below FPL's requested
9 common equity ratio of nearly 60%.

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

11 A. Yes. One concern is that the excessive FPL common equity ratio means that
12 ratepayers are subsidizing NextEra Energy's unregulated affiliate activities. It is
13 unlikely that NextEra Energy would be able to support and maintain a single 'A'
14 credit rating on a corporate-wide basis without the support of an excessive FPL
15 common equity ratio because NextEra Energy Resources is extremely highly
16 leveraged. And, as I noted in Section II of my Direct Testimony, NextEra Energy's
17 unregulated operations are financed with only 27% common equity. The materials
18 quoted in Section II above indicate that FPL's credit rating is linked to that of
19 NextEra Energy. NextEra Energy's credit rating is a function of the higher-risk,
20 higher-leverage non-retail electric service operations, and of FPL's lower risk,
21 modestly leveraged, retail electric service operations.

22

1 Second, debt financing for investment-grade enterprises with FPL's characteristics
2 are at, or near, historic lows. FPL should have more fully analyzed the potential for
3 capital cost savings to ratepayers. As shown above FPL has not done that in any
4 form that regulators or customers can review and conclude that the Company made a
5 series of sound choices to provide service at the lowest reasonable cost.

6
7 Third, it is an economically inefficient outcome for ratepayers to support a higher
8 than necessary equity ratio for FPL. There is a transfer of income in the form of
9 economic rents being paid by FPL's customers to FPL, a monopoly provider of
10 electric service. Regulation should prevent this kind of income transfer, which
11 benefits shareholders to the detriment of ratepayers.

12
13 A fourth reason relates to the efficient use of society's scarce capital resources. A
14 60% common equity ratio imposes higher than necessary capital costs, when the
15 same productivity and output could be achieved with a less costly set of inputs. This
16 approach is economically inefficient from the perspective of producing the same
17 output at a lower total overall cost to society.

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

20 A. In this proceeding, I recommend that the Commission adopt a common equity ratio
21 for FPL of 55%. The highest single common equity ratio in my comparison group is
22 55%. FPL had a 55% equity component in 2014 as described above. The Hevert
23 comparison group has an overall average capital structure of 53% equity, and my

1 comparison group has an average equity component of approximately 50% of
2 average capital structure. My recommended common equity ratio of 55% is quite
3 liberal and certainly reasonable compared to FPL's 60% common equity ratio.

4 **Q. Didn't you accept FPL's common equity ratio in Docket No. 1200015-EI?**

5 A. Yes, I did. However, I also testified in that docket that it would have been
6 reasonable to reduce the Company's excessive common equity ratio in that case and
7 that the Commission declined to accept my recommendation to reduce the
8 Company's common equity ratio in the last base rate case Order in 2009.

9
10 In this docket, I recommend that the Commission focus on reducing FPL's common
11 equity ratio. Equity financing is by far the most expensive form of financing for the
12 Company. At a 9.0% return on equity, the pretax return equates to a pretax cost of
13 14.7% using a tax gross-up factor of 1.63. This is the return ratepayers must pay to
14 finance the Company's rate base. The Company's current cost of long-term debt is
15 1,000 basis points lower, at 4.62%, obviously a far lower cost of financing than
16 14.7%. This disparity in cost between equity and debt is even greater --
17 approximately 1400 basis points -- if FPL's recommended ROE were to be
18 implemented. Thus equity under either ROE is at least 3 to 4 times as expensive as
19 debt. Of course, FPL cannot finance its entire rate base with debt and must use
20 common equity in order to reduce its financial risk and generate cash coverages to
21 maintain its A/A bond rating. However, it is clear that FPL does not need a 60%
22 common equity ratio to generate an A bond rating. Setting the Company's equity

1 ratio at **55%** represents a fair balance between FPL's ratepayers and its financial
2 integrity.

3 **Q. In FPL's last rate case, did Company witnesses cite PPAs as support for having**
4 **a higher common equity ratio?**

5 A. Yes. Mr. Dewhurst noted on page 28, line 20 through page 29, line 17 of his
6 Rebuttal Testimony in Docket No. 120015-EI that rating agencies make adjustments
7 to a utility's capital structure in evaluating financial risk. Mr. Dewhurst testified that
8 S&P imputed \$922 million of the Company's PPAs as debt when evaluating FPL's
9 financial strength.

10 **Q. Did either Mr. Dewhurst or Mr. Hevert cite FPL's PPAs as a reason for**
11 **maintaining the Company's common equity ratio at nearly 60% in this**
12 **proceeding?**

13 A. No.

14 **Q. Has there been a reduction in FPL's PPA obligation since the last rate case?**

15 A. Yes. FPL's 2012 Form 10-K noted on page 113 that the Company was obligated
16 under take-or-pay purchased power contracts with the Jacksonville Electric
17 Authority ("JEA") and with subsidiaries of the Southern Company to pay for
18 approximately 1,330 mWs annually through 2015 and 375 mWs thereafter through
19 2021. For the year ending December 31, 2011, FPL stated that annual capacity
20 charges its PPA contracts were \$511 million.

21

22 For the year ending December 31, 2015, NextEra Energy 's 2015 10-K report noted
23 on page 118 that its PPA obligations were for only 375 mWs through 2021, or about

1 28% of the level in 2011. This reflects the expiration of a substantial portion of
2 FPL's PPAs since 2012. FPL reported that capacity charges under the PPAs were
3 \$434 million in 2015. However, the Company forecasted a substantial reduction in
4 these charges, with \$185 million in 2016 declining to \$110 million in 2020.

5 **Q. Given the substantial decline in FPL's PPA obligations, should the Commission**
6 **continue to allow FPL a 60% common equity ratio?**

7 A. No, given the change in circumstances since 2012.

8 **Q. If the Commission decides to authorize a ROE greater than your recommended**
9 **9.0%, should your 55% equity ratio be adjusted?**

10 A. Yes. If the Commission authorizes a ROE greater than 9.0%, I recommend that
11 FPL's equity ratio be lowered. The Commission could lower the Company's equity
12 ratio to 53%, which is the average common equity ratio of Mr. Hevert's proxy group
13 of companies. This is certainly a reasonable, even generous, equity percentage
14 considering that the average equity ratio for my comparison group of companies is
15 50%.

16 **Cost of Debt**

17 **Q. Did you examine FPL's requested cost of long-term debt?**

18 A. Yes, I did. On page 24 of his Direct Testimony, lines 10 through 13, Mr. Dewhurst
19 testified that the Company projected its long-term debt cost by relying on the Blue
20 Chip Financial Forecast. Cost projections were presented in MFR D-8. For the 2017
21 test year, the Company included two new issues of First Mortgage Bonds with

1 assumed coupon rates of 6.16%. For the year 2018 the Company included two
2 additional new issues of First Mortgage Bonds with assumed coupon rates of 6.50%.

3 **Q. Are these assumed coupon rates for 2017 and 2018 reasonable?**

4 A. No, they are not. Given current long-term debt rates for A-rated utilities, coupon
5 rates from 6.16% to 6.50% are grossly inflated and should be rejected by the
6 Commission.

7 **Q. What have the recent yields been for A-rated utility bonds in 2016?**

8 A. According to the Mergent Bond Record, A-rated utility bond yields ranged from
9 3.93% in May to 4.27% in January. Moody's reported that as of June 10, 2016 A-
10 rated utility bond yields were 3.75%.

11

12 Although the Blue Chip Financial Forecasts may be forecasting higher future interest
13 rates in 2017 and 2018, there is absolutely no reason to adopt forecasts that are
14 excessively higher than today's current utility bond yields. Forecasts of future
15 interest rates may never come to pass and in that eventuality, ratepayers would be
16 forced to support inflated debt costs.

17 **Q. What is your recommended cost of long-term debt for FPL's forecasted debt**
18 **issues in 2017 and 2018?**

19 A. I recommend that the Commission authorize a cost of debt of 4.1% for FPL's
20 forecasted debt issues.

21

1 My recommendation is based on the highest yield for A-rated debt this year. As I
2 stated previously, the yield on A-rated utility debt in June is 3.75%. Thus, my
3 recommended yield of 4.10% allows for a 35 basis point increase in the current A-
4 rated bond yield.

5 **Q. How would financing debt in 2017 at FPL's projected interest rates compare to**
6 **financing debt at current rates?**

7 A. Presuming the need for \$950 million in debt in 2018, it is obvious that financing it
8 now rather than running the risk of incurring interest rates of 6.16% - 6.50% would
9 benefit ratepayers.

10 Assume, for example, that FPL obtains an interest rate of 6.40% on future debt
11 issuances. Borrowing \$950 million at 6.40% per year on a non-amortizing basis
12 would involve annual interest payments of **\$60.8** million (*e.g.*, \$950 million times
13 6.40%). Assume instead that the debt was financed in 2016 at 4.10% (the midpoint
14 of the January-May yields identified above, and well above the 3.75% yield for the
15 most current A-rated yield). The resulting annual interest cost would be **\$39** million.
16 The annual savings in that situation would be about \$22 million, or about **\$440**
17 million over the life of a 20-year bond. The savings would be greater for bonds of
18 longer duration.

19
20 While this simplified scenario can be modified for different maturities and types of
21 debt (*e.g.*, amortizing versus non-amortizing), the point is the same. FPL can save
22 ratepayers substantial money by financing its expected long-term debt at lower
23 current interest rates.

1 **Q. Did you review FPL's requested cost of short-term debt?**

2 A. Yes. The Company's cost of short-term debt is included in its Schedule D-3.

3 **Q. Is FPL's requested cost of short-term debt reasonable?**

4 A. No. I recommend that FPL's cost of short-term debt be adjusted.

5 **Q. Please explain how you adjusted the Company's cost of short-term debt.**

6 A. According to Schedule D-3, FPL included commitment fees of \$4.569 million in its
7 requested cost of short-term debt. These fixed fees should not be included in the cost
8 of short-term debt. Including these largely fixed fees in short-term debt costs requires
9 the Commission to recalculate the percentage cost of short-term debt whenever it
10 changes the rate base or modifies the amount of short-term debt.

11

12 Instead, I recommend that these fees be collected in O&M expenses. In this manner,
13 the Commission ensures that the Company fully recovers these fixed expenses. At
14 the same time, only the short-term debt interest rate itself is reflected in the weighted
15 cost of capital regardless of the adjustments to rate base or the modifications to the
16 capital structure.

17 **Q. What is your recommended cost of short-term debt in this proceeding?**

18 A. I recommend that the Commission adopt a cost of short-term debt of 0.56%. This is
19 the percentage cost shown in Schedule D-3 for the prior year ended December 31,
20 2016. In my opinion, FPL inflated its cost of short-term debt based on forecasts that
21 may or may not come to pass, just as it did for its forecasted long-term debt

1 issuances. My recommended 0.56% cost of short-term debt allows for a reasonable
2 increase over FPL's December 31, 2015 cost of short-term debt of 0.28%, which is
3 also shown in Schedule D-3. The Commission should not allow FPL to pass through
4 inflated costs of short-term debt to its Florida ratepayers.

5 **Q. In your view, is it likely that interest rates will rise this year?**

6 A. Yes, I believe it is likely that interest rates will rise. The Federal Reserve considered
7 raising interest rates this year, only to defer any such increases due to economic
8 concerns relating to job creation, domestic economic growth, and the effect on
9 exchange rates that would increase the value of the dollar abroad and potentially
10 harm U. S. exports. Many financial observers forecasted that the Federal Reserve
11 would increase rates in June 2016; of course, that ultimately did not occur. In any
12 case, how much interest rates will increase this year, if at all, in anyone's guess.

13 **Q. Did FPL provide interest rate forecasts in its filing in Docket No. 120015-EI?**

14 A. Yes. Dr. William Avera presented forecasts of interest rates in his Exhibit WEA-2,
15 page 1 of 1. I have attached this exhibit as my Exhibit No. ___ (RAB-11). This
16 exhibit shows that in 2012, Dr. Avera presented forecasted interest rates for 2016 for
17 the 30-year Treasury Bond and the AA Utility bond. Those forecasts showed a 2016
18 30-Year Treasury yield of 5.3% - 5.5% and a AA Utility yield of 6.8% - 6.9%.
19 Current experience shows that these forecasts were obviously very far off the mark.
20 According to the Mergent Bond Record, the Aa Utility bond yield for May 2016 was
21 3.65%, 315 basis points lower than the forecasts presented by Dr. Avera. Likewise

1 the 30-Year Treasury bond yield in May 2016 was 2.63%, 209 basis points less than
2 the upper end of the forecasted yields presented by Dr. Avera.

3

4 This exhibit shows the dangers of relying on forecasted bond yields to set rates for
5 Florida customers.

6

7 **Q. What is the effect of your recommended common equity ratio, cost of equity**
8 **and forecasted cost of debt on FPL weighted cost of capital?**

9 A. Mr. Kollen quantified the effect of my recommendations in his Direct Testimony.

10

1 **IV. RESPONSE TO FPL TESTIMONY**

2 **Q. Have you reviewed the Direct Testimony of Mr. Robert Hevert?**

3 A. Yes.

4 **Q. Please summarize Mr. Hevert's testimony and approach to return on equity.**

5 A. Mr. Hevert employed four methods to estimate the investor required rate of return
6 for FPL: (1) the CAPM, (2) the bond yield plus risk premium model, (3) the constant
7 growth DCF model, and (4) a multi-stage DCF model.

8
9 With respect to the CAPM, Mr. Hevert's results ranged from 9.08% to 13.21%,
10 including a proposed adjustment for imputed flotation costs. Hevert Direct at 22:19-
11 20.

12
13 Mr. Hevert's formulation of the bond yield plus risk premium approach resulted in a
14 ROE estimate range of 10.04% - 10.53%. Hevert Direct at 26, Table 3.

15
16 With respect to the DCF model, Mr. Hevert used 30-day, 90-day, and 180-day
17 average stock prices ending January 15, 2016 to estimate the dividend yield for the
18 companies in his proxy group.

19
20 For his constant growth DCF approach, he used Value Line, First Call, and Zacks for
21 the investor expected growth rate. Mr. Hevert's mean growth rate ROE results for his

1 proxy group of companies ranged from 9.31% to 9.42%, which include an
2 adjustment for imputed flotation costs. Hevert Direct at 31, Table 4.

3
4 Regarding his multi-stage DCF analysis, Mr. Hevert used the same proxy group.
5 This model consisted of three distinct stages with assumptions regarding growth
6 rates and payout ratio changes. Mr. Hevert used a forecast of growth in nominal
7 Gross Domestic Product ("GDP") for his long-term growth rate. The results for this
8 method using the mean growth rate for his proxy group ranged from 9.84% to 9.96%
9 including imputed flotation costs. Hevert Direct at 36, Table 7.

10
11 Based on the results of his analyses and judgment, Mr. Hevert recommended a ROE
12 range for FPL of 10.50% to 11.50%, concluding that the cost of equity is 11.00%.
13 Hevert Direct at 69:1-4.

14 **Q. Before you proceed to the particulars of your review with respect to Mr.**
15 **Hevert's testimony, what is your overall conclusion with respect to Mr. Hevert's**
16 **recommended ROE range?**

17 A. In my opinion, the results of Mr. Hevert's ROE analyses do not support his
18 recommended ROE range of 10.5% to 11.5%. His mean DCF results for both the
19 constant growth and multi-stage models are far below this recommended range. I
20 would also note that his results for the constant growth DCF are consistent with the
21 results I quantified. Mr. Hevert's bond yield plus risk premium approach yielded a
22 midpoint ROE of 10.29%. Only his CAPM results showed an ROE greater than
23 10.5%, which is the lower bound of his recommended range. Indeed, Mr. Hevert

1 appears to have omitted the entirety of his average, or mean, DCF results, all of
2 which are significantly below the lower end of his recommended range. The
3 Commission should reject Mr. Hevert's recommended ROE range as unsupported by
4 his own analyses.

5 **Q. You and Mr. Hevert used different proxy groups to estimate FPL's ROE in this**
6 **proceeding. Do you have any comments with respect to Mr. Hevert's proxy**
7 **group of companies?**

8 A. Yes. Mr. Hevert's group includes Dominion Resources, Great Plains Energy, and
9 Westar Energy. These three companies are involved in significant merger activity
10 and should not be included in a proxy group for purposes of estimating the return on
11 equity for FPL.

12 **CAPM**

13 **Q. Briefly summarize the main elements of Mr. Hevert's CAPM approach.**

14 A. On page 20 of his Direct Testimony, Mr. Hevert testified that he used several
15 different measures of the risk-free interest rate: the current 30-day average yield on
16 the 30-year Treasury bond (2.96%) and near term and long term projected yields on
17 30-year Treasury bond yields (4.00% - 4.80%). Mr. Hevert did not consider any
18 shorter maturity bonds, such as the 5-year Treasury note.

19
20 Mr. Hevert then calculated ex-ante measures of total market returns using data from
21 Bloomberg and Value Line. Total market returns from these two sources were a
22 13.63% market return using Bloomberg data (Exhibit No. ____ (RBH-6) at p. 1) and a
23 12.82% return using Value Line data (Exhibit No. ____ (RBH-6) at p. 7).

1

2 Mr. Hevert used two different estimates for beta from Bloomberg and Value Line.

3 **Q. Is it appropriate to use forecasted or projected bond yields in the CAPM?**

4 A. Definitely not. Current interest rates and bond yields embody all of the relevant
5 market data and expectations of investors, including expectations of changing future
6 interest rates. The forecasted bond yield used by Mr. Hevert is speculative at best
7 and may never come to pass. Current interest rates provide tangible and verifiable
8 market evidence of investor return requirements today, and these are the interest
9 rates and bond yields that should be used in both the CAPM and in the bond yield
10 plus risk premium analyses. To the extent that investors give forecasted interest
11 rates any weight at all, they are already incorporated in current securities prices.

12

13 As described *supra*, the interest rates FPL projected in 2012 to occur in 2016 never
14 came to pass and were substantially higher than today's interest rates. This clearly
15 demonstrates the risk of reliance on forecasted interest rates in setting the cost of
16 equity and cost of debt for FPL. Once again, I strongly recommend that the
17 Commission reject this approach.

18 **Q. Should Mr. Hevert have considered shorter-term Treasury yields in his CAPM**
19 **analyses?**

20 A. Yes. In theory, the risk-free rate should have no interest rate risk. 30-year Treasury
21 Bonds do face this risk, which is the risk that interest rates could rise in the future
22 and lead to a capital loss for the bondholder. Typically, the longer the duration of
23 the bond, the greater the interest rate risk. The 5-year Treasury note has much less

1 interest rate risk than 20-year or 30-year Treasury Bonds and may be considered one
2 reasonable proxy for a risk-free security. My CAPM analysis shows that the ROE
3 using a 5-year Treasury note would be only 8.00% using the expected market return.
4 This is much lower than any of the CAPM estimates provided by Mr. Hevert.

5 **Q. Please comment on Mr. Hevert's use of Bloomberg and Value Line earnings**
6 **growth estimates for the S&P 500.**

7 A. Mr. Hevert used earnings growth estimates from these two sources to estimate the
8 expected market return for his CAPM. Using the data contained in Exhibit No. ____
9 (RBH-6), I calculated that the average Value Line growth rate is 10.18% and the
10 average Bloomberg growth rate is 10.06% (average the growth rates contained in
11 column 7).

12
13 These are by no means long-run sustainable growth rates. They are about double the
14 long-term GDP growth forecast of 5.35% presented by Mr. Hevert. If forecasted
15 GDP growth is used, then both Mr. Hevert's and my own market return estimates
16 would fall significantly. Obviously, using 5.35% as a proxy for long-term growth
17 for the S&P 500 companies would reduce Mr. Hevert's market return of 12.82% and
18 13.63% quite substantially. This would also apply to my forward-looking CAPM
19 analyses as well.

20 **Q. Is the S&P 500 a good proxy for the market when estimating a CAPM return on**
21 **equity?**

22 A. No. That is because the S&P 500 is limited to the stocks of the 500 largest
23 companies in the United States. The market return portion of the CAPM should
24 represent the most comprehensive estimate of the total return for all investment

1 alternatives, not just a small subset of publicly traded stocks. In practice, of course,
2 finding such an estimate is difficult and is one of the more thorny problems in
3 estimating an accurate ROE when using the CAPM. If one limits the market return
4 to stocks, then there are more comprehensive measures of the stock market available,
5 such as the Value Line Investment Survey that I used in my CAPM analysis. Value
6 Line's projected earnings growth used a sample of 2,209 stocks and its book value
7 growth estimate used 1,527 stocks. Value Line's projected annual percentage return
8 included 1,680 stocks. These are much broader samples than Mr. Hevert's limited
9 sample of the S&P 500.

10 **Q. Do the market returns you used in your CAPM suggest that Mr. Hevert's**
11 **estimated market returns are excessive?**

12 A. Yes. The market returns I estimated from Value Line ranged from 9.88% to 11.00%,
13 far lower than Mr. Hevert's estimated returns on the S&P 500.

14
15 **Bond Yield Plus Risk Premium Analysis**

16 **Q. Please summarize Mr. Hevert's risk premium approach.**

17 A. Mr. Hevert developed a historical risk premium using Commission-allowed returns
18 for regulated electric and gas utility companies and 30-year Treasury bond yields
19 from January 1980 through January 15, 2016. He used regression analysis to
20 estimate the value of the inverse relationship between interest rates and risk
21 premiums during that period. Applying the regression coefficients to the average
22 risk premium and using both current and projected 30-year Treasury yields I

1 discussed earlier, Mr. Hevert's risk premium ROE estimate ranges from 10.04% to
2 10.53%. Hevert Direct at 26, Table 3.

3 **Q. Please respond to Mr. Hevert's risk premium analysis.**

4 A. First, the bond yield plus risk premium approach is imprecise and can only provide
5 very general guidance on the current authorized ROE for a regulated electric utility.
6 Risk premiums can change substantially over time. As such, this approach is a
7 "blunt instrument" for estimating the ROE in regulated proceedings. In my view, a
8 properly formulated DCF model using current stock prices and growth forecasts is
9 far more reliable and accurate than the bond yield plus risk premium approach,
10 which relies on a historical risk premium analysis over a certain period of time.

11
12 Second, I recommend that the Commission reject the use of the forecasted Treasury
13 bond yields for the same reasons I described in my response to Mr. Hevert's CAPM
14 approach. The Blue Chip Consensus 30-Year Treasury yield forecasts resulted in
15 ROEs of 10.24% - 10.53%, the highest of the three results obtained from Mr.
16 Hevert's analysis. Changing Mr. Hevert's analysis only to use the current 30-Year
17 Treasury yield, without addressing other potential shortcomings of that analysis,
18 would result in a ROE of 10.04%. *See* Exhibit No. ____ (RBH-3) at p. 1, col. 5.

19 **Constant Growth DCF Analyses**

20 **Q. What are Mr. Hevert's DCF results without the inclusion of flotation costs?**

21 A. Table 4 below summarizes Mr. Hevert's constant growth DCF results excluding
22 flotation costs and using average growth rates.

1

	Group Mean <u>DCF</u>	Group Median <u>DCF</u>
30-Day Average Stock Price	9.19%	- 9.00%
90-Day Average Stock Price	9.23%	8.99%
180-Day Average Stock Price	9.30%	9.12%

2

3

Once flotation costs are excluded, it becomes clear that Mr. Hevert's DCF results are quite similar to mine. Averaging Witness Hevert's median growth rates produces a DCF result of 9.04%.

4

5

6 **Q. Are the stock prices Mr. Hevert used in his DCF analyses out of date?**

7

A. Yes, they are quite dated. Mr. Hevert used stock prices ending January 15, 2016, making them nearly six months out of date. The Commission should not rely on ROE analyses that use such stale data.

8

9

10 **Q. Beginning on page 47 of his Direct Testimony, Mr. Hevert urges the imputation**
11 **of flotation costs in the allowed ROE. Should the Commission add a flotation**
12 **cost adjustment to the cost of equity for FPL?**

13

A. No. In my opinion, it is likely that flotation costs are already accounted for in current stock prices and that adding an adjustment for flotation costs amounts to double counting. A DCF model using current stock prices should already account

14

15

1 for investor expectations regarding the collection of flotation costs. Multiplying the
2 dividend yield by a 4% flotation cost adjustment, for example, essentially assumes
3 that the current stock price is wrong and that it must be adjusted downward to
4 increase the dividend yield and the resulting cost of equity. I do not believe that this
5 is an appropriate assumption. Current stock prices most likely already account for
6 flotation costs, to the extent that such costs are even accounted for by investors.

7 **Multi-stage DCF Model**

8 **Q. Please summarize the components of Mr. Hevert's multi-stage DCF model.**

9 A. Mr. Hevert described the structure and the inputs for his multi-stage DCF model on
10 pages 31 through 36 of his Direct Testimony. The main elements of Mr. Hevert's
11 multi-stage DCF analyses are as follows:

- 12
- 13 • 30, 90, and 180 average stock prices.
- 14 • First stage of growth based on the average earnings growth rates from Value
15 Line, Zacks, and First Call.
- 16 • A transition period from near-term to long-term growth.
- 17 • Long-term growth estimated using GDP growth based on historical real GDP
18 growth from 1929 through 2014 and a forecasted inflation rate (5.35%).
- 19 • Expected dividend in the final year divided by solved cost of equity less long-
20 term growth rate.
- 21 • Payout ratio assumptions based on Value Line for the first stage, a transition
22 period, and a long-term expected payout ratio.

1 **Q. As a practical matter, is it likely that investors would use the multi-stage model**
2 **presented by Mr. Hevert?**

3 A. No. In my opinion, it is highly unlikely that investors would employ the complicated
4 structure and set of assumptions used by Mr. Hevert. Mr. Hevert presented no
5 evidence whatsoever that investors use such a model in forming their required return
6 for an electric utility such as FPL. He presented no evidence that investors use GDP
7 growth in their evaluation of expected growth in dividends and earnings for electric
8 utility companies. Nor did he show that investors utilize his assumptions regarding
9 the transition period or payout ratio forecasts.

10 **Q. In your opinion, did Mr. Hevert overstate expected GDP growth?**

11 A. Yes. There are two publicly available forecasts of GDP growth that are relied upon
12 by the Federal Energy Regulatory Commission ("FERC") in the determination of the
13 second stage of the two-stage growth rate in its DCF return on equity formula.
14 These forecasts come from the Energy Information Administration ("EIA"), and the
15 Social Security Administration ("SSA") Trustees Report.³ The latest EIA GDP
16 forecast shows expected growth in nominal GDP of 4.19%. The SSA Report
17 forecasts nominal growth in GDP of 4.41%. The average of these two long-term
18 GDP forecasts is 4.30%. I include the calculations of these two GDP growth rates on
19 Exhibit No. ____ (RAB-12). My calculations are based on my understanding of how
20 the FERC Staff uses the data contained in the EIA and SSA documents to calculate
21 long-term GDP growth for the second stage of its two-stage DCF model.

3 Please see the Energy Information Administration, *Annual Energy Outlook 2015* (April 2015) and Social Security Administration, 2016 OASDI Trustees Report, Table VI.G6 - Selected Economic Variables, Calendar Years 2015-90.

1

2

These independent sources are forecasting nominal GDP growth to be substantially lower than the forecast used by Mr. Hevert (4.30% vs. Mr. Hevert's forecast of 5.35%). In my opinion, Mr. Hevert's GDP forecast contributes to a significant overstatement of his multi-stage DCF results.

3

4

5

6 **Q.**

Did you recalculate Mr. Hevert's multi-stage DCF using the 4.30% forecasted GDP from the two sources you just cited?

7

8 **A.**

Yes. Please refer to my Exhibit No. ____ (RAB-13), which provide a recalculation of Mr. Hevert's multi-stage DCF using a 4.30% forecasted GDP growth and a 180-day average stock price from Exhibit No. ____ (RBH-5). I did not change any other assumption used by Mr. Hevert in this analysis.

9

10

11

12

13

14

15

The resulting mean DCF ROE result is 9.03%. This provides an idea of how much Mr. Hevert overstated his multi-stage DCF results using his own 5.35% GDP forecast.

16 **Business Risks and Other Considerations**

17 **Q.**

Please summarize the business risk discussion contained in Section VI of Mr. Hevert's Direct Testimony.

18

19 **A.**

Beginning on page 37 of his Direct Testimony, Mr. Hevert presented the risks and other considerations that he believes should be taken into account in setting the allowed cost of equity for FPL. These considerations include:

20

21

22

- Geographic risk

- 1 • Capital access
- 2 • Nuclear generation regulatory requirements
- 3 • Four-year rate proposal

4 **Q. Did Mr. Hevert perform a study comparing these risk considerations involving**
5 **FPL to those of the companies he includes in his proxy group?**

6 A. No. Mr. Hevert did not conduct any such studies regarding geographic risks (Exhibit
7 No. ____ (RAB-5) at pp. 83-86 (FPL’s Response to SFHHA ROG No. 85 and Staff
8 ROG No. 239(b)), capital access (Exhibit No. ____ (RAB-5) at p. 87 (FPL’s Response
9 to SFHHA POD No. 76)), and nuclear generation regulatory requirements (Exhibit
10 No. ____ (RAB-5) at p. 88 (FPL’s Response to SFHHA POD No. 77)).

11
12 In response to discovery Mr. Hevert explained that he “did not believe it was
13 necessary to perform any additional comparative risk analysis” other than his
14 “selection criteria used to identify a proxy group of comparable publically traded
15 electric utility companies.” Exhibit No. ____ (RAB-5) at pp. 89-90 (FPL’s Responses
16 to SFHHA POD No. 79 and Staff ROG No. 236)).

17 **Q. Mr. Baudino, what is your response to Mr. Hevert's discussion of these risk**
18 **factors and their effect on the Commission's determination of a fair rate of**
19 **return for FPL in this case?**

20 A. It is important to consider that bond rating agencies consider the risks that Mr.
21 Hevert mentioned, as well as other factors, in determining their bond and credit
22 ratings for regulated electric companies. As I testified previously, these bond and
23 credit ratings provide a summary assessment of the overall risk of a utility company

1 such as FPL. Thus, comparing FPL's bond and credit ratings to the companies in our
2 respective proxy groups will provide the Commission an objective assessment of
3 how FPL's overall risk compares to our groups.

4
5 Referring to Table 1 of my Direct Testimony, six of the twelve companies in my
6 comparison group have A/A ratings. They do not have a split bond rating in which
7 one agency gave the subject company a BBB/Baa rating while the other agency gave
8 the company an A/A rating. The remaining six companies in the comparison group
9 have a split bond rating. FPL's senior securities carry an A/Aa2 bond rating.
10 Comparing FPL's bond ratings to the bond ratings of my comparison group shows
11 that FPL is a lower risk company than the group on the basis of bond ratings.

12 **Q. Did Mr. Hevert conduct a comparison of FPL's bond and credit ratings to the**
13 **companies in his electric proxy group?**

14 A. No, he did not. However, I shall present such a comparison of FPL's bond ratings to
15 the bond ratings contained in the June 2016 issue of AUS Utility Reports. Please
16 refer to my Table 5 below for this information.

TABLE 5
Hevert Proxy Group Bond Ratings

<u>Company</u>	<u>S&P</u>	<u>Moody's</u>
ALLETE, Inc.	A-	A3
Alliant Energy Corporation	A-	A2/A3
Ameren Corporation	BBB+/BBB	Baa1
American Electric Power Company, Inc.	BBB/BBB-	Baa1
Avista Corporation	A-	Baa1
CMS Energy Corporation	BBB+/BBB	A3/Baa1
Dominion Resources, Inc.	A-	A3/Baa1
DTE Energy Company	A-/BBB+	A2/A3
Great Plains Energy Inc.	BBB	Baa2
IDACORP, Inc.	A-	A3
NorthWestern Corporation	NR	A3
OGE Energy Corp.	BBB+	A3
Otter Tail Corporation	BBB-	Baa2
Pinnacle West Capital Corporation	BBB	A3/Baa1
PNM Resources, Inc.	BBB	Baa2
Portland General Electric Company	A-	A3
SCANA Corporation	BBB+	Baa1/Baa2
Westar Energy, Inc.	A-	A3/Baa1
Xcel Energy Inc.	A-	A3

1

2

3

Table 7 shows the following:

4

- Six of the eighteen proxy companies have BBB/Baa bond ratings.

5

- Seven of the eighteen proxy companies have split ratings

6

(A/BBB/Baa).

7

- Five of the eighteen proxy companies have A/A bond ratings.

8

9

The information in Table 7 clearly shows that the Mr. Hevert's proxy group is more

10

risky than FPL when bond ratings are considered. Thus, if the Commission is to

11

make any adjustment to FPL's ROE based on the results of Mr. Hevert's ROE

12

analyses, it should be to lower FPL's ROE compared to his proxy group.

1 **Q. Did Mr. Hevert omit any important considerations with respect to total**
2 **company risk?**

3 A. Yes. Mr. Hevert overlooked the fact that FPL's financial risk is lower than his proxy
4 group due to FPL's inflated common equity ratio. Mr. Hevert's Exhibit No. ____
5 (RBH-10) shows that the average common equity ratio for his proxy group is 52.7%.
6 The average common equity percentage for the operating companies is 53.2%.
7 Adjusting the Company's requested 60% common equity to 55% would still leave
8 FPL with a higher common equity ratio than his proxy group average, and
9 correspondingly lower financial risk.

10 **Q. Beginning on page 50 of his Direct Testimony, Mr. Hevert discussed additional**
11 **risks from FPL's proposed Four Year Rate Proposal. Do you agree with Mr.**
12 **Hevert's discussion on this point?**

13 A. No. It would make no sense from FPL's perspective to propose a multi-year rate
14 plan if such a plan did not have substantial benefits for its shareholders. The
15 Company's Four Year Rate Proposal would lend revenue stability and certainty of
16 cost recovery over the next four years if approved. Regarding the risk of higher
17 interest rates over that time, FPL included substantially higher assumed interest rates
18 for its projected new debt issues in 2017 and 2018. This would completely mitigate
19 interest rate risk for the Company and, by the same token, expose Florida customers
20 to paying a higher cost of debt if those assumed interest rates fail to materialize. In
21 fact, if FPL expects interest rates to be higher in 2017 and 2018, it would be prudent
22 for the Company to lock in lower interest rates now and issue its forecasted debt this
23 year.

24

1 Finally, Mr. Hevert's proposed ROE of 11.0% is so far above recently approved
2 ROEs that interest rates could rise substantially and FPL could still earn an above
3 market ROE. Mr. Hevert's data on Exhibit No. ___ (RBH-3) shows Commission-
4 allowed returns from January 1980 through January 2016. According to my
5 calculations, the average Commission-allowed return from January 2015 through
6 January 2016 was 9.59%, which is 141 basis points lower than Mr. Hevert's
7 recommended 11.0% ROE. If the 50 basis point performance adder is included the
8 11.5% ROE becomes even further removed from recent Commission-allowed
9 returns.

10
11 In conclusion, FPL's excessive ROE and interest rate projections have eliminated any
12 cost of capital risk from its proposed four-year rate plan.

13 **Q. Should the Commission raise FPL's ROE based on Mr. Hevert's discussion of**
14 **the four risk factors you summarized earlier?**

15 A. No. These risks are already embedded in FPL's bond and credit ratings. FPL carries
16 a strong A/A credit rating from Moody's and Standard and Poor's. With respect to
17 overall business risk, the S&P credit report I cited earlier in my testimony assigned
18 FPL an "excellent" business risk rating, which is the very top of S&P's business risk
19 scale.

20 **Capital Market Environment**

21 **Q. Beginning on page 52 of his Direct Testimony, Mr. Hevert discussed current**
22 **capital market conditions. Could you please respond to Mr. Hevert's discussion**
23 **of these conditions?**

1 A. Yes. As I described in Section II of my testimony, the United States continues to be
2 a low interest rate environment that suggests lower ROEs for regulated utilities.
3 Even though the Federal Reserve has considered raising interest rates this year, it has
4 delayed any such move for the time being. In a press release dated June 15, 2016 the
5 Federal Open Market Committee stated the following:

6 Consistent with its statutory mandate, the Committee seeks to
7 foster maximum employment and price stability. The
8 Committee currently expects that, with gradual adjustments in
9 the stance of monetary policy, economic activity will expand
10 at a moderate pace and labor market indicators will strengthen.
11 Inflation is expected to remain low in the near term, in part
12 because of earlier declines in energy prices, but to rise to 2
13 percent over the medium term as the transitory effects of past
14 declines in energy and import prices dissipate and the labor
15 market strengthens further. The Committee continues to
16 closely monitor inflation indicators and global economic and
17 financial developments.

18 Against this backdrop, the Committee decided to maintain the
19 target range for the federal funds rate at 1/4 to 1/2 percent. The
20 stance of monetary policy remains accommodative, thereby
21 supporting further improvement in labor market conditions
22 and a return to 2 percent inflation. [Exhibit No. ___ (RAB-3)
23 at p.13].

24

25 Note that the stance of the Federal Reserve is one of accommodation and that it
26 decided to maintain short-term interest rates at their present levels. This continues to
27 favor lower expected returns on the part of investors for lower risk and higher
28 yielding regulated utility stocks.

29 **Q. Beginning on page 56, Mr. Hevert discusses equity market volatility. Please**
30 **respond to his discussion on this point.**

1 A. On page 61 of his Direct Testimony, Mr. Hevert testified: "in light of the fact that
2 volatility now is considerably above its prior levels, it is difficult to conclude that
3 fundamental risk aversion and investor return requirements have fallen."

4
5 I would agree with Mr. Hevert that the indices of overall market volatility he
6 presented suggest that market volatility has increased so far in 2016. I would further
7 suggest that market volatility will most likely increase further with Great Britain
8 voting to leave the European Union on June 23, 2016. However, I would note that
9 with respect to the stocks of regulated utilities, investors appear to be seeking safe
10 havens for their money by purchasing utility stocks. For example, the Dow Jones
11 Utilities Average ("DJU") began the year, January 4, 2016 at 574.51. The DJU
12 closed on Friday, June 24 at 685.71, an increase of 19.4%. On June 24, 2016, the
13 day after the "Brexit" vote, the DJU closed up from the prior day by 1.0%. Contrast
14 this with the overall market. The S&P 500 lost 3.6% and the Dow Jones Industrial
15 average lost 3.4%.

16
17 Investors appear to continue to view regulated utilities as safe, stable investments
18 compared with the market as a whole. Recent stock market movements underscore
19 my recommendation of 9.0% as reasonable, indeed generous, for a financially strong
20 and low risk utility investment like FPL.

21 **ROE Adder for Excellent Management**

22 **Q. Several FPL witnesses, including Mr. Hevert, recommended that the**
23 **Commission recognize and encourage exemplary management in setting the**

1 **return on equity for FPL by adding 0.50% to the return on equity in this**
2 **proceeding. Do you agree?**

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

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

21
22 Also, with respect to the level of FPL's rates, there are other factors that have
23 benefitted the Company beyond what could be considered "excellent management".
24 One major factor is that gas prices are currently quite low. Since FPL derives

1 approximately 69% of its generation from gas-fired units, low gas prices are a major
2 contributing factor to lower rates. FPL's management is not the cause of low gas
3 prices and its need to build new generation capacity over the past 3 decades to meet
4 population growth has afforded it an opportunity to add gas-fired units when other
5 utilities, not benefitting from such population growth, have not had the same
6 opportunity.

7
8 Another major factor contributing to FPL's low rates is the fact that the Company is a
9 very large utility with a contiguous Florida service territory that has economies of
10 scale. This means that fixed costs per customer will be lower for FPL than other,
11 smaller utilities that have higher fixed costs per customer. Again, economies of scale
12 have no bearing on FPL's claimed "excellent management".

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

19
20 **Q. Does this complete your prepared Direct Testimony?**

21 **A. Yes.**

AFFIDAVIT

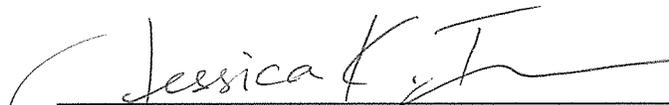
STATE OF GEORGIA)

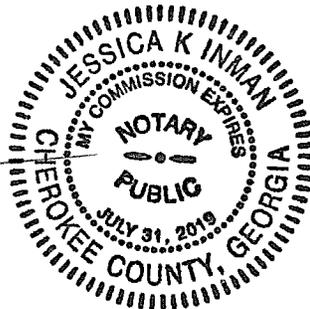
COUNTY OF FULTON)

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.


Richard A. Baudino

Sworn to and subscribed before me on this
6th day of July 2016.


Notary Public



**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

IN RE: PETITION FOR RATE INCREASE BY)
FLORIDA POWER AND LIGHT) **DOCKET NO. 160021-EI**
COMPANY AND SUBSIDIARIES)

**EXHIBITS
OF
RICHARD A. BAUDINO**

**ON BEHALF OF THE
SOUTH FLORIDA HOSPITAL AND HEALTH CARE ASSOCIATION**

July 2016

EXHIBIT NO. ____ (RAB-1)

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

Thirty-two years of experience in utility ratemaking and the application of principles of economics to the regulation of electric, gas, and water utilities. Broad based experience in revenue requirement analysis, cost of capital, rate of return, cost and revenue allocation, and rate design.

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, electric and gas industry restructuring/competition and water utility issues.

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	Large Power Intervenors (Minnesota)
Air Products and Chemicals, Inc.	Tyson Foods
Arkansas Electric Energy Consumers	West Virginia Energy Users Group
Arkansas Gas Consumers	The Commercial Group
AK Steel	Wisconsin Industrial Energy Group
Armco Steel Company, L.P.	South Florida Hospital and Health Care Assn.
Assn. of Business Advocating Tariff Equity	PP&L Industrial Customer Alliance
CF&I Steel, L.P.	Philadelphia Area Industrial Energy Users Gp.
Climax Molybdenum Company	West Penn Power Intervenors
Cripple Creek & Victor Gold Mining Co.	Duquesne Industrial Intervenors
General Electric Company	Met-Ed Industrial Users Gp.
Holcim (U.S.) Inc.	Penelec Industrial Customer Alliance
IBM Corporation	Penn Power Users Group
Industrial Energy Consumers	Columbia Industrial Intervenors
Kentucky Industrial Utility Consumers	U.S. Steel & Univ. of Pittsburg Medical Ctr.
Kentucky Office of the Attorney General	Multiple Intervenors
Lexington-Fayette Urban County Government	Maine Office of Public Advocate
Large Electric Consumers Organization	Missouri Office of Public Counsel
Newport Steel	University of Massachusetts - Amherst
Northwest Arkansas Gas Consumers	WCF Hospital Utility Alliance
Maryland Energy Group	West Travis County Public Utility Agency
Occidental Chemical	Steering Committee of Cities Served by Oncor
PSI Industrial Group	Utah Office of Consumer Services
	Healthcare Council of the National Capital Area

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop.	Rate design.
11/84	1833	NM	New Mexico Public Service Commission Palo Verde	El Paso Electric Co.	Service contract approval, rate design, performance standards for 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	Jornada 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 July 2016**

Date	Case	Jurisdct.	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., Armco 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 July 2016**

Date	Case	Jurisdict.	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 charge proposals.	Evaluation of cost allocation, rate design, rate plan, and carrying
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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
8/94	8652	MD	Westvaco Corp. Co.	Potomac Edison	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	I-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.
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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdct.	Party	Utility	Subject
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. Intervenors	PGE Industrial	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.
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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdct.	Party	Utility	Subject
10/99	R-00994782	PA	Peoples Industrial Intervenor	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenor	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenor	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity Assignment.
01/00	8829	MD & United States	Maryland Industrial Gr.	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 Commission	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 Commission	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.
11/00	R-00005277 (Rebuttal)	PA	Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)	LA	Louisiana Public Service Commission	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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
11/01	U-25687	LA	Louisiana Public Service Commission	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
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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116 Commission	LA	Louisiana Public Service	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327 Commission	LA	Louisiana Public Service	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 Users Group	WV	West Virginia Energy	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112	AK	AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797	LA	Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Electric Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR	OH	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

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
07/08	R-2008-2039634	PA	PPL Gas Large Users Group	PPL Gas	Retainage, LUFG 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
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	MN	The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI	FL	South Florida Hospital and Health Care Association	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana Public Service Commission	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 Group Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
03/10	09-1352-	WV E-42T	West Virginia Energy Users Group	Monongahela Power	Return on equity, rate of return Potomac Edison
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
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

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
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	Corning Natural Gas Co.	Cost and revenue allocation
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Service Company of Colorado	Return on equity, weighted cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Association	Florida Power and Light Co.	Return on equity, weighted cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure
01/13	R-2012-2321748 et al.	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation
02/13	12AL-1052E	CO	Cripple Creek & Victor Gold Mining, Holcim (US) Inc.	Black Hills/Colorado Electric Utility Company	Cost and revenue allocations
06/13	8009	VT	IBM Corporation	Vermont Gas Systems	Cost and revenue allocation, rate design
07/13	130040-EI	FL	WCF Hospital Utility Alliance	Tampa Electric Co.	Return on equity, rate of return
08/13	9326	MD	Maryland Energy Group	Baltimore Gas and Electric	Cost and revenue allocation, rate design, special rider

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
08/13	P-2012-2325034	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities, Corp.	Distribution System Improvement Charge
09/13	4220-UR-119	WI	Wisconsin Industrial Energy Group	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
11/13	13-1325-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal, Felman Production
06/14	R-2014-2406274	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation, rate design
08/14	05-UR-107	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Cost and revenue allocation, rate design
10/14	ER13-1508 et al.	FERC	Louisiana Public Service Comm.	Entergy Services, Inc.	Return on equity
11/14	14AL-0660E	CO	Climax Molybdenum Co. and CFI Steel, LP	Public Service Co. of Colorado	Return on equity, weighted cost of capital
11/14	R-2014-2428742	PA	AK Steel	West Penn Power Company	Cost and revenue allocation
12/14	42866	TX	West Travis Co. Public Utility Agency	Travis County Municipal Utility District No. 12	Response to complain of monopoly power
3/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric, Kentucky Utilities	Return on equity, cost of debt, weighted cost of capital
3/15	2014-00396	KY	Kentucky Industrial Utility Customers	Kentucky Power Co.	Return on equity, weighted cost of capital
6/15	15-0003-G-42T	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Cost and revenue allocation, Infrastructure Replacement Program
9/15	15-0676-W-42T	WV	West Virginia Energy Users Gp.	West Virginia-American Water Company	Appropriate test year, Historical vs. Future
9/15	15-1256-G-390P	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Rate design for Infrastructure Replacement and Expansion Program
10/15	4220-UR-121	WI	Wisconsin Industrial Energy Gp.	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
12/15	15-1600-G-390P	WV	West Virginia Energy Users Gp.	Dominion Hope	Rate design and allocation for Pipeline Replacement & Expansion Prog.
12/15	45188	TX	Steering Committee of Cities Served by Oncor	Oncor Electric Delivery Co.	Ring-fence protections for cost of capital

**Expert Testimony Appearances
of
Richard A. Baudino
As of July 2016**

Date	Case	Jurisdict.	Party	Utility	Subject
2/16	9406	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design, proposed Rider 5
3/16	39971	GA	GA Public Service Comm. Staff	Southern Company / AGL Resources	Credit quality and service quality issues
04/16	2015-00343	KY	Kentucky Office of the Attorney General	Atmos Energy	Cost of equity, cost of short-term debt, capital structure
05/16	16-G-0058 16-G-0059	NY	City of New York	Brooklyn Union Gas Co., KeySpan Gas East Corp.	Cost and revenue allocation, rate design, service quality issues
06/16	16-0073-E-C	WV	Constellium Rolled Products Ravenswood, LLC	Appalachian Power Co.	Complaint; security deposit
07/16	9418	MD	Healthcare Council of the National Capital Area	Potomac Electric Power Co.	Cost of equity, cost of service, Cost and revenue allocation
07/16	160021-EI	FL	South Florida Hospital and Health Care Association	Florida Power and Light Co.	Return on equity, cost of debt, capital structure
07/16	16-057-01	UT	Utah Office of Consumer Svcs.	Dominion Resources, Questar Gas Co.	Credit quality and service quality issues

EXHIBIT NO. ____ (RAB-2)

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

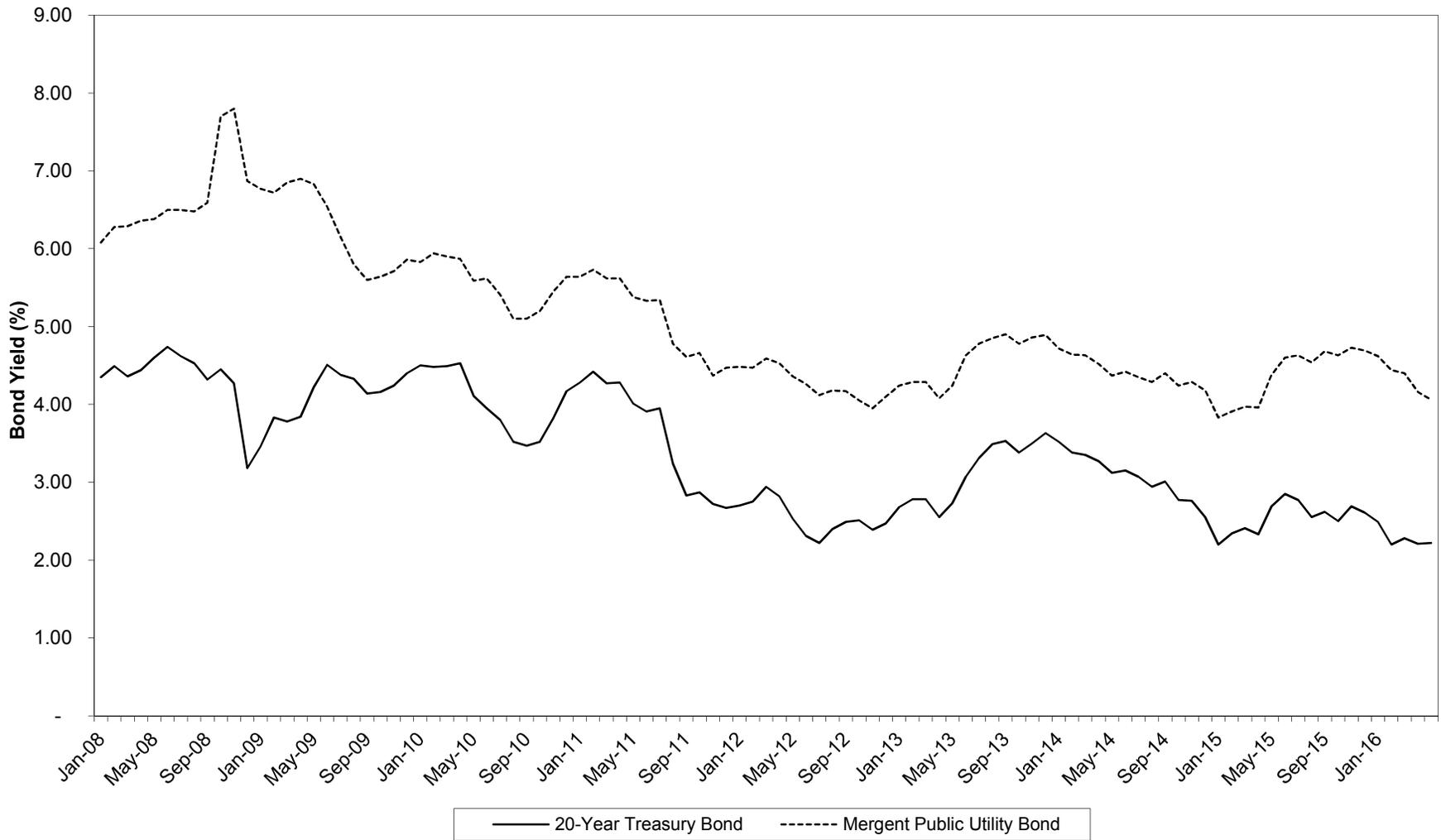


EXHIBIT NO. ____ (RAB-3)

Board of Governors of the Federal Reserve System

Credit and Liquidity Programs and the Balance Sheet

- [Overview](#)
- [Crisis response](#)
- [Monetary policy normalization](#)
- [Fed's balance sheet](#)

- [Federal Reserve liabilities](#)
- [Recent balance sheet trends](#)
- [Open market operations](#)
- [Central bank liquidity swaps](#)

- [Lending to depository institutions](#)
- [Fed financial reports](#)
- [Other reports and disclosures](#)
- [Information on closed programs](#)

The Federal Reserve's response to the financial crisis and actions to foster maximum employment and price stability

The Federal Reserve responded aggressively to the financial crisis that emerged in the summer of 2007, including the implementation of a number of programs designed to support the liquidity of financial institutions and foster improved conditions in financial markets. These programs led to significant changes to the Federal Reserve's balance sheet.

While these crisis-related special programs have expired or been closed, the Federal Reserve continues to take actions to fulfill its statutory objectives for monetary policy: maximum employment and price stability. Over recent years, many of these actions have involved substantial purchases of longer-term securities aimed at putting downward pressure on longer-term interest rates and easing overall financial conditions.

Related

[The Crisis and Policy Response](#)

Speech by Chairman Ben S. Bernanke, Jan. 13, 2009

[The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future](#)

Speech by Vice Chairman Donald L. Kohn, May 13, 2010

The tools described in this section can be divided into three groups. The first set of tools, which are closely tied to the central bank's traditional role as the lender of last resort, involve the provision of short-term liquidity to banks and other depository institutions and other financial institutions. The traditional [discount window](#) falls into this category, as did the crisis-related Term Auction Facility (TAF), Primary Dealer Credit Facility (PDCF), and Term Securities Lending Facility (TSLF). Because bank funding markets are global in scope, the Federal Reserve also approved bilateral [currency swap agreements](#) with several foreign central banks. The swap arrangements assist these central banks in their provision of dollar liquidity to banks in their jurisdictions.

A second set of tools involved the provision of liquidity directly to borrowers and investors in key credit markets.

The crisis-related Commercial Paper Funding Facility (CPFF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Money Market Investor Funding Facility (MMIFF), and the Term Asset-Backed Securities Loan Facility (TALF) fall into this category.

As a third set of instruments, the Federal Reserve expanded its traditional tool of open market operations to support the functioning of credit markets, put downward pressure on longer-term interest rates, and help to make broader financial conditions more accommodative through the purchase of longer-term securities for the Federal Reserve's portfolio. For example, starting in September 2012, the FOMC decided to increase policy accommodation by purchasing agency-guaranteed mortgage-backed securities (MBS) at a pace of \$40 billion per month in order to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate. In addition, starting in January 2013, the Federal Reserve began purchasing longer-term Treasury securities at a pace of \$45 billion per month. Starting in January 2014, the FOMC reduced the pace of asset purchases in measured steps, and concluded the purchases in October 2014.

Additional information on closed facilities

As noted above, the Federal Reserve's crisis-related special credit and liquidity programs have expired or been closed. Information on these programs is available on the [Information on closed programs](#) page.

▲ [Return to top](#)

Press Release

FEDERAL RESERVE press release



Release Date: November 3, 2010

For immediate release

Information received since the Federal Open Market Committee met in September confirms that the pace of recovery in output and employment continues to be slow. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak.

Employers remain reluctant to add to payrolls. Housing starts continue to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to expand its holdings of securities. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; James Bullard; Elizabeth A. Duke; Sandra Pianalto; Sarah Bloom Raskin; Eric S. Rosengren; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

Voting against the policy was Thomas M. Hoenig. Mr. Hoenig believed the risks of additional securities purchases outweighed the benefits. Mr. Hoenig also was concerned that this continued high level of monetary accommodation increased the risks of future financial imbalances and, over time, would cause an increase in long-term inflation expectations that could destabilize the

economy.

Statement from Federal Reserve Bank of New York 

Press Release

FEDERAL RESERVE press release



Release Date: June 19, 2013

For immediate release

Information received since the Federal Open Market Committee met in May suggests that economic activity has been expanding at a moderate pace. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy is restraining economic growth. Partly reflecting transitory influences, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall. The Committee also anticipates that inflation over the medium term likely will run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation

between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Jerome H. Powell; Sarah Bloom Raskin; Eric S. Rosengren; Jeremy C. Stein; Daniel K. Tarullo; and Janet L. Yellen. Voting against the action was James Bullard, who believed that the Committee should signal more strongly its willingness to defend its inflation goal in light of recent low inflation readings, and Esther L. George, who was concerned that the continued high level of monetary accommodation increased the risks of future economic and financial imbalances and, over time, could cause an increase in long-term inflation expectations.

Press Release

FEDERAL RESERVE press release



Release Date: October 29, 2014

For immediate release

Information received since the Federal Open Market Committee met in September suggests that economic activity is expanding at a moderate pace. Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has continued to run below the Committee's longer-run objective. Market-based measures of inflation compensation have declined somewhat; survey-based measures of longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators and inflation moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced. Although inflation in the near term will likely be held down by lower energy prices and other factors, the Committee judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year.

The Committee judges that there has been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program. Moreover, the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. Accordingly, the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee anticipates, based on its current assessment, that it likely will be appropriate to maintain the 0 to 1/4 percent target range for the federal funds rate for a considerable time following the end of its asset purchase program this month, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to

occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Stanley Fischer; Richard W. Fisher; Loretta J. Mester; Charles I. Plosser; Jerome H. Powell; and Daniel K. Tarullo. Voting against the action was Narayana Kocherlakota, who believed that, in light of continued sluggishness in the inflation outlook and the recent slide in market-based measures of longer-term inflation expectations, the Committee should commit to keeping the current target range for the federal funds rate at least until the one-to-two-year ahead inflation outlook has returned to 2 percent and should continue the asset purchase program at its current level.

[Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities](#) 

Press Release

FEDERAL RESERVE press release



Release Date: March 16, 2016

For release at 2:00 p.m. EDT

Information received since the Federal Open Market Committee met in January suggests that economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household spending has been increasing at a moderate rate, and the housing sector has improved further; however, business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market. Inflation picked up in recent months; however, it continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. However, global economic and financial developments continue to pose risks. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to monitor inflation developments closely.

Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; James Bullard; Stanley Fischer; Loretta J. Mester; Jerome H. Powell; Eric Rosengren; and Daniel K. Tarullo. Voting against the action was Esther L. George, who preferred at this meeting to raise the target range for the federal funds rate to 1/2 to 3/4 percent.

Implementation Note issued March 16, 2016

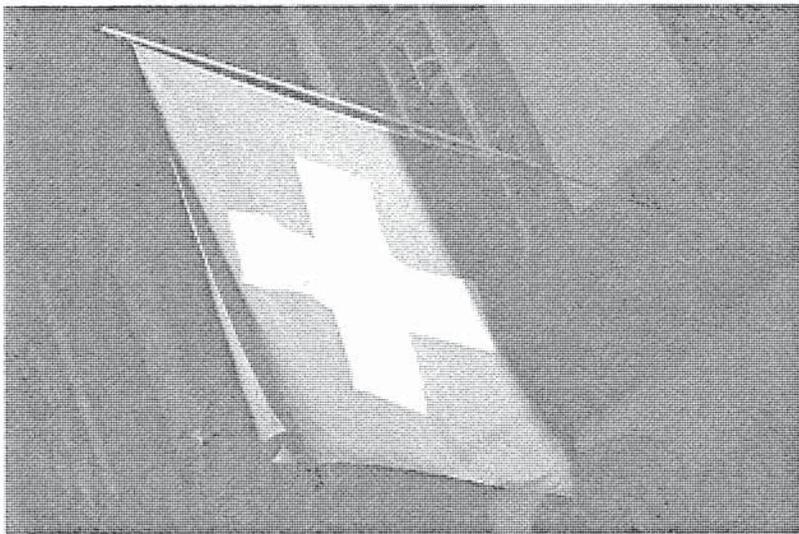
THE WALL STREET JOURNAL.

<http://blogs.wsj.com/moneybeat/2016/06/16/from-1-month-to-33-years-almost-the-entire-yield-curve-for-swiss-bonds-is-negative/>

MONEYBEAT

From 1 Month to 33 Years, Almost the Entire Yield Curve for Swiss Bonds is Negative

Switzerland has outdone Germany: the country's bonds have negative yields all the way out to 2049



The Swiss national flag is illuminated by evening sunlight as it hangs from a building in Bern, Switzerland, on Sunday, June 28, 2015. PHOTO: BLOOMBERG NEWS

By **MIKE BIRD**

Jun 16, 2016 11:19 am ET

Switzerland's government bonds have outdone Germany's this week: Though the 10-year German bund yields dipped into negative territory on Tuesday, Swiss sovereign bonds now have subzero yields all the way out to 33 years.

The benchmark 30 year bond dipped below zero to minus 0.004%, from a close of 0.04% at the end of trading on Wednesday.

Though Switzerland does have some longer-dated bonds with very narrowly positive yields, the country's yield curve is the lowest in the world, outdoing Japan.

Shorter dated Swiss bond yields are even lower, with a 10-year yield at minus 0.53%

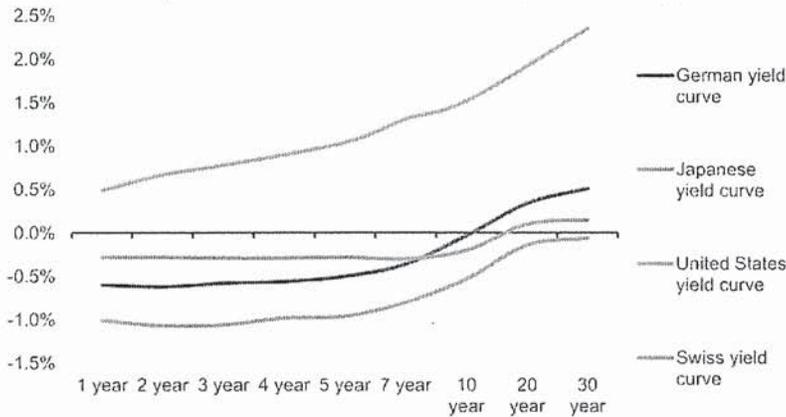
Bond yields move inversely to prices, so more demand for the bonds drives returns lower. The Swiss National Bank has set its benchmark interest rate at minus 0.75%, one of the most steeply negative in the world, in an effort to stave off its persistent deflation.

The flight to safety hitting global markets this week is particularly acute in Europe, with polls suggesting growing levels of support for Brexit, ahead of the U.K's June 23 referendum on its European Union membership.

Swiss assets are widely regarded as safe havens from financial turmoil, and the Swiss franc also climbed to its strongest level in nearly six months against the euro during Thursday trading.

Sub Zero Switzerland

Yields on Swiss government bonds are even lower than Japan's or Germany's



Source: Reuters - 7/6/2015

Press Release

FEDERAL RESERVE press release



Release Date: June 15, 2016

For release at 2:00 p.m. EDT

Information received since the Federal Open Market Committee met in April indicates that the pace of improvement in the labor market has slowed while growth in economic activity appears to have picked up. Although the unemployment rate has declined, job gains have diminished. Growth in household spending has strengthened. Since the beginning of the year, the housing sector has continued to improve and the drag from net exports appears to have lessened, but business fixed investment has been soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation declined; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; James Bullard; Stanley Fischer; Esther L. George; Loretta J. Mester; Jerome H. Powell; Eric Rosengren; and Daniel K. Tarullo.

Implementation Note issued June 15, 2016

EXHIBIT NO. ____ (RAB-4)

Japan Investor Presentation

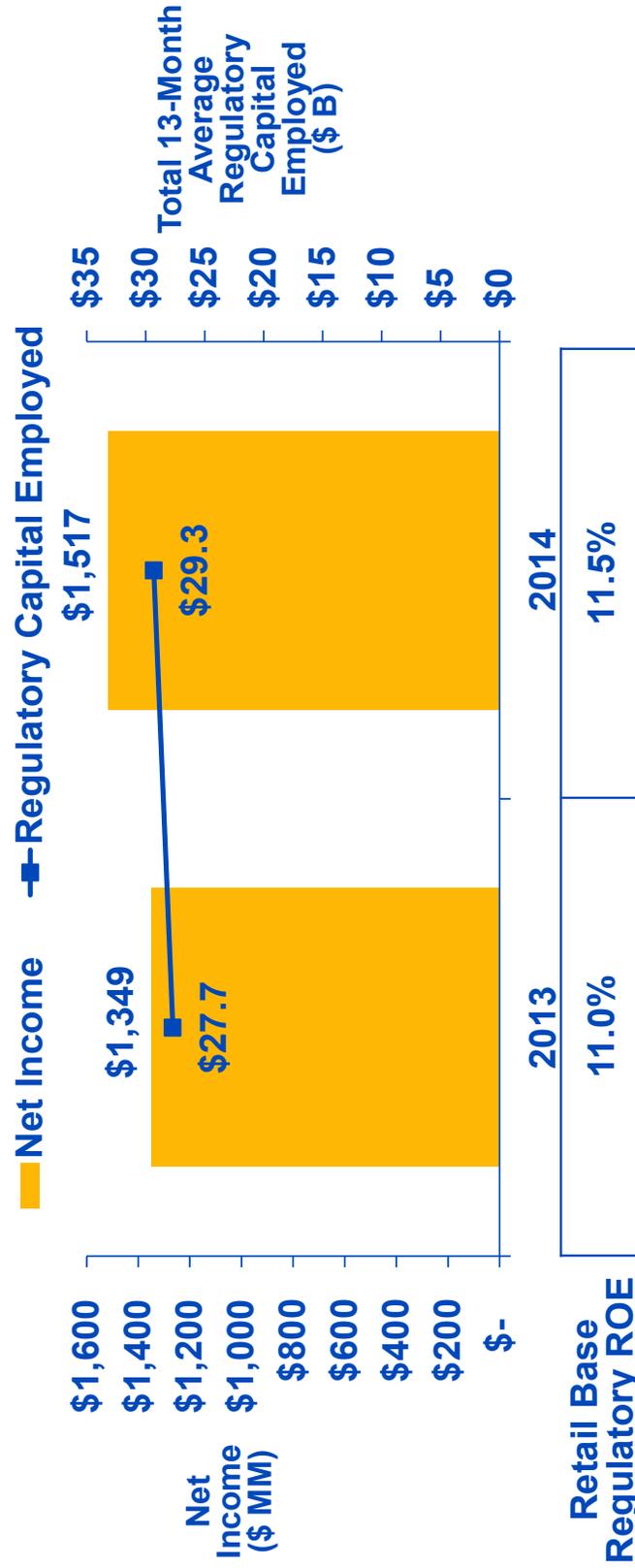
February 2016





FPL's net income is largely a function of capital employed, capital structure (equity ratio) and ROE earned

Net Income, Regulatory Capital Employed and ROE



This relationship is largely true whether FPL is operating under a settlement agreement or traditional rate setting

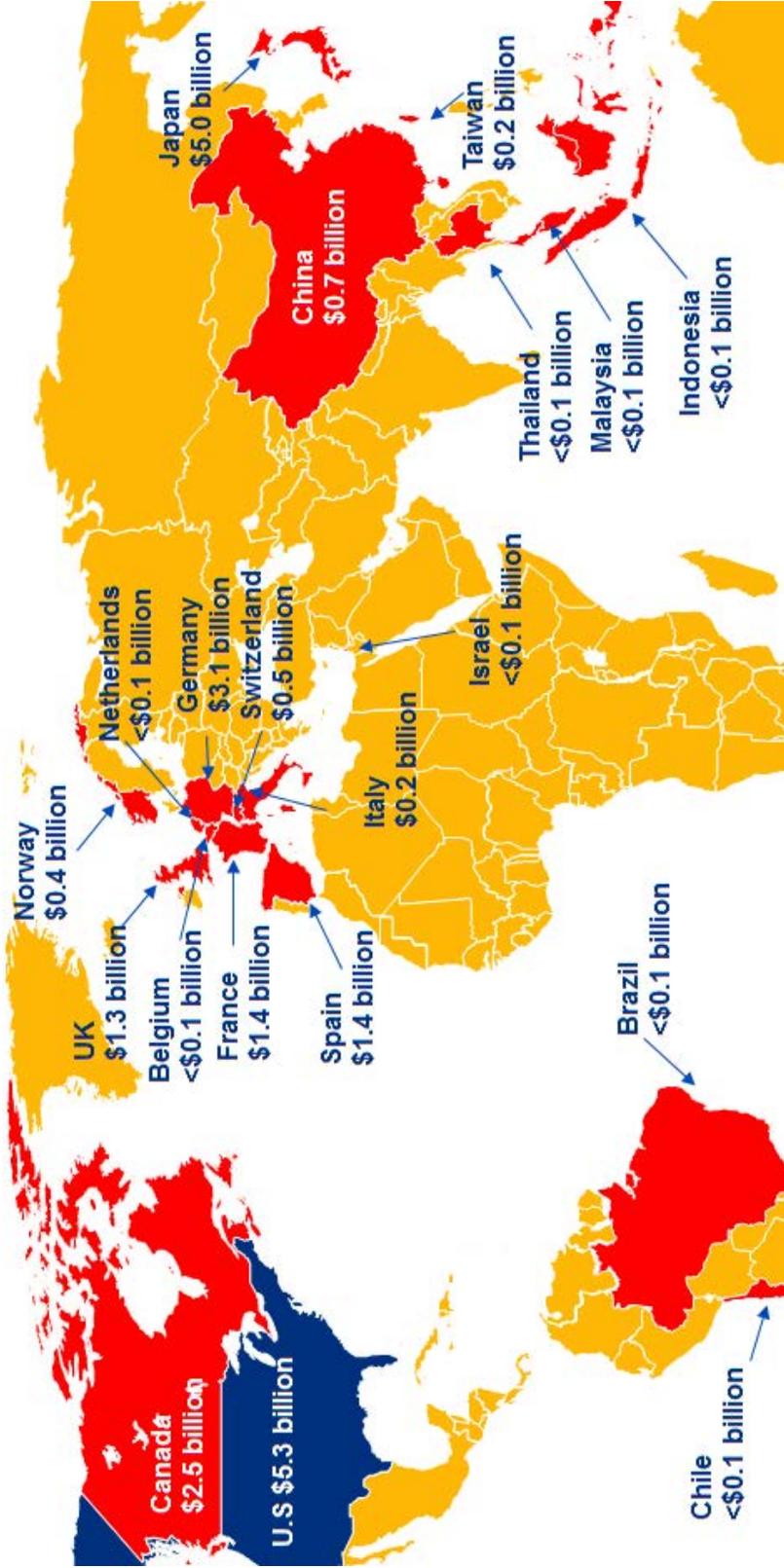




FINANCIAL REVIEW

Our diverse banking relationships have enabled us to secure ~\$22 billion⁽¹⁾ in credit from over 100 banks that span 20 countries and 4 continents

Country Breakdown by Funding



Our lending group is large, balanced and well-diversified



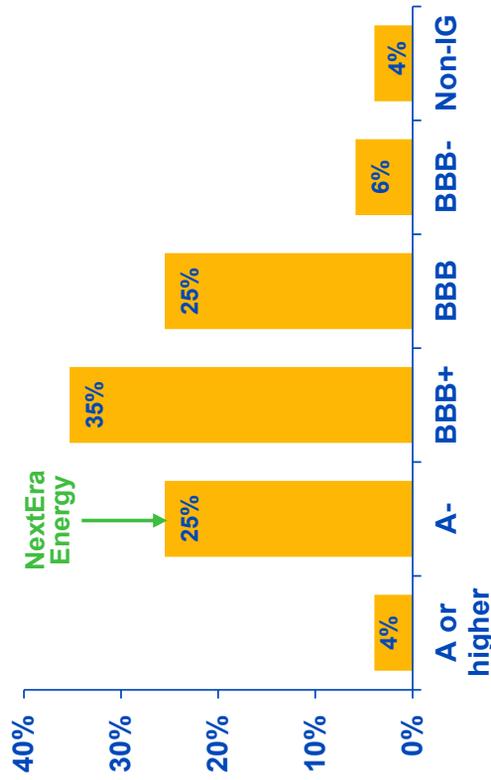
(1) Reflects corporate credit facilities, commitments and term loans outstanding as of January 31, 2016 and original balances of project debt funded or committed by banks since 2003

NextEra Energy is one of the strongest investment-grade rated electric utilities in the U.S.

NextEra Energy Ratings(1)

	S&P	Moody's	Fitch
NextEra Energy			
Issuer Credit Rating	A-	Baa1	A-
Outlook	Stable	Stable	Stable
Florida Power & Light			
First Mortgage Bonds	A	Aa2	AA-
Commercial Paper	A-2	P-1	F-1
Outlook	Stable	Stable	Stable
Capital Holdings			
Sr. Unsecured Debentures	BBB+	Baa1	A-
Commercial Paper	A-2	P-2	F-1
Outlook	Stable	Stable	Stable

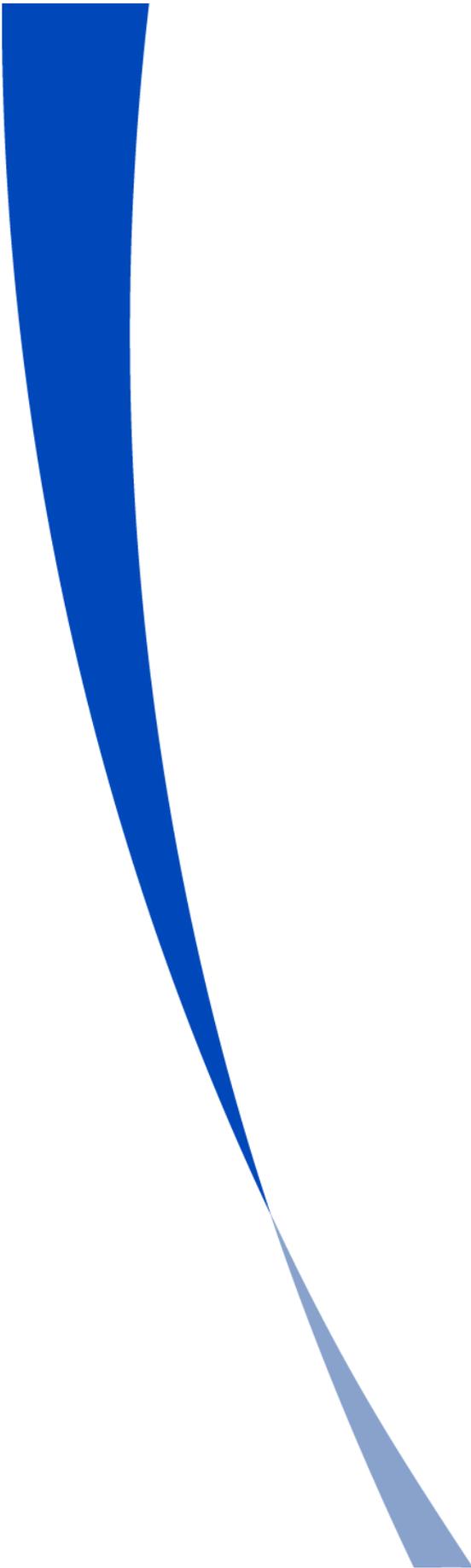
Utility Credit Ratings(2)



NextEra remains committed to preserving its strong credit position and manages its balance sheet to maintain this key competitive advantage

(1) Reflects latest ratings as published by S&P on June 16, 2015, Moody's on October 27, 2015 and Fitch on December 3, 2015.
(2) Source: Edison Electric Institute: S&P Utility Credit Ratings Distribution – Financial Update Q4 2015.





June 2016 Investor Presentation



Over a sustained period of time, our growth strategy has led to real change in relative position

Top 20 Global Utility Equity Market Capitalization⁽¹⁾

As of 6/1/2001 (\$ MM)

Rank	Market Cap
1	\$38,574
2	\$38,185
3	\$34,476
4	\$34,111
5	\$30,955
6	\$23,906
7	\$21,537
8	\$20,093
9	\$17,297
10	\$16,873
11	\$16,279
12	\$15,884
13	\$15,785
14	\$14,601
15	\$14,461
16	\$14,223
17	\$13,773
18	\$13,550
19	\$13,136
20	\$12,934
30	\$10,206
	NextEra Energy

As of 5/31/2016 (\$ MM)

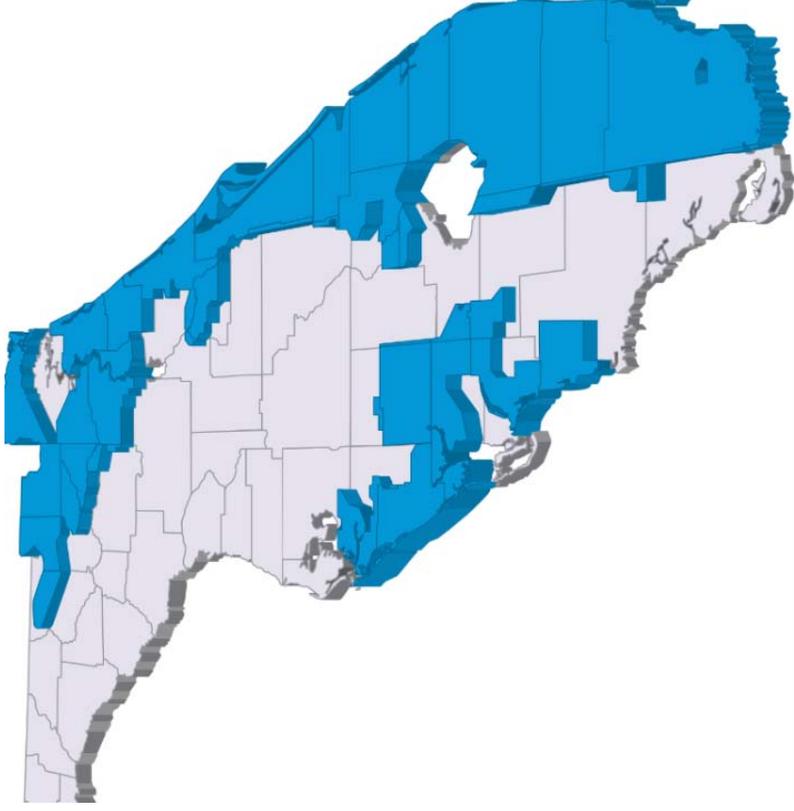
Rank	Market Cap
1	\$55,429
	NextEra Energy
2	\$54,916
3	\$53,893
4	\$46,402
5	\$46,109
6	\$44,521
7	\$42,347
8	\$41,627
9	\$37,534
10	\$33,881
11	\$31,802
12	\$30,408
13	\$29,802
14	\$26,726
15	\$26,089
16	\$25,597
17	\$23,839
18	\$23,337
19	\$22,640
20	\$22,467



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

Florida Power & Light

- **One of the largest U.S. electric utilities**
- **Vertically integrated, retail rate-regulated**
- **4.8 MM customer accounts**
- **26.5 GW in operation⁽¹⁾**
- **\$11.7 B in operating revenues⁽²⁾**
- **\$43 B in total assets**

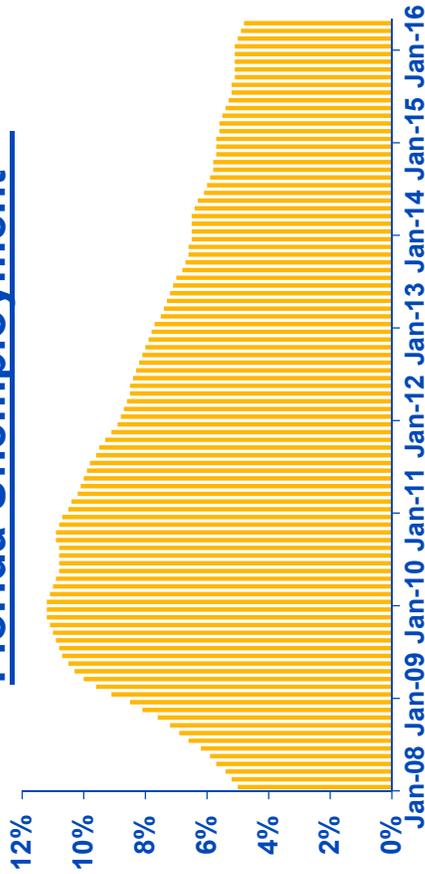


(1) As of April 2016
(2) As of year ended December 31, 2015
Note: All other data as of March 31, 2016

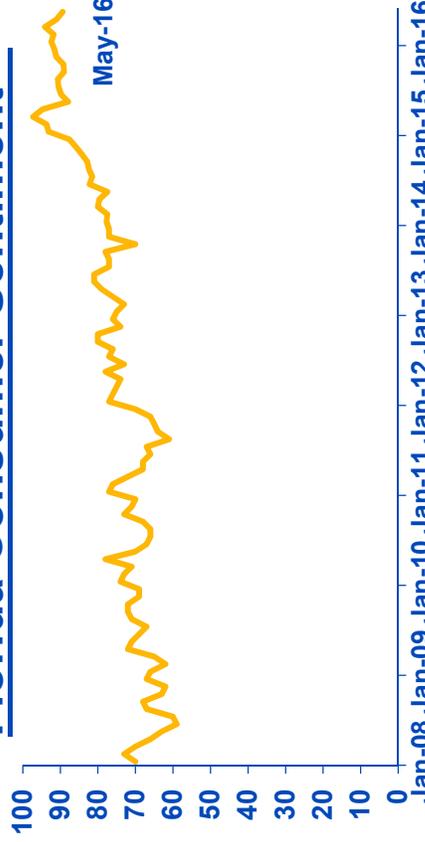
Florida's economic growth remains solid

Florida Economy

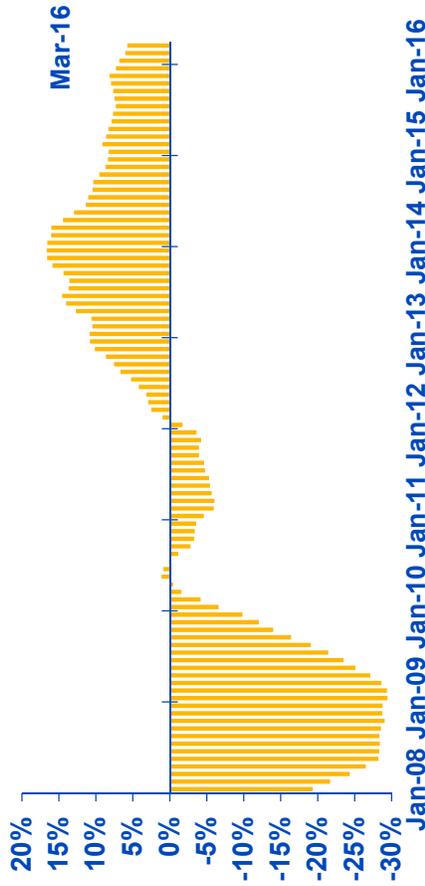
Florida Unemployment⁽¹⁾



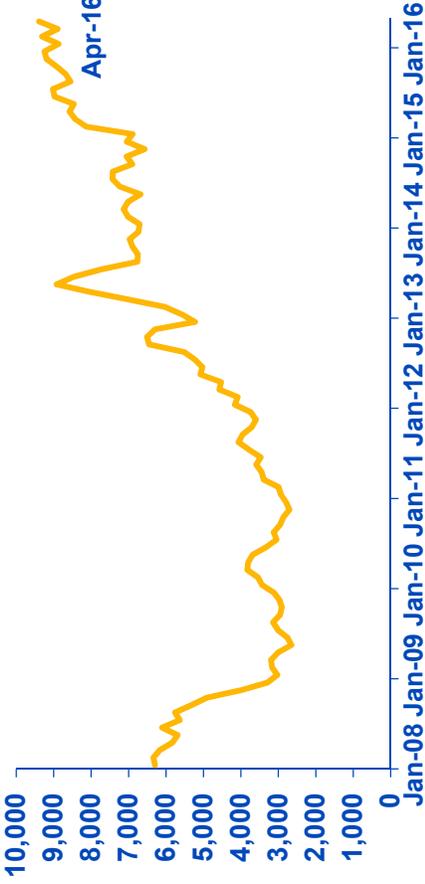
Florida Consumer Sentiment⁽²⁾



Florida Case-Shiller Annual Change⁽³⁾



Florida Building Permits⁽⁴⁾



(1) Source: Bureau of Labor Statistics through April 2016

(2) Source: Bureau of Economic and Business Research through May 2016

(3) Source: S&P Dow Jones Indices (FL-MIA MIXR-SA) through March 2016

(4) Three-month moving average; Source: The Census Bureau through April 2016



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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2015**

Commission File Number	Exact name of registrants as specified in their charters, address of principal executive offices and registrants' telephone number	IRS Employer Identification Number
1-8841	NEXTERA ENERGY, INC.	59-2449419
2-27612	FLORIDA POWER & LIGHT COMPANY 700 Universe Boulevard Juno Beach, Florida 33408 (561) 694-4000	59-0247775

State or other jurisdiction of incorporation or organization: Florida

		Name of exchange on which registered
Securities registered pursuant to Section 12(b) of the Act:		
NextEra Energy, Inc.:	Common Stock, \$0.01 Par Value	New York Stock Exchange
	5.799% Corporate Units	New York Stock Exchange
	6.371% Corporate Units	New York Stock Exchange
Florida Power & Light Company:	None	

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act of 1933.

NextEra Energy, Inc. Yes No Florida Power & Light Company Yes No

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

NextEra Energy, Inc. Yes No Florida Power & Light Company Yes No

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) have been subject to such filing requirements for the past 90 days.

NextEra Energy, Inc. Yes No Florida Power & Light Company Yes No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

NextEra Energy, Inc. Yes No Florida Power & Light Company Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrants are a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

NextEra Energy, Inc.	Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
Florida Power & Light Company	Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input checked="" type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

Aggregate market value of the voting and non-voting common equity of NextEra Energy, Inc. held by non-affiliates as of June 30, 2015 (based on the closing market price on the Composite Tape on June 30, 2015) was \$44,190,491,194.

There was no voting or non-voting common equity of Florida Power & Light Company held by non-affiliates as of June 30, 2015.

Number of shares of NextEra Energy, Inc. common stock, \$0.01 par value, outstanding as of January 31, 2016: 460,599,691

Number of shares of Florida Power & Light Company common stock, without par value, outstanding as of January 31, 2016, all of which were held, beneficially and of record, by NextEra Energy, Inc.: 1,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of NextEra Energy, Inc.'s Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

This combined Form 10-K represents separate filings by NextEra Energy, Inc. and Florida Power & Light Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Florida Power & Light Company makes no representations as to the information relating to NextEra Energy, Inc.'s other operations.

Florida Power & Light Company meets the conditions set forth in General Instruction I.(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

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DEFINITIONS

Acronyms and defined terms used in the text include the following:

Term	Meaning
AFUDC	allowance for funds used during construction
AFUDC - debt	debt component of AFUDC
AFUDC - equity	equity component of AFUDC
AOCI	accumulated other comprehensive income
Bcf	billion cubic feet
capacity clause	capacity cost recovery clause, as established by the FPSC
CO ₂	carbon dioxide
DOE	U.S. Department of Energy
Duane Arnold	Duane Arnold Energy Center
EPA	U.S. Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FERC	U.S. Federal Energy Regulatory Commission
Florida Southeast Connection	Florida Southeast Connection, LLC, a wholly owned NEER subsidiary
FPL	Florida Power & Light Company
FPL FiberNet	fiber-optic telecommunications business
FPSC	Florida Public Service Commission
fuel clause	fuel and purchased power cost recovery clause, as established by the FPSC
GAAP	generally accepted accounting principles in the U.S.
GHG	greenhouse gas(es)
IPO	initial public offering
ISO	independent system operator
ITC	investment tax credit
kW	kilowatt
kWh	kilowatt-hour(s)
Lone Star	Lone Star Transmission, LLC
Management's Discussion	Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBtu	One million British thermal units
mortgage	mortgage and deed of trust dated as of January 1, 1944, from FPL to Deutsche Bank Trust Company Americas, as supplemented and amended
MW	megawatt(s)
MWh	megawatt-hour(s)
NEE	NextEra Energy, Inc.
NEECH	NextEra Energy Capital Holdings, Inc.
NEER	NextEra Energy Resources, LLC
NEET	NextEra Energy Transmission, LLC
NEP	NextEra Energy Partners, LP
NEP OpCo	NextEra Energy Operating Partners, LP
NERC	North American Electric Reliability Corporation
Note __	Note __ to consolidated financial statements
NOx	nitrogen oxide
NRC	U.S. Nuclear Regulatory Commission
O&M expenses	other operations and maintenance expenses in the consolidated statements of income
OCI	other comprehensive income
OTC	over-the-counter
OTTI	other than temporary impairment
PJM	PJM Interconnection, L.L.C.
PMI	NextEra Energy Power Marketing, LLC
Point Beach	Point Beach Nuclear Power Plant
PTC	production tax credit
PUCT	Public Utility Commission of Texas
PURPA	Public Utility Regulatory Policies Act of 1978, as amended
PV	photovoltaic
Recovery Act	The American Recovery and Reinvestment Act of 2009, as amended
regulatory ROE	return on common equity as determined for regulatory purposes
RFP	request for proposal
ROE	return on common equity
RPS	renewable portfolio standards
RTO	regional transmission organization
Sabal Trail	Sabal Trail Transmission, LLC, an entity in which a NEER subsidiary has a 33% ownership interest
Seabrook	Seabrook Station
SEC	U.S. Securities and Exchange Commission
SO ₂	sulfur dioxide
U.S.	United States of America
WCEC	FPL's West County Energy Center

NEE, FPL, NEECH and NEER each has subsidiaries and affiliates with names that may include NextEra Energy, FPL, NextEra Energy Resources, NextEra, FPL Group, FPL Group Capital, FPL Energy, FPLE, NEP and similar references. For convenience and simplicity, in this report the terms NEE, FPL, NEECH and NEER are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context.

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PART I

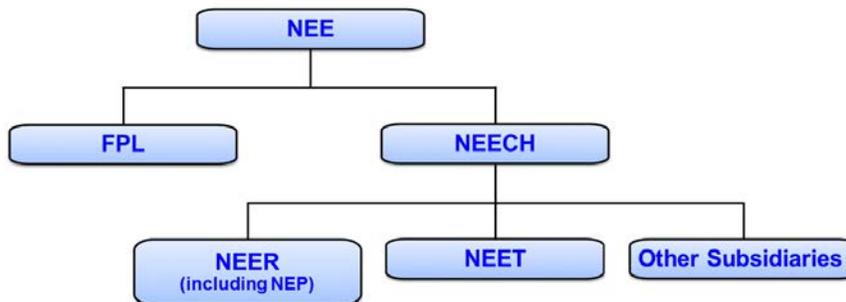
Item 1. Business

OVERVIEW

NextEra Energy, Inc. (hereafter, NEE), with approximately 46,400 MW of generating capacity, is one of the largest electric power companies in North America with electric generation facilities located in 27 states in the U.S. and 4 provinces in Canada, and employing approximately 14,300 people as of December 31, 2015. NEE provides retail and wholesale electric services to more than 5.3 million customers and owns generation, transmission and distribution facilities to support its services, as well as has investments in gas infrastructure assets. It also provides risk management services related to power and gas consumption related to its own generation assets and for a limited number of wholesale customers in selected markets. NEE, through NEER, is the largest generator in North America of renewable energy from the wind and sun based on MWh produced. In addition, NEE owns and operates approximately 15% of the installed base of U.S. wind power production capacity and owns and/or operates approximately 9% of the installed base of U.S. utility-scale solar power production capacity as of December 31, 2015. NEE also owns and operates one of the largest fleets of nuclear power stations in the U.S., with eight reactors at five sites located in four states, representing approximately 6% of U.S. nuclear power electric generating capacity as of December 31, 2015. NEE's business strategy has emphasized the development, acquisition and operation of renewable, nuclear and natural gas-fired generation facilities in response to long-term federal policy trends supportive of zero and low air emissions sources of power. NEE's generation fleet has significantly lower rates of emissions of CO₂, SO₂ and NO_x than the average rates of the U.S. electric power industry with approximately 97% of its 2015 generation, measured by MWh produced, coming from renewable, nuclear and natural gas-fired facilities.

NEE was incorporated in 1984 under the laws of Florida and conducts its operations principally through two wholly owned subsidiaries, Florida Power & Light Company (hereafter, FPL) and NextEra Energy Resources, LLC (hereafter, NEER). NextEra Energy Capital Holdings, Inc. (hereafter, NEECH), another wholly owned subsidiary of NEE, owns and provides funding for NEER's and NEE's operating subsidiaries, other than FPL and its subsidiaries. NEE's two principal businesses also constitute NEE's reportable segments for financial reporting purposes. During 2014, NEE formed NEP to acquire, manage and own contracted clean energy projects with stable, long-term cash flows. See II. NEER for further discussion of NEP. NEE's and NEER's generating capacity discussed in this combined Form 10-K includes approximately 480 MW associated with noncontrolling interests related to NEP as of December 31, 2015. See Item 2. Properties.

NEE Organizational Chart



FPL is a rate-regulated electric utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Florida. FPL is the largest electric utility in the state of Florida and one of the largest electric utilities in the U.S. based on retail MWh sales. FPL is vertically integrated, with approximately 25,300 MW of generating capacity as of December 31, 2015. FPL's investments in its infrastructure since 2001, such as modernizing less-efficient fossil generation plants to produce more energy with less fuel and fewer air emissions, increasing generating capacity at its existing nuclear units and upgrading its transmission and distribution systems to deliver service reliability that is the best of the Florida investor-owned utilities, have provided significant benefits to FPL's customers, all while providing residential and commercial bills that were among the lowest in Florida and below the national average based on a rate per kWh as of July 2015 (the latest date for which this data is available). With approximately 95% of its power generation coming from natural gas, nuclear and solar, FPL is also one of the cleanest electric utilities in the nation. Based on 2015 information, FPL's emissions rates for CO₂, SO₂ and NO_x were 35%, 97% and 71% lower, respectively, than the average rates of the U.S. electric power industry.

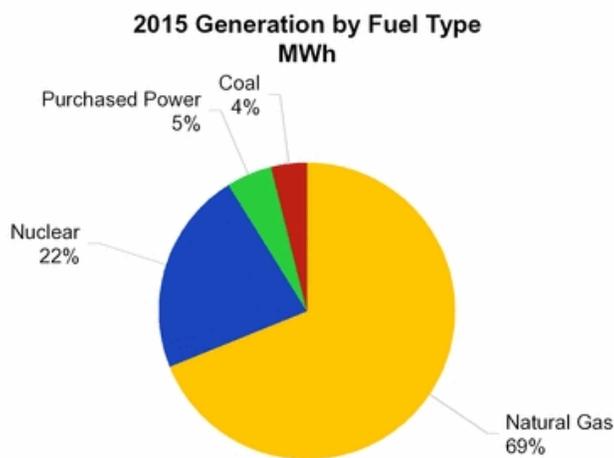
NEER, with approximately 21,100 MW of generating capacity at December 31, 2015, is one of the largest wholesale generators of electric power in the U.S., with 20,120 MW of generating capacity across 25 states, and has 920 MW of generating capacity in 4

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FPL SOURCES OF GENERATION

FPL relies upon a mix of fuel sources for its generation facilities, along with purchased power, in order to maintain the flexibility to achieve a more economical fuel mix by responding to market and industry developments. See descriptions of fossil, nuclear and solar operations below and a listing of FPL's generation facilities in Item 2. Properties - Generation Facilities.

FPL's 2015 fuel mix based on MWh produced, including purchased power, was as follows:



Oil and Solar are collectively less than 1%

Fossil Operations (Natural Gas, Coal and Oil)

At December 31, 2015, FPL owned and operated 70 units that used fossil fuels, primarily natural gas, and had a joint ownership interest in 3 coal units. Combined, the fossil fleet provided 21,766 MW of generating capacity for FPL. These fossil units are out of service from time to time for routine maintenance or on standby during periods of reduced electricity demand. A common industry benchmark for fossil unit reliability is the equivalent forced outage rate (EFOR), which represents a generation unit's inability to provide electricity when required to operate. For the five years 2010 - 2014, FPL's average annual EFOR was in the top decile among its electric utility fossil fleet peers in the U.S.

FPL's natural gas plants require natural gas transportation, supply and storage. FPL has firm transportation contracts in place for existing pipeline capacity with five different transportation suppliers. These agreements provide for an aggregate maximum delivery quantity of 2,069,000 MMBtu/day with expiration dates ranging from 2016 to 2036 that together are expected to satisfy substantially all of the currently anticipated needs for natural gas transportation through the end of 2016. To the extent desirable, FPL also purchases interruptible natural gas transportation service from these natural gas transportation suppliers based on pipeline availability. FPL has several short- and medium-term natural gas supply contracts to provide a portion of FPL's anticipated needs for natural gas. The remainder of FPL's natural gas requirements is purchased in the spot market. FPL has an agreement for the storage of natural gas that expires in 2017. See Note 14 - Contracts.

In 2013, the FPSC approved FPL's 25-year natural gas transportation agreements with each of Sabal Trail and Florida Southeast Connection for a quantity of 400,000 MMBtu/day beginning on May 1, 2017 and increasing to 600,000 MMBtu/day on May 1, 2020. These new agreements, when combined with FPL's existing agreements, are expected to satisfy substantially all of FPL's natural gas transportation needs through at least 2020. FPL's firm commitments under the new agreements are contingent upon the occurrence of certain events, including the FERC's approval of applications by each of Sabal Trail and Florida Southeast Connection for authorization of their pipeline projects and of the application by Transcontinental Gas Pipe Line Company, LLC (Transco) for authorization of a pipeline expansion project and the lease of pipeline capacity to Sabal Trail, as well as completion of construction of the pipeline system to be built by Sabal Trail and Florida Southeast Connection. In February 2016, the FERC issued an order granting the requested authorizations, subject to certain conditions. Sabal Trail, Florida Southeast Connection and Transco are

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FPL ENERGY MARKETING AND TRADING

FPL's Energy Marketing & Trading division (EMT) buys and sells wholesale energy commodities, such as natural gas, oil and electricity. EMT procures natural gas and oil for FPL's use in power generation and sells excess natural gas, oil and electricity. EMT also uses derivative instruments (primarily swaps, options and forwards) to manage the commodity price risk inherent in the purchase and sale of fuel and electricity. Substantially all of the results of EMT's activities are passed through to customers in the fuel or capacity clauses. See FPL Regulation - FPL Rate Regulation below, Management's Discussion - Energy Marketing and Trading and Market Risk Sensitivity and Note 3.

FPL REGULATION

FPL's operations are subject to regulation by a number of federal, state and other organizations, including, but not limited to, the following:

- the FPSC, which has jurisdiction over retail rates, service territory, issuances of securities, planning, siting and construction of facilities, among other things;
- the FERC, which oversees the acquisition and disposition of generation, transmission and other facilities, transmission of electricity and natural gas in interstate commerce, proposals to build interstate natural gas pipelines and storage facilities, and wholesale purchases and sales of electric energy, among other things;
- the NERC, which, through its regional entities, establishes and enforces mandatory reliability standards, subject to approval by the FERC, to ensure the reliability of the U.S. electric transmission and generation system and to prevent major system blackouts;
- the NRC, which has jurisdiction over the operation of nuclear power plants through the issuance of operating licenses, rules, regulations and orders; and
- the EPA, which has the responsibility to maintain and enforce national standards under a variety of environmental laws. The EPA also works with industries and all levels of government, including federal and state governments, in a wide variety of voluntary pollution prevention programs and energy conservation efforts.

FPL Rate Regulation

The FPSC sets rates at a level that is intended to allow FPL the opportunity to collect from retail customers total revenues (revenue requirements) equal to FPL's cost of providing service, including a reasonable rate of return on invested capital. To accomplish this, the FPSC uses various ratemaking mechanisms, including, among other things, base rates and cost recovery clauses.

Base Rates. In general, the basic costs of providing electric service, other than fuel and certain other costs, are recovered through base rates, which are designed to recover the costs of constructing, operating and maintaining the utility system. These basic costs include O&M expenses, depreciation and taxes, as well as a return on FPL's investment in assets used and useful in providing electric service (rate base). At the time base rates are established, the allowed rate of return on rate base approximates the FPSC's determination of FPL's estimated weighted-average cost of capital, which includes its costs for outstanding debt and an allowed ROE. The FPSC monitors FPL's actual regulatory ROE through a surveillance report that is filed monthly by FPL with the FPSC. The FPSC does not provide assurance that any regulatory ROE will be achieved. Base rates are determined in rate proceedings or through negotiated settlements of those proceedings. Proceedings can occur at the initiative of FPL or upon action by the FPSC. Base rates remain in effect until new base rates are approved by the FPSC.

In January 2013, the FPSC issued a final order approving a stipulation and settlement between FPL and several intervenors in FPL's base rate proceeding (2012 rate agreement). Key elements of the 2012 rate agreement, which is effective from January 2013 through December 2016, include, among other things, the following:

- New retail base rates and charges were established in January 2013 resulting in an increase in retail base revenues of \$350 million on an annualized basis.
- FPL's allowed regulatory ROE is 10.50%, with a range of plus or minus 100 basis points. If FPL's earned regulatory ROE falls below 9.50%, FPL may seek retail base rate relief. If the earned regulatory ROE rises above 11.50%, any party to the 2012 rate agreement other than FPL may seek a review of FPL's retail base rates.
- Retail base rates will be increased by the annualized base revenue requirements for FPL's three modernization projects (Cape Canaveral, Riviera Beach and Port Everglades) as each of the modernized power plants becomes operational. (Cape Canaveral and Riviera Beach became operational in April 2013 and April 2014, respectively, and Port Everglades is expected to be operational by April 2016.)
- Cost recovery of WCEC Unit No. 3, which was placed in service in May 2011, will continue to occur through the capacity clause.
- Subject to certain conditions, FPL may amortize, over the term of the 2012 rate agreement, a depreciation reserve surplus remaining at the end of 2012 under a previous rate agreement (approximately \$224 million) and may amortize a portion of FPL's fossil dismantlement reserve up to a maximum of \$176 million (collectively, the reserve), provided that in any year of the 2012 rate agreement, FPL must amortize at least enough reserve to maintain a 9.50% earned regulatory ROE but may not amortize any reserve that would result in an earned regulatory ROE in excess of 11.50%. See below regarding a subsequent reduction in the reserve amount.

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- Future storm restoration costs would be recoverable on an interim basis beginning 60 days from the filing of a cost recovery petition, but capped at an amount that could produce a surcharge of no more than \$4 for every 1,000 kWh of usage on residential bills during the first 12 months of cost recovery. Any additional costs would be eligible for recovery in subsequent years. If storm restoration costs exceed \$800 million in any given calendar year, FPL may request an increase to the \$4 surcharge to recover the amount above \$800 million.
- An incentive mechanism whereby customers will receive 100% of certain gains, including, but not limited to, gains from the purchase and sale of electricity and natural gas (including transportation and storage), up to a specified threshold; gains exceeding that specified threshold will be shared by FPL and its customers (incentive mechanism).

In August 2015, the FPSC approved a stipulation and settlement between the Office of Public Counsel and FPL regarding issues relating to the ratemaking treatment for FPL's purchase of Cedar Bay. As part of this settlement, the amount of the reserve was reduced by \$30 million to \$370 million, unless FPL needs the entire \$400 million reserve to maintain a minimum regulatory ROE of 9.50%. In October 2015, the Florida Industrial Power Users Group filed a notice of appeal challenging the FPSC's approval of this settlement, which is pending before the Florida Supreme Court.

In January 2016, FPL filed a formal notification with the FPSC indicating its intent to initiate a base rate proceeding, consisting of a four-year rate plan that would begin in January 2017 following the expiration of the 2012 rate agreement at the end of 2016. The notification stated that, based on preliminary estimates, FPL expects to request an increase to base annual revenue requirements of (i) approximately \$860 million effective January 2017, (ii) approximately \$265 million effective January 2018, and (iii) approximately \$200 million effective when the proposed natural gas-fired combined-cycle unit in Okeechobee County, Florida becomes operational, which is expected to occur in mid-2019 (see FPL Sources of Generation - Fossil Operations - Capital Initiatives above). Under the proposed rate plan, FPL commits that if its requested adjustments to base annual revenue requirements are approved, it will not request further adjustments for 2020. In addition, FPL expects to propose an allowed regulatory ROE midpoint of 11.50%, which includes a 50 basis point performance adder. FPL expects to file its formal request to initiate a base rate proceeding in March 2016.

Cost Recovery Clauses. Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through the various clauses, include substantially all fuel, purchased power and interchange expense, certain construction-related costs and conservation and certain environmental-related costs. Cost recovery clause costs are recovered through levelized monthly charges per kWh or kW, depending on the customer's rate class. These cost recovery clause charges are calculated at least annually based on estimated costs and estimated customer usage for the following year, plus or minus true-up adjustments to reflect the estimated over or under recovery of costs for the current and prior periods. An adjustment to the levelized charges may be approved during the course of a year to reflect revised estimates.

Fuel costs and energy charges under the purchased power agreements are recovered from customers through the fuel clause, the most significant of the cost recovery clauses in terms of operating revenues. FPL uses a risk management fuel procurement program which has been approved by the FPSC. The FPSC reviews the program activities and results for prudence annually as part of its review of fuel costs. The program is intended to manage fuel price volatility by locking in fuel prices for a portion of FPL's fuel requirements. See FPL Energy Marketing and Trading above, Note 1 - Rate Regulation and Note 3. Costs associated with FPL's investments in natural gas production wells are also recovered through the fuel clause. See FPL Sources of Generation - Fossil Operations above.

Capacity payments to non-utility generators and other utilities, the cost of WCEC Unit No. 3 (reported as retail base revenues) and a portion of the acquisition cost of Cedar Bay, among other things, are recovered from customers through the capacity clause. See Note 1 - Rate Regulation. In accordance with the FPSC's nuclear cost recovery rule, FPL also recovers pre-construction costs and carrying charges (equal to a pretax AFUDC rate) on construction costs for new nuclear capacity through the capacity clause. As property related to the new nuclear capacity goes into service, construction costs and a return on investment are recovered through base rate increases effective beginning the following January. See FPL Sources of Generation - Nuclear Operations above.

Costs associated with implementing energy conservation programs are recovered from customers through the energy conservation cost recovery clause. Certain costs of complying with federal, state and local environmental regulations enacted after April 1993 and costs associated with FPL's three operating solar facilities are recovered through the environmental cost recovery clause (environmental clause).

The FPSC has the authority to disallow recovery of costs that it considers excessive or imprudently incurred. These costs may include, among others, fuel and O&M expenses, the cost of replacing power lost when fossil and nuclear units are unavailable, storm restoration costs and costs associated with the construction or acquisition of new facilities.

FERC

The Federal Power Act grants the FERC exclusive ratemaking jurisdiction over wholesale sales of electricity and the transmission of electricity and natural gas in interstate commerce. Pursuant to the Federal Power Act, electric utilities must maintain tariffs and rate schedules on file with the FERC which govern the rates, terms and conditions for the provision of FERC-jurisdictional wholesale power and transmission services. The Federal Power Act also gives the FERC authority to certify and oversee a national electric reliability organization with authority to establish and independently enforce mandatory reliability standards applicable to all users, owners and operators of the bulk-power system. See NERC below. Electric utilities are subject to accounting, record-keeping and

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reporting requirements administered by the FERC. The FERC also places certain limitations on transactions between electric utilities and their affiliates.

NERC

The NERC has been certified by the FERC as the national electric reliability organization. The NERC's mandate is to ensure the reliability and security of the North American bulk-power system through the establishment and enforcement of reliability standards approved by FERC. The NERC's regional entities also enforce reliability standards approved by the FERC. FPL is subject to these reliability standards and incurs costs to ensure compliance with continually heightened requirements, and can incur significant penalties for failing to comply with them.

FPL Environmental Regulation

FPL is subject to environmental laws and regulations and is affected by some of the emerging issues described in the NEE Environmental Matters section below. FPL expects to seek recovery through the environmental clause for compliance costs associated with any new environmental laws and regulations.

FPL EMPLOYEES

FPL had approximately 8,800 employees at December 31, 2015. Approximately 34% of the employees are represented by the International Brotherhood of Electrical Workers (IBEW) under a collective bargaining agreement with FPL that expires October 31, 2017.

II. NEER

NEER was formed in 1998 to aggregate NEE's competitive energy businesses. It is a limited liability company organized under the laws of Delaware and is a wholly owned subsidiary of NEECH. Through its subsidiaries, NEER currently owns, develops, constructs, manages and operates electric generation facilities in wholesale energy markets primarily in the U.S., as well as in Canada and Spain. See Note 15. NEER is one of the largest wholesale generators of electric power in the U.S., with 21,140 MW of generating capacity across 25 states, 4 Canadian provinces and 1 Spanish province as of December 31, 2015. NEER produces the majority of its electricity from clean and renewable sources as described more fully below. NEER is the largest generator in North America of electric power from wind and utility-scale solar energy projects based on MWh produced.

NEER also engages in energy-related commodity marketing and trading activities, including entering into financial and physical contracts, to hedge the production from its generation assets that is not sold under long-term power supply agreements. These contracts primarily include power and gas commodities and their related products, as well as providing full energy and capacity requirements services primarily to distribution utilities in certain markets and offering customized power and gas and related risk management services to wholesale customers. In addition, NEER participates in natural gas, natural gas liquids and oil production through non-operating ownership interests, and in pipeline infrastructure development, construction, management and operations, through either wholly owned subsidiaries or noncontrolling or joint venture interests, hereafter referred to as the gas infrastructure business. NEER also hedges the expected output from its gas infrastructure production assets to protect against price movements. During the fourth quarter of 2015, the natural gas pipeline projects that were previously reported in Corporate and Other were moved to the NEER segment reflecting the overall scale of the natural gas pipeline investments and management of these projects within NEER's gas infrastructure business. See Note 15.

As discussed in the Overview above, during 2014, NEP was formed to acquire, manage and own contracted clean energy projects with stable, long-term cash flows through a limited partner interest in NEP OpCo. Through an indirect wholly owned subsidiary, NEE owns 101,440,000 common units of NEP OpCo representing a noncontrolling interest in NEP's operating projects of approximately 76.8% as of December 31, 2015. NEE owns a controlling general partner interest in NEP and consolidates NEP for financial reporting purposes. See Note 1 - NextEra Energy Partners, LP. As of December 31, 2015, NEP, through the combination of NEER's contribution of energy projects to NEP OpCo in connection with NEP's IPO in July 2014 and the acquisition of additional energy projects from NEER in 2015, owns a portfolio of 19 wind and solar projects with generating capacity totaling approximately 2,210 MW and long-term contracted natural gas pipeline assets as discussed below. In addition, NEP OpCo has a right of first offer for certain of NEER's assets (ROFO assets) if NEER should seek to sell the assets. The ROFO assets remaining as of December 31, 2015, include contracted wind and solar projects, some of which are under construction, with a combined capacity of approximately 1,076 MW. Included in the ROFO assets are three solar projects that, upon completion of construction, are expected to have a total generating capacity of 277 MW. In 2015, NEP OpCo issued 2 million NEP OpCo Class B Units to NEER in exchange for an approximately 50% ownership interest in the three solar projects. NEER, as holder of the Class B Units, will retain 100% of the economic interests if, and until, NEER offers to sell the economic interests to NEP and NEP accepts such offer. In October 2015, NEP completed the acquisition of the membership interests in NET Holdings Management, LLC (Texas pipeline business), a developer, owner and operator of a portfolio of seven intrastate long-term contracted natural gas pipeline assets located in Texas (Texas pipelines). See Generation and Other Operations - Contracted, Merchant and Other Operations - Other Operations below.

EXHIBIT NO. ____ (RAB-5)

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 70
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QUESTION:

Regarding Hevert at 15:10-12. Please provide all bond rating agency reports, including credit ratings and bond ratings, for FPL from 2012 through the most current date.

RESPONSE:

Please see OPC's First Request for Production of Documents Nos. 9 and 12. Additional documents provided.



Fitch Affirms IDRs of NextEra Energy, Inc. and its Subsidiaries; Outlook Stable

Fitch Ratings-New York-26 April 2013: Fitch Ratings has affirmed the Issuer Default Ratings (IDR) of NextEra Energy, Inc. (NEE) and NextEra Energy Capital Holdings (Capital Holdings) at 'A-'. Fitch has also affirmed the IDR of Florida Power & Light (FPL) at 'A'. The Rating Outlook is Stable. A list of debt instruments affected is provided at the end of this release.

RATING DRIVERS FOR FPL

FPL's ratings reflect the predictable nature of cash flows from regulated electric operations, a favorable outcome to the recently concluded base rate case that provides for at least four years of regulatory certainty, recovering electric sales in its service territory after a prolonged trough, and a strong balance sheet and liquidity profile. The ratings also reflect high-capex investments over 2013-16 as the utility spends on new generation and other infrastructure improvements.

The outcome of FPL's 2012 base rate case filing was quite constructive, in Fitch's opinion, and resulted in a \$350 million base rate increase effective January 2013 and allows the utility to earn a return on equity (ROE) of up to a 100-basis point band around 10.5%. FPL was also granted a four-year generation base rate adjustment (GBRA) mechanism that automatically adjusts base rates on commercial operations of its new generation plants in 2013, 2014 and 2016, and reflects an approximately \$3.5 billion addition to the rate base. While the order spans a four-year term (till December 2016), FPL could potentially delay filing a rate case for a longer period by proactively managing its costs. A favorable turnaround in the regulatory climate in Florida and an extended period of regulatory certainty for FPL is a key credit positive for the company and an important driver for Fitch's affirmation of the 'A' IDR.

A recovering Florida economy could drive FPL's electric sales growth rates above national averages over Fitch's forecast period. Adjusted for weather, FPL's retail kWh sales grew 1.7% in 2011 and 1.8% in 2012. Fitch's financial forecasts for FPL are based on a conservative 1.0% cumulative annual growth rate over 2013-16; any upside in sales growth would be positive for FPL's credit metrics. Conversely, a flat or declining growth environment could put pressure on FPL's financial performance. That said, FPL's credit metrics are expected to be quite robust in 2013 on the heels of a favorable rate decision and there exists adequate headroom to withstand a long period of flat-to-negative growth, which is what Fitch has assumed in its stress case. This is also a key factor in the stability of FPL's ratings, since the utility cannot implement a base rate increase outside the GBRA mechanism before December 2016.

FPL plans to spend over \$9.2 billion in baseline capex through 2016. Of this amount, approximately \$2.0 billion will be spent on modernizing its aging gas fleet at Cape Canaveral, Riviera Beach and Port Everglades, with the new gas-fired plants expected to be in service by 2013, 2014 and 2016, respectively. All these projects have been approved by the Florida Public Service Commission (FPSC). Recovery of these expenditures will be via the GBRA mechanism and is expected to result in only modest price increases for consumers due to the anticipated fuel cost savings. Infrastructure improvements and maintenance capex make up the bulk of the remaining capex budget.

In addition, FPL has identified another \$4 billion-\$5 billion of incremental investment opportunities in areas such as storm hardening, generation upgrades, solar investment, natural gas pipeline and other infrastructure/reliability improvements. The visibility around the incremental capex is low at present; Fitch has assumed that FPL spends between \$3 billion-\$3.5 billion in incremental capex over the forecast period. Fitch expects FPL to finance its capex needs using a mix of equity and debt so as to maintain its regulatory capital structure. Reflecting the additional capex in financial assumptions does pressure FPL's forecasted credit metrics, since there will likely be a regulatory lag associated with some of these incremental investments.

Fitch anticipates FPL's credit metrics to strengthen in 2013 and beyond as a result of the \$350 million base rate increase effective 2013, stepped-up GBRA increases, and rate increases associated with the ongoing nuclear updates. Fitch expects EBITDA coverage ratio to be 8.0-8.5x and Debt-to-EBITDA ratio to be in the 2.4x-2.6x range towards the end of the forecast period. The funds flow from operations (FFO)-based credit measures remain robust over 2013-14 due to bonus depreciation benefits, and decline to more normalized levels thereafter. Fitch forecasts FFO-to-Debt to be in the 25%-27% range and FFO-to-interest coverage to approximate 7.0x toward the end of the forecast period.

RATING DRIVERS FOR NEE AND CAPITAL HOLDINGS

NEE provides a full guarantee of Capital Holdings' debt and hybrids. Thus, Capital Holdings' ratings and Rating Outlook are identical to those of NEE. NEE's ratings reflect weak but recovering credit metrics, declining capex after hitting peak levels in 2012, and a continued shift in the business mix through 2016 towards regulated and highly contracted assets. Driving the favorable shift in cash flow mix are factors such as base rate increases at FPL as a result of the 2012 rate order, completion of the regulated Lone Star transmission line in 2013, the rising contribution from contracted solar and wind investments, and weak wholesale prices that limit the contribution of non-contracted generation assets.

Significant capex growth over the last few years, with \$9.2 billion spent in 2012 alone, has weakened NEE's credit metrics considerably relative to its rating category and in comparison with historical levels. Future capex levels will continue to remain high both at FPL and Capital Holdings. Fitch's financial forecasts reflect approximate \$9.0 billion capex at Capital Holdings over 2013-16, which is at the higher end of management's target range of \$5.9 billion-\$9.0 billion. As highlighted previously, Fitch has assumed \$12.5 billion in capex at FPL over 2013-16. It is conceivable that certain investment opportunities for both FPL and Capital Holdings may not materialize as these are still in the development stage. In the current environment of low power prices and less political appetite for tax subsidies for renewables, Fitch sees lower potential for Capital Holdings to grow its renewable portfolio at the same pace as it has in recent years. To the extent that the capex levels fall short of Fitch's expectations, there could be upside to NEE's credit metrics given the enhanced financial flexibility that the company will gain.

Given the pressures on credit metrics today and elevated levels of forecasted capex, management's renewed emphasis on strengthening the balance sheet is warranted to maintain the current levels of ratings. In this regard, the company's recent announcement to issue up to \$1.5 billion in equity in 2014 depending upon the level of capex spend, in addition to maturing equity units, is positive for NEE's credit. It is also Fitch's expectation that Capital Holdings is able to reduce recourse debt over the forecast period.

NEE's continued shift away from merchant businesses toward regulated investments and contracted non-regulated renewable assets is also supportive of its credit profile. Over 2013-16, NEE's cash flows from stable utility-type sources are expected to grow. At FPL, recovering retail sales and recently secured base rate increase will produce revenue uplift. At Capital Holdings, the new Texas electric transmission assets will result in predictable tariff revenues. Fitch forecasts that regulated businesses will contribute close to 55% of NEE's EBITDA for the next several years. Within the non-regulated businesses, management's emphasis remains on long-term contracted renewable generation, specifically solar and wind. Fitch expects contractual sources to drive another 30% of NEE's consolidated EBITDA over the next few years. For future growth investments, management is focusing on Federal Energy Regulated Commission (FERC) regulated gas pipelines and electricity transmission opportunities, which will further skew the business mix towards predictable cash flow sources.

On a consolidated basis, Fitch projects NEE to start generating significant free cash flow from 2016 as capex spending declines. NEE's cash flow has been buoyed by significant tax incentives (production and investment tax credits and accelerated depreciation and bonus depreciation benefits). NEE has accumulated tax incentives that Fitch assumes the company can continue to monetize against taxable income or via tax-oriented partnerships. Fitch forecasts NEE to start paying cash taxes beginning 2016 assuming no extension of bonus depreciation benefits, no incremental tax subsidies for U.S. wind projects, and no incremental renewable investments beyond the projects in the current pipeline.

NEE's credit metrics, as reported, show more leverage than 'A-' peers. However, Fitch considers several factors that mitigate debt leverage. First, within

Press Release

the non-regulated operations of NextEra Energy Resources (Energy Resources), Capital Holdings' wholly owned subsidiary, sales are supported by off-take contracts for a longer term than most other peers (more than 86% hedged over 2013-16 for existing assets). This provides NEE with greater insulation to commodity price movements as compared to other diversified peers. Second, NEE's non-utility generation is concentrated in renewable and nuclear resources with favorable environmental characteristics. Finally, about \$6.3 billion of consolidated debt (as of Dec. 31, 2012) is made up of project finance loans that have limited or no corporate recourse. Fitch's adjusted consolidated credit metrics for NEE incorporate off-credit treatment to limited recourse debt at Energy Resources. This reflects Fitch's assumption that NEE would walk away from these projects in the event of financial deterioration, including those projects where a differential membership interest has been sold. Fitch accordingly excludes the debt, interest expense, EBITDA contribution and tax attributes from such projects and includes only the distributable cash flow.

Fitch expects NEE's EBITDA coverage ratio to be in a 6.0x-6.5x range and debt-to-EBITDA to be approximately 3.5x toward the end of the forecast period. Fitch forecasts NEE's FFO-to-debt to be close to 25% and FFO-to-interest coverage to approximate 6.3x toward the end of the forecast period, which is in-line with Fitch's guidelines for an 'A-' rated issuer.

NEE's ratings also reflect the company's strong access to the capital markets, commercial paper market and to banks for both corporate credit and project finance. Liquidity is robust with committed corporate credit facilities of the NEE group of companies aggregating approximately \$8.4 billion, excluding limited recourse or non-recourse project financing arrangements. Debt maturities are manageable.

RATING SENSITIVITIES

Positive or negative rating actions for FPL and NEE look unlikely at this time. However, downward rating pressure could result from:

- Change in Florida Regulation: Unfavorable changes in current Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs would adversely affect ratings of FPL and NEE.
- Increase in Business Risk Profile: A change in strategy to invest in more speculative assets, non-contracted renewable assets or a lower proportion of cash flow under long-term contracts would increase business risk and could result in lower ratings for NEE.
- The high level of capital expenditures at both FPL and Capital Holdings creates completion risks, as well as funding risk.
- Aggressive Financial Strategy: Any deterioration in credit measures that result from higher use of leverage or outsized return of capital to shareholders could lead to negative rating actions for NEE. If parent NEE increases its debt leverage or changes its corporate strategy such that NEE's risk profile materially worsens, it could adversely affect FPL's ratings in line with Fitch's Parent and Subsidiary Rating Linkage Criteria.
- Change in Tax Laws or Regulations: Changes in tax rules that reduce NEE's ability to monetize its accumulated production tax credits, investment tax credits, and accumulated tax losses carried forward would work against NEE's cash flow credit measures.

Fitch has affirmed the following with Stable Outlook:

NextEra Energy, Inc.

--IDR at 'A-'.

NextEra Energy Capital Holdings, Inc.

--IDR at 'A-'.

--Senior unsecured debentures at 'A-'.

--Equity Units at 'A-'.

--Jr. Subordinate hybrids at 'BBB'.

--Short-term IDR and commercial paper at 'F1'.

FPL Group Capital Trust I

--Trust preferred stock at 'BBB'.

Florida Power & Light Company

--IDR at 'A'.

--First mortgage bonds at 'AA-'.

--Unsecured pollution control revenue bonds at 'A+'.

--Short-term IDR and commercial paper at 'F1'.

Consistent with its credit policy, Fitch rates only the underlying senior unsecured debentures associated with equity units and is, therefore, withdrawing the 'A-' rating on NEE's equity units.

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Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 8, 2012);

--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 13, 2012);

--'Parent and Subsidiary Rating Linkage' (Aug. 8, 2012);

--'Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis'

(Dec. 13, 2012);

--'Rating North American Utilities, Power, Gas and Water Companies' (May 16, 2011)

Applicable Criteria and Related Research

Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis



17 Nov 2015 2:54 PM EST

Fitch Rates Florida Power & Light Company's First Mortgage Bonds 'AA-'

Fitch Ratings-New York-17 November 2015: Fitch Ratings has assigned ratings of 'AA-' to Florida Power & Light Company's (FPL) issue of \$600 million 3.125% series first mortgage bonds due Dec. 1, 2025. FPL plans to use the net proceeds from this offering to fund transaction costs incurred in connection with FPL's purchase of approximately \$400 million in aggregate principal of several series of its first mortgage bonds in September 2015 and for general corporate purposes.

FPL's ratings reflect the predictable nature of cash flows from regulated electric operations, a favorable 2012 rate order that provides for at least four years of regulatory certainty, recovering electric sales in its service territory after a prolonged trough, management focus on O&M cost containment that is expected to drive returns close to the upper end of the authorized return on equity (ROE) range, and a strong balance sheet and liquidity profile.

KEY RATING DRIVERS

Constructive Regulation: A favorable turnaround in the regulatory climate in Florida and an extended period of regulatory certainty are key credit positives for FPL. The 2012 rate order spans a four-year term (until December 2016), set rates based on 10.5% ROE with a 100 basis points (bps) band and automatically adjusts base rates on commercial operations of new generation plants over 2013-2016.

Recovering Florida Economy: Florida's economy is recovering well after the recent prolonged recession, with most key indicators such as housing starts, employment statistics and consumer sentiment on an upward trend. Adjusted for weather, FPL's retail kilowatt hour sales grew 1.3% in 2014, driven by 1.2% customer growth and 0.1% usage increase. Fitch's financial forecasts for FPL are based on a 1% cumulative annual growth rate in retail sales over 2015-2018; any upside in sales growth would be positive for FPL's credit metrics.

High Capex: FPL has identified approximately \$14.6 billion in capex through 2018. Fitch believes this target is likely to be exceeded, given the approval by the Florida Public Service Commission (FPSC) to invest up to \$500 million annually in natural gas reserves projects. Fitch expects FPL to finance its capex and distribution to the parent using a mix of equity and debt so as to maintain its regulatory capital structure. FPL continues to make progress on its major capital projects. Specifically, the generation modernization project at Port Everglades remains on budget and scheduled to enter service in mid-2016. Additionally, FPL's development of three new

large-scale solar energy centers remain (74-megawatts each) on schedule.

Robust Credit Metrics: FPL's forecasted funds from operations (FFO) credit metrics are expected to weaken from their current robust levels as benefits from bonus depreciation subside after 2015. Fitch expects the FFO fixed-charge coverage to be in the 7.0x-9.0x range over the forecast period, 2015-2018. FFO-adjusted leverage and adjusted debt/EBITDAR are expected to be 3.0x and 2.3x, respectively, by 2018. These metrics are quite robust compared with the 'A' rated financial profile for a regulated utility. As of Sept. 30, 2015, FPL's latest 12 months (LTM) total adjusted debt/operating EBITDAR and FFO adjusted leverage were 2.1x and 2.5x respectively.

KEY RATING ASSUMPTIONS

- Annual retail sales growth of 1% over 2015-2018;
- Base rate increases in mid-2016 for Port Everglades. Additional rate increase in 2017 to allow FPL to earn close to its current authorized ROE of 10.5%;
- O&M and other expenses growth of 1.5% from 2015-2018;
- Capex at FPL of approximately \$15 billion over 2015-2018.

RATING SENSITIVITIES

Positive Rating Action: Given strong rating linkage with its parent company, NextEra Energy, Inc. (NextEra; rated 'A-' by Fitch), future positive rating actions appear unlikely.

Negative Rating Action: Downward rating pressure could result from unfavorable changes in current Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs; or increasing parent risk profile from higher debt leverage or aggressive corporate strategy. A downgrade in NextEra's ratings would adversely affect FPL's ratings, consistent with Fitch's parent and subsidiary rating linkage criteria.

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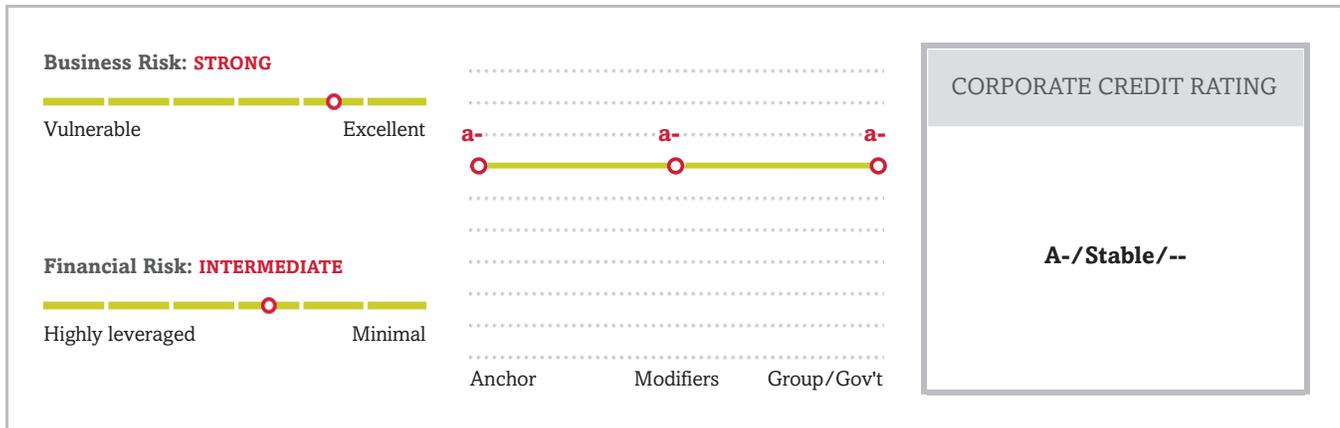
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Related Criteria And Research

NextEra Energy Inc.



Rationale

Business Risk: Strong	Financial Risk: Intermediate
<ul style="list-style-type: none"> Regulated utility operations have low business risk and support the overall credit profile. Effective management of regulatory risk. Non-utility operations are primarily engaged in unregulated power generation and materially increase business risk. 	<ul style="list-style-type: none"> Core credit ratios are at the lower end of the intermediate financial risk profile category. Large capital spending program. Financial policy commitment to maintain current financial risk profile.

Outlook: Stable

The stable rating outlook on NextEra Energy Inc. (NextEra) and its subsidiaries, Florida Power & Light Co. and NextEra Energy Capital Holdings Inc., reflects our expectation that the company will preserve its "strong" business risk profile while ensuring that its financial risk profile remains well within the "intermediate" category at all times, albeit toward the lower end of the category. The stable outlook is also predicated on the company effectively managing its growth and capital spending so that regulated operations continue to contribute about 60% of total operating income. Finally, the stable outlook anticipates that NextEra will fund the proposed merger with Hawaiian Electric Industries, Inc. in a credit-neutral manner while receiving approval to close the merger absent any restrictive regulatory provisions or requirements.

Downside scenario

We could lower the ratings on NextEra and its subsidiaries if financial performance weakens, with funds from operations (FFO) to debt that declines to less than 25% on a consistent basis, absent any reduction of business risk. Moreover, we could lower the ratings on NextEra if business risk increases through the growing contribution of unregulated operations or due to unfavorable regulatory outcomes.

Upside scenario

Under our base-case scenario, we do not anticipate raising the ratings on NextEra and its subsidiaries in the next 12 to 24 months, given the company's business risk profile and expected level of financial performance.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> We assume that NextEra's EBITDA grows by an average of 5% to 7% annually, reflecting recovery of invested capital at the regulated utility operations and margin growth from the renewable energy business. Capital spending of about \$8 billion in 2015, \$9.5 billion in 2016 and about \$7 billion in 2017. Common dividends grow by an average of about 10% annually, in line with historical trends. 	2014A	2015E	2016E	
	FFO/debt (%)	25.2	25-26	24-25
	Debt/EBITDA (x)	3.5	3.3-3.5	3.5-3.8
	OCF/debt (%)	22.5	24-25	23-24
<p>A--Actual. E—Estimate. FFO—Funds from operations. OCF—Operating cash flow.</p>				

Company Description

NextEra conducts its regulated utility operations through Florida Power & Light Co. (FPL) while the company's non-utility operations are managed within NextEra Energy Capital Holdings Inc. (NEECH).

FPL is a vertically integrated electric utility serving about 4.7 million customers throughout the east coast of Florida, with about 25,100 megawatts (MW) of generation capacity.

The non-utility operations are largely conducted through NextEra Energy Resources LLC (NEER), a wholly owned subsidiary of NECCH. NEER is engaged in un-regulated generation through the ownership of about 19,800 MW of generation capacity with an emphasis on renewable energy sources, proprietary trading and marketing as well as retail supply and wholesale full requirements contracts.

NextEra has entered into an agreement to merge with Hawaiian Electric Industries Inc. (HEI). The companies expect that the merger could close by year-end 2015.

Business Risk: Strong

We assess NextEra's business risk profile as "strong" accounting for the company's regulated utility as well as its non-utility operations.

NextEra's regulated utility operations have low business risk and provide about 60% of consolidated operating income, lending support to the company's overall business risk profile within the "strong" category. The regulated business is conducted through Florida Power & Light (FPL) and benefits from operations under a constructive regulatory framework that provides for timely investment and fuel cost recovery. FPL has historically managed its regulatory risk effectively and this has resulted in earned returns that are consistently close to or at the authorized levels. The customer base is large with no meaningful industrial exposure and demonstrates above-average growth. The company has material exposure to natural-gas-fired generation, which, in combination with low natural gas prices and the company's efficient operations, contributes to overall competitive customer rates.

The company's non-utility operations are conducted under NextEra Energy Capital Holdings Inc. (NEECH). We ascribe significantly higher business risk to these non-utility operations compared to the regulated utility operations because they focus largely on unregulated generation, both merchant and contracted, with an emphasis on renewable energy projects and to a lesser extent on fossil-fired and nuclear generation. Integral to our view of NextEra's business risk profile as "strong" is that all merchant generation projects that are financed in a nonrecourse manner provide NextEra with only residual cash flows, an arrangement that we view as inherently weaker compared to NextEra having full access to all project cash flows. NextEra's non-utility operations also engage in proprietary trading and marketing as well as retail supply and wholesale full requirements contracts, businesses which can have significant liquidity needs and are generally characterized by small margins on a per unit basis, relying on large volumes to generate a meaningful contribution. Moreover, these operations require excellent risk management and disciplined hedging practices to limit a company's exposure to the fluctuation in commodity prices.

NextEra has created a yieldco entity which we expect will grow over time, in large part through asset purchases from NextEra, with NextEra benefiting not only from the asset sale proceeds but also from distributions. We expect that NextEra's ownership in the yieldco will decline over time while the company maintains the general partnership interest resulting in distributions that are disproportionate to the company's actual ownership interest. We view the yieldco structure as somewhat negative for credit quality since it makes cash distributions from the projects even more remote

compared to direct ownership of the projects, with the detriment offset to some extent from the expected use of proceeds in a credit neutral manner at NextEra, such as supplementing the funding of future capital spending needs.

S&P Base-Case Operating Scenario

- NextEra continues to effectively manage regulatory risk as its regulated utility operations.
- Non-utility operations consistently contribute less than 50% of operating income.
- New renewable energy projects are completed on budget and on schedule.
- Yieldco ownership declines over time, but NextEra maintains ownership of general partner interest.

Peer comparison

NextEra Energy Inc. -- Peer Comparison

Industry Sector: Combo

	NextEra Energy Inc.	Dominion Resources Inc.	Public Service Enterprise Group Inc.	Duke Energy Corp.	Sempra Energy
Rating as of June 12, 2015	A-/Stable/--	A-/Negative/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2
--Average of past three fiscal years--					
(Mil. \$)					
Revenues	14,857.5	12,883.0	9,894.0	22,715.7	10,413.0
EBITDA	5,642.4	4,860.2	3,349.3	8,567.2	3,284.0
Funds from operations (FFO)	4,861.1	3,680.5	2,631.3	6,942.4	2,424.1
Net income from cont. oper.	2,032.0	1,141.0	1,364.5	2,279.7	1,007.3
Cash flow from operations	4,585.1	3,674.9	2,756.5	6,425.3	2,035.8
Capital expenditures	7,560.7	4,514.4	2,716.2	5,459.7	2,818.7
Free operating cash flow	(2,975.7)	(839.6)	40.3	965.6	(782.9)
Discretionary cash flow	(4,227.7)	(2,197.4)	(691.0)	(1,100.8)	(1,446.9)
Cash and short-term investments	246.6	47.0	76.6	275.2	114.9
Debt	20,837.7	22,568.6	9,099.4	43,896.1	15,582.5
Equity	21,407.2	13,343.7	11,404.3	41,113.7	11,547.5
Adjusted ratios					
EBITDA margin (%)	38.0	37.7	33.9	37.7	31.5
Return on capital (%)	7.5	8.3	10.0	6.4	7.2
EBITDA interest coverage (x)	6.1	4.2	7.2	4.3	4.0
FFO cash int. cov. (X)	4.6	5.0	7.6	5.7	5.6
Debt/EBITDA (x)	3.7	4.6	2.7	5.1	4.7
FFO/debt (%)	23.3	16.3	28.9	15.8	15.6
Cash flow from operations/debt (%)	22.0	16.3	30.3	14.6	13.1
Free operating cash flow/debt (%)	(14.3)	(3.7)	0.4	2.2	(5.0)

NextEra Energy Inc. -- Peer Comparison (cont.)

Discretionary cash flow/debt (%)	(20.3)	(9.7)	(7.6)	(2.5)	(9.3)
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Financial Risk: Intermediate

We assess NextEra's financial risk profile as "intermediate" using the medial volatility financial ratio benchmarks. In determining the financial risk profile assessment we back out 75% of the debt that relates to project-financed renewable energy projects, leaving 25% on the balance sheet and viewing the project cash flows on a risk-adjusted basis. The adjustment accounts in part for the nonrecourse nature of the financing involved, but also reflects our view that this is a business which NextEra plans to continue growing but which has achieved enough scale and diversity such that no single project is critical to the parent, reducing the need or motivation to provide support to a failing project, if necessary. Under our base-case scenario we expect that NextEra's core credit ratios will remain in the lower end of the "intermediate" category with FFO to debt that averages about 25% over the next few years and debt to EBITDA of about 3.5x. Our assessment of financial risk also incorporates NextEra's commitment to support its financial profile such that it consistently remains well within the lower end of the "intermediate" category.

NextEra's "strong" business and "intermediate" financial risk profiles lead to an anchor of 'bbb+/-a-'. We select the 'a-' anchor to capture primarily both the contribution and strength of NextEra's regulated utility operations to the overall credit profile.

S&P Base-Case Cash Flow And Capital Structure Scenario

- Financial performance continues to support an "intermediate" financial profile assessment, albeit at the low end of the range.
- Commitment to support financial profile within "intermediate" category.
- Debt from nonrecourse renewable energy projects receives partial off-credit treatment.
- Company benefits from asset sales proceeds to the yieldco and from distributions from the yieldco.

Financial summary

Table 2

NextEra Energy Inc.--Financial Summary

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2014	2013	2012	2011	2010
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
(Mil. \$)					
Revenues	15,969.8	14,724.7	13,877.9	14,926.7	15,009.0
EBITDA	6,150.3	5,918.5	4,858.6	5,003.6	5,180.6
Funds from operations (FFO)	5,367.4	5,171.6	4,044.2	4,350.6	4,667.9
Net income from continuing operations	2,465.0	1,720.0	1,911.0	1,923.0	1,935.5

Table 2

NextEra Energy Inc.--Financial Summary (cont.)					
Cash flow from operations	4,798.6	5,135.1	3,821.4	3,970.8	3,802.0
Capital expenditures	6,957.5	6,578.1	9,146.6	5,937.4	5,281.2
Free operating cash flow	(2,158.9)	(1,443.0)	(5,325.2)	(1,966.5)	(1,479.1)
Dividends paid	1,375.8	1,263.1	1,117.2	1,022.3	905.0
Discretionary cash flow	(3,534.7)	(2,706.0)	(6,442.3)	(2,988.8)	(2,384.1)
Debt	21,310.0	20,087.1	21,116.1	17,660.7	14,988.0
Preferred stock	3,239.0	3,427.1	3,279.5	1,929.5	1,176.5
Equity	23,407.0	21,467.1	19,347.5	16,872.5	16,390.5
Debt and equity	44,717.0	41,554.2	40,463.6	34,533.2	31,378.5
Adjusted ratios					
EBITDA margin (%)	38.5	40.2	35.0	33.5	34.5
EBITDA interest coverage (x)	6.6	6.3	5.4	6.7	7.3
FFO cash int. cov. (x)	4.8	4.9	4.2	4.6	5.6
Debt/EBITDA (x)	3.5	3.4	4.3	3.5	2.9
FFO/debt (%)	25.2	25.7	19.2	24.6	31.1
Cash flow from operations/debt (%)	22.5	25.6	18.1	22.5	25.4
Free operating cash flow/debt (%)	(10.1)	(7.2)	(25.2)	(11.1)	(9.9)
Discretionary cash flow/debt (%)	(16.6)	(13.5)	(30.5)	(16.9)	(15.9)
Net cash flow/Capex (%)	57.4	59.4	32.0	56.1	71.3
Return on capital (%)	7.8	7.5	7.3	8.4	8.7
Return on common equity (%)	12.1	8.7	10.7	12.0	13.5
Common dividend payout ratio (un-adj.) (%)	51.2	65.2	52.5	47.8	42.5

Liquidity: Adequate

We assess NextEra's liquidity as "adequate" to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria and that the company will also meet our other criteria for such a designation.

NextEra has \$7.85 billion in revolving credit facilities with \$1.25 billion maturing in 2016 and the balance maturing in 2020. In addition, the company has a \$270 million revolving credit facility and a \$650 million letter-of-credit facility.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Available credit facilities total about \$7.5 billion; and FFO of \$6.8 to \$7 billion annually. 	<ul style="list-style-type: none"> Debt maturities and outstanding commercial paper totaling about \$4.7 billion in 2015 and debt maturities of about \$1.3 billion in 2016; Maintenance capital spending of about \$5.5 billion in 2015 and about \$6.7 billion in 2016; and Dividends of about \$1.4 billion to \$1.6 billion annually.

Debt maturities

As of Dec. 31, 2014:

- 2015: \$3.515 billion
- 2016: \$1.285 billion
- 2017: \$2.608 billion
- 2018: \$1.440 billion
- 2019: \$1.943 billion

Covenant Analysis

As of Dec. 31, 2014, NextEra was in compliance with the funded debt to capitalization covenant included in its revolving credit facilities.

Compliance Expectations

- Although we believe the company will remain in compliance with its covenant under our base-case scenario, covenant headroom could decline absent adequate and timely recovery of capital investments that lead to an increase in debt without a corresponding increase in equity.

Other Credit Considerations

Our assessment of modifiers does not affect the anchor score.

Group Influence

NextEra is subject to the group rating methodology criteria, under which we assess NextEra as the parent of the group whose members are FPL and NEECH, both of which we assess as "core" members of the group. NextEra's group credit profile is 'a-' and its issuer credit rating is 'A-'.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/--

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-

Recovery Analysis/Issue Ratings

Senior unsecured debt obligations at NEECH are unconditionally guaranteed by NextEra and are effectively obligations of NextEra. As a result, we rate NEECH's senior unsecured debt one notch below the issuer credit rating to reflect the material amount of priority obligations throughout NextEra that encumbers more than 20% of the company's total assets.

We rate NEECH's commercial paper program 'A-2', accounting for the company's issuer credit rating and our assessment of NextEra's liquidity as "adequate".

Reconciliation

Table 3

Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)

--Fiscal year ended Dec. 31, 2014--

NextEra Energy Inc. reported amounts										
	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	29,024.0	19,916.0	17,021.0	6,946.0	4,384.0	1,261.0	6,946.0	5,500.0	1,261.0	7,017.0
Standard & Poor's adjustments										
Interest expense (reported)	--	--	--	--	--	--	(1,261.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	80.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	29.0	--	--	--
Equity-like hybrids	(1,750.0)	1,750.0	--	--	--	(22.4)	22.4	22.4	22.4	--

Table 3

Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$) (cont.)										
Intermediate hybrids reported as debt	(1,489.0)	1,489.0	--	--	--	(92.4)	92.4	92.4	92.4	--
Postretirement benefit obligations/deferred compensation	--	--	--	(122.0)	(122.0)	--	(124.9)	5.3	--	--
Surplus cash	(28.9)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	128.0	(128.0)	(128.0)	--	(128.0)
Share-based compensation expense	--	--	--	83.0	--	--	83.0	--	--	--
Dividends received from equity investments	--	--	--	33.0	--	--	33.0	--	--	--
Nonrecourse debt	(5,022.0)	--	(979.0)	(979.0)	(477.0)	(477.0)	(502.0)	(502.0)	--	--
Securitized stranded costs	(331.0)	--	(72.2)	(72.2)	(17.2)	(17.2)	(55.0)	(55.0)	--	--
Power purchase agreements	699.9	--	--	117.5	49.0	49.0	68.5	68.5	--	68.5
Asset retirement obligations	--	--	--	108.0	108.0	108.0	48.0	(59.1)	--	--
Non-operating income (expense)	--	--	--	--	409.0	--	--	--	--	--
Non-controlling Interest/Minority interest	--	252.0	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	--	(146.0)	--	--
Debt - Accrued interest not included in reported debt	207.0	--	--	--	--	--	--	--	--	--
EBITDA - Valuation gains/(losses)	--	--	--	(309.0)	(309.0)	--	(309.0)	--	--	--
EBITDA - Other	--	--	--	345.0	345.0	--	345.0	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	11.0	--	--	--	--	--
D&A - Other	--	--	--	--	(345.0)	--	--	--	--	--
Total adjustments	(7,714.0)	3,491.0	(1,051.2)	(795.7)	(348.2)	(324.1)	(1,578.6)	(701.4)	114.8	(59.5)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	21,310.0	23,407.0	15,969.8	6,150.3	4,035.8	936.9	5,367.4	4,798.6	1,375.8	6,957.5

Related Criteria And Research

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers,

Dec. 16, 2014

- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 16, 2015)		
NextEra Energy Inc.		
Corporate Credit Rating		A-/Stable/--
Junior Subordinated		BBB
Senior Unsecured		BBB
Senior Unsecured		BBB+
Corporate Credit Ratings History		
11-Mar-2010	<i>Foreign Currency</i>	A-/Stable/--
14-Jan-2010		A/Watch Neg/--
26-Oct-2006		A/Stable/--
11-Mar-2010	<i>Local Currency</i>	A-/Stable/--
14-Jan-2010		A/Watch Neg/--
26-Oct-2006		A/Stable/--
Related Entities		
Florida Power & Light Co.		
Issuer Credit Rating		A-/Stable/A-2
Commercial Paper		
<i>Local Currency</i>		A-2
Preferred Stock		BBB

Ratings Detail (As Of June 16, 2015) (cont.)

Senior Secured	A
Senior Secured	A/A-2
FPL Energy American Wind LLC	
Senior Secured	BB/Stable
FPL Energy National Wind LLC	
Senior Secured	BB/Negative
FPL Energy National Wind Portfolio LLC	
Senior Secured	B-/Stable
FPL Energy Wind Funding LLC	
Senior Secured	B-/Stable
FPL Group Capital Trust I	
Preferred Stock	BBB
NextEra Energy Capital Holdings Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Junior Subordinated	BBB
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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**OPC 009843
FPL RC-16
JUNE 16, 2015 14**

Corporates Ratings Navigator
 Publish Date: **3-Mar-15**
Sector Details:
 Sector: US Utilities
 Region: Developed Markets - Americas
 Country: United States of America
 Country IDR: AAA Stable
 Country IDR Action: Affirmed
 Country Action Date: 19-Sep-14
 Country Ceiling: AAA

Ratings History

Date	IDR	Action
4-Dec-14	A Stable	Affirmed
1-Oct-14	A Stable	Affirmed
25-Apr-14	A Stable	Affirmed
26-Apr-13	A Stable	Affirmed
27-Apr-12	A Stable	Affirmed

Bar Chart Legend:
 Vertical Bars = Range of Rating Factor
 Bar Colors =Relative Importance

- Higher Importance
- Average Importance
- Lower Importance

Bar Arrows = Rating Factor Outlook

- ↑ Positive
- ↔ Evolving
- ↓ Negative
- Stable

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Relevant Criteria & References
 Introducing Ratings Navigators for Corporates
 Corporate Rating Methodology
 US Utilities: Ratings Navigator Companion

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Regulation	Business Profile Market and Franchise	Asset Base and Operations	Commodity Exposure	Profitability	Financial Profile Financial Structure	Financial Flexibility	Issuer Default Rating
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A Stable
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB-
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Drivers & Sensitivities

Constructive Regulatory Environment
 A favorable turnaround in the regulatory climate in Florida and an extended period of regulatory certainty are key credit positives. The outcome of FPL's 2012 base rate case was constructive and provides rate certainty through 2016.

Recovering Florida Economy
 While Fitch has assumed a 1% CAGR in electric sales over 2015-2017, a recovering Florida economy could drive FPL's sales above expectations.

High Capex
 Investment in new generation, storm hardening and reliability improvements will keep capex elevated through 2017. The recent regulatory approval to rate base natural gas reserves could drive capex above Fitch's expectations.

Robust Credit Metrics
 Fitch expects FFO fixed-charge coverage to be in the 7.0x-9.0x range over the forecast period. FFO-adjusted leverage and adjusted debt/EBITDAR are expected to be 3.0x and 2.4x, respectively, by 2017.

Positive Rating Sensitivities
 Positive action is not anticipated at this time given the substantial non-utility investments by its parent, Nextera Energy, Inc. (A-).

Negative Rating Sensitivities
 Unfavorable changes in current Florida regulatory policies for timely recovery of capital investments and operating costs can lead to negative rating actions. Increasing parent risk profile will also adversely affect FPL's ratings.

Direct Peer Group

Company Name	IDR	Action	Action Date
Georgia Power Company	A Stable	Affirmed	30-Jan-2015
Wisconsin Electric Power Co.	A Stable	Affirmed	01-Oct-2014
Duke Energy Florida, Inc.	BBB+	Affirmed	01-Oct-2014
Gulf Power Company	A-	Affirmed	18-Sep-2014
Oklahoma Gas & Electric Co.	A Stable	Affirmed	01-Oct-2014

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
b-	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
ccc			

Regulation

a	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.
a-	Timeliness of Cost Recovery	a	Minimal lag to recover capital and operating costs.
BBB+	Trend in Authorized ROEs	bbb	Average authorized ROE.
bbb	Mechanisms Available to Stabilize Cash Flows	bbb	Revenues partially insulated from variability in consumption.
bbb-	Mechanisms Supportive of Creditworthiness	n.a.	n.a.

Asset Base and Operations

a+	Diversity of Assets	a	High-quality and/or large-scale diversified assets.
a	Operations Reliability and Cost Competitiveness	a	Track record of reliable, low-cost operations.
A-	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb+	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.
bbb			

Profitability

a+	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
a	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.
a-			
bbb+			
bbb			

Financial Flexibility

aa-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a+	Liquidity	a	Very comfortable liquidity. Well-spread maturity schedule of debt. Diversified sources of funding.
A	FFO Fixed Charge Cover	a	5.0x
a-			
bbb+			

Management and Corporate Governance

aa-	Management Strategy	a	Coherent strategy and good track record in implementation.
a+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
A	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
a-	Financial Transparency	a	High quality and timely financial reporting.
bbb+			

Market and Franchise

a+	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.
a	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
A-	Customer Mix	a	Favorable customer mix.
bbb+	Geographic Location	a	Favorable location or high geographic diversity.
bbb	Supply Demand Dynamics	a	Beneficial outlook for prices/rates.

Commodity Exposure

a	Ability to Pass Through Changes in Fuel	bbb	Limited exposure to changes in commodity costs.
a-	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
BBB+	Hedging Strategy	a	Highly captive supply and customer base.
bbb			
bbb-			

Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	3.5x
a+	Total Adjusted Debt/Operating EBITDAR	a	3.25x
A			
a-			
bbb+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

NextEra Energy, Inc.

Including NextEra Energy Capital Holdings, Inc.
Full Rating Report

Ratings

NextEra Energy, Inc.	
Long-Term IDR	A-
NextEra Energy Capital Holdings, Inc.	
Long-Term IDR	A-
Senior Unsecured	A-
Junior Subordinate Hybrids	BBB
Commercial Paper	F1

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Data

NextEra Energy, Inc. (\$ Mil.)	LTM	
	6/30/15	2014
Adjusted Revenue	17,702	16,945
Operating EBITDAR	7,661	6,870
FFFO	5,929	5,445
Total Adjusted Debt	27,985	27,204
Total Capitalization	51,075	48,861
Capex/ Depreciation (%)	280.9	281.1
FFO Fixed- Charge Coverage (x)	5.7	5.2
FFO-Adjusted Leverage (x)	3.7	3.8
Total Adjusted Debt/EBITDAR (x)	3.7	4.0

Related Research

U.S. Utilities Power & Gas
 Dashboard (Third-Quarter 2015)
 (October 2015)

Fitch Affirms NextEra at 'A-'
 Following Acquisition Announcement
 by NEP; Outlook Stable
 (August 2015)

Florida Power & Light Co. (July 2015)

NextEra Energy, Inc. - Ratings
 Navigator (March 2015)

Analysts

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Key Rating Drivers

Growing Regulated and Contracted Assets: The ratings for NextEra Energy, Inc. (NEE) reflect a continued shift in business mix toward regulated and highly contracted assets that comprise approximately 85% of adjusted EBITDA. Base rate increases at Florida Power and Light Co. (FPL), rising contributions from contracted renewable projects, and investments in regulated natural gas transmission are driving this favorable shift. The rating of NextEra Energy Capital Holdings, Inc. (Capital Holdings) is equalized with that of NEE given the full, irrevocable and unconditional guarantee.

Constructive Florida Environment: A favorable turnaround in Florida's regulatory climate and an extended period of regulatory certainty are supportive credit factors. FPL's 2012 rate order spans a four-year term through December 2016, sets rates based on a 10.5% ROE with a 100-bps band and automatically adjusts base rates on commercial operations of new generation plants. Florida's economy is recovering well. FPL continues to demonstrate robust credit metrics that compare favorably with an 'A' rated financial profile for a regulated utility.

Elevated Capex: After relatively modest investments in 2013–2015, capex plans are rising again, with about \$18 billion projected to be invested in 2015–2016, divided about 45%/55% between FPL and other businesses. Fitch Ratings sees an upward bias to the utility capex plans as FPL evaluates incremental investments in generation and natural gas reserves. Capex for contractual renewable generation projects will likely increase management projections, with robust growth in the backlog for wind and solar projects.

Challenging Outlook for Yieldcos: Continued limited capital market access for yieldcos could constrain NEE's ability to grow NextEra Energy Partners, L.P. (NEP) and recycle its capital into new renewable projects. Permanent debt at NEP is viewed negatively for NEE's bondholders by Fitch because it increases the structural subordination. The pursuit of third-party acquisitions to drive growth at NEP and an accelerated rate of dropdowns are also concerns for Fitch.

Recovering Credit Metrics: On a fully consolidated basis, Fitch expects NEE's FFO fixed-charge coverage to be in the 5.5x–6.0x range over the forecast period of 2015–2018. Fitch expects both adjusted debt to EBITDAR and adjusted FFO leverage to approximate 3.5x by 2018.

Rating Sensitivities

Positive Rating Action: Positive rating actions for NEE appear unlikely at this time.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include a failure to achieve adjusted FFO leverage of 3.50x–3.75x by 2017 on a consolidated basis and any deterioration in credit measures that result from higher use of leverage or outsized return of capital to shareholders. An aggressive acquisitive or financial strategy at NEP or predominantly shareholder-focused use of sell down proceeds, a change in strategy to invest in noncontracted renewable/pipeline/electric transmission assets, more speculative assets, or a lower proportion of cash flow under long-term contracts could also lead to negative action.

Financial Overview

Liquidity and Debt Structure

NEE's ratings reflect the company's strong access to the capital markets, commercial paper market and to banks for both corporate credit and project finance. Liquidity is robust, with about \$550 million in cash and more than \$6 billion available under committed corporate credit facilities, aggregating approximately \$9.7 billion for the NEE group of companies, excluding limited recourse or nonrecourse project financing arrangements, as of June 30, 2015.

FPL independently funds its short-term and long-term debt needs, while funding for other activities is aggregated under Capital Holdings. FPL's \$3 billion bank revolving line of credit — \$500 million maturing in May 2016 and the rest in 2020 — also provides a liquidity backstop for commercial paper funding, variable-rate tax-exempt revenue notes and issuance of LOCs. Capital Holding's \$4.85 billion bank revolving line of credit (\$750 million matures in May 2016, rest in 2020) is complemented by a \$650 million LOC facility (maturity in 2017).

Debt maturities are manageable, as shown in the *Debt Maturities and Liquidity* table below. About \$900 million of the 2015 maturities were repaid in recent months.

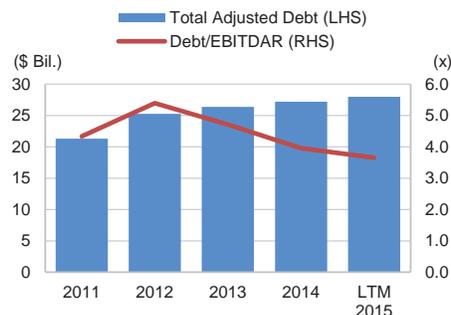
Debt Maturities and Liquidity

(\$ Mil., As of June 30, 2015)

2015	2,684
2016	2,649
2017	2,879
2018	1,587
Thereafter	20,000
Cash and Cash Equivalents	551
Undrawn Committed Facilities	9,612

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

NEE generates negative FCF after dividends and capex. The sharp increase in capex in 2012, driven by a rush to develop wind projects due to the looming production tax credit (PTC) expiration, strained NEE's balance sheet. Moderation of capex and issuance of equity helped to right-size the balance sheet.

Capex is on the rise again and could exceed \$9 billion in 2015 and \$10 billion in 2016. It appears likely capex could remain elevated beyond 2016 given the sustained strong demand for renewable projects. Fitch forecasts NEE's capex to exceed CFFO in 2015 and 2016. NEE's financing needs in 2015 are intensified by its \$700 million equity support of NEP to complete acquisitions in second-half 2015.

Fitch assumes NEE will continue to take a balanced approach to fulfilling its financing needs, with a mix of equity and debt issuance to maintain adjusted FFO leverage in the 3.5x–3.7x range consistent with its current ratings.

Related Criteria

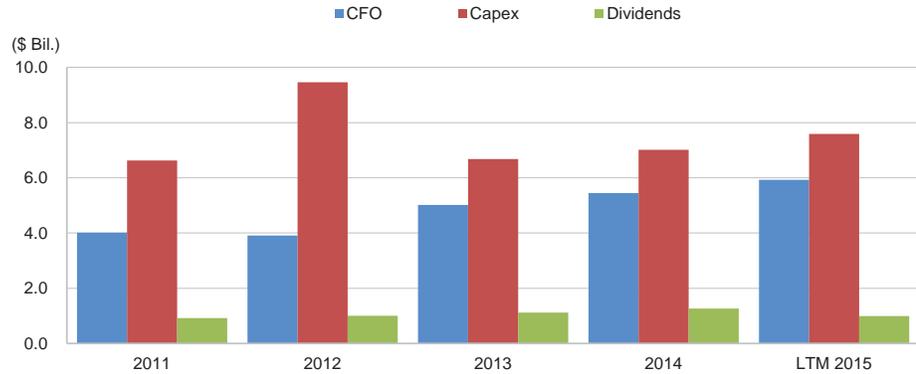
Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage (August 2015)

Recovery Ratings and Notching Criteria for Utilities (March 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

CFO and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
A-	
OGE Energy Corp.	U.S.
BBB+	
Sempra Energy	U.S.
Dominion Resources, Inc.	U.S.

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Aug. 6, 2015	A-	Stable
April 24, 2015	A-	Stable
Dec. 4, 2014	A-	Stable
Oct. 1, 2014	A-	Stable
April 25, 2014	A-	Stable
April 26, 2013	A-	Stable
April 27, 2012	A-	Stable
May 2, 2011	A-	Stable
April 30, 2010	A-	Negative
Jan. 12, 2010	A	RWN
Oct. 29, 2009	A	Stable
Dec. 14, 2007	A	Stable
Dec. 20, 2006	A	Stable
Feb. 27, 2006	A	Stable
Dec. 19, 2005	A	Stable
Dec. 6, 2005	A	Stable
July 5, 2005	A	Stable
Feb. 4, 2005	A	Stable
July 29, 2003	A	Stable

LT IDR – Long-term Issuer Default Rating.
 FC – Foreign currency.
 RWN – Rating Watch Negative.
 Source: Fitch.

Peer Group Analysis

(\$ Mil.)	NextEra Energy, Inc.	OGE Energy Corp.	Sempra Energy	Dominion Resources, Inc.
As of	6/30/15	6/30/15	6/30/15	6/30/15
IDR	A-	A-	BBB+	BBB+
Rating Outlook	Stable	Stable	Stable	Stable

Fundamental Ratios (x)

Operating EBITDAR/(Gross Interest Expense + Rents)	5.8	5.7	4.9	4.8
FFO Fixed-Charge Coverage (x)	5.7	6.1	4.2	4.9
Total Adjusted Debt/Operating EBITDAR	3.7	3.5	4.7	5.3
FFO/Total Adjusted Debt (%)	27.2	30.0	22.5	19.5
FFO-Adjusted Leverage (x)	3.7	3.3	4.4	5.1
Common Dividend Payout (%)	45.2	45.9	33.1	73.1
Internal Cash/Capex (%)	60.8	141.3	55.3	53.6
Capex/Depreciation (%)	280.9	167.5	262.4	407.4
ROE (%)	14.6	13.2	11.9	16.7

Financial Information

Revenue	17,702	2,519	10,611	12,149
Revenue Growth (%)	13.5	(7.9)	(1.1)	(7.0)
EBITDA	7,661	1,020	3,130	4,900
Operating EBITDA Margin (%)	43.2	41.5	29.8	40.5
FCF	(2,972)	206	(1,476)	(2,566)
Total Adjusted Debt with Equity Credit	27,985	3,646	15,099	26,574
Cash and Cash Equivalents	551	—	636	271
FFO	6,323	915	2,492	4,134
Capex	(7,587)	(499)	(3,091)	(5,532)

IDR – Issuer Default Rating.
 Source: Company data, Fitch.

Key Rating Issues

Changing Business Mix to More Regulated/Contracted

NEE's continued shift from merchant businesses toward regulated investments and contracted nonregulated renewable assets is supportive of its credit profile. Driving the favorable shift in cash flow mix are such factors as significant rate base increases at NEE's regulated utility subsidiary FPL, planned investments in regulated electric and natural gas transmission projects, the rising contribution from contracted solar and wind investments, and the proposed acquisition of Hawaiian Electric Industries (HEI). Absent a significant recovery in the

commodity environment, which Fitch is not expecting, the contribution from noncontracted generation assets and other nonregulated businesses will remain contained, in Fitch's opinion.

Regulated businesses composed approximately 60% of total adjusted EBITDA for NEE in 2014 and Fitch expects this proportion to sustain for the next several years. Within the nonregulated businesses, management's emphasis remains on long-term contracted renewable generation, specifically solar and wind. The adjusted EBITDA contribution from both regulated and contracted businesses at NEE was approximately 84% in 2014 and Fitch expects this to modestly increase to 85% over the next few years.

Constructive Regulation in Florida

Fitch views the current Florida regulatory environment for FPL as constructive and vastly improved from the highly politicized decision-making witnessed at the depths of the last recession. FPL was successful in securing a favorable rate order for its 2012 base rate case. The rate order, effective until December 2016, provides for regulatory certainty for four years. The authorized regulatory ROE is 10.5%, with a range of plus or minus 100 bps. FPL can seek rate relief if the regulatory ROE falls below 9.5% and can conversely be pulled into a rate review if the ROE exceeds 11.5%. FPL has the ability to amortize a depreciation reserve surplus of approximately \$224 million and fossil dismantlement reserve of \$176 million to keep the regulatory ROE within the band over the four-year period.

The rate order also provided for automatic adjustment to base rates to reflect FPL's three modernization projects (i.e. the completed Cape Canaveral and Riviera Beach projects, and Port Everglades, which is under construction). Fitch expects FPL to file a rate case in 2016 for new rates effective in January 2017.

High Regulated Capex

FPL's capex has been high over the last few years, mostly driven by new generation additions. As part of its fleet-modernization program, FPL constructed and placed into service the 1,210-MW Cape Canaveral and 1,212-MW Riviera Beach power plants in April 2013 and April 2014, respectively. FPL has also undertaken uprates at its nuclear facilities of St. Lucie and Turkey Point, which resulted in an incremental 522 MW of capacity at these units; the uprates were completed in 2013. Through a generation base rate adjustment mechanism, FPL has been able to receive rate recovery of its modernization projects without filing for a rate case. The nuclear uprate costs are being recovered through the nuclear clause and base rates.

Capex peaked in 2012 and has been moderating since, but is likely to pick up again. FPL has identified approximately \$13.9 billion–\$15.6 billion of capex in 2015–2018. FPL is targeting generation upgrades, a grid-modernization program and three solar photovoltaic projects (74 MW each) that are expected to be placed into service by the end of 2016. FPL has also issued a request for proposal for capacity need in 2019 and its self-build option includes a new natural gas-fired combined-cycle plant in Okeechobee County, FL.

FPL also acquired the coal-fired Cedar Bay facility for \$520 million in September 2015 to terminate a long-term power purchase agreement and phase out its utilization. Furthermore, the regulators approved FPL's petition to invest in natural gas reserves and recover costs associated with the investment through its fuel clause. FPL may invest up to \$500 million annually in future natural gas reserves. FPL is also in the process of obtaining a combined construction and operating license from the Nuclear Regulatory Commission for two additional nuclear units (2,200 MW) at its Turkey Point site.

Significant Non-Utility Capex

Management identified \$15.9 billion–\$17.5 billion of non-FPL capex over 2015–2018 at the beginning of the year, which included \$2.25 billion–\$2.45 billion of natural gas pipeline investments and \$1.10 billion–\$1.15 billion of regulated electric transmission investments. However, the bulk of the non-FPL capex reflected an expectation of 4,600 MW–5,100 MW of wind and solar development program at its indirect, wholly owned subsidiary, NEE Energy Resources (Energy Resources). In the second quarter earnings call, management increased its renewable development program by approximately 125 MW. A PTC extension could add additional 800 MW–1200 MW to the development pipeline.

The current terms of tax subsidies for wind and solar is pulling the construction of many projects forward into 2015–2016, increasing Energy Resources' capex spend and financing needs over the short term. While tax incentives currently improve the economic profile of projects, Fitch expects demand for wind and solar projects will remain elevated over the medium term, supported by environmental regulation and a competitive cost structure. Fitch views positively the expansion of this business line as it poses limited technology and construction risks while delivering a long stream of stable cash flows.

Contracted Wholesale Generation Limits Risk

The wholesale generation business within Energy Resources comprises a well-diversified fleet that has a lower risk than most of its merchant peers, in Fitch's opinion. Its geographic scope spans 25 states and four Canadian provinces, while its energy source on a generation basis was 42% wind, 28% nuclear, 27% natural gas, 2% solar and 1% other in 2014. The technology mix positions the company well to face upcoming environmental regulation and shifting society preferences. Earnings and cash flow visibility is also enhanced by the high proportion of assets — almost 70% — under long-term power sales agreements with remaining an average contract life of 15 years.

The outlook for NEE's noncontracted merchant assets is more challenging. Power prices remain depressed across the U.S., with little relief in sight given the anemic demand growth, robust reserve margins and depressed natural gas prices.

Prolonged Approval Process for HEI Acquisition

Fitch views the HEI acquisition as moderately positive for NEE, driven by a modest increase in earnings from regulated businesses, predominant use of equity to finance the acquisition, and attractive regulated investment opportunities at HEI's utility. Fitch's view is somewhat tempered by structural issues with the Hawaii service territory, with its excessive reliance on oil for power generation, high retail prices, increasing penetration of residential rooftop solar and need for significant capital investment to transition to cleaner fuel sources. This could put pressure on retail prices in the short to medium term. The transaction has been approved by HEI's shareholders and the Federal Energy Regulatory Commission (FERC), but remains subject to approval by the Hawaii Public Utilities Commission. The regulatory approval process is turning out to be more prolonged and challenging than Fitch's original expectation.

Difficult Environment for Yieldcos

Yieldco equities have come under tremendous pressure since summer 2015, challenging the industry's strategy of rapid growth through equity-funded dropdowns and acquisitions, as well as their fundamental purpose as a cheaper source of financing. Facing adverse financial

market conditions, NEP relied on NEE to fund \$700 million of equity ownership — proportionate to NEE's current ownership — in October 2015 to complete pending acquisitions, resulting in a modest consolidated leverage uptick.

NEP has been pursuing an aggressive growth strategy and dropdowns from NEE into NEP have occurred at an accelerated pace compared with Fitch's initial expectations. NEP's recent acquisition of seven natural gas pipelines in Texas adds welcomed diversification to its wind-heavy portfolio of assets, especially in the recent context of weather-induced, below average performance of wind projects. The pursuit of third-party acquisitions to drive growth at NEP, despite a large existing and healthy development pipeline of assets available at NEE for future dropdowns, is nonetheless a concern for Fitch.

Management, in its second-quarter earnings conference call, discussed the possibility of using non-amortizing debt to finance renewable assets, which is a departure from its traditional mode of project financings. Any permanent debt at NEP that replaces existing project debt would be credit negative for NEE's debtholders. The project debt is largely nonrecourse and Fitch believes NEP would walk away from a project if it became distressed.

Significant Dividend Increase

NEE announced a material increase in dividend with its second-quarter earnings release and is targeting a dividend payout ratio of 65% by 2018, down from 55% currently. Fitch considers dividends paid by utility holding companies as nondiscretionary use of cash, thus a material increase in dividend lowers the financial flexibility of the company. However, based on the current pipeline of investment opportunities at NEE, Fitch expects the company to have sufficient financial headroom to absorb the additional dividend without a material increase in leverage.

Stable Credit Metrics

NEE has improved its credit metrics significantly since 2012, when an unusually high pace of capex stretched the balance sheet. Adjusted FFO leverage was 3.7x at LTM June 30, 2015, compared with a peak of 4.8x in 2012. Adjusted debt to EBITDAR similarly improved to 3.7x from 5.4x over the same period. Fitch expects NEE's credit metrics to remain relatively stable over the rating horizon, with the assumption that management pursues a balanced approach to fund its numerous expansion initiatives. The limited capital market access for yieldcos currently constrains NEE's ability to recycle capital via sell-down of assets into NEP.

Given the elevated level of forecast capex, management's emphasis on strengthening credit metrics is warranted to maintain the current level of ratings. Through a series of equity issuances, management has consistently improved the balance sheet, which became stressed in 2012. Management has reinforced its commitment to credit ratings in its public comments, and Fitch expects NEE to meet the targeted credit metrics on a consistent basis.

Treatment of Nonrecourse Debt

NEE's credit metrics, as reported, have historically shown more leverage than a median 'A-' financial profile for a utility or parent holding company. A large portion of Energy Resources' generation portfolio is project financed with debt that has limited or no corporate recourse. However, these projects tend to be highly leveraged, with a typically low investment-grade profile, which weakens the consolidated leverage metrics for NEE. In Fitch's view, a better way to analyze NEE's metrics is to deconsolidate a majority of the project-financed entities and only

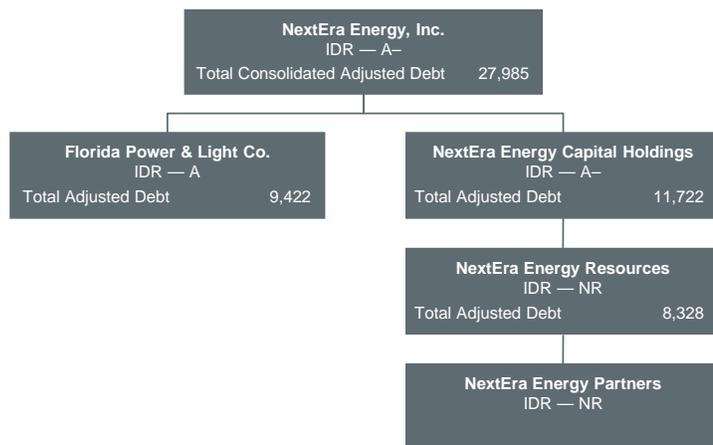
include the upstream distribution from these entities in NEE’s credit analysis. The off-credit treatment to the limited recourse debt at Energy Resources reflects Fitch’s assumption that NEE would walk away from these projects in the event of financial deterioration, including those projects where a differential membership interest has been sold. These projects typically comprise wind, solar and fossil assets. Nonrecourse debt associated with entities such as Lone Star Transmission (Lone Star) is not deconsolidated and NEP is proportionally consolidated.

NEE’s credit metrics look stronger in the alternative rating case. FFO fixed-charge coverage remains above 7.5x over the forecast period and FFO-adjusted leverage is forecast to improve to 3.0x by 2018 under this scenario.

Organizational Structure

The Issuer Default Rating (IDR) of Capital Holdings is equalized with that of NEE due to the full, irrevocable and unconditional guarantee from NEE. Fitch deems the rating linkage between NEE and FPL as strong, given the strategic importance of FPL in the overall portfolio and common financial ties. However, FPL’s authorized regulatory capital structure and covenants in its debt indentures limit the cash distributions to NEE and provide for a one-notch differential between NEE’s and FPL’s IDRs.

Organizational and Debt Structure — NextEra Energy, Inc.
 (\$ Mil., As of June 30, 2015)



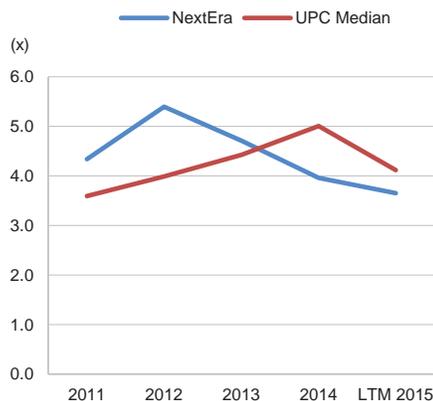
IDR – Issuer Default Rating. NR – Not rated.
 Source: Company reports, Fitch analysis.

Key Metrics

Definitions

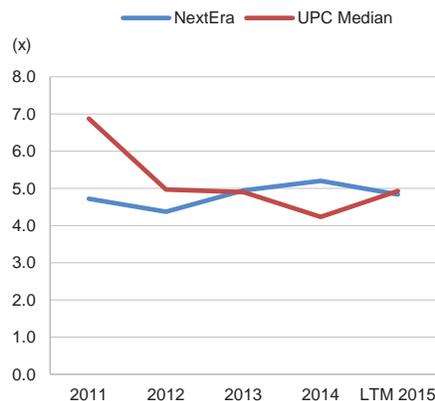
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Operating EBITDAR



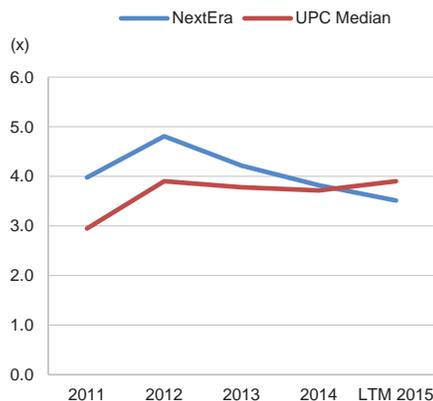
UPC – Utility parent company.
 Source: Company data, Fitch.

FFO Fixed-Charge Coverage



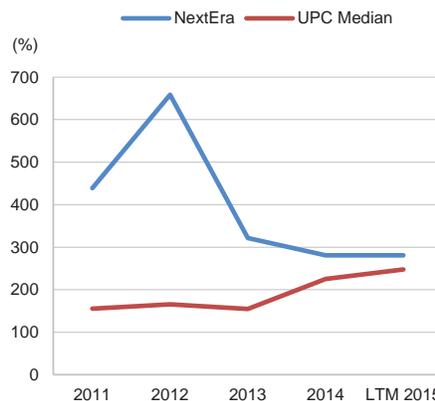
UPC – Utility parent company.
 Source: Company data, Fitch.

FFO-Adjusted Leverage



UPC – Utility parent company.
 Source: Company data, Fitch.

Capex/Depreciation



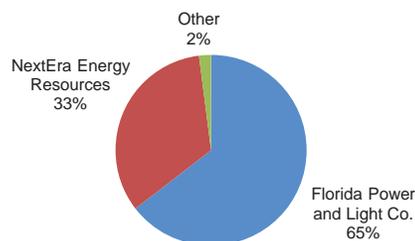
UPC – Utility parent company.
 Source: Company data, Fitch.

Company Profile

NEE is a public utility holding company with over 42,000 MW in generating capacity. Its largest subsidiary is FPL, an integrated regulated utility in Florida with about 4.8 million customer accounts and 25,100 MW of generating capacity. The other primary subsidiary is Capital Holdings, which wholly owns Energy Resources, a wholesale generator of electric power with a portfolio of about 19,800 MW of capacity, with an emphasis on wind and solar projects. Capital Holdings also has approximately 80% ownership in NEP, a growth-oriented limited partnership focused on owning contracted energy projects.

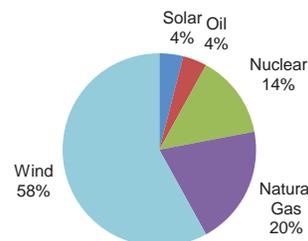
NEE also owns NextEra Energy Transmission, which owns transmission utilities and projects outside Florida, including Lone Star, a regulated transmission company in Texas. Another growth area for NEE is the regulated gas pipeline business. NEE plans to invest close to \$1 billion in Sabal Trail Pipeline, which will be regulated by the FERC and is expected to be in service in mid-2017. Other pipeline investments include Florida Southeast Connection, in which NEE plans to invest \$500 million, and Mountain Valley Pipeline, in which NEE will invest \$1.0 billion–\$1.3 billion.

EBITDA per Business Segment
 (As of Dec. 31, 2014)



Source: Company data, Fitch.

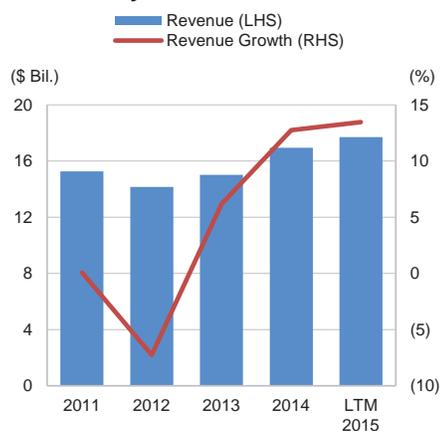
2014 Energy Resources' Generation Mix (MW)



Source: Company data, Fitch.

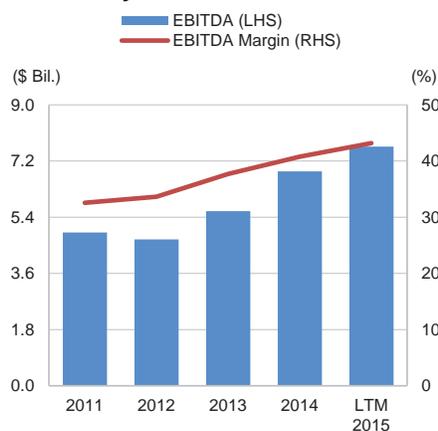
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.



Corporates

Financial Summary — NextEra Energy, Inc.

(\$ Mil., As of June 30, 2015; IDR: A-/Rating Outlook Stable)	2011	2012	2013	2014	LTM 6/30/15
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.3	3.9	4.4	5.0	5.8
FFO Fixed-Charge Coverage (x)	4.7	4.4	4.9	5.2	5.7
Total Adjusted Debt/Operating EBITDAR (x)	4.3	5.4	4.7	4.0	3.7
FFO/Total Adjusted Debt (%)	25.2	20.8	23.7	26.2	27.2
FFO-Adjusted Leverage (x)	4.0	4.8	4.2	3.8	3.7
Common Dividend Payout (%)	47.8	52.5	58.8	51.2	45.2
Internal Cash/Capex (%)	46.7	30.7	58.3	59.6	60.8
Capex/Depreciation (%)	438.7	658.4	321.7	281.1	280.9
ROE (%)	13.1	12.3	11.2	13.0	14.6
Profitability					
Revenues	15,260	14,152	15,028	16,945	17,702
Revenue Growth (%)	0.1	(7.3)	6.2	12.8	13.5
Net Revenues	9,004	9,031	10,070	11,343	12,191
Operating and Maintenance Expense	3,002	3,155	3,194	3,149	3,160
Operating EBITDA	4,915	4,690	5,596	6,870	7,661
Operating EBITDAR	4,915	4,690	5,596	6,870	7,661
Depreciation and Amortization Expense	1,511	1,437	2,077	2,496	2,701
Operating EBIT	3,404	3,253	3,519	4,374	4,960
Gross Interest Expense	1,135	1,204	1,266	1,368	1,332
Net Income for Common	1,923	1,911	1,908	2,465	2,909
Operating Maintenance Expense % of Net Revenues	33	35	32	28	26
Operating EBIT % of Net Revenues	38	36	35	39	41
Cash Flow					
Cash Flow from Operations	4,018	3,911	5,016	5,445	5,929
Change in Working Capital	(207)	(149)	24	(306)	(346)
Funds from Operations	4,225	4,060	4,992	5,751	6,275
Dividends	(920)	(1,004)	(1,122)	(1,261)	(1,314)
Capex	(6,628)	(9,461)	(6,682)	(7,017)	(7,587)
FCF	(3,530)	(6,554)	(2,788)	(2,833)	(2,972)
Net Other Investment Cash Flow	145	533	559	656	577
Net Change in Debt	2,279	5,079	1,255	755	308
Net Equity Proceeds	139	1,194	1,290	1,611	2,199
Capital Structure					
Short-Term Debt	1,349	1,411	691	1,142	1,771
Total Long-Term Debt	19,954	23,883	25,672	26,062	26,214
Total Debt with Equity Credit	21,303	25,294	26,363	27,204	27,985
Total Adjusted Debt with Equity Credit	21,303	25,294	26,363	27,204	27,985
Total Hybrid Equity and Minority Interest	1,177	1,627	1,677	1,741	1,752
Total Common Shareholders' Equity	14,943	16,068	18,040	19,916	21,338
Total Capital	37,423	42,989	46,080	48,861	51,075
Total Debt/Total Capital (%)	56.9	58.8	57.2	55.7	54.8
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.1	3.8	3.6	3.6	3.4
Common Equity/Total Capital (%)	39.9	37.4	39.1	40.8	41.8

IDR – Issuer Default Rating.
Source: Company data, Fitch.



Global Credit Portal[®]

RatingsDirect[®]

April 24, 2012

Summary:

Florida Power & Light Co.

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Rationale

Outlook

Related Criteria And Research

Summary:

Florida Power & Light Co.

Credit Rating: A-/Stable/A-2

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 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 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 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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April 24, 2012

Florida Power & Light Co.

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Florida Power & Light Co.

Major Rating Factors

Strengths:

- High-quality electric utility that generates steady earnings and cash flows;
- Active efforts by the parent to sustainably reduce commodity price risk exposure in highly diversified unregulated activities at the parent;
- Low regulatory risk in Florida and relatively strong service territory with good customer growth prospects and a predominantly residential and commercial base.

Corporate Credit Rating

A-/Stable/A-2

Weaknesses:

- Aggressive capital spending plans that stress financial metrics;
- Dependence on natural gas to generate electricity in Florida; and
- Higher-risk operations and less dependable cash flows from merchant generation, energy trading, and other unregulated activities.

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Accounting

NextEra's and FP&L's financial statements are prepared under U.S. generally accepted accounting principles and audited by independent auditors Deloitte & Touche LLP, which issued an unqualified opinion. NextEra employs regulatory accounting under Statement of Financial Accounting Standards No. 71 for regulated utility FP&L, which permits the company to defer recognition of certain revenues and expenses in accordance with future probable regulatory decisions. As of Dec. 31, 2011, NextEra had about \$1.8 billion of regulatory assets and \$4.3 billion of regulatory liabilities on a balance sheet that contained \$57 billion of total assets. It is uncommon for a utility to have greater regulatory liabilities than assets.

NextEra relies on tax incentives, including direct tax credits, in NER's project development efforts. Tax credits underpin the economics of the projects, and NextEra guarantees the payment of production tax credits to projects that have been funded by third parties in project financings. Deferred tax assets, in the form of carryforwards of tax credits and net operating losses, have been growing at an accelerated rate on NextEra's balance sheet, totaling about \$2.1 billion in 2011. To realize these tax benefits, the company must, among other things, continue to produce growing taxable income to use the carryforwards. If the deferred tax asset grows unabated, we could make an analytical adjustment in our metric calculation if we eventually conclude that the company is unlikely to fully realize the tax benefit.

In analyzing the company's financial profile, Standard & Poor's makes several off-balance-sheet adjustments that are shown in the reconciliation table below. We treat NER's fossil-fuel-based projects as nonessential to the company's strategy. We remove the nonrecourse debt and related interest in our adjusted numbers. However, we consider the renewables portfolio to be an integral part of its growth strategy, so we deconsolidate only 75% of related nonrecourse project debt and interest in our adjustments. In addition, we remove associated effects on the

reported income and cash flow statements and replace them with the pro rata share of actual distributable cash flow of the projects. Credit metrics fully reflect debt related to projects under construction and subject to completion guarantees. As of year-end 2011, we removed approximately \$4 billion of nonrecourse debt from the balance sheet.

Other adjustments include a reduction in debt and interest expense for storm recovery bonds issued to securitize hurricane damage costs (which the company services through a separate, non-bypassable, legislatively mandated rate mechanism) and adjustments to reflect the equity treatment on hybrid debt securities in accordance with our criteria on hybrid capital. We add about \$166 million of a debt-like obligation to the balance sheet to quantitatively capture the risks associated with proprietary trading activities. Also, we regard purchased-power agreements as fixed obligations and assign a portion of the value of the payments based on the risk factor as debt and impute an associated interest charge in calculating the adjusted coverage ratios. We use a 25% risk factor, reflecting the recovery of these costs through an adjustment clause, and apply a discount rate equal to the utility's average cost of debt to the fixed capacity payments. We impute a debt-like obligation of approximately \$950 million to the balance sheet.

Rating Methodology

We base our ICRs on NextEra, FP&L, and Holdings on the consolidated credit profile of the entire NextEra conglomerate of companies, which is almost equally influenced by the utility and unregulated energy operations. We rate the unsecured debt at Holdings, which is unconditionally guaranteed by the parent and is effectively holding company debt, one notch below the ICR because of structural subordination. Although Holdings' debtholders would have access to assets apart from the utility in liquidation, we apply strict notching guidelines because of the extensive use of project-level debt and the complexity of the financing arrangements throughout Holdings. We rate the first mortgage bonds at FP&L one notch above the ICR in accordance with the recovery analysis detailed above.

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

Table 1

NextEra Energy Inc. -- Peer Comparison					
Industry Sector: Energy					
	NextEra Energy Inc.	Entergy Corp.	Dominion Resources Inc.	Public Service Enterprise Group Inc.	Exelon Corp.
Rating as of April 24, 2012	A-/Stable/--	BBB/Negative/--	A-/Stable/A-2	BBB/Positive/A-2	BBB/Stable/A-2
--Average of past three fiscal years--					
(Mil. \$)					
Revenues	15,119.7	11,082.1	14,902.3	11,423.0	17,904.0
EBITDA	4,396.8	3,529.7	4,699.9	3,731.9	6,734.6

Table 1

NextEra Energy Inc. -- Peer Comparison (cont.)					
Net income from cont. oper.	1,824.5	1,296.2	1,886.0	1,514.3	2,588.0
Funds from operations (FFO)	3,897.7	3,171.3	3,299.8	2,788.6	5,912.1
Capital expenditures	3,948.2	2,707.2	3,601.2	1,979.6	3,700.0
Free operating cash flow	(58.2)	517.1	(495.7)	977.0	2,013.5
Dividends paid	920.8	600.3	1,150.5	686.3	1,396.5
Discretionary cash flow	(979.0)	(83.2)	(1,646.2)	290.7	617.0
Cash and short-term investments	305.7	1,232.8	70.7	469.6	1,556.0
Debt	15,887.2	13,687.4	19,263.1	8,858.2	18,717.7
Preferred stock	1,427.5	150.4	996.6	26.7	198.0
Equity	15,918.8	8,840.8	12,637.4	9,380.4	13,728.3
Debt and equity	31,806.0	22,528.2	31,900.5	18,238.6	32,446.0
Adjusted ratios					
EBITDA margin (%)	29.1	31.9	31.5	32.7	37.6
EBIT interest coverage (x)	3.9	3.2	3.6	6.5	5.7
Return on capital (%)	7.8	8.7	10.5	14.3	14.1
FFO int. cov. (X)	6.7	4.5	4.1	6.7	7.2
FFO/debt (%)	24.5	23.2	17.1	31.5	31.6
Free operating cash flow/debt (%)	(0.4)	3.8	(2.6)	11.0	10.8
Discretionary cash flow/debt (%)	(6.2)	(0.6)	(8.5)	3.3	3.3
Net cash flow/capex (%)	75.4	95.0	59.7	106.2	122.0
Debt/EBITDA (x)	3.6	3.9	4.1	2.4	2.8
Total debt/debt plus equity (%)	50.0	60.8	60.4	48.6	57.7
Return on capital (%)	7.8	8.7	10.5	14.3	14.1
Return on common equity (%)	12.5	13.8	15.7	16.5	19.5
Common dividend payout ratio (un-adj.) (%)	45.8	46.2	53.3	45.4	58.2

Table 2

NextEra Energy Inc. -- Financial Summary					
Industry Sector: Energy					
--Fiscal year ended Dec. 31--					
	2011	2010	2009	2008	2007
Rating history	A-/Stable/--	A-/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. \$)					
Revenues	14,926.7	15,009.0	15,423.4	15,983.2	14,861.5
EBITDA	4,199.8	4,804.3	4,186.3	3,882.5	3,281.7
Net income from continuing operations	1,923.0	1,935.5	1,615.0	1,436.2	1,263.3
Funds from operations (FFO)	3,817.2	3,596.3	4,279.6	3,185.5	3,558.6
Capital expenditures	5,937.4	2,970.2	2,937.2	2,273.2	1,875.9
Dividends paid	1,022.3	905.0	835.1	772.5	700.1
Debt	17,943.5	15,214.5	14,503.5	13,798.8	10,770.2

Table 2

NextEra Energy Inc. -- Financial Summary (cont.)					
Preferred stock	1,929.5	1,176.5	1,176.5	1,005.0	1,004.5
Equity	16,872.5	16,390.5	14,493.5	12,686.0	11,739.5
Debt and equity	34,816.0	31,605.0	28,997.0	26,484.8	22,509.7
Adjusted ratios					
EBITDA margin (%)	28.1	32.0	27.1	24.3	22.1
EBIT interest coverage (x)	3.8	4.4	3.5	3.5	3.2
FFO int. cov. (x)	6.3	6.4	7.4	5.8	6.3
FFO/debt (%)	21.3	23.6	29.5	23.1	33.0
Discretionary cash flow/debt (%)	(18.7)	(0.1)	3.0	1.4	9.2
Net cash flow/capex (%)	47.1	90.6	117.3	106.2	152.4
Debt/debt and equity (%)	51.5	48.1	50.0	52.1	47.8
Return on capital (%)	7.2	8.6	7.5	8.3	8.4
Return on common equity (%)	12.0	13.5	12.1	11.7	11.5
Common dividend payout ratio (un-adj.) (%)	47.8	42.5	47.4	50.3	51.8

Table 3

Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)										
--Fiscal year ended Dec. 31, 2011--										
NextEra Energy Inc. reported amounts										
	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	22,967.0	14,943.0	15,341.0	4,996.0	3,378.0	1,035.0	4,074.0	4,074.0	920.0	6,004.0
Standard & Poor's adjustments										
Equity-like hybrids	(753.0)	753.0	--	--	--	(20.3)	20.3	20.3	20.3	--
Intermediate hybrids reported as debt	(1,176.5)	1,176.5	--	--	--	(82.0)	82.0	82.0	82.0	--
Postretirement benefit obligations	--	--	--	(121.0)	(121.0)	--	52.7	52.7	--	--
Capitalized interest	--	--	--	--	--	124.0	(124.0)	(124.0)	--	(124.0)
Share-based compensation expense	--	--	--	49.0	--	--	--	--	--	--
Nonrecourse debt	(3,993.0)	--	(343.0)	(343.0)	(343.0)	(343.0)	--	--	--	--
Securitized utility cost recovery	(487.0)	--	(71.3)	(71.3)	(26.3)	(26.3)	(45.0)	(45.0)	--	--
Power purchase agreements	922.0	--	--	105.1	47.8	47.8	57.4	57.4	--	57.4
Reclassification of nonoperating income (expenses)	--	--	--	--	211.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	207.0	--	--

Table 3

Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$) (cont.)										
US decommissioning fund contributions	--	--	--	--	--	--	(92.0)	(92.0)	--	--
Debt - Accrued interest not included in reported debt	464.0	--	--	--	--	--	--	--	--	--
EBITDA - Other	--	--	--	(415.0)	(415.0)	--	--	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	51.0	--	--	--	--	--
FFO - Other	--	--	--	--	--	--	(415.0)	(415.0)	--	--
Total adjustments	(5,023.5)	1,929.5	(414.3)	(796.2)	(595.5)	(299.7)	(463.8)	(256.8)	102.3	(66.6)
Standard & Poor's adjusted amounts										
	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	17,943.5	16,872.5	14,926.7	4,199.8	2,782.5	735.3	3,610.2	3,817.2	1,022.3	5,937.4

Ratings Detail (As Of April 24, 2012)	
Florida Power & Light Co.	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Corporate Credit Ratings History	
11-Mar-2010	A-/Stable/A-2
14-Jan-2010	A/Watch Neg/A-1
26-Oct-2006	A/Stable/A-1
Business Risk Profile	
	Excellent
Financial Risk Profile	
	Intermediate
Debt Maturities	
(For parent)	
2012: \$808 mil.	
2013: \$2.4 bil.	
2014: \$2.0 bil.	
2015: \$1.8 bil.	
2016: \$695 mil.	
Related Entities	
FPL Group Capital Trust I	
Preferred Stock	BBB
NextEra Energy Capital Holdings Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BBB
Senior Unsecured	BBB+

Ratings Detail (As Of April 24, 2012) (cont.)

NextEra Energy Inc.

Issuer Credit Rating

A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.



RatingsDirect®

Summary:

Florida Power & Light Co.

Primary Credit Analyst:

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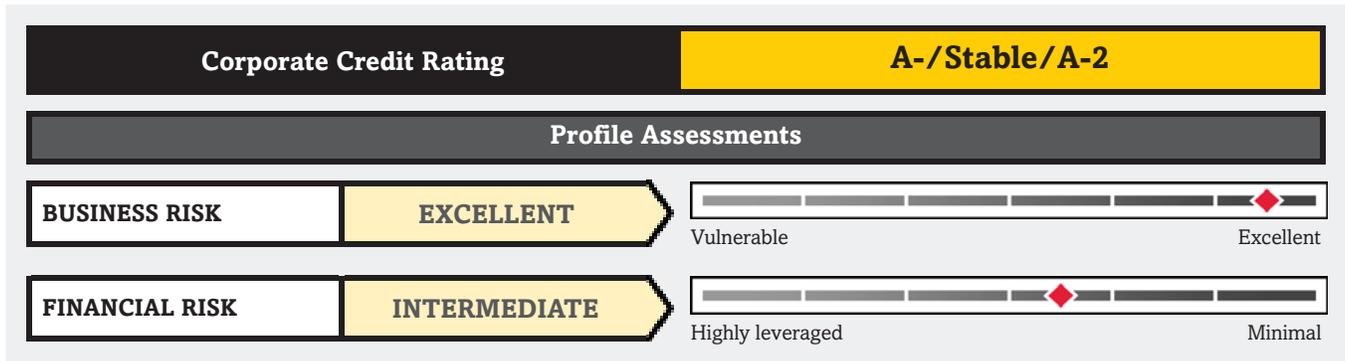
Liquidity

Recovery Analysis

Related Criteria And Research

Summary:

Florida Power & Light Co.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
<ul style="list-style-type: none"> • High-quality electric utility that generates steady earnings and cash flows • Low regulatory risk in Florida • Relatively strong service territory with good customer growth prospects and a predominantly residential and commercial base • Unregulated merchant energy activities at parent detract from consolidated business risk profile despite active efforts to reduce commodity price risk • Diversification in and among parent's competitive energy businesses offsets some of the weakness they bring to the credit profile • Aggressive capital spending plans depress financial measures • Dependence on natural gas to generate electricity in Florida could raise regulatory risk in a rising price environment 	<ul style="list-style-type: none"> • Credit measure only marginally support our assessment of the financial risk profile, but we project improvement • High capital spending and substantial common dividends create a persistent condition of negative discretionary cash flow that highlights reliance on external funding

Outlook: Stable

Our rating outlook on NextEra Energy Inc. (NextEra) and subsidiaries is stable and reflects a business profile that is almost equally affected by higher-risk merchant energy activities and a utility that presents a better credit profile than its peers. We would consider a lower rating if regulatory risk worsened, operational efficiency deteriorated, investment decisions demonstrated a shift in risk appetite, or financial performance declined due to fundamental changes in the Florida economy or merchant energy markets. We would consider a higher rating if a strengthened balance sheet supported durably improved credit measures and were accompanied by further steps to reduce exposure to higher-risk business activities.

We also base the stable outlook in part on Standard & Poor's baseline forecast that NextEra will experience improved bondholder protection measures, attaining adjusted funds from operations (FFO) to debt approaching 20% and adjusted debt to capital of about 52% over the near term, with modest improvement thereafter. Although year-to-year fluctuations in weather (including hurricanes), fuel cost recovery, and burdensome spending on renewables projects could temporarily affect measures, 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 measures.

Downside scenario

We could lower ratings if financial measures do not improve and we think they will remain resiliently at less-supportive levels, including a FFO to debt ratio of less than 20%.

Upside scenario

We could raise ratings if cash flow measures considerably improve, such as FFO to debt of 25% on a sustained basis. In addition, we would expect debt to EBITDA of less than 3x and debt leverage of less than 50%.

Standard & Poor's Base-Case Scenario

Our base case scenario is based on healthy EBITDA growth from both sides of the business, growing capital spending, and stable debt leverage.

Assumptions	Key Metrics																		
<p>Mid-single-digit base (excludes rate rider recovery) growth in EBITDA for the next three years</p> <p>Timely cost recovery through various rate surcharge mechanisms that helps Florida Power & Light Co. (FPL) achieve returns in the high end of the authorized range.</p> <p>High dividend and capital spending that results in negative discretionary cash flow, resulting in external funding requirements</p> <p>Annual capital spending forecasted to average \$6 billion over next three years</p>	<table border="1"> <thead> <tr> <th></th> <th>2012A</th> <th>2013E</th> <th>2014E</th> </tr> </thead> <tbody> <tr> <td>FFO/Debt</td> <td>18.7%</td> <td>20%-22%</td> <td>22%-25%</td> </tr> <tr> <td>Debt/EBITDA</td> <td>5.1x</td> <td>4x-5x</td> <td>4x-4.5x</td> </tr> <tr> <td>Total Debt/Total Capital</td> <td>52.7%</td> <td>52%-54%</td> <td>50%-52%</td> </tr> </tbody> </table>		2012A	2013E	2014E	FFO/Debt	18.7%	20%-22%	22%-25%	Debt/EBITDA	5.1x	4x-5x	4x-4.5x	Total Debt/Total Capital	52.7%	52%-54%	50%-52%	<p>Standard & Poor's adjusted consolidated financial ratios for NextEra include adjustments for nonrecourse debt, hybrid securities, long-term purchased power obligations, operating leases, pension-related items, accrued interest not included in reported debt, and asset retirement obligations. We also consider in our credit analysis, but do not publish, confidential adjustments to cash flow measures that account for the difference between the estimated distributions derived from projects with nonrecourse debt and the accounting-based cash flow measures related to those projects. A--Actual. E--Estimate.</p>	
	2012A	2013E	2014E																
FFO/Debt	18.7%	20%-22%	22%-25%																
Debt/EBITDA	5.1x	4x-5x	4x-4.5x																
Total Debt/Total Capital	52.7%	52%-54%	50%-52%																

Business Risk: Excellent

A mix of regulated and unregulated energy operations

FPL's credit fundamentals 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 long-standing pillars were shaken a few years ago as Florida, and the FPL service territory in particular, suffered during the recession, and regulators responded in ways that reflected greater political influence over regulatory decisions. Actions to rebuild its regulatory risk profile have been effective, and we now regard the regulatory status quo as almost fully restored.

FPL 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, the company has now positioned the utility for improved financial performance, especially its cash-based credit measures, amid a stabilized regulatory environment and an actively managed effort to reduce regulatory risk. A December 2012 rate decision, a product of a settlement among most major intervenors, authorizes higher base rates through the end of 2016 and discrete rate increases for major generation additions (offset by fuel savings). We project that FPL will be able to earn equity returns over the four-year agreement that approach the upper end of the authorized 9.5%-to-11.5%, with a greater proportion of those returns in cash despite the need to amortize purported excess depreciation reserves over this time.

Reflected in the business risk profile is our assessment of the company's management and governance as

"satisfactory". We expect management to execute its strategy to expand both utility and merchant operations in a credit-supportive manner that helps maintain our business risk profile assessment.

Financial Risk: Intermediate

Large capital expenditures and improving measures

We call the consolidated financial risk profile "intermediate", reflecting adjusted financial measures that are in line with the rating. This assessment incorporates large capital expenditures. We consider the company's financial policies to be aggressive. The complicated balance sheet contributes to a moderately opaque financial picture that requires extensive adjustments and judgments to accurately assess financial risk. Elevated capital spending and dividend payments translate to negative discretionary cash flow over the forecast period, requiring management to maintain financial discipline and vigilant cost control to maintain cash flow measures. The negative discretionary cash flow also points to external funding needs. Adjusted credit measures in current economic and market conditions support the intermediate financial profile. We expect the adjusted measures to dip slightly in the near term and then return to historical levels, including FFO to debt of more than 20% and debt to capitalization about 50%.

Liquidity: Adequate

Liquidity, measured on a consolidated basis, is considered "adequate" under our liquidity methodology. We expect liquidity sources over the next 12 months will exceed its uses by more than 1.2x. We expect NextEra will need to access the capital markets over the next few years to meet its liquidity needs, particularly for debt maturities and capital spending. In our assessment, NextEra has good relationships with its banks and has a good standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • FFO of about \$5 billion for the next 12 months • Assumed credit facility availability of about \$4.9 billion for the next 12 months • Working capital and cash of \$300 million for the next 12 months 	<ul style="list-style-type: none"> • Debt maturities of about \$2.8 billion for the next 12 months • Capital spending of at least \$4.2 billion for the next 12 months • Cash dividends of \$1.1 billion for the next 12 months

Covenant Analysis

As of Dec. 31, 2012, the company had an adequate cushion of compliance with its one financial covenant (debt to total capitalization at or below a stated ratio). Headroom could erode if debt rises rapidly without adequate growth in equity during this capital spending phase.

Recovery Analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property", published Feb. 14, 2013)

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (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 in the future.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.

FPL'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+ and an issue rating one notch above the CCR.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.



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Summary:

Florida Power & Light Co.

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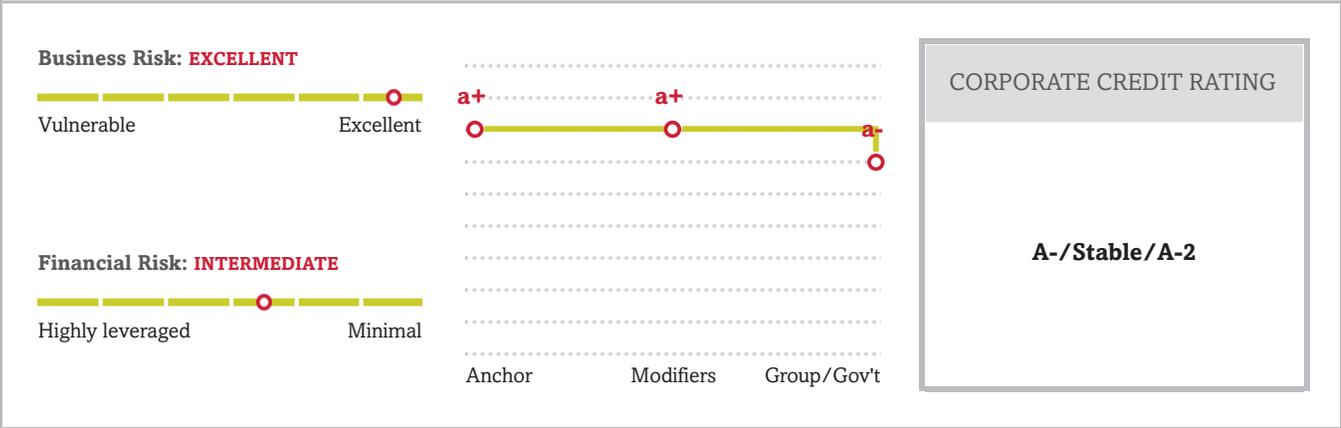
Ratings Score Snapshot

Recovery Analysis/Issue Ratings

Related Criteria And Research

Summary:

Florida Power & Light Co.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
<ul style="list-style-type: none"> Regulated utility operations under generally constructive regulatory framework. Large service territory with above-average growth but lacking geographic and regulatory diversity. Efficient operations with material exposure to gas-fired generation. Exposure to severe weather events that can strain liquidity and present operating challenges. 	<ul style="list-style-type: none"> Core credit ratios support an "intermediate" financial risk profile assessment. Large capital spending program with predictable recovery.

Outlook: Stable

The outlook on Florida Power & Light Co. (FPL) is stable and is based on the outlook of its parent, NextEra Energy Inc. (NEE). The stable rating outlook on NextEra and its subsidiaries, Florida Power & Light Co. and NextEra Energy Capital Holdings Inc., reflects our expectation that the company will preserve its "strong" business risk profile while ensuring that its financial risk profile remains well within the "intermediate" category at all times, albeit toward the lower end of the category. The stable outlook is also predicated on the company effectively managing its growth and capital spending so that regulated operations continue to contribute about 60% of operating income. Finally, the stable outlook anticipates that NextEra will fund the proposed merger with Hawaiian Electric Industries in a credit-neutral manner, while receiving approval to close the merger without any restrictive regulatory provisions or requirements.

Downside scenario

We could lower the ratings on NextEra and its subsidiaries if financial performance weakens, with funds from operations (FFO) to debt that declines to less than 25% on a consistent basis, absent any reduction of business risk. Moreover, we could lower the ratings on NextEra if business risk increases through the growing contribution of unregulated operations or unfavorable regulatory outcomes.

Upside scenario

Under our base-case scenario, we do not anticipate raising the ratings on NextEra and its subsidiaries in the next 12 to 24 months, given the company's business risk profile and expected level of financial performance.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> We assume that FPL's gross margins grow by an average of 4% to 6% annually, reflecting recovery of invested capital and the impact of load/customer growth. Capital spending of about \$3.5 billion in 2015, about \$4 billion in 2016, and about \$3.6 billion in 2017. 		2014A	2015E	2016E
	FFO/debt (%)	34.1	34-35	34-35
	Debt/EBITDA (x)	2.4	2-2.5	2-2.5
	OCF/debt (%)	31.1	34-35	34-35
A--Actual. E—Estimate. FFO—Funds from operations. OCF—Operating cash flow.				

Business Risk: Excellent

We assess FPL's business risk profile as "excellent," accounting for the company's regulated utility operations that benefit from a constructive regulatory framework, which provides for timely investment and fuel cost recovery. FPL has historically managed its regulatory risk effectively, resulting in earned returns that are consistently close to or at

the authorized levels. The service territory is large and lacks geographic and regulatory diversity. FPL's customer base is large, with no meaningful industrial exposure and above-average growth. The company has material exposure to natural gas-fired generation, which, in combination with low natural gas prices and the company's efficient operations, contributes to overall competitive rates for its customers.

Financial Risk: Intermediate

We assess FPL's financial risk profile as being in the "intermediate" category using the medial volatility financial ration benchmarks. Under our base-case scenario we expect that FPL's financial profile will benefit largely from recovery of invested capital and load/customer growth, with FFO to debt that averages about 33% over the next few years and debt to EBITDA that remains consistently below 2.5x.

FPL's "excellent" business and "intermediate" financial risk profiles lead to an anchor of 'a+/'a'. We select the 'a+' anchor because we view FPL's business risk profile as being at the upper end of the "excellent" category, relative to its peers.

Liquidity: Adequate

Because we view FPL as a "core" subsidiary of NextEra, we assess its liquidity on a consolidated basis with that of its parent. We assess NextEra's liquidity as "adequate" to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an "adequate" designation under our criteria and that the company will also meet our other criteria for such a designation.

NextEra has \$7.85 billion in revolving credit facilities, with \$1.25 billion maturing in 2016 and the balance maturing in 2020. In addition, the company has a \$270 million revolving credit facility and a \$650 million letter-of-credit facility.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none">Available credit facilities total about \$7.5 billion; andFFO of \$6.8 billion to \$7 billion annually.	<ul style="list-style-type: none">Debt maturities and outstanding commercial paper totaling about \$4.7 billion in 2015 and debt maturities of about \$1.3 billion in 2016;Maintenance capital spending of about \$5.5 billion in 2015 and about \$6.7 billion in 2016; andDividends of about \$1.4 billion to \$1.6 billion annually.

Other Credit Considerations

Our assessment of modifiers does not affect the anchor score.

Group Influence

FPL is subject to our group rating methodology criteria. We assess FPL as a "core" subsidiary of NextEra because it is highly unlikely to be sold, is integral to the group's overall strategy, possesses significant management commitment, is a significant contributor to the group, and is closely linked to the parent's reputation. As a result, the issuer credit rating on FPL is 'A-', in line with the 'a-' group credit profile of NextEra.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** a-
- **Entity status within group:** Core (-2 notches from SACP)

Recovery Analysis/Issue Ratings

We assign recovery ratings to first-mortgage bonds (FMB), which, depending on the rating category and the extent of the collateral coverage, can result in issue ratings being notched above a corporate credit rating on a utility. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for '1+' And '1' Recovery Ratings on Senior Bonds Secured

by Utility Real Property," published Feb. 14, 2013).

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (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 SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed an issuer credit rating 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, depending on the calculated ratio.

FPL's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 3x supports a recovery rating of '1+' and an issue rating one notch above the ICR.

We rate FPL's commercial paper program 'A-2', accounting for the issuer credit rating on the company and our assessment of consolidated liquidity as "adequate".

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+ / a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+ / a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-



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Research Update:

NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

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Research Update:

NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

Overview

- NextEra Energy Inc. (NextEra) has announced that it has entered into an agreement to acquire Hawaiian Electric Industries Inc. (HEI) in a stock for stock transaction. As part of the transaction, HEI will spin off its banking operations, American Savings Bank FSB Honolulu HI (ASB), to existing shareholders by the close of the transaction.
- We are affirming the 'A-' issuer credit rating on NextEra and its subsidiaries, Florida Power & Light Co. and NextEra Energy Capital Holdings, Inc. The outlook remains stable.
- We are placing the 'BBB-' issuer credit rating on HEI and Hawaiian Electric Co. (HECO) on CreditWatch with positive implications.
- The outlook on NextEra is stable, reflecting our expectation that the company will preserve its "strong" business risk profile while ensuring that its financial risk profile remains well within the "intermediate" category at all times.

Rating Action

On Dec. 4, 2014, Standard & Poor's Ratings Services affirmed its issuer credit ratings on NextEra and its subsidiaries, Florida Power & Light Co. and NextEra Energy Capital Holdings Inc., while maintaining the stable outlook. At the same time, we placed our issuer credit ratings on Hawaiian Electric Industries Inc. and Hawaiian Electric Co. on CreditWatch with positive implications. The rating actions follow NextEra's announcement that it has entered into an agreement to acquire Hawaiian Electric Industries while spinning off that company's banking operations by the close of the transaction.

Rationale

NextEra has entered into an agreement to acquire HEI in a stock for stock transaction while assuming HEI's existing debt obligations totaling about \$1.7 billion. HEI's bank operations are to be spun off by the close of the transaction, which we expect could be by year-end 2015.

We are affirming the ratings on NextEra based on the company's strong business and intermediate financial risk profiles. Our assessment of NextEra's business risk profile incorporates the impact of HEI upon the close of the transaction. We view the addition of HEI as modestly enhancing NextEra's currently "strong"

*Research Update: NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On
Watch Positive On Acquisition*

business risk profile, without moving it to the "excellent" business risk profile category. This is because HEI's credit profile is considerably weaker than NextEra's; HEI's contribution to NextEra's operating income and cash flow will remain modest; and finally, because we view HEI as needing considerable support in order to improve its regulatory and operational performance and track record. Although there is potential for HEI to benefit from its affiliation with NextEra, we also think that any such improvements are likely to occur over time, especially given NextEra's lack of operating experience in Hawaii and the jurisdiction's historically challenging regulatory and operating environment. We view the proposed spinoff of HEI's banking operations as a neutral development regarding NextEra's business risk profile. Under the proposed transaction, ASB will be spun off to existing HEI shareholders by the close of the transaction.

In light of the level of NextEra's investment in HEI, NextEra's proposed method of funding the acquisition, opportunities for growth, and stated commitment from management, we assess HEI and HECO as "core" subsidiaries of NextEra. As a result, upon the close of the transaction, we expect to raise our issuer credit ratings on HEI and HECO to be aligned with that of ultimate parent NextEra.

We assess NextEra's financial risk profile as being in the "intermediate" category using the medial volatility financial ratio benchmarks. Under our base case scenario, we project that the company will maintain credit protection measures that remain well within the intermediate financial risk profile category, with FFO to debt of about 26% on a consistent basis after the close of the transaction.

Our base case scenario assumes:

- Operating income grows in the high single digits annually, benefiting from recent regulated investment recovery, transmission investment recovery, the growth of the renewable energy business, and the acquisition of HEI;
- Capital spending of about \$7.5 billion to \$8 billion annually over the next few years; and
- Dividends grow at about 10% annually.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt of about 26% annually over the next few years, and
- Debt to EBITDA that remains under 3.5x.

Liquidity

In our opinion, NextEra's liquidity is "adequate" to cover its needs over the next 12 to 18 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an adequate designation under our criteria and that the company will also meet our other criteria for such a designation.

NextEra has \$7.85 billion in revolving credit facilities with \$1.25 billion maturing in 2016 and the balance maturing in 2019.

Research Update: NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

Principal liquidity sources:

- We estimate FFO of about \$6 billion annually in 2014 and 2015, and
- Average undrawn availability under the credit facilities of about \$6.5 billion.

Principal liquidity uses:

- Maintenance capital spending averaging about \$5.5 billion annually,
- Debt maturities of \$3.766 billion in 2014 and \$2.42 billion in 2015, and
- Dividends of about \$1.3 billion annually.

Outlook

The stable rating outlook on NextEra and its subsidiaries reflects our expectation that the company will preserve its "strong" business risk profile while ensuring that its financial risk profile remains well within the "intermediate" category at all times, albeit toward the lower end of the category. Moreover, the stable outlook incorporates our expectation that NextEra will continue to effectively manage regulatory risk at its regulated utility operations in Florida while ensuring that regulated businesses contribute the majority of cash from operations.

Downside scenario

We would lower the ratings on NextEra if financial performance weakens, with FFO to debt that declines to less than 25% on a consistent basis, absent any lessening of business risk. Moreover, we would lower the ratings on NextEra if business risk increases through the growing contribution of unregulated operations or due to unfavorable regulatory outcomes.

Upside scenario

Under our base case scenario, we do not anticipate raising the ratings on NextEra in the next 12 to 24 months, given the company's business risk profile and expected level of financial performance.

Other Modifiers

We assess all modifiers as "neutral" resulting in no further changes to NextEra's 'a-' anchor score.

Group Influence

NextEra is subject to the group rating methodology criteria, under which we assess NextEra as the parent of the group. NextEra's group credit profile is 'a-' and leads to an issuer credit rating of 'A-'.

We assess the status of NextEra's subsidiaries, Florida Power & Light Co. and NextEra Energy Capital Holdings Inc., as core subsidiaries because we view

Research Update: NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

them as integral to the group's identity, they are highly unlikely to be sold, and have strong management commitment given the company's emphasis on maintaining the size and scope of the regulated utility operations relative to unregulated operations. Because there are no structural or regulatory insulation provisions in place that could restrict NextEra's access to the assets and cash flows of its subsidiaries, the issuer credit rating on each subsidiary is 'A-', based on the group credit profile of NextEra.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: a-
- Rating above the sovereign: (no impact)

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - Utilities: Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property, Feb. 14, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013

Research Update: NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

NextEra Energy Inc.

Corporate Credit Rating A-/Stable/--

Florida Power & Light Co.

NextEra Energy Capital Holdings Inc.
 Corporate Credit Rating A-/Stable/A-2

NextEra Energy Inc.

Senior Unsecured BBB

FPL Group Capital Trust I

Preferred Stock BBB

Florida Power & Light Co.

Senior Secured A
 Recovery Rating 1+
 Preferred Stock BBB
 Commercial Paper A-2

NextEra Energy Capital Holdings Inc.

Senior Unsecured BBB
 Senior Unsecured BBB+
 Junior Subordinated BBB
 Commercial Paper A-2

Placed On CreditWatch

To From

Hawaiian Electric Industries Inc.

Hawaiian Electric Co.

Corporate Credit Rating BBB-/WatchPos/A-3 BBB-/Stable/A-3
 Commercial Paper A-3/WatchPos A-3

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left

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FPL RC-16

DECEMBER 4, 2014 6

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Research Update: NextEra Energy Ratings Affirmed, Hawaiian Electric Industries And Subsidiary Ratings On Watch Positive On Acquisition

column.

Florida Power & Light Company
Docket No. 160021-EI
OPC's First Request for Production of Documents
Request No. 35
Page 1 of 1

QUESTION:

Capital Structure Correspondence. Please provide any e-mails or other written documentation from the past 4 years written by NextEra Energy or Florida Power & Light officials where capital structure was discussed.

RESPONSE:

FPL defines NEE "official" as Jim Robo and direct reports, and FPL "official" as Eric Silagy and direct reports. FPL has no responsive documents.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 62
Page 1 of 1

QUESTION:

Regarding Dewhurst at 5:10-11, 9:1. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss or analyze how increasing, decreasing or maintaining FPL's equity ratio would affect its "total cost of capital." If there are no such documents, please so state.

RESPONSE:

FPL does not have any responsive documents. The actual total cost of capital is not a function of such simple assumption changes, nor are such analyses practical.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 65
Page 1 of 1

QUESTION:

Regarding Dewhurst at 5:10-11, 16:7-18. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss or analyze how FPL's equity ratio affected its credit ratings. If there are no such documents, please so state.

RESPONSE:

Please see FPL's response to SFHHA's Second Set of Interrogatories No. 55. FPL does not have any responsive documents, nor would FPL have had the opportunity to create such documents. The question misunderstands the nature of discussions with the rating agencies.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Second Set of Interrogatories
Interrogatory No. 55
Page 1 of 1

QUESTION:

Regarding Dewhurst at 5:10-11 and 8:13-21. Please explain the process by which FPL determines what capital structure to employ on a going forward basis, including identifying the departments, office, and committees that are involved in that process and the material typically reviewed during such process. If FPL does not employ any processes for determining its target capital structure, please so state.

RESPONSE:

FPL does not utilize a formal, structured process; rather, consideration of FPL's capital structure is part of normal, ongoing capital planning and capital management. Capital structure is reviewed and considered at least once a year in conjunction with capital needs and meetings with rating agencies. Decisions are made jointly by the CEO of FPL and the CFO, with primary input from the Treasurer and VP of Finance and secondary input from Corporate Development. Inputs include the state of the capital market, the company's capital expenditure profile, rating agency input, investor input, and potential liquidity needs. There are no committees. Material typically reviewed includes financial plans, capital expenditure plans, credit metric analyses, and competitive analyses.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 66
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QUESTION:

Regarding Dewhurst at 16:7-17:2. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss the costs and the benefits of improving FPL's financial strength. If there are no such documents, please so state.

RESPONSE:

Please see FPL's response to SFHHA's Second Set of Interrogatories No. 55. FPL does not have any responsive documents.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 67
Page 1 of 1

QUESTION:

Regarding Dewhurst at 16:7-17:2. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss the costs and benefits of FPL maintaining its current credit rating. If there are no such documents, please so state.

RESPONSE:

Please see FPL's response to SFHHA's Second Set of Interrogatories No. 55. FPL does not have any responsive documents.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 60
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QUESTION:

Regarding Dewhurst at 3:14-15, 5:10-11, 8:13-17:16. Please provide and identify any documents describing FPL's target capital structure in the past four years. If there are no such documents, please so state.

RESPONSE:

FPL does not have any documents responsive to this request.

Florida Power & Light Company
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SFHHA's Third Request for Production of Documents
Request No. 62
Page 1 of 1

QUESTION:

Regarding Dewhurst at 5:10-11, 9:1. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss or analyze how increasing, decreasing or maintaining FPL's equity ratio would affect its "total cost of capital." If there are no such documents, please so state.

RESPONSE:

FPL does not have any responsive documents. The actual total cost of capital is not a function of such simple assumption changes, nor are such analyses practical.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 64
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QUESTION:

Regarding Dewhurst at 5:10-11, 16:7-18. Please provide and identify all documents prepared by or for FPL in the past four years but prior to March 15, 2016 that discuss or analyze how FPL's equity ratio affected its "financial strength" or access to capital. If there are no such documents, please so state.

RESPONSE:

Please see FPL's response to SFHHA's Second Set of Interrogatories No. 55. FPL does not have any responsive documents.

**Florida Power & Light Company
Docket No. 160021-EI
FIPUG's First Set of Interrogatories
Interrogatory No. 3
Page 1 of 1**

QUESTION:

Please identify all vertically integrated electric utilities that presently have an approved equity ratio of 59.6% based on investor sources.

RESPONSE:

FPL does not track and therefore is not able to provide this information. Further, given the variance in risk factors across companies and geographic locations, this information would not be useful or appropriate without the proper analysis of the relevant risk factors.

Florida Power & Light Company
Docket No. 160021-EI
FIPUG's First Request for Production of Documents
Request No. 2
Page 1 of 1

QUESTION:

Please produce all Orders approving an equity ratio comparable to 59.6% for an electric utility identified in Response to FIPUG Interrogatory No. 3.

RESPONSE:

FPL has no responsive documents.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 61
Page 1 of 1

QUESTION:

Regarding Dewhurst at 5:10-11, 8:17-18. Please provide FPL's study of the capital structures employed by "other financially strong utilities" performed prior to March 15, 2016. If there is none, please so state.

RESPONSE:

FPL has no specific analysis, however other capital structures are reviewed within the context of determining FPL's ongoing capital structure.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 63
Page 1 of 1

QUESTION:

Regarding Dewhurst at 15:16-16:18. Please provide copies of all studies that compare the financial strength of FPL to that of other U.S. electric utilities, including the associated data and work papers used in their preparation.

RESPONSE:

Please see FPL's response to SFHHA's Second Set of Interrogatories No. 55. FPL does not have any responsive documents.

Florida Power & Light Company
Docket No. 160021-EI
Staff's Fourth Set of Interrogatories
Interrogatory No. 146
Page 1 of 1

QUESTION:

For interrogatories numbered 133-146 please refer to the direct testimony of Witness Moray P. Dewhurst.

Please refer to Exhibit MD-3, page 1 of 6, attached to Witness Dewhurst's direct testimony. Provide the following metrics for each of the Major Southeastern Investor-Owned Utilities listed in the table.

- a. Authorized equity ratio based on investor sources.
- b. The non-fuel electric service amount for the Typical Residential Customer Bill, July 2015.
- c. The fuel mix used to generate the electricity.

RESPONSE:

- a. Please see Attachment No. 1.
- b. FPL does not have this data and it does not appear to be readily available from external sources. Please see FPL's general and specific objections filed contemporaneously with this set of interrogatories.
- c. Please see Attachment No. 2.

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Staff's Fourth Set of Interrogatories
Interrogatory No. 146
Attachment No. 1
Page 1 of 1

Southeast States: Authorized Equity Ratio

State	Company	Authorized Equity Ratio ¹
Florida	Florida Power & Light Co.	59.60%
South Carolina	Duke Energy Progress	N/A
Mississippi	Entergy Mississippi Inc.	N/A
Florida	Tampa Electric Co.	54.00%
North Carolina	Duke Energy Carolinas	53.00%
Virginia	Dominion Virginia Power	49.99%
Virginia	Appalachian Power Co.	42.89%
South Carolina	Duke Energy Carolinas	53.00%
North Carolina	Duke Energy Progress	53.00%
Florida	Duke Energy Florida Inc.	N/A
Alabama	Alabama Power	45.00% ²
Mississippi	Mississippi Power	49.73%
Georgia	Georgia Power Co.	50.84%
Florida	Gulf Power Co.	N/A
South Carolina	South Carolina Electric & Gas	52.18%

1) Equity ratio provided based on decision or settlement which could be based on investor sources or a regulatory capital structure.

2) Estimated equity ratio that was utilized to calculate return on equity for Alabama Power

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SFHHA's Second Set of Interrogatories
Interrogatory No. 85
Page 1 of 1

QUESTION:

Regarding Hevert at 37:7. Please provide Mr. Hevert's study of each of the proxy company's "geographic risks" as compared to FPL created prior to March 15, 2016.

RESPONSE:

The cited section of Mr. Hevert's testimony discusses the risk FPL faces from sudden, unexpected damage from severe storms. Please see FPL's response to Staff's Eleventh Set of Interrogatories No. 239 for a discussion of Mr. Hevert's assessment of FPL's risk from severe weather.

Florida Power & Light Company
Docket No. 160021-EI
Staff's Eleventh Set of Interrogatories
Interrogatory No. 239
Page 1 of 3

QUESTION:

Interrogatories numbered 235-250 relate to FPL Witness Hevert's Direct Testimony. On page 37, line 15 through page 38, line 15, of witness Hevert's direct testimony, he testifies about the risk associated with severe weather in FPL's service territory.

- a. Please explain if the legislative Statutes, storm bonds, and storm recovery factors have mitigated this risk.
- b. Do the electric operating companies held by the IOUs in witness Hevert's proxy group listed in Exhibit RBH-10 have similar storm restoration cost recovery mechanisms?
- c. Explain how FPL's risk is greater than other electric companies that operate in service territories exposed to different severe weather risk such as floods, tornadoes, earthquakes, or ice storms.
- d. Explain how witness Hevert has accounted for FPL's storm hardening modernization initiatives in his assessment of FPL's severe weather risk. For reference, on page 3 of FPL witness Miranda's direct testimony, witness Miranda testifies that:

FPL's T &D electrical grid is one of the most storm-resilient and reliable in the nation. This has been achieved through the development and implementation of our forward-looking storm-hardening, reliability and grid modernization initiatives, combined with the use of cutting-edge technology and strong employee commitment. With these industry-leading initiatives and our proposed 2016-2018 plans, FPL will further strengthen its infrastructure, improve system reliability and develop a system even more capable of meeting ever-increasing needs and expectations.

RESPONSE:

- a. As noted on pages 33-34 of Company Witness Moray Dewhurst direct testimony, FPL's storm cost recovery mechanism does not eliminate all risk. Specifically, in the event of significant storm damage, the storm reserve would be smaller than it otherwise would have been, and the resulting supplemental charge will be larger and/or will last longer than it otherwise might have. The lack of an adequate storm reserve underscores the need for a strong balance sheet to quickly access capital. Furthermore, although such mechanisms may mitigate some risk, the risk of storms still remains and the risks to investors remain (e.g., sales declines due to outages, financing risk, and cost recovery uncertainty).
- b. Mr. Hevert did not believe it was necessary to perform the requested analysis for each of the electric operating companies held by the IOUs in his proxy group. In Mr. Hevert's experience, storm restoration cost recovery mechanisms are common.

Florida Power & Light Company
Docket No. 160021-EI
Staff's Eleventh Set of Interrogatories
Interrogatory No. 239
Page 2 of 3

For example, Mr. Hevert is aware of storm restoration or storm hardening cost recovery mechanisms in place at several proxy group operating companies, including:

- Oklahoma Gas & Electric Arkansas's Storm Damage Recovery Rider
- Oklahoma Gas & Electric Oklahoma's System Hardening Program Rider
- Several of American Electric Power Company's subsidiaries, including:
 - Ohio Power Company's the 2014 Electric Security Plan (which includes a \$5 million major storm reserve and annual true-up mechanism.)
 - Indiana Michigan Power Company's (Indiana jurisdiction) Major Storm Reserve Fund true-up mechanism (See Indiana Utility Regulatory Commission order in Case No. 44075, p 72-73).
 - AEP Texas Central and AEP Texas North – Texas has a Distribution Cost Recovery Factor through which utilities can seek recovery of prudent storm restoration and hardening investments. See 16 TAC §25.243. Texas also allows for securitization of certain costs and true-up mechanism to recovery debt payments (See Tex. Util. Code Ann. §36.401 & §39.307).
 - Public Service Company of Oklahoma's System Reliability Rider.

c. As noted on page 8 of Company Witness Miranda's testimony, Florida is more exposed to tropical storms and hurricanes than other states, and FPL's service territory in particular is highly susceptible to severe storms as it includes approximately 500 miles of coastline exposed to storms from both the Atlantic Ocean and the Gulf of Mexico. As noted in Mr. Hevert's direct testimony at pages 37-38, FPL has experienced a significant amount of damage from recent storms. For example, FPL incurred more than \$1.9 billion in storm recovery costs to restore electric transmission and distribution services during 2004 and 2005, which was equivalent to 15 percent of the average rate base for FPL in 2005. In Mr. Hevert's experience, those damages represent relatively large losses relative to the damage experienced by most other electric companies. In that regard, Mr. Hevert notes that although most companies discuss the risk of natural disasters generally, in its SEC Form 10-K FPL has noted that its operating territory has been prone to severe weather events:

FPL operates in the east and lower west coasts of Florida, an area that historically has been prone to severe weather events, such as hurricanes. A disruption or failure of electric generation, transmission or distribution systems or natural gas production, transmission, storage or distribution systems in the event of a hurricane, tornado or other severe weather event, or otherwise, could prevent NEE and FPL from operating their business in the normal course and could result in any of the adverse consequences described above. Any of the foregoing could have a material adverse effect on NEE's and FPL's business, financial condition, results of operations and prospects.

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Page 3 of 3

At FPL and other businesses of NEE where cost recovery is available, recovery of costs to restore service and repair damaged facilities is or may be subject to regulatory approval, and any determination by the regulator not to permit timely and full recovery of the costs incurred could have a material adverse effect on NEE's and FPL's business, financial condition, results of operations and prospects.

In Mr. Hevert's experience, severe damage from floods, ice storms and earthquakes tend to be less frequent. While tornadoes do cause significant damage, the effects are generally more localized (for example, Empire District Electric Company reported on page 24 of their December 31, 2012 SEC Form 10-K an estimated \$27.3 million in storm restoration costs as of the result of the devastating EF-5 tornado that struck Joplin Missouri on May 22nd, 2011).

Further, FitchRatings' July 2015 ratings report on FPL noted that unfavorable changes in current Florida regulatory policies for storm related costs (among other policies) could result in downward rating pressure, which could increase the cost of capital. Similarly, S&P noted in its June 2015 credit ratings report the Company's "exposure to severe weather events that can strain liquidity and present operating challenges" as a risk factor. Please see Attachment Nos. 1 and 2.

d. The Company's need to invest heavily in storm hardening, resiliency, and grid modernization initiatives is a function of its significant severe weather and storm risk. As discussed on page 21 of Company Witness Dewhurst's direct testimony, much of the benefit of FPL's storm hardening efforts is related to reduced system down time after a storm. The Company's investments help mitigate the effect of severe weather, but don't remove it. Mr. Hevert also notes, as discussed on pages 38-39 of his direct testimony, the significant investment that is necessary to maintain reliability is also an important consideration. An ROE that supports the Company's financial strength and facilitates access to capital at reasonable rates benefits ratepayers.

Florida Power & Light Company
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SFHHA's Third Request for Production of Documents
Request No. 76
Page 1 of 1

QUESTION:

Regarding Hevert at 37:8, 38:16-41:23. Please provide Mr. Hevert's study of each of the proxy company's "need to access external capital" as compared to FPL created prior to March 15, 2016. If there is none, please so state.

RESPONSE:

Mr. Hevert's discussion of the importance of capital access was not a comparative assessment. Please also see FPL's response to Staff's Eleventh Set of Interrogatories No. 240.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Third Request for Production of Documents
Request No. 77
Page 1 of 1

QUESTION:

Regarding Hevert at 37:8-9, 42:1-46:14. Please provide Mr. Hevert's study of each of the proxy company's exposure to "the potential for new regulatory requirements associated with nuclear generation" as compared to FPL created prior to March 15, 2016. If there is none, please so state.

RESPONSE:

Mr. Hevert has not performed the requested study. Please note, Mr. Hevert's discussion of the risk associated with the FPL's nuclear generation was not a comparative assessment.

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SFHHA's Third Request for Production of Documents
Request No. 79
Page 1 of 1

QUESTION:

Regarding Hevert at 37:1-52:8. Please provide the company by company analysis of each proxy company's risk profiles performed prior to March 15, 2016. If there is none, please so state.

RESPONSE:

Please see FPL's response to Staff's Eleventh Set of Interrogatories No. 236.

Florida Power & Light Company
Docket No. 160021-EI
Staff's Eleventh Set of Interrogatories
Interrogatory No. 236
Page 1 of 1

QUESTION:

Interrogatories numbered 235-250 relate to FPL Witness Hevert's Direct Testimony. Other than the metrics discussed on page 15, line 13 through page 16, line 10 of witness Hevert's direct testimony, did witness Hevert conduct any additional analysis to demonstrate comparability between FPL and the IOUs owned by the companies in his proxy group? For purposes of this response, please identify any additional analysis conducted by witness Hevert beyond what was discussed in the referenced testimony.

RESPONSE:

Page 15, line 13 through page 16, line 10 of Mr. Hevert's direct testimony discuss the selection criteria used to identify a proxy group of comparable publically traded electric utility companies. Mr. Hevert did not believe it was necessary to perform any additional comparative risk analysis. As discussed on pages 37 to 46 of Mr. Hevert's direct testimony, however, Mr. Hevert also considered certain risks faced by FPL such as geographic risk, the magnitude of the Company's capital expenditure program, and the potential for new regulatory requirements associated with nuclear generation.

EXHIBIT NO. ____ (RAB-6)

**COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD**

		May-16	Apr-16	Mar-16	Feb-16	Jan-16	Dec-15
ALLETE	High Price (\$)	58.490	56.800	58.340	54.960	53.740	51.850
	Low Price (\$)	54.030	53.470	51.290	50.830	48.260	47.930
	Avg. Price (\$)	56.260	55.135	54.815	52.895	51.000	49.890
	Dividend (\$)	0.520	0.520	0.520	0.520	0.505	0.505
	Mo. Avg. Div.	3.70%	3.77%	3.79%	3.93%	3.96%	4.05%
	6 mos. Avg.	3.87%					
Alliant Energy	High Price (\$)	74.210	75.180	74.350	70.250	65.350	64.250
	Low Price (\$)	71.100	68.150	66.520	64.760	60.750	58.130
	Avg. Price (\$)	72.655	71.665	70.435	67.505	63.050	61.190
	Dividend (\$)	0.588	0.588	0.588	0.588	0.588	0.550
	Mo. Avg. Div.	3.24%	3.28%	3.34%	3.48%	3.73%	3.60%
	6 mos. Avg.	3.44%					
Avista Corp.	High Price (\$)	42.170	41.370	41.310	39.300	37.100	37.780
	Low Price (\$)	38.830	38.480	36.890	36.720	34.310	33.000
	Avg. Price (\$)	40.500	39.925	39.100	38.010	35.705	35.390
	Dividend (\$)	0.343	0.343	0.343	0.343	0.330	0.330
	Mo. Avg. Div.	3.39%	3.44%	3.51%	3.61%	3.70%	3.73%
	6 mos. Avg.	3.56%					
Consolidated Edison	High Price (\$)	76.760	77.230	77.020	73.900	70.200	65.660
	Low Price (\$)	70.310	70.730	68.440	69.080	63.470	60.300
	Avg. Price (\$)	73.535	73.980	72.730	71.490	66.835	62.980
	Dividend (\$)	0.670	0.670	0.670	0.670	0.650	0.650
	Mo. Avg. Div.	3.64%	3.62%	3.68%	3.75%	3.89%	4.13%
	6 mos. Avg.	3.79%					
Edison International	High Price (\$)	73.250	72.410	72.340	69.240	62.340	61.350
	Low Price (\$)	68.470	67.710	65.600	61.490	57.970	57.850
	Avg. Price (\$)	70.860	70.060	68.970	65.365	60.155	59.600
	Dividend (\$)	0.480	0.480	0.480	0.480	0.480	0.480
	Mo. Avg. Div.	2.71%	2.74%	2.78%	2.94%	3.19%	3.22%
	6 mos. Avg.	2.93%					
Eversource Energy	High Price (\$)	58.260	59.090	58.810	56.920	54.150	52.240
	Low Price (\$)	53.900	54.510	52.620	52.930	50.010	48.180
	Avg. Price (\$)	56.080	56.800	55.715	54.925	52.080	50.210
	Dividend (\$)	0.445	0.445	0.445	0.445	0.418	0.418
	Mo. Avg. Div.	3.17%	3.13%	3.19%	3.24%	3.21%	3.33%
	6 mos. Avg.	3.21%					
IDACORP	High Price (\$)	74.470	74.990	74.960	73.820	69.960	69.990
	Low Price (\$)	69.830	70.400	69.030	68.300	65.030	65.720
	Avg. Price (\$)	72.150	72.695	71.995	71.060	67.495	67.855
	Dividend (\$)	0.510	0.510	0.510	0.510	0.510	0.510
	Mo. Avg. Div.	2.83%	2.81%	2.83%	2.87%	3.02%	3.01%
	6 mos. Avg.	2.89%					

**COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD**

		May-16	Apr-16	Mar-16	Feb-16	Jan-16	Dec-15
Northwestern Corp.	High Price (\$)	59.440	62.510	62.220	60.760	55.850	55.650
	Low Price (\$)	55.340	55.910	57.460	55.490	52.160	51.950
	Avg. Price (\$)	57.390	59.210	59.840	58.125	54.005	53.800
	Dividend (\$)	0.500	0.500	0.500	0.480	0.480	0.480
	Mo. Avg. Div.	3.48%	3.38%	3.34%	3.30%	3.56%	3.57%
	6 mos. Avg.	3.44%					
OGE Energy	High Price (\$)	31.070	29.620	28.740	27.810	26.520	27.040
	Low Price (\$)	28.970	27.270	24.830	24.390	23.370	24.150
	Avg. Price (\$)	30.020	28.445	26.785	26.100	24.945	25.595
	Dividend (\$)	0.275	0.275	0.275	0.275	0.275	0.275
	Mo. Avg. Div.	3.66%	3.87%	4.11%	4.21%	4.41%	4.30%
	6 mos. Avg.	4.09%					
Portland General Electric	High Price (\$)	41.940	40.030	39.900	40.480	39.020	37.800
	Low Price (\$)	39.470	37.770	37.040	37.400	35.270	35.040
	Avg. Price (\$)	40.705	38.900	38.470	38.940	37.145	36.420
	Dividend (\$)	0.300	0.300	0.300	0.300	0.300	0.300
	Mo. Avg. Div.	2.95%	3.08%	3.12%	3.08%	3.23%	3.29%
	6 mos. Avg.	3.13%					
WEC Energy	High Price (\$)	60.510	60.320	60.160	58.150	55.720	52.880
	Low Price (\$)	57.250	55.460	54.850	54.730	50.440	47.980
	Avg. Price (\$)	58.880	57.890	57.505	56.440	53.080	50.430
	Dividend (\$)	0.495	0.495	0.495	0.495	0.458	0.458
	Mo. Avg. Div.	3.36%	3.42%	3.44%	3.51%	3.45%	3.63%
	6 mos. Avg.	3.47%					
Xcel Energy	High Price (\$)	41.980	42.040	41.850	40.420	38.260	36.720
	Low Price (\$)	39.690	38.430	38.260	36.250	35.190	34.330
	Avg. Price (\$)	40.835	40.235	40.055	38.335	36.725	35.525
	Dividend (\$)	0.340	0.340	0.340	0.320	0.320	0.320
	Mo. Avg. Div.	3.33%	3.38%	3.40%	3.34%	3.49%	3.60%
	6 mos. Avg.	3.42%					
Average Dividend Yield		3.44%					

Source: Yahoo! Finance

EXHIBIT NO. ____ (RAB-7)

**COMPARISON GROUP
 DCF Growth Rate Analysis**

<u>Company</u>	(1) Value Line <u>DPS</u>	(2) Value Line <u>EPS</u>	(3) Value Line <u>B x R</u>	(4) <u>Zacks</u>	(5) <u>IBES</u>
ALLETE, Inc.	3.50%	4.00%	3.00%	4.50%	3.00%
Alliant Energy Corporation	4.50%	6.00%	5.50%	6.10%	6.60%
Avista Corporation	4.00%	5.00%	3.50%	5.00%	5.00%
Consolidated Edison, Inc.	3.00%	1.50%	2.50%	2.30%	1.89%
Edison International	9.00%	3.50%	5.50%	4.90%	2.45%
Eversource Energy	6.00%	6.00%	4.00%	6.30%	6.01%
IDACORP, Inc.	7.50%	3.00%	3.50%	4.00%	4.00%
NorthWestern Corp.	5.50%	6.50%	4.00%	5.00%	5.00%
OGE Energy	9.50%	3.00%	3.50%	5.20%	4.30%
Portland General Electric Company	6.00%	5.50%	4.00%	6.40%	6.57%
WEC Energy	7.00%	6.00%	3.50%	6.30%	6.77%
Xcel Energy Inc.	<u>6.00%</u>	<u>5.50%</u>	<u>4.00%</u>	<u>5.30%</u>	<u>5.27%</u>
Averages	5.96%	4.63%	3.88%	5.11%	4.74%
Median Values	6.00%	5.25%	3.75%	5.10%	5.00%

**Sources: Value Line Investment Survey, April 29, May 20, and June 17, 2016
 Yahoo! Finance for IBES growth rates retrieved June 12, 2016
 Zacks growth rates retrieved June 12, 2016**

COMPARISON GROUP DCF RETURN ON EQUITY					
	(1) Value Line <u>Dividend Gr.</u>	(2) Value Line <u>Earnings Gr.</u>	(3) Zack's <u>Earning Gr.</u>	(4) IBES <u>Earning Gr.</u>	(5) Average of <u>All Gr. Rates</u>
<u>Method 1:</u>					
Dividend Yield	3.44%	3.44%	3.44%	3.44%	3.44%
Average Growth Rate	5.96%	4.63%	5.11%	4.74%	5.11%
Expected Div. Yield	<u>3.54%</u>	<u>3.52%</u>	<u>3.53%</u>	<u>3.52%</u>	<u>3.53%</u>
<i>DCF Return on Equity</i>	9.50%	8.15%	8.64%	8.26%	8.64%
<u>Method 2:</u>					
Dividend Yield	3.44%	3.44%	3.44%	3.44%	3.44%
Median Growth Rate	6.00%	5.25%	5.10%	5.00%	5.34%
Expected Div. Yield	<u>3.54%</u>	<u>3.53%</u>	<u>3.53%</u>	<u>3.52%</u>	<u>3.53%</u>
<i>DCF Return on Equity</i>	9.54%	8.78%	8.63%	8.52%	8.87%

EXHIBIT NO. ____ (RAB-8)

COMPARISON GROUP
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	10.44%
2	Risk-free Rate of Return, 20-Year Treasury Bond	
3	Average of Last Six Months	2.34%
4	Risk Premium	
5	(Line 1 minus Line 3)	8.10%
6	Comparison Group Beta	0.73
7	Comparison Group Beta * Risk Premium	
8	(Line 5 * Line 6)	5.94%
9	CAPM Return on Equity	
10	(Line 3 plus Line 8)	8.28%

5-Year Treasury Bond, Value Line Beta

1	Market Required Return Estimate	10.44%
2	Risk-free Rate of Return, 5-Year Treasury Bond	
3	Average of Last Six Months	1.40%
4	Risk Premium	
5	(Line 1 minus Line 3)	9.04%
6	Comparison Group Beta	0.73
7	Comparison Group Beta * Risk Premium	
8	(Line 5 * Line 6)	6.63%
9	CAPM Return on Equity	
10	(Line 3 plus Line 8)	8.03%

COMPARISON GROUP
Capital Asset Pricing Model Analysis
Comparison Group

Supporting Data for CAPM Analyses

20 Year Treasury Bond Data

5 Year Treasury Bond Data

	<u>Avg. Yield</u>		<u>Avg. Yield</u>
December-15	2.61%	December-15	1.70%
January-16	2.49%	January-16	1.52%
February-16	2.20%	February-16	1.22%
March-16	2.28%	March-16	1.38%
April-16	2.21%	April-16	1.26%
May-16	<u>2.22%</u>	May-16	<u>1.30%</u>
6 month average	2.34%	6 month average	1.40%

Source: www.federalreserve.gov, Selected Interest Rates (Dailly) - H.15

Value Line Market Return Data:

Comparison Group Betas:

Value Line

Forecasted Data:

Value Line Median Growth Rates:

Earnings	11.00%
Book Value	<u>7.00%</u>
Average	9.00%
Average Dividend Yield	<u>0.84%</u>
Estimated Market Return	9.88%

Value Line Projected 3-5 Yr.

Median Annual Total Return 11.00%

Average of Projected Mkt.

Returns 10.44%

Source: Value Line Investment Survey
 for Windows retrieved June 12, 2016

ALLETE, Inc.	0.75
Alliant Energy Corporation	0.75
Avista Corporation	0.75
Consolidated Edison, Inc.	0.55
Edison International	0.70
Eversource Energy	0.75
IDACORP, Inc.	0.80
NorthWestern Corp.	0.70
OGE Energy	0.95
Portland General Electric Company	0.80
WEC Energy	0.65
Xcel Energy Inc.	<u>0.65</u>
Average	0.73

Source: Value Line Investment Survey

EXHIBIT NO. ____ (RAB-9)

COMPARISON GROUP
Capital Asset Pricing Model Analysis
Historic Market Premium

	<u>Geometric Mean</u>	<u>Arithmetic Mean</u>	<u>Adjusted Arithmetic Mean</u>
Long-Term Annual Return on Stocks	10.10%	12.10%	
Long-Term Annual Income Return on Long-Term Treas. Bonds	<u>5.07%</u>	<u>5.07%</u>	
Historical Market Risk Premium	5.03%	7.03%	6.19%
Comparison Group Beta, Value Line	<u>0.73</u>	<u>0.73</u>	<u>0.73</u>
Beta * Market Premium	3.69%	5.16%	4.54%
Current 20-Year Treasury Bond Yield	<u>2.34%</u>	<u>2.34%</u>	<u>2.34%</u>
CAPM Cost of Equity, Value Line Beta	<u>6.02%</u>	<u>7.49%</u>	<u>6.87%</u>

Source: *Ibbotson S&P 2015 Classic Yearbook*, Morningstar, pp. 39 - 40, 152, 157 - 158

EXHIBIT NO. ____ (RAB-10)

000353

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

PETITION FOR INCREASE IN RATES
BY FLORIDA POWER & LIGHT COMPANY.

VOLUME 4

Pages 353 through 488

RECEIVED-FPSC
12 AUG 24 AM 8:41
COMMISSION
CLERK

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:

CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, August 21, 2012

TIME: Commenced at 9:33 a.m.
Concluded at 12:00 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

DOCUMENT NUMBER - DATE

05784 AUG 24 12

FPSC-COMMISSION CLERK

000444

1 investing in technology that keeps the lights on
2 efficiently and affordably next year and a decade down
3 the road.

4 **MR. MOYLE:** Thank you for, for your time
5 Appreciate it.

6 **THE WITNESS:** You're welcome.

7 **CHAIRMAN BRISÉ:** Is that it, Mr. Moyle?

8 **MR. MOYLE:** Yes.

9 **CHAIRMAN BRISÉ:** Thank you very much.
10 South Florida Hospital Association.

11 **MR. SUNDBACK:** Good morning. Thank you, Mr.
12 Chairman.

13 **CROSS EXAMINATION**

14 **BY MR. SUNDBACK:**

15 **Q** Good morning, sir.

16 **A** Good morning.

17 **Q** Let's look at what's been designated as your
18 Exhibit ES-1, which is marked as 136, if the note taking
19 at this end is correct.

20 You state there that you were Chief
21 Development Officer at FPL?

22 **A** I'm sorry?

23 **Q** You state in that CV that you were Chief
24 Development Officer at FPL.

25 **A** Oh, yes.

000455

1 **A** I do.

2 **Q** Okay. Now, that competition comes from both
3 utilities and nonutility entities; is that not correct?

4 **A** That's correct. We compete for capital on a
5 global basis.

6 **Q** And, in fact, even within the NextEra Energy
7 organization, presumably FPL has to justify access to
8 capital; is that not correct?

9 **A** That's correct.

10 **Q** Okay. And you, you experienced that on both
11 sides of the house, did you not, when you were working
12 for the nonutility functions of NextEra Energy?

13 **A** That's correct.

14 **Q** Okay. On that same page, just before that
15 reference to competition for capital, on lines 13
16 through 15 you reference a utility's ability to earn; do
17 you see that?

18 **A** I'm sorry. Could you point me to -- oh, yes,
19 on line 13? Yes, sir.

20 **Q** Yes. Yes, sir. I would like to explore that
21 with you for just a moment. Presume that a company
22 that's not rate regulated simply replaced some of its
23 existing equity with debt, didn't change the overall
24 level of capitalization, just changed its capitalization
25 structure a hair.

000456

1 In that instance, earnings per share of that
2 enterprise would increase because the earnings would be
3 spread over a smaller equity base; is that not correct?

4 **A** Again, I would defer, if this is getting into
5 capital structure, to Witness Dewhurst.

6 **Q** You've testified, sir, about a utility's
7 ability to earn; right?

8 **A** I have.

9 **Q** And I want to explore that with you just a
10 bit, especially given your experience on both sides of
11 the house. And you've said you have to compete with
12 others to attain capital for FPL; correct?

13 **A** That's correct. We have to --

14 **Q** And I'd like to understand how that
15 competition works. Now, are you unable to tell me of
16 your own knowledge that if an unregulated enterprise
17 simply reduces its equity component and ups --
18 substitutes for that equity more debt, that earnings per
19 share will not increase because those earnings will be
20 spread over a smaller equity base?

21 **A** No. I believe that would be correct.

22 **Q** Okay. If FPL's capital structure was changed,
23 for instance, in this rate proceeding for regulatory
24 purposes, by replacing some of its existing equity with
25 debt, earnings per share of FPL would not increase

000457

1 automatically, would they? They could be reduced.

2 **A** Again, I would defer to Witness Dewhurst as to
3 what the impacts overall of the corporation would be.
4 The key on the capital structure, in my opinion, as
5 somebody who is responsible for the operations of the
6 company, is maintaining a strong financial position on
7 the balance sheet so we can continue to access the
8 capital markets when we need to to either invest in
9 infrastructure or to address issues that come up in the
10 regular course of business that are uncertain.

11 **Q** All right. So, Mr. Silagy, are you telling me
12 that you don't even know, even though you're here
13 testifying before the Commissioners now and spearheading
14 the rate case, whether if, from a regulatory
15 perspective, the capital structure of the company was
16 deemed to include more debt and less equity, whether
17 that would affect the level of equity per share, the
18 dividends per share that could be paid, for instance, to
19 the parent, NextEra Energy, Inc.?

20 **A** What I'm telling you is, is that I believe
21 weakening the capital structure of the company has an
22 adverse impact on our ability to be able to attract
23 capital and operate the company in a manner that
24 continues to provide what I think is exceptional service
25 to our customers.

000458

1 **MR. SUNDBACK:** Mr. Chairman, I'd move to
2 strike the question -- the answer in its entirety. It
3 was as straightforward as you can get. A yes or no
4 works just fine. And if he wanted to provide an
5 explanation, he could.

6 But it strains credulity to believe that the
7 president of a utility cannot determine whether a change
8 in the capital structure is going to affect, for
9 instance, earnings per share of the utility.

10 I guess if his answer is I don't know, that's
11 also useful information, but he hasn't even volunteered
12 that. He hasn't said yes, no, I don't know. He's given
13 you a different -- he's answered a different question.

14 **MR. LITCHFIELD:** Well, I object to counsel's
15 characterization of the witness's answer. I think the
16 witness is providing an answer to Mr. Sundback. It may
17 not be the answer that Mr. Sundback would like to
18 receive, but the witness is entitled to provide an
19 answer consistent with his understanding.

20 **CHAIRMAN BRISÉ:** Okay. I think we'll, we'll
21 strike the whole answer. You can pose the question
22 again. Maybe if we start with a yes or no, and then
23 move forward.

24 **MR. SUNDBACK:** Thank you, Mr. Chairman.
25

000459

1 **BY MR. SUNDBACK:**

2 **Q** Do you need the question back, sir?

3 **A** Yes, please.

4 **Q** Let's see if we can pull it together.

5 **A** Thank you.

6 **Q** If FPL's capital structure was changed by
7 replacing some of its existing equity with debt for
8 purposes of setting rates, earnings per share of FPL
9 would not automatically increase, would they?

10 **A** No.

11 **Q** Thank you.

12 And so in that sense there's a distinction
13 between regulated, rate regulated entities and
14 enterprises whose rates are not regulated concerning
15 capital structure; is that right? In that sense.

16 **A** In that sense, there's a distinction between
17 rate regulated entities and unregulated entities.

18 **Q** Okay. Let's look at your direct, page 16, if
19 we could, lines 9 through 12.

20 **A** I'm there.

21 **Q** Thank you, sir. The referenced study of
22 transmission substation average reliability, that study
23 didn't adjust for differences in relative age of
24 equipment between utilities, did it?

25 **A** I'm not familiar with the exact elements of

EXHIBIT NO. ____ (RAB-11)

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

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

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

COM	5
APA	1
ECB	10
GCL	1
RAD	1
SRC	1
ADM	1
OPC	1
CLK	1-RN
Crt. Rp.	1

TESTIMONY & EXHIBITS OF:

WILLIAM E. AVERA

DOCUMENT NUMBER DATE

01607 MAR 19 2012

FPSC-COMMISSION CLERK

Docket No. 120015-EI
Interest Rate Trends
Exhibit WEA-2, Page 1 of 1

	<u>Current (a)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
30-Yr. Treasury						
Value Line (b)	3.4%	3.9%	4.1%	4.5%	5.0%	--
IHS Global Insight (c)	3.4%	3.3%	3.8%	4.5%	5.1%	5.3%
Blue Chip (d)	3.4%	3.7%	4.2%	4.8%	5.3%	5.5%
AAA Corporate						
Value Line (b)	4.2%	4.6%	4.7%	5.2%	5.7%	--
IHS Global Insight (c)	4.2%	4.2%	4.5%	5.1%	6.0%	6.2%
Blue Chip (d)	4.2%	4.3%	4.7%	5.4%	5.8%	6.2%
S&P (e)	4.2%	4.2%	4.6%	5.1%	6.0%	--
AA Utility						
IHS Global Insight (c)	4.3%	4.4%	4.9%	5.6%	6.5%	6.8%
EIA (f)	4.3%	4.7%	4.8%	5.7%	6.8%	6.9%

(a) Based on monthly average bond yields for the six-month period Jul. - Dec. 2011 reported at www.credittrends.moodys.com and <http://www.federalreserve.gov/releases/h15/data.htm>.

(b) The Value Line Investment Survey, Forecast for the U.S. Economy (Nov. 25, 2011).

(c) IHS Global Insight, *U.S. Economic Outlook* at 25 (Dec. 2011).

(d) *Blue Chip Financial Forecasts*, Vol. 30, No. 12 (Dec. 1, 2011).

(e) Standard & Poor's Corporation, "U.S. Economic Forecast: Just Like Ol' Times," *RatingsDirect* (Jan. 12, 2012).

(f) Energy Information Administration, *Annual Energy Outlook 2012, Early Release* (Jan. 23, 2012).

EXHIBIT NO. ____ (RAB-12)

FERC GDP GROWTH RATE

	<u>2020</u>	<u>2040</u>	<u>2044</u>	<u>2070</u>	
Energy Information Administration					
Real GDP	18,801	29,898			
GDP Deflator	<u>1.211</u>	<u>1.73</u>			
	22,768	51,724			4.19%
SSA Trustees Report	22,948			198,390	4.41%
Average GDP Growth Rate					4.30%

Sources:

Energy Information Administration, *Annual Energy Outlook 2015* (April 2015).
 Social Security Administration, 2016 OASDI Trustees Report (June 22, 2016),
 Table VI.G6 - Selected Economic Variables, Calendar Years 2015-90

EXHIBIT NO. ____ (RAB-13)

Reformulated Multi-Stage Growth Discounted Cash Flow Model
 180 Day Average Stock Price
 Average EPS Growth Rate Estimate in First Stage - Revised FERC Long-Term Growth Rate

Inputs	[1] Stock	[2] [3] [4] [5]				[6] [7] [8]			[9] [10] [11]			[12]	[13]	
		Zacks	First Call	Line	Average	Growth	2016	2019	2026	Proof	IRR	P/E Ratio	Terminal	Terminal
Value														
Company	Ticker	Price	EPS	EPS	EPS	EPS	Long-Term	Payout Ratio	Payout Ratio	Payout Ratio	Iterative Solution	P/E Ratio	Terminal	Terminal
ALLETE, Inc.	ALE	\$49.47	5.00%	5.00%	6.50%	5.50%	4.30%	66.00%	59.00%	67.30%	(\$0.01)	14.72	9.07%	3.42
Alliant Energy Corporation	LNT	\$59.67	5.40%	5.55%	6.00%	5.65%	4.30%	61.00%	63.00%	67.30%	(\$0.00)	14.59	9.11%	3.39
Ameren Corporation	AEE	\$41.34	6.30%	6.00%	7.00%	6.43%	4.30%	62.00%	56.00%	67.30%	(\$0.01)	14.10	9.28%	3.28
American Electric Power Company, Inc.	AEP	\$55.91	4.70%	4.43%	5.00%	4.71%	4.30%	64.00%	65.00%	67.30%	\$0.01	15.10	8.95%	3.51
Avista Corporation	AVA	\$32.85	5.00%	5.00%	5.00%	5.00%	4.30%	69.00%	65.00%	67.30%	\$0.01	15.67	8.78%	3.64
CMS Energy Corporation	CMS	\$34.36	6.10%	6.72%	5.50%	6.11%	4.30%	60.00%	62.00%	67.30%	(\$0.01)	16.30	8.61%	3.79
Dominion Resources, Inc.	D	\$69.57	6.10%	5.49%	8.00%	6.53%	4.30%	74.00%	72.00%	67.30%	(\$0.00)	17.58	8.29%	4.09
DTE Energy Company	DTE	\$79.11	5.60%	5.12%	5.00%	5.24%	4.30%	61.00%	60.00%	67.30%	(\$0.00)	13.70	9.42%	3.19
Great Plains Energy Inc.	GXP	\$26.16	5.80%	5.07%	5.00%	5.29%	4.30%	60.00%	62.00%	67.30%	\$0.01	14.59	9.11%	3.39
IDACORP, Inc.	IDA	\$62.69	4.00%	4.00%	1.00%	3.00%	4.30%	53.00%	58.00%	67.30%	(\$0.01)	17.18	8.39%	4.00
NorthWestern Corporation	NWE	\$52.75	5.00%	6.81%	6.50%	6.10%	4.30%	61.00%	59.00%	67.30%	\$0.00	14.67	9.08%	3.41
OGE Energy Corp.	OGE	\$28.22	5.70%	2.17%	3.00%	3.62%	4.30%	63.00%	72.00%	67.30%	(\$0.00)	13.65	9.44%	3.17
Otter Tail Corporation	OTTR	\$26.76	NA	6.00%	9.00%	7.50%	4.30%	71.00%	59.00%	67.30%	(\$0.00)	12.87	9.76%	2.99
Pinnacle West Capital Corporation	PNW	\$61.66	4.80%	4.95%	4.00%	4.58%	4.30%	64.00%	64.00%	67.30%	(\$0.01)	15.72	8.77%	3.66
PNM Resources, Inc.	PNM	\$27.23	7.70%	9.30%	9.00%	8.67%	4.30%	51.00%	55.00%	67.30%	(\$0.00)	13.37	9.55%	3.11
Portland General Electric Company	POR	\$35.66	4.40%	4.14%	6.00%	4.85%	4.30%	52.00%	53.00%	67.30%	(\$0.01)	15.31	8.89%	3.56
SCANA Corporation	SCG	\$55.39	4.50%	4.45%	4.50%	4.48%	4.30%	56.00%	55.00%	67.30%	\$0.01	13.92	9.34%	3.24
Westar Energy, Inc.	WR	\$38.32	3.60%	3.50%	6.00%	4.37%	4.30%	61.00%	55.00%	67.30%	\$0.01	15.51	8.83%	3.61
Xcel Energy Inc.	XEL	\$34.55	5.00%	4.68%	4.50%	4.73%	4.30%	63.00%	65.00%	67.30%	(\$0.01)	15.36	8.87%	3.57
											MEAN	9.03%		
											MAX	9.76%		
											MIN	8.29%		