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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
<u>DOCKET NO. 160021-EI</u>

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	**)**	**DOCKET NO. 160021-EI**
	COMPANY AND SUBSIDIARIES	**)**	

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

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 COMPANY AND SUBSIDIARIES**	)))	**DOCKET NO. 160021-EI**

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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

A. Qualifications

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously submitted testimony in Docket No. 160088-EI on June 17, 2016. I understand that docket has been consolidated with this docket.

B. Purpose of Testimony

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am offering testimony on behalf of the South Florida Hospital and Healthcare Association ("SFHHA"), whose members take electric service on the FPL system.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the Company's proposed base rate increases and the effects on various recovery clauses, to summarize the effects of the SFHHA recommendations on the Company's claimed revenue requirements, and to address and make recommendations on specific issues that affect the Company's claimed revenue requirements.

Q. PLEASE SUMMARIZE THE COMPANY'S CLAIMED REVENUE DEFICIENCIES AND PROPOSED RATE INCREASES.

A. The Company seeks a base rate increase of $866.354 million on January 1, 2017 based on a claimed revenue deficiency of an equivalent amount for the 2017 test year. The Company seeks a second base rate increase of $262.292 million on January 1, 2018, for a cumulative increase of $1,128.646 million, compared to a claimed revenue deficiency of $1,133.593 million for the proposed second 2018 test year. The Company seeks a third base rate increase of $209.024 million for the Okeechobee Clean Energy Center ("Okeechobee") on or about June 1, 2019 based on a claimed revenue deficiency of an equivalent amount for the proposed May 31, 2020 ending test year.

C. Summary of Testimony

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I recommend that the Florida Public Service Commission ("Commission" or "FPSC") restrict the scope of this proceeding to the 2017 test year and reject the Company's aggressive request to expand the scope to include an additional rate increase based on a 2018 test year filing under the guise of a "subsequent year adjustment" ("SYA") and yet another rate increase based on a May 31, 2020 ending test year filing under the guise of a "limited scope adjustment" ("LSA"). The Company's requests for the second and third rate increases are premature and unnecessary and should be denied in this proceeding. They require the Commission and the parties to unnecessarily speculate today about the economic environment, revenues, and costs nearly four years into the future. The Commission should retain the ability to knowledgeably investigate the revenues and costs in future proceedings, closer to the dates when new rates would become effective. This is especially true given that NextEra Energy, Inc. ("NextEra"), the parent company of FPL, is actively seeking to acquire significant additional electric utility assets. Such acquisitions should result in reduced costs to FPL in those years as more of the shared or common costs incurred by FPL are allocated to the new NextEra affiliates. FPL can file cases in the future when it believes it has or will have a revenue deficiency.

I recommend that the Commission reduce the Company's base rates on January 1, 2017 by at least $212.714 million compared to present rates, a reduction of at least $1,079.068 million from the increase of $866.354 million requested and revenue deficiency claimed by the Company for the test year in this proceeding.

If the Commission does not deny the Company's request for a second rate increase on January 1, 2018, then I recommend a reduction of at least $1.472 million compared to present rates, a reduction of at least $1,135.065 million compared to the revenue deficiency of $1,133.593 million claimed by the Company for the proposed 2018 test year before consideration of any rate change in 2017.

If the Commission does not deny the request for a third rate increase on June 1, 2019, coincident with the scheduled commercial operation of the Okeechobee Clean

Energy Center ("Okeechobee"), then I recommend an increase of no more than $166.053 million, a reduction of at least $42.971 million compared to the increase of $209.024 million requested by the Company. I also recommend that the Commission reject the Company's proposed Generation Base Recovery Adjustment ("GBRA") form of recovery. Instead, I recommend that the Commission adopt a rider that initially reflects the lower of the actual capital cost or the estimated cost reviewed in the Okeechobee determination of need proceeding and then is adjusted annually to reflect the declining return on rate base investment as the capital cost is depreciated for book and income tax purposes.

In addition, I recommend that the Commission implement a cost-based surcredit rider to timely flow though reductions in FPL costs due to future NextEra acquisitions that result in the reduction of FPL shared and common costs due to greater allocations to the additional NextEra affiliates.

My quantifications include the effects of SFHHA witness Mr. Richard Baudino's cost of capital recommendations, including the costs of short term debt and long term debt, cost of common equity and capital structure. I summarize the effects of the SFHHA recommendations separately for the three increases in the following tables. In addition, I address the substance of each of these adjustments in the following sections of my testimony, except for Mr. Baudino's recommendations, although I quantify the effects of his recommendations. There are slight differences in the revenue requirement amounts shown on the following tables compared to the operating expense adjustments that I cite throughout my testimony. These differences are due to variable expenses reflected in the revenue expansion factor, such as bad debt expense.

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

	Amount
Base Rate Change per FP&L Filing	**$866.354**
Operating Income Adjustments:	
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	($4.723)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissiong	(41.649)
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates	(195.412)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency	(4.378)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River	(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years	(22.574)
Restate STD Commitment Fees as Operating Expense	3.974
Remove Rate Case Expense Amortization	(1.233)
Levelize Return on Dismantlement Reserve Amortization	(0.214)
Rate Base Adjustments:	
Remove Nuclear Fuel in Process From Rate Base	(40.176)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	9.609
Reduce Accumulated Fossil Dismantling to Reflect Dismantling Expense Reductions	0.263
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	1.114
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	0.243
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	2.055
Remove Accrued Revenues from Cash Working Capital	(22.578)
Eliminate Unamortized Rate Case Expense	(0.426)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(0.349)
Capital Structure and Rate of Return Adjustments:	
Adjust ADIT for Rate Base Adjustments	(4.742)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)	(5.975)
Restate STD Commitment Fees as Operating Expense	(3.974)
Adjust STD Rate to 0.56%	(3.793)
Adjust LTD Rate to 4.1% for New Issues	(12.986)
Remove 0.50% Return on Equity Incentive	(117.402)
Set Return on Equity at 9.0%	(469.607)
Adjust Capital Structure - 55% Common Equity	(135.869)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	(7.304)
Total SFHHA Adjustments	**($1,079.068)**
SFHHA Recommendation for Base Rate Change	**($212.714)**

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

	Amount
Base Rate Change from Present Rates per FP&L Filing - Includes YTD Costs	**$ 1,133.593**
Operating Income Adjustments:	
Reduce Injuries and Damages Expense	(1.298)
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	(4.726)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissiong	(41.652)
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates	(198.548)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency	(4.381)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River	(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years	(22.592)
Restate STD Commitment Fees as Operating Expense	4.735
Remove Rate Case Expense Amortization	(1.233)
Levelize Return on Dismantlement Reserve Amortization	(0.469)
Rate Base Adjustments:	
Remove Nuclear Fuel in Process From Rate Base	(41.125)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	29.361
Reduce Accumulated Fossil Dismantling to Refect Dismantling Expense Reduction	0.798
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	3.375
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	0.706
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	6.226
Remove Accrued Revenues from Cash Working Capital	(22.930)
Eliminate Unamortized Rate Case Expense	(0.307)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(0.858)
Capital Structure and Rate of Return Adjustments:	
Adjust ADIT for Rate Base Adjustments	(14.982)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)	(4.887)
Restate STD Commitment Fees as Operating Expense	(4.735)
Adjust STD Rate to 0.56%	(2.002)
Adjust LTD Rate to 4.1% for New Issues	(35.680)
Remove 0.50% Return on Equity Incentive	(122.941)
Set Return on Equity at 9.0%	(491.766)
Adjust Capital Structure - 55% Common Equity	(156.470)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	(5.722)
Total SFHHA Adjustments	**($1,135.065)**
SFHHA Recommendation for Base Rate Change Based on 2018 Test Year	**($1.472)**
SFHHA Recommendation for Base Rate Change Based on 2017 Test Year	**(212.714)**
SFHHA Recommendation for Base Rate Change (Incremental to 2017 Recommendation)	**$211.242**

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
($ MILLIONS)

	Amount
Okeechobee Step Increase per FP&L Filing	**$ 209.024**
Operating Income Adjustments:	
Reduce Depreciation Expense	(11.991)
Rate Base Adjustments:	
Reflect Additional ADIT - Bonus Depreciation	(9.469)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(0.487)
Capital Structure and Rate of Return Adjustments:	
Adjust LTD Rate to 4.1% for New Issues	(1.333)
Remove 0.50% Return on Equity Incentive	(4.865)
Set Return on Equity at 9.0%	(19.458)
Adjust Capital Structure - 55% Common Equity and Add Short Term Debt	(7.366)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	0.0065
Total SFHHA Adjustments	**($42.971)**
SFHHA Recommendation for Canaveral Step Increase	**$166.053**

The amounts on the preceding tables are supported by exhibits to my testimony, which are referenced in the appropriate sections.

In addition to the adjustments on the preceding tables, SFHHA may support adjustments proposed by other parties at hearing and on brief, and may modify its recommendations as further evidence is adduced in this case.

Finally, the Commission should recognize that the depreciation rates and cost of capital adopted in this proceeding, including the return on equity, affect the Company's clause recoveries that include depreciation expense and return on rate base investment, although the nuclear cost clause recovery clause is subject to a separate cost of capital for the return on rate base investment. The primary effect on the clause recoveries is on the Company's environmental cost recovery. The cost of capital adopted in this proceeding also affects the Allowance for Funds Used During Construction ("AFUDC") rate, which impacts the revenue requirements in this and future proceedings.

The remainder of my testimony is structured to follow the sequence of the adjustments listed on the preceding tables.

II. THE COMMISSION SHOULD DENY THE 2018 ADDITIONAL TEST YEAR REFLECTING SUBSEQUENT YEAR ADJUSTMENTS, AND THE MAY 31, 2020 ENDING TEST YEAR REFLECTING OKEECHOBEE LIMITED SCOPE ADJUSTMENTS

Q. PLEASE DESCRIBE THE COMPANY'S 4 YEAR RATE PROPOSAL.

A. The Company proposes a 4 year rate plan that includes a series of three base revenue increases that will be effective on January 1, 2017 ($866 million), January 1, 2018 (an additional $262 million), and June 1, 2019 (an additional $209 million), according to the Company's "Petition for Base Rate Increase" filed on March 15, 2016. The first rate increase is styled as "the 2017 base rate increase" and is based on a test year of 2017. The second rate increase is styled as a "subsequent year adjustment" and is based on a "subsequent" test year of 2018. The third rate increase is styled as a "limited scope adjustment" for the Okeechobee Clean Energy Center, which has not been placed in service, and is based on the "twelve months of revenue requirements . . . coincident with its commercial operation date," assumed to be the 12 months ending May 31, 2020. The Company asserts that it will not file another base rate increase with an effective date prior to January 1, 2021 if its 4 year rate proposal is adopted.

Q. WHAT AUTHORITY DOES FPL CITE IN ITS PETITION FOR THE SECOND RATE INCREASE BASED ON A SECOND FULLY PROJECTED TEST YEAR?

A. In its Petition, FPL states that "Pursuant to Section 366.076(2), Florida Statutes and Rule 25.06425, F.A.C., the Commission 'may in a full revenue requirements proceeding approve incremental adjustments in rates for periods subsequent to the initial period in which the new rates will be in effect.' FPL proposes that the rates resulting from the 2018 SYA be effective January 1, 2018. Accordingly, FPL proposes that 2018 be the Test Year for the 2018 SYA."

Q. WHAT DOES RULE 25.06425 STATE REGARDING "SUBSEQUENT YEAR ADJUSTMENTS"?

A. The Rule in its entirety states:

> **25-6.0425 Rate Adjustment Applications and Procedures.**
> The Commission may in a full revenue requirements proceeding approve incremental adjustments in rates for periods subsequent to the initial period in which new rates will be in effect.

This Rule presupposes a "full revenue requirements proceeding," which in this proceeding would be the claimed revenue deficiency based on the 2017 test year. The Rule then addresses "incremental adjustments" within that proceeding. The Rule does not address a second "full revenue requirements proceeding" within that proceeding based on a subsequent test year in which *all* revenues, expenses, and rate base components comprising the revenue requirement in the subsequent test year are subject to change, although this is the basis for the Company's request for a second base rate increase to recover a claimed revenue deficiency for the proposed 2018 test year. In my experience, "incremental adjustments" are limited to specific known and measurable changes to reflect one or more known and significant events, such as the completion of a new transmission line or power plant shortly after the end of the test year.

Q. WHAT DOES RULE 25-6.0431 STATE REGARDING LIMITED PROCEEDINGS?

A Rule 25-6.0431 states in its entirety:

> **25-6.0431 Petition for a Limited Proceeding.**
> A petition for a limited proceeding shall include:
> (1) A list of all issues the petitioner believes should be decided;
> (2) A detailed statement of the reason(s) why the limited proceeding has been requested and why a limited proceeding is the appropriate type of proceeding for consideration of the requested relief;
> (3) A schedule showing the specific rate base components for which the utility seeks recovery, on both a system and jurisdictional basis, if the utility is requesting recovery of rate base components;
> (4) A detailed description of the expense(s) requested on both a system and jurisdictional basis, if the utility is requesting recovery of operating expenses;
> (5) A schedule showing how the utility proposes to allocate any change in revenues to rate classes, and the proposed rates, if the petition requests a change in retail rates; and
> (6) Any other information that the utility deems relevant.

Among other provisions of the Rule, the utility must provide a detailed statement of the reason(s) why the limited proceeding has been requested and why a limited proceeding is the appropriate type of proceeding for consideration of the requested relief.

Q. IS THIS A "LIMITED PROCEEDING" AND HAS FPL JUSTIFIED WHY THIS PROCEEDING IS THE "APPROPRIATE TYPE OF PROCEEDING FOR CONSIDERATION OF THE REQUESTED [OKEECHOBEE] RELIEF"?

A. No. This not a "limited proceeding." It is a "full revenue requirements proceeding." FPL may file a "limited proceeding" when the in-service date of Okeechobee is closer, which would be more "appropriate" for "consideration of the requested relief."

Q. DOES RULE 25-6.0431 REQUIRE THE COMMISSION TO ADDRESS THE REVENUE REQUIREMENT FOR A NEW POWER PLANT MORE THAN 3 YEARS BEFORE ITS PROJECTED COMMERCIAL OPERATION?

A. No. There is no such requirement and with good reason. There is no reason to set rates for a Okeechobee in this proceeding. Okeechobee has only recently been approved by the Commission and will not be in commercial operation until 2019.

Q. DO YOU AGREE WITH FPL WITNESS SILAGY THAT FPL'S 4-YEAR PROPOSAL WILL PROVIDE STABILITY AND BENEFITS TO FPL'S RATEPAYERS?

A. No. FPL necessarily speculates about numerous factors that are critical to determining just, reasonable and fair rates based on a 2018 test year and then even further into the future based on a test year ending May 31, 2020. The use of projected test years necessarily requires the use of projected costs based on thousands of assumptions and tens of thousands of data inputs, nearly all of which are uncertain and subject to change when rates actually are in effect.

FPL has multiple software systems designed to project and calculate the amounts, based upon various presumptions, necessary to populate the test year data requirements, but almost none of these amounts are known with certainty. Nearly every input is the result of multiple assumptions about a future that is unknown and uncertain. The projections used for the 2017 test year were developed in late 2015 and early 2016 even though the 2016 period itself was based on projected costs. The projections for 2017 are more uncertain than for 2016 given that the test year is 13 to 24 months removed from the most recent actual data. The projections for 2018 are even more uncertain given that the second test year is 25 to 36 months removed from the most recent actual data. The projections for the 12 months ending May 2020 are still more uncertain given that the third test year is 42 to 53 months removed from the most recent actual data.

For the test year ending May 2020, FPL proposes only one change (in its favor) based upon the commencement of the operation of the Okeechobee plant, and that formulation simply provides one factor that on a stand-alone basis would increase rates, without consideration of accumulated depreciation which would have the opposite effect, to say nothing of other factors that could cause unit rates to decrease. Acceptance of FPL's proposal benefits primarily FPL, not its customers.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S PROPOSAL FOR A MULTI-YEAR RATE PLAN?

A. I recommend that the Commission reject the proposed rate increases in 2018 and 2019 in this proceeding. The Company's request for a multi-year rate plan is unnecessary and unduly aggressive. The Commission should not adopt a multi-year ratemaking scheme on a piecemeal basis in a general base rate case that is not addressed or sanctioned by statute or an administrative rule. Although the Commission has approved multi-year rate plans in certain prior FPL proceedings, those approvals were in the context of settlement agreements.

If the Commission rejects the proposed increases in 2018 and 2019 in this proceeding, the Company still may file cases for 2018 and/or 2019 if it believes it has a revenue deficiency. Thus, the Company may file and, if justified, recover costs it actually incurs based upon more timely and realistic data.

Finally, the Commission should not reward the upside estimation error that necessarily results from multi-year projections. FPL has strong incentives to underestimate its revenues and overestimate its costs in such multi-year projections and then retain the benefits of actual greater revenues and lower costs after the revenue requirement is determined at an excessive level. This historically has been the case under the prior multi-year rate settlements. FPL's actual costs have often been below levels that FPL projected in its prior filings.

III. OPERATING INCOME ISSUES

A. Injuries and Damages Expense Accruals and Reserves Are Excessive and Should Be Reduced

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR INJURIES AND DAMAGES EXPENSE ACCRUALS AND THE RELATED RESERVE LEVELS IN 2017 AND 2018.

A. The Company requests injuries and damages ("I&D") expense accruals of $10.404 million in 2017 and $11.700 million in 2018, according to Schedule B-21. The Company projects the related reserve level of $19.500 million at December 31, 2017 and $19.500 million at December 31, 2018, according to Schedule B-21.

Q. HAS THE COMPANY PROVIDED ANY VALID JUSTIFICATION IN ITS FILING TO INCREASE THE I&D EXPENSE ACCRUAL FROM $10.404 IN 2017 TO $11.700 MILLION IN 2018?

A. No.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission reflect the same I&D expense accrual in 2018 that the Company has requested for 2017.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION IN 2018?

A. The effect is a reduction of $1.296 million in I&D expense and $1.298 million in the revenue requirement for 2018.

Q. WHAT DO THE I&D RESERVE LEVELS INDICATE REGARDING PRIOR AND FUTURE RECOVERIES OF I&D EXPENSE?

A. The I&D reserve level at January 1, 2017 indicates that the Company has recovered more from customers, which increases the reserve level, than the actual I&D costs that it has incurred, which reduces the reserve level. The Company *projects* that it will incur costs slightly more than its proposed expense accrual in 2017 and that the costs incurred and the proposed expense accrual will be the same in 2018, according to Schedule B-21. In other words, the Company projects a slight reduction in the reserve from $20.796 million at January 1, 2017 to $19.500 million at December 31, 2017, and that the reserve will remain unchanged at $19.500 million at December 31, 2018.

Q. HAS THE COMPANY PROPOSED ANY TRUE-UP OR RETURN OF THE EXCESS RESERVE TO CUSTOMERS?

A. No.

Q. IS THERE ANY REQUIREMENT OR NEED TO MAINTAIN THE RESERVE AT THE PROJECTED LEVELS?

A. No. The reserve is merely a form of cost tracking mechanism that allows the Commission to monitor the actual costs incurred against the expense accrual authorized in rates and to true-up the reserve if a balance builds up, whether negative or positive. The reserve is not funded and does not provide funds for the Company to pay incurred I&D costs. The goal of reserve accounting is to equitably ensure that the Company's costs are recovered from customers dollar for dollar over time so that neither the Company nor customers are benefitted or harmed. In other words, the goal is to achieve a $0 balance in the reserve over time, not to build and then retain an overrecovery balance in perpetuity and without ever truing it up to $0. It is quite likely that FPL would not support a proposal to underrecover over time and never recover these amounts from customers to true-up the reserve to $0.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission amortize the excess reserve to $0 over a four year amortization period. This will return the excess reserve to customers in a timely manner rather than allowing the Company to retain the excess recoveries indefinitely.

Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION?

A. The effect is a reduction in amortization expense of $4.716 million in 2017 and $4.720 million in 2018. There also is an offsetting increase in the revenue requirement to reflect the increase in rate base, which I address in the Rate Base Issues section of my testimony. The calculations are shown on my Exhibit No. ___ (LK-6).

B. Separate Expense Accruals for End of Life Materials and Supplies and Nuclear Fuel Last Core Should Be Terminated and Subsumed Within Decommissioning Expense Accruals Due to Overfunding in Nuclear Decommissioning Trust Funds

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR RECOVERY OF END OF LIFE MATERIALS AND SUPPLIES AND NUCLEAR FUEL LAST CORE.

A. The Company requests end of life ("EOL") materials and supplies ("M&S") expense accruals of $1.407 million and nuclear fuel last core expense accruals of $11.754 million in each of 2017 and 2018, as shown on Schedule B-21. This is an increase in the expense accruals for both years compared to present amounts. These are costs that the Company projects will remain unrecovered when the Turkey Point and St. Lucie nuclear power plants are retired. The Company reflects reserves of $22.093 million for the EOL M&S and $100.649 million for the nuclear fuel last core as of January 1, 2017. These reserve amounts reflect prior recoveries from customers for these potential end of life liabilities.

Q. ARE THESE PROJECTED END OF LIFE NUCLEAR COSTS ANALOGOUS TO THE PROJECTED COSTS OF THE UNRECOVERED MATERIALS AND SUPPLIES INCLUDED IN THE COMPANY'S FOSSIL DISMANTLING STUDY?

A. Yes. These are the projected costs that will remain unrecovered through depreciation, fuel, or non-fuel O&M expense when the nuclear and fossil power plants are retired, all else equal. The costs should be treated consistently for nuclear decommissioning and fossil dismantling. However, the Company excluded these costs from the nuclear decommissioning cost estimates, even though it included similar costs in the fossil dismantling cost estimates as shown in the fossil dismantling study. Exhibit No. ___ (KF-4) to Mr. Ferguson's Direct Testimony.

Q. WHY IS THAT RELEVANT IN THIS PROCEEDING?

A. It is relevant because the nuclear decommissioning trust funds are presently significantly overfunded, yet the nuclear decommissioning expense accruals are set at $0 instead of at a negative expense accrual like the negative pension expense accrual. The nuclear decommissioning expense accruals are set at $0, ostensibly because the excess funds cannot be removed from the nuclear trust funds, although this is also the case with the pension trust funds. However, the similarity ends there because customers receive the benefit of negative pension expense accruals, which effectively amortize the excess funding to customers even though funds are not removed from the trust funds.

Q. WHAT IS THE FUNDING STATUS OF THE NUCLEAR DECOMMISSIONING TRUST FUNDS?

A. The nuclear decommissioning trust funds are overfunded by $379.284 million at December 31, 2015, according to the response to Staff 1-90 Attachment 2 in Docket No. 150265-EI. Turkey Point 3 is overfunded by $83.295 million. Turkey Point 4 is overfunded by $94.949 million. St. Lucie 1 is overfunded by $125.661 million. St. Lucie 2 is overfunded by $75.379 million. This excess funding will continue to grow in the future, all else equal, because the rate of return on the trust fund assets is greater than the annual escalation in the decommissioning liability. I have attached a copy of the relevant pages from this response as my Exhibit No. ___ (LK-7).

Q. IN LIEU OF SETTING NEGATIVE DECOMMISSIONING EXPENSE ACCRUALS IN THIS PROCEEDING, COULD THE COMMISSION ELIMINATE THE EOL M&S INVENTORY AND NUCLEAR FUEL LAST CORE EXPENSE ACCRUALS IN THIS RATE CASE SIMPLY BY ADDING THE LIABILITIES FOR THESE TWO RETIREMENT COSTS TO THE DECOMMISSIONING LIABILITY?

A. Yes. This would allow the Commission to "net" the excess funding in the nuclear decommissioning trust fund with the unrecovered EOL M&S and nuclear fuel last core. This netting would reduce the excess funding for nuclear decommissioning by increasing the decommissioning liabilities to include the full estimated cost of the EOL M&S and nuclear fuel last core. This will allow customers to recover some of the excess decommissioning funding eliminating the expense accruals and amortizing the reserves (already recovered from customers in prior years) for these two nuclear retirement costs. This can be done without increasing the nuclear decommissioning expense, which has been arbitrarily set at $0 rather than at a negative expense.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission add the nuclear EOL M&S and nuclear fuel last core to the nuclear decommissioning liability, eliminate the expense accruals for these two retirement costs, and amortize the reserves already recovered from customers over a 4 year amortization period. This results in consistent treatment of the nuclear decommissioning and fossil dismantling liabilities and expense accruals and allows the Commission to combine the excess funding for nuclear decommissioning with these additional costs related to the retirement of the nuclear units.

Q. HAVE YOU QUANTIFIED THE EFFECTS ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION?

A. Yes. The effect is a total company reduction in the EOL M&S and nuclear fuel last core expense accruals of $43.847 million in 2017 and 2018, consisting of $13.161 million for the elimination of the expense accruals and another $30.686 million for the amortization of the related reserves over 4 years. The total reduction in expenses on a jurisdictional basis is $41.592 million in 2017 and $41.595 million in 2018. The calculations are shown on my Exhibit No. ___ (LK-8). I address the related effect on the rate base in the Rate Base Issues section of my testimony.

C. Proposed Increases in Depreciation Rates Are Excessive

1. The Depreciation Study Date Does Not Comply with FAC 25-6.0436 and Unreasonably Increases Depreciation Rates

Q. PLEASE DESCRIBE RULE 25-6.0436 F.A.C. DEPRECIATION.

A. This Rule addresses the filing requirements established by the Commission for utility depreciation studies, including the timing and content of such studies. The present version of the Rule, presumably applicable in this proceeding, was proposed on March 7, 2016 and adopted on April 28, 2016. The prior version of the Rule was in effect since May 29, 2009. I have attached a copy of the present version of the Rule as my Exhibit No. ___ (LK-9) and a copy of the prior version of the Rule as my Exhibit No. ___ (LK-10).

Q. WHAT IS THE REQUIREMENT SET FORTH IN THE RULE FOR THE DEPRECIATION STUDY DATE?

A. The depreciation study date must be consistent with the effective date of the change in depreciation rates. The depreciation study date is the valuation date for the gross plant and accumulated depreciation reserves balances, together with net salvage, used to calculate the depreciation rates. Rule 25-6.0436(4)(d) states that "The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of such rates."

Q. WHAT DATE DID THE COMPANY DIRECT GANNETT FLEMING TO USE FOR THE DEPRECIATION STUDY IN THIS PROCEEDING?

A. The Company directed Gannett Fleming to use a depreciation study date of December 31, 2017, the *end of the 2017 test year* in this proceeding, even though the depreciation rates will be effective on January 1, 2017. This required Gannett Fleming to use projected gross plant and accumulated depreciation at December 31, 2017. In the projections of accumulated depreciation at December 31, 2017, Gannett Fleming assumed that there was no change in depreciation rates or expense starting January 1, 2017.

Q. IS A STUDY DATE OF DECEMBER 31, 2017 CONSISTENT WITH THE REQUIREMENTS SET FORTH IN THE COMMISSION'S RULE?

A. No. The Rule requires the Company to use a January 1, 2017 study date to match the proposed effective date of January 1, 2017. Instead, the Company used a December 31, 2017 study date.

Q. ARE THERE OTHER REASONS WHY THIS MISMATCH BETWEEN THE EFFECTIVE DATE OF THE RATES AND THE STUDY DATE IS PROBLEMATIC?

A. Yes. This mismatch renders the depreciation study completely unreliable and significantly overstates the proposed depreciation rates. The mismatch results in an internal inconsistency in the rate case. Fundamentally, the Company simultaneously assumed that depreciation rates and expense would change on January 1, 2017 for purposes of test year depreciation expense and related rate base components, but that they would not change on January 1, 2017 for purposes of the depreciation study. These mutually exclusive assumptions arbitrarily and erroneously increased the proposed depreciation rates, expense and the revenue requirement.

Q. HOW DID THIS ARBITRARILY INCREASE DEPRECIATION RATES AND EXPENSE AND THE REVENUE REQUIREMENT?

A. It introduced multiple errors into the depreciation study. The most significant error was shaving one year off the remaining service lives of each plant account compared to the beginning of the test year when the depreciation rates will be implemented. This error improperly increased the calculated depreciation rates. For example, if there is gross plant of $100 in account 343 with a service life of 20 years at the beginning of the year, the depreciation rate would be 5.0%, all else equal. However, the service life would be reduced to 19 years at the end of the year, and the depreciation rate would be 5.26%, all else equal, under the depreciation study date. However, the depreciation rate based on the 19 year life will be applied to the gross plant that still has a remaining 20 year life at the beginning of the year to calculate the depreciation expense in the test year. In this example, the result of this error will be that the gross plant is assumed then to have only 18 years remaining at the end of the test year, not the 19 years assumed in the depreciation study. The gross plant will be fully depreciated after 19 years after the beginning of the test year and there will be no depreciation expense in the final year of the service life, all else equal.

Another significant error is that it increased the gross plant that must be recovered over the service life to include all projected plant additions during 2017. By definition, that plant was not in service or subject to depreciation at the beginning of the year. Yet the depreciation rate was increased to recover the cost of that plant.

Yet another significant error is that it understated the accumulated depreciation at the December 31, 2017 study date because the depreciation expense projected for 2017 and reflected in the accumulated depreciation was based on the old depreciation rates, not the new rates that presumably will be in effect on January 1, 2017. This results in a greater service value (gross plant less accumulated depreciation plus net salvage) to be recovered and compounds the effect of the service life error and the gross plant in service error.

Q. IS THERE ANY WAY TO CREDIBLY MODIFY THE DEPRECIATION STUDY TO OVERCOME THE FUNDAMENTAL PROBLEMS WITH THE MISMATCH BETWEEN THE EFFECTIVE DATE OF THE RATES AND THE STUDY DATE?

A. No. This depreciation study cannot not be completely reformed to correct the depreciation study date and eliminate the mismatch and the attendant problems in this proceeding. A new comprehensive depreciation study would have to be performed using plant, accumulated depreciation, and related net salvage, as of the effective date of the new rates, or January 1, 2017.

Q. HOW CAN THE COMMISSION ADDRESS THIS FUNDAMENTAL PROBLEM WITH THE DEPRECIATION STUDY?

A. It is not possible to perform a new comprehensive depreciation study, review the study in this or another proceeding, and incorporate the adjudicated results in new base rates on January 1, 2017. The most appropriate response is to reject the depreciation study and the proposed depreciation rates altogether, and retain the present depreciation rates. This can be accomplished by removing the Company's adjustments to depreciation expense and reducing the revenue requirements accordingly.

Another and far less appropriate alternative is to attempt to modify the depreciation study to correct some of the numerous obvious errors, although not all of the errors can be corrected without a new comprehensive depreciation study. One error that can be corrected is to recalculate the proposed depreciation rates assuming that 1 year is added to the service lives for each plant account; however, that still does not correct the other significant errors that I described.

Q. WHAT IS YOUR RECOMMENDATION?

A. I strongly recommend that the Commission reject the Company's proposed depreciation rates and expense and instead retain the present depreciation rates and the resulting expense. On its face, the depreciation study does not comply with the relevant Rule and creates a mismatch between the effective date of the new rates and the study date that cannot be fully remedied without performing a new comprehensive depreciation study.

Alternatively, I recommend that the Commission make numerous adjustments that only partially correct for the improper study date and other errors in the Gannett Fleming study. These adjustments include shortening the service lives by 1 year, rejecting the proposal to separate certain accounts into multiple accounts to increase the depreciation rates, and using service lives for Scherer 4 and St. John's River Power Project that are consistent with the operators' projected service lives for those facilities. I address each of these alternatives in the following sections of my testimony. I reiterate that it is not possible to correct the other errors in gross plant and accumulated depreciation resulting from the erroneous study date without performing a new comprehensive depreciation study.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENTS OF YOUR PRIMARY RECOMMENDATION TO REJECT THE PROPOSED DEPRECIATION RATES ALTOGETHER?

A. Yes. The effect is a reduction in depreciation expense of $195.144 million in 2017 and $198.276 million in 2018 and a corresponding increase in rate base of $97.249 million in 2017 and $294.242 million in 2018. The net of the expense and related rate base and cost of capital effects results in a reduction in the revenue requirement of $189.510 million in 2017 and $180.513 million in 2018, utilizing the amounts supplied on Schedules B-02 and C-02. I reflect these quantifications in the tables in the Summary section of my testimony.

Q. HAVE YOU QUANTIFIED THE EFFECT OF YOUR ALTERNATIVE RECOMMENDATION TO SHORTEN THE SERVICE LIVES FOR EACH PLANT ACCOUNT BY ONE YEAR?

A. Yes. The effect is a reduction in depreciation expense of $67.551 million in 2017 and $70.509 million in 2018 and a reduction in the revenue requirement of $65.501 million in 2017 and $64.270 million in 2018. I do not reflect these alternative quantifications in the tables in the Summary section of my testimony. The calculations are detailed in my Exhibit No. ___ (LK-11).

2. The Depreciation Study Improperly Increases Depreciation Rates by Separating Account 343 into Two Subaccounts

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO SPLIT ACCOUNT 343 INTO TWO SUBACCOUNTS.

A. In the Gannett Fleming depreciation study, the Company proposes to split account 343 Prime Movers into two subaccounts, 343 *General* and 343.2 *Capital Spare Parts*. The Company argues that certain components of its combined cycle units have shorter lives than the service lives of the entire units. In the Gannett Fleming study, Mr. Allis split the gross plant and accumulated depreciation between the two proposed subaccounts using the theoretical depreciation reserve and applied different survivor curves, net salvage, and service lives to each subaccount. The result was a minor reduction in the account 343 *General* subaccount for the various generating units, but a significant increase in the depreciation rates for the 343.2 *Capital Spare Parts* subaccount. For example, the present account 343 depreciation rate for Martin 8 is 4.30%. However, the Company proposes an account 343 *General* depreciation rate of 3.62% and an account 343.2 *Capital Spare Parts* depreciation rate of 7.98% for that unit.

Q. WHY SHOULD THE COMMISSION REJECT THIS COMPANY PROPOSAL?

A. There are several reasons. First, the shorter lives of certain components are already addressed in the average service lives and retirement survivor curves reflected in the present depreciation rates. Second, and similarly, the interim net salvage is already addressed in the net salvage rates reflected in the present depreciation rates. Third, the depreciation study fails to properly separate the historic data between the two new proposed subaccounts. Instead, it assumes that the historic interim retirements and net salvage that have applied generally will continue to apply to account 343 *General*, which is incorrect, and assumes that a different and more aggressive interim retirement curve and different net salvage apply for account 343.2 *Capital Spare Parts*, which also ia incorrect due to the Company's accounting for Capital Spare Parts, which overstates both parameters.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission reject the Company's proposal to split account 343 into two subaccounts and increase depreciation rates and expense in that manner. I note that this is one of my alternative recommendations in the event that the Commission does not adopt my primary recommendation to reject the depreciation study and the Company's proposed depreciation rates altogether.

Q. HAVE YOU QUANTIFIED THE EFFECT OF THIS ALTERNATIVE RECOMMENDATION?

A. Yes. The effect is to reduce the depreciation rates and reduce depreciation expense by $136.013 million in each of 2017 and 2018. This reduces the revenue requirement by $131.885 million in 2017 and by $123.508 million in 2018. The resulting depreciation rates and the calculation of the reduction in depreciation expense is detailed in my Exhibit No. ___ (LK-12).

3. The Depreciation Study Improperly Increases Depreciation Rates by Allocating Depreciation Reserves for Existing Account 343 Into New Subaccounts 343 and 343.2 Using Theoretical Depreciation Reserves Instead of Gross Plant

Q. PLEASE DESCRIBE THE METHODOLOGY USED BY MR. ALLIS TO ALLOCATE THE ACCUMULATED DEPRECIATION RESERVES BETWEEN

THE TWO PROPOSED SUBACCOUNTS, 343 GENERAL AND 343.2 CAPITAL SPARE PARTS.

A. Mr. Allis allocated the total projected accumulated depreciation at December 31, 2017 for account 343 to the two subaccounts based on the theoretical reserves for each new subaccount rather than the gross plant for each new subaccount, the manner in which the present single account historically has been depreciated.

Q. IS THIS ALLOCATION BASED ON THE THEORETICAL RESERVE APPROPRIATE?

A. No. This allocation results in an excessive allocation of the depreciation reserve to subaccount 343, which has a longer service life, and an inadequate allocation to subaccount 343.2, which has a shorter service life. Simply by shifting more of the depreciation reserve to the subaccount with the longer life, Mr. Allis was able to increase the net book value in account 343.2 recoverable over the shorter service life, and in that manner, increase the overall depreciation expense for the two subaccounts on a combined basis.

There presently is only a single depreciation rate for account 343 for each power plant. That means that each dollar of plant in account 343 generated the same depreciation expense and accumulated depreciation through the date of the depreciation study or until account 343 is split into two subaccounts. In other words, if and when the gross plant in account 343 is split into two subaccounts, then the accumulated depreciation should be allocated between the two subaccounts in the same proportion as the gross plant was allocated.

Instead, Mr. Allis calculated the theoretical accumulated depreciation for the two subaccounts, which assumes that the parameters that he proposes for each subaccount were in effect *all years historically* and will be in effect all years prospectively. That is a false assumption historically. This false assumption resulted in more accumulated depreciation allocated to account 343 *General* and less accumulated depreciation allocated to the new account 343.2 *Capital Spare Parts*. This allocation disproportionately increased the net book value of account 343.2 *Capital Spare Parts*, which then is depreciated over a proposed shorter service life.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THIS ERRONEOUS ALLOCATION METHODOLOGY OVERSTATES THE DEPRECIATION RATES FOR ACCOUNT 343.2.

A. I will use Martin Unit 4 for this example. I have replicated the relevant pages from the depreciation study as my Exhibit No. **___** (LK-13). Account 343, before the proposed split, consisted of $265.361 million in gross plant and $77.998 million in accumulated depreciation (or 29% of gross plant). After the proposed split, account 343 *General* consisted of $169.519 million in gross plant and $64.562 million (or 38% of gross plant) in accumulated depreciation, resulting in a net book value of $104.957 million to recover over the proposed remaining service life of 15.33 years, or $6.847 million annually. After the proposed split, account 343.2 *Capital Spare Parts* consisted of $95.842 million in gross plant and $13.436 million (or only 14% of gross plant) in accumulated depreciation, resulting in a net book value of $82.406 million to recover over 6.88 years, or $11.978 million annually. The sum of the depreciation expense to recover the net book value, disregarding net salvage, is $18.824 million.

The proposed depreciation expense would be significantly less if account 343 had been allocated properly on gross plant. Gross plant before the split is $265.361 million and accumulated depreciation is $77.998 million. Using gross plant as the basis for allocation assigns account 343 $49.827 million in accumulated depreciation, a net book value of $119.692 million, and depreciation expense of $7.808 million. It results in an allocation of accumulated depreciation to account 343.2 of $28.171 million, net book value of $67.671 million, and depreciation expense of $9.836 million. The sum of the annual depreciation expense to recover the net book value, disregarding net salvage, is $17.644 million, or $1.181 million less than if the Company's incorrect allocation methodology is used.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission reject the Company's proposal to split account 343 into two subaccounts thereby increasing depreciation rates and expense in that manner. However, if the Commission adopts the Company's proposal, then it should properly allocate the accumulated depreciation between the two subaccounts using gross plant, not the Company's proposed theoretical depreciation reserves. As I noted with respect to the proposal to split account 343, this recommendation is an alternative only in the event the Commission does not adopt my primary recommendation to maintain the present depreciation rates and then only in the event the Commission does not adopt my recommendation to not split account 343 into two subaccounts.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT OF THIS ALTERNATIVE RECOMMENDATION?

A. Yes. The effect is a reduction in depreciation expense of $5.505 million and in the revenue requirement of $5.338 million for 2017 and in depreciation expense of $5.505 million and in the revenue requirement of $4.999 million for 2018. The calculations are shown on my Exhibit No. ___ (LK-14).

4. The Depreciation Study Fails to Use Operators' Probable Retirement Dates for Scherer 4 and SJRPP Service Lives and Increases Depreciation Rates by Unreasonably Shortening Remaining Service Lives

Q. WHAT PROBABLE RETIREMENT DATES DID FPL USE FOR THE SCHERER 4 AND SJRPP SERVICE LIVES?

A. The Gannett Fleming study uses a probable retirement date of 2039 for the Company's ownership share of Scherer 4 and its share of common facilities. Georgia Power Company operates Scherer 4, along with Scherer 1, 2, and 3. The study uses a probable retirement date of 2038 for SJRPP. Jacksonville Electric Authority ("JEA") operates SJRPP. FPL owns 20% of SJRPP. These dates are shown on page III-6 of the study. The probable retirement dates for Scherer 4 and SJRPP result in projected life spans, or service lives, of 50 years.

Q. HOW DO THE FPL PROBABLE RETIREMENT DATES AND LIFE SPANS COMPARE TO THE PROBABLE RETIREMENT DATES AND LIFE SPANS DETERMINED BY THE OPERATORS OF THE PLANTS?

A. The probable retirement date assumed by FPL for Scherer 4 is much earlier than Georgia Power Company assumes for the other 3 units and common facilities at the site. Georgia Power Company assumes probable retirement dates for Unit 1 in 2047, Unit 2 in 2049, and Unit 3 and common facilities in 2052, reflecting life spans of 65 years, according to information filed in its 2016 IRP before the Georgia Public Service Commission in Docket Nos. 40161 and 40162. FPL was asked to provide the probable retirement date assumed by Georgia Power Company for Scherer 4, and cited the 65 year life span reflected in Georgia Power Company's IRP, according to its response to SFHHA 162. I have attached a copy of this response as my Exhibit No. ___ (LK-15).

The Operator of the Scherer units has spent significant sums to achieve compliance with continually evolving environmental requirements, including MATS, and FPL has incurred its share of those costs, all of which are recovered in base rates or the environmental recovery clause.

I was unable to locate the probable retirement date for SJRPP in publicly available information. FPL was asked to provide the probable retirement date assumed by JEA for SJRPP, but it stated that it did not have that information, according to its response to SFHHA 162. I have attached a copy of this response as my Exhibit No. ___ (LK-15).

Q. WHAT PROBABLE RETIREMENT DATES AND LIFE SPANS SHOULD THE COMMISSION USE FOR SCHERER 4 AND SJRPP?

A. The Commission should use a probable retirement date of 2052 for Scherer 4 and common facilities. In the depreciation study, FPL assumed a 50 year life span for Scherer 4. However, it is highly unlikely that Scherer 4 will be retired before Scherer 3. In contrast to FPL's proposed life span, Georgia Power Company uses a 65 year life span for the Scherer units, which results in a probable retirement date for Unit 3 in 2052. It is highly unlikely that Scherer 4, even if retired for some unusual reason before Scherer 3, will be dismantled before the other three units at the site. Demolition of retired units is normally delayed until all units are retired at the site. Georgia Power Company and FPL have made significant investments in recent years to comply with federal and state environmental regulations and, as the minority owner, FPL does not have the unilateral right to shut down the facility in 2039.

In the absence of any credible information to the contrary from FPL or JEA, the Commission should use a similar probable retirement date of 2052 for SJRPP, reflecting a 65 year life span.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATIONS TO MODIFY THE SERVICE LIVES FOR SCHERER 4 AND SJRPP?

A. Yes. The effect is a reduction in the depreciation rates and in depreciation expense of $18.931 million in 2017 and 2018. This would reduce the revenue requirement by $18.357 million in 2017 and by $17.191 million in 2018. The calculations are shown on my Exhibit No. ___ (LK-16).

D. Proposed Increases in Dismantlement Costs and Expense Are Excessive

1. Estimates of Fossil Dismantlement Costs Should Not Include Contingencies, Let Alone An Increase In The Percentage from 16% to 20%

Q. PLEASE DESCRIBE THE CONTINGENCIES INCLUDED IN THE PROPOSED DISMANTLING COST ESTIMATES AND HOW THEY COMPARE TO THE CONTINGENCIES INCLUDED IN THE PRIOR DISMANTLING COST ESTIMATE.

A. The Company included contingencies of 20.0% in the present cost estimate reflected in the dismantling cost study. Exhibit No. ___ (KF-4) attached to Mr. Ferguson's Direct Testimony. The Company included contingencies of 16.0% in the prior dismantling cost estimate.

The Company offered no support for the increase from 16.0% to 20.0% other than that contingencies of this magnitude were appropriate and had been included in dismantling cost estimates provided to the Commission by another utility in the state, and that Burns McDowell had underestimated various dismantling projects in the past. None of those claimed reasons justify contingencies of any magnitude at this early pre-retirement date or an increase from 16.0% to 20.0%. At this stage, the dismantling cost estimates remain cost estimates, with or without contingencies.

Q. AS A STARTING POINT, DOES FPL'S PROPOSAL TO INCLUDE CONTINGENCIES REPRESENT A BALANCED APPROACH?

A. No. The dismantling cost estimates it presented are the best estimates based on the requirements and information available when they were developed. However, as with any estimate, the actual cost may be more or less. It is premature and unnecessary to assume decades before retirement that the best estimate is insufficient. The best estimate may be excessive. Only when the costs actually are incurred will there be certainty as to the actual costs. If and when contractors are retained to actually dismantle and restore the sites at some date in the future, it may be appropriate to add contingencies to contract costs for management purposes, but it is entirely inappropriate to do so at this time as the contingencies represent a one-way correction only.

The Commission should limit recovery to the best estimate in this and subsequent rate proceedings. This provides an appropriate balance between the Company and its customers. Customers are not required to pay excessive amounts in addition to the best estimate and the Company is protected because it has the opportunity to periodically update the cost estimates based on current costs, engineering, and technical processes.

Q. EVEN IF THE COMMISSION ALLOWS CONTINGENCIES IN THE DISMANTLING COST ESTIMATE, IS THERE ANY VALID REASON TO INCREASE THE CONTINGENCIES FROM THE PRIOR 16.0% TO THE PROPOSED 20.0%?

A. No. The Company has provided no justification for changing the contingency from the prior 16.0%, to 20.0%. As the industry has accumulated experience in dismantling (i.e., more actual dismantlements, providing additional information based on actual experience compared to prior estimates) estimates should be increasingly accurate, not less accurate. Yet, the proposed increase in contingencies suggests precisely the opposite.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission remove the entirety of the contingencies from the dismantlement cost estimates and the calculation of the dismantlement expense. If it does not remove the entirety of the contingencies, then it should reduce the contingencies to 10.0% of the dismantlement estimate, but in no event greater than the 16.0% included in the prior dismantling estimate.

Q. HAVE YOU QUANTIFIED THE EFFECT OF YOUR RECOMMENDATION?

A. Yes. The effect removing the contingencies from the dismantlement cost estimate is to reduce dismantlement expense by $4.372 million in 2017 and $4.375 million in 2018. The calculations are shown on my Exhibit No. ___ (LK-17).

2. Dismantlement Expenses Should Not Be Based On Four Year Average of Escalated Expenses

Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED THE DISMANTLEMENT EXPENSE INCLUDED IN THE 2017 AND 2018 REVENUE REQUIREMENT.

A. The Company calculated the annual dismantlement expense amortization based on the remaining lives of each generating plant using the dismantling cost estimates in 2015 dollars for each plant, including the 20.0% contingencies. The Company then escalated the annual amount by 3.5% for 2016, 3.7% for 2017, 3.9% for 2018, 3.9% for 2019, and 3.9% for 2020. These calculations are shown in Section 5 of the Dismantling Study. I have attached a copy of the pages from Section 5 showing the annual escalation rates as my Exhibit No. ___ (LK-18).

Finally, the Company summed the escalated annual amounts for the years 2017 through 2020 and divided the sum by 4 to determine the annual expense included in the 2017 and 2018 revenue requirement. This calculation is shown in Section 6 of the Dismantling Study. I have attached a copy of the pages from Section 6 showing the calculation of proposed expense accruals for 2017 and 2018 as my Exhibit No. ___ (LK-19).

Q. IS THE COMPANY'S METHODOLOGY APPROPRIATE?

A. No. Among other problems, it fails to reflect the increase in the accumulated reserve for dismantling over the same 4 year period. The expense accrual and the accumulated reserve are interrelated. If it is appropriate to escalate the expense accrual over the four year period 2017 through 2020, then it is necessary to include the increase in the accumulated reserve over the same 4 year period. Otherwise, there is a mismatch between the expense accruals and accumulated reserves.

Q. WHAT IS THE BEST METHODOLOGY TO REFLECT THIS INTERRELATIONSHIP?

A. The best methodology is to calculate the annuitized or levelized expense, including the offset due to the return on the annual expense accruals and to remove the increase in the reserve from working capital in rate base in 2017 and 2018. In this manner, the expense accruals and return on the accumulated reserve are synchronized over the 4 year period.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION?

A. Yes. The effect is a reduction in the revenue requirement of $0.214 million in 2017 and $0.469 million in 2018. I calculated the monthly expense accruals based on the Company's proposed annual expense accruals for the years 2017 through 2020. I then calculated the return on the increase in the accumulated reserve each month and discounted the return using the Company's proposed cost of capital, calculated the monthly annuity, accumulated monthly annuity, and return on the accumulated monthly annuity. I then subtracted the 13 month average of the return on the accumulated monthly annuity from the 13 month average of the return on the accumulated monthly reserve under the Company's approach for 2017 and 2018 to determine the reduction in the revenue requirement for each year. The calculations are detailed on my Exhibit No. ___ (LK-20).

3. The Dismantlement Estimates Fail to Use Operators' Probable Retirement Dates for Scherer 4 and SJRPP Service Lives and Increase Dismantlement Expense by Unreasonably Shortening Remaining Service Lives

Q. SHOULD THE DISMANTLEMENT EXPENSE ACCRUALS REFLECT THE SAME SERVICE LIVES AS THE DEPRECIATION RATES FOR SCHERER 4 AND SJRPP?

A. Yes. The service lives used for depreciation and dismantlement expense should be consistent.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION TO MODIFY THE SERVICE LIVES FOR SCHERER 4 AND SJRPP?

A. Yes. The effect is a reduction in the dismantling expense of $0.960 million in 2017 and $0.961 million in 2018. The calculations are shown on my Exhibit No. ___ (LK-21).

E. The Proposed Capital Recovery Amortization of Retired Plant Costs Is Excessive Due to An Unduly Short 4 Year Amortization Period; The Commission Should Use A More Reasonable 10 Year Amortization Period

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR CAPITAL RECOVERY AMORTIZATION OF RETIRED PLANT COSTS.

A. The Company proposes recovery of these retired plant costs over a 4 year amortization period, according to Mr. Ferguson and as shown on his Exhibit No. ___ (KF-3). The retired plants include Turkey Point Unit 1; Putnam Units 1, 2 and common; Fort

Lauderdale gas turbines; Fort Myers gas turbines; Port Everglades gas turbines; and Putnam transmission. Mr. Ferguson states that all of these assets will be retired by the start of the 2017 test year. Mr. Ferguson separates the proposed capital recovery between base rate and ECRC clause recovery.

Q. WHAT IS THE COMPANY'S BASIS FOR THE PROPOSED 4 YEAR AMORTIZATION PERIOD?

A. In his testimony, Mr. Ferguson suggests that the 4 year amortization period is found in Rule 25-6.0436 F.A.C., stating ". . . pursuant to Rule 25-6.0436 F.A.C., FPL has reflected its proposed capital recovery schedules, all of which would be recovered over a four year period." Ferguson Direct at 11.

There is no such requirement in Rule 25-6.0436 F.A.C. I have attached a copy of this Rule as my Exhibit No. ___ (LK-9). Nor could the Company identify any provision in the Rule that requires a 4 year amortization period when asked to identify any such provision in SFHHA Interrogatory No. 57. I have attached a copy of SFHHA Interrogatory No. 57 as my Exhibit No. ___ (LK-22).

In response to SFHHA Interrogatory No. 57, the Company cited the Rule in support of its request for recovery where there is a calculated deficiency and where the "utility demonstrates that (1) replacement of an installation or group or installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process." However, that provision of the Rule only addresses the ability to recover, not the length of the recovery or amortization period.

Finally, in response to SFHHA Interrogatory No. 57, the Company cited the settlements in Docket Nos. 080677-EI, 090130-EI, and 1200015-EI where it was allowed to amortize such costs over a 4 year period. However, the settlements in those cases are not precedent, and in any event, addressed only the capital recovery costs at issue in those proceedings, not the capital recovery costs at issue in this proceeding.

Q. IS THERE ANY COMPELLING REASON TO USE A 4 YEAR AMORTIZATION PERIOD?

A. No. All the plant subject to capital recovery is retired. Given that reality, the amortization and recovery period is not dependent on the remaining service lives of the assets. On that basis, the Commission has greater discretion to determine the appropriate amortization and recovery period. In doing so, the Commission should consider that a longer amortization and recovery period minimizes both the initial increase in costs and revenue requirements, and the reductions in both after the amortization is completed. In such cases, there should be a balance between the Company and its customers, particularly when the utility earns a return on the unamortized balance, which the Company has requested in this proceeding. On an economic basis, there is no harm to the Company regardless of whether the amortization and recovery period is shorter, such as 4 years, or longer, such as 10 or 20 years. On the other hand, there is significant benefit to customers from minimizing the annual rate effect through use of a longer amortization and recovery period.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission adopt a 10 year amortization period. This strikes a reasonable balance between the Company and its customers and avoids adding excessive accelerated recovery on top of the costs for new generation that replaced the retired generating plants.

Q. HAVE YOU QUANTIFIED THE EFFECTS OF YOUR RECOMMENDATION?

A. Yes. The effect is a reduction in amortization expense of $22.543 million and $22.561 million and in the revenue requirement of $22.574 million and $22.592 million in 2017 and 2018, respectively. There is a partially offsetting increase in the revenue requirement due to an increase in the rate base, which I address in the Rate Base Issues section of my testimony. The calculations are shown on my Exhibit No. ___ (LK-23).

F. Rate Case Expenses Are Not Justified

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR RECOVERY OF RATE CASE EXPENSE.

A. The Company estimates that it will incur $4.925 million in rate case expenses for this proceeding and proposes a deferral and 4 year amortization of these expenses.

Q. WAS IT NECESSARY FOR FPL TO FILE THIS RATE CASE?

A. No. This case never should have been filed. No rate increase is justified for the 2017 test year. The proposed additional 2018 test year for "subsequent year adjustments" and the proposed additional May 2020 test year for the Okeechobee "limited scope adjustment" are inappropriate, as I previously explained. The rate increases are driven in part by adjustments that are contrary to Commission policy or represent inappropriate departures from FPL's past practices or applicable rules.

Q. IF FPL HAD NEVER FILED THIS CASE, WOULD IT HAVE INCURRED RATE CASE EXPENSES?

A. No.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission deny recovery of the Company's rate case expenses. This case never should have been filed and the rate case expenses never should have been incurred. The Commission should make it clear that the utility is at risk for its expenses if it cannot justify the relief sought. This is an essential component of regulatory accountability. The Company is unjustified filing, as it is not entitled to a rate increase. Given this circumstance, it is only equitable that the Company bear its own costs in this proceeding.

IV. COMMISSION SHOULD ADJUST VARIOUS RATE BASE COMPONENTS AND AMOUNTS

A. All Nuclear Fuel in Process Should Be Qualified for AFUDC and Removed from Rate Base

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST FOR NUCLEAR FUEL IN PROCESS IN RATE BASE.

A. The Company included $406.621 million of nuclear fuel in process ("NFIP") in rate base in 2017 and $412.137 million in 2018, ostensibly based on the criteria set forth in FPSC Rule 25-6.0141 for the accrual of AFUDC, according to its response to SFHHA Interrogatory No. 175. I have attached a copy of this response as my Exhibit No. ___ (LK-24).

Q. PLEASE DESCRIBE THE TWO ALTERNATIVES THAT PROVIDE THE UTILITY RECOVERY OF COSTS INCURRED TO FINANCE CONSTRUCTION PROJECTS?

A. There are two alternatives for the recovery of the costs incurred to finance projects during construction. One alternative is to provide the utility current recovery of the financing costs by including the NFIP in rate base during construction. The other alternative is to add the financing costs to the NFIP in the form of allowance for funds used during construction ("AFUDC") and to provide the utility recovery of the AFUDC through a return of (depreciation) and a return on the AFUDC included in plant in-service over the lives of the underlying assets. Thus, the recovery is a matter of timing because the net present value generally is considered to be equivalent if the return on rate base, the AFUDC rate, and the discount rate are equivalent.

Q. GIVEN THAT THE RECOVERY IS A MATTER OF TIMING, SHOULD THE RECOVERY OF THE FINANCING COSTS BE UPFRONT OR OVER THE LIVES OF THE UNDERLYING ASSETS?

A. The recovery generally should be over the lives of the underlying assets for several reasons. First, the financing cost during construction is a cost of the asset, similar to all the other costs included in NFIP. There is no compelling reason to provide upfront recovery of one component of the asset's cost. The Rule itself explicitly recognizes that the Commission may establish different approaches than set forth in the Rule.

Second, there is the issue of intergenerational equity. If the recovery is upfront through NFIP in rate base, then today's customers pay for a component of the asset's cost before it provides any service and then future customers are relieved of a cost of service that should be allocated to and borne by them as the nuclear fuel is used and amortized. This is particularly true when the customer demographics reflect transient and older residential customers as well as significant customer growth over the lives of the assets. In other words, NFIP in rate base provides an unnecessary and inappropriate subsidy from today's customers, many of whom will not continue taking service from FPL years into the future, to future generations of customers, many of whom will be new customers of FPL in the future.

Third, by definition, assets have lives that extend beyond the test year. Thus, all costs associated with the construction or completion of an asset that is constructed or acquired to provide service should be recovered from customers over the period that the asset provides service to those customers. This is the concept underlying the capitalization of plant costs and the depreciation and recovery of those costs over the assets' estimated service lives.

Q. PLEASE DESCRIBE THE COMMISSION'S RULE CONCERNING AFUDC.

A. FAC Rule 25-6.0141(1)(a) sets forth certain criteria for the accrual of AFUDC for NFIP and construction work in progress ("CWIP") projects that "involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101-Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences" and "are expected to be completed in excess of one year after commencement of construction." I have attached a copy of this Rule as my Exhibit No. ___ (LK-25) for ease of reference.

Q. DOES THE RULE PROVIDE THE COMMISSION DISCRETION TO CONSIDER THE POTENTIAL IMPACT OF NFIP ON RATES AND FOR THE ELIGIBILITY OF COSTS FOR AFUDC?

A. Yes. FPSC Rule 25-6.0141(1)(g) states that "On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per paragraph (1)(a) and to allow the utility to accrue AFUDC on that excluded amount."

Q. SHOULD THE COMMISSION EXCLUDE THE NFIP FROM RATE BASE?

A. Yes. This case provides an opportunity for the Commission to ensure that these nuclear fuel costs are removed from base rates. The financing costs are a legitimate component of the nuclear fuel costs and are properly borne by the customers that are served by these assets. The Commission can achieve this objective by removing these NFIP costs from rate base in this proceeding and authorizing the Company to use AFUDC instead. Providing a current return on the cost of these NFIP projects in this proceeding inappropriately forces today's customers to pay a portion of the cost of the assets before they are placed in-service rather than allocating the financing costs on these projects during construction to the customers who will be served by the assets.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission remove the NFIP from rate base and direct the Company to accrue AFUDC during construction.

Q. HAVE YOU QUANTIFIED THE EFFECT ON FPL'S REVENUE REQUIREMENT OF YOUR RECOMMENDATION?

A. Yes. The effect is to reduce the Company's claimed revenue requirement by $40.176 million ($406.621 million times 9.88%) in 2017 and by $41.125 million ($412.137 million times 9.98%) in 2018.

<u>B. I&D Reserve and EOL M&S and Last Core Nuclear Reserves Should be Reduced to Reflect SFHHA Recommendations to Reduce the Expenses</u>

Q. IN THE OPERATING INCOME SECTION OF YOUR TESTIMONY, YOU RECOMMEND VARIOUS REDUCTIONS TO I&D EXPENSE AND EOL M&S AND LAST CORE NUCLEAR FUEL EXPENSES. HAVE YOU REFLECTED THE RELATED REDUCTIONS IN THE RESERVES?

A. Yes. The reductions in the reserves increase rate base and the revenue requirement, and partially offset the reductions in these expenses and the revenue requirements. The increases in the revenue requirements are shown on the tables in the Summary section of my testimony for 2017 and 2018.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT DUE TO THE INCREASE IN RATE BASE RESULTING FROM THIS SFHHA RECOMMENDATION?

A. Yes. The effect is an increase in the revenue requirement of $2.055 million in 2017 and $6.226 million in 2018. The calculations are shown on my Exhibit No. ___ (LK-8).

<u>C. Accumulated Depreciation and Accumulated Fossil Dismantling Should be Reduced to Reflect SFHHA's Recommendations to Reduce Depreciation and Dismantling Expense</u>

Q. IN THE OPERATING INCOME SECTION OF YOUR TESTIMONY, YOU RECOMMEND VARIOUS REDUCTIONS TO DEPRECIATION AND FOSSIL DISMANTLING EXPENSE. HAVE YOU REFLECTED THE RELATED REDUCTIONS IN ACCUMULATED DEPRECIATION AND ACCUMULATED DISMANTLING?

A. Yes. The reductions in accumulated depreciation and accumulated dismantling increase rate base and the revenue requirement, and partially offset the reductions in depreciation and dismantling expenses and the revenue requirement. The increases in the revenue requirements resulting from my primary recommendation on depreciation rates and expense and my recommendations on dismantling are shown on the tables in the Summary section of my testimony for 2017 and 2018.

D. Accrued Utility Revenues Should Not be Included in Cash Working Capital Because There Is No Financing Cost

Q. IS THERE A PROBLEM WITH THE COMPANY'S WORKING CAPITAL CALCULATION?

A. Yes. The Company improperly included $228.510 million in 2017 and $229.795 million in 2018 in account 173 Accrued Utility Revenues (unbilled revenues) in working capital. The amount in this account consists of the unbilled revenues related only to the Company's base tariffs. These unbilled revenues represent the estimated revenues that will be billed for service that was provided during the month, but that were not yet billed at the end of the month. Each month, the unbilled revenues for the prior month are reversed because the prior month's unbilled revenues are billed in the current month and then a new estimate for the current month is recorded.

Q. DOES THE COMPANY ACTUALLY INCUR A FINANCING COST ON UNBILLED REVENUES?

A. No. The unbilled revenues represent an estimate of revenues that were earned during the month, but that were not yet billed. The unbilled revenues are an accounting placeholder for a future receivable, but do not represent a cost that the Company must finance at the end of each month. There are no carrying costs on the unbilled revenues for several reasons. First, the Company did not incur incremental costs to earn these estimated revenues. That is because the unbilled revenues recognized by the Company are for base rates only. The unbilled revenues do not include revenues for recovery of the variable costs that are recovered through clauses, such as the fuel adjustment clause. If the Company does not accrue unbilled revenues for fuel clause recovery revenues, then it also does not accrue accounts payable for the related fuel expense and there is no incremental amount in the accounts payable account to offset the nonfuel unbilled revenues.

Second, the billed revenues actually provide contemporaneous recovery of the Company's fixed costs each month that do not vary based on sales from month to month. These costs include the return on the Company's rate base investment, depreciation expense, non-fuel O&M expense, and other operating expenses. This is particularly true when the revenue requirement is based on a projected test year that corresponds to a calendar year and not to a lagged test year that corresponds to the Company's unbilled service periods.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission remove the accrued revenues from the cash working capital in rate base.

Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION?

A. The effect is to reduce the Company's revenue requirement by $22.578 million in 2017 and $22.930 million in 2018. I computed these amounts by multiplying accrued utility revenues (jurisdictional) shown on Schedule B-17 times the Company's proposed grossed-up rates of return of 9.88% in 2017 and 9.98% in 2018.

E. Unamortized Rate Case Expense Should Not Be Included In Rate Base

Q. DID THE COMPANY INCLUDE ESTIMATED RATE CASE EXPENSES FOR THIS PROCEEDING IN WORKING CAPITAL?

A. Yes. The Company included $4.309 million in working capital as shown on Schedule B-2 page 3 line 23 for the estimated rate case expenses in this proceeding.

Q. SHOULD THE COMMISSION ALLOW UNAMORTIZED RATE CASE EXPENSE IN RATE BASE?

A. No. First, I recommend that the Commission deny recovery of rate case expenses, as I explained in the Operating Income section of my testimony.

Second, even if it allows the Company recovery of rate case expenses, the Commission historically has not allowed unamortized rate case expenses in rate base. The Commission rejected similar requests in the Company's last adjudicated base rate proceeding and by Gulf Power Company in Docket No. 110138-EI. Order No. PSC-12-0179-FOF-EI.

Third, the exclusion of these expenses from rate base results in a sharing of the costs and an equitable balance between the Company and its customers. The Company is allocated the carrying costs and customers are allocated the principal, which is the greater share of the costs. Such a sharing is appropriate in a typical case because the rate case expenses are incurred by the Company for the benefit of the Company and its shareholder, not its customers. The Commission affirmed the concept of sharing between the utility and its customers in the Gulf Power Company Order that I previously cited as follows:

> As noted above, we have a long-standing practice in electric and gas rate cases of excluding unamortized rate case expense from working capital, as demonstrated in a number of prior cases. The rationale for this position is that ratepayers and shareholders should share the cost of a rate case; *i.e.*, the cost of the rate case would be included in O&M expense, but the unamortized portion would be removed from working capital. This practice underscores the belief that customers should not be required to pay a return on funds spent to increase their rates.

Fourth, the amortization period proposed by the Company is sufficiently short that the actual carrying costs on the unamortized rate case expense will be relatively minor.

Fifth, such costs are short-lived assets, which typically are financed with short-term debt, further reducing the actual carrying costs on the unamortized rate case expense to relatively minor amounts.

Sixth, if the estimated costs are included in rate base, the Company will over-recover each year after the test year because revenues recovered will not decline even though the revenue requirement declines as the costs are amortized. That will occur because there is no true-up of the recoveries with the actual costs. The Commission recognized this concern in the Gulf Power Company Order that I previously cited as follows:

> While unamortized rate case expense does not earn a return in working capital for electric and gas companies, it is offset by the fact that rates are not reduced after the four year amortization period ends. Thus, the amount in O&M expense continues to be collected after total rate case expense has been recovered.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a reduction in the revenue requirement of $0.426 million ($4.309 million times the Company's proposed 9.88% grossed-up rate of return) for the 2017 test year and $0.307 million ($3.078 million times the Company's proposed 9.98% grossed-up rate of return) for the 2018 test year. In addition, there is a related reduction in ADIT for each test year that I address and quantify in the Rate of Return Issues section of my testimony. This adjustment would apply only if the Commission does not exclude the entirety of FPL's rate case expense.

F. The Deferred Pension Debit Is Incorrect and Overstated

Q. HAVE YOU REFLECTED THE COMPANY'S CORRECTION TO THE DEFERRED PENSION DEBIT FOR 2017 AND 2018?

A. Yes. The Company included $1,290.218 million (jurisdictional), or $1,333.623 million (total Company), in rate base for 2017, and $1,355.225 million (jurisdictional), or $1,399.731 million (total Company) in rate base for 2018 in its filing. These amounts are shown on Schedule B-6 for each year, respectively. In response to SFHHA Interrogatories 132 and 133, FPL acknowledged that the deferred pension debts were overstated in 2017 and 2018. In those responses, the Company provided corrected deferred pension debits of $1,329.977 million (total Company) for 2017 and $1,390.849 million (total Company) for 2018. I have attached a copy of the responses to SFHHA Interrogatories 132 and 133 as my Exhibit No. ___ (LK-26).

Q. WHAT IS THE EFFECT ON THE REVENUE REQUIREMENTS OF CORRECTING THESE ERRORS?

A. The effect is a reduction in the revenue requirement of $0.349 million in 2017 and $0.858 million in 2018. I calculated these amounts by multiplying the reduction in the deferred pension asset (jurisdictional) times the Company's requested grossed-up rate of return in each year.

G. Summary of SFHHA Rate Base Adjustments

Q. PLEASE PROVIDE A SUMMARY SHOWING ALL RECOMMENDED SFHHA ADJUSTMENTS TO RATE BASE.

A. I summarize all recommended rate base adjustments and reconcile the Company's requested rate base with the SFHHA recommended rate base on my Exhibit No. ___ (LK-27). I use the SFHHA recommended rate base to quantify all the recommended SFHHA adjustments to the cost of capital in the following Rate of Return Issues section of my testimony.

V. RATE OF RETURN ISSUES

A. The Rate of Return Authorized in This Proceedings Also Affects Recovery Clauses and AFUDC

Q. DOES THE COST OF CAPITAL AUTHORIZED BY THE COMMISSION IN THIS PROCEEDING AFFECT CLAUSE RECOVERIES IN ADDITION TO

CWIP AND PLANT COSTS THAT INCLUDE AFUDC AFTER JANUARY 1, 2017?

A. Yes. The cost of capital approved in this proceeding will be used in all clause recoveries that include rate base investment and a rate of return, except for the nuclear cost recovery, which uses a prescribed fixed cost of capital.

In addition, the cost of capital authorized in this proceeding also will affect the AFUDC rate, which in turn will affect customer rates for decades into the future. The greater the AFUDC rate, the greater the cost of plant in-service included in rate base and the related depreciation included in future revenue requirements over the lives of the assets. The Company used the AFUDC rate most recently approved by the Commission in Docket No. 140035-EI to calculate the AFUDC included in CWIP and additions to plant in service in its filing in this proceeding. Thus, the AFUDC rate reflected in this case is not based on the Company's requested cost of capital, nor does it or will it reflect the Commission's determination of the cost of capital in this proceeding.

Q. IF THE COMMISSION ADOPTS THE COST OF CAPITAL RECOMMENDATIONS OF SFHHA OR OTHER NON-FPL PARTICIPANTS, WHAT GENERAL EFFECTS WILL THAT HAVE IN THIS PROCEEDING AND ON THE CLAUSE RECOVERIES?

A. In this proceeding, it will result in a reduction to the Company's claimed revenue deficiency (or the level of the Company's over-collection) and a reduction in the base rate increases, including the Okeechobee increase, all else equal. It also will result in a reduction to the Company's clause recoveries, all else equal, and the reductions in the clause recoveries will partially offset any base rate increases in this proceeding.

Q. IF THE COMMISSION ADOPTS THE COST OF CAPITAL RECOMMENDATIONS OF SFHHA OR OTHER NON-FPL PARTICIPANTS, WHAT EFFECTS WILL THAT HAVE ON THE AFUDC ACTUALLY RECORDED BY FPL COMPARED TO WHAT IT HAS REFLECTED IN ITS FILING IN THIS PROCEEDING?

A. The AFUDC rate will be less and the AFUDC actually recorded will be less than what FPL reflected in its filing in this proceeding. In other words, the revenue requirement in the filing is greater than the actual costs and AFUDC that FPL will record on its accounting books starting January 1, 2017.

Q. DO YOU HAVE A RECOMMENDATION ON HOW TO CORRECT THIS MISMATCH AND AVOID EXCESSIVE RECOVERIES?

A. Yes. The Commission should direct the Company to calculate the difference in the revenue requirement using the approved cost of capital for each of the test years compared to its filing and then use that reduction to reduce the revenue requirements that it otherwise determines are appropriate for the test years.

Q. PLEASE DESCRIBE HOW YOU QUANTIFIED THE REVENUE REQUIREMENT EFFECTS OF THE RATE BASE AND COST OF CAPITAL ADJUSTMENTS THAT YOU AND SFHHA WITNESS MR. RICHARD BAUDINO RECOMMEND.

A. I calculated the revenue requirement effects of these adjustments in a sequential manner. I calculated the revenue requirement effect of each SFHHA rate base adjustment for each year using the Company's requested grossed up rate of return. The Company's requested grossed-up rate of return is shown in Section I of Exhibit No. ___ (LK-28) for 2017, Exhibit No. ___ (LK-29) for 2018, and Exhibit No. ___ (LK-30) for Okeechobee. I used the Company's requested rate of return from Schedule D-1a for each year and then calculated the grossed-up rate of return using the gross-up factor for each capitalization component from Schedule C-44 for each year.

I then sequentially calculated the grossed up rate of return and revenue requirement effects of each SFHHA capitalization and cost adjustment in each of the subsequent Sections of Exhibit No. ___ (LK-28) for 2017, Exhibit No. ___ (LK-29) for 2018, and Exhibit No. ___ (LK-30) using the rate base after all SFHHA adjustments for each of those test years.

In each Section, I calculated the reduction in the grossed up rate of return for the issue and then multiplied that reduction by the SFHHA adjusted rate base to quantify the revenue requirement effect of each adjustment. I previously calculated the effects on the revenue requirements of each SFHHA rate base adjustment using the Company's proposed grossed-up rate of return. In the calculations of the effects of the SFHHA adjustments to cost of capital, I assumed that the Commission adopted all of the SFHHA adjustments to rate base to ensure that I did not double count the effects of any of the SFHHA recommendations.

B. Adjustments to ADIT in Capital Structure Are Necessary to Correspond to Rate Base Adjustments

Q. HAVE YOU ADJUSTED THE ADIT IN THE CAPITAL STRUCTURE TO CORRESPOND TO THE RATE BASE ADJUSTMENTS YOU RECOMMEND?

A. Yes. The rate base adjustments affect the amount of ADIT, a source of funds to FPL which does not cost FPL anything, included in the capital structure and thus, affects the rate of return applied to the rate base.

Q. HAVE YOU QUANTIFIED THE EFFECT OF THESE ADIT ADJUSTMENTS IN THE COST OF CAPITAL AND THE REVENUE REQUIREMENTS FOR THE 2017 AND 2018 TEST YEARS?

A. Yes. The effect is to increase the ADIT included in the capital structure by $48.836 million and $151.932 million, decrease the grossed-up cost of capital slightly from 9.88% to 9.87% and from 9.98% to 9.93% and to reduce the revenue requirement by $4.742 million and $14.982 million in 2017 and 2018, respectively. The effects on the cost of capital are detailed in Section II of Exhibit No. ___ (LK-28) and Exhibit No. ___ (LK-29) for 2017 and 2018, respectively.

C. The Company's Adjustment to Reduce ADIT Based On Treasury Regulation 1.167(l)-1(h)(6) Is Incorrectly Calculated and Excessive

Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO REDUCE ADIT BASED ON TREASURY REGULATION 1.167(l)-1(h)(6).

A. This Treasury Regulation sets forth a "proration" methodology for use with a projected test year that effectively reduces the ADIT that may be treated as cost-free capital. It does so by assuming that ADIT is increased only once per month when the deferred tax expense is recorded and that the increase is outstanding only for the remaining days in the test year. I have attached a copy of this Treasury Regulation as my Exhibit No. ___ (LK-31).

Although this Treasury Regulation has been in effect for more than 40 years, FPL never has sought to reduce the 13 month average ADIT calculated for the test year based on this "proration" methodology. Instead, FPL has consistently synchronized the deferred tax expense recorded and recovered during the test year with the ADIT included as cost-free capital to FPL in the cost of capital applied to rate base. That ratemaking treatment reflects the economic reality that the deferred income tax expense is recovered throughout the month, not at the end of the month, and that customers are entitled to a carrying charge on the average amount of the deferred tax expense recoveries in the form of ADIT at 0% cost.

FPL never has self-reported a "normalization violation" and the IRS never has found a "normalization violation," according to its response to SFHHA Interrogatory 171, a copy of which I have attached as my Exhibit No. ___ (LK-32).

Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF THIS "PRORATION" METHODOLOGY ADJUSTMENT.

A. FPL witness Ms. Kim Ousdahl calculated the effect of this "proration" methodology on her Exhibit No. ___ (KO-8) page 1 for 2017 and page 2 for 2018. The prorated monthly activity is shown in Column E on each page and sums to $143.670 million for 2017 and $78.836 million for 2018. Ms. Ousdahl calculated the monthly prorated accumulated activity monthly in Column F and then calculated a 13 month average of this column. Finally, Ms. Ousdahl calculated the difference between the actual 13 month average and the 13 month average that she calculated in Column F to determine the reduction in ADIT.

Q. IS MS. OUSDAHL'S CALCULATION OF THE REDUCTION IN THE ADIT CONSISTENT WITH THE METHODOLOGY AND EXAMPLES SET FORTH IN THE TREASURY REGULATION?

A. No. The Treasury Regulation requires that the amounts in Column E be summed and added to the beginning balance of ADIT in the test year. The amounts in Column E are the changes in ADIT each month weighted for the number of days to the end of the year. These weighted amounts are then summed to determine the 13 month average pursuant to the Treasury Regulation. Inexplicably, Ms. Ousdahl added another step in Column F that is inconsistent with and nowhere shown in the Treasury Regulation or the examples provided therein. This extra step dilutes the 13 month average pursuant to the Treasury Regulation by taking another 13 month average of the monthly accumulated activity.

Q. WHAT IS THE CORRECT CALCULATION OF THE ADIT PURSUANT TO THE PRORATION METHODOLOGY SET FORTH IN THE TREASURY REGULATION?

A. The 13 month average using the "proration" methodology set forth in the Treasury Regulation through multiple examples is calculated as the sum of the prorated monthly activity amounts in Column E ($143.670 million) and the beginning balances at January 1, 2017 ($8,110.356 million), or $8,254.026 million for 2017. The 13 month average using the proration methodology is calculated as the sum of the prorated monthly activity in Column E ($78.836 million) and the beginning balance at January 1, 2018 ($8,410.630 million), or $8,489.466 million for 2018.

These 13 month averages using the corrected "proration" methodology are less than the actual 13 month averages shown in Column B by only $10.674 million for 2017 and only $5.791 million for 2018 compared to the proposed reductions of $57.553 million for 2017 and $43.476 million for 2018 calculated by Ms. Ousdahl.

Q. IS THERE A SIMPLE WAY TO CONFIRM THAT FPL'S EXTRA STEP RESULTS IN AN UNREASONABLY LARGE ADJUSTMENT?

A. Yes. FPL's proposed reduction in the ADIT is a multiple of the average deferred income tax expense during each test year rather than a fraction as is the case in each of the examples provided in the Treasury Regulation. The Company's proposed reduction in ADIT is $57.553 million in 2017, nearly 2 and a half months of the average monthly deferred tax expense of $25.023 million ($300.274 million divided by 12). The reduction following the methodology set forth in the Treasury Regulation results in a reduction of only $10.674 million for 2017 and $5.791 million for 2018, or somewhat less than a half month of the average monthly deferred tax expense of $25.023 million.

Q. WHAT IS THE REVENUE REQUIREMENT EFFECT OF CORRECTING THE ERROR IN FPL'S CALCULATIONS FOR 2017 AND 2018?

A. The revenue requirement should be reduced by $5.975 million for 2017 and $4.887 million for 2018. The calculations are shown in Section III of my Exhibit No. ___ (LK-28) and my Exhibit No.___ (LK-29) for 2017 and 2018, respectively, as adjustments to the ADIT included in the capitalization used for the rate of return. I increased the ADIT in 2017 by $46.879 million ($57.553 million adjustment calculated by Ms. Ousdahl less the $10.674 million corrected amount) and in 2018 by $37.685 million ($43.476 million less the $5.791 million corrected amount).

D. Quantification of Short Term Debt Interest Rates

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S RECOMMENDATION TO EXCLUDE THE COMMITMENT FEES FROM THE COST OF SHORT TERM DEBT AND INCLUDE THE FEES AS AN OPERATING EXPENSE?

A. Yes. Although there is no net effect on the revenue requirement in either test year, I show increases of $3.974 million and $4.735 million in operating expenses for 2017 and 2018, respectively, and reductions of the same amounts in the return component of the revenue requirements on the tables in the Summary section of my testimony.[1] The calculations are shown in Section IV of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S RECOMMENDATION TO USE A SHORT-TERM DEBT INTEREST RATE OF 0.56% FOR 2017 AND 2018?

[1] FPL included commitment fees in the calculation of the short term debt interest rate of $4.589 million in the 2017 test year and $4.572 million in the 2018 test year, according to Schedule D-3. This contributes 0.66% of the 1.85% short term debt interest rate in 2017 and 1.23% of the 2.68% short term debt interest rate in 2018. This contributes 0.01% of the 0.03% weighted short term debt interest rate in 2017 and 0.02% of the 0.03% weighted short term debt interest rate in 2018.

A. Yes. Mr. Baudino's recommendations reduce the revenue requirements by $3.793 million in 2017 and $2.002 million in 2018. The calculations are shown in Section V of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

E. Quantification of Long Term Debt Interest Rates

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S RECOMMENDATIONS FOR THE COSTS OF THE LONG TERM DEBT ISSUES IN 2017 AND 2018?

A. Yes. Mr. Baudino's recommendations reduce the revenue requirements by $12.986 million in 2017 and $35.680 million in 2018. The calculations are shown in Section VI of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

F. Quantification of Return on Equity Incentive

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S RECOMMENDATION TO REJECT THE COMPANY'S REQUEST FOR A 50 BASIS POINT ADDER TO THE REQUIRED RETURN ON EQUITY IN 2017 AND 2018?

A. Yes. The elimination of this adder reduces the revenue requirement by $117.402 million in 2017 and $122.941 million in 2018 based on the Company's proposed capital structure. The calculations are shown in Section VII of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

G. Quantification of Return on Equity

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. BAUDINO'S RECOMMENDATION TO SET THE COMPANY'S REQUESTED RETURN ON

EQUITY, EXCLUDING THE ADDER, AT 9.0%, RATHER THAN FPL'S REQUESTED 11.0%?

A. Yes. The reduction in the return on equity to 9.0% from the requested 11.0% reduces the revenue requirement by $469.607 million in 2017 and $491.766 million in 2018. The calculations are shown in Section VIII of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

Q. HAVE YOU QUANTIFIED THE EFFECT OF EACH 1.0% RETURN ON EQUITY?

A. Yes. The effect of each 1.0% return on equity on the revenue requirement is $234.804 million in 2017 and $245.883 million in 2018 based on the Company's proposed capital structure. The calculations are shown in Section VIII of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

H. Quantification of Reduction of Common Equity in Capital Structure

Q. HAVE YOU QUANTIFIED THE EFFECT OF MR. BAUDINO'S RECOMMENDATIONS TO MODIFY THE CAPITAL STRUCTURE %?

A. Yes. The effect is to reduce the revenue requirement by $135.869 million in 2017 and $156.470 million in 2018. The calculations are shown in Section IX of my Exhibit No. ___ (LK-28) for 2017 and Exhibit No. ___ (LK-29) for 2018.

VI. THE COMPANY FAILED TO REFLECT THE SECTION 199 MANUFACTURER'S DEDUCTION IN THE CALCULATION OF THE REVENUE EXPANSION FACTOR

Q. PLEASE DESCRIBE THE SECTION 199 DEDUCTION REFLECTED BY THE COMPANY IN ITS FILING.

A. The Company reflected the Section 199 ("Manufacturer's") deduction in the calculation of income tax expense on Schedule C-22. This is a permanent deduction that reduces federal and state taxable income in each year and is equal to 9% of the production component of taxable income. The Company calculated the amount reflected on Schedule C-22 before any rate increases in 2017 and 2018.

Q. IS THERE AN ADDITIONAL SECTION 199 DEDUCTION THAT THE COMPANY FAILED TO REFLECT IN ITS FILING?

A. Yes. If there is additional revenue, there is additional taxable income, and an additional Section 199 deduction equal to 9% of the production component of the increase in taxable income. The Section 199 deduction normally is reflected in the revenue expansion conversion factor to ensure that the additional income tax resulting from the gross-up of the operating income deficiency is correctly calculated. The revenue expansion factor calculates the revenue deficiency by grossing-up the operating income deficiency for income taxes and other revenue-based expenses.

However, the Company did not reflect the Section 199 deduction in the calculation of the revenue expansion factor shown on Schedule C-44. This error had the effect of increasing the revenue expansion factor and improperly increasing the revenue deficiency.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the revenue expansion factor be corrected to include the Section 199 deduction if the Commission finds that the Company has a revenue deficiency in any of the test years.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE REVENUE REQUIREMENT OF YOUR RECOMMENDATION FOR THE 2017 AND 2018 TEST YEARS?

A. No. There are no effects for 2017 and 2018 given the reduction in the revenue requirements resulting from the SFHHA adjustments and recommendations. The Company used its revenue expansion factor to convert the claimed operating income deficiency to a revenue deficiency. Thus, it was necessary to use the same revenue expansion factor for all adjustments to the claimed revenue requirement deficiencies.

If the Commission determines that there is an operating income deficiency in either test year, then it should modify the revenue expansion factor to reflect the Section 199 deduction because the Section 199 deduction will increase as taxable income increases due to the revenue increase(s).

Q. HAVE YOU CALCULATED THE REVENUE EXPANSION FACTOR TO INCLUDE THE SECTION 199 DEDUCTION?

A. Yes. I started with the calculation shown on Schedule C-44. I calculated the deduction as 9% of the taxable income allocable to production. I calculated the allocation to production based on the ratio of net production plant divided by net total plant, as depicted in Schedule E-3a. This is reasonable because income tax expense is equivalent to the gross-up on the equity return on rate base. The net production plant ratio is a proxy for the net production rate base ratio. The calculations are shown on my Exhibit No. ___ (LK-33).

VII. THE OKEECHOBEE REVENUE REQUIREMENT IS OVERSTATED

A. If the Commission Allows the Okeechobee Limited Scope Adjustment in this Proceeding, It Should Reject The Company's Proposed GBRA Form of Recovery

<u>And Replace It with A Modified Rider that Tracks the Actual Revenue Requirement Until Base Rates Are Reset</u>

Q. IS THE COMPANY'S GBRA PROPOSAL FOR OKEECHOBEE A BALANCED APPROACH TO RATEMAKING?

A. No. The Company's proposed base rate increase for Okeechobee is a selective single issue rate increase that is not balanced against potential reductions in the revenue requirement from other sources and does not reflect future reductions in costs as Okeechobee is depreciated for book and income tax purposes.

In addition, the proposed base rate increase for Okeechobee is not a cost recovery mechanism or tracker that relies on actual costs, but rather, is an increase based on the Company's estimate of the first year revenue requirement when the Okeechobee plant and related transmission are placed in service on or about June 1, 2019. That increase will remain in effect and the Company's revenue recovery will grow as its customers and usage continue to grow even as its costs decline.

Further, the proposed base rate increase is never trued-up to reflect the actual cost of the Okeechobee plant and related transmission, despite the fact that the Company has a history of completing projects below budget, according to Mr. Silagy's testimony in this case. Mr. Silagy states: "During the term of the agreement, FPL completed its modernization of the Cape Canaveral and Riviera Beach plants on time and on or under budget. The modernization of the Port Everglades plant also is nearing completion and is expected to be operational ahead of schedule and under budget." Silagy Direct Testimony at 10.

FPL's proposed GBRA mechanism ignores fundamental principles against piecemeal ratemaking by permitting the utility to collect amounts in excess of what it otherwise would be entitled to collect while depriving ratepayers of the benefit of rate reduction mechanisms.

Further, the GBRA mechanism is not even a proposed tariff even though it is self-implementing. There is no proposed tariff to review. There is no detailed description of the mechanism or revenue requirement computations in the testimony of any FPL witness. Company witness Ms. Ousdahl simply refers to the existing GBRA (a product of a settlement) in her testimony.

Finally, based on the Company's computation of the proposed Okeechobee revenue requirement, there are serious computational problems in the Company's proposed GBRA, which improperly increase the Company's revenue requirement.

Q. PLEASE DESCRIBE THE COMPUTATIONAL PROBLEMS WITH THE COMPANY'S PROPOSED GBRA.

A. There are numerous problems that are evident from a review of the Company's separate computation of the Okeechobee revenue requirement for the first year of its operation that the Company provided in this proceeding. The Commission should not allow the use (or misuse) of a GBRA to provide the Company with excessive revenues. First, the depreciation expense is overstated for the reasons that I address in the Depreciation issues section of my testimony. Second, the ADIT subtracted from rate base is understated because it does not reflect bonus depreciation and is improperly allocated to the months within the test year. Third, the proposed rate of return is overstated due to an excessive common equity ratio. Fourth, the proposed rate of return is overstated due to the Company's use of the so-called "incremental" cost of debt rather than the weighted average cost of debt outstanding. Fifth, the proposed rate of return is overstated due to the excessive return on common equity, including a so-called performance award. I address each of these problems in the following sections of my testimony.

B. Depreciation Rates and Expense for Okeechobee Are Overstated

Q. PLEASE DESCRIBE THE DEPRECIATION RATE PROPOSED FOR OKEECHOBEE.

A. The Company proposes an overall depreciation rate of 3.60% for Okeechobee based on the proposed depreciation rate for the Port Everglades Energy Center.

Q. IS THE COMPANY'S PROPOSED DEPRECIATION RATE FOR OKEECHOBEE APPROPRIATE?

A. No. It is excessive for several reasons. First, the depreciation study reflected a remaining life of 39 years for the Port Everglades Energy Center based on the depreciation study date of December 31, 2017. The Company has assumed that new combined cycle plants have a service life of 40 years. Thus, the Okeechobee depreciation rate should reflect a service life of 40 years.

Second, the Company proposed splitting account 343 into two subaccounts in its depreciation study. This inordinately increased the depreciation rates for the combined cycle plants, as I previously described.

Third, a new power plant will have relatively minimal interim retirements. The Company can use actual statistical retirement data in its next depreciation study after the plant has operated for a few years.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission use a 2.5% depreciation rate. This rate is based on the Company's assumption of a 40 year service life for new combined cycle plants and assumes no initial interim retirements or net salvage.

Q. HAVE YOU QUANTIFIED THE REVENUE REQUIREMENT EFFECT OF YOUR RECOMMENDATION?

A. Yes. This results in a reduction in the Okeechobee depreciation expense of $11.974 million and a net reduction in the revenue requirement of $11.500 million after consideration of the effects on accumulated depreciation and ADIT on rate base. The calculations are shown on my Exhibit No. ___ (LK-34).

<u>C. ADIT Subtracted from Rate Base Is Significantly Understated</u>

Q. DID THE COMPANY CALCULATE AND SUBTRACT THE CORRECT AMOUNT OF ADIT FROM RATE BASE?

A. No. It is significantly understated. The Company failed to reflect the fact that bonus depreciation is available in its entirety the day that the asset is placed in service for tax purposes. The Company assumed that it would be able to deduct $396.117 million in tax depreciation. This is equal to the $417.482 million shown on Schedule C-22 times the 94.88% jurisdictional allocation factor. The combined federal and state income tax rate is 38.58%. Thus, the ADIT should be at least $152.822 million ($396.117 million times

38.58%). The ADIT used by the Company to reduce rate base on Schedule B-1 is only $85.747 million. The difference is $75.296 million on a total Company basis, or $71.443 million on a jurisdictional basis.

Q. WHAT IS THE EFFECT OF USING THE CORRECT ADIT AMOUNT AS A RATE BASE REDUCTION IN THE OKEECHOBEE INCREASE?

A. The effect is a reduction in the Okeechobee revenue requirement of $9.469 million due to the additional ADIT ($71.443 million times 13.25%, the Company's proposed grossed-up cost of capital for Okeechobee, as shown in Section I on my Exhibit No. ___ (LK-30)).

Q. HAVE YOU SUMMARIZED THE RATE BASE FOR OKEECHOBEE AS THE RESULT OF THE SFHHA RECOMMENDATIONS?

A. Yes. The calculations are shown on my Exhibit No. ___ (LK-35).

D. The Cost of Capital for Okeechobee Is Separately Calculated and Significantly Overstated

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED COST OF CAPITAL TO APPLY TO THE OKEECHOBEE RATE BASE.

A. The Company proposes a capital structure consisting of 60.39% common equity and 39.61% long-term debt for the proposed Okeechobee increase, according to Schedule D-1a. The Company included no other capital components for the Okeechobee cost of capital. The Company included the ADIT as a reduction to the Okeechobee rate base rather than in the cost of capital at zero cost.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE REVENUE REQUIREMENT OF MR. BAUDINO'S RECOMMENDATIONS FOR THE COSTS OF THE LONG TERM DEBT?

A. Yes. It reduces the revenue requirements by $1.333 million. I assumed that the cost of debt would be the same in 2019 as in 2018 after reflecting Mr. Baudino's recommendations for the costs of long term debt issues in 2017 and 2018. The calculations are shown in Section II of my Exhibit No. ___ (LK-30).

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE REVENUE REQUIREMENT OF MR. BAUDINO'S RECOMMENDATION TO REJECT THE COMPANY'S REQUEST FOR A 50 BASIS POINT ADDER TO THE REQUIRED RETURN ON EQUITY?

A. Yes. The elimination of this adder reduces the revenue requirement by $4.865 million. The calculations are shown in Section III of my Exhibit No. ___ (LK-30).

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE REVENUE REQUIREMENT OF THE RETURN ON EQUITY RECOMMENDED BY MR. BAUDINO?

A. Yes. The effect is to reduce the Okeechobee revenue requirement by $19.458 million. The effect is to reduce the revenue requirement by $9.729 million for each 1.0% change in the return on equity. These effects on the revenue requirement depend on other adjustments that the Commission makes to the Okeechobee rate base and capital structure. I have assumed that the Commission adopts all of the SFHHA adjustments to the rate base and capital structure so that there is no double counting in my quantifications. I quantified each adjustment sequentially in the order shown on the table in the Summary section of my testimony.

Q. HAVE YOU QUANTIFIED THE EFFECT ON THE CLAIMED OKEECHOBEE REVENUE REQUIREMENT OF USING THE SAME CAPITAL STRUCTURE RECOMMENDED BY MR. BAUDINO FOR THE 2017 AND 2018 TEST YEARS?

A. Yes. The effect is to reduce the Okeechobee increase by $7.366 million, based on a capital structure for Okeechobee that reflects short-term debt, long-term debt, and common equity in the same proportion as recommended by Mr. Baudino for the 2017 and 2018 test years. The calculations are detailed in Section V on my Exhibit No. ___ (LK-30).

VIII. THE STORM COST RECOVERY FRAMEWORK ADOPTED IN THE 2010 SETTLEMENT SHOULD NOT BE EXTENDED

Q. DOES THE COMPANY SEEK RECOVERY OF A STORM DAMAGE EXPENSE ACCRUAL IN THIS PROCEEDING?

A. No.

Q. DOES THE COMPANY MAKE ANY PROPOSALS FOR STORM COST RECOVERY?

A. Yes. The Company proposes that the Commission continue the framework set forth in the 2010 rate case settlement adopted in Docket No. 090130-EI and continued in the 2012 rate case settlement adopted in Docket No. 120015-EI, according to Company witness Mr. Moray Dewhurst. Dewhurst Direct Testimony at 32. Mr. Dewhurst also provides a summary description of the relevant terms of the 2010 settlement that would continue in effect under the Company's proposal. *Id*.

Q. DOES MR. DEWHURST PROVIDE A COMPREHENSIVE DESCRIPTION OF THE TERMS OF THE 2010 SETTLEMENT THAT ADDRESS STORM DAMAGE RECOVERY?

A. No. It is important to adequately understand the operation and consequences of the terms that would remain in effect if the Company's proposal is adopted. The 2010 settlement framework provides for recovery, on an interim basis, to begin 60 days following the filing of a cost recovery petition and tariff with the Commission, and is based on a 12-month recovery period if the storm costs do not exceed $4.00/1,000 kWh on monthly residential customer bills. In the event that storm costs exceed that level, any additional costs in excess of $4.00/1000 kWh may be recovered in a subsequent year or years as determined by the Commission.

In addition, under the terms of the 2010 Settlement Agreement the Company may petition the Commission to increase the $4.00/1,000 kWh charge during the initial 12-month recovery period in the event that the Company incurs storm recovery costs in excess of $800 million in a given calendar year, inclusive of the amount necessary to replenish the storm damage reserve to the level that existed as of the date the settlement was implemented.

Finally, the settlement precludes any offset to the Company's storm damage recovery based on a "rate case" type of inquiry, or the use of any form of earnings test or measure, or consideration of previous or current base rate earnings or the level of theoretical depreciation reserve.

Q. SHOULD THE COMMISSION ADOPT THE COMPANY'S PROPOSAL FOR FUTURE STORM DAMAGE RECOVERY?

A. No. The Commission should reject this proposal. It not only is unnecessary, it also is harmful to customers. It should be noted that the storm damage recovery was an element in the 2010 and 2012 settlement agreements. The Commission did not adjudicate the merits of the recovery process in those proceedings, but should do so in this proceeding.

The storm damage recovery process is flawed when considered on its own merits. First, it allows recovery of storm damage costs of any amount regardless of whether there remains an amount in the storm reserve. The Company projects a balance in the storm damage reserve of $120.462 million at the end of the test year, according to Schedule B-21. No recovery should be allowed unless the reserve first is exhausted. The purpose of the reserve is to provide storm damage recovery, not to exist in perpetuity or to be ignored at the very time when it is needed.

Second, the recovery FPL proposes is effectively self-executing on an expedited basis without Commission review and the opportunity of the various parties to participate in a recovery proceeding. There is no need and no other valid reason for such recovery to be self-executing or to occur on an expedited basis. The Company has available lines of credit to finance such costs if necessary, the costs of which (commitment and other fees) are included in base rates.

Third, the 12-month recovery period is inordinately and unnecessarily short. If the costs of a storm are hundreds of millions of dollars, then the recovery should be over a longer period, perhaps three to ten years depending on the magnitude of the costs and the frequency of named storms. Some of the recovery costs will provide benefits that continue beyond 12 months, such as rebuilding or repairing plant that is not otherwise capitalized and the clearing of vegetation. Moreover, if storm hardening is effective, then in the future, the cost impact of major storms should be significantly less, thus prospectively reducing the amount of incremental cost that must be recovered.

Fourth, there is no need and no other valid reason to intentionally restore the reserve to its prior level if in fact it is fully depleted. The appropriate and least cost level is $0. That is because the Company can petition the Commission for deferral of storm costs if and when they are incurred and petition the Commission for recovery of the deferred costs, including the issuance of low-cost securitized debt.

Fifth, premature recovery before costs are incurred imposes an income tax cost on the recovery that is unnecessary and harms customers by adding costs compared to recovery after actual costs are incurred and are deducted for income tax purposes.

Sixth, Section 366.8260, Florida Statutes, permits FPL to recover its reasonable and necessary storm restoration costs and to replenish its storm damage reserve through a surcharge pursuant to securitization funding. This mechanism of storm damage financing guarantees cost recovery for FPL and provides ratepayers the benefits of low-cost securitization financing. That is a more cost effective means of recovering storm damage costs than the storm damage recovery mechanism FPL proposes here.

Seventh, earnings in excess of the Company's authorized return and other alternatives should be considered by the Commission as potential offsets to the deferral and recovery of storm damage costs. Over-recovery is the collection of excessive revenue from ratepayers, regardless of the label FPL would like to affix to that excessive collection. The Commission should not preclude these options from consideration in future proceedings.

Finally, there is no need for the Commission to take any action in this proceeding. The storm damage process adopted via settlement expires without further Commission authorization. The storm damage reserve is substantially funded at this time. In the event that the reserve is depleted, the Company can petition the Commission for deferral of additional costs and recovery of those costs.

Q. DOES THE EXPOSURE TO STORMS THAT FPL USES TO JUSTIFY ITS REQUESTED EQUITY RETURN (SEE E.G., HEVERT DIRECT, AT 37-38) COMPORT WITH FPL'S REQUEST TO CONTINUE THE STORM COST RECOVERY PROVISION?

A. No. The Company has significantly reduced its risk exposure to storm damage costs. It has expended hundreds of millions of dollars and plans to expend additional hundreds of millions of dollars to harden its facilities in order to reduce future damage from storms. It already has more than $100 million in reserve available for future storm costs, can apply to the Commission to defer and recover costs in excess of the reserve balance, has short term credit facilities that will allow it to temporarily finance storm damage costs at very low interest rates, and has the ability to securitize storm damage costs and recover the debt service associated with the securitization through surcharge.

IX. THE REDUCTIONS IN FPL COSTS AFTER ADDITIONAL NEXTERA ACQUISITIONS SHOULD BE REFLECTED IN SURCREDIT RIDER

Q. NEXTERA ENERGY HAS ENTERED INTO A PLAN OF MERGER WITH HAWAIIAN ELECTRIC INDUSTRIES AND IS WIDELY REPORTED TO BE INVOLVED IN ATTEMPTS TO ACQUIRE ONCOR ELECTRIC DELIVERY COMPANY THROUGH A REORGANIZATION PLAN IN THE PENDING EFH BANKRUPTCY PROCEEDINGS. HAS THE COMPANY REFLECTED ANY REDUCTIONS IN COSTS AND THE REVENUE REQUIREMENT TO REFLECT REDUCTIONS IN SHARED OR COMMON COSTS IF NEXTERA ENERGY IS SUCCESSFUL IN EITHER OR BOTH OF THESE ACQUISITIONS?

A. No. Nevertheless, these acquisitions could result in significant reductions in costs presently incurred by FPL due to greater allocations to these new affiliates.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission adopt a merger savings surcredit rider. The Commission should direct the Company to make an initial filing and annual filings thereafter that quantify the expected savings and to provide those annual savings to customers through the rider within 90 days after the consummation of any such acquisition or merger. Alternatively, the Commission should use those savings to reduce the 2018, Okeechobee, or other rate increases if and when they are implemented.

X. REMOVAL OF WOODFORD AND OTHER GAS RESERVE COSTS

Q. HAS THE COMPANY RECENTLY FILED A THIRD NOTICE OF IDENTIFIED ADJUSTMENTS TO REFLECT A FLORIDA SUPREME COURT RULING THAT AFFECTS THE COLLECTION OF WOODFORD AND OTHER GAS RESERVE COSTS THROUGH BASE RATES?

A. Yes. In that Third Notice, the Company admitted that certain ADIT amounts included in the cost of capital for the test year 2017 and 2018 and in rate base for Okeechobee were understated because it failed to remove all ADIT effects of these gas reserves, as if it had never invested in the projects.

Q. WHAT IS THE EFFECT OF THESE CORRECTIONS?

A. The effect is a reduction in the revenue requirement of $7.300 million in the 2017 test year, a reduction of $5.700 million in the 2018 test year, and an increase of $0.065 million in the Okeechobee test year.

Q. HAVE YOU REFLECTED THESE CORRECTIONS IN THE TABLES IN THE SUMMARY SECTION OF YOUR TESTIMONY AND IN YOUR REVENUE REQUIREMENT RECOMMENDATIONS?

A. Yes.

XI. FSC AND SABAL TRAIL

Q. FPL WITNESS BARRETT REQUESTS THAT THE COMMISSION "APPROVE THE CONCEPTUAL FRAMEWORK FOR THE TRANSFER OF THE MR-RV LATERAL FROM FPL TO FSC." PLEASE DESCRIBE FPL'S REQUEST.

A. The MR-RV Lateral is a natural gas pipeline that originates at the Martin Next Generation Clean Energy Center and terminates at the Riviera Beach Clean Energy Center. As Mr. Barrett explains, "the base revenue requirements for the MR-RV Lateral were included in the Commission-approved GBRA for the Riviera Plant implemented on April 1, 2014 and are currently being recovered from retail customers through base rates." Barrett Direct Testimony at 45.

Mr. Barrett states that FPL is "proposing to transfer the MR-RV Lateral and all related equipment, working capital and operations, to its FERC-regulated affiliate, Florida Southeast Connection ("FSC") at net book value on the transaction date, currently contemplated to be May 1, 2017." FSC also is the owner and operator of a natural gas pipeline interconnected with the Sabal Trail Transmission, LLC ("Sabal Trail") interstate pipeline.

Q. DOES THE FSC TRANSACTION AFFECT RETAIL BASE ELECTRIC RATES?

A. Yes. *Id.*, 45-46.

Q. DO YOU AGREE THAT THE COMMISSION SHOULD APPROVE THE TRANSFER WITHOUT CONDITION?

A. No. As Mr. Barrett notes in his testimony, FPL is affiliated with FSC and Sabal Trail. That affiliate relationship raises issues regarding the rates FPL will pay for natural gas transportation service.

Q. DOES FPL'S AFFILIATED RELATIONSHIPS WITH THE PIPELINES RAISE ANY ISSUES REGARDING THE APPROPRIATENESS OF THE PIPELINES' RATES?

A. Yes. Typically, an unaffiliated customer of interstate natural gas pipelines is incentivized to lower the rates that it pays the interstate pipeline for service in order to reduce its costs and the rates of its own retail customers. This can be done by initiating an investigation of the pipeline's rates under Natural Gas Act Section 5. However, because FPL is affiliated with FSC, FPL does not have that typical incentive. Instead, NextEra is incentivized to direct FPL to allow FSC to charge higher rates, reimbursed to FPL by its retail electric customers, in order to boost NextEra's consolidated earnings. In other words, FPL is incentivized to allow NextEra Energy shareholders to benefit at the expense of FPL customers, rather than file a complaint under NGA Section 5 to reduce the pipeline's rates.

Q. WHAT IS THE APPROPRIATE REMEDY TO ADDRESS FPL'S CONFLICTING ROLE AS BOTH AFFILIATED LONG TERM CONTRACTING PIPELINE SHIPPER AND AN AFFILIATE OF THE PIPELINE OWNER?

A. In this proceeding, the Commission could condition the transfer of the MR-RV lateral from FPL to FSC by requiring FPL to commence a Section 5 action against FSC, or any other affiliated pipeline where FPL is a shipper, when the pipeline's earnings reported in FERC Form 2 exceed the last FERC-determined median ROE applicable to interstate pipelines. As part of that condition, FPL would be obligated to cooperate fully with the FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in the pipeline's rates.

Q. HOW WOULD THAT BE CALCULATED?

A. The calculation should correspond with the format used by FERC to assess whether to initiate a NGA Section 5 investigation. I have attached a schedule providing an example of the calculations used by FERC when it reviews the rates of an interstate natural gas pipeline as my Exhibit___ (LK-36). At the bottom of the schedule, FERC calculates an estimated ROE. Using the same methodology for FSC, or any other affiliated pipeline, if the resulting ROE is greater than the most recent median ROE determined by FERC for an interstate pipeline in an NGA Section 4 proceeding (based upon the capital structure of the proxy group used in determining the most recent median ROE),[2] then FPL should commence a Section 5 action against the pipeline.

[2] Opinion No. 528, *El Paso Natural Gas Co.*, 145 FERC ¶ 61,040, at P 2 (2013). Opinion No. 528 is currently the most recent available finally decided FERC case establishing the median ROE (e.g., 10.55%) for an interstate pipeline.

Q. IS FSC THE ONLY PIPELINE WITH WHICH FPL IS AFFILIATED?

A. No, It also is a part owner of Sabal Trail.

Q. PLEASE DESCRIBE SABAL TRAIL AND ITS AFFILIATION WITH FPL.

A. Sabal Trail is another natural gas pipeline company regulated by FERC, 33% of which is owned by NextEra Energy.[3]

Q. OTHER THAN SABAL TRAIL BEING AN AFFILIATE OF FPL, HOW IS FPL INVOLVED WITH SABAL TRAIL?

A. FPL is one of Sabal Trail's two foundation shippers. FPL has committed to ship 400,000 Dth/d beginning in Phase 1 and an additional 200,000 Dth/d beginning in Phase 2 of the project. The minimum duration of the contract that FPL entered into was 25 years.

Q. SHOULD THE PROCEDURE OUTLINED ABOVE FOR FSC ALSO APPLY TO SABAL TRAIL?

A. Yes. In fact, given the costs of Sabal Trail, it is at least as important that FPL make the filing for that pipeline as it is with regard to FSC. The Commission in Order No. PSC-13-0505-PAA-EI has indicated that a prudence review of FPL's contracting practices with its affiliated pipelines can take place in FPL's fuel clause proceedings. Thus, the comparison I have described should be filed annually in that docket.

Q. HOW WILL THIS ADDITIONAL REVENUE, PAID BY FPL'S RETAIL CUSTOMERS, BENEFIT NEXTERA ENERGY SHAREHOLDERS?

A. It will benefit NextEra shareholders in at least two ways.

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[3] *Sabal Trail Transmission, LLC*, 154 FERC ¶ 61,080 (2016).

First, the additional revenue stream will be paid by FPL's ratepayers to FPL affiliates, above and beyond what they would pay if FPL was taking service from an unaffiliated pipeline system, as explained above.

There is a second level of benefit to the NextEra Energy shareholders, however, which can be thought of as the "yieldco multiplier." NextEra Energy is actively promoting to the investment community its affiliate NextEra Energy Partners, a "yieldco," namely an entity that seeks to provide a high yield to investors. NextEra Energy has repeatedly advised investors that it anticipates the ability to add more assets with stable revenue streams to its yieldco. Prominent among these projects are its Sabal Trial and FSC investments.

Q. HOW DOES THE YIELDCO STRUCTURE PROVIDE ADDITIONAL BENEFIT TO FPL'S OWNER AND NEXTERA ENERGY SHAREHOLDERS?

A. According to Moody's Investors Service:

> With good access to capital already, [NextEra Energy or "NEE"] did not have to create a yieldco. However, NEE found the yieldco to be an attractive financing option given its intent to improve its credit metrics while outspending its operating cash flow by almost $1 billion this year. Roughly half of the $6 billion-$7 billion capital expenditures this year will be on its regulated side, which NEE wants to grow, but NEE also plans to spend over $2 billion on renewable projects. NEP provides an avenue for raising equity capital more cheaply, since *demand from yield-oriented investors is running up the value of yieldco stocks. In fact, just the anticipation of NEP's IPO has contributed to a 25% appreciation in NEE's share price over the past year*.[4] [B/S 008086, "NextEra Energy, Inc.: A Deep Dive into the Yieldco," p. 4, 2nd para. (emphasis added)]

[4] Bloomberg.com, accessed 11 June 2014.

In other words, whatever the value of the cash stream from the pipeline contracts in the hands of NextEra Energy, that value is significantly increased in the hands of NEP, because "demand from yield-oriented investors is running up the value of yieldco stocks" as Moody's noted.

Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF GEORGIA)
)
COUNTY OF FULTON)

LANE KOLLEN, 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.

Lane Kollen

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

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2019
CHEROKEE COUNTY, GEORGIA

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

LANE KOLLEN

ON BEHALF OF THE

SOUTH FLORIDA HOSPITAL AND HEALTH CARE ASSOCIATION

July 2016

EXHIBIT NO. ____ (LK-6)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION IN INJURIES AND DAMAGES EXPENSE TO AMORTIZE EXCESS RESERVE BALANCE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Schedule B-21	2017	2018
Account 228.2 Injuries and Damages Excess Reserve Balance - Total Company	19.500	19.500
Amortization Period in Years	4	4
Total Company Reduction in Expense Due to Amortization of Excess Reserve	(4.875)	(4.875)
Jurisdictional Percentage - Sch B-6 page 11 and C-4 page 9	96.745%	96.820%
Jurisdictional Reduction in Expense Due to Amortization of Excess Reserve	(4.716)	(4.720)
Increase in Rate Base - Jurisdictional	2.455	7.080
Grossed Up Rate of Return - As Filed	9.88%	9.98%
Revenue Requirement Increase to Rate Base	0.243	0.706

	Total Co Balance		
Dec-16	19.500	Dec-17	14.625
Jan-17	19.094	Jan-18	14.219
Feb-17	18.688	Feb-18	13.813
Mar-17	18.281	Mar-18	13.406
Apr-17	17.875	Apr-18	13.000
May-17	17.469	May-18	12.594
Jun-17	17.063	Jun-18	12.188
Jul-17	16.656	Jul-18	11.781
Aug-17	16.250	Aug-18	11.375
Sep-17	15.844	Sep-18	10.969
Oct-17	15.438	Oct-18	10.563
Nov-17	15.031	Nov-18	10.156
Dec-17	14.625	Dec-18	9.750
13 Month Avg	17.063		12.188

Total Company As Filed 13 Month Rate Base - See Sch B-9

2017	19.600	2018	19.500

EXHIBIT NO. ____ (LK-7)

Florida Power & Light Company
2015 Decommissioning Study
Turkey Point Nuclear Units
Support Schedule : Inflation and Funding Analysis

TURKEY POINT UNIT 3

	NOMINAL ANNUAL	NOMINAL MONTHLY
EARNINGS RATE QUALIFIED FUND	3.700%	0.303225%
EARNINGS RATE NON-QUALIFIED FUND	3.700%	0.303225%

CORPORATE TAX RATE 38.575%

FPL'S SHARE OF COST (NET OF PARTICIPANTS) 100.000%
JURISDICTIONAL FACTOR 94.6310%

Adjusted QUALIFIED % 59.438%

LICENSE ENDS 7/19/2032
MONTHS TO FUND 198.5

YEAR	SPENDING CURVE	ESTIMATED COST IN ($2015)	ESTIMATED COST IN NOMINAL $	ESTIMATED DOE RECOVERY NOMINAL $	NET NOMINAL $	JURISDICTIONAL AMOUNT	QUALIFIED AMOUNT	NON-QUAL AMOUNT	TAX SAVINGS	PV @ 3.7% QUALIFIED AMOUNT	PV @ 3.7% NON-QUAL AMOUNT
2032	4.2522%	$ 35,975,061	$ 64,316,333	$ -	$ 64,316,333	$ 60,863,189	$ 36,175,911	$ 15,164,160	$ 9,523,117	$ 19,506,557	$ 8,176,727
2033	14.5428%	123,036,867	216,347,277	2,346,396	214,000,881	202,511,174	120,368,754	50,455,982	31,686,439	62,588,731	26,235,844
2034	17.1182%	144,826,147	253,921,739	6,473,359	247,448,380	234,162,876	139,181,918	58,342,054	36,638,905	69,788,915	29,254,006
2035	13.5999%	115,059,997	207,528,535	8,737,142	198,791,394	188,118,284	111,813,896	46,869,970	29,434,418	54,065,553	22,663,112
2036	9.9040%	83,791,296	155,184,009	18,931,142	136,252,867	128,937,451	76,637,945	32,124,971	20,174,534	35,734,686	14,979,208
2037	9.8769%	83,562,358	159,726,627	30,811,444	128,915,183	121,993,727	72,510,729	30,394,931	19,088,066	32,603,906	13,666,853
2038	3.8357%	32,451,691	66,229,768	31,334,673	34,895,095	33,021,577	19,627,392	8,227,379	5,166,807	8,510,424	3,567,386
2039	2.6094%	22,076,139	49,127,990	2,820,308	46,307,682	43,821,423	26,046,612	10,918,177	6,856,633	10,890,633	4,565,202
2040	2.8234%	23,887,182	51,466,150	3,023,809	48,442,340	45,841,471	27,247,290	11,421,476	7,172,705	10,986,375	4,605,251
2041	2.6807%	22,679,562	49,442,937	3,795,558	45,647,379	43,196,572	25,675,213	10,762,495	6,758,864	9,983,122	4,184,709
2042	0.6280%	5,312,797	12,261,907	3,905,061	8,356,845	7,908,166	4,700,462	1,970,332	1,237,371	1,762,439	738,776
2043	0.5215%	4,411,928	10,597,624	10,271,908	325,716	308,229	183,105	76,796	48,228	66,242	27,767
2044	0.5229%	4,424,015	10,990,728	10,960,699	30,029	28,417	16,891	7,080	4,446	5,889	2,469
2045	0.5215%	4,411,928	11,336,681	11,367,741	(31,059)	(29,392)	(17,470)	(7,323)	(4,599)	(5,874)	(2,462)
2046	0.5215%	4,411,928	11,726,500	11,726,500	-	-	-	-	-	-	-
2047	0.5215%	4,411,928	12,130,681	12,130,681	-	-	-	-	-	-	-
2048	0.5229%	4,424,015	12,584,152	12,549,769	34,383	32,537	19,339	8,107	5,091	5,831	2,444
2049	0.5215%	4,411,928	12,984,330	13,019,903	(35,574)	(33,664)	(20,009)	(8,387)	(5,267)	(5,818)	(2,439)
2050	0.5215%	4,411,928	13,434,952	13,434,952	-	-	-	-	-	-	-
2051	0.5215%	4,411,928	13,902,246	13,902,246	-	-	-	-	-	-	-
2052	0.5229%	4,424,015	14,426,263	14,386,847	39,416	37,300	22,170	9,293	5,836	5,780	2,423
2053	0.5215%	4,411,928	14,889,413	14,930,205	(40,793)	(38,603)	(22,945)	(9,618)	(6,040)	(5,769)	(2,418)
2054	0.5215%	4,411,928	15,410,628	15,410,628	-	-	-	-	-	-	-
2055	0.5215%	4,411,928	15,951,203	15,951,203	-	-	-	-	-	-	-
2056	0.5229%	4,424,015	16,557,114	16,511,876	45,238	42,809	25,445	10,666	6,698	5,737	2,405
2057	0.5215%	4,411,928	17,093,415	17,140,246	(46,831)	(44,317)	(26,341)	(11,042)	(6,914)	(5,727)	(2,401)
2058	0.5215%	4,411,928	17,696,614	17,696,614	-	-	-	-	-	-	-
2059	0.5215%	4,411,928	18,322,302	18,322,302	-	-	-	-	-	-	-
2060	0.5229%	4,424,015	19,023,313	-	19,023,313	18,001,952	10,700,014	4,485,215	2,816,722	2,086,125	874,459
2061	0.5215%	4,411,928	19,644,612	-	19,644,612	18,589,893	11,049,475	4,631,701	2,908,716	2,077,394	870,799
2062	0.5215%	4,411,928	20,343,053	-	20,343,053	19,250,835	11,442,327	4,796,376	3,012,132	2,074,497	869,584
2063	0.5215%	4,411,928	21,067,624	-	21,067,624	19,936,504	11,849,875	4,967,212	3,119,417	2,071,731	868,425
2064	0.5229%	4,424,015	21,879,103	-	21,879,103	20,704,414	12,306,306	5,158,538	3,239,570	2,074,764	869,696
2065	0.5215%	4,411,928	22,599,193	-	22,599,193	21,385,842	12,711,334	5,328,317	3,346,192	2,066,585	866,268
2066	0.5215%	4,411,928	23,408,309	-	23,408,309	22,151,516	13,166,436	5,519,086	3,465,995	2,064,199	865,268
2067	0.5215%	4,411,928	24,247,792	-	24,247,792	22,945,928	13,638,619	5,717,015	3,590,294	2,061,935	864,319
2068	0.5229%	4,424,015	25,187,627	-	25,187,627	23,835,303	14,167,247	5,938,604	3,729,453	2,065,434	865,785
2069	0.5215%	4,411,928	26,022,566	-	26,022,566	24,625,414	14,636,873	6,135,461	3,853,080	2,057,764	862,570
2070	0.5215%	4,411,928	26,960,322	-	26,960,322	25,512,822	15,164,332	6,356,560	3,991,930	2,055,651	861,768
2071	0.5215%	4,411,928	27,933,381	-	27,933,381	26,433,688	15,711,647	6,585,983	4,136,008	2,054,052	861,014
2072	2.4361%	20,610,399	84,364,116	-	84,364,116	79,834,606	47,452,157	19,890,919	12,491,530	5,982,282	2,507,643
2073	0.5596%	4,734,428	23,480,850	-	23,480,850	22,220,183	13,207,238	5,536,189	3,476,736	1,605,625	673,043
	100.0000%	$ 846,034,442	$ 1,911,749,979	$ 351,893,211	$ 1,559,856,767	$ 1,476,108,058	$ 877,370,289	$ 367,774,674	$ 230,963,094	$ 348,886,072	$ 146,245,505
					1,579,556,240.94						

	QUALIFIED	NON-QUAL	TOTAL
NPV @12/31/15	$ 348,886,072	$ 146,245,505	$ 495,131,577
LESS BALANCE @ 12/31/15	407,579,284	170,848,432	578,427,716
PV OF FUNDING REQUIREMENTS	$ (58,693,212)	$ (24,602,927)	$ (83,296,139)
MONTHLY FUNDING REQUIREMENT	-	-	-
ANNUAL FUNDING REQUIREMENT	-	-	-
MONTHLY ACCRUAL	-	-	-
ANNUAL ACCRUAL	-	-	-

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Florida Power & Light Company
2015 Decommissioning Study
Turkey Point Nuclear Units
Support Schedule : Inflation and Funding Analysis

Support Schedule G
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TURKEY POINT UNIT 4

	NOMINAL ANNUAL	NOMINAL MONTHLY
EARNINGS RATE QUALIFIED FUND	3.700%	0.303225%
EARNINGS RATE NON-QUALIFIED FUND	3.700%	0.303225%
CORPORATE TAX RATE	38.575%	
FPL'S SHARE OF COST (NET OF PARTICIPANTS)	100.000%	
JURISDICTIONAL FACTOR	94.6310%	

Adjusted QUALIFIED % 61.045%

LICENSE ENDS 4/10/2033
MONTHS TO FUND 207.5

YEAR	SPENDING CURVE	ESTIMATED COST IN ($2015)	ESTIMATED COST IN NOMINAL $	ESTIMATED DOE RECOVERY NOMINAL $	NET NOMINAL $	JURISDICTIONAL AMOUNT	QUALIFIED AMOUNT	NON-QUAL AMOUNT	TAX SAVINGS	PV @ 3.7% QUALIFIED AMOUNT	PV @ 3.7% NON-QUAL AMOUNT
2033	5.3706%	$ 50,135,340	$ 93,386,478	$ -	$ 93,386,478	$ 88,372,558	$ 53,947,301	$ 21,145,714	$ 13,279,543	$ 28,051,243	$ 10,995,241
2034	11.2874%	105,369,695	190,925,985	1,390,933	189,535,051	179,358,914	109,490,204	42,916,855	26,951,855	54,900,828	21,519,467
2035	14.9825%	139,863,625	257,392,753	589,224	256,603,529	243,015,747	148,349,715	58,148,610	36,517,422	71,731,777	28,116,691
2036	13.9093%	129,845,434	244,767,780	86,929	244,680,851	231,543,936	141,346,712	55,403,645	34,793,579	65,907,043	25,833,571
2037	12.5902%	117,531,252	226,130,860	21,094,403	205,036,458	194,028,050	118,445,024	46,426,874	29,156,152	53,257,917	20,875,496
2038	11.9649%	111,694,513	219,927,873	46,081,631	173,846,243	164,512,438	100,427,127	39,364,402	24,720,909	43,545,135	17,068,379
2039	6.0094%	56,098,547	115,548,445	36,415,207	79,133,238	74,884,574	45,713,520	17,918,320	11,252,734	19,114,129	7,492,162
2040	2.9712%	27,736,783	59,180,435	3,731,961	55,448,474	52,471,445	32,031,356	12,555,325	7,884,764	12,915,357	5,062,430
2041	2.8639%	26,734,978	57,772,233	2,303,929	55,468,303	52,490,210	32,042,811	12,559,815	7,887,584	12,458,993	4,883,549
2042	0.6222%	5,808,427	13,172,281	1,774,720	11,397,560	10,785,625	6,584,118	2,580,776	1,620,731	2,468,716	967,662
2043	0.5059%	4,722,900	11,120,734	10,661,879	458,856	434,220	265,071	103,900	65,249	95,842	37,567
2044	0.5073%	4,735,840	11,526,722	11,495,229	31,494	29,803	18,193	7,131	4,478	6,343	2,486
2045	0.5059%	4,722,900	11,882,919	11,915,474	(32,556)	(30,808)	(18,807)	(7,372)	(4,629)	(6,323)	(2,479)
2046	0.5059%	4,722,900	12,284,829	12,284,829	-	-	-	-	-	-	-
2047	0.5059%	4,722,900	12,701,499	12,701,499	-	-	-	-	-	-	-
2048	0.5073%	4,735,840	13,169,471	13,133,489	35,982	34,050	20,786	8,148	5,117	6,267	2,457
2049	0.5059%	4,722,900	13,581,381	13,618,590	(37,209)	(35,211)	(21,495)	(8,425)	(5,291)	(6,250)	(2,450)
2050	0.5059%	4,722,900	14,045,779	14,045,779	-	-	-	-	-	-	-
2051	0.5059%	4,722,900	14,527,311	14,527,311	-	-	-	-	-	-	-
2052	0.5073%	4,735,840	15,067,798	15,026,629	41,169	38,958	23,782	9,322	5,854	6,201	2,430
2053	0.5059%	4,722,900	15,544,410	15,586,997	(42,587)	(40,301)	(24,602)	(9,643)	(6,056)	(6,185)	(2,425)
2054	0.5059%	4,722,900	16,081,356	16,081,356	-	-	-	-	-	-	-
2055	0.5059%	4,722,900	16,638,199	16,638,199	-	-	-	-	-	-	-
2056	0.5073%	4,735,840	17,262,863	17,215,697	47,166	44,634	27,247	10,680	6,707	6,143	2,408
2057	0.5059%	4,722,900	17,814,637	17,863,445	(48,807)	(46,187)	(28,195)	(11,052)	(6,940)	(6,130)	(2,403)
2058	0.5059%	4,722,900	18,435,839	18,435,839	-	-	-	-	-	-	-
2059	0.5059%	4,722,900	19,080,152	19,080,152	-	-	-	-	-	-	-
2060	0.5073%	4,735,840	19,802,564	-	19,802,564	18,739,365	11,439,503	4,483,940	2,815,912	2,230,299	874,210
2061	0.5059%	4,722,900	20,441,677	-	20,441,677	19,344,164	11,808,705	4,628,656	2,906,803	2,220,135	870,226
2062	0.5059%	4,722,900	21,160,759	-	21,160,759	20,024,638	12,224,102	4,791,479	3,009,057	2,216,233	668,696
2063	0.5059%	4,722,900	21,906,695	-	21,906,695	20,730,524	12,655,013	4,960,383	3,115,129	2,212,495	867,231
2064	0.5073%	4,735,840	22,742,650	-	22,742,650	21,521,597	13,137,925	5,149,670	3,234,001	2,214,969	868,201
2065	0.5059%	4,722,900	23,483,277	-	23,483,277	22,222,460	13,565,769	5,317,372	3,339,318	2,205,498	864,489
2066	0.5059%	4,722,900	24,316,101	-	24,316,101	23,010,569	14,046,873	5,505,950	3,457,746	2,202,232	863,208
2067	0.5059%	4,722,900	25,180,134	-	25,180,134	23,828,213	14,546,006	5,701,595	3,580,611	2,199,117	861,988
2068	0.3073%	4,735,840	26,148,017	-	26,148,017	24,744,130	15,105,131	5,920,755	3,718,244	2,202,168	863,183
2069	0.5059%	4,722,900	27,006,664	-	27,006,664	25,556,676	15,601,152	6,115,181	3,840,343	2,193,329	859,719
2070	0.5059%	4,722,900	27,971,695	-	27,971,695	26,469,895	16,158,629	6,333,695	3,977,571	2,190,650	858,669
2071	0.5059%	4,722,900	28,973,009	-	28,973,009	27,417,448	16,737,066	6,560,425	4,119,957	2,188,109	857,673
2072	2.2396%	20,907,408	85,384,648	-	85,384,648	80,800,347	49,324,822	19,333,841	12,141,684	6,218,368	2,437,412
2073	0.5072%	4,734,428	23,480,850	-	23,480,850	22,220,163	13,564,367	5,316,823	3,338,973	1,649,042	846,375
	100.0000%	$ 933,515,113	$ 2,126,969,762	$ 363,781,332	$ 1,763,188,431	$ 1,668,522,844	$ 1,018,554,933	$ 399,242,789	$ 250,725,122	$ 398,789,691	$ 156,313,522
					$ 1,788,267,110						

	QUALIFIED	NON-QUAL	TOTAL
NPV @12/31/15	$ 398,789,691	$ 156,313,522	$ 555,103,212
LESS BALANCE @ 12/31/15	467,001,314	183,050,419	$ 650,051,732
PV OF FUNDING REQUIREMENTS	$ (68,211,623)	$ (26,736,897)	$ (94,948,520)
MONTHLY FUNDING REQUIREMENT	-	-	-
ANNUAL FUNDING REQUIREMENT	-	-	-
MONTHLY ACCRUAL	-	-	-
ANNUAL ACCRUAL	-	-	-

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Florida Power & Light Company
2015 Decommissioning Study
St Lucie Nuclear Units
Support Schedule : Inflation and Funding Analysis

Support Schedule G
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ST. LUCIE UNIT 1

	NOMINAL ANNUAL	NOMINAL MONTHLY
EARNINGS RATE QUALIFIED FUND	3.700%	0.303225%
EARNINGS RATE NON-QUALIFIED FUND	3.700%	0.303225%
CORPORATE TAX RATE	38.575%	
FPL'S SHARE OF COST (NET OF PARTICIPANTS)	100.000%	
JURISDICTIONAL FACTOR	94.6310%	

Adjusted QUALIFIED % 67.811%

LICENSE ENDS 3/1/2036
MONTHS TO FUND 242.5

YEAR	SPENDING CURVE	ESTIMATED COST IN ($2015)	ESTIMATED COST IN NOMINAL $	ESTIMATED DOE RECOVERY NOMINAL $	NET NOMINAL $	JURISDICTIONAL AMOUNT	QUALIFIED AMOUNT	NON-QUAL AMOUNT	TAX SAVINGS	PV @ 3.7% QUALIFIED AMOUNT	PV @ 3.7% NON-QUAL AMOUNT
2036	5.9570%	$ 55,677,172	$ 112,287,241	$ -	$ 112,287,241	$ 106,258,539	$ 72,055,341	$ 21,009,315	$ 13,193,884	$ 33,597,912	$ 9,796,208
2037	7.7333%	72,279,105	140,639,306	9,570,182	131,069,124	124,032,023	84,107,778	24,523,467	15,400,777	37,818,432	11,026,793
2038	3.6196%	33,830,439	63,224,031	9,784,277	53,439,753	50,570,573	34,292,584	9,998,755	6,279,234	14,869,241	4,335,453
2039	3.6196%	33,830,439	65,149,611	23,986,734	41,162,876	38,952,841	26,414,444	7,701,710	4,836,687	11,044,634	3,220,305
2040	3.6295%	33,923,125	67,328,110	24,480,515	42,847,595	40,547,108	27,495,538	8,016,927	5,034,643	11,086,470	3,232,504
2041	3.0452%	28,461,642	57,365,155	25,060,832	32,304,324	30,569,904	20,729,862	6,044,246	3,795,796	8,060,254	2,350,144
2042	1.9010%	17,768,054	34,703,888	22,545,047	12,158,841	11,506,033	7,802,395	2,274,959	1,428,678	2,925,510	852,996
2043	1.9010%	17,768,054	35,691,185	16,979,744	18,711,441	17,706,824	12,007,235	3,500,973	2,198,616	4,341,480	1,265,854
2044	3.2898%	30,747,761	83,051,501	17,352,311	65,699,190	62,171,800	42,159,531	12,292,536	7,719,733	14,699,814	4,286,053
2045	7.7895%	72,803,995	191,437,696	5,998,456	185,439,240	175,483,007	118,997,381	34,696,296	21,789,330	40,010,567	11,665,958
2046	12.0311%	112,448,465	291,123,301	1,087,692	290,035,609	274,463,597	186,117,446	54,266,623	34,079,528	60,345,604	17,595,084
2047	10.6821%	99,839,875	273,502,631	1,113,445	272,389,186	257,764,611	174,793,640	50,964,919	32,006,052	54,651,920	15,934,966
2048	9.4095%	87,946,092	256,450,573	1,915,969	254,534,605	240,868,642	163,336,256	47,624,268	29,908,118	49,247,437	14,359,170
2049	5.8996%	55,140,587	170,574,651	2,732,159	167,842,492	158,831,028	107,705,450	31,403,886	19,721,692	31,315,544	9,130,734
2050	3.0175%	28,202,705	82,516,600	5,807,662	76,708,938	72,590,435	49,224,548	14,352,496	9,013,391	13,801,467	4,024,120
2051	2.9287%	27,372,942	79,944,646	10,211,535	69,733,111	65,989,140	44,748,121	13,047,296	8,193,723	12,098,724	3,527,648
2052	0.5829%	5,448,162	16,679,285	10,950,677	5,728,609	5,421,040	3,676,080	1,071,842	673,118	958,453	279,458
2053	0.5017%	4,689,559	14,880,578	14,803,161	77,417	73,260	49,679	14,485	9,097	12,490	3,642
2054	0.5017%	4,689,559	15,382,724	15,382,724	-	-	-	-	-	-	-
2055	0.5017%	4,689,559	15,903,258	15,903,258	-	-	-	-	-	-	-
2056	0.5031%	4,702,407	16,487,925	16,442,876	45,049	42,630	28,908	8,429	5,293	6,518	1,900
2057	0.5017%	4,689,559	17,002,302	17,048,883	(46,582)	(44,081)	(29,892)	(8,716)	(5,473)	(6,499)	(1,895)
2058	0.5017%	4,689,559	17,582,285	17,582,285	-	-	-	-	-	-	-
2059	0.5017%	4,689,559	18,183,608	18,183,608	-	-	-	-	-	-	-
2060	0.5031%	4,702,407	18,858,605	18,807,079	51,526	48,760	33,065	9,641	6,054	6,446	1,880
2061	0.5017%	4,689,559	19,453,540	19,506,837	(53,297)	(50,436)	(34,201)	(9,972)	(6,263)	(6,430)	(1,875)
2062	0.5017%	4,689,559	20,123,865	20,123,865	-	-	-	-	-	-	-
2063	0.5017%	4,689,559	20,818,962	20,818,962	-	-	-	-	-	-	-
2064	0.5031%	4,702,407	21,598,785	-	21,598,785	20,439,147	13,860,059	4,041,204	2,537,883	2,336,717	681,321
2065	0.5017%	4,689,559	22,287,276	-	22,287,276	21,090,672	14,301,868	4,170,023	2,618,781	2,325,171	677,955
2066	0.5017%	4,689,559	23,062,489	-	23,062,489	21,824,264	14,799,326	4,315,068	2,709,870	2,320,200	676,505
2067	0.5017%	4,689,559	23,866,469	-	23,866,469	22,585,078	15,315,244	4,465,495	2,804,338	2,315,414	675,110
2068	0.5031%	4,702,407	24,767,983	-	24,767,983	23,438,190	15,893,751	4,634,172	2,910,267	2,317,140	675,613
2069	0.5017%	4,689,559	25,565,155	-	25,565,155	24,192,562	16,405,301	4,783,325	3,003,936	2,306,383	672,476
2070	0.5017%	4,689,559	26,462,185	-	26,462,185	25,041,431	16,980,930	4,951,163	3,109,338	2,302,130	671,237
2071	0.5017%	4,689,559	27,392,630	-	27,392,630	25,921,920	17,578,001	5,125,252	3,218,666	2,298,048	670,046
2072	0.5031%	4,702,407	28,435,459	-	28,435,459	26,908,759	18,247,190	5,320,368	3,341,200	2,300,419	670,738
2073	2.3210%	21,693,325	88,043,090	-	88,043,090	83,316,057	56,497,735	16,473,154	10,345,167	6,868,520	2,002,668
2074	0.6004%	5,611,264	28,229,786	-	28,229,786	26,714,129	18,115,209	5,281,886	3,317,033	2,123,717	619,216
	100.0000%	$ 934,648,631	$ 2,556,058,372	$ 384,180,778	$ 2,171,877,594	$ 2,055,269,486	$ 1,393,705,803	$ 406,365,493	$ 255,198,191	$ 430,699,849	$ 125,579,987
					$ 2,206,456,923						

	QUALIFIED	NON-QUAL	TOTAL
NPV @12/31/15	$ 430,699,849	$ 125,579,987	$ 556,279,836
LESS BALANCE @ 12/31/15	527,993,021	153,947,945	681,940,965
PV OF FUNDING REQUIREMENTS	$ (97,293,172)	$ (28,367,958)	$ (125,661,130)
MONTHLY FUNDING REQUIREMENT	-	-	-
ANNUAL FUNDING REQUIREMENT	-	-	-
MONTHLY ACCRUAL	-	-	-
ANNUAL ACCRUAL	-	-	-

Florida Power & Light Company
2015 Decommissioning Study
St Lucie Nuclear Units
Support Schedule : Inflation and Funding Analysis

ST. LUCIE UNIT 2

	NOMINAL ANNUAL	NOMINAL MONTHLY
EARNINGS RATE QUALIFIED FUND	3.700%	0.303225%
EARNINGS RATE NON-QUALIFIED FUND	3.700%	0.303225%
CORPORATE TAX RATE	38.575%	
FPL'S SHARE OF COST (NET OF PARTICIPANTS)	85.149%	
JURISDICTIONAL FACTOR	94.6310%	

Adjusted QUALIFIED % 79.827%

LICENSE ENDS 4/6/2043
MONTHS TO FUND 327.5

YEAR	SPENDING CURVE	ESTIMATED COST IN ($2015)	ESTIMATED COST IN NOMINAL $	ESTIMATED DOE RECOVERY NOMINAL $	NET NOMINAL $	JURISDICTIONAL AMOUNT	QUALIFIED AMOUNT	NON-QUAL AMOUNT	TAX SAVINGS	PV @ 3.7% QUALIFIED AMOUNT	PV @ 3.7% NON-QUAL AMOUNT
2043	6.8950%	$ 60,112,866	$ 157,629,348	$ -	$ 157,629,348	$ 127,014,044	$ 101,391,444	$ 15,738,682	$ 9,883,918	$ 36,660,310	$ 5,690,667
2044	14.9952%	130,732,660	327,914,646	10,967,895	316,946,751	255,388,284	203,868,692	31,645,910	19,873,683	71,083,139	11,034,017
2045	15.9933%	139,434,565	350,990,370	11,397,267	339,593,103	273,636,186	218,435,436	33,907,061	21,293,689	73,444,690	11,400,593
2046	13.2432%	115,458,151	298,706,869	10,611,348	288,095,521	232,140,638	185,310,803	28,765,226	18,064,609	60,084,063	9,326,664
2047	11.2360%	97,958,778	260,374,103	24,108,136	236,265,968	190,377,595	151,972,638	23,590,245	14,814,712	47,516,582	7,375,853
2048	10.9050%	95,073,535	261,750,692	34,549,372	227,201,320	183,073,514	146,142,012	22,685,175	14,246,327	44,063,209	6,839,796
2049	5.2684%	45,931,683	142,720,888	33,794,237	108,926,651	87,770,550	70,064,557	10,875,906	6,830,086	20,371,390	3,162,188
2050	3.5663%	31,092,485	95,046,663	9,926,512	85,120,151	68,587,828	54,751,575	8,498,919	5,337,335	15,351,123	2,382,908
2051	3.5328%	30,800,119	94,593,459	2,539,225	92,054,234	74,175,150	59,211,764	9,191,260	5,772,126	16,009,316	2,485,077
2052	0.6353%	5,538,471	17,537,407	2,318,462	15,218,945	12,263,070	9,789,236	1,519,553	954,282	2,552,318	396,188
2053	0.5353%	4,666,499	15,270,487	14,888,309	382,178	307,950	245,827	38,159	23,964	61,807	9,594
2054	0.5353%	4,666,499	15,795,377	15,795,377	-	-	-	-	-	-	-
2055	0.5353%	4,666,499	16,339,611	16,339,611	-	-	-	-	-	-	-
2056	0.5367%	4,679,283	16,950,237	16,903,925	46,312	37,317	29,789	4,624	2,904	6,716	1,043
2057	0.5353%	4,666,499	17,489,082	17,536,997	(47,915)	(38,609)	(30,820)	(4,784)	(3,004)	(6,701)	(1,040)
2058	0.5353%	4,666,499	18,095,873	18,095,873	-	-	-	-	-	-	-
2059	0.5353%	4,666,499	18,725,123	18,725,123	-	-	-	-	-	-	-
2060	0.5367%	4,679,283	19,430,775	19,377,685	53,090	42,778	34,149	5,301	3,329	6,658	1,033
2061	0.5353%	4,666,499	20,054,448	20,109,392	(54,944)	(44,272)	(35,341)	(5,486)	(3,445)	(6,644)	(1,031)
2062	0.5353%	4,666,499	20,756,334	20,756,334	-	-	-	-	-	-	-
2063	0.5353%	4,666,499	21,484,300	21,484,300	-	-	-	-	-	-	-
2064	0.5367%	4,679,283	22,300,270	-	22,300,270	17,969,036	14,344,135	2,226,596	1,398,306	2,418,328	375,390
2065	0.5353%	4,666,499	23,022,489	-	23,022,489	18,550,984	14,808,686	2,298,707	1,443,592	2,407,569	373,719
2066	0.5353%	4,666,499	23,834,819	-	23,834,819	19,205,540	15,331,198	2,379,815	1,494,528	2,403,585	373,101
2067	0.5353%	4,666,499	24,677,446	-	24,677,446	19,884,509	15,873,198	2,463,948	1,547,363	2,399,767	372,508
2068	0.5367%	4,679,283	25,621,529	-	25,621,529	20,645,230	16,480,458	2,558,211	1,606,561	2,402,676	372,960
2069	0.5353%	4,666,499	26,458,261	-	26,458,261	21,319,448	17,018,667	2,641,755	1,659,027	2,392,614	371,398
2070	0.5353%	4,666,499	27,398,902	-	27,398,902	22,077,395	17,623,712	2,735,675	1,718,008	2,389,273	370,880
2071	0.5353%	4,666,499	28,374,746	-	28,374,746	22,863,707	18,251,401	2,833,109	1,779,197	2,386,085	370,385
2072	0.5367%	4,679,283	29,467,653	-	29,467,653	23,744,346	18,954,389	2,942,231	1,847,726	2,389,575	370,926
2073	2.3734%	20,692,386	85,538,765	-	85,538,765	68,925,138	55,020,839	8,540,716	5,363,583	6,688,971	1,038,308
2074	0.6436%	5,611,264	28,229,786	-	28,229,786	22,746,902	18,158,159	2,818,635	1,770,107	2,128,753	330,440
	100.0000%	$ 871,830,860	$ 2,552,580,758	$ 340,225,379	$ 2,212,355,379	$ 1,782,664,259	$ 1,423,046,602	$ 220,895,146	$ 138,722,511	$ 417,605,172	$ 64,823,566
					$ 2,246,615,048						

	QUALIFIED	NON-QUAL	TOTAL
NPV @12/31/15	$ 417,605,172	$ 64,823,566	$ 482,428,738
LESS BALANCE @ 12/31/15	482,855,175	74,952,123	$ 557,807,298
PV OF FUNDING REQUIREMENTS	$ (65,250,003)	$ (10,128,557)	$ (75,378,560)
MONTHLY FUNDING REQUIREMENT	-	-	-
ANNUAL FUNDING REQUIREMENT	-	-	-
MONTHLY ACCRUAL	-	-	-
ANNUAL ACCRUAL	-	-	-

EXHIBIT NO. ____ (LK-8)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION IN EOL MATERIALS & SUPPLIES AND NUCLEAR FUEL LAST CORE EXPENSE
INCLUDING AMORTIZATION OF EXCESS RESERVE BALANCE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Schedule B-21	2017	2018
Account 228.4 EOL M&S Inventory Excess Reserve Balance - Total Company	22.093	22.093
Account 228.4 Nuclear Last Core Excess Reserve Balance - Total Company	100.649	100.649
	122.742	122.742
Amortization Period in Years	4	4
Total Company Reduction in Expense Due to Amortization of Excess Reserve	(30.686)	(30.686)
Remove Current Year Accrual - EOL M&S Inventory - Total Company	(1.407)	(1.407)
Remove Current Year Accrual - Nuclear Last Core - Total Company	(11.754)	(11.754)
Total Expense Reduction - Total Company	(43.847)	(43.847)
Jurisdictional Percentage - Sch C-4 page 4	94.859%	94.866%
Jurisdictional Reduction in Expense	(41.592)	(41.595)
Increase in Rate Base - Jurisdictional	20.797	62.394
Grossed Up Rate of Return - As Filed	9.88%	9.98%
Revenue Requirement Increase to Rate Base	2.055	6.226

	Total Co Balance		
Dec-16	122.742	Dec-17	92.057
Jan-17	120.185	Jan-18	89.499
Feb-17	117.628	Feb-18	86.942
Mar-17	115.071	Mar-18	84.385
Apr-17	112.514	Apr-18	81.828
May-17	109.956	May-18	79.271
Jun-17	107.399	Jun-18	76.714
Jul-17	104.842	Jul-18	74.157
Aug-17	102.285	Aug-18	71.600
Sep-17	99.728	Sep-18	69.042
Oct-17	97.171	Oct-18	66.485
Nov-17	94.614	Nov-18	63.928
Dec-17	92.057	Dec-18	61.371
13 Month Avg	107.399		76.714

Total Company As Filed 13 Month Rate Base - See Sch B-9

2017	129.323	2018	142.485

EXHIBIT NO. ____ (LK-9)

25-6.0436 Depreciation.

(1) For the purposes of this rule, the following definitions shall apply:

(a) Category or Category of Depreciable Plant – A grouping of plant for which a depreciation rate is prescribed. At a minimum it shall include each plant account prescribed in subsection 25-6.014(1), F.A.C.

(b) Embedded Vintage – A vintage of plant in service as of the date of study or implementation of proposed rates.

(c) Mortality Data – Historical data by study category showing plant balances, additions, adjustments and retirements, used in analyses for life indications or calculations of realized life. This is aged data in accord with the following:

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.

2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.

3. The net increase or decrease resulting from purchases, sales or adjustments and the distribution by years of placing of such amounts.

4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

(d) Net Book Value – The book cost of an asset or group of assets minus the accumulated depreciation or amortization reserve associated with those assets.

(e) Remaining Life Technique – The method of calculating a depreciation rate based on the unrecovered plant balance, the average future net salvage, and the average remaining life. The formula is:

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve } \% - \text{Average Future Net Salvage } \%}{\text{Average Remaining Life in Years}}$$

(f) Reserve (Accumulated Depreciation) – The amount of depreciation/amortization expense, salvage, cost of removal, adjustments, transfers, and reclassifications accumulated to date.

(g) Reserve Data – Historical data by study category showing reserve balances, debits and credits such as booked depreciation, expense, salvage and cost of removal and adjustments to the reserve utilized in monitoring reserve activity and position.

(h) Reserve Deficiency – An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(i) Reserve Surplus – An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(j) Salvage Data – Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal or for calculations of realized salvage.

(k) Theoretical Reserve or Prospective Theoretical Reserve – A calculated reserve based on components of the proposed rate using the formula:

Theoretical Reserve = Book Investment – Future Accruals – Future Net Salvage

(l) Vintage – The year of placement of a group of plant items or investment under study.

(m) Whole Life Technique – The method of calculating a depreciation rate based on the whole life (average service life) and the average net salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

$$\text{Whole Life Rate} = \frac{100\% - \text{Average Net Salvage } \%}{\text{Average Remaining Life in Years}}$$

(2)(a) No utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility shall reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior

Commission approval.

(c) When plant investment is booked as a transfer from a regulated utility depreciable account to another or from a regulated company to an affiliate, its associated reserve amount shall also be booked as a transfer. When plant investment is sold from one regulated utility to an affiliate, the associated reserve amount shall also be determined to calculate the net book value of the utility investment being sold. Methods for determining the reserve amount associated with plant transferred or sold are as follows:

1. Where vintage reserves are not maintained, synthesization using the currently prescribed curve shape shall be required. The same reserve percent associated with the original placement vintage of the related investment shall then be used in determining the amount of reserve to transfer.

2. Where the original placement vintage of the investment being transferred is unknown, the reserve percent applicable to the account in which the investment being transferred resides may be assumed for determining the reserve amount to transfer.

3. Where the age of the investment being transferred is known and a history of the prescribed depreciation rates is known, a reserve can be determined by multiplying the age times the investment times the applicable depreciation rate(s).

4. The Commission shall consider any additional methods submitted by the utilities for determining the reserve amounts to transfer.

(3)(a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the Uniform System of Accounts for Public Utilities and Licensees as found in the Code of Federal Regulations, Title 18, Subchapter C, Part 101, for Major Utilities as revised April 1, 2013, which is incorporated by reference in Rule 25-6.014, F.A.C. Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

(4)(a) Each company shall file a depreciation study for each category of depreciable property for Commission review at least once every four years from the submission date of the previous study or pursuant to Commission order and within the time specified in the order. A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Office of Commission Clerk the information required by paragraphs (5)(a) through (g) and (h) of this rule in electronic format with formulas intact and unlocked.

(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of a revenue change initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

* (d) The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(e) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(f) Upon Commission approval by final order establishing an effective date, the utility shall reflect on its books and records the implementation of the depreciation rates approved by the Commission.

(5) A depreciation study shall include:

(a) A comparison of current and proposed depreciation components for each category of depreciable plant. Components include average service life, age, curve shape, net salvage, and average remaining life.

(b) A comparison of current and proposed annual depreciation rates and expenses. The comparison of current and proposed rates shall identify the proposed effective date for the proposed rates. The comparison of current and proposed annual expenses shall be calculated using current and proposed rates for each category of depreciable plant. Plant balances, reserve balances and percentages, remaining lives, and net salvage percentages shall be included in this comparison for each category of plant.

(c) Each recovery and amortization schedule currently in effect shall be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(d) A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.

(e) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.

(f) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It shall also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(g) All calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. When available, retirement data shall be aged.

(h) The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

(i) Calculations of depreciation rates using both the whole life technique and the remaining life technique. The use of these techniques is required for all depreciable categories. Utilities may submit additional studies or methods for consideration by the Commission.

(6) As part of the filing of the annual report pursuant to Rule 25-6.135, F.A.C., each utility shall include an annual depreciation status report. The annual depreciation status report shall be provided in electronic format. In the electronic format, the formulas must be intact and unlocked. The annual depreciation status report shall include booked plant activity (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization, or capital recovery schedule has been approved. The report shall indicate for each category whether there has been a change of plans or utility experience since the filing of the last annual depreciation status report requiring a revision of rates, amortization or capital recovery schedules. For any category where current conditions indicate a need for revision of depreciation rates, amortization, or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

(7)(a) Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(b) The Commission shall approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) Associated plant and reserve activity, balances and the annual capital recovery schedule expense must be maintained as subsidiary records.

Rulemaking Authority 350.115, 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(f), 366.06(1) FS. History–New 11-11-82, Amended 1-6-85, Formerly 25-6.436, Amended 4-27-88, 12-12-91, 12-11-00, 5-29-08, 4-28-16.

EXHIBIT NO. ____ (LK-10)

25-6.0436 Depreciation.

(1) For the purposes of this part, the following definitions shall apply:

(a) Category or Category of Depreciable Plant – A grouping of plant for which a depreciation rate is prescribed. At a minimum it should include each plant account prescribed in subsection 25-6.014(1), F.A.C.

(b) Embedded Vintage – A vintage of plant in service as of the date of study or implementation of proposed rates.

(c) Mortality Data – Historical data by study category showing plant balances, additions, adjustments and retirements, used in analyses for life indications or calculations of realized life. Preferably, this is aged data in accord with the following:

1. The number of plant items or equivalent units (usually expressed in dollars) added each calendar year.

2. The number of plant items retired (usually expressed in dollars) each year and the distribution by years of placing of such retirements.

3. The net increase or decrease resulting from purchases, sales or adjustments and the distribution by years of placing of such amounts.

4. The number that remains in service (usually expressed in dollars) at the end of each year and the distribution by years of placing of such amounts.

(d) Net Book Value – The book cost of an asset or group of assets minus the accumulated depreciation or amortization reserve associated with those assets.

(e) Remaining Life Method – The method of calculating a depreciation rate based on the unrecovered plant balance, less average future net salvage and the average remaining life. The formula for calculating a Remaining Life Rate is:

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve }\% - \text{Average Future Net Salvage }\%}{\text{Average Remaining Life in Years}}$$

(f) Reserve (Accumulated Depreciation) – The amount of depreciation/amortization expense, salvage, cost of removal, adjustments, transfers, and reclassifications accumulated to date.

(g) Reserve Data – Historical data by study category showing reserve balances, debits and credits such as booked depreciation, expense, salvage and cost of removal and adjustments to the reserve utilized in monitoring reserve activity and position.

(h) Reserve Deficiency – An inadequacy in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(i) Reserve Surplus – An excess in the reserve of a category as evidenced by a comparison of that reserve indicated as necessary under current projections of life and salvage with that reserve historically accrued. The latter figure may be available from the utility's records or may require retrospective calculation.

(j) Salvage Data – Historical data by study category showing bookings of retirements, gross salvage and cost of removal used in analysis of trends in gross salvage and cost of removal or for calculations of realized salvage.

(k) Theoretical Reserve or Prospective Theoretical Reserve – A calculated reserve based on components of the proposed rate using the formula:

Theoretical Reserve = Book Investment – Future Accruals – Future Net Salvage

(l) Vintage – The year of placement of a group of plant items or investment under study.

(m) Whole Life Method – The method of calculating a depreciation rate based on the Whole Life (Average Service Life) and the Average Net Salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula is:

$$\text{Whole Life Rate} = \frac{100\% - \text{Average Net Salvage }\%}{\text{Average Service Life in Years}}$$

(2)(a) No utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval.

(b) No utility shall reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval.

(c) When plant investment is booked as a transfer from a regulated utility depreciable account to another or from a regulated company to an affiliate, an appropriate reserve amount shall also be booked as a transfer. When plant investment is sold from one regulated utility to an affiliate, an appropriate associated reserve amount shall also be determined to calculate the net book value of the utility investment being sold. Appropriate methods for determining the appropriate reserve amount associated with plant transferred or sold are as follows:

1. Where vintage reserves are not maintained, synthesization using the currently prescribed curve shape may be required. The same reserve percent associated with the original placement vintage of the related investment shall then be used in determining the appropriate amount of reserve to transfer.

2. Where the original placement vintage of the investment being transferred is unknown, the reserve percent applicable to the account in which the investment being transferred resides may be assumed as appropriate for determining the reserve amount to transfer.

3. Where the age of the investment being transferred is known and a history of the prescribed depreciation rates is known, a reserve can be determined by multiplying the age times the investment times the applicable depreciation rate(s).

4. The Commission shall consider any additional methods submitted by the utilities for determining the appropriate reserve amounts to transfer.

(3)(a) Each utility shall maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts as prescribed by subsection 25-6.014(1), F.A.C. Utilities may maintain further sub-categorization.

(b) Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.

(4) A utility filing a depreciation study, regardless if a change in rates is being requested or not, shall submit to the Office of Commission Clerk six copies of the information required by paragraphs (6)(a) through (f) and (h) of this rule and at least three copies of the information required by paragraph (6)(g).

(5) Upon Commission approval by order establishing an effective date, the utility shall reflect on its books and records the implementation of the proposed rates, subject to adjustment when final depreciation rates are approved.

(6) A depreciation study shall include:

(a) A comparison of current and proposed depreciation rates and components for each category of depreciable plant. Current rates shall be identified as to the effective date and proposed rates as to the proposed effective date.

(b) A comparison of annual depreciation expense as of the proposed effective date, resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.

(c) Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.

(d) A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.

(e) A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.

(f) An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.

(g) The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.

(h) The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

(7)(a) Utilities shall provide calculations of depreciation rates using both the whole life method and the remaining life method.

The use of these methods is required for all depreciable categories. Utilities may submit additional studies or methods for consideration by the Commission.

(b) The possibility of corrective reserve transfers shall be investigated by the Commission prior to changing depreciation rates.

(8)(a) Each company shall file a study for each category of depreciable property for Commission review at least once every four years from the submission date of the previous study unless otherwise required by the Commission.

(b) A utility proposing an effective date of the beginning of its fiscal year shall submit its depreciation study no later than the mid-point of that fiscal year.

(c) A utility proposing an effective date coinciding with the expected date of additional revenues initiated through a rate case proceeding shall submit its depreciation study no later than the filing date of its Minimum Filing Requirements.

(9) As part of the filing of the annual report pursuant to Rule 25-6.135, F.A.C., each utility shall include an annual status report. The report shall include booked plant activity (plant balance at the beginning of the year, additions, adjustments, transfers, reclassifications, retirements and plant balance at year end) and reserve activity (reserve balance at the beginning of the year, retirements, accruals, salvage, cost of removal, adjustments, transfers, reclassifications and reserve balance at end of year) for each category of investment for which a depreciation rate, amortization, or capital recovery schedule has been approved. The report shall indicate for each category that:

(a) There has been no change of plans or utility experience requiring a revision of rates, amortization or capital recovery schedules; or

(b) There has been a change requiring a revision of rates, amortization or capital recovery schedules.

(10) For any category where current conditions indicate a need for revision of depreciation rates, amortization or capital recovery schedules and no revision is sought, the report shall explain why no revision is requested.

(a) Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

(b) The Commission shall approve a special capital recovery schedule when an installation is designed for a specific purpose or for a limited duration.

(c) Associated plant and reserve activity, balances and the annual capital recovery schedule expense must be maintained as subsidiary records.

Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(f), 366.06(1) FS. History–New 11-11-82, Amended 1-6-85, Formerly 25-6.436, Amended 4-27-88, 12-12-91, 12-11-00, 5-29-08.

EXHIBIT NO. ____ (LK-11)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Function	FP&L Proposed Depr Rate	FP&L Proposed Composite Remaining Life	SFHHA Proposed Composite Remaining Life	SFHHA Adjusted Depr Rate	SFHHA Adjusted Depr Rate Reduction	Sch B-8 2017 TY FP&L Proposed Plant	SFHHA Total Company Depr Expense Reduction	2017 TY Sch C-4 Jurisdictional Separation Factor	SFHHA Jurisdictional Depr Expense Reduction
Steam	3.79	14.76	15.76	3.55	-0.24	2,501.071	(6.003)	95.0615%	(5.706)
Nuclear	4.16	16.56	17.56	3.92	-0.24	7,953.757	(19.089)	93.1693%	(17.785)
Combined Cycle	4.33	17.93							-
Peaker Plants	3.31	27.96							-
Solar	3.18	26.66							-
Total Other Production	4.18	19.22	20.22	3.97	-0.21	11,340.727	(23.816)	95.0420%	(22.635)
Transmission	2.50	36.03	37.03	2.43	-0.07	5,383.705	(3.769)	90.1747%	(3.398)
Distribution	3.19	32.28	33.28	3.09	-0.10	15,330.597	(15.331)	99.9738%	(15.327)
General	3.94	17.24	18.24	3.72	-0.22	1,268.464	(2.791)	96.7676%	(2.700)
Total All	3.60	23.65	24.65	3.45	-0.15	43,778.321	(70.797)		(67.551)

Increase in Rate Base at End of 2017 - Accum Depr	67.551
Increase in ADIT at 38.575%	(26.058)
Total Increase by End of 2017	41.493
Estimated 13 Month Avg Using Midway Point	20.747
Grossed Up rate of Return	9.88%
Return on Increased Rate Base	2.050
Estimated Revenue Requirement Effect	(65.501)

Source: Gannett Fleming Depreciation Study page vi and VI 8-16, Sch B-8 - Plant Amounts exclude ECRC Costs

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 1 of 6

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Other Production		Life		Depr Rate	
Combined Cycle	8,453.612	17.93	151,573.258	4.33	36,604.139
Peaker Plants	488.567	27.96	13,660.343	3.31	1,617.158
Solar	890.842	26.66	23,749.842	3.18	2,832.877
Total Other Production	9,833.021	19.22	188,983.444	4.18	41,054.174

Check on Sch B-8	
	43,778.321
Intang	1,037.944
Dist - Clauses	49.591
Scherer Acq Adj	107.383
Gas Reserves FCR - Depletion	909.940
Total ECRC	1,634.594
Gen Plant ECCR	2.656
Gen Plant Trans Clauses	0.599
Total Depr Plant	47,521.028

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 2 of 6

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Removal of ECRC Amounts by Function and Type of Production - See Schedule B-8

	13 Month Avg
Steam Production	
Manatee Gas Reburn ECRC	191.631
Scherer Unit 4 Baghouse ECRC	475.995
SJRPP Unit 1 SCR ECRC	28.030
SJRPP Unit 2 SCR ECRC	26.932
Steam Plant ECRC	177.796
Total Steam Production ECRC	900.384
Nuclear Plant ECRC	75.152
Other Production	
Desoto Solar ECRC	120.548
Martin Solar ECRC	2.298
Other Production ECRC	459.828
Space Coast Solar ECRC	61.635
	644.309
Transmission ECRC	8.591
General Plant ECRC	6.158
Total ECRC	1,634.594

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 3 of 6

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

Function	FP&L Proposed Depr Rate	FP&L Proposed Composite Remaining Life	SFHHA Proposed Composite Remaining Life	SFHHA Adjusted Depr Rate	SFHHA Adjusted Depr Rate Reduction	Sch B-8 2018 TY FP&L Proposed Plant	SFHHA Total Company Depr Expense Reduction	2018 TY Sch C-4 Jurisdictional Separation Factor	SFHHA Jurisdictional Depr Expense Reduction
Steam	3.79	14.76	15.76	3.55	-0.24	2,558.779	(6.141)	95.1132%	(5.841)
Nuclear	4.16	16.56	17.56	3.92	-0.24	8,048.504	(19.316)	93.2418%	(18.011)
Combined Cycle	4.33	17.93							-
Peaker Plants	3.31	27.96							-
Solar	3.18	26.66							-
Total Other Production	4.18	19.22	20.22	3.97	-0.21	11,756.816	(24.689)	95.1085%	(23.482)
Transmission	2.50	36.03	37.03	2.43	-0.07	5,765.462	(4.036)	90.3135%	(3.645)
Distribution	3.19	32.28	33.28	3.09	-0.10	16,678.022	(16.678)	99.9736%	(16.674)
General	3.94	17.24	18.24	3.72	-0.22	1,340.998	(2.950)	96.8460%	(2.857)
Total All	3.60	23.65	24.65	3.45	-0.15	46,148.581	(73.811)		(70.509)

	2018	2017
Increase in Rate Base at End of 2017 - Accum Depr		67.551
Increase in ADIT for 2017		(26.058)
Total 2017		
Increase in Rate Base at End of 2018 - Accum Depr	70.509	
Increase in ADIT at 38.575%	(27.199)	
Total Increase by End of 2018	43.310	
Estimated 13 Month Avg Using Midway Point	21.655	41.493
Grossed Up rate of Return	9.88%	9.88%
Return on Increased Rate Base	2.140	4.100
Estimated Revenue Requirement Effect	(64.270)	

Source: Gannett Fleming Depreciation Study page vi and VI 8-16, Sch B-8 - Plant Amounts exclude ECRC Costs

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 4 of 6

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

Other Production		Life		Depr Rate	
Combined Cycle	8,453.612	17.93	151,573.258	4.33	36,604.139
Peaker Plants	488.567	27.96	13,660.343	3.31	1,617.158
Solar	890.842	26.66	23,749.842	3.18	2,832.877
Total Other Production	9,833.021	19.22	188,983.444	4.18	41,054.174

Check on Sch B-8	
	46,148.581
Intang	1,111.726
Dist - Clauses	57.676
Scherer Acq Adj	107.383
Gas Reserves FCR - Depletion	1,409.940
Total ECRC	1,653.959
Gen Plant ECCR	2.662
Gen Plant Trans Clauses	0.599
Total Depr Plant	50,492.526

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 5 of 6

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO INCREASE REMAINING LIFE BY 1 YEAR
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

Removal of ECRC Amounts by Function and Type of Production - See Schedule B-8

	13 Month Avg
Steam Production	
Manatee Gas Reburn ECRC	191.539
Scherer Unit 4 Baghouse ECRC	486.454
SJRPP Unit 1 SCR ECRC	28.429
SJRPP Unit 2 SCR ECRC	26.910
Steam Plant ECRC	177.755
Total Steam Production ECRC	911.087
Nuclear Plant ECRC	83.709
Other Production	
Desoto Solar ECRC	120.707
Martin Solar ECRC	3.018
Other Production ECRC	459.016
Space Coast Solar ECRC	61.611
	644.352
Transmission ECRC	8.670
General Plant ECRC	6.141
Total ECRC	1,653.959

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Increase Remaining Life by 1 Year
Exhibit No. ___ (LK-11), Page 6 of 6

EXHIBIT NO. ____ (LK-12)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO COMBINE ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Future Accruals	Rem Life	As-Filed Annual Depr Accruals	As-Filed Annual Depr Rate	SFHHA Rem Life	SFHHA Annual Depr Accruals	SFHHA Annual Depr Rate	SFHHA Annual Depr Reduction
Lauderdale-Common	Acct 343 - Prime Movers-General	29.162	22.304	14.72	1.515	5.20%	14.72	1.515	5.20%	-
Lauderdale-Common	Acct 343 - Prime Movers-Cap Spare Parts	37.564	15.560	6.67	2.333	6.21%	14.72	1.057	2.81%	(1.276)
Sub Total	Total Acct 343	66.726	37.864		3.848			2.572	3.85%	(1.276)
Lauderdale-Unit 4	Acct 343 - Prime Movers-General	130.964	78.193	14.36	5.445	4.16%	14.36	5.445	4.16%	-
Lauderdale-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	54.499	31.225	6.41	4.871	8.94%	14.36	2.174	3.99%	(2.697)
Sub Total	Total Acct 343	185.462	109.419		10.317			7.620	4.11%	(2.697)
Lauderdale-Unit 5	Acct 343 - Prime Movers-General	130.296	97.313	14.37	6.772	5.20%	14.37	6.772	5.20%	-
Lauderdale-Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	24.422	13.828	6.92	1.998	8.18%	14.37	0.962	3.94%	(1.036)
Sub Total	Total Acct 343	154.719	111.140		8.770			7.734	5.00%	(1.036)
Ft Meyers-Common	Acct 343 - Prime Movers-General	3.966	2.878	23.12	0.124	3.14%	23.12	0.124	3.14%	-
Ft Meyers-Common	Acct 343 - Prime Movers-Cap Spare Parts	0.442	0.054	5.50	0.010	2.24%	23.12	0.002	0.53%	(0.008)
Sub Total	Total Acct 343	4.408	2.932		0.134			0.127	2.88%	(0.008)
Ft Meyers-Unit 2	Acct 343 - Prime Movers-General	408.865	331.807	22.81	14.547	3.56%	22.81	14.547	3.56%	-
Ft Meyers-Unit 2	Acct 343 - Prime Movers-Cap Spare Parts	296.494	147.835	6.72	21.999	7.42%	22.81	6.481	2.19%	(15.518)
Sub Total	Total Acct 343	705.359	479.642		36.546			21.028	2.98%	(15.518)
Ft Meyers-Unit 3	Acct 343 - Prime Movers-General	168.675	176.092	23.24	7.577	4.49%	23.24	7.577	4.49%	-
Ft Meyers-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	20.277	14.682	19.16	0.766	3.78%	23.24	0.632	3.12%	(0.135)
Sub Total	Total Acct 343	188.952	190.774		8.343			8.209	4.34%	(0.135)
Manatee Unit 3	Acct 343 - Prime Movers-General	285.010	247.933	24.32	10.195	3.58%	24.32	10.195	3.58%	-
Manatee Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	189.328	105.091	7.04	14.928	7.88%	24.32	4.321	2.28%	(10.607)
Sub Total	Total Acct 343	474.338	353.024		25.122			14.516	3.06%	(10.607)
Martin-Common	Acct 343 - Prime Movers-General	23.358	9.138	15.31	0.597	2.56%	15.31	0.597	2.56%	-
Martin-Common	Acct 343 - Prime Movers-Cap Spare Parts	2.230	0.609	5.67	0.107	4.82%	15.31	0.040	1.78%	(0.068)
Sub Total	Total Acct 343	25.588	9.747		0.704			0.637	2.49%	(0.068)
Martin-Unit 3	Acct 343 - Prime Movers-General	163.056	125.238	15.28	8.196	5.03%	15.28	8.196	5.03%	-
Martin-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	62.930	36.546	7.31	5.000	7.94%	15.28	2.392	3.80%	(2.608)
Sub Total	Total Acct 343	225.986	161.784		13.196			10.588	4.69%	(2.608)
Martin-Unit 4	Acct 343 - Prime Movers-General	169.519	110.043	15.33	7.178	4.23%	15.33	7.178	4.23%	-
Martin-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	95.842	48.861	6.88	7.102	7.41%	15.33	3.187	3.33%	(3.915)
Sub Total	Total Acct 343	265.361	158.904		14.280			10.366	3.91%	(3.915)
Martin-Unit 8	Acct 343 - Prime Movers-General	308.994	272.276	24.36	11.177	3.62%	24.36	11.177	3.62%	-
Martin-Unit 8	Acct 343 - Prime Movers-Cap Spare Parts	222.610	123.113	6.93	17.765	7.98%	24.36	5.054	2.27%	(12.711)
Sub Total	Total Acct 343	531.605	395.389		28.942			16.231	3.05%	(12.711)

Docket No. 160021-EI
SFHHA Reduction to Deprec. Exp. to Combine All Account 343 - TYs 2017 and 2018
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FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO COMBINE ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Future Accruals	Rem Life	As-Filed Annual Depr Accruals	As-Filed Annual Depr Rate	SFHHA Rem Life	SFHHA Annual Depr Accruals	SFHHA Annual Depr Rate	SFHHA Annual Depr Reduction
Sanford-Unit 4	Acct 343 - Prime Movers-General	215.835	189.891	22.65	8.384	3.88%	22.65	8.384	3.88%	-
Sanford-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	183.294	105.401	7.08	14.887	8.12%	22.65	4.653	2.54%	(10.234)
Sub Total	Total Acct 343	399.130	295.292		23.271			13.037	3.27%	(10.234)
Sanford-Unit 5	Acct 343 - Prime Movers-General	233.978	215.570	21.87	9.857	4.21%	21.87	9.857	4.21%	-
Sanford-Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	169.584	101.666	7.16	14.199	8.37%	21.87	4.649	2.74%	(9.551)
Sub Total	Total Acct 343	403.563	317.236		24.056			14.506	3.59%	(9.551)
Turket Pt - Unit 5	Acct 343 - Prime Movers-General	278.605	241.488	25.84	9.346	3.35%	25.84	9.346	3.35%	-
Turket Pt - Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	187.990	106.007	7.40	14.325	7.62%	25.84	4.102	2.18%	(10.223)
Sub Total	Total Acct 343	466.595	347.495		23.671			13.448	2.88%	(10.223)
West County-Common	Acct 343 - Prime Movers-General	31.306	30.094	29.39	1.024	3.27%	29.39	1.024	3.27%	-
West County-Common	Acct 343 - Prime Movers-Cap Spare Parts	126.772	65.736	6.89	9.541	7.53%	29.39	2.237	1.76%	(7.304)
Sub Total	Total Acct 343	158.078	95.830		10.565			3.261	2.06%	(7.304)
West County-Unit 1	Acct 343 - Prime Movers-General	302.832	324.237	27.40	11.833	3.91%	27.40	11.833	3.91%	-
West County-Unit 1	Acct 343 - Prime Movers-Cap Spare Parts	81.979	57.218	5.91	9.682	11.81%	27.40	2.088	2.55%	(7.593)
Sub Total	Total Acct 343	384.810	381.455		21.515			13.922	3.62%	(7.593)
West County-Unit 2	Acct 343 - Prime Movers-General	257.773	239.808	27.39	8.755	3.40%	27.39	8.755	3.40%	-
West County-Unit 2	Acct 343 - Prime Movers-Cap Spare Parts	149.903	79.629	5.84	13.635	9.10%	27.39	2.907	1.94%	(10.728)
Sub Total	Total Acct 343	407.675	319.437		22.390			11.663	2.86%	(10.728)
West County-Unit 3	Acct 343 - Prime Movers-General	506.388	492.368	28.99	16.984	3.35%	28.99	16.984	3.35%	-
West County-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	84.037	49.657	6.90	7.197	8.56%	28.99	1.713	2.04%	(5.484)
Sub Total	Total Acct 343	590.426	542.025		24.181			18.697	3.17%	(5.484)
Cape Canaveral	Acct 343 - Prime Movers-General	400.914	374.766	30.59	12.251	3.06%	30.59	12.251	3.06%	-
Cape Canaveral	Acct 343 - Prime Movers-Cap Spare Parts	229.372	123.444	7.28	16.957	7.39%	30.59	4.035	1.76%	(12.921)
Sub Total	Total Acct 343	630.286	498.210		29.208			16.287	2.58%	(12.921)
Riviera	Acct 343 - Prime Movers-General	533.780	498.013	31.39	15.865	2.97%	31.39	15.865	2.97%	-
Riviera	Acct 343 - Prime Movers-Cap Spare Parts	139.525	68.722	7.12	9.652	6.92%	31.39	2.189	1.57%	(7.463)
Sub Total	Total Acct 343	673.305	566.735		25.517			18.055	2.68%	(7.463)
Pt Everglades	Acct 343 - Prime Movers-General	518.622	512.326	33.03	15.511	2.99%	33.03	15.511	2.99%	-
Pt Everglades	Acct 343 - Prime Movers-Cap Spare Parts	191.363	108.457	8.01	13.540	7.08%	33.03	3.284	1.72%	(10.257)
Sub Total	Total Acct 343	709.985	620.783		29.051			18.795	2.65%	(10.257)
Peakers										
Lauderdale-GTS	Acct 343 - Prime Movers-General	14.842	13.099	10.14	1.292	8.70%	10.14	1.292	8.70%	-
Lauderdale-GTS	Acct 343 - Prime Movers-Cap Spare Parts	1.859	0.748	7.60	0.098	5.30%	10.14	0.074	3.97%	(0.025)
Sub Total	Total Acct 343	16.701	13.847		1.390			1.366	8.18%	(0.025)

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FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO COMBINE ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Future Accruals	Rem Life	As-Filed Annual Depr Accruals	As-Filed Annual Depr Rate	SFHHA Rem Life	SFHHA Annual Depr Accruals	SFHHA Annual Depr Rate	SFHHA Annual Depr Reduction
Ft Meyers GTS	Acct 343 - Prime Movers-General	10.219	8.756	10.14	0.863	8.45%	10.14	0.863	8.45%	-
Ft Meyers GTS	Acct 343 - Prime Movers-Cap Spare Parts	2.807	0.783	5.72	0.137	4.88%	10.14	0.077	2.75%	(0.060)
Sub Total	Total Acct 343	13.026	9.539		1.000			0.941	7.22%	(0.060)
Lauder& Ft Mey Peak	Acct 343 - Prime Movers-General	226.797	225.575	33.03	6.829	3.01%	33.03	6.829	3.01%	-
Lauder& Ft Mey Peak	Acct 343 - Prime Movers-Cap Spare Parts	83.871	56.883	23.58	2.412	2.88%	33.03	1.722	2.05%	(0.690)
Sub Total	Total Acct 343	310.668	282.459		9.242			8.552	2.75%	(0.690)

Total Company Reduction in Expense	(143.108)
Jurisdictional Allocation %	95.0420%
Jurisdictional Reduction in Expense	(136.013)

	2017	2018
Increase in Rate Base at End of 2017 - Accum Depr	136.013	136.013
Increase in ADIT at 38.575%	(52.467)	(52.467)
Total Increase by End of 2017	83.546	83.546
Estimated 13 Month Avg Using Midway Point	41.773	125.319
Grossed Up rate of Return	9.88%	9.98%
Return on Increased Rate Base	4.127	12.505
Estimated Revenue Requirement Effect	(131.885)	(123.508)

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SFHHA Reduction to Deprec. Exp. to Combine All Account 343 - TYs 2017 and 2018
Exhibit No. ___ (LK-12), Page 3 of 3

EXHIBIT NO. ____ (LK-13)

FLORIDA POWER AND LIGHT COMPANY

TABLE 3. COMPARISON OF REMAINING LIFE ANNUAL DEPRECIATION RATES AND ACCRUALS FOR ELECTRIC PLANT AS OF DECEMBER 31, 2017
BASED ON DEPRECIATION RATES ORDERED IN DOCKET NO. 090130-EI AND PROPOSED DEPRECIATION RATE

			ORDERED IN DOCKET NO. 090130-EI					PROPOSED ESTIMATES					
	ORIGINAL COST	BOOK RESERVE	PROBABLE RETIREMENT DATE	SURVIVOR CURVE/ INTERIM RETIREMENT RATE	NET SALVAGE	ANNUAL DEPRECIATION RATE	ANNUAL DEPRECIATION ACCRUALS	PROBABLE RETIREMENT DATE	SURVIVOR CURVE	NET SALVAGE	ANNUAL DEPRECIATION ACCRUALS	ANNUAL DEPRECIATION RATE	INCREASE/ DECREASE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)x(1)	(8)	(9)	(10)	(11)	(12)	(13)=(12)-(7)
MANATEE COMBINED CYCLE PLANT													
MANATEE UNIT 3													
341 STRUCTURES AND IMPROVEMENTS	31,908,336	11,616,676	06-2035	0.0023	(2)	3.5	1,116,792	06-2045	80 - R2 *	(2)	789,729	2.47	(327,063)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	4,421,337	1,641,048	06-2035	0.0095	0	3.8	168,011	06-2045	50 - R1.5 *	(3)	118,653	2.68	(49,358)
343 PRIME MOVERS - GENERAL	285,009,855	45,627,280	06-2035	0.0057	0	4.3	12,255,424	06-2045	50 - R1 *	(3)	10,194,608	3.58	(2,060,816)
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	189,328,023	17,972,043	06-2035	0.1565	0	4.3	8,141,105	06-2045	9 - L0 *	35	14,927,723	7.88	6,786,618
344 GENERATORS	45,685,135	17,677,134	06-2035	0.0016	(1)	3.4	1,553,295	06-2045	60 - R2 *	(3)	1,139,587	2.49	(413,708)
345 ACCESSORY ELECTRIC EQUIPMENT	49,757,789	18,049,149	06-2035	0.0013	(1)	3.4	1,691,765	06-2045	50 - R2.5 *	(2)	1,288,058	2.59	(403,707)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	12,107,281	4,027,878	06-2035	0.0026	0	3.4	411,648	06-2045	50 - S0.5 *	(2)	345,436	2.85	(66,212)
TOTAL MANATEE UNIT 3	*618,217,757*	*116,613,208*				*4.1*	*25,338,040*				*28,803,794*	*4.66*	*3,465,754*
TOTAL MANATEE COMBINED CYCLE PLANT	*618,217,757*	*116,613,208*				*4.1*	*25,338,040*				*28,803,794*	*4.66*	*3,465,754*
MARTIN COMBINED CYCLE PLANT													
MARTIN COMMON													
341 STRUCTURES AND IMPROVEMENTS	50,503,089	32,931,006	06-2024	0.0023	(2)	3.5	1,787,608	06-2034	80 - R2 *	(2)	1,154,170	2.29	(613,438)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	4,874,751	3,205,466	06-2024	0.0095	0	3.8	185,241	06-2034	50 - R1.5 *	(3)	118,740	2.44	(66,501)
343 PRIME MOVERS - GENERAL	23,358,058	14,921,187	06-2024	0.0057	0	4.3	1,004,396	06-2034	50 - R1 *	(3)	596,840	2.56	(407,556)
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	2,230,422	840,406	06-2024	0.1565	0	4.3	95,908	06-2034	9 - L0 *	35	107,472	4.82	11,564
345 ACCESSORY ELECTRIC EQUIPMENT	5,443,082	3,816,637	06-2024	0.0013	(1)	3.4	185,064	06-2034	50 - R2.5 *	(2)	112,534	2.07	(72,530)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	4,289,446	2,872,689	06-2024	0.0026	0	3.4	145,841	06-2034	50 - S0.5 *	(2)	100,505	2.34	(45,336)
TOTAL MARTIN COMMON	*90,698,817*	*58,587,391*				*3.7*	*3,384,058*				*2,190,261*	*2.41*	*(1,193,797)*
MARTIN UNIT 3													
341 STRUCTURES AND IMPROVEMENTS	1,697,789	1,178,543	06-2024	0.0023	(2)	3.5	59,423	06-2034	80 - R2 *	(2)	34,403	2.03	(25,020)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	182,787	132,042	06-2024	0.0095	0	3.8	6,946	06-2034	50 - R1.5 *	(3)	3,716	2.03	(3,230)
343 PRIME MOVERS - GENERAL	163,056,406	42,710,302	06-2024	0.0057	0	4.2	6,848,369	06-2034	50 - R1 *	(3)	8,196,191	5.03	1,347,822
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	62,930,034	4,358,126	06-2024	0.1565	0	4.2	2,643,061	06-2034	9 - L0 *	35	4,999,507	7.94	2,356,446
344 GENERATORS	27,182,223	13,254,957	06-2024	0.0016	(1)	3.4	924,196	06-2034	60 - R2 *	(3)	927,216	3.41	3,020
345 ACCESSORY ELECTRIC EQUIPMENT	29,087,069	17,237,157	06-2024	0.0013	(1)	3.4	988,960	06-2034	50 - R2.5 *	(2)	798,949	2.75	(190,011)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	582,526	419,938	06-2024	0.0026	0	3.4	19,806	06-2034	50 - S0.5 *	(2)	11,733	2.01	(8,073)
TOTAL MARTIN UNIT 3	*284,718,832*	*79,291,064*				*4.0*	*11,490,761*				*14,971,715*	*5.26*	*3,480,954*
MARTIN UNIT 4													
341 STRUCTURES AND IMPROVEMENTS	1,532,781	823,761	06-2024	0.0023	(2)	3.5	53,647	06-2034	80 - R2 *	(2)	45,886	2.99	(7,761)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	182,371	131,656	06-2024	0.0095	0	3.8	6,930	06-2034	50 - R1.5 *	(3)	3,714	2.04	(3,216)
343 PRIME MOVERS - GENERAL	169,519,058	64,561,804	06-2024	0.0057	0	4.2	7,119,800	06-2034	50 - R1 *	(3)	7,178,260	4.23	58,460
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	95,841,805	13,436,230	06-2024	0.1565	0	4.2	4,025,356	06-2034	9 - L0 *	35	7,101,881	7.41	3,076,525
344 GENERATORS	33,959,357	18,185,575	06-2024	0.0016	(1)	3.4	1,141,018	06-2034	60 - R2 *	(3)	1,030,872	3.07	(110,146)
345 ACCESSORY ELECTRIC EQUIPMENT	26,145,825	15,240,421	06-2024	0.0013	(1)	3.4	888,958	06-2034	50 - R2.5 *	(2)	733,996	2.81	(154,962)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	844,987	440,226	06-2024	0.0026	0	3.4	28,730	06-2034	50 - S0.5 *	(2)	27,488	3.25	(1,242)
TOTAL MARTIN UNIT 4	*327,626,184*	*112,819,772*				*4.0*	*13,264,439*				*16,122,097*	*4.92*	*2,857,658*
MARTIN UNIT 8													
341 STRUCTURES AND IMPROVEMENTS	25,862,707	9,242,822	06-2035	0.0023	(2)	3.5	905,195	06-2045	80 - R2 *	(2)	646,929	2.50	(258,266)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	12,403,564	4,361,292	06-2035	0.0095	0	3.8	471,335	06-2045	50 - R1.5 *	(3)	343,444	2.77	(127,891)
343 PRIME MOVERS - GENERAL	308,994,246	45,987,972	06-2035	0.0057	0	4.3	13,286,753	06-2045	50 - R1 *	(3)	11,177,180	3.62	(2,109,573)
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	222,610,261	21,583,383	06-2035	0.1565	0	4.3	9,572,241	06-2045	9 - L0 *	35	17,765,265	7.98	8,193,024
344 GENERATORS	44,713,507	14,666,541	06-2035	0.0016	(1)	3.4	1,520,259	06-2045	60 - R2 *	(3)	1,218,966	2.73	(301,293)
345 ACCESSORY ELECTRIC EQUIPMENT	56,238,775	19,041,202	06-2035	0.0013	(1)	3.4	1,912,118	06-2045	50 - R2.5 *	(2)	1,515,916	2.70	(396,202)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	5,333,644	1,899,934	06-2035	0.0026	0	3.4	181,344	06-2045	50 - S0.5 *	(2)	146,297	2.74	(35,047)
TOTAL MARTIN UNIT 8	*676,156,704*	*116,783,146*				*4.1*	*27,849,245*				*32,813,997*	*4.85*	*4,964,752*
TOTAL MARTIN COMBINED CYCLE PLANT	*1,379,200,537*	*367,481,373*				*4.1*	*55,988,503*				*66,098,070*	*4.79*	*10,109,567*
SANFORD COMBINED CYCLE PLANT													
SANFORD COMMON													
341 STRUCTURES AND IMPROVEMENTS	73,652,636	31,568,527	06-2033	0.0023	(2)	3.5	2,577,842	06-2043	80 - R2 *	(2)	1,786,594	2.43	(791,248)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	91,441	45,565	06-2033	0.0095	0	3.8	3,475	06-2043	50 - R1.5 *	(3)	2,136	2.34	(1,339)
343 PRIME MOVERS - GENERAL	6,103,661	(4,506,896)	06-2033	0.0057	0	4.5	274,665	06-2043	50 - R1 *	(3)	485,982	7.96	211,317
344 GENERATORS	206,289	41,592	06-2033	0.0016	(1)	3.4	7,014	06-2043	60 - R2 *	(3)	7,018	3.40	4
345 ACCESSORY ELECTRIC EQUIPMENT	2,204,657	702,456	06-2033	0.0013	(1)	3.4	74,958	06-2043	50 - R2.5 *	(2)	67,909	3.08	(7,049)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	2,298,256	883,004	06-2033	0.0026	0	3.4	78,141	06-2043	50 - S0.5 *	(2)	65,115	2.83	(13,026)
TOTAL SANFORD COMMON	*84,556,940*	*28,734,278*				*3.6*	*3,016,095*				*2,414,754*	*2.86*	*(601,341)*
SANFORD UNIT 4													
341 STRUCTURES AND IMPROVEMENTS	7,638,979	3,326,984	06-2033	0.0023	(2)	3.5	267,364	06-2043	80 - R2 *	(2)	184,419	2.41	(82,945)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	1,855,795	846,704	06-2033	0.0095	0	3.8	70,520	06-2043	50 - R1.5 *	(3)	46,659	2.51	(23,861)
343 PRIME MOVERS - GENERAL	215,835,490	32,420,005	06-2033	0.0057	0	4.8	10,360,104	06-2043	50 - R1 *	(3)	8,383,689	3.88	(1,976,415)
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	183,294,116	13,739,689	06-2033	0.1565	0	4.8	8,798,118	06-2043	9 - L0 *	35	14,887,216	8.12	6,089,098
344 GENERATORS	33,768,065	11,149,618	06-2033	0.0016	(1)	3.4	1,148,114	06-2043	60 - R2 *	(3)	987,526	2.92	(160,588)
345 ACCESSORY ELECTRIC EQUIPMENT	36,216,823	15,889,430	06-2033	0.0013	(1)	3.4	1,231,372	06-2043	50 - R2.5 *	(2)	911,330	2.52	(320,042)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	3,422,702	1,509,042	06-2033	0.0026	0	3.4	116,372	06-2043	50 - S0.5 *	(2)	89,004	2.60	(27,368)
TOTAL SANFORD UNIT 4	*482,031,970*	*78,881,472*				*4.6*	*21,991,964*				*25,489,843*	*5.29*	*3,497,879*
SANFORD UNIT 5													
341 STRUCTURES AND IMPROVEMENTS	7,486,029	3,347,396	06-2032	0.0023	(2)	3.5	262,011	06-2042	80 - R2 *	(2)	183,341	2.45	(78,670)
342 FUEL HOLDERS, PRODUCERS AND ACCESSORIES	1,867,173	917,504	06-2032	0.0095	0	3.8	70,953	06-2042	50 - R1.5 *	(3)	45,796	2.45	(25,157)
343 PRIME MOVERS - GENERAL	233,978,163	25,427,850	06-2032	0.0057	0	4.2	9,827,083	06-2042	50 - R1 *	(3)	9,856,867	4.21	29,784
343.2 PRIME MOVERS - CAPITAL SPARE PARTS	169,584,346	8,563,875	06-2032	0.1565	0	4.2	7,122,543	06-2042	9 - L0 *	35	14,199,155	8.37	7,076,612
344 GENERATORS	33,575,007	12,550,119	06-2032	0.0016	(1)	3.4	1,141,550	06-2042	60 - R2 *	(3)	956,256	2.85	(185,294)
345 ACCESSORY ELECTRIC EQUIPMENT	35,688,945	15,778,237	06-2032	0.0013	(1)	3.4	1,213,356	06-2042	50 - R2.5 *	(2)	923,531	2.59	(289,825)
346 MISCELLANEOUS POWER PLANT EQUIPMENT	2,983,622	1,325,321	06-2032	0.0026	0	3.4	101,443	06-2042	50 - S0.5 *	(2)	79,794	2.67	(21,649)
TOTAL SANFORD UNIT 5	*485,161,285*	*67,910,281*				*4.1*	*19,738,939*				*26,244,740*	*5.41*	*6,505,801*
TOTAL SANFORD COMBINED CYCLE PLANT	*1,051,750,194*	*175,526,030*				*4.3*	*44,746,998*				*54,149,337*	*5.15*	*9,402,339*

EXHIBIT NO. ____ (LK-14)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO REALLOCATE RESERVE BASED ON GROSS PLANT FOR ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Accum Depr	NBV	Rem Life	As-Filed Annual Depr Accruals	Gross Plant Allocation Rate	SFHHA Accum Depr	SFHHA NBV	SFHHA Annual Depr Accruals	SFHHA Annual Depr Reduction
Lauderdale-Common	Acct 343 - Prime Movers-General	29.162	7.733	21.429	14.72	1.456	43.70%	7.250	21.912	1.489	0.033
Lauderdale-Common	Acct 343 - Prime Movers-Cap Spare Parts	37.564	8.857	28.707	6.67	4.304	56.30%	9.339	28.225	4.232	(0.072)
Sub Total	Total Acct 343	66.726	16.590	50.137		5.760	100.00%		50.137	5.720	(0.040)
Lauderdale-Unit 4	Acct 343 - Prime Movers-General	130.964	56.699	74.265	14.36	5.172	70.61%	47.593	83.371	5.806	0.634
Lauderdale-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	54.499	10.699	43.800	6.41	6.833	29.39%	19.805	34.694	5.412	(1.421)
Sub Total	Total Acct 343	185.462	67.398	118.064		12.005	100.00%		118.064	11.218	(0.786)
Lauderdale-Unit 5	Acct 343 - Prime Movers-General	130.296	36.893	93.404	14.37	6.500	84.21%	32.793	97.503	6.785	0.285
Lauderdale-Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	24.422	2.047	22.376	6.92	3.233	15.79%	6.147	18.276	2.641	(0.592)
Sub Total	Total Acct 343	154.719	38.940	115.779		9.733	100.00%		115.779	9.426	(0.307)
Ft Meyers-Common	Acct 343 - Prime Movers-General	3.966	1.207	2.759	23.12	0.119	89.98%	1.296	2.671	0.116	(0.004)
Ft Meyers-Common	Acct 343 - Prime Movers-Cap Spare Parts	0.442	0.233	0.209	5.50	0.038	10.02%	0.144	0.297	0.054	0.016
Sub Total	Total Acct 343	4.408	1.440	2.968		0.157	100.00%		2.968	0.170	0.012
Ft Meyers-Unit 2	Acct 343 - Prime Movers-General	408.865	89.324	319.541	22.81	14.009	57.97%	77.796	331.069	14.514	0.505
Ft Meyers-Unit 2	Acct 343 - Prime Movers-Cap Spare Parts	296.494	44.886	251.608	6.72	37.442	42.03%	56.415	240.079	35.726	(1.716)
Sub Total	Total Acct 343	705.359	134.210	571.149		51.450	100.00%		571.149	50.240	(1.210)
Ft Meyers-Unit 3	Acct 343 - Prime Movers-General	168.675	(2.357)	171.031	23.24	7.359	89.27%	(2.358)	171.033	7.359	0.000
Ft Meyers-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	20.277	(0.285)	20.562	19.16	1.073	10.73%	(0.284)	20.561	1.073	(0.000)
Sub Total	Total Acct 343	188.952	(2.642)	191.594		8.433	100.00%		191.594	8.433	(0.000)
Manatee Unit 3	Acct 343 - Prime Movers-General	285.010	45.627	239.383	24.32	9.843	60.09%	38.214	246.796	10.148	0.305
Manatee Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	189.328	17.972	171.356	7.04	24.340	39.91%	25.385	163.943	23.287	(1.053)
Sub Total	Total Acct 343	474.338	63.599	410.739		34.183	100.00%		410.739	33.435	(0.748)
Martin-Common	Acct 343 - Prime Movers-General	23.358	14.921	8.437	15.31	0.551	91.28%	14.388	8.970	0.586	0.035
Martin-Common	Acct 343 - Prime Movers-Cap Spare Parts	2.230	0.840	1.390	5.67	0.245	8.72%	1.374	0.857	0.151	(0.094)
Sub Total	Total Acct 343	25.588	15.762	9.827		0.796	100.00%		9.827	0.737	(0.059)
Martin-Unit 3	Acct 343 - Prime Movers-General	163.056	42.710	120.346	15.28	7.876	72.15%	33.961	129.095	8.449	0.573
Martin-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	62.930	4.358	58.572	7.31	8.013	27.85%	13.107	49.823	6.816	(1.197)
Sub Total	Total Acct 343	225.986	47.068	178.918		15.889	100.00%		178.918	15.264	(0.624)
Martin-Unit 4	Acct 343 - Prime Movers-General	169.519	64.562	104.957	15.33	6.847	63.88%	49.827	119.692	7.808	0.961
Martin-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	95.842	13.436	82.406	6.88	11.978	36.12%	28.171	67.671	9.836	(2.142)
Sub Total	Total Acct 343	265.361	77.998	187.363		18.824	100.00%		187.363	17.644	(1.181)
Martin-Unit 8	Acct 343 - Prime Movers-General	308.994	45.988	263.006	24.36	10.797	58.12%	39.276	269.719	11.072	0.276
Martin-Unit 8	Acct 343 - Prime Movers-Cap Spare Parts	222.610	21.583	201.027	6.93	29.008	41.88%	28.296	194.315	28.040	(0.969)
Sub Total	Total Acct 343	531.605	67.571	464.033		39.805	100.00%		464.033	39.112	(0.693)

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FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO REALLOCATE RESERVE BASED ON GROSS PLANT FOR ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Accum Depr	NBV	Rem Life	As-Filed Annual Depr Accruals	Gross Plant Allocation Rate	SFHHA Accum Depr	SFHHA NBV	SFHHA Annual Depr Accruals	SFHHA Annual Depr Reduction
Sanford-Unit 4	Acct 343 - Prime Movers-General	215.835	32.420	183.415	22.65	8.098	54.08%	24.962	190.874	8.427	0.329
Sanford-Unit 4	Acct 343 - Prime Movers-Cap Spare Parts	183.294	13.740	169.554	7.08	23.948	45.92%	21.198	162.096	22.895	(1.053)
Sub Total	Total Acct 343	399.130	46.160	352.970		32.046	100.00%		352.970	31.322	(0.724)
Sanford-Unit 5	Acct 343 - Prime Movers-General	233.978	25.428	208.550	21.87	9.536	57.98%	19.708	214.270	9.797	0.262
Sanford-Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	169.584	8.564	161.020	7.16	22.489	42.02%	14.284	155.300	21.690	(0.799)
Sub Total	Total Acct 343	403.563	33.992	369.571		32.025	100.00%		369.571	31.487	(0.537)
Turket Pt - Unit 5	Acct 343 - Prime Movers-General	278.605	45.476	233.130	25.84	9.022	59.71%	36.818	241.787	9.357	0.335
Turket Pt - Unit 5	Acct 343 - Prime Movers-Cap Spare Parts	187.990	16.186	171.804	7.40	23.217	40.29%	24.843	163.147	22.047	(1.170)
Sub Total	Total Acct 343	466.595	61.662	404.934		32.239	100.00%		404.934	31.404	(0.835)
West County-Common	Acct 343 - Prime Movers-General	31.306	2.151	29.155	29.39	0.992	19.80%	3.726	27.579	0.938	(0.054)
West County-Common	Acct 343 - Prime Movers-Cap Spare Parts	126.772	16.665	110.107	6.89	15.981	80.20%	15.090	111.682	16.209	0.229
Sub Total	Total Acct 343	158.078	18.816	139.261		16.973	100.00%		139.261	17.148	0.175
West County-Unit 1	Acct 343 - Prime Movers-General	302.832	(12.320)	315.152	27.40	11.502	78.70%	(12.790)	315.622	11.519	0.017
West County-Unit 1	Acct 343 - Prime Movers-Cap Spare Parts	81.979	(3.932)	85.911	5.91	14.537	21.30%	(3.462)	85.441	14.457	(0.080)
Sub Total	Total Acct 343	384.810	(16.252)	401.063		26.038	100.00%		401.063	25.976	(0.062)
West County-Unit 2	Acct 343 - Prime Movers-General	257.773	25.698	232.074	27.39	8.473	63.23%	27.509	230.264	8.407	(0.066)
West County-Unit 2	Acct 343 - Prime Movers-Cap Spare Parts	149.903	17.807	132.095	5.84	22.619	36.77%	15.997	133.906	22.929	0.310
Sub Total	Total Acct 343	407.675	43.506	364.170		31.092	100.00%		364.170	31.336	0.244
West County-Unit 3	Acct 343 - Prime Movers-General	506.388	29.212	477.176	28.99	16.460	85.77%	29.314	477.074	16.457	(0.004)
West County-Unit 3	Acct 343 - Prime Movers-Cap Spare Parts	84.037	4.967	79.071	6.90	11.459	14.23%	4.865	79.172	11.474	0.015
Sub Total	Total Acct 343	590.426	34.179	556.247		27.920	100.00%		556.247	27.931	0.011
Cape Canaveral	Acct 343 - Prime Movers-General	400.914	38.175	362.739	30.59	11.858	63.61%	40.597	360.317	11.779	(0.079)
Cape Canaveral	Acct 343 - Prime Movers-Cap Spare Parts	229.372	25.648	203.724	7.28	27.984	36.39%	23.226	206.146	28.317	0.333
Sub Total	Total Acct 343	630.286	63.823	566.463		39.842	100.00%		566.463	40.096	0.253
Riviera	Acct 343 - Prime Movers-General	533.780	51.781	481.999	31.39	15.355	79.28%	58.467	475.313	15.142	(0.213)
Riviera	Acct 343 - Prime Movers-Cap Spare Parts	139.525	21.969	117.556	7.12	16.511	20.72%	15.283	124.242	17.450	0.939
Sub Total	Total Acct 343	673.305	73.750	599.555		31.866	100.00%		599.555	32.592	0.726
Pt Everglades	Acct 343 - Prime Movers-General	518.622	21.855	496.768	33.03	15.040	73.05%	27.600	491.023	14.866	(0.174)
Pt Everglades	Acct 343 - Prime Movers-Cap Spare Parts	191.363	15.929	175.434	8.01	21.902	26.95%	10.184	181.179	22.619	0.717
Sub Total	Total Acct 343	709.985	37.783	672.202		36.942	100.00%		672.202	37.485	0.543
Peakers											
Lauderdale-GTS	Acct 343 - Prime Movers-General	14.842	2.188	12.654	10.14	1.248	88.87%	2.452	12.389	1.222	(0.026)
Lauderdale-GTS	Acct 343 - Prime Movers-Cap Spare Parts	1.859	0.571	1.287	7.60	0.169	11.13%	0.307	1.552	0.204	0.035
Sub Total	Total Acct 343	16.701	2.760	13.941		1.417	100.00%		13.941	1.426	0.009

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FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO REALLOCATE RESERVE BASED ON GROSS PLANT FOR ALL ACCOUNT 343 - PRIME MOVERS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ MILLIONS)

Source: Depr Study VI-10 through VI-15

	Account	Original Cost	Accum Depr	NBV	Rem Life	As-Filed Annual Depr Accruals	Gross Plant Allocation Rate	SFHHA Accum Depr	SFHHA NBV	SFHHA Annual Depr Accruals	SFHHA Annual Depr Reduction
Ft Meyers GTS	Acct 343 - Prime Movers-General	10.219	1.770	8.449	10.14	0.833	78.45%	2.337	7.882	0.777	(0.056)
Ft Meyers GTS	Acct 343 - Prime Movers-Cap Spare Parts	2.807	1.210	1.597	5.72	0.279	21.55%	0.642	2.165	0.379	0.099
Sub Total	Total Acct 343	13.026	2.979	10.047		1.113	100.00%		10.047	1.156	0.043
Lauder& Ft Mey Peak	Acct 343 - Prime Movers-General	226.797	8.026	218.771	33.03	6.623	73.00%	7.805	218.993	6.630	0.007
Lauder& Ft Mey Peak	Acct 343 - Prime Movers-Cap Spare Parts	83.871	2.665	81.206	23.58	3.444	27.00%	2.886	80.985	3.434	(0.009)
Sub Total	Total Acct 343	310.668	10.691	299.977		10.067	100.00%		299.977	10.065	(0.003)

Total Company Reduction in Expense	(5.793)
Jurisdictional Allocation %	95.0420%
Jurisdictional Reduction in Expense	(5.505)

	2017	2018
Increase in Rate Base at End of 2017 - Accum Depr	5.505	5.505
Increase in ADIT at 38.575%	(2.124)	(2.124)
Total Increase by End of 2017	3.382	3.382
Estimated 13 Month Avg Using Midway Point	1.691	5.073
Grossed Up rate of Return	9.88%	9.98%
Return on Increased Rate Base	0.167	0.506
Estimated Revenue Requirement Effect	(5.338)	(4.999)

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EXHIBIT NO. ____ (LK-15)

QUESTION:
Regarding SFHHA Document Request No. 168: Please identify the probable retirement date estimated for Scherer and SJRPP common facilities by Georgia Power Company and JEA, respectively, used in those studies. If the Company and/or Burns McDonnell has not obtained this information, please explain why.

RESPONSE:
Georgia Power's and JEA's estimated life spans do not form the basis for FPL's recommended life spans or estimated retirement date for these facilities in the 2016 Depreciation Study or 2016 Dismantlement Study, and FPL is proposing to continue to use the currently authorized life span of 50 years for these plants as approved in Order No. PSC-10-0153-FOF-EI. FPL used the same 50 year life span to determine the estimated retirement dates of 2038 and 2039 for SJRPP and Scherer Unit 4 (and common), respectively. Georgia Power's most recent depreciation/dismantlement study (based on data through 2011), proposes a 65 year life span for Scherer Units 1-3 (the associated common facilities would have a similar retirement date). FPL does not view this life span as realistic for Scherer Unit 4 given the increasing environmental regulations since 2011 targeted at coal-fired generation. It is important to note that Georgia Power does not have an ownership share in Scherer Unit 4. FPL is not aware of the life span or estimated retirement date used for SJRPP by JEA, as JEA does not file depreciation or dismantlement studies with the Florida Public Service Commission.

EXHIBIT NO. ____ (LK-16)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE TO RESTATE REMAINING LIVES FOR SCHERER UNIT 4 AND SJRPP STEAM PLANTS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Source: Depr Study VI-6 through VI-8

	Account	As-Filed Future Accruals	As-Filed Composite Remaining Life	As-Filed Annual Depr Accruals	SFHHA Additional Years	As-Filed Composite Remaining Life	SFHHA Annual Depr Accruals	SFHHA Annual Depr Reduction
Scherer Unit 4	Total All Accounts	741.276	19.58	37.866	13	32.58	22.755	(15.111)
SJRPP - All Units	Total All Accounts	197.990	18.01	10.992	14	32.01	6.185	(4.807)
				Reduction In Depreciation Expense				(19.919)
				Jurisdictional %				95.0420%
								(18.931)

	2017	2018
Increase in Rate Base at End of 2017 - Accum Depr	18.931	18.931
Increase in ADIT at 38.575%	(7.303)	(7.303)
Total Increase by End of 2017	11.628	11.628
Estimated 13 Month Avg Using Midway Point	5.814	17.443
Grossed Up rate of Return	9.88%	9.98%
Return on Increased Rate Base	0.574	1.741
Estimated Revenue Requirement Effect	(18.357)	(17.191)

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SFHHA Reduction to Deprec. Exp. to Restate Remaining Lives for Scherer Unit 4 and SJRPP - TY 2017
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EXHIBIT NO. ____ (LK-17)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION IN DISMANTLING COSTS TO REMOVE 20% CONTIGENCY
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Source: Exhibit KF-5 And Dismantling Study

		2017	2018
Total Proposed Accrual for 2017 and 2018		27.597	27.597
Remove 20% Contingency Included for all Plants		20%	20%
SFHHA Recommended Accrual to Remove 20% Contingency		22.998	22.998
Reduction in Contingency Accrual - Total Company		(4.600)	(4.600)
As Filed Jurisdictional Percentage		95.060%	95.128%
Reduction in Contingency Accrual - Jurisdictional		(4.372)	(4.375)
Increase in Rate Base - Jurisdictional		2.186	6.560
Grossed Up Rate of Return - As Filed		9.88%	9.98%
Revenue Requirement Increase to Rate Base		0.216	0.655
ADIT	0.38575	(0.083)	(0.253)
Total Revenue Requirement Reduction		(4.240)	(3.973)

EXHIBIT NO. ____ (LK-18)

Docket No. 160021-EI

Table 5-1: Site Decommissioning Cost (2015$)[1]

Plant	Decommissioning Costs	Credits	Net Project Cost
Cape Canaveral	$19,985,993	($4,616,199)	**$15,369,794**
DeSoto Solar	$3,009,309	($1,037,431)	**$1,971,878**
Ft. Myers	$41,318,932	($10,119,993)	**$31,198,939**
Lauderdale	$39,067,982	($7,264,398)	**$31,803,584**
Manatee	$73,550,541	($16,363,554)	**$57,186,987**
Martin	$112,835,115	($26,204,511)	**$86,630,603**
Port Everglades	$21,011,928	($7,317,093)	**$13,694,835**
Riviera	$17,447,262	($4,387,026)	**$13,060,236**
St. Johns River[2]	$115,885,000	($11,470,000)	**$104,415,000**
Sanford	$31,299,119	($9,043,912)	**$22,255,207**
Scherer[2,3]	$203,999,000	($9,629,000)	**$194,370,000**
Space Coast Solar	$1,150,000	($410,000)	**$740,000**
Turkey Point	$63,351,729	($13,677,173)	**$49,674,556**
West County	$53,833,211	($16,156,521)	**$37,676,690**
Babcock Ranch Solar[4]	$8,569,000	($3,052,000)	**$5,517,000**
Citrus Solar[4]	$8,569,000	($3,052,000)	**$5,517,000**
Manatee Solar[4]	$8,569,000	($3,052,000)	**$5,517,000**
Okeechobee[4]	$17,354,000	($5,560,000)	**$11,794,000**

[1] Cost estimates were rounded to the nearest $1,000 and then site inventory costs and recoverable scrap for inventory was added to the rounded estimate resulting in the values shown.
[2] Costs for Scherer and St. Johns River have not been adjusted for FPL's ownership percentage.
[3] Scherer estimate includes only Unit 4 and all common facilities.
[4] Proposed facility.

EXHIBIT NO. ____ (LK-19)

Section 6

Annual Accrual Calculation

Unit	Dismantlement Cost in 2016 Dollars	Year: Economic Recovery Year	Year: Recovery Period As of 1/1/2017	Future Cost: 1st Yr Expense (Future $)	Future Cost: 2nd Yr Expense (Future $)	Future Cost: Total Future $ Cost	Difference: Adj Reserve as of 12/31/2016	Difference: Amount To Accrue	Annual Accrual: 2017	Annual Accrual: 2018	Annual Accrual: 2019	Annual Accrual: 2020	Annual Accrual: 4 Year Average	Annual Accrual: Monthly Accrual
Sanford														
Common	10,234,211	2043	26	7,299,620	17,543,438	24,843,058	8,370,416	16,472,643	395,563	409,634	424,205	439,295	417,174	34,765
Unit 4	6,379,216	2043	26	5,350,873	12,928,372	18,279,244	-	18,279,244	395,996	412,979	430,691	449,162	422,207	35,184
Unit 5	6,352,092	2042	25	5,146,940	12,434,133	17,581,072	6,592,902	10,988,170	252,700	263,615	275,001	286,879	269,549	22,462
Scherer														
Common	33,857,016	2039	22	23,456,139	56,497,719	79,953,858	21,556,477	58,397,382	1,685,966	1,755,047	1,826,958	1,901,815	1,792,446	149,371
Unit 4	14,720,600	2039	22	9,728,643	23,410,776	33,139,419	18,558,075	14,581,345	430,860	447,651	465,097	483,223	456,708	38,059
Handling	995,494	2039	22	656,846	1,580,443	2,237,289	1,252,882	984,407	29,128	30,260	31,436	32,657	30,870	2,573
Space Coast Solar	765,922	2040	23	526,988	1,269,025	1,796,012	235,872	1,560,140	42,982	44,671	46,425	48,249	45,582	3,798
St. Johns River														
Common	14,572,012	2038	21	9,748,445	23,476,582	33,225,027	11,109,095	22,115,932	682,589	710,723	740,018	770,519	725,962	60,497
Unit 1	3,239,655	2038	21	2,147,971	5,173,580	7,321,551	4,306,795	3,014,756	93,187	97,015	101,001	105,150	99,088	8,257
Unit 2	3,239,655	2038	21	2,147,971	5,173,580	7,321,551	4,246,500	3,075,051	95,051	98,955	103,021	107,253	101,070	8,422
Handling	381,656	2038	21	317,384	769,298	1,086,682	630,275	456,406	12,380	13,034	13,722	14,447	13,396	1,116
Turkey Point														
Common	13,734,913	2047	30	10,915,710	26,241,895	37,157,605	-	37,157,605	726,127	751,134	777,044	803,827	764,538	63,712
Unit 1	14,000,963	2047	30	12,625,340	30,455,386	43,080,725	5,578,624	37,502,101	677,915	704,474	732,073	760,753	718,804	59,900
Unit 2	14,000,963	2047	30	12,625,340	30,455,386	43,080,725	(15,923,728)	59,004,454	1,066,607	1,108,393	1,151,817	1,196,941	1,130,940	94,245
Unit 5	9,383,582	2047	30	9,046,374	21,866,836	30,913,211	-	30,913,211	534,042	556,411	579,717	603,999	568,542	47,379
West County														
Common	19,678,037	2051	34	17,131,283	41,181,827	58,313,110	-	58,313,110	952,827	984,364	1,016,944	1,050,603	1,001,184	83,432
Unit 1	6,415,899	2049	32	6,836,874	16,541,466	23,378,340	-	23,378,340	355,610	370,764	386,564	403,037	378,994	31,583
Unit 2	6,402,368	2049	32	6,828,749	16,522,171	23,350,920	-	23,350,920	354,974	370,113	385,898	402,355	378,335	31,528
Unit 3	6,389,701	2051	34	7,335,240	17,751,283	25,086,522	-	25,086,522	343,056	357,584	372,728	388,513	365,470	30,456
Grand Total	$ 476,896,436			$ 368,838,494	$ 888,842,689	$ 1,262,201,433	$ 228,537,944	$ 1,033,663,589	$ 25,821,802	$ 26,963,265	$ 28,166,118	$ 29,437,999	$ 27,597,846	$ 2,299,754

EXHIBIT NO. ____ (LK-20)

FLORIDA POWER AND LIGHT
SFHHA ADJUSTMENT TO DISMANTLEMENT RESERVE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ 000's)

	2017	2018	2020
Annual Expense Accrual	27597	27597	27597
Annual Wtd Cost of Capital	6.61%	6.71%	6.71%
Annual Grossed Up COC	9.88%	9.98%	9.98%

Year	Month	Monthly Amort	Increase In Reserve	Incr In Reserve Net of ADIT	Net of Tx Res + Prior Month Ret	Nominal Return	NPV Return	Incr in Res Compared to Filing	Incr In Reserve 13 Mo Avg	Return On	Return	NPV Return
2017	1	2,300	2,300	1,413	1,413	19	19	430			449	447
	2	2,300	4,600	2,825	2,844	38	37	842			449	445
	3	2,300	6,899	4,238	4,294	57	56	1,234			449	442
	4	2,300	9,199	5,650	5,764	76	74	1,608			449	440
	5	2,300	11,499	7,063	7,252	95	92	1,962			449	437
	6	2,300	13,799	8,475	8,759	114	110	2,298			449	435
	7	2,300	16,098	9,888	10,285	133	128	2,615			449	433
	8	2,300	18,398	11,300	11,830	151	145	2,913			449	431
	9	2,300	20,698	12,713	13,394	170	162	3,192			449	428
	10	2,300	22,998	14,125	14,977	189	180	3,451			449	426
	11	2,300	25,297	15,538	16,579	208	196	3,692			449	424
	12	2,300	27,597	16,950	18,200	227	213	3,915	2,165.553	213.957	449	421
2018	13	2,300	29,897	18,363	19,839	249	232	4,115			449	419
	14	2,300	32,197	19,775	21,501	268	248	4,297			449	417
	15	2,300	34,496	21,188	23,181	287	265	4,459			449	415
	16	2,300	36,796	22,600	24,880	306	281	4,602			449	413
	17	2,300	39,096	24,013	26,599	325	297	4,727			449	410
	18	2,300	41,396	25,425	28,336	344	312	4,832			449	408
	19	2,300	43,695	26,838	30,093	363	328	4,917			449	406
	20	2,300	45,995	28,250	31,869	383	343	4,984			449	404
	21	2,300	48,295	29,663	33,664	402	359	5,032			449	402
	22	2,300	50,595	31,075	35,478	421	374	5,060			449	400
	23	2,300	52,894	32,488	37,312	440	388	5,070			449	397
	24	2,300	55,194	33,900	39,164	459	403	5,060	4,697.640	468.824	449	395
2019	25	2,300	57,494	35,313	41,036	478	418	5,031			449	393
	26	2,300	59,794	36,725	42,926	497	432	4,983			449	391
	27	2,300	62,093	38,138	44,836	516	446	4,916			449	389

Docket No. 160021-EI
SFHHA Adjustment to Dismantlement Reserve - TYs 2017 and 2018
Exhibit No. ___ (LK-20), Page 1 of 2

FLORIDA POWER AND LIGHT
SFHHA ADJUSTMENT TO DISMANTLEMENT RESERVE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017 AND 2018
($ 000's)

	2017	2018	2020
Annual Expense Accrual	27597	27597	27597
Annual Wtd Cost of Capital	6.61%	6.71%	6.71%
Annual Grossed Up COC	9.88%	9.98%	9.98%

Year	Month	Monthly Amort	Increase In Reserve	Incr In Reserve Net of ADIT	Net of Tx Res + Prior Month Ret	Nominal Return	NPV Return	Incr in Res Compared to Filing	Incr In Reserve 13 Mo Avg	Return On	Return	NPV Return
	28	2,300	64,393	39,550	46,765	536	460	4,830			449	387
	29	2,300	66,693	40,963	48,713	555	474	4,724			449	385
	30	2,300	68,993	42,375	50,680	574	488	4,600			449	383
	31	2,300	71,292	43,788	52,666	593	501	4,456			449	381
	32	2,300	73,592	45,200	54,672	612	515	4,293			449	379
	33	2,300	75,892	46,613	56,696	631	528	4,112			449	377
	34	2,300	78,192	48,025	58,740	650	541	3,911			449	375
	35	2,300	80,491	49,438	60,803	669	554	3,690			449	373
	36	2,300	82,791	50,850	62,885	689	567	3,451	4,465.965	445.703	449	371
2020	37	2,300	85,091	52,263	64,986	708	579	3,193			449	369
	38	2,300	87,391	53,675	67,106	727	592	2,915			449	367
	39	2,300	89,690	55,088	69,245	746	604	2,619			449	365
	40	2,300	91,990	56,500	71,404	765	616	2,303			449	363
	41	2,300	94,290	57,913	73,581	784	628	1,968			449	361
	42	2,300	96,590	59,325	75,778	803	640	1,614			449	359
	43	2,300	98,889	60,738	77,994	822	652	1,241			449	357
	44	2,300	101,189	62,150	80,229	842	663	849			449	355
	45	2,300	103,489	63,563	82,483	861	675	437			449	353
	46	2,300	105,789	64,975	84,756	880	686	7			449	352
	47	2,300	108,088	66,388	87,048	899	697	(443)			449	350
	48	2,300	110,388	67,800	89,360	918	708	(912)	1,480.109	147.715	449	348
						22,478	18,905				21,566	18,976
		48 Levelized Monthly Payments					($449)			1,276.199		
										319.050		
		Annual Payment					($5,391)					

Docket No. 160021-EI
SFHHA Adjustment to Dismantlement Reserve - TYs 2017 and 2018
Exhibit No. ___ (LK-20), Page 2 of 2

EXHIBIT NO. ____ (LK-21)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION IN DISMANTLING COSTS TO EXTEND LIVES FOR SHERER 4 and SJRPP
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Source: Exhibit KF-5 And Dismantling Study

		2017	2018
Scherer 4			
Total Proposed Accrual for 2017 and 2018 - Scherer		2.280	2.280
Less 20% Contingency Removed in Separate Adjustment		1.900	1.900
As-Filed 22 Years Recovery Period		22	22
Total Expense Throughout Recovery Period		41.800	41.800
SFHHA Recommended Life Extension of 13 Years		35	35
Recommended Proposed Accrual		1.194	1.194
Reduction in Accrual - Total Company		(0.706)	(0.706)
As Filed Jurisdictional Percentage		95.060%	95.128%
Reduction in Accrual - Jurisdictional		(0.671)	(0.671)
St Johns River			
Total Proposed Accrual for 2017 and 2018 - Scherer		0.940	0.940
Less 20% Contingency Removed in Separate Adjustment		0.783	0.783
As-Filed 22 Years Recovery Period		22	22
Total Expense Throughout Recovery Period		17.224	17.224
SFHHA Recommended Life Extension of 14 Years		36	36
Recommended Proposed Accrual		0.478	0.478
Reduction in Accrual - Total Company		(0.304)	(0.304)
As Filed Jurisdictional Percentage		95.060%	95.128%
Reduction in Accrual - Jurisdictional		(0.289)	(0.290)
Total Reduction in Annual Accrual		(0.960)	(0.961)
Rate Base			
Increase in Rate Base - Jurisdictional		0.480	1.441
Grossed Up Rate of Return - As Filed		9.88%	9.98%
Revenue Requirement Increase to Rate Base		0.047	0.144
ADIT	38.575%	(0.018)	(0.055)
Total Revenue Requirement Reduction		(0.642)	(0.583)

EXHIBIT NO. ____ (LK-22)

QUESTION:
Regarding Ferguson at 6:7-11: Please identify the specific provision within Rule 25-6.0436, Florida Administrative Code, that you contend provides for the recovery of remaining investment over a 4 year period in assets that have been retired but are not yet fully depreciated.

RESPONSE:
The specific lines referenced in FPL Witness Ferguson's testimony are as follows: "Consistent with Rule 25-6.0436, Florida Administrative Code ("F.A.C.") and Commission practice, FPL is proposing capital recovery schedules that seek to recover the remaining investment for those specific assets over a four-year period."

Rule 25-6.0436, Florida Administrative Code, provides for Commission to approve "capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process."

The testimony also refers to Commission practice with respect to the proposed four-year recovery period. The proposed recovery period of four years coincides with the period between depreciation studies and would result in the recovery of these deficiencies before the setting of the company's next depreciation rates. The four year recovery period also coincides with the estimated retirement date of 2020 for each of the Putnam, Turkey Point and Gas Turbines generating assets from the 2009 Depreciation Study in Docket Nos. 080677-EI and 090130-EI.

In Docket Nos. 080677-EI and 090130-EI, FPL requested a four year recovery period for its unrecovered investments in Cape Canaveral, Riviera, Nuclear uprates and analog meters. In Order No. PSC-10-0153-FOF-EI (Docket Nos. 080677-EI and 090130-EI), the Commission approved the amortization of an $894 million Total Reserve Surplus over a four year period. The $894 million was calculated by subtracting $306 million of capital recovery schedules from $1.2 billion of total theoretical reserve surplus for the unrecovered plant, in substance providing for immediate recovery of the investments proposed for capital recovery. In addition, FPL requested four year capital recovery schedules for unrecovered plant that was retired at its Cutler, Port Everglades and Sanford units beginning in its 2013 Test Year in Docket No. 120015-EI. The Commission approved a stipulation and settlement agreement in this docket in Order No. PSC-13-0023-S-EI, which did not include any adjustments to FPL's filed request for recovery of these capital recovery schedules over a four year period.

EXHIBIT NO. ____ (LK-23)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION IN CAPITAL RECOVERY AMORTIZATION TO AMORTIZE OVER 10 YEARS
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

Source: Exhibit KF-3 - Sch C-2 and Sch C-3

		2017	2018
Total Company - Base Revenues - Total Unrecovered Costs		158.435	158.435
As-Filed Amortization Period		4	4
As Filed - Total Company Amortization Over 4 Years		39.609	39.609
As Filed Jurisdictional Percentage		94.858%	94.932%
As Filed Amortization For Adjustment		37.572	37.601
Total Company - Base Revenues - Total Unrecovered Costs		158.435	158.435
SFHHA Recommended Amortization Period		10	10
SFHHA Recommended - Total Company Amortization Over 10 Years		15.843	15.843
As Filed Jurisdictional Percentage		94.858%	94.932%
As Filed Amortization For Adjustment		15.029	15.041
SFHHA Recommended Reduction in Amortization Expense		(22.543)	(22.561)
Increase in Rate Base - Jurisdictional		11.272	33.824
Grossed Up Rate of Return - As Filed		9.88%	9.98%
Revenue Requirement Increase to Rate Base		1.114	3.375
ADIT	0.38575	(0.430)	(1.302)
Total Revenue Requirement Reduction		(21.859)	(20.488)

EXHIBIT NO. ____ (LK-24)

QUESTION:
Please provide all reasons why the Company included all nuclear fuel in process ("NFIP") in rate base and did not apply AFUDC, providing separate explanations for NFIP included in rate base in the test year and subsequent year into NFIP that will be completed in excess of one year after commencement of construction and NFIP that will be completed in less than one year after commencement of construction.

RESPONSE:
Allowance for Funds Used During Construction ("AFUDC") is calculated and recorded monthly according to Rule 25-6.0141 Florida Administrative Code ("F.A.C.") which states that Construction Work in Progress ("CWIP") or Nuclear Fuel in Process ("NFIP") not under lease agreement that is not included in rate base may accrue AFUDC, under the following conditions:

> "Eligible projects that involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 - Electric Plant in Service, and Account 106 - Completed Construction not Classified, at the time the project commences and
>
> a) are expected to be completed in excess of one year after commencement of construction, or
>
> b) were originally expected to be completed in one year or less and are suspended for six months or more, or
>
> c) are not ready for service after one year."

Based on the above dollar threshold requirement of 0.5% of the total balance of Account 101 and 106, FPL's Nuclear Fuel in Process (FERC Account 120.1) for each fuel cycle at each nuclear unit does not meet the eligibility criteria for AFUDC treatment and therefore is considered ineligible for AFUDC accrual. As such, FPL has included the NFIP in rate base. FPL has not met the requirements to accrue AFUDC as defined in the Rule regardless of the holding period.
In addition, the inclusion of NFIP in rate base is consistent with the treatment ordered by the Commission in Order PSC-10-0153-FOF-EI, Docket No. 080677-EI.

EXHIBIT NO. ____ (LK-25)

25-6.0141 Allowance for Funds Used During Construction.

(1) Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a lease agreement that is not included in rate base may accrue allowance for funds used during construction (AFUDC), under the following conditions:

(a) Eligible projects. The following projects may be included in CWIP or NFIP and accrue AFUDC:

1. Projects that involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 – Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences and

a. Are expected to be completed in excess of one year after commencement of construction, or

b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

(b) Ineligible projects. The following projects may be included in CWIP or NFIP, but may not accrue AFUDC:

1. Projects, or portions thereof, that do not exceed the level of CWIP or NFIP included in rate base in the utility's last rate case.

2. Projects where gross additions to plant are less than 0.5 percent of the sum of the total balance in Account 101 – Electric Plant in Service, and Account 106 – Completed Construction not Classified, at the time the project commences.

3. Projects expected to be completed in less than one year after commencement of construction.

4. Property that has been classified as Property Held for Future Use.

(c) Unless otherwise authorized by the Commission, the following projects may not be included in CWIP or NFIP, nor accrue AFUDC:

1. Projects that are reimbursable by another party.

2. Projects that have been cancelled.

3. Purchases of assets which are ready for service when acquired.

4. Portions of projects providing service during the construction period.

(d) Other conditions. Accrual of AFUDC is subject to the following conditions:

1. Accrual of AFUDC is not to be reversed when a project originally expected to be completed in excess of one year is completed in one year or less;

2. AFUDC may not be accrued retroactively if a project expected to be completed in one year or less is subsequently suspended for six months, or is not ready for service after one year;

3. When a project is completed and ready for service, it shall be immediately transferred to the appropriate plant account(s) or Account 106, Completed Construction Not Classified, and may no longer accrue AFUDC;

4. Where a work order covers the construction of more than one property unit, the AFUDC accrual shall cease on the costs related to each unit when that unit reaches an in-service status;

5. When the construction activities for an ongoing project are expected to be suspended for a period exceeding six (6) months, the utility shall notify the Commission of the suspension and the reason(s) for the suspension, and shall submit a proposed accounting treatment for the suspended project; and

6. When the construction activities for a suspended project are resumed, the previously accumulated costs of the project may not accrue AFUDC if such costs have been included in rate base for ratemaking purposes. However, the accrual of AFUDC may be resumed when the previously accumulated costs are no longer included in rate base for ratemaking purposes.

(e) Subaccounts. Account 107, Construction Work in Progress, and Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, shall be subdivided so as to segregate the cost of construction projects that are eligible for AFUDC from the cost of construction projects that are ineligible for AFUDC.

(f) Prior to the commencement of construction on a project, a utility may file a petition to seek approval to include an individual project in rate base that would otherwise qualify for AFUDC treatment per paragraph (1)(a).

(g) On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per paragraph (1)(a) and to allow the utility to accrue AFUDC on that excluded amount.

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

(3) Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to insure that the annual AFUDC charged does not exceed authorized levels.

(a) The formula used to discount the annual AFUDC rate to reflect monthly compounding is as follows:

$$\mathbf{M = [(1 + A/100)^{1/12 - 1}] \times 100}$$

Where:

M = discounted monthly AFUDC rate

A = annual AFUDC rate

(b) The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP and NFIP that is not included in rate base.

(4) The following schedules shall be filed with each petition for a change in AFUDC rate:

(a) Schedule A. A schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate in subsection (2).

(b) Schedule B. A schedule showing capital structure adjustments including the unadjusted capital structure, reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate in subsection (2).

(c) Schedule C. A schedule showing the calculation of the monthly AFUDC rate using the methodology set out in this rule.

(5) No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

(6) Each utility charging AFUDC shall include in its December Earnings Surveillance Reports to the Commission Schedules A and B identified in subsection (4) of this rule, as well as disclosure of the AFUDC rate it is currently charging.

(7) The Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate.

(8) Each utility shall include in its Forecasted Surveillance Report a schedule of individual projects that commence during that forecasted period and are estimated to equal or exceed a gross cost of $10,000,000. The schedule shall include the following minimum information:

(a) Description of the project.

(b) Estimated total cost of the project.

(c) Estimated construction commencement date.

(d) Estimated in-service date.

(9) The provisions of this rule are effective January 1, 1996 and shall be implemented by all electric utilities no later than January 1, 1999, or the utility's next rate proceeding, whichever occurs first.

Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.04(2)(a), (f) 366.06(1), (2), 366.08 FS. History–New 8-11-86, Formerly 25-6.141, Amended 11-13-86, 12-7-87, 1-7-97.

EXHIBIT NO. ____ (LK-26)

QUESTION:
Refer to MFR Schedule B-6, page 10 line 34, for Misc Defd Deb - Deferred Pension Debit. Please provide the related expense accrual amount included in the test year and the calculation of the amount and/or the source document relied on for the amount.

RESPONSE:
FPL incurs no pension expense; instead pension income is allocated to FPL from NextEra Energy, Inc. Note, the amount of pension income included in the calculation of the 13-month average Deferred Pension Debit reflected on MFR B-6 for the 2017 Test Year is immaterially incorrect. As discussed in FPL's Notice of Identified Adjustments filed on May 3, 2016, the Deferred Pension Debit was forecasted inconsistently with the forecast of pension income resulting in an overstatement in rate base of approximately $3.6 million (Per Book) in the 2017 Test Year. The correct Per Book 13-month average for the Deferred Pension Debit for the 2017 Test Year is $1,329,976,744.

Please refer to MFR C-17, Line 7 for the correct 2017 Test Year pension income of $60,529,000, which is included in Net Operating Income in Account 926 on MFR C-4. See confidential Attachment No. 1 to this response for the source documents and calculation of this amount.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Fifth Set of Interrogatories
Interrogatory No. 132 - Redacted
Attachment No. 1
Tab 1 of 3

SFHHA 007811
FPL RC-16

Nextera Energy, Inc.
ASC 715 - PENSION EXPENSE ALLOCATION

2017

Entity	Valuation Earnings	%	PENSION EXP ALLOCATION	JAN ENTRY	FEB - DEC ENTRY	TOTAL
Total Payroll & Pension Expense	1,252,096,681 [a]		(95,463,296) [b]			
Utility	[redacted]					
NEE						
Aviation						
Capital & Subsidiaries:						
NEECH						
NextEra Fibernet						
NEET (Infrastructure)						
NEER and Subs						
LST						
Fibernet						
Energy Services						
Subtotal Cap and Subs						
Sum	1,252,096,681	100%	(95,463,296)	(7,955,261)	(7,955,276)	(95,463,297)
						1
NEE + Utility Pension Income		63.41% [a]	(60,528,734)	(5,044,063)	(5,044,061)	

[a] See Pension Allocation Support tab for actuarial support of pensionable earnings and allocation percentage
[b] See Actuarial Pension Cost Proj tab for support of pension income

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Fifth Set of Interrogatories
Interrogatory No. 132 - Redacted
Attachment No. 1
Tab 2 of 3

SFHHA 007812
FPL RC-16

[redacted]

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Fifth Set of Interrogatories
Interrogatory No. 132 - Redacted
Attachment No. 1
Tab 3 of 3

SFHHA 007813
FPL RC-16

[redacted]

QUESTION:
Refer to MFR Schedule B-6, page 10 line 34, for Misc Defd Deb - Deferred Pension Debit. Please provide the accounting entries related to this deferral for each month December 2015 through the last month available December 2018. Provide the calculations of each month's accounting entries and/or the source document(s) relied on for the amounts each month.

RESPONSE:
The amount of pension income included in the calculation of the 13-month average Deferred Pension Debit reflected on MFR B-6 for the 2017 Test Year and 2018 Subsequent Year is immaterially incorrect. As discussed in FPL's Notice of Identified Adjustments filed on May 3, 2016, the Deferred Pension Debit was forecasted inconsistently with the forecast of pension income resulting in an overstatement in rate base of approximately $3.6 million (Per Book) in the 2017 Test Year and $8.9 million (Per Book) in the 2018 Subsequent Year. The correct Per Book 13-month average for the Deferred Pension Debit for the 2017 Test Year is $1,329,976,744 and 2018 Subsequent Year is $1,390,848,630.

See Attachment No. 1 to this response for the monthly accounting entries, calculation and source documentation related to the corrected Deferred Pension Debit for each month for December 2015 through December 2018. The monthly accounting entry related to this deferral is a debit to FERC account 186.190 and a credit to FERC account 926.

Florida Power & Light Company
Docket No. 160021-EI
SFHHA's Fifth Set of Interrogatories
Interrogatory No. 133
Attachment No. 1
Tab 1 of 5

FPL FERC 186 Deferred Pension Debit
Monthly Revised Balances 2015 - 2018

Month	Monthly Activity	Balance	13 Month Average
Dec-15		1,243,266,640	
Jan-16	4,731,257	1,247,997,897	
Feb-16	4,731,262	1,252,729,159	
Mar-16	4,731,262	1,257,460,421	
Apr-16	4,731,262	1,262,191,683	
May-16	4,731,262	1,266,922,945	
Jun-16	4,731,262	1,271,654,207	
Jul-16	4,731,262	1,276,385,469	
Aug-16	4,731,262	1,281,116,731	
Sep-16	4,731,262	1,285,847,993	
Oct-16	4,731,262	1,290,579,255	
Nov-16	4,731,262	1,295,310,517	
Dec-16	4,731,262	1,300,041,780	1,271,654,207
Jan-17	4,989,165	1,305,030,945	
Feb-17	4,989,160	1,310,020,105	
Mar-17	4,989,160	1,315,009,265	
Apr-17	4,989,160	1,319,998,425	
May-17	4,989,160	1,324,987,585	
Jun-17	4,989,160	1,329,976,745	
Jul-17	4,989,160	1,334,965,905	
Aug-17	4,989,160	1,339,955,065	
Sep-17	4,989,160	1,344,944,225	
Oct-17	4,989,160	1,349,933,385	
Nov-17	4,989,160	1,354,922,545	
Dec-17	4,989,160	1,359,911,705	1,329,976,744
Jan-18	5,156,150	1,365,067,855	
Feb-18	5,156,155	1,370,224,010	
Mar-18	5,156,155	1,375,380,165	
Apr-18	5,156,155	1,380,536,320	
May-18	5,156,155	1,385,692,475	
Jun-18	5,156,155	1,390,848,630	
Jul-18	5,156,155	1,396,004,785	
Aug-18	5,156,155	1,401,160,940	
Sep-18	5,156,155	1,406,317,095	
Oct-18	5,156,155	1,411,473,250	
Nov-18	5,156,155	1,416,629,405	
Dec-18	5,156,155	1,421,785,560	1,390,848,630

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GL Support 186.190 as of 12.31.2015

Period	Debit	Cum. balance
Balance Carryforward	0.00	1,189,172,556.82
1	4,323,250.00	1,193,495,806.82
2	4,323,247.00	1,197,819,053.82
3	4,877,026.00	1,202,696,079.82
4	4,507,840.00	1,207,203,919.82
5	4,507,840.00	1,211,711,759.82
6	4,507,840.00	1,216,219,599.82
7	4,507,840.00	1,220,727,439.82
8	4,507,840.00	1,225,235,279.82
9	4,507,840.00	1,229,743,119.82
10	4,507,840.00	1,234,250,959.82
11	4,507,840.00	1,238,758,799.82
12.31.2015	4,507,840.00	1,243,266,639.82

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Nextera Energy, Inc.
ASC 715 - PENSION EXPENSE ALLOCATION REVISED

[a] See Pension Allocation Support tab for actuarial support of pensionable earnings and support of allocation percentage
[b] See Actuarial Pension Cost Proj tab for support of pension income

2016 Entity	Co. Recording Entry	2015 Valuation Earnings	%	PRELIMINARY PENSION EXP ALLOCATION	JAN ENTRY	FEB - DEC ENTRY	TOTAL
Total Payroll & Pension Expense		1,252,098,681 [a]		(90,528,625) [b]			
Utility	**Co 1500**	785,253,987	62.72% [a]	**(56,775,139)**	(4,731,257)	(4,731,262)	(56,775,139)
NEE	**Co 1100**	8,640,944	0.69%	(624,754)	(52,061)	(52,063)	(624,754)
Aviation	**Co 1100**	2,552,588	0.20%	(184,556)	(15,376)	(15,380)	(184,556)
Capital & Subsidiaries:							
NEECH	**Co 1200**	-	0.00%	-	-	-	-
NextEra Fibernet	**Co 1242**	1,575,267	0.13%	(113,894)	(9,493)	(9,491)	(113,894)
NEET (Infrastructure)	**Co 1252**	4,643,189	0.37%	(335,710)	(27,974)	(27,976)	(335,710)
NEER and Subs	**Co 2000**	422,234,456	33.72%	(30,528,237)	(2,544,017)	(2,544,020)	(30,528,237)
LST	**Co 1253**	3,575,869	0.29%	(258,541)	(21,546)	(21,545)	(258,541)
Fibernet	**Co 1241**	17,449,868	1.39%	(1,261,654)	(105,136)	(105,138)	(1,261,654)
Energy Services	**Co 1208**	6,170,513	0.49%	(446,138)	(37,180)	(37,178)	(446,138)
Subtotal Cap and Subs		438,500,096	36.39%	(32,944,175)	(2,745,346)	(2,745,348)	(32,944,174)
Sum		1,252,096,681	100%	(90,528,625)	(7,544,040)	(7,544,053)	(90,528,623)
		-					(2)
NEE + Utility Income (Excluding Aviation)			63.41%	(57,399,894)	(4,783,318)	(4,783,325)	

2017 Entity	Co. Recording Entry	2015 Valuation Earnings	%	PRELIMINARY PENSION EXP ALLOCATION	JAN ENTRY	FEB - DEC ENTRY	TOTAL
Total Payroll & Pension Expense		1,252,096,681 [a]		(95,463,296) [b]			
Utility	**Co 1500**	785,253,987	62.72% [a]	**(59,869,925)**	(4,989,165)	(4,989,160)	(59,869,925)
NEE	**Co 1100**	8,640,944	0.69%	(658,809)	(54,898)	(54,901)	(658,809)
Aviation	**Co 1100**	2,552,588	0.20%	(194,616)	(16,218)	(16,218)	(194,616)
Capital & Subsidiaries:							
NEECH	**Co 1200**	-	0.00%	-	-	-	-
NextEra Fibernet	**Co 1242**	1,575,267	0.13%	(120,103)	(10,004)	(10,009)	(120,103)
NEET (Infrastructure)	**Co 1252**	4,643,189	0.37%	(354,010)	(29,499)	(29,501)	(354,010)
NEER and Subs	**Co 2000**	422,234,456	33.72%	(32,192,317)	(2,682,694)	(2,682,693)	(32,192,317)
LST	**Co 1253**	3,575,869	0.29%	(272,634)	(22,714)	(22,720)	(272,634)
Fibernet	**Co 1241**	17,449,868	1.39%	(1,330,426)	(110,867)	(110,869)	(1,330,426)
Energy Services	**Co 1208**	6,170,513	0.49%	(470,457)	(39,202)	(39,205)	(470,457)
Subtotal Cap and Subs		455,649,162	36.39%	(34,739,946)	(2,894,980)	(2,894,997)	(34,739,947)
Sum		1,252,096,681	100%	(95,463,296)	(7,955,261)	(7,955,276)	(95,463,297)
							1
NEE + Utility Income (Excluding Aviation)			63.41%	(60,528,734)	(5,044,063)	(5,044,061)	

2018 Entity	Co. Recording Entry	2015 Valuation Earnings	%	PRELIMINARY PENSION EXP ALLOCATION	JAN ENTRY	FEB - DEC ENTRY	TOTAL
Total Payroll & Pension Expense		1,252,096,681 [a]		(98,658,586) [b]			
Utility	**Co 1500**	785,253,987	62.72% [a]	**(61,873,855)**	(5,156,150)	(5,156,155)	(61,873,855)
NEE	**Co 1100**	8,640,944	0.69%	(680,861)	(56,743)	(56,738)	(680,861)
Aviation	**Co 1100**	2,552,588	0.20%	(201,130)	(16,759)	(16,761)	(201,130)
Capital & Subsidiaries:							
NEECH	**Co 1200**	-	0.00%	-	-	-	-
NextEra Fibernet	**Co 1242**	1,575,267	0.13%	(124,123)	(10,339)	(10,344)	(124,123)
NEET (Infrastructure)	**Co 1252**	4,643,189	0.37%	(365,859)	(30,491)	(30,488)	(365,859)
NEER and Subs	**Co 2000**	422,234,456	33.72%	(33,269,839)	(2,772,482)	(2,772,487)	(33,269,839)
LST	**Co 1253**	3,575,869	0.29%	(281,760)	(23,480)	(23,480)	(281,760)
Fibernet	**Co 1241**	17,449,868	1.39%	(1,374,957)	(114,577)	(114,580)	(1,374,957)
Energy Services	**Co 1208**	6,170,513	0.49%	(486,204)	(40,517)	(40,517)	(486,204)
Subtotal Cap and Subs		455,649,162	36.39%	(35,902,740)	(2,991,886)	(2,991,896)	(35,902,742)
Sum		1,252,096,681	100%	(98,658,586)	(8,221,538)	(8,221,550)	(98,658,588)
							2
NEE + Utility Income (Excluding Aviation)			63.41%	(62,554,715)	(5,212,893)	(5,212,893)	

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Support from Actuaries for Pensionable Earnings used in 2016 - 2018 Projected Pension Allocation to FPL

Aon Hewitt
Consulting | Retirement

NextEra Energy, Inc. Employee Pension Plan
Preliminary 2016 ASC 715 Pension Cost Allocation

ASC 715-30 (Qualified Pension Plan Only)

Division	Active Eligible Headcount	1/1/2016 Preliminary Service Costs	2015 Valuation Earnings Amount	Percent of Total
Utility	8,882	$39,099,206	$ 785,253,987	62.71%
Group (NEE)	19	248,102	8,640,944	0.69%
Group Capital	0	0	0	0.00%
FEI	747	3,785,193	85,523,478	6.83%
Project Management	203	1,155,368	27,481,623	2.19%
Maine	54	237,198	4,206,025	0.34%
Power Marketing	268	1,585,707	35,239,070	2.81%
Fibernet	213	791,738	17,449,868	1.39%
FES	69	305,070	6,170,513	0.49%
New Mexico	9	18,334	458,179	0.04%
Windlogics	64	271,581	6,293,293	0.50%
FPLE OSI	1,188	3,488,912	79,505,128	6.35%
Seabrook	543	7,242,345	60,916,079	4.87%
Duane Arnold	550	3,162,968	53,091,066	4.24%
Point Beach	634	3,057,371	66,702,509	5.33%
Lonestar	32	151,484	3,575,869	0.29%
Infrastructure	5	29,363	597,738	0.05%
NextEra Fibernet	20	69,904	1,575,267	0.13%
Transmission, LLC	28	167,835	4,045,451	0.32%
DG Operations, LLC	19	109,442	2,828,006	0.23%
Aviation	22	123,211	2,552,588	0.20%
Total	13,585	65,110,332	1,252,096,681	100.00%

Group Capital includes all companies not otherwise identified.

2016 - 2018 FPL Pension Income Allocation
62.72% Utility (rounds to 62.72%)

Pensionable earnings used on Pension Alloc tab for 2016 - 2018

Florida Power & Light Company
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Pension Cost Projection -provided by Aon Hewitt 2016 - 2018

	Projected 2016 Cost	Projected 2017 Cost	Projected 2018 Cost
Measurement Date	12/31/2015	12/31/2016	12/31/2017
Key Assumptions			
A1. Discount Rate - PBO	4.35%	4.35%	4.35%
A2. Discount Rate - Service Cost	4.60%	4.60%	4.60%
A3. Salary Increase Rate	Age graded (4% avg)	Age graded (4% avg)	Age graded (4% avg)
A4. Interest Crediting Rate	4.00%/3.00%	4.00%/3.00%	4.00%/3.00%
A5. Return on Assets	7.35%	7.35%	7.35%
Pension Cost Components ($Millions)			
B1. Service Cost	62,958,672	$ 65,854,771	$ 68,884,090
B2. Interest Cost (B1.)*(A2.)-(C4.)*(A1.)-(C2.)*[(1+(A1.)^0.5-1)]	105,402,942	106,099,168	106,736,725
B3. Expected Return on Assets	(260,316,614)	(268,843,610)	(275,705,776)
B4. Amortization			
(1) Transition Obligation	0	0	0
(2) Prior Service Cost	1,426,375	1,426,375	1,426,375
(3) Net Loss (Gain)	-	-	-
Subtotal	1,426,375	$ 1,426,375	$ 1,426,375
B5. Pension Cost (Income) [(B1.)+(B2.)+(B3.)+(B4.)]	(90,528,625)	$ (95,463,296)	$ (98,658,586)
B6. Incremental Change in Pension Cost	(5,057,120)	$ (4,934,671)	$ (3,195,290)
B7. ASC 715 Settlement Expense	-	$ -	$ -
B8. Total Pension Cost (Income)	$\boxed{(90,528,625)}$	$ $\boxed{(95,463,296)}$	$ $\boxed{(98,658,586)}$
C1. Actual Benefit Payments (Assumed 2015+)	155,377,435	$ 159,682,028	$ 165,408,781
C2. Expected Benefit Payments	155,377,435	$ 159,682,028	$ 165,408,781
C3. Assumed Expense Allowance	5,200,000	$ 5,300,000	$ 5,400,000
C4. PBO	(2,433,340,903)	$ (2,448,412,943)	$ (2,462,698,899)
C5. Fair Value of Assets	3,600,441,356	$ 3,698,887,476	$ 3,800,009,403
C6. Market Related Value of Assets	3,688,782,299	$ 3,808,270,529	$ 3,905,806,489
C7. Reconciliation of Funded Status			
a. Funded Status	1,167,100,453	$ 1,250,474,533	$ 1,337,310,504
b. Unrecognized Loss (Gain)	318,269,921	326,850,841	336,904,542
c. Unrecognized PSC	12,154,334	10,727,959	9,301,584
d. Unrecognized ITO	-	-	-
e. Prepaid (Accrued) as of December 31 (C7.a.)+(C7.b.)+(C7.c)+(C7.d.)	1,497,524,708	$ 1,588,053,333	$ 1,683,516,629
C8. ABO	(2,393,259,088)	$ (2,405,458,318)	$ (2,416,697,375)
C9. VBO	(2,358,254,105)	$ (2,369,380,622)	$ (2,379,562,398)
D1. Deferred Asset Loss (Gain) (C6.)-(C5.)	88,340,943	$ 109,383,053	$ 105,797,086
D2. Cumulative Loss (Gain) (C7.b.)-(D1.)	229,928,978	$ 217,467,788	$ 231,107,456
D3. 10% Corridor [0.1*Greater of (C4.) or (C6.)]	368,878,230	$ 380,827,053	$ 390,580,649
D4. Loss (Gain) to Amortize, Limited by Corridor	-	$ -	$ -
D5. Average Future Service	11	11	11
D6. Amortization of Loss (Gain) (D4.)/(D5.)	-	$ -	$ -

EXHIBIT NO. ____ (LK-27)

FLORIDA POWER AND LIGHT
SFHHA RECOMMENDED RATE BASE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

	Amount
Jurisdictional Rate Base per FPL Filing	$ 32,536.116
Less:	
Remove Nuclear Fuel in Process From Rate Base	(406.621)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	97.249
Reduce Accumulated Fossil Dismantling to Reflect Dismantling Expense Reductions	2.666
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	11.272
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	2.455
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	20.797
Remove Accrued Revenues from Cash Working Capital	(228.510)
Eliminate Unamortized Rate Case Expense	(4.309)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(3.528)
Levelize Return on Dismantlement Reserve Amortization	(2.166)
Net Change in Rate Base SFHHA Recommendation	(510.695)
Adjusted Rate Base SFHHA Recommendation	$32,025.421

FLORIDA POWER AND LIGHT
SFHHA RECOMMENDED RATE BASE
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

	Amount
Jurisdictional Rate Base per FPL Filing	$ 33,870.897
Less:	
Remove Nuclear Fuel in Process From Rate Base	(412.137)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	294.242
Reduce Accumulated Fossil Dismantling to Refect Dismantling Expense Reduction	8.001
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	33.824
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	7.080
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	62.394
Remove Accrued Revenues from Cash Working Capital	(229.795)
Eliminate Unamortized Rate Case Expense	(3.078)
Correct Company Admitted Error for Balance of Deferred Pension Debit	(8.600)
Net Change in Rate Base SFHHA Recommendation	(248.070)
Adjusted Rate Base SFHHA Recommendation	$33,622.827

EXHIBIT NO. ____ (LK-28)

FLORIDA POWER AND LIGHT COST OF CAPITAL
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

I. FPL Cost of Capital Per Filing

	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,358.417	28.76%	4.62%	1.33%	1.33%
Customer Deposits	407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	612.939	1.88%	1.85%	0.03%	0.03%
Deferred Income Tax	7,368.582	22.65%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,682.574	45.13%	11.50%	5.19%	8.46%
Total Capital	32,536.116	100.00%		6.61%	9.88%

II. FPL Cost of Capital Adjusted to Reflect Updated ADIT for Changes to Rate Base

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,358.417		9,358.417	28.72%	4.62%	1.33%	1.33%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	612.939		612.939	1.88%	1.85%	0.03%	0.03%
Deferred Income Tax	7,368.582	48.836	7,417.419	22.76%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,682.574		14,682.574	45.06%	11.50%	5.18%	8.45%
Total Capital	32,536.116	48.836	32,584.953	100.00%		6.60%	9.87%
Incremental Grossed Up ROR							-0.01%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(4.742)

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SFHHA Adjustments to Cost of Capital - TY Ending 2017
Exhibit No. ___ (LK-28), Page 1 of 5

FLORIDA POWER AND LIGHT COST OF CAPITAL
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

III. FPL Cost of Capital Adjusted to Correct Allocation Methodology for the Reduction of ADIT - Treasury Reg 1.167(l)-1(h)(6)

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,358.417	(17.795)	9,340.622	28.67%	4.62%	1.32%	1.33%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	612.939	(1.165)	611.774	1.88%	1.85%	0.03%	0.03%
Deferred Income Tax	7,417.419	46.879	7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,682.574	(27.919)	14,654.656	44.97%	11.50%	5.17%	8.43%
Total Capital	32,584.953	-	32,584.953	100.00%		6.59%	9.85%
Incremental Grossed Up ROR							-0.019%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(5.975)

IV. FPL Cost of Capital Adjusted to Reflect STD Commitment Fees as Operating Expense

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622		9,340.622	28.67%	4.62%	1.32%	1.33%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774		611.774	1.88%	1.19%	0.02%	0.02%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656		14,654.656	44.97%	11.50%	5.17%	8.43%
Total Capital	32,584.953	-	32,584.953	100.00%		6.57%	9.83%
Incremental Grossed Up ROR							-0.01%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(3.974)

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SFHHA Adjustments to Cost of Capital - TY Ending 2017
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FLORIDA POWER AND LIGHT COST OF CAPITAL
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

V. FPL Cost of Capital Adjusted to Reflect STD Rate of 0.56%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622		9,340.622	28.67%	4.62%	1.32%	1.33%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774		611.774	1.88%	0.56%	0.01%	0.01%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656		14,654.656	44.97%	11.50%	5.17%	8.43%
Total Capital	32,584.953	-	32,584.953	100.00%		6.56%	9.82%
Incremental Grossed Up ROR							-0.01%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(3.793)

VI. FPL Cost of Capital Adjusted to Reflect LTD New Issues at 4.1%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622		9,340.622	28.67%	4.52%	1.30%	1.30%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774		611.774	1.88%	0.56%	0.01%	0.01%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656		14,654.656	44.97%	11.50%	5.17%	8.43%
Total Capital	32,584.953	-	32,584.953	100.00%		6.53%	9.79%
Incremental Grossed Up ROR							-0.04%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(12.986)

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FLORIDA POWER AND LIGHT COST OF CAPITAL
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VII. FPL Cost of Capital Adjusted to Remove FPL Request for an ROE Incentive of 0.50%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622		9,340.622	28.67%	4.52%	1.30%	1.30%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774		611.774	1.88%	0.56%	0.01%	0.01%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656		14,654.656	44.97%	11.00%	4.95%	8.06%
Total Capital	32,584.953	-	32,584.953	100.00%		6.31%	9.43%
Incremental Grossed Up ROR							-0.37%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(117.402)

VIII. FPL Cost of Capital Adjusted to Restate ROE at 9.0% as Recommended by Mr. Baudino

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622		9,340.622	28.67%	4.52%	1.30%	1.30%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774		611.774	1.88%	0.56%	0.01%	0.01%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656		14,654.656	44.97%	9.00%	4.05%	6.60%
Total Capital	32,584.953	-	32,584.953	100.00%		5.41%	7.96%
Incremental Grossed Up ROR							-1.47%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(469.607)
			1% ROE Change		(234.804)		

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IX. FPL Cost of Capital Adjusted to Reflect 55% Common Equity

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	9,340.622	502.198	9,842.821	30.21%	4.52%	1.37%	1.37%
Customer Deposits	407.328		407.328	1.25%	2.05%	0.03%	0.03%
Short Term Debt	611.774	618.579	1,230.353	3.78%	0.56%	0.02%	0.02%
Deferred Income Tax	7,464.298		7,464.298	22.91%	0.00%	0.00%	0.00%
Investment Tax Credits	106.275		106.275	0.33%	8.82%	0.03%	0.03%
Common Equity	14,654.656	(1,120.777)	13,533.878	41.53%	9.00%	3.74%	6.09%
Total Capital	32,584.953	-	32,584.953	100.00%		5.18%	7.54%
Incremental Grossed Up ROR							-0.42%
SFHHA Rate Base							32,025.421
SFHHA Revenue Requirement Effect							(135.869)

(1) Grossed up costs include effects of federal and state income taxes, bad debt expense and regulatory assessment fee found on Schedule C-44.

Federal Income Tax Rate	35.000%
State Income Tax Rate	5.500%
Bad Debt	0.065%
Regulatory Assessment Fee	0.072%

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FLORIDA POWER AND LIGHT COST OF CAPITAL
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I. FPL Cost of Capital Per Filing

	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,024.107	29.60%	4.87%	1.44%	1.44%
Customer Deposits	386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.611	0.95%	2.68%	0.03%	0.03%
Deferred Income Tax	7,753.738	22.89%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,284.522	45.13%	11.50%	5.19%	8.46%
Total Capital	33,870.897	100.00%		6.71%	9.98%

II. FPL Cost of Capital Adjusted to Reflect Updated ADIT

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,024.107		10,024.107	29.46%	4.87%	1.43%	1.44%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.611		321.611	0.95%	2.68%	0.03%	0.03%
Deferred Income Tax	7,753.738	151.932	7,905.670	23.24%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,284.522		15,284.522	44.92%	11.50%	5.17%	8.42%
Total Capital	33,870.897	151.932	34,022.829	100.00%		6.68%	9.93%
Incremental Grossed Up ROR							-0.045%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(14.982)

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FLORIDA POWER AND LIGHT COST OF CAPITAL
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III. FPL Cost of Capital Adjusted to Correct Allocation Methodology for the Reduction of ADIT - Treasury Reg 1.167(l)-1(h)(6)

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,024.107	(14.739)	10,009.368	29.42%	4.87%	1.43%	1.43%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.611	(0.473)	321.138	0.94%	2.68%	0.03%	0.03%
Deferred Income Tax	7,905.670	37.685	7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,284.522	(22.473)	15,262.049	44.86%	11.50%	5.16%	8.41%
Total Capital	34,022.829	-	34,022.829	100.00%		6.67%	9.92%
Incremental Grossed Up ROR							-0.015%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(4.887)

IV. FPL Cost of Capital Adjusted to Reflect STD Commitment Fees as Operating Expense - Same as 2017

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368		10,009.368	29.42%	4.87%	1.43%	1.43%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138		321.138	0.94%	1.19%	0.01%	0.01%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049		15,262.049	44.86%	11.50%	5.16%	8.41%
Total Capital	34,022.829	-	34,022.829	100.00%		6.65%	9.91%
Incremental Grossed Up ROR							-0.01%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(4.735)

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FLORIDA POWER AND LIGHT COST OF CAPITAL
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($ MILLIONS)

V. FPL Cost of Capital Adjusted to Reflect STD Rate of 0.56%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368		10,009.368	29.42%	4.87%	1.43%	1.43%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138		321.138	0.94%	0.56%	0.01%	0.01%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049		15,262.049	44.86%	11.50%	5.16%	8.41%
Total Capital	34,022.829	-	34,022.829	100.00%		6.65%	9.90%
Incremental Grossed Up ROR							-0.01%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(2.002)

VI. FPL Cost of Capital Adjusted to Reflect LTD New Issues at 4.1%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368		10,009.368	29.42%	4.53%	1.33%	1.33%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138		321.138	0.94%	0.56%	0.01%	0.01%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049		15,262.049	44.86%	11.50%	5.16%	8.41%
Total Capital	34,022.829	-	34,022.829	100.00%		6.55%	9.80%
Incremental Grossed Up ROR							-0.11%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(35.680)

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FLORIDA POWER AND LIGHT COST OF CAPITAL
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VII. FPL Cost of Capital Adjusted to Remove FPL Request for an ROE Incentive of 0.50%

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368		10,009.368	29.42%	4.53%	1.33%	1.33%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138		321.138	0.94%	0.56%	0.01%	0.01%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049		15,262.049	44.86%	11.00%	4.93%	8.04%
Total Capital	34,022.829	-	34,022.829	100.00%		6.32%	9.43%
Incremental Grossed Up ROR							-0.37%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(122.941)

VIII. FPL Cost of Capital Adjusted to Restate ROE at 9.0% as Recommended by Mr. Baudino

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368		10,009.368	29.42%	4.53%	1.33%	1.33%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138		321.138	0.94%	0.56%	0.01%	0.01%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049		15,262.049	44.86%	9.00%	4.04%	6.58%
Total Capital	34,022.829	-	34,022.829	100.00%		5.42%	7.97%
Incremental Grossed Up ROR							-1.46%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(491.766)
			1% ROE Change		(245.883)		

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SFHHA Adjustments to Cost of Capital - TY Ending 2018
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FLORIDA POWER AND LIGHT COST OF CAPITAL
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($ MILLIONS)

IX. FPL Cost of Capital Adjusted to Reflect 55% Common Equity

	Jurisdictional Capital Before Adjustment	Jurisdictional Adjustment	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	10,009.368	227.654	10,237.022	30.09%	4.53%	1.36%	1.36%
Customer Deposits	386.360		386.360	1.14%	2.04%	0.02%	0.02%
Short Term Debt	321.138	958.490	1,279.628	3.76%	0.56%	0.02%	0.02%
Deferred Income Tax	7,943.355		7,943.355	23.35%	0.00%	0.00%	0.00%
Investment Tax Credits	100.559		100.559	0.30%	8.87%	0.03%	0.03%
Common Equity	15,262.049	(1,186.143)	14,075.905	41.37%	9.00%	3.72%	6.07%
Total Capital	34,022.829	-	34,022.829	100.00%		5.16%	7.51%
Incremental Grossed Up ROR							-0.47%
SFHHA Rate Base							33,622.827
SFHHA Revenue Requirement Effect							(156.470)

(1) Grossed up costs include effects of federal and state income taxes, bad debt expense and regulatory assessment fee found on Schedule C-44.

Federal Income Tax Rate	35.000%
State Income Tax Rate	5.500%
Bad Debt	0.065%
Regulatory Assessment Fee	0.072%

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EXHIBIT NO. ____ (LK-30)

FLORIDA POWER AND LIGHT COST OF CAPITAL
FOR OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
($ MILLIONS)

I. FPL Cost of Capital Per Filing - Okeechobee Clean Energy Center

	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	421.152	39.61%	4.87%	1.93%	1.93%
Common Equity	642.163	60.39%	11.50%	6.95%	11.32%
Total Capital	1,063.315	100.00%		8.87%	13.25%

II. FPL Cost of Capital Adjusted to Reflect LTD New Issues at 4.1% - Matches LTD Debt Cost Computed for 2018 Test Year

	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	39.61%	4.53%	1.79%	1.80%
Common Equity	60.39%	11.50%	6.95%	11.32%
Total Capital	100.00%		8.74%	13.12%
Incremental Grossed Up ROR				-0.13%
SFHHA Rate Base - Okeechobee				988.194
SFHHA Revenue Requirement Effect				(1.333)

III. FPL Cost of Capital Adjusted to Remove FPL Request for an ROE Incentive of 0.50%

	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	39.61%	4.53%	1.79%	1.80%
Common Equity	60.39%	11.00%	6.64%	10.83%
Total Capital	100.00%		8.44%	12.63%
Incremental Grossed Up ROR				-0.49%
SFHHA Rate Base				988.194
SFHHA Revenue Requirement Effect				(4.865)

FLORIDA POWER AND LIGHT COST OF CAPITAL
FOR OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
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IV. FPL Cost of Capital Adjusted to Restate ROE at 9.0% as Recommended by Mr. Baudino

	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Long Term Debt	39.61%	4.53%	1.79%	1.80%
Common Equity	60.39%	9.00%	5.44%	8.86%
Total Capital	100.00%		7.23%	10.66%
Incremental Grossed Up ROR				-1.97%
SFHHA Rate Base				988.194
SFHHA Revenue Requirement Effect				(19.458)
1% ROE Change		(9.729)		

V. FPL Cost of Capital Adjusted to Reflect Capital Structure Recommended by SFHHA in Base Revenue Requirement

	Capital Ratio	Cost Rate	Weighted Avg Cost	(1) Grossed Up Cost
Short Term Debt	5.0%	0.56%	0.03%	0.03%
Long Term Debt	40.00%	4.53%	1.81%	1.81%
Common Equity	55.00%	9.00%	4.95%	8.07%
Total Capital	100.00%		6.79%	9.91%
Incremental Grossed Up ROR				-0.75%
SFHHA Rate Base - Okeechobee				988.194
SFHHA Revenue Requirement Effect				(7.366)

(1) Grossed up costs include effects of federal and state income taxes, bad debt expense and regulatory assessment fee found on Schedule C-44.

Federal Income Tax Rate	35.000%
State Income Tax Rate	5.500%
Bad Debt	0.065%
Regulatory Assessment Fee	0.072%

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shall not limit the allowance for depreciation otherwise allowable under section 611.

[T.D. 6500, 25 FR 11402, Nov. 26, 1960. Redesignated, T.D. 6712, 29 FR 3653, Mar. 24, 1964]

§ 1.167(l)–1 Limitations on reasonable allowance in case of property of certain public utilities.

(a) *In general*—(1) *Scope*. Section 167(l) in general provides limitations on the use of certain methods of computing a reasonable allowance for depreciation under section 167(a) with respect to "public utility property" (see paragraph (b) of this section) for all taxable years for which a Federal income tax return was not filed before August 1, 1969. The limitations are set forth in paragraph (c) of this section for "pre-1970 public utility property" and in paragraph (d) of this section for "post-1969 public utility property." Under section 167(l), a taxpayer may always use a straight line method (or other "subsection (l) method" as defined in paragraph (f) of this section). In general, the use of a method of depreciation other than a subsection (l) method is not prohibited by section 167(l) for any taxpayer if the taxpayer uses a "normalization method of regulated accounting" (described in paragraph (h) of this section). In certain cases, the use of a method of depreciation other than a subsection (l) method is not prohibited by section 167(l) if the taxpayer used a "flow-through method of regulated accounting" described in paragraph (i) of this section) for its "July 1969 regulated accounting period" (described in paragraph (g) of this section) whether or not the taxpayer uses either a normalization or a flow-through method of regulated accounting after its July 1969 regulated accounting period. However, in no event may a method of depreciation other than a subsection (l) method be used in the case of pre-1970 public utility property unless such method of depreciation is the "applicable 1968 method" (within the meaning of paragraph (e) of this section). The normalization requirements of section 167(l) with respect to public utility property defined in section 167(l)(3)(A) pertain only to the deferral of Federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. Regulations under section 167(l) do not pertain to other book-tax timing differences with respect to State income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items. The rules provided in paragraph (h)(6) of this section are to insure that the same time period is used to determine the deferred tax reserve amount resulting from the use of an accelerated method of depreciation for cost of service purposes and the reserve amount that may be excluded from the rate base or included in no-cost capital in determining such cost of services. The formula provided in paragraph (h)(6)(ii) of this section is to be used in conjunction with the method of accounting for the reserve for deferred taxes (otherwise proper under paragraph (h)(2) of this section) in accordance with the accounting requirements prescribed or approved, if applicable, by the regulatory body having jurisdiction over the taxpayer's regulated books of account. The formula provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer. The formula serves to limit the amount of such disallowance.

(2) *Methods of depreciation.* For purposes of section 167(l), in the case of a declining balance method each different uniform rate applied to the unrecovered cost or other basis of the property is a different method of depreciation. For purposes of section 167(l), a change in a uniform rate of depreciation due to a change in the useful life of the property or a change in the taxpayer's unrecovered cost or other basis for the property is not a change in the method of depreciation. The use of "guideline lives" or "class lives" for Federal income tax purposes and different lives on the taxpayer's regulated books of account is not treated for purposes of section 167(l) as a different method of depreciation. Further, the use of an unrecovered cost or other basis or salvage value for Federal income tax purposes different from the basis or salvage value used on the taxpayer's regulated books of account is not treated as a different method of depreciation.

(3) *Application of certain other provisions to public utility property.* For rules with respect to application of the investment credit to public utility property, see section 46(e). For rules with respect to the application of the class life asset depreciation range system, including the treatment of the use of "class lives" for Federal income tax purposes and different lives on the taxpayer's regulated books of account, see §1.167(a)–11 and §1.167(a)–12.

(4) *Effect on agreements under section 167(d).* If the taxpayer has entered into an agreement under section 167(d) as to any public utility property and such agreement requires the use of a method of depreciation prohibited by section 167(l), such agreement shall terminate as to such property. The termination, in accordance with this subparagraph, shall not affect any other property (whether or not public utility property) covered by the agreement.

(5) *Effect of change in method of depreciation.* If, because the method of depreciation used by the taxpayer with respect to public utility property is prohibited by section 167(l), the taxpayer changes to a method of depreciation not prohibited by section 167(l), then when the change is made the unrecovered cost or other basis shall be recovered through annual allowances over the estimated remaining useful life determined in accordance with the circumstances existing at that time.

(b) *Public utility property*—(1) *In general.* Under section 167(l)(3)(A), property is "public utility property" during any period in which it is used predominantly in a "section 167(l) public utility activity". The term "section 167(l) public utility activity" means the trade or business of the furnishing or sale of—

(i) Electrical energy, water, or sewage disposal services,

(ii) Gas or steam through a local distribution system,

(iii) Telephone services,

(iv) Other communication services (whether or not telephone services) if furnished or sold by the Communications Satellite Corporation for purposes authorized by the Communications Satellite Act of 1962 (47 U.S.C. 701), or

(v) Transportation of gas or steam by pipeline,

if the rates for such furnishing or sale, as the case may be, are regulated, *i.e.*, have been established or approved by a regulatory body described in section 167(l)(3)(A). The term "regulatory body described in section 167(l)(3)(A)" means a State (including the District of Columbia) or political subdivision thereof, any agency or instrumentality of the United States, or a public service or public utility commission or other body of any State or political subdivision thereof similar to such a commission. The term "established or approved" includes the filing of a schedule of rates with a regulatory body which has the power to approve such rates, even though such body has taken no action on the filed schedule or generally leaves undisturbed rates filed by the taxpayer involved.

(2) *Classification of property.* If property is not used solely in a section 167(l) public utility activity, such property shall be public utility property if its predominant use is in a section 167(l) public utility activity. The predominant use of property for any period shall be determined by reference to the proper accounts to which expenditures for such property are

chargeable under the system of regulated accounts required to be used for the period for which the determination is made and in accordance with the principles of §1.46–3(g)(4) (relating to credit for investment in certain depreciable property). Thus, for example, for purposes of determining whether property is used predominantly in the trade or business of the furnishing or sale of transportation of gas by pipeline, or furnishing or sale of gas through a local distribution system, or both, the rules prescribed in §1.46–3(g)(4) apply, except that accounts 365 through 371, inclusive (Transmission Plant), shall be added to the accounts enumerated in subdivision (i) of such paragraph (g)(4).

(c) *Pre-1970 public utility property*—(1) *Definition.* (i) Under section 167(l)(3)(B), the term "pre-1970 public utility property" means property which was public utility property at any time before January 1, 1970. If a taxpayer acquires pre-1970 public utility property, such property shall be pre-1970 public utility property in the hands of the taxpayer even though such property may have been acquired by the taxpayer in an arm's-length cash sale at fair market value or in a tax-free exchange. Thus, for example, if corporation X which is a member of the same controlled group of corporations (within the meaning of section 1563(a)) as corporation Y sells pre-1970 public utility property to Y, such property is pre-1970 public utility property in the hands of Y. The result would be the same if X and Y were not members of the same controlled group of corporations.

(ii) If the basis of public utility property acquired by the taxpayer in a transaction is determined in whole or in part by reference to the basis of any of the taxpayer's pre-1970 public utility property by reason of the application of any provision of the code, and if immediately after the transaction the adjusted basis of the property acquired is less than 200 percent of the adjusted basis of such pre-1970 public utility property immediately before the transaction, the property acquired is pre-1970 public utility property.

(2) *Methods of depreciation not prohibited.* Under section 167(l)(1), in the case of pre-1970 public utility property, the term "reasonable allowance" as used in section 167(a) means, for a taxable year for which a Federal income tax return was not filed before August 1, 1969, and in which such property is public utility property, an allowance (allowable without regard to section 167(l)) computed under—

(i) A subsection (l) method, or

(ii) The applicable 1968 method (other than a subsection (l) method) used by the taxpayer for such property, but only if—

(*a*) The taxpayer uses in respect of such taxable year a normalization method of regulated accounting for such property,

(*b*) The taxpayer used a flow-through method of regulated accounting for such property for its July 1969 regulated accounting period, or

(*c*) The taxpayer's first regulated accounting period with respect to such property is after the taxpayer's July 1969 regulated accounting period and the taxpayer used a flow-through method of regulated accounting for its July 1969 regulated accounting period for public utility property of the same kind (or if there is no property of the same kind, property of the most similar kind) most recently placed in service. See paragraph (e)(5) of this section for determination of same (or similar) kind.

(3) *Flow-through method of regulated accounting in certain cases.* See paragraph (e)(6) of this section for treatment of certain taxpayers with pending applications for change in method of accounting as being deemed to have used a flow-through method of regulated accounting for the July 1969 regulated accounting period.

(4) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. Corporation X, a calendar-year taxpayer subject to the jurisdiction of a regulatory body described in section 167(l)(3)(A), used the straight line method of depreciation (a subsection (l) method) for all of its public utility property for which depreciation was allowable on its Federal income tax return for 1967 (the latest taxable year for which X, prior to August 1, 1969, filed a return). Assume that under paragraph (e) of this section, X's applicable 1968 method is a subsection (l) method with respect to all of its public utility property. Thus, with respect to its pre-1970 public utility property, X may only use a straight line method (or any other subsection (l) method) of depreciation for all taxable years after 1967.

Example 2. Corporation Y, a calendar-year taxpayer subject to the jurisdiction of the Federal Power Commission, is engaged exclusively in the transportation of gas by pipeline. On its Federal income tax return for 1967 (the latest taxable year for which Y, prior to August 1, 1969, filed a return), Y used the declining balance method of depreciation using a rate of 150 percent of the straightline rate for all of its nonsection 1250 public utility property with respect to which depreciation was allowable. Assume that with respect to all of such property, Y's applicable 1968 method under paragraph (e) of this section is such 150 percent declining balance method. Assume that Y used a normalization method of regulated accounting for all relevant regulated accounting periods. If Y continues to use a normalization method of regulated accounting, Y may compute its reasonable allowance for purposes of section 167(a) using such 150 percent declining balance method for its nonsection 1250 pre-1970 public utility property for all taxable years beginning with 1968, provided the use of such method is allowable without regard to section 167(l). Y may also use a subsection (l) method for any of such pre-1970 public utility property for all taxable years beginning after 1967. However, because each different uniform rate applied to the basis of the property is a different method of depreciation, Y may not use a declining balance method of depreciation using a rate of twice the straight line rate for any of such pre-1970 public utility property for any taxable year beginning after 1967.

Example 3. Assume the same facts as in example (2) except that with respect to all of its nonsection 1250 pre-1970 public utility property accounted for in its July 1969 regulated accounting period Y used a flow-through method of regulated accounting for such period. Assume further that such property is the property on the basis of which the applicable 1968 method is established for pre-1970 public utility property of the same kind, but having a first regulated accounting period after the taxpayer's July 1969 regulated accounting period. Beginning with 1968, with respect to such property Y may compute its reasonable allowance for purposes of section 167(a) using the declining balance method of depreciation and a rate of 150 percent of the straight line rate, whether it uses a normalization or flow-through method of regulated accounting after its July 1969 regulated accounting period, provided the use of such method is allowable without regard to section 167(l).

(d) *Post-1969 public utility property*—(1) *In general.* Under section 167(l)(3)(C), the term "post-1969 public utility property" means any public utility property which is not pre-1970 public utility property.

(2) *Methods of depreciation not prohibited.* Under section 167(l)(2), in the case of post-1969 public utility property, the term "reasonable allowance" as used in section 167(a) means, for a taxable year, an allowance (allowable without regard to section 167(l)) computed under—

(i) A subsection (l) method,

(ii) A method of depreciation otherwise allowable under section 167 if, with respect to the property, the taxpayer uses in respect of such taxable year a normalization method of regulated accounting, or

(iii) The taxpayer's applicable 1968 method (other than a subsection (l) method) with respect to the property in question, if the taxpayer used a flow-through method of regulated accounting for its July 1969 regulated accounting period for the property of the same (or similar) kind most recently placed in service, provided that the property in question is not property to which an election under section 167(l)(4)(A) applies. See §1.167(l)(2) for rules with respect to an election under section 167(l)(4)(A). See paragraph (e)(5) of this section for definition of same (or similar) kind.

(3) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. Corporation X is engaged exclusively in the trade or business of the transportation of gas by pipeline and is subject to the jurisdiction of the Federal Power Commission. With respect to all its public utility property, X's applicable 1968 method (as determined under paragraph (e) of this section) is the straight line method of depreciation. X may determine its reasonable allowance for depreciation under section 167(a) with respect to its post-1969 public utility property under a straight line method (or other subsection (l) method) or, if X uses a normalization method of regulated accounting, any other method of depreciation, provided that the use of such other method is allowable under section 167 without regard to section 167(l).

Example 2. Assume the same facts as in example (1) except that with respect to all of X's post-1969 public utility property the applicable 1968 method (as determined under paragraph (e) of this section) is the declining balance method using a rate of 150 percent of the straight line rate. Assume further that all of X's pre-1970 public utility property was accounted for in its July 1969 regulated accounting period, and that X used a flow-through method of regulated accounting for such period. X may determine its reasonable allowance for depreciation under section 167 with respect to its post-1969 public utility property by using the straight line method of depreciation (or any other subsection (l) method), by using any method otherwise allowable under section 167 (such as a declining balance method) if X uses a normalization method of regulated accounting, or, by using the declining balance method using a rate of 150 percent of the straight line rate, whether or not X uses a normalization or a flow-through method of regulated accounting.

(e) *Applicable 1968 method*—(1) *In general.* Under section 167(l)(3)(D), except as provided in subparagraphs (3) and (4) of this paragraph, the term "applicable 1968 method" means with respect to any public utility property—

(i) The method of depreciation properly used by the taxpayer in its Federal income tax return with respect to such property for the latest taxable year for which a return was filed before August 1, 1969,

(ii) If subdivision (i) of this subparagraph does not apply, the method of depreciation properly used by the taxpayer in its Federal income tax return for the latest taxable year for which a return was filed before August 1, 1969, with respect to public utility property of the same kind (or if there is no property of the same kind, property of the most similar kind) most recently placed in service before the end of such latest taxable year, or

(iii) If neither subdivision (i) nor (ii) of this subparagraph applies, a subsection (l) method.

If, on or after August 1, 1969, the taxpayer files an amended return for the taxable year referred to in subdivisions (i) and (ii) of this subparagraph, such amended return shall not be taken into consideration in determining the applicable 1968 method. The term "applicable 1968 method" if such new method results to any public utility property, for the year of change and subsequent years, a method of depreciation otherwise allowable under section 167 to which the taxpayer changes from an applicable 1968 method if such new method results in a lesser allowance for depreciation for such property under section 167 in the year of change and the taxpayer secures the Commissioner's consent to the change in accordance with the procedures of section 446(e) and § 1.446–1.

(2) *Placed in service.* For purposes of this section, property is placed in service on the date on which the period for depreciation begins under section 167. See, for example, § 1.167(a)–10(b) and § 1.167(a)–11(c)(2). If under an averaging convention property which is placed in service (as defined in § 1.46–3(d)(ii)) by the taxpayer on different dates is treated as placed in service on the same date, then for purposes of section 167(l) the property shall be treated as having been placed in service on the date the period for depreciation with respect to such property would begin under section 167 absent such averaging convention. Thus, for example, if, except for the fact that the averaging convention used assumes that all additions and retirements made during the first half of the year were made on the first day of the year, the period of depreciation for two items of public utility property would begin on January 10 and March 15, respectively, then for purposes of determining the property of the same (or similar) kind most recently placed in service, such items of property shall be treated as placed in service on January 10 and March 15, respectively.

(3) *Certain section 1250 property.* If a taxpayer is required under section 167(j) to use a method of depreciation other than its applicable 1968 method with respect to any section 1250 property, the term "applicable 1968 method" means the method of depreciation allowable under section 167(j) which is the most nearly comparable method to the applicable 1968 method determined under subparagraph (1) of this paragraph. For example, if the applicable 1968 method on new section 1250 property is the declining balance method using 200 percent of the straight line rate, the most nearly comparable method allowable for new section 1250 property under section 167(j) would be the declining balance method using 150 percent of the straight line rate. If the applicable 1968 method determined

under subparagraph (1) of this paragraph is the sum of the years-digits method, the term "most nearly comparable method" refers to any method of depreciation allowable under section 167(j).

(4) *Applicable 1968 method in certain cases.* (i)(*a*) Under section 167(l)(3)(E), if the taxpayer evidenced within the time and manner specified in (*b*) of this subdivision (i) the intent to use a method of depreciation under section 167 (other than its applicable 1968 method as determined under subparagraph (1) or (3) of this paragraph or a subsection (l) method) with respect to any public utility property, such method of depreciation shall be deemed to be the taxpayer's applicable 1968 method with respect to such public utility property and public utility property of the same (or most similar) kind subsequently placed in service.

(*b*) Under this subdivision (i), the intent to use a method of depreciation under section 167 is evidenced—

(*1*) By a timely application for permission for a change in method of accounting filed by the taxpayer before August 1, 1969, or

(*2*) By the use of such method of depreciation in the computation by the taxpayer of its tax expense for purposes of reflecting operating results in its regulated books of account for its July 1969 regulated accounting period, as established in the manner prescribed in paragraph (g)(1) (i), (ii), or (iii) of this section.

(ii)(*a*) If public utility property is acquired in a transaction in which its basis in the hands of the transferee is determined in whole or in part by reference to its basis in the hands of the transferor by reason of the application of any provision of the Code, or in a transfer (including any purchase for cash or in exchange) from a related person, then in the hands of the transferee the applicable 1968 method with respect to such property shall be determined by reference to the treatment in respect of such property in the hands of the transferor.

(*b*) For purposes of this subdivision (ii), the term "related person" means a person who is related to another person if either immediately before or after the transfer—

(*1*) The relationship between such persons would result in a disallowance of losses under section 267 (relating to disallowance of losses, etc., between related taxpayers) or section 707(b) (relating to losses disallowed, etc., between partners and controlled partnerships) and the regulations thereunder, or

(*2*) Such persons are members of the same controlled group of corporations, as defined in section 1563(a) (relating to definition of controlled group of corporations), except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a) and the regulations thereunder.

(5) *Same or similar.* The classification of property as being of the same (or similar) kind shall be made by reference to the function of the public utility to which the primary use of the property relates. Property which performs the identical function in the identical manner shall be treated as property of the same kind. The determination that property is of a similar kind shall be made by reference to the proper account to which expenditures for the property are chargeable under the system of regulated accounts required to be used by the taxpayer for the period in which the property in question was acquired. Property, the expenditure for which is chargeable to the same account, is property of the most similar kind. Property, the expenditure for which is chargeable to an account for property which serves the same general function, is property of a similar kind. Thus, for example, if corporation X, a natural gas company, subject to the jurisdiction of the Federal Power Commission, had property properly chargeable to account 366 (relating to transmission plant structures and improvements) acquired an additional structure properly chargeable to account 366, under the uniform system of accounts prescribed for natural gas companies (class A and class B) by the Federal Power Commission, effective September 1, 1968, the addition would constitute property of the same kind if it performed the identical function in the identical manner. If, however, the addition did not perform the identical function in the identical manner, it

would be property of the most similar kind.

(6) *Regulated method of accounting in certain cases.* Under section 167(l)(4)(B), if with respect to any pre-1970 public utility property the taxpayer filed a timely application for change in method of accounting referred to in subparagraph (4)(i)(*b*)(*1*) of this paragraph and with respect to property of the same (or similar) kind most recently placed in service the taxpayer used a flow-through method of regulated accounting for its July 1969 regulated accounting period, then for purposes of section 167(l)(1)(B) and paragraph (c) of this section the taxpayer shall be deemed to have used a flow-through method of regulated accounting with respect to such pre-1970 public utility property.

(7) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. Corporation X is a calendar-year taxpayer. On its Federal income tax return for 1967 (the latest taxable year for which X, prior to August 1, 1969, filed a return) X used a straight line method of depreciation with respect to certain public utility property placed in service before 1965 and used the declining balance method of depreciation using 200 percent of the straight line rate (double declining balance) with respect to the same kind of public utility property placed in service after 1964. In 1968 and 1970, X placed in service additional public utility property of the same kind. The applicable 1968 method with respect to the above described public utility property is shown in the following chart:

Property held in 1970	Placed in service	Method on 1967 return	Applicable 1968 method
Group 1	Before 1965	Straight line ..	Straight line.
Group 2	After 1964 and before 1968.	Double declining balance.	Double declining balance.
Group 3	After 1967 and before 1969.	....	Do.
Group 4	After 1968	....	Do.

Example 2. Corporation Y is a calendar-year taxpayer engaged exclusively in the trade or business of the furnishing of electrical energy. In 1954, Y placed in service hydroelectric generators and for all purposes Y has taken straight line depreciation with respect to such generators. In 1960, Y placed in service fossil fuel generators and for all purposes since 1960 has used the declining balance method of depreciation using a rate of 150 percent of the straight line rate (computed without reduction for salvage) with respect to such generators. After 1960 and before 1970 Y did not place in service any generators. In 1970, Y placed in service additional hydroelectric generators. The applicable 1968 method with respect to the hydroelectric generators placed in service in 1970 would be the straight line method because it was the method used by Y on its return for the latest taxable year for which Y filed a return before August 1, 1969, with respect to property of the same kind (*i.e.*, hydroelectric generators) most recently placed in service.

Example 3. Assume the same facts as in example (2), except that the generators placed in service in 1970 were nuclear generators. The applicable 1968 method with respect to such generators is the declining balance method using a rate of 150 percent of the straight line rate because, with respect to property of the most similar kind (fossil fuel generators) most recently placed in service, Y used such declining balance method on its return for the latest taxable year for which it filed a return before August 1, 1969.

(f) *Subsection (l) method.* Under section 167(l)(3)(F), the term "subsection (l) method" means a reasonable and consistently applied ratable method of computing depreciation which is allowable under section 167(a), such as, for example, the straight line method or a unit of production method or machine-hour method. The term "subsection (l) method" does not include any declining balance method (regardless of the uniform rate applied), sum of the years-digits method, or method of depreciation which is allowable solely by reason of section 167(b)(4) or (j)(1)(C).

(g) *July 1969 regulated accounting period*—(1) *In general.* Under section 167(l)(3)(I), the term "July 1969 regulated accounting period" means the taxpayer's latest accounting period ending before August 1, 1969, for which the taxpayer regularly computed, before January 1, 1970, its tax expense for purposes of reflecting operating results in its regulated books of account. The computation by the taxpayer of such tax expense may be established by reference to the following:

(i) The most recent periodic report of a period ending before August 1, 1969, required by a regulatory body described in section 167(l)(3)(A) having jurisdiction over the taxpayer's regulated books of account which was filed with such body before January 1, 1970 (whether or not such body has jurisdiction over rates).

(ii) If subdivision (i) of this subparagraph does not apply, the taxpayer's most recent report to its shareholders for a period ending before August 1, 1969, but only if such report was distributed to the shareholders before January 1, 1970, and if the taxpayer's stocks or securities are traded in an established securities market during such period. For purposes of this subdivision, the term "established securities market" has the meaning assigned to such term in § 1.453–3(d)(4).

(iii) If subdivisions (i) and (ii) of this subparagraph do not apply, entries made to the satisfaction of the district director before January 1, 1970, in its regulated books of account for its most recent accounting period ending before August 1, 1969.

(2) *July 1969 method of regulated accounting in certain acquisitions.* If public utility property is acquired in a transaction in which its basis in the hands of the transferee is determined in whole or in part by reference to its basis in the hands of the transferor by reason of the application of any provision of the Code, or in a transfer (including any purchase for cash or in exchange) from a related person, then in the hands of the transferee the method of regulated accounting for such property's July 1969 regulated accounting period shall be determined by reference to the treatment in respect of such property in the hands of the transferor. See paragraph (e)(4)(ii) of this section for definition of "related person".

(3) *Determination date.* For purposes of section 167(l), any reference to a method of depreciation under section 167(a), or a method of regulated accounting, taken into account by the taxpayer in computing its tax expense for its July 1969 regulated accounting period shall be a reference to such tax expense as shown on the periodic report or report to shareholders to which subparagraph (1) (i) or (ii) of this paragraph applies or the entries made on the taxpayer's regulated books of account to which subparagraph (1)(iii) of this paragraph applies. Thus, for example, assume that regulatory body A having jurisdiction over public utility property with respect to X's regulated books of account requires X to reflect its tax expense in such books using the same method of depreciation which regulatory body B uses for determining X's cost of service for ratemaking purposes. If in 1971, in the course of approving a rate change for X, B retroactively determines X's cost of service for ratemaking purposes for X's July 1969 regulated accounting period using a method of depreciation different from the method reflected in X's regulated books of account as of January 1, 1970, the method of depreciation used by X for its July 1969 regulated accounting period would be determined without reference to the method retroactively used by B in 1971.

(h) *Normalization method of accounting*—(1) *In general.* (i) Under section 167(l), a taxpayer uses a normalization method of regulated accounting with respect to public utility property—

(*a*) If the same method of depreciation (whether or not a subsection (l) method) is used to compute both its tax expense and its depreciation expense for purposes of establishing cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account, and

(*b*) If to compute its allowance for depreciation under section 167 it uses a method of depreciation other than the method it used for purposes described in (*a*) of this subdivision, the taxpayer makes adjustments consistent with subparagraph (2) of this paragraph to a reserve to reflect the total amount of the deferral of Federal income tax liability resulting from the use with respect to all of its public utility property of such different methods of depreciation.

(ii) In the case of a taxpayer described in section 167(l) (1) (B) or (2) (C), the reference in subdivision (i) of this subparagraph shall be a reference only to such taxpayer's "qualified public utility property". See § 1.167(l)–2(b) for definition of "qualified public utility property".

(iii) Except as provided in this subparagraph, the amount of Federal income tax liability deferred as a result of the use of different method of depreciation under subdivision (i) of this subparagraph is the excess (computed without regard to credits) of the amount the tax liability would have been had a subsection (l) method been used over the amount of the actual tax liability. Such amount shall be taken into account for the taxable year in which such different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (l) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) results in a net operating loss carryover (as determined under section 172) to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (l) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

(2) *Adjustments to reserve*. (i) The taxpayer must credit the amount of deferred Federal income tax determined under subparagraph (1)(i) of this paragraph for any taxable year to a reserve for deferred taxes, a depreciation reserve, or other reserve account. The taxpayer need not establish a separate reserve account for such amount but the amount of deferred tax determined under subparagraph (1) (i) of this paragraph must be accounted for in such a manner so as to be readily identifiable. With respect to any account, the aggregate amount allocable to deferred tax under section 167(l) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation under subparagraph (1)(i) of this paragraph. An additional exception is that the aggregate amount allocable to deferred tax under section 167(l) may be properly adjusted to reflect asset retirements or the expiration of the period for depreciation used in determining the allowance for depreciation under section 167(a).

(ii) The provisions of this subparagraph may be illustrated by the following examples:

Example 1. Corporation X is exclusively engaged in the transportation of gas by pipeline subject to the jurisdiction of the Federal Power Commission. With respect to its post-1969 public utility property, X is entitled under section 167(l)(2)(B) to use a method of depreciation other than a subsection (l) method if it uses a normalization method of regulated accounting. With respect to such property, X has not made any election under §1.167(a)–11 (relating to depreciation based on class lives and asset depreciation ranges). In 1972, X places in service public utility property with an unadjusted basis of $2 million, and an estimated useful life of 20 years. X uses the declining balance method of depreciation with a rate twice the straight line rate. If X uses a normalization method of regulated accounting, the amount of depreciation allowable under section 167(a) with respect to such property for 1972 computed under the double declining balance method would be $200,000. X computes its tax expense and depreciation expense for purposes of determining its cost of service for rate-making purposes and for reflecting operating results in its regulated books of account using the straight line method of depreciation (a subsection (l) method). A depreciation allowance computed in this manner is $100,000. The excess of the depreciation allowance determined under the double declining balance method ($200,000) over the depreciation expense computed using the straight line method ($100,000) is $100,000. Thus, assuming a tax rate of 48 percent, X used a normalization method of regulated accounting for 1972 with respect to property placed in service that year if for 1972 it added to a reserve $48,000 as taxes deferred as a result of the use by X of a method of depreciation for Federal income tax purposes different from that used for establishing its cost of service for rate-making purposes and for reflecting operating results in its regulated books of account.

Example 2. Assume the same facts as in example (1), except that X elects to apply §1.167(a)–11 with respect to all eligible property placed in service in 1972. Assume further that all property X placed in service in 1972 is eligible property. One hudnred percent of the asset guideline period for such property is 22 years and the asset depreciation range is from 17.5 years to 26.5 years. X uses the double declining balance method of depreciation, selects an asset depreciation period of 17.5 years, and applies the half-year convention (described in §1.167(a)–11(c)(2)(iii)). In 1972, the depreciation allowable under section 167(a) with respect to property placed in service in 1972 is $114,285 (determined without regard to the normalization requirements in §1.167(a)–11(b)(6) and in section 167(l)). X computes its tax expense for purposes of determining its cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account using the straight line method of depreciation (a subsection (l) method), an estimated useful life of 22 years (that is, 100 percent of the asset guideline period), and the half-year convention. A depreciation allowance computed in this manner is $45,454. Assuming a tax rate of 48 percent, the amount that X must add to a reserve for 1972 with respect to property placed in service that year in order to qualify as using a normalization method of regulated accounting under section 167(l) (3) (G) is $27,429 and the amount in order to satisfy the normalization requirements of §1.167(a)–11(b)(6) is $5,610. X determined such amounts as follows:

(1) Depreciation allowance on tax return (determined without regard to section 167(l) and §1.167(a)–11(b) (6))	$114,285
(2) Line (1), recomputed using a straight line method	57,142
(3) Difference in depreciation allowance attributable to different methods (line (1) minus line (2))	$57,143
(4) Amount to add to reserve under this paragraph (48 percent of line (3))	27,429
(5) Amount in line (2)	$57,142
(6) Line (5), recomputed by using an estimated useful life of 22 years and the half-year convention	45,454
(7) Difference in depreciation allowance attributable to difference in depreciation periods	$11,688
(8) Amount to add to reserve under §1.167(a)–11(b) (6) (ii) (48 percent of line (7))	5,610

If, for its depreciation expense for purposes of determining its cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account, X had used a period in excess of the asset guideline period of 22 years, the total amount in lines (4) and (8) in this example would not be changed.

Example 3. Corporation Y, a calendar-year taxpayer which is engaged in furnishing electrical energy, made the election provided by section 167(l) (4) (a) with respect to its "qualified public utility property" (as defined in §1.167(l)–2(b)). In 1971, Y placed in service qualified public utility property which had an adjusted basis of $2 million, estimated useful life of 20 years, and no salvage value. With respect to property of the same kind most recently placed in service, Y used a flow-through method of regulated accounting for its July 1969 regulated accounting period and the applicable 1968 method is the declining balance method of depreciation using 200 percent of the straight line rate. The amount of depreciation allowable under the double declining balance method with respect to the qualified public utility property would be $200,000. Y computes its tax expense and depreciation expense for purposes of determining its cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account using the straight line method of depreciation. A depreciation allowance with respect to the qualified public utility property determined in this manner is $100,000. The excess of the depreciation allowance determined under the double declining balance method ($200,000) over the depreciation expense computed using the straight line method ($100,000) is $100,000. Thus, assuming a tax rate of 48 percent, Y used a normalization method of regulated accounting for 1971 if for 1971 it added to a reserve $48,000 as tax deferred as a result of the use by Y of a method of depreciation for Federal income tax purposes with respect to its qualified public utility property which method was different from that used for establishing its cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account for such property.

Example 4. Corporation Z, exclusively engaged in a public utility activity did not use a flow-through method of regulated accounting for its July 1969 regulated accounting period. In 1971, a regulatory body having jurisdiction over all of Z's property issued an order applicable to all years beginning with 1968 which provided, in effect, that Z use an accelerated method of depreciation for purposes of section 167 and for determining its tax expenses for purposes of reflecting operating results in its regulated books of account. The order further provided that Z normalize 50 percent of the tax deferral resulting from the use of the accelerated method of depreciation and that Z flow-through 50 percent of the tax deferral resulting therefrom. Under section 167(l), the method of accounting provided in the order would not be a normalization method of regulated accounting because Z would not be permitted to normalize 100 percent of the tax deferral resulting from the use of an accelerated method of depreciation. Thus, with respect to its public utility property for purposes of section 167, Z may only use a subsection (l) method of depreciation.

Example 5. Assume the same facts as in example (4) except that the order of the regulatory body provided, in effect, that Z normalize 100 percent of the tax deferral with respect to 50 percent of its public utility property and flow-through the tax savings with respect to the other 50 percent of its property. Because the effect of such an order would allow Z to flow-through a portion of the tax savings resulting from the use of an accelerated method of depreciation, Z would not be using a normalization method of regulated accounting with respect to any of its properties. Thus, with respect to its public utility property for purposes of section 167, Z may only use a subsection (l) method of depreciation.

(3) *Establishing compliance with normalization requirements in respect of operating books of account.* The taxpayer may establish compliance with the requirement in subparagraph (1)(i) of this

paragraph in respect of reflecting operating results, and adjustments to a reserve, in its operating books of account by reference to the following:

(i) The most recent periodic report for a period beginning before the end of the taxable year, required by a regulatory body described in section 167(l)(3)(A) having jurisdiction over the taxpayer's regulated operating books of account which was filed with such body before the due date (determined with regard to extensions) of the taxpayer's Federal income tax return for such taxable year (whether or not such body has jurisdiction over rates).

(ii) If subdivision (i) of this subparagraph does not apply, the taxpayer's most recent report to its shareholders for the taxable year but only if (*a*) such report was distributed to the shareholders before the due date (determined with regard to extensions) of the taxpayer's Federal income tax return for the taxable year and (*b*) the taxpayer's stocks or securities are traded in an established securities market during such taxable year. For purposes of this subdivision, the term "established securities market" has the meaning assigned to such term in §1.453–3(d)(4).

(iii) If neither subdivision (i) nor (ii) of this subparagraph applies, entries made to the satisfaction of the district director before the due date (determined with regard to extensions) of the taxpayer's Federal income tax return for the taxable year in its regulated books of account for its most recent period beginning before the end of such taxable year.

(4) *Establishing compliance with normalization requirements in computing cost of service for ratemaking purposes.* (i) In the case of a taxpayer which used a flow-through method of regulated accounting for its July 1969 regulated accounting period or thereafter, with respect to all or a portion of its pre-1970 public utility property, if a regulatory body having jurisdiction to establish the rates of such taxpayer as to such property (or a court which has jurisdiction over such body) issues an order of general application (or an order of specific application to the taxpayer) which states that such regulatory body (or court) will permit a class of taxpayers of which such taxpayer is a member (or such taxpayer) to use the normalization method of regulated accounting to establish cost of service for ratemaking purposes with respect to all or a portion of its public utility property, the taxpayer will be presumed to be using the same method of depreciation to compute both its tax expense and its depreciation expense for purposes of establishing its cost of service for ratemaking purposes with respect to the public utility property to which such order applies. In the event that such order is in any way conditional, the preceding sentence shall not apply until all of the conditions contained in such order which are applicable to the taxpayer have been fulfilled. The taxpayer shall establish to the satisfaction of the Commissioner or his delegate that such conditions have been fulfilled.

(ii) In the case of a taxpayer which did not use the flow-through method of regulated accounting for its July 1969 regulated accounting period or thereafter (including a taxpayer which used a subsection (l) method of depreciation to compute its allowance for depreciation under section 167(a) and to compute its tax expense for purposes of reflecting operating results in its regulated books of account), with respect to any of its public utility property, it will be presumed that such taxpayer is using the same method of depreciation to compute both its tax expense and its depreciation expense for purposes of establishing its cost of service for ratemaking purposes with respect to its post-1969 public utility property. The presumption described in the preceding sentence shall not apply in any case where there is (*a*) an expression of intent (regardless of the manner in which such expression of intent is indicated) by the regulatory body (or bodies), having jurisdiction to establish the rates of such taxpayer, which indicates that the policy of such regulatory body is in any way inconsistent with the use of the normalization method of regulated accounting by such taxpayer or by a class of taxpayers of which such taxpayer is a member, or (*b*) a decision by a court having jurisdiction over such regulatory body which decision is in any way inconsistent with the use of the normalization method of regulated accounting by such taxpayer or a class of taxpayers of which such taxpayer is a member. The presumption shall be applicable on January 1, 1970, and shall, unless rebutted, be effective until an inconsistent expression of intent is indicated by such regulatory body or by such court. An example of such an inconsistent expression of intent is the case of a regulatory body which has, after the July 1969 regulated accounting period and before January 1, 1970, directed public utilities subject to its ratemaking jurisdiction to use a flow-through method of regulated accounting, or has issued an order of general application which states that such agency will direct a class of public utilities of which the taxpayer is a member to use a flow-through method of regulated accounting. The presumption described in this subdivision may be rebutted by evidence that the flow-through method of regulated accounting is being used by the taxpayer with respect to such property.

(iii) The provisions of this subparagraph may be illustrated by the following examples:

Example 1. Corporation X is a calendar-year taxpayer and its "applicable 1968 method" is a straight line method of depreciation. Effective January 1, 1970, X began collecting rates which were based on a sum of the years-digits method of depreciation and a normalization method of regulated accounting which rates had been approved by a regulatory body having jurisdiction over X. On October 1, 1971, a court of proper jurisdiction annulled the rate order prospectively, which annulment was not appealed, on the basis that the regulatory body had abused its discretion by determining the rates on the basis of a normalization method of regulated accounting. As there was no inconsistent expression of intent during 1970 or prior to the due date of X's return for 1970, X's use of the sum of the years-digits method of depreciation for purposes of section 167 on such return was proper. For 1971, the presumption is in effect through September 30. During 1971, X may use the sum of the years-digits method of depreciation for purposes of section 167 from January 1 through September 30, 1971. After September 30, 1971, and for taxable years after 1971, X must use a straight line method of depreciation until the inconsistent court decision is no longer in effect.

Example 2. Assume the same facts as in example (1), except that pursuant to the order of annulment, X was required to refund the portion of the rates attributable to the use of the normalization method of regulated accounting. As there was no inconsistent expression of intent during 1970 or prior to the due date of X's return for 1970, X has the benefit of the presumption with respect to its use of the sum of the years-digits method of depreciation for purposes of section 167, but because of the retroactive nature of the rate order X must file an amended return for 1970 using a straight line method of depreciation. As the inconsistent decision by the court was handed down prior to the due date of X's Federal income tax return for 1971, for 1971 and thereafter the presumption of subdivision (ii) of this subparagraph does not apply. X must file its Federal income tax returns for such years using a straight line method of depreciation.

Example 3. Assume the same facts as in example (2), except that the annulment order was stayed pending appeal of the decision to a court of proper appellate jurisdiction. X has the benefit of the presumption as described in example (2) for the year 1970, but for 1971 and thereafter the presumption of subdivision (ii) of this subparagraph does not apply. Further, X must file an amended return for 1970 using a straight line method of depreciation and for 1971 and thereafter X must file its returns using a straight line method of depreciation unless X and the district director have consented in writing to extend the time for assessment of tax for 1970 and thereafter with respect to the issue of normalization method of regulated accounting for as long as may be necessary to allow for resolution of the appeal with respect to the annulment of the rate order.

(5) *Change in method of regulated accounting.* The taxpayer shall notify the district director of a change in its method of regulated accounting, an order by a regulatory body or court that such method be changed, or an interim or final rate determination by a regulatory body which determination is inconsistent with the method of regulated accounting used by the taxpayer immediately prior to the effective date of such rate determination. Such notification shall be made within 90 days of the date that the change in method, the order, or the determination is effective. In the case of a change in the method of regulated accounting, the taxpayer shall recompute its tax liability for any affected taxable year and such recomputation shall be made in the form of an amended return where necessary unless the taxpayer and the district director have consented in

writing to extend the time for assessment of tax with respect to the issue of normalization method of regulated accounting.

(6) *Exclusion of normalization reserve from rate base.* (i) Notwithstanding the provisions of subparagraph (1) of this paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's tax expense in computing cost of service in such ratemaking.

(ii) For the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i) of this subparagraph, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for the period is the amount of the reserve (determined under subparagraph (2) of this paragraph) at the end of the historical period. If solely a future period is used for such determination, the amount of the reserve account for the period is the amount of the reserve at the beginning of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during such period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period. The pro rata portion of any increase to be credited or decrease to be charged during a future period (or the future portion of a part-historical and part-future period) shall be determined by multiplying any such increase or decrease by a fraction, the numerator of which is the number of days remaining in the period at the time such increase or decrease is to be accrued, and the denominator of which is the total number of days in the period (or future portion).

(iii) The provisions of subdivision (i) of this subparagraph shall not apply in the case of a final determination of a rate case entered on or before May 31, 1973. For this purpose, a determination is final if all rights to request a review, a rehearing, or a redetermination by the regulatory body which makes such determination have been exhausted or have lapsed. The provisions of subdivision (ii) of this subparagraph shall not apply in the case of a rate case filed prior to June 7, 1974 for which a rate order is entered by a regulatory body having jurisdiction to establish the rates of the taxpayer prior to September 5, 1974, whether or not such order is final, appealable, or subject to further review or reconsideration.

(iv) The provisions of this subparagraph may be illustrated by the following examples:

Example 1. Corporation X is exclusively engaged in the transportation of gas by pipeline subject to the jurisdiction of the Z Power Commission. With respect to its post-1969 public utility property, X is entitled under section 167(l)(2)(B) to use a method of depreciation other than a subsection (l) method if it uses a normalization method of regulated accounting. With respect to X the Z Power Commission for purposes of establishing cost of service uses a recent consecutive 12-month period ending not more than 4 months prior to the date of filing a rate case adjusted for certain known changes occurring within a 9-month period subsequent to the base period. X's rate case is filed on January 1, 1975. The year 1974 is the recorded test period for X's rate case and is the period used in determining X's tax expense in computing cost of service. The rates are contemplated to be in effect for the years 1975, 1976, and 1977. The adjustments for known changes relate only to wages and salaries. X's rate base at the end of 1974 is $145,000,000. The amount of the reserve for deferred taxes under section 167(l) at the end of 1974 is $1,300,000, and the reserve is projected to be $4,400,000 at the end of 1975, $6,500,000 at the end of 1976, and $9,800,000 at the end of 1977. X does not use a normalization method of regulated accounting if the Z Power Commission excludes more than $1,300,000 from the rate base to which X's rate of return is applied. Similarly, X does not use a normalization method of regulated accounting if, instead of the above, the Z Power Commission, in determining X's rate of return which is applied to the rate base, assigns to no-cost capital an amount that represents the reserve account for deferred tax that is greater than $1,300,000.

Example 2. Assume the same facts as in example (1) except that the adjustments for known changes in cost of service made by the Z Power Commission include an additional depreciation expense that reflects the installation of new equipment put into service on January 1, 1975. Assume further that the reserve for deferred taxes under section 167(l) at the end of 1974 is $1,300,000 and that the monthly net increases for the first 9 months of 1975 are projected to be:

January 1–31	$310,000
February 1–28	300,000
March 1–31	300,000
April 1–30	280,000
May 1–31	270,000
June 1–30	260,000
July 1–31	260,000
August 1–31	250,000
September 1–30	240,000
	$2,470,000

For its regulated books of account X accrues such increases as of the last day of the month but as a matter of convenience credits increases or charges decreases to the reserve account on the 15th day of the month following the whole month for which such increase or decrease is accrued. The maximum amount that may be excluded from the rate base is $2,470,879 (the amount in the reserve at the end of the historical portion of the period ($1,300,000) and a pro rata portion of the amount of any projected increase for the future portion of the period to be credited to the reserve ($1,170,879)). Such pro rata portion is computed (without regard to the date such increase will actually be posted to the account) as follows:

$310,000×243/273 =	$275,934
300,000×215/273 =	236,264
300,000×184/273 =	202,198
280,000×154/273 =	157,949
270,000×123/273 =	121,648
260,000×93/273 =	88,571
260,000×62/273 =	59,048
250,000×31/273 =	28,388
240,000×1/273=	879
	$1,170,879

Example 3. Assume the same facts as in example (1) except that for purposes of establishing cost of service the Z Power Commission uses a future test year (1975). The rates are contemplated to be in effect for 1975, 1976, and 1977. Assume further that plant additions, depreciation expense, and taxes are projected to the end of 1975 and that the reserve for deferred taxes under section 167(l) is $1,300,000 for 1974 and is projected to be $4,400,000 at the end of 1975. Assume also that the Z Power Commission applies the rate of return to X's 1974 rate base of $145,000,000. X and the Z Power Commission through negotiation arrive at the level of approved rates. X uses a normalization method of regulated accounting only if the settlement agreement, the rate order, or record of the proceedings of the Z Power Commission indicates that the Z Power Commission did not exclude an amount representing the reserve for deferred taxes from X's rate base ($145,000,000) greater than $1,300,000 plus a pro rata portion of the projected increases and decreases that are to be credited or charged to the reserve account for 1975. Assume that for 1975 quarterly net increases are projected to be:

1st quarter	$910,000
2nd quarter	810,000
3rd quarter	750,000
4th quarter	630,000
Total	$3,100,000

For its regulated books of account X will accrue such increases as of the last day of the quarter but as a matter of convenience will credit increases or charge decreases to the reserve account on the 15th day of the month following the last month of the quarter for which such increase or decrease will be accrued. The maximum amount that may be excluded from the rate base is $2,591,480 (the amount of the reserve at the beginning of the period ($1,300,000) plus a pro rata portion ($1,291,480) of the $3,100,000 projected increase to be credited to the reserve during the period). Such portion is computed (without regard to the date such increase will actually be posted to the account) as follows:

$910,000×276/365=	$688,110
810,000×185/365=	410,548
750,000×93/365=	191,096
630,000×1/365=	1,726
	$1,291,480

(l) *Flow-through method of regulated accounting.* Under section 167(l)(3)(H), a taxpayer uses a flow-through method of regulated accounting with respect to public utility property if it uses the same method of depreciation (other than a subsection (l) method) to compute its allowance for depreciation under section 167 and to compute its tax expense for purposes of reflecting operating results in its regulated books of account unless such method is the same method used by the taxpayer to determine its depreciation expense for purposes of reflecting operating results in its regulated books of account. Except as provided in the preceding sentence, the method of depreciation used by a taxpayer with respect to public utility property for purposes of determining cost of service for ratemaking purposes or rate base for ratemaking purposes shall not be considered in determining whether the taxpayer used a flow-through method of regulated accounting. A taxpayer may establish use of a flow-through method of regulated accounting in the same manner that compliance with normalization requirements in respect of operating books of account may be established under paragraph (h)(4) of this section.

[T.D. 7315, 39 FR 20195, June 7, 1974]

§ 1.167(l)–2 Public utility property; election as to post-1969 property representing growth in capacity.

(a) *In general.* Section 167(l)(2) prescribes the methods of depreciation which may be used by a taxpayer with respect to its post-1969 public utility property. Under section 167(l)(2) (A) and (B) the taxpayer may use a subsection (l) method of depreciation (as defined in section 167(l)(3)(F)) or any other method of depreciation which is otherwise allowable under section 167 if, in conjunction with the use of such other method, such taxpayer uses the normalization method of accounting (as defined in section 167(l)(3)(G)). Paragraph (2)(C) of section 167(l) permits a taxpayer which used the flow-through method of accounting for its July 1969 accounting period (as these terms are defined in section 167(l)(3) (H) and (I), respectively) to use its applicable 1968 method of depreciation with respect to certain property. Section 167(l)(3)(D) describes the term "applicable 1968 method". Accordingly, a regulatory agency is not precluded by section 167(l) from requiring such a taxpayer subject to its jurisdiction to continue to use the flow-through method of accounting unless the taxpayer makes the election pursuant to section 167(l)(4)(A) and this section. Whether or not the election is made, if such a regulatory agency permits the taxpayer to change from the flow-through method of accounting, subsection (l)(2) (A) or (B) would apply and such taxpayer could, subject to the provisions of section 167(e) and the regulations thereunder (relating to change in method), use a subsection (l) method of depreciation or, if the taxpayer uses the normalization method of accounting, any other method of depreciation otherwise allowable under section 167.

(1) *Election.* Under subparagraph (A) of section 167(l)(4), if the taxpayer so elects, the provisions of paragraph (2)(C) of section 167(l) shall not apply to its qualified public utility property (as such term is described in paragraph (b) of this section). In such case the taxpayer making the election shall use a method of depreciation prescribed by section 167(l)(2) (A) or (B) with respect to such property.

(2) *Property to which election shall apply.* (i) Except as provided in subdivision (ii) of this subparagraph the election provided by section 167(l)(4)(A) shall apply to all of the qualified public utility property of the taxpayer.

(ii) In the event that the taxpayer wishes the election provided by section 167(l)(4)(A) to apply to only a portion of its qualified public utility property, it must clearly identify the property to be subject to the election in the statement of election described in paragraph (e) of this section. Where all property which performs a certain function is included within the election, the election shall apply to all future acquisitions of qualified public utility property which perform the same function. Where only certain property within a functional group of property is included within the election, the election shall apply only to property which is of the same kind as the included property.

(iii) The provisions of subdivision (ii) of this subparagraph may be illustrated by the following examples:

Example 1. Corporation *A*, an electric utility company, wishes to have the election provided by section 167(l)(4)(A) apply only with respect to its production plant. A statement that the election shall apply only with respect to production plant will be sufficient to include within the election all of the taxpayer's qualified production plant of any kind. All public utility property of the taxpayer other than production plant will not be subject to the election.

Example 2. Corporation *B*, an electric utility company, wishes to have the election provided by section 167(l)(4)(A) apply only with respect to nuclear production plant. A statement which clearly indicates that only nuclear production plant will be included in the election will be sufficient to exclude

EXHIBIT NO. ___ (LK-32)

QUESTION:
Regarding Ousdahl at 18:21-22: Please confirm that FPL never has self-reported a normalization violation and that the IRS never has found a normalization violation due to FPL's failure or the Commission's failure to use the proration methodology it proposes for the first time in this proceeding.

RESPONSE:
FPL confirms that it has never self-reported a normalization violation and that the IRS has never found a normalization violation due to FPL's failure or the Commission's failure to use the proration methodology proposed in our current base rate filing.

EXHIBIT NO. ___ (LK-33)

FLORIDA POWER AND LIGHT
SFHHA CORRECTION OF REVENUE EXPANSION FACTOR TO INCLUDE SECTION 199 MANUFACTURER'S DEDUCTION
DOCKET NO. 160021-EI
ALL TEST YEARS
($ MILLIONS)

		As Filed By Company	Using 9% Sect 199
Assume pre-tax income of		1.0000%	1.0000%
Regulatory Assessment		0.00072%	0.00072%
Bad Debt Rate		0.00065%	0.00065%
Net Pretax Subtotal		0.99863%	0.99863%
State income tax (See Below)	5.5000%	0.0549%	0.0522%
Taxable income for Federal income tax before production credit		0.9437%	0.9464%
Section 199 Production Tax Deduction			
Manufacturing Deduction Rate		0.00%	9.00%
Allocation to Production Inc.		50.18%	50.18%
Allocated Manaufacturing Deduction Rate		0.00%	4.52%
Less: Manufacturing Deduction		-	0.040%
Taxable income for Federal income tax (Line 3 - Line 4)		0.9437%	0.9064%
Federal income tax at 35%		0.3303%	0.3172%
Revenue Expansion Factor		0.61341%	0.62920%
Gross-Up		1.63024	1.58932
State			
Taxable income for State Income Tax before Production Credit		1.0000%	1.0000%
Section 199 Production Tax Deduction			
Manufacturing Deduction Rate		0.00%	9.00%
Allocation to Production Inc.		50.18%	50.18%
Allocated Manaufacturing Deduction Rate		0.00%	4.52%
Less: Manufacturing Deduction		0.000%	0.050%
Taxable income for State income tax (Line 3 - Line 4)		1.0000%	0.9500%
State Income Tax Rate		5.50%	5.23%

Allocation to Production - See Schedule E-3a (Total Retail)	$ Millions
Plant in Service - Steam	2,306.794
Plant in Service - Nuclear	7,346.336
Plant in Service - Other Production	11,011.694
Accum Depr - Production Total	(5,586.302)
Total Prodcution Net Plant	15,078.522
Total Net Plant	30,047.759
% Production	50.18%

EXHIBIT NO. ___ (LK-34)

FLORIDA POWER AND LIGHT
SFHHA REDUCTION TO DEPRECIATION EXPENSE FOR OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
($ MILLIONS)

		Okeechobee
Total Plant in Service as Filed - Jurisdictional		1,165.226
Depreciation Expense	2.5% Based on 40 Year Life Span	29.131
As Filed Depreciation Expense - Jurisdictional		41.105
Reduction in Depreciation Expense		(11.974)
Decrease in Accumulated Depreciation and Increase in Rate Base		5.987
Increase in ADIT at 38.575%		(2.310)
Estimated 13 Month Avg Using Midway Point		3.678
Grossed Up rate of Return		13.25%
Return on Increased Rate Base		0.487
Estimated Revenue Requirement Effect		(11.487)

EXHIBIT NO. ___ (LK-35)

FLORIDA POWER AND LIGHT
SFHHA RECOMMENDED RATE BASE - OKEECHOBEE CLEAN ENERGY CENTER
DOCKET NO. 160021-EI
TEST YEAR ENDING MAY 31, 2020
($ MILLIONS)

	Amount
Jurisdictional Rate Base per FPL Filing	$ 1,063.315
Less:	
Reflect Additional ADIT - Bonus Depreciation	(71.443)
Reflect Accum Depr and ADIT Effects of Depreciation Expense Reduction	(3.678)
Net Change in Rate Base SFHHA Recommendation	(75.121)
Adjusted Rate Base SFHHA Recommendation	$988.194

EXHIBIT NO. ___ (LK-36)

Appendix

Empire Pipeline, Inc.	Form 2 Reference	2014	2013
Rate Base			
Gas Plant in Service	p. 110; ln. 2, col. C	$468,557,759	$467,626,729
Accumulated Depreciation	p. 110; ln. 5	($187,680,676)	($176,260,937)
Gas Stored Underground			
Account 117.1 (Base Gas)	p. 220; ln. 5, col. b	$0	$0
Account 117.2 (System Balancing)	p. 220; ln. 5, col. c	$0	$0
Working Capital			
Prepayments	p. 230a; ln. 6	$3,038,282	$3,126,223
Materials and Supplies	p. 111; ln. 45	$626,568	$618,344
ADIT			
Account 190	p. 235; ln. 7, col. k, as adjusted on p. 552.1	$0	$780,221
Account 282	p. 275; ln. 7, col. k, as adjusted on p. 552.1	($41,557,922)	($37,761,296)
Account 283	p. 277; ln. 7, col. k, as adjusted on p. 552.1	($638,795)	($2,508,065)
Regulatory Assets	p. 232; ln. 40, col. g	$3,017,729	$3,940,689
Regulatory Liabilities	p. 278; ln. 45, col. g	($1,062,369)	($259,230)
Total Rate Base		$244,300,576	$259,302,678
Capital Cost	p. 218a		
Cost of Debt[(1)]		5.58%	6.17%
Capitalization[(2)]	p. 218a		
Debt		42.05%	39.97%
Equity		57.95%	60.03%
Weighted Cost of Debt		2.35%	2.47%
Cost of Service			
Interest on Debt		$5,732,244	$6,394,790
Other Taxes	p. 114; ln. 14, col. c	$10,466,149	$9,664,121
Depreciation	p. 337; ln. 12, col. h	$11,715,250	$11,713,239
O&M			
Production & Gathering	p. 317; ln. 30	$0	$0
Net Storage Costs	p. 322; ln. 177 (less ln. 106)	$0	$0
Net Transmission Costs	p. 323; ln. 201 (less ln. 184)	$2,323,903	$2,881,807
Administrative &General	p. 325; ln. 270	$4,195,853	$5,007,076
Total Cost of Service Excl. Return and Taxes		$34,433,399	$35,661,033
Operating Revenue			
Other Revenues	p. 301; ln. 21, col. f	$81,551,263	$78,121,755
ACA Revenues	p. 300; ln. 21, col. d	$273,530	$333,215
(Less) Sales for Resales (Act. 480-484)	p. 301; ln. 4, col. f	$0	$0
(Less) Commercial & Industrial Sales	p. 301; ln. 2, col. f	$0	$0
(Less) Gas Sales & Oth Adj. from Acct 495	p. 308	$0	($2,078,733)
Total Adjusted Revenue		$81,824,793	$76,376,237
Income			
Income Before Income Taxes		$47,391,394	$40,715,204
Composite Income Tax		$18,774,814	$16,129,941
Net Income		$28,616,580	$24,585,263
Total Estimated ROE		20.2%	15.8%
Composite Tax Rate		39.6%	39.6%

(1) The capital costs were those listed in the Form 2.
(2) The capitalization structure on p. 218a of the Form 2 was used.