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CHRIS SPROWLS
*Speaker of the House of
Representatives*

June 21, 2021

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 20210015-EI

Dear Mr. Teitzman,

Please find enclosed for filing in the above referenced docket the Direct Testimony and Exhibits of Kevin W. O'Donnell, CFA. This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing portal.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

Richard Gentry
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/s/Patricia A. Christensen
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cc: All Parties of Record

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Docket No. 20210015-EI

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Florida
Power & Light Company

DOCKET NO.: 20210015-EI

FILED: June 21, 2021

DIRECT TESTIMONY

OF

KEVIN W. O'DONNELL, CFA

ON BEHALF OF THE CITIZENS OF

THE STATE OF FLORIDA

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Appendix A – Kevin W. O’Donnell and William R. O’Donnell C.V’s

Exhibits:

Exhibit KWO-1	FPL All-Sources Requested Cap Structure	Exhibit KWO-1
Exhibit No. KWO-2	Yield Spread 2011 through 2020	
Exhibit KWO-3	Interest Cost Differential	
Exhibit KWO-4	O&M Costs per MWHI	

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
3 **FOR THE RECORD.**

4 A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants, Inc.
5 My business address is 1350 SE Maynard Rd., Suite 101, Cary, North Carolina
6 27511.

7
8 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. I am testifying on behalf of the Florida Office of Public Counsel (“OPC”). The
11 Florida OPC represents consumers/ratepayers before the Public Service
12 Commission of Florida (“Commission”).

13
14 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
15 **RELEVANT EMPLOYMENT EXPERIENCE.**

16 A. I have a Bachelor of Science in Civil Engineering from North Carolina State
17 University and a Master of Business Administration from Florida State University.
18 I earned the designation of Chartered Financial Analyst (“CFA”) in 1988. I have
19 worked in utility regulation since September 1984, when I joined the Public Staff
20 of the North Carolina Utilities Commission (“NCUC”). I left the NCUC Public
21 Staff in 1991 and have worked continuously in utility consulting since that time,
22 first with Booth & Associates, Inc. (until 1994), then as Director of Retail Rates for

1 the North Carolina Electric Membership Corporation (1994 -1995), and since then
2 in my own consulting firm.

3 I have provided testimony as a witness on rate of return, cost of capital,
4 capital structure, cost of service, rate design, and other regulatory issues, at one
5 time or another in general rate cases, fuel cost proceedings, and other proceedings
6 before the North Carolina Utilities Commission, the South Carolina Public Service
7 Commission, the Wisconsin Public Service Commission, the Virginia State
8 Commerce Commission, the Minnesota Public Service Commission, the Colorado
9 Public Utilities Commission, the District of Columbia Public Service Commission,
10 and the Florida Public Service Commission. In 1996, I testified before the U.S.
11 House of Representatives' Committee on Commerce, Subcommittee on Energy and
12 Power, concerning competition within the electric utility industry. Additional
13 details regarding my education and work experience are set forth in **Appendix A**
14 to my testimony.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. The purpose of my testimony in this proceeding is to present my findings and
19 recommendations on behalf of the Florida OPC as to the proper capital structure
20 and cost of debt to allow Florida Power & Light Company ("FPL", or "the
21 Company") in the current proceeding. I also address some of the mythology
22 surrounding the basis for the low rates that FPL contends separates it from other

1 utilities and for which it seeks additional, excessive revenue recovery from
2 customers.

3

4 **Q. WHAT CAPITAL STRUCTURE IS FPL REQUESTING AS PART OF THIS**
5 **PROCEEDING?**

6 A. According to FPL’s minimum filing requirement (“MFR”) Schedule D-1a, FPL is
7 seeking an investor sourced capital structure of 59.60% for common equity, 38.8%
8 for long-term debt, and 1.6% for short-term debt as set forth in **Table 1** below.
9 Additionally, FPL is seeking cost rates for each of these capital structure
10 components of 11.50%, 3.61%, and 0.94%, respectively.

11 **Table 1: FPL’s Requested Cost of Capital**

Component	Capital Structure Ratio (%)		Cost Rate (%)	Weighted Cost Rate (%)
	a¹	c = a / b	d²	= c * d
Long-Term Debt	31.37%	38.93%	3.61%	1.41%
Short-Term Debt	1.18%	1.46%	0.94%	0.01%
Common Equity	48.03%	59.61%	11.50%	6.86%
Rx³	80.58%⁴ b	100.00%⁵		8.28%

12

13 **Q. DO YOU AGREE WITH FPL’S CAPITAL STRUCTURE REQUEST?**

14 A. No. I disagree with FPL’s requested capital structure as supported by Company
15 Witnesses Robert E. Barrett (FPL Vice President of Finance) and James M. Coyne
16 (Concentric Energy Advisors, Inc. Senior Vice President). In this proceeding, FPL
17 is asking the Commission to approve a capital structure that includes an equity ratio

¹ FPL Minimum Filing Requirement (“MFR”), Schedule D-1a.
² *Id.*
³ Rx refers to a “Recalculation”.
⁴ Represents all sources of capital.
⁵ Represents only investor sources of capital.

1 of 59.60%. FPL's request in this case puts an unnecessarily costly burden upon the
2 ratepayers of Florida and should not be allowed.

3 To be specific, FPL's requested capital structure in this case, when
4 compared to a capital structure of 50% common equity – 50% debt, will cost FPL
5 consumers approximately an additional \$511 million per year such that the typical
6 residential customer of FPL pays and will continue to pay approximately an extra
7 \$50 per year. Additionally, FPL's requested capital structure in this case, when
8 compared to a capital structure of 55% common equity – 45% debt, will cost FPL
9 consumers approximately an additional \$245 million per year such that the typical
10 residential customer of FPL pays and will continue to pay approximately an extra
11 \$24 per year. The calculations under each of the scenarios I have outlined above
12 can be found within **Exhibit KWO-1**. Although I believe a 50% common equity
13 ratio to be appropriate in this case, given that FPL has historically had a 59.6%
14 common equity ratio, my recommendation in this case is a 55% common equity
15 ratio in recognition of a more gradual adjustment to the ratio. I have further
16 explained the rationale that has led to my ultimate 55% recommendation below.

17
18 **Q. PLEASE SUMMARIZE YOUR PRIMARY RECOMMENDATIONS IN**
19 **THIS CASE.**

20 A. My recommendations in this case are as follows:

- 21 • FPL's requested capital structure is grossly excessive and improper for use
22 in setting rates in this proceeding.

1 • My recommended capital structure and cost of debt is shown below within
2 **Table 2** that shows OPC’s entire cost of capital recommendation:

3
4 **Table 2: Florida OPC Recommended Capital Structure**

Component	Weighted Cost (%)	Cost Rate (%)	Weighted Cost
Long-Term Debt	43.37%	3.61%	1.57%
Short-Term Debt	1.63%	0.94%	0.02%
Common Equity	55.00%	8.75% ⁶	4.81%
Total Capitalization	100.00%		6.40%

5
6 • FPL’s claims regarding low electric rates and low O&M expenses are due
7 to mainly excellent management is misleading given that the Company’s
8 generation mix is highly leveraged towards natural gas, which is a
9 significant factor in FPL’s low rates and low O&M expenses.

10
11 **Q. HOW IS YOUR TESTIMONY STRUCTURED?**

12 A. I have outlined my testimony in the following manner. First, I discuss the current
13 state of the financial markets, then the economic and regulatory policy guidelines.
14 Next, I have included discussion of capital structure, which includes an explanation
15 of the concept of capital structure, FPL’s requested capital structure, a comparison
16 between capital structure benchmarks, and then OPC’s recommended capital
17 structure and its impact on FPL consumers. I then discuss debt and finally a
18 response to FPL’s Witness Barrett.

⁶ Witness Woolridge’s Direct Testimony, Exhibit JRW-1.

1 **II. CURRENT STATE OF THE FINANCIAL**
2 **MARKETS**

3 **Q. PLEASE DESCRIBE THE CORPORATE STRUCTURE OF FLORIDA**
4 **POWER & LIGHT.**

5 A. FPL is a wholly owned subsidiary of NextEra Energy, Inc (“NextEra”).⁷

7 **Q. HOW HAVE THE DEBT AND INTEREST MARKETS CHANGED FOR**
8 **FPL SINCE THE COMPANY’S LATEST RATE CASE?**

9 A. FPL’s last rate case filing was in Docket No. 20160021-EI, on March 15, 2016 and
10 ultimately it was resolved by a settlement which was approved on December 15,
11 2016.⁸ In the 2016 case, FPL requested a capital structure comprised of a 59.60%
12 equity / 40.40% long term debt capital structure⁹ (based on investor sources) and
13 cost rates consisting of 11.00% for equity¹⁰ (before the inclusion of an ROE inflator
14 of 50 basis points) / 4.87% for long term debt.¹¹ Ultimately, the only cost of capital
15 change that was made from what was originally requested was that the authorized
16 equity cost rate was reflected a 10.55% ROE midpoint per settlement agreement.¹²

17 In **Chart 1** below, I provide the change in the 30-year US Treasury bonds
18 since the most recent previous FPL rate case (*i.e.*, November 29, 2016 – June 11,

⁷ Witness Coyne’s Direct Testimony, page 3: line 16.

⁸ Order No. PSC-2016-0560-AS-EI, issued December 15, 2016, in Dockets Nos. 2016-0021-EI, 20160061-EI, 20160062-EI, 20160088-EI. In re: Petition for rate increase by Florida Power & Light Company, In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company, In re: 2016 depreciation and dismantlement study by Florida Power & Light Company, In re: Petition for limited proceeding to modify and continue incentive mechanism, by Florida Power & Light Company (2016 Settlement Order).

⁹ Witness Hevert’s Direct Testimony, page 65: lines 17 – 18 for Docket No. 20160021-EI.

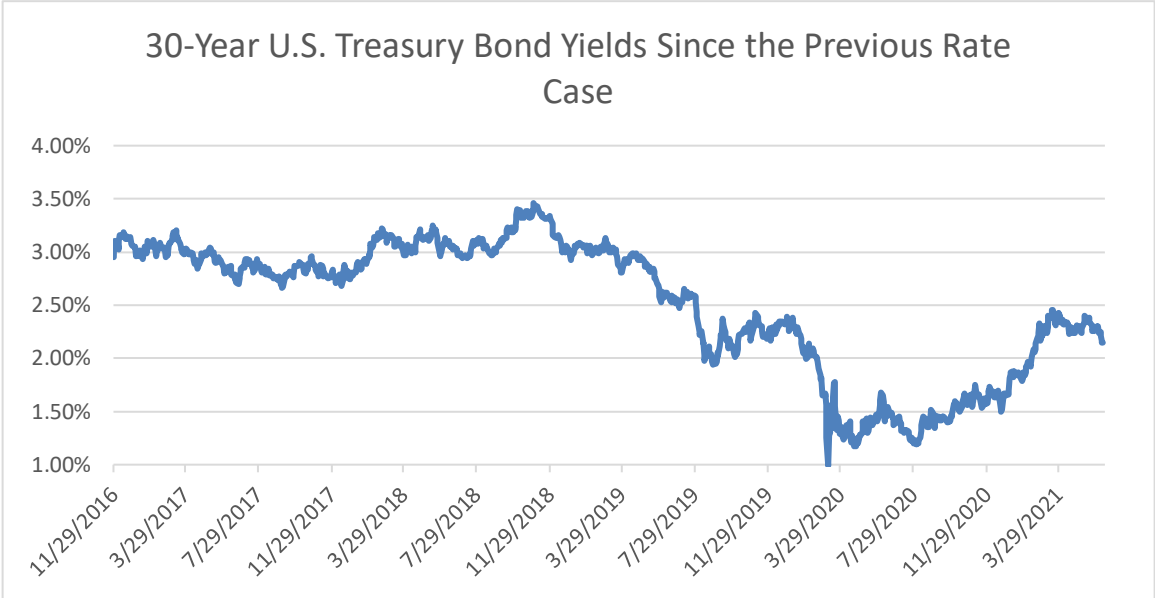
¹⁰ Witness Hevert’s Direct Testimony, page 69: line 8 for Docket No. 20160021-EI.

¹¹ FPL MFR Schedule D-1a for Docket No. 20160021-EI.

¹² 2016 Settlement Order.

1 2021). The maximum value for the 30-Year US Treasury Bonds over this period
2 was 3.46%, the average value was 2.51%, and the minimum value was 0.99%.
3 Refer to **Chart 1** below for further details on the yield on 30-year US Treasury
4 Bonds subsequent to the previous rate case.

5 **Chart 1:** Yield on 30-Year US Treasury Bonds



6 **Source:** Treasury.gov: *Date Accessed June 14, 2021.*¹³

7
8 **Q. HOW HAS THE FEDERAL RESERVE CHANGED THE FEDERAL**
9 **FUNDS RATE DURING THE LAST 18 MONTHS?**

10 A. On March 3, 2020, the Federal Reserve decreased the Federal Funds rates 50-basis
11 points to a targeted range of between 1.00% and 1.25% in response to recent market
12 conditions.¹⁴ Subsequently, on March 15, 2020 in response to the COVID-19

¹³<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

¹⁴ <https://www.cnbc.com/2020/03/03/heres-what-this-surprise-fed-rate-cut-means-for-you.html>

1 outbreak and the disruptions to economic activity in this country across the globe,
2 the Federal Reserve reduced the Federal Funds rate to 0.25%.¹⁵

3 The sharp decline in the Federal Funds Rate that occurred during March
4 2020 was the result of the Federal Reserve's reaction to the COVID-19 pandemic.
5 In this circumstance, due to the drastic shift in the country's economic outlook,
6 many individuals were looking for relative safe harbors for which to invest their
7 money with the turbulence felt in the stock markets. Accordingly, prices for bonds
8 were bid up, and the long-term yields and interest rates also decreased as exhibited
9 above in **Chart 1**.

10
11 **Q. DOES THIS MEAN THAT THE COST OF CAPITAL HAS DECREASED**
12 **FOR COMPANIES LIKE FPL?**

13 A. Yes. The Federal Funds Rate represents the interest rate at which commercial banks
14 borrow and lend their short-term reserves to one another on an overnight basis. The
15 decrease in the Federal Funds Rate over the last 18-months contributed to the sharp
16 decline as seen within the yield on 30-year US Treasury rates over the previous 1-
17 2 years. However, as shown in **Chart 1** above, after the 30-year US Treasury rate
18 declined precipitously through the early onset of the COVID-19 pandemic, the
19 economy began to improve significantly throughout the first half of 2021, and the
20 overall 30-year US Treasury Bond Yields also increased back up over 2.00%.

¹⁵ See Commission of Governors of the Federal Reserve System, *Federal Reserve Issues FOMC Statement* (Mar. 15, 2020), available at:
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm>

1 However, even though the 30-year US Treasury Bond Yields have
2 increased during 2021, the average yield value over the period subsequent to the
3 settlement of the Company's 2016 rate case (*i.e.*, November 29, 2016 through June
4 11, 2021) was 2.51%, which is still lower than the 2.95% yield at the conclusion of
5 the Company's previous rate proceeding (*i.e.*, at November 29, 2016). Additionally,
6 this yield as of June 11, 2021 was 2.15%. These data points indicate that the
7 Company's cost of capital in relation to its ability to access debt markets has still
8 been lower on average than that at the conclusion of its most recent previous rate
9 case proceeding.

10
11 **Q. IS THE COMPANY'S RISK GREATER THAN THAT OF OTHER**
12 **COMPARABLE COMPANIES WHICH WOULD NECESSITATE A**
13 **CAPITAL STRUCTURE AT THE CURRENT LEVEL?**

14 A. No, it is not. Within his testimony, Mr. Coyne noted the following:

15 Sufficient equity in the capital structure is an important factor for
16 maintaining FPL's financial integrity and investment grade credit
17 rating. . . . This capital structure represents management's decisions
18 on how best to finance its operations. The Company's proposed
19 equity ratio is reasonable, given the additional risk borne by FPL
20 relative to the proxy group—*i.e.*, the Company's projected capital
21 expenditure requirements, risk associated with ownership of
22 regulated nuclear generation assets, and storm-related risks.¹⁶

23
24 As noted above, Mr. Coyne referenced FPL's projected capital expenditure
25 requirements, risk associated with ownership of regulated nuclear generation
26 assets, and storm-related risks, in comparison to the risks associated with the
27 companies included within his proxy group as part of the reason why he believes

¹⁶ Witness Coyne Direct Testimony, page 85: lines 17 – 23, and page 86: lines 1 – 4.

1 that the proposed equity ratio of 59.60% is reasonable. However, he does little to
2 expand upon why these attributes of FPL, when compared to the companies within
3 his proxy group, would support FPL's comparatively heightened equity ratio within
4 its capital structure.

5
6 **Q. HOW HAVE THE CAPITAL MARKETS FOR UTILITIES CHANGED AS**
7 **A RESULT OF THE COVID-19 PANDEMIC?**

8 A. On April 2, 2020, *S&P Global Intelligence* published an article entitled "*US utilities*
9 *demonstrate access to capital with billions in debt offerings.*" This article described
10 how utilities tapped into current credit markets to obtain low-cost debt during
11 periods of financial turbulence as noted in the excerpt below:

12 Several utilities, including Xcel Energy and NextEra Energy Inc.
13 subsidiary Florida Power & Light Co., which issued \$1.1 billion in
14 first mortgage bonds, are "using the opportunity to take advantage
15 of attractive borrowing costs, so there does not appear to be an
16 inability to access capital," they said.

17
18 "Utilities are reporting that recent deals have been significantly (7x)
19 oversubscribed, highlighting that the capital markets are open for
20 investment grade-rated utilities," the analysts wrote. "At the same
21 time, we have also observed some utility companies that have fully
22 drawn their bank lines as a precaution to provide them with liquidity
23 in the event that markets seize up," such as Duke Energy Corp. and
24 American Electric Power Co. Inc."¹⁷

25
26 Additionally, in the midst of the early stages of the COVID-19 pandemic
27 on April 29, 2020, *S&P Global Market Intelligence* published an article entitled
28 "*Utility sector 'far and away' least impacted by EPS estimate cuts.*"¹⁸ Note that this

¹⁷ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-utilities-demonstrate-access-to-capital-with-billions-in-debt-offerings-57881534>

¹⁸ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/utility-sector-far-and-away-least-impacted-by-eps-estimate-cuts-58358458>.

1 article was published April 29, 2020, when markets were at their most volatile early
2 on during the COVID-19 pandemic. The article provided the following
3 observation:

4 The S&P 500 utility sector has "far and away" experienced the least
5 impact from earnings revisions since Feb. 28, the corporate bond
6 research firm found. Despite market turmoil and the ongoing
7 economic downturn, analysts have only cut earnings per share
8 expectations for stocks in the utility sector by an average 1% for
9 2020 and 2021, according to CreditSights.

10
11 By comparison, consumer staples, the next least-impacted sector,
12 saw an average 5% decrease to EPS estimates for both years.
13 Technology followed with a 9% estimate cut for 2020 and 2021.

14
15 CreditSights pulled the data to measure the consensus view that
16 utilities provide a safe harbor to investors. "Water is wet, the sun
17 will rise in the east and U.S. utilities are a defensive sector, but how
18 defensive? Very defensive," CreditSights analysts Andrew DeVries
19 and Nick Moglia wrote in an April 29 research note.¹⁹

20
21 The above referenced article noted the ability of utilities to continue to operate
22 under the COVID-19 conditions impacting the debt and equity markets. This
23 allowed many utilities to perform strongly even in the face of the COVID-19
24 pandemic as referenced in the December 9, 2020 article from *S&P Global*
25 *Intelligence*, entitled "*Resilient Utilities Post Notable EPS Gains, Solid ROEs*
26 *Despite COVID-19 Pandemic.*" Within this article, the following selection was
27 included:

28 Despite the significant challenges caused by an economy that
29 continued to be negatively impacted by COVID-19, utilities overall
30 posted solid earnings growth and earned returns on equity during the
31 third quarter, illustrating the tenet that utility finances hold up
32 comparatively well in challenging economic environments.²⁰

¹⁹ *Id.*

²⁰ <https://platform.marketintelligence.spglobal.com/web/client?auth=inherit#news/articleabstract?id=61646964>

1 As stated within the articles referenced above, although the utility sector was
2 impacted by the COVID-19 pandemic just like the rest of the economy, utilities
3 were much more resilient during this period than companies across other industries.
4 The resilient performance of utilities, as well as their ability to continue to tap into
5 debt markets, supported that the fact that utilities were still able to access a variety
6 of capital markets throughout 2020, which continued into the 2021 after the capital
7 market resurgence.

8
9 **Q. HOW ARE INTEREST RATES EXPECTED TO CHANGE OVER THE**
10 **NEXT FEW YEARS?**

11 A. On March 15, 2020 in response to the COVID-19 outbreak, and the disruptions to
12 economic activity in this country across the globe, the Federal Reserve reduced the
13 Federal Funds rate to 0.25%.²¹ The Federal Reserve has since stated that they do
14 not expect to change the Federal Funds Rate at any time in the foreseeable future.
15 Chairman Powell reinforced this view when in January 2021 he said “[w]hen the
16 time comes to raise interest rates, we’ll certainly do that, and that time, by the way,
17 is no time soon.”²²

18 Subsequently, after statements made by Chairman Powell in March 2021,
19 the Federal Reserve explained that although they had sped up their overall

²¹ See Commission of Governors of the Federal Reserve System, *Federal Reserve Issues FOMC Statement* (Mar. 15, 2020), available at:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm>

²² <https://www.cnbc.com/2021/01/14/powell-sees-no-interest-rate-hikes-on-the-horizon-as-long-as-inflation-stays-low.html>

1 expectation for economic growth, they continued to reinforce that they did not see
2 any interest rate hikes likely through 2023.²³

3 While changes within the market have raised certain interest rate
4 benchmarks during the second half of 2020 and into 2021, these interest rates
5 remain low in relation to historical interest rates. This lower interest rate
6 environment has continued to provide a benefit to utilities from a borrowing
7 perspective.

²³ <https://www.cnbc.com/2021/03/17/fed-decision-march-2021-fed-sees-stronger-economy-higher-inflation-but-no-rate-hikes.html>

1 **III. ECONOMIC AND REGULATORY POLICY**

2 **GUIDELINES**

3 **Q. PLEASE BRIEFLY DESCRIBE THE ECONOMIC AND REGULATORY**
4 **POLICY CONSIDERATIONS YOU HAVE TAKEN INTO ACCOUNT IN**
5 **DEVELOPING YOUR RECOMMENDATION.**

6 A. The theory of utility regulation assumes that public utilities perform functions that
7 are natural monopolies. Historically, it was believed or assumed that it was more
8 efficient for a single firm to provide a particular utility service rather than multiple
9 firms. Within the electric industry, the transmission and distribution of electricity
10 to utilities’ end-use customers is still a monopolistic business and will be regulated
11 for the foreseeable future. On this basis, state legislatures and state utility
12 commissions/boards established or have recognized exclusive franchise service
13 areas for public utilities in order for these utilities to provide services more
14 efficiently and at the lowest reasonable cost. In exchange for the protection within
15 its monopoly service area, the utility is obligated to provide service that is adequate
16 and non-discriminatory at fair, just and reasonable rates.

17 This trade-off logically leads to the question – what constitutes a fair, just
18 and reasonable rate? The generally accepted answer is that a prudently managed
19 utility should be allowed to charge prices that allow the utility the opportunity to
20 recover the reasonable and prudent costs of providing utility service and the
21 opportunity to earn a fair, just and reasonable rate of return on invested capital. The
22 fair, just and reasonable rate of return on capital should allow the utility, under
23 prudent management, to provide adequate service and attract capital to meet future

1 expansion needs in its service area. Since public utilities are capital-intensive
2 businesses, the cost of capital (which is inclusive of capital structure) is a crucial
3 issue for utility companies, their customers, and regulators.

4 If any of the inputs the cost of capital (including capital structure) are set
5 too high, then consumers are burdened with excessive costs, current investors
6 receive a windfall, and the utility has an incentive to overinvest. If any of these
7 inputs are set too low, then adequate service is jeopardized because the utility will
8 not be able to raise capital on reasonable terms. As such, regulators are tasked with
9 balancing the related interests of the affected parties (*i.e.*, the utility's equity
10 investors, the utility itself, and the utility's customers at the varying residential,
11 commercial, and industrial levels). This balancing act results in what regulators,
12 analysts, and courts often refer to as setting the inputs to the cost of capital within
13 a "zone of reasonableness." Since every equity investor faces a risk-return tradeoff,
14 the issue of risk is an important element in determining the proper inputs to the cost
15 of capital for a utility.

16 As I referenced above, FPL filed this rate case in March 2021, a time during
17 which the country remained within a pandemic the likes of which have not been
18 seen in this country for over a century, with employment numbers depressed from
19 their averages for approximately one calendar year. Accordingly, what a utility may
20 have initially deemed as fair, just and reasonable cost of capital inputs in 2020 or
21 during prior years may simply be construed as unreasonable today given the current
22 economic climate absent any of the other particulars of their request.

1 **Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE SUPREME COURT’S**
2 ***HOPE AND BLUEFIELD DECISIONS.***

3 A. Regulatory law and policy recognize that utilities compete with other firms in the
4 market for investor capital. The United States Supreme Court set the guidelines for
5 a fair, just, and reasonable rate of return in two often-cited cases: *Bluefield Water*
6 *Works and Improvement Co. v. Public Service Comm’n.* 262 U.S. 679 (1923); and
7 the *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

8 In the *Bluefield* case, the U.S. Supreme Court stated:

9 A public utility is entitled to such rates as will permit it to earn a
10 return upon the value of the property which it employs for the
11 convenience of the public equal to that generally being made at the
12 same time and in the same general part of the country on investments
13 in other business undertakings which are attended by corresponding,
14 risks and uncertainties; but it has no constitutional right to profits
15 such as are realized or anticipated in highly profitable enterprises or
16 speculative ventures. The return should be reasonably sufficient to
17 assure confidence in the financial soundness of the utility and should
18 be adequate, under efficient and economical management, to
19 maintain and support its credit and enable it to raise the money
20 necessary for the proper discharge of its public duties. (*Id.* at pp.
21 692-693)

22
23 In the above finding, the Court found that utilities are entitled to earn a return on
24 investments of comparable risks and that a corresponding return should be
25 sufficient enough to support credit activities and to raise funds to carry out its
26 mission.

27 In *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S.
28 591 (1944), the U.S. Supreme Court recognized that utilities compete with other
29 firms in the market for investor capital. Historically, this case has provided legal
30 and policy guidance concerning the return which public utilities should be allowed

1 to earn. In *Hope Natural Gas*, the U.S. Supreme Court stated that the return to
2 equity owners (or shareholders) of a regulated public utility should be
3 commensurate to returns on investments in other enterprises whose risks
4 correspond to those of the utility being examined:

5 . . . the return to the equity owner should be commensurate with
6 returns on investments in other enterprises having corresponding
7 risks. That return, moreover, should be sufficient to assure
8 confidence in the financial integrity of the enterprise, so as to
9 maintain credit and attract capital. (*Id.* at p. 603)

10
11 **Q. PLEASE EXPLAIN THE RELEVANCE OF THE SUPREME COURT'S**
12 ***HOPE* AND *BLUEFIELD* DECISIONS WITHIN THE CURRENT**
13 **PROCEEDING.**

14 A. As this Commission is aware, every equity investor faces a risk-return tradeoff. The
15 more risk the investor assumes, the higher return that the investor demands. The
16 risks that a regulated utility incurs can be stated as a financial risk and/or a business
17 risk. As the amount of debt relative to equity capital increases, the amount of money
18 necessary to pay the interest on debt increases, and financial risk increases.
19 Similarly, as the amount of debt relative to equity capital decreases, financial risk
20 decreases. Thus, as the utility assumes more debt or less debt, the risk of repayment
21 of the debt increases or decreases accordingly.

22 Business risk is a measure of a company's ability to operate at a profit
23 within its industry. Given that FPL operates in a monopoly industry with no retail
24 competition, its business risk is relatively small.

25 One of the responsibilities of the utility is to employ prudent and reasonable
26 levels of debt and equity. Utility finance personnel will often attempt to employ

1 different levels of debt and equity in the Company's capital structure to maximize
2 the return allowed by state regulators. The related risk of the regulator is to assess
3 these levels of debt and equity presented in general rate case proceedings to
4 determine if the levels reflect the actual, corresponding financial and business risks
5 to the utility. Further, the regulator should review the utility's capital structure and
6 adjust the requested levels of equity and debt as necessary for rate making purposes
7 to prevent customers from paying rates that are unreasonably high resulting in
8 excessive compensation to shareholders for the services rendered. Moreover, the
9 relative amounts of equity and debt in the total capital raised by the utility directly
10 impacts the risk perceived by investors, and thus it is critical to ensure that allowed
11 rate of return is commensurate with that risk.

1 **IV. PROXY GROUP**

2 **Q. PLEASE DESCRIBE THE PROXY GROUP USED WITHIN YOUR**
3 **TESTIMONY FOR ESTIMATING FPL’S CAPITAL STRUCTURE.**

4 A. On Page 42 of Mr. Coyne’s direct testimony, Witness Coyne indicated that he
5 began his proxy group selection process with the 36 electric utilities followed by
6 *Value Line*. Witness Coyne then proceeded to outline 8 selection criteria used to
7 screen his proxy group. This screening process resulted in Witness Coyne’s proxy
8 group being comprised of the 14 different utilities shown in **Figure 10** to his direct
9 testimony and within **Exhibit JMC-3**.

10 OPC Witness Randall Woolridge has made an independent determination
11 of an appropriate proxy group. As such, throughout this testimony I have presented
12 results using, (1) the “OPC Proxy Group” as determined by fellow OPC Witness,
13 Randall Woolridge, and (2) Mr. Coyne’s proxy group for FPL as referenced above.
14 As shown within Dr. Woolridge’s **Exhibit JRW-3**, Dr. Woolridge has employed a
15 proxy group within this rate case proceeding comprised of 27 different utilities
16 based on the end result of the utility screening process outlined within his
17 testimony.

1 **V. CAPITAL STRUCTURE**

2 **A. Explanation of Capital Structure**

3 **Q. WHAT IS A CAPITAL STRUCTURE AND HOW DOES IT IMPACT THE**
4 **REVENUES THAT FPL IS SEEKING?**

5 A. The term “*capital structure*” refers to the relative percentage of debt, equity, and
6 other financial components that are used to finance a company’s investments. A
7 company’s capital structure typically includes some combination of three principal
8 financing methods.

9 The first method is to finance an investment with common equity, which
10 essentially represents ownership in a company and its investments. Common equity
11 is comprised of all investments from investors, including common stock, retained
12 earnings, and additional paid in capital. Returns on common equity, which in part
13 take the form of dividends to stockholders, are not tax deductible which, on a pre-
14 tax basis alone, makes this form of financing about 21% more expensive than debt
15 financing.

16 The second form of corporate financing is preferred stock, which is
17 normally used to a much smaller degree in capital structures. Dividend payments
18 associated with preferred stock are not tax deductible. FPL does not have any
19 preferred stock in its capital structure.

20 Debt is the third major form of financing used in the corporate world. There
21 are two basic types of corporate debt: long-term and short-term. Long-term debt is
22 generally understood to be debt that matures in a period of more than one year.
23 Short-term debt is debt that matures in a year or less. Long-term debt and short-

1 term debt, both of which are “above the line” costs for tax deduction and ratemaking
2 purposes, represent liabilities on the company’s books that must be repaid prior to
3 any common stockholders or preferred stockholders receiving a return on their
4 investment.

5
6 **Q. HOW IS A UTILITY’S TOTAL RETURN CALCULATED?**

7 A. A utility’s total return is developed by multiplying the component percentages of
8 its capital structure, represented by the percentage ratios of the various forms of
9 capital financing relative to the total financing on the company’s books, by the cost
10 rates associated with each form of capital and then totaling the results over all of
11 the capital components. When these percentage ratios are applied to various cost
12 rates, a total after-tax required rate of return is developed. Because the utility must
13 pay dividends associated with common equity and preferred stock with after-tax
14 funds, the post-tax returns are then converted to pre-tax required returns by grossing
15 up the common equity and preferred stock dividends to reflect the related tax costs.
16 The final pre-tax required return is then multiplied by the company’s rate base in
17 order to develop the amount of money that customers must pay to the utility for
18 return on investment and tax payments associated with that investment.

19
20 **Q. HOW DOES CAPITAL STRUCTURE IMPACT THIS CALCULATION?**

21 A. Costs to consumers are greater when the utility finances a higher proportion of its
22 rate base investment with common equity and preferred stock as opposed to long-
23 term debt. However, long-term debt, which is first in line for repayment, imposes a

1 contractual obligation to make fixed payments on a pre-established schedule, as
2 opposed to common equity where no similar obligations exist.

3
4 **Q. WHY SHOULD THE COMMISSION BE CONCERNED ABOUT HOW**
5 **THE COMPANY FINANCES ITS RATE BASE INVESTMENT?**

6 A. There are two reasons that the Commission should be concerned about how FPL
7 finances its rate base investment. First, FPL's cost of common equity is higher
8 than the cost of long-term debt, meaning that a relatively higher equity percentage
9 translates into higher costs to FPL's customers without any corresponding
10 improvement in quality of service. Long-term debt is a financial promise made by
11 a company and is carried as a liability on a company's books. Common stock is
12 ownership in the company. Due to the contingent nature of an equity investment,
13 common stockholders require higher rates of return to compensate them for the
14 extra risk involved in owning part of the company versus having a more senior
15 claim against the company's assets.

16 The second reason the Commission should be concerned about FPL's
17 capital structure is due to the tax treatment of debt versus common equity. Public
18 corporations, such as NextEra (*i.e.*, the parent company of FPL), can deduct
19 payments associated with debt financing. Corporations are not, however, allowed
20 to deduct common stock dividend payments for tax purposes. All dividend
21 payments must be made with after-tax funds, which are more expensive than pre-
22 tax funds. The regulatory process allows utilities to recover reasonable and prudent
23 expenses, including taxes, within their rates.

1 Accordingly, if a utility is allowed to use a capital structure for ratemaking
2 purposes that is top-heavy in common stock, customers will be forced to cover the
3 higher income tax burden, which can result in unjust, unreasonable, and
4 unnecessarily high rates. Setting rates through the use of a capital structure that is
5 weighted too heavily in common equity violates the fundamental principles of
6 utility regulation that rates must be just and reasonable and only high enough to
7 support the utility's provision of safe, adequate, and reliable service at a fair price.
8

9 **Q. HOW DOES A UTILITY'S SELECTION OF EQUITY VERSUS DEBT**
10 **IMPACT RATEPAYERS?**

11 A. Entities in more competitive markets have a profit motive that provides an incentive
12 for such entities to select the most efficient capitalization ratio. However, utilities
13 operating in monopoly, rate-regulated service territories have an incentive to
14 maximize the amount of common equity in their capital structure, to increase
15 revenues and, correspondingly, the utility's profit. Rate-regulated utilities should
16 only be allowed to recover in rates a revenue requirement derived from a
17 capitalization ratio that allows the utility to provide reliable service at the least cost.
18 Therefore, finding the right balance between debt and equity is critical.

19 If a utility issues more common equity and less debt for a certain project,
20 the rates could potentially be set at an unbalanced debt to equity level. This could
21 result in the ratepayer paying higher rates to support a capital structure that is
22 neither prudent nor reasonable to support the company's current credit rating or the
23 company's adequate access to the capital markets. It is also important to recognize

1 how rate levels affect economic development. The reality in today's economy is
2 that economic development opportunities for large loads occur in places where
3 costs are lower. A utility with unduly high rates will, all else being equal, cause its
4 service territory to lose out on economic development opportunities.

5 If, on the other hand, the utility incurs too much debt, the utility's
6 capitalization ratios present excess financial risk to the capital markets, thereby
7 driving up the costs required by the equity markets to compensate for the added
8 risk. In this case, the consumer would also suffer harm because the cost it must pay
9 the utility for accessing the capital markets is higher than it would pay using a less
10 debt-leveraged capital structure.

11 One role of regulation is to balance the needs of the capital markets,
12 including utility stockholders, with the needs of ratepayers. Either too much equity
13 or too much debt can harm both the stockholders of the corporation, as well as the
14 consuming public.

15
16 **Q. PLEASE EXPLAIN HOW ONGOING CONSTRUCTION NEEDS ARE**
17 **IMPACTING UTILITIES AND THEIR CUSTOMERS?**

18 A. As referenced above, utilities finance construction with three primary sources of
19 capital: retained earnings; common equity issuances; and long-term debt issuances.
20 In an ideal situation, using retained earnings would generally be the most preferred
21 method to finance construction for a utility because using funds from ongoing
22 operations does not dilute common equity, as would an equity issuance, nor does it
23 add debt leverage to the utility's balance sheet. However, in most cases, financing

1 a large asset with only retained earnings may not be possible due to the sheer size
2 of the plant investment. As a result, utilities undergoing large construction projects
3 often utilize a combination of common equity or long-term debt to finance these
4 projects. Therefore, selecting the proper ratio of equity to debt is important.

5 Entities in unregulated, competitive markets have a profit motive that
6 provides an incentive for such entities to select the most efficient capitalization
7 ratio. However, franchised electric utilities operating in a regulated, noncompetitive
8 market have an incentive to maximize the amount of common equity in their capital
9 structure so as to increase rates and, correspondingly, the utility's profit. Franchised
10 electric utilities should only be allowed to recover in rates a revenue requirement
11 derived from a capitalization ratio that allows the utility to provide reliable service
12 at the least cost. Thus, finding the right balance between debt and equity is critical,
13 especially if the franchised electric utility is a subsidiary of a larger holding
14 company.

15
16 **Q. PLEASE EXPLAIN THE RAMIFICATIONS OF RATES BEING SET AT**
17 **AN UNBALANCED DEBT/EQUITY LEVEL.**

18 A. If a utility issues too much common equity and not enough debt for a certain project,
19 the customer pays higher rates to support a capital structure that is neither prudent
20 nor reasonable. It is also important to recognize how utility rate levels affect
21 economic development. A utility with high rates will, all else being equal, cause its
22 service territory to lose out on economic development opportunities.

1 If, on the other hand, the utility incurs too much debt, the utility's
2 capitalization ratio presents excess financial risk to the capital markets, thereby
3 driving up the costs required by the markets to compensate them for the added risk.
4 In this case, the customer would also lose since the cost it must pay the utility for
5 accessing the capital markets is higher than it would pay using a less debt-leveraged
6 capital structure.

7 One role of regulation is to balance the needs of the capital markets,
8 including utility stockholders, with the needs of ratepayers. Too much equity or too
9 much debt can harm both the stockholders of the corporation, as well as the
10 consuming public. As such, a careful and thoughtful evaluation of the risks and
11 related costs of various potential capitalization ratios is critical.

12
13 **B. FPL's Requested Capital Structure**

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

16 A. Yes, I have.

17
18 **Q. WHAT CAPITAL STRUCTURE IS THE COMPANY PROPOSING IN**
19 **THIS CASE?**

20 A. FPL has proposed the following capital structure:

21 **Table 3:** FPL Requested Capital Structure and Cost Rates (All Capital Sources)²⁴
22

Source of Capital	Ratio	Cost Rate
Long-Term Debt	31.37%	3.61%
Preferred Stock	0.00%	0.00%

²⁴ FPL MFR, Schedule D-1a (without RSAM).

Customer Deposits	0.82%	2.03%
Short-Term Debt	1.18%	0.94%
Deferred Income Taxes	10.63%	0.00%
FAS 109 Deferred Income Tax	6.08%	0.00%
Investment Tax Credits	1.89%	8.38%
Common Equity	48.03%	11.50%
Total	100.00%	

1
2 However, note that the capital structure includes all sources of capital for use by
3 FPL to finance rate base operations. When investor-only sources of capital are
4 included, the above capital structure translates into the following:

5 **Table 4:** FPL’s Requested Cost of Capital (Investor-Only Sources)
6

Component	Capital Structure Ratio (%)		Cost Rate (%)	Weighted Cost Rate (%)
	a²⁵	c = a / b	d²⁶	= c * d
Long-Term Debt	31.37%	38.93%	3.61%	1.41%
Short-Term Debt	1.18%	1.46%	0.94%	0.01%
Common Equity	48.03%	59.61%	11.50%	6.85%
Total Rx	80.89%²⁷	100.00%²⁸		8.27%

7
8 **Q. DO YOU BELIEVE THAT REVENUE REQUIREMENTS IN THIS CASE**
9 **SHOULD BE SET USING A 59.60% COMMON EQUITY RATIO?**

10 A. No. I believe that FPL’s requested equity ratio is excessively high and should not
11 be approved by the Commission for the following reasons:

- 12 1. The requested equity ratio of 59.60% is out-of-line when compared to the
13 other electric utilities within:
- 14 a. OPC’s proxy group;
 - 15 b. Mr. Coyne’s proxy group and utility operating company comparison
16 group for FPL;

²⁵ *Id.*

²⁶ *Id.*

²⁷ Represents all sources of capital.

²⁸ Represents only investor sources of capital.

- 1 c. Allowed equity ratios from state regulators around the United States;
- 2 d. Non-regulated subsidiaries of NextEra Energy (FPL's parent company);
- 3 and
- 4 e. NextEra Energy itself.

5 **C. Capital Structure Comparison**

6 **Q. WHAT IS THE AVERAGE COMMON EQUITY RATIO OF THE**
7 **COMPANIES IN OPC'S PROXY GROUP?**

8 A. **Table 5** below shows the average common equity ratio (investor sources only) of
9 each utility in OPC's electric comparable company proxy group as sourced from
10 *Value Line*.

1
2

Table 5: OPC’s Proxy Group’s Equity Ratios²⁹

Company	2019 Ratio	2020 Ratio	2021E* Ratio	2022E* Ratio	2024E* - 2026E* Ratio
Amer Elec Power	43.90%	41.50%	41.00%	41.50%	40.00%
ALLETE	61.40%	59.00%	58.00%	59.00%	57.00%
Alliant Energy	48.50%	45.70%	46.00%	46.00%	46.00%
Ameren Corp	47.10%	44.30%	45.50%	46.00%	49.00%
Avista Corp	50.60%	49.60%	52.50%	49.50%	50.50%
CMS Energy Corp	29.40%	28.60%	30.00%	32.00%	33.00%
Consol Edison	49.30%	48.00%	47.50%	48.50%	49.00%
Dominion Energy	45.00%	39.50%	39.00%	41.50%	41.00%
Duke Energy	44.10%	44.40%	44.00%	44.00%	43.50%
Edison Int'l	39.90%	39.50%	37.50%	37.00%	36.00%
Entergy Corp	37.10%	33.70%	34.00%	35.00%	35.50%
Evergy Inc.	49.40%	48.70%	49.00%	48.50%	48.50%
Eversource Energy	46.60%	47.10%	46.50%	46.00%	44.50%
Hawaiian Elec	54.60%	52.70%	55.00%	53.50%	52.50%
IDACORP Inc	58.70%	56.10%	55.50%	55.50%	51.00%
MGE Energy Inc	62.00%	64.50%	64.50%	63.50%	61.00%
NextEra Energy	49.60%	46.50%	46.50%	46.50%	47.00%
NorthWestern Corp	47.50%	47.20%	47.50%	50.00%	50.50%
OGE Energy	56.40%	51.00%	51.50%	51.50%	51.00%
Otter Tail Corp	53.10%	58.20%	55.50%	53.50%	59.50%
Pinnacle West Capital	52.90%	47.20%	44.50%	45.00%	42.00%
Portland General	48.70%	46.40%	46.50%	46.50%	47.50%
PPL Corp	38.50%	38.30%	39.50%	41.50%	41.50%
Sempra Energy	43.40%	44.80%	49.50%	49.00%	49.00%
Southern Co	39.50%	38.10%	38.00%	39.00%	39.00%
WEC Energy Group	47.40%	47.10%	45.00%	45.50%	47.00%
Xcel Energy	43.20%	42.60%	42.00%	42.50%	42.00%
AVERAGE	47.70%	46.31%	46.35%	46.57%	46.44%

3
4
5
6
7
8

As can be seen in the table above, the average common equity ratio for OPC’s proxy group in 2019 was 47.70%, their average common equity ratio in 2020 was 46.31%, their average expected common equity ratio for 2021 is 46.35%, their average expected common equity ratio for 2022 is 46.57%, and their average expected common equity ratio from 2024 – 2026 is 46.44%, with each of these data points

²⁹ *The Value Line Investment Survey*: 3/12/2021 (Electric Utilities Central), 4/23/2021 (Electric Utilities West), 5/14/2021 (Electric Utilities East).

1 for the proxy group being *Value Line*. Notably, each of these group-average metrics
 2 is well below the Company’s requested equity ratio in this case of 59.60%.

3
 4 **Q. WHAT IS THE AVERAGE COMMON EQUITY RATIO OF THE**
 5 **COMPANIES IN WITNESS COYNE’S PROXY GROUP?**

6 A. **Table 6** below shows the average common equity ratio of each utility in Witness
 7 Coyne’s electric comparable company proxy group as sourced from *Value Line*.

8 **Table 6: Mr. Coyne’s Proxy Group’s Equity Ratios³⁰**

Company	2019 Ratio	2020 Ratio	2021E* Ratio	2022E* Ratio	2023E* - 2025E* Ratio
Amer Elec Power	43.90%	41.50%	41.00%	41.50%	40.00%
ALLETE	61.40%	59.00%	58.00%	59.00%	57.00%
Alliant Energy	48.50%	45.70%	46.00%	46.00%	46.00%
Ameren Corp	47.10%	44.30%	45.50%	46.00%	49.00%
Duke Energy	44.10%	44.40%	44.00%	44.00%	43.50%
Edison Int'l	39.90%	39.50%	37.50%	37.00%	36.00%
Entergy Corp	37.10%	33.70%	34.00%	35.00%	35.50%
Evergy Inc.	49.40%	48.70%	49.00%	48.50%	48.50%
Hawaiian Elec	54.60%	52.70%	55.00%	53.50%	52.50%
IDACORP Inc	58.70%	56.10%	55.50%	55.50%	51.00%
OGE Energy	56.40%	51.00%	51.50%	51.50%	51.00%
Pinnacle West Capital	52.90%	47.20%	44.50%	45.00%	42.00%
Portland General	48.70%	46.40%	46.50%	46.50%	47.50%
Xcel Energy	43.20%	42.60%	42.00%	42.50%	42.00%
AVERAGE	48.99%	46.63%	46.43%	46.54%	45.82%

9
 10 As can be seen in the table above, the average common equity ratio for Mr. Coyne’s
 11 proxy group in 2019 was 48.99%, their average common equity ratio in 2020 was
 12 46.63%, their average expected common equity ratio for 2021 is 46.43%, their
 13 average expected common equity ratio for 2022 is 46.54%, and their average
 14 expected common equity ratio from 2023 – 2025 is 45.82%, with each of these

³⁰ *The Value Line Investment Survey*: 3/12/2021 (Electric Utilities Central), 4/23/2021 (Electric Utilities West), 5/14/2021 (Electric Utilities East).

1 proxy group data points provided by *Value Line*. Each of these group-average
2 metrics is also well below the Company's requested equity ratio in this case of
3 59.60%.

4
5 **Q. WHAT IS YOUR REASONING BEHIND UTILIZING BOTH**
6 **HISTORICAL AND PROJECTED COMMON EQUITY RATIOS TO**
7 **SUPPORT YOUR RECOMMENDATION?**

8 A. Mr. Coyne utilized historical common equity ratios for both his comparable
9 company proxy group and a group of utility operating companies, for the eight
10 quarters ended Q3 2020 as shown in Mr. Coyne's **Exhibit JMC-11**. However, in
11 **Table 5** and **Table 6** above, I presented both historical and forecasted common
12 equity ratios for both OPC's proxy group and Mr. Coyne's own proxy group that
13 includes data that would support my recommendation of a 55% common equity
14 ratio.

15 I have long maintained that the most accurate projection of future common
16 equity ratios are the current common equity ratios, which is why I included the
17 actual common equity ratios for 2019 and 2020 within **Table 5** and **Table 6**. In my
18 view, most projections tend to set common equity at too high a value given the
19 inherent subjectivity and erratic nature of where common equity ratios may actually
20 fall out in future years, especially in a period as far into the future as a 2023 – 2025
21 (which is presented in Mr. Coyne's testimony) or a 2024 – 2026 projection (which
22 is presented herein). This is additionally relevant given the current economic

1 climate where the COVID-19 pandemic has increased the uncertainty associated
2 with projected future common equity ratios.

3 However, I have also included various projected common equity ratios for
4 the numerous periods provided by *Value Line* as shown in these tables above.
5 Additionally, in discussion below, I have included the national averages for allowed
6 common equity ratios for electric utilities over the previous 15-year period. I have
7 provided each of these various data points simply to show that regardless of
8 whichever metric one uses, the 59.60% equity ratio requested by the Company in
9 this rate case proceeding is not reasonable.

10
11 **Q. DOES THE INFORMATION PROVIDED BY WITNESS COYNE IN HIS**
12 **DIRECT TESTIMONY SUPPORT THE EQUITY RATIO OF 59.60%**
13 **REQUESTED BY THE COMPANY FOR ITS CAPITAL STRUCTURE?**

14 A. No, this information does not support the Company's request of 59.60%. Within
15 Mr. Coyne's direct testimony he made the following assertion:

16 I calculated the weighted average capital structures for each of the
17 proxy group operating companies on a quarterly basis for the eight
18 quarters through Q3 2020. Exhibit JMC-11 shows that the
19 Company's proposed common equity ratio of approximately 59.6
20 percent on a financial basis (48.04 percent on a regulatory basis in
21 the Test Year) is the upper end of the range of actual common equity
22 ratios of 46.91 percent to 58.95 percent for the operating companies
23 held by the proxy group over this period.³¹

24
25 I note that I sourced the actual and projected common equity ratios for OPC's proxy
26 group and Mr. Coyne's proxy group included in **Table 5** and **Table 6** above from
27 *Value Line*. Whereas the actual common equity ratio results for the eight quarters

³¹ Witness Coyne's Direct Testimony, page 85: lines 4 – 10.

1 ended Q3 2020 found in Mr. Coyne’s **Exhibit JMC-11** for his proxy group and his
2 group of utility operating companies have been sourced from *SNL Financial / S&P*
3 *Global*.

4 From a quantitative perspective, Mr. Coyne determined that the Company’s
5 equity ratio request of 59.60% was reasonable simply based on a comparison of
6 this value to the average actual common equity ratio results for his 14-company
7 comparable proxy group for the eight quarters ended Q3 2020 as shown Mr.
8 Coyne’s **Exhibit JMC-11**. As noted within the selection above from Mr. Coyne’s
9 direct testimony, the range of the common equity ratios included within his proxy
10 group for the eight quarters ended Q3 2020 was 46.91% – 58.95%. In reference to
11 this range, Mr. Coyne claimed that the Company’s recommendation of 59.60% is
12 “...the upper end of the range of actual common equity ratios of 46.91 percent to
13 58.95 percent for the operating companies held by the proxy group over this
14 period.”³² However, this recommendation of 59.60% isn’t simply in the “upper
15 end” of this range, this recommendation of 59.60% exceeds the absolute high end
16 of this range by 65-basis points.

17 Additionally, the only support Mr. Coyne provided for the Company’s
18 request of 59.60% per his written direct testimony is that the common equity ratio
19 range for Mr. Coyne’s chosen proxy group over the eight quarters ended Q3 2020
20 ranged from 46.91% – 58.95%. Upon simply inspecting Mr. Coyne’s **Exhibit**
21 **JMC-11**, one finds that the average of all the common equity ratios over this same
22 time period for the entirety of Mr. Coyne’s own proxy group is 52.44%.³³ However,

³² *Id.*

³³ Witness Coyne’s Exhibit JMC-11.

1 Mr. Coyne notably did not feel the need to mention this overall 52.44% average for
2 his proxy group. Simply put, this 52.44% average value sourced from an exhibit to
3 Mr. Coyne’s own direct testimony exemplifies how excessive the Company’s
4 59.60% request is in this rate case proceeding.

5 Additionally, within **Exhibit JMC-11**, Mr. Coyne provided the common
6 equity ratio for a group of utility operating companies for the same eight quarters
7 ending with the Q3 2020 time period. However, Mr. Coyne does not provide the
8 average common equity ratio value for this group of utility operating companies
9 that he included within his testimony and **Exhibit JMC-11**. The average value of
10 the common equity ratios presented within the second table of Mr. Coyne’s Capital
11 Structure Analysis shown in **Exhibit JMC-11** is 51.65%.

12 Mr. Coyne proceeded to note that “[b]ased on the analysis presented in
13 Exhibit JMC-11, my conclusion is that FPL’s proposed financial capital structure
14 of 59.6 percent common equity and 40.4 percent debt is reasonable.”³⁴ However, I
15 simply do not believe an analyst can credibly reconcile a claim that the Company’s
16 requested common equity percentage of 59.60% is “reasonable” when it exceeds
17 that analyst’s own proxy group’s average common equity percentage, over a period
18 chosen by that same analyst, by 716-basis points (*i.e.*, 59.60% – 52.44%), and
19 exceeds the average common equity ratio of that analyst’s group of utility operating
20 companies by 795-basis points (*i.e.*, 59.60% – 51.65%).

³⁴ Witness Coyne’s Direct Testimony, page 85: lines 13 – 15.

1 **Q. DID WITNESS COYNE PRESENT ANY ADDITIONAL INFORMATION**
2 **IN SUPPORT OF THE COMPANY’S REQUESTED CAPITAL**
3 **STRUCTURE INCLUSIVE OF A 59.60% EQUITY RATIO?**

4 A. The only other piece of information that Mr. Coyne offered to support this inflated
5 equity ratio of 59.60% was the following:

6 As noted by FPL witness Barrett, the Company has maintained this
7 same equity ratio for more than two decades, and it is an essential
8 component of FPL’s financial policies enabling access to capital on
9 favorable terms in a variety of market circumstances. This capital
10 structure represents management’s decisions on how best to finance
11 its operations.³⁵
12

13 In reference to the above selection from Mr. Coyne’s testimony, I do not find it
14 appropriate to merely rely on the fact that the Company’s equity ratio has not
15 materially changed in over two decades as support for why its equity ratio should
16 be deemed reasonable. Just because the equity ratio was once approved at such a
17 level does not inherently indicate its reasonableness, especially in a time when
18 common equity ratios have been declining as I exhibited in the tables above.

19 Each of the values I included in this testimony demonstrate that
20 quantitatively, a 59.60% equity ratio request is far in excess of the average actual
21 and average projected common equity ratios across any of the proxy groups used
22 in this proceeding, and also far in excess of any of the national average of allowed
23 common equity ratios across the country, as shown below. Mr. Coyne suggested
24 that an equity ratio being set at this level “...represents management’s decisions on
25 how best to finance its operations.”³⁶ In contrast, I would contend that the Company

³⁵ Witness Coyne’s Direct Testimony, page 85: lines 19 – 23.

³⁶ *Id.*

1 should instead be allowed an equity ratio that does not continue to place an undue
2 and excess amount of financial burden upon its consumers.

3

4 **Q. WHAT EVIDENCE DID WITNESS BARRETT PROVIDE TO SUPPORT**
5 **THE COMPANY’S REQUESTED 59.60% EQUITY RATIO?**

6 A. Mr. Robert E. Barrett (FPL VP of Finance) provided the following statement to
7 support FPL requested equity ratio:

8 FPL has maintained its equity ratio generally around the 59-60
9 percent level for more than two decades, and this has been an
10 important underpinning of the overall financial strength that has
11 served customers well.³⁷

12
13 In this portion of his testimony, Witness Barrett contends that allowing FPL an
14 equity ratio at the continued level of 59-60 percent has provided FPL the financial
15 strength to serve customers well.

16 Given the Company’s position, I asked for support from the Company for
17 this position in OPC’s Third Request for Production of Documents, Request No.
18 73, Mr. Barrett then provided the associated response:

19
20 QUESTION:
21 Cost of Capitol:
22 In reference to the 59.60% equity ratio requested by FPL in this case,
23 Witness Barrett noted on page 45, lines 21-22, through page 46,
24 lines 1-2, that "FPL has maintained its equity ratio generally around
25 the 59-60 percent level for more than two decades, and this has been
26 an important underpinning of the overall financial strength that has
27 served customers well." Can Witness Barrett please provide a
28 cost/benefit analysis showing exactly how FPL’s equity ratio being
29 set at a level in the 59-60 percent level for the last two decades has
30 provided FPL the ability to reliably serve customers well and at the
31 lowest cost possible to these customers.
32

³⁷ Witness Barrett’s Direct Testimony, page 45: lines 21 – 22, and page 46: lines 1 – 2.

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RESPONSE:

The question’s predicate is incorrect in its express or implied assumption that service at the “lowest cost possible” is either the required or appropriate standard for service. The value of service provided is a function of more than just cost. Nevertheless, for references to FPL’s achievements in cost efficiency over the last two decades while it has maintained an equity ratio around 59-60%, please refer to the testimony of FPL witnesses Reed, Barrett and Bores, among others. Mr. Barrett’s statement is based on the overall value of FPL’s service over this period of time based on a combination of factors including reliability, customer service, emissions reductions, and bills. FPL’s performance and the value it delivers for customers has not hinged on this single factor, but rather on a number of factors and management initiatives. Accordingly, FPL has no responsive documents.³⁸

I note that Mr. Barrett’s response above is essentially non-responsive. As part of the Company’s support for an equity ratio in the 59-60 percent range, Mr. Barrett made the assertion that setting the equity ratio at such a level in the past allowed FPL to serve its customers well. I asked the question whether the Company had performed any analysis that would show how their service levels would change should they be allowed an equity ratio beneath 59.60% and the Company was unable to provide any such analysis to support this assertion.

Q. DOES MR. BARRETT INCLUDE ANYTHING ELSE IN HIS TESTIMONY IN REFERENCE TO THE COMPANY’S REQUESTED EQUITY RATIO?

A. Somewhat. Lastly, Mr. Barrett noted the following:

[I]nvestors expect FPL’s capital structure to be relatively stable over time and to reflect the unique risk profile and underlying financial policies of the company. FPL has maintained the current equity ratio for more than twenty years, and it is foundational to FPL’s current

³⁸ OPC’s Third Request for Production of Documents, Request No. 73.

1 credit rating, financial strength and flexibility to raise capital when
2 needed and to provide customers with long-term benefits.³⁹

3
4 I agree that in a hypothetical scenario, investors like to see stable capital structures
5 over time. However, that does not inherently mean that FPL should be allowed a
6 59.60% equity ratio in this proceeding. A 59.60% equity ratio is out of line with
7 each and every metric provided within this testimony and would continue to place
8 an undue financial burden on FPL's consumers. This is especially notable in the
9 current climate when unemployment numbers have been higher than previous
10 annual averages given the havoc that the COVID-19 pandemic has played on
11 financial markets over the last year. FPL has not provided any evidence that it
12 cannot continue to thrive financially, while also providing a comparable level of
13 service to its customers, should they be allowed an equity ratio below 59.60% in
14 this current proceeding and more in line with national averages.

15
16 **Q. WHAT IS THE AVERAGE COMMON EQUITY RATIO GRANTED BY**
17 **UTILITY REGULATORS FOR ELECTRIC UTILITIES ACROSS THE**
18 **UNITED STATES?**

19 A. I have sourced the average common equity ratio values granted by utility regulators
20 for electric utilities from across the country from *S&P Global*. In my research, I
21 found that four states included within the overall average value of electric utilities
22 across the country report their allowed common equity ratios on an all capital
23 sources basis (*i.e.*, Long Term Debt, Short Term Debt, Common Equity, Preferred
24 Stock, Customer Deposits, Deferred Income Taxes, Investment Tax Credits). As

³⁹ Witness Barrett's Direct Testimony, page 46: lines 13 – 18.

1 such, I have removed these four states (*i.e.*, Arkansas, Florida, Indiana and
2 Michigan) from these numbers to ensure that each of the states included in this
3 average report their allowed common equity ratio percentages only on investor-
4 only sources of capital (*i.e.*, Long Term Debt, Short Term Debt, Common Equity).
5 I wanted to remove these four states from the overall average to ensure that this
6 represented an appropriate comparison given that FPL's requested equity ratio in
7 this case of 59.60% is based solely off of investor-only sources of capital.

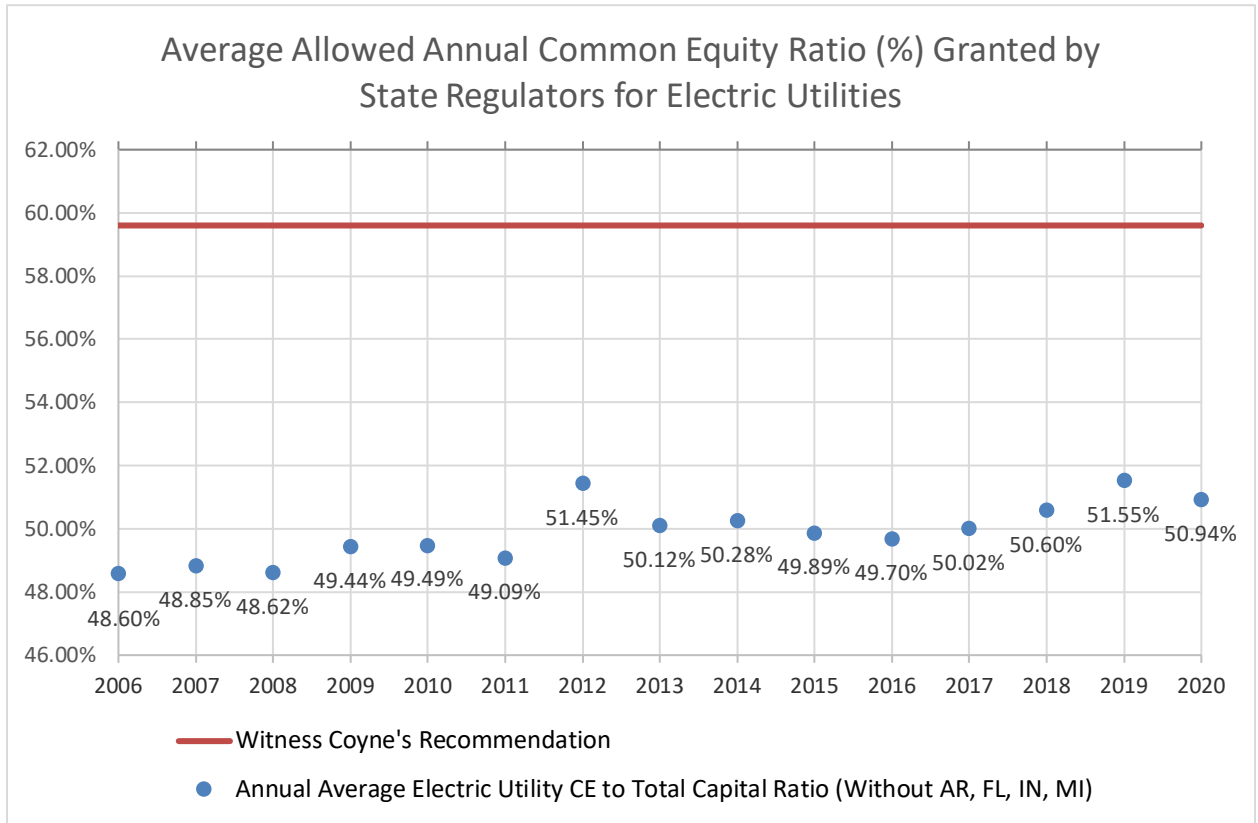
8 The resulting average common equity ratio granted by regulators for electric
9 utilities for all states on an investor sources basis 2020 was 50.94%.⁴⁰

10
11 **Q. WHAT COMMON EQUITY RATIOS HAVE STATE REGULATORS**
12 **ACROSS THE UNITED STATES GRANTED TO ELECTRIC UTILITIES**
13 **OVER THE PAST 15 YEARS?**

14 A. State regulators have been quite consistent in their rulings in electric cases for
15 allowed common equity ratios based on investor sources of capital over the past 15
16 years. From 2006 through 2020, common equity ratios have ranged from 48.60%
17 to 51.55%, with an average of 49.91%. If one were to evaluate this data over the
18 previous 12 years, the average common equity ratio over this period is 50.21%, the
19 average ratio over the previous 10 years is 51.36%, and the average ratio over the
20 previous 8 years is 50.39%. In **Chart 4** below I have presented the average annual
21 common equity ratio granted by state regulators for each year over the past 15 years.

⁴⁰ S&P Global Market Intelligence Rate Case Statistics; Date Range: 15 Years; Service Type: Electric; Chart Items: Common Equity to Total Capital, Return on Equity; **Date Accessed:** May 24, 2021.

1 **Chart 4:** Common Equity Ratio Granted by State Regulators (2006 – 2020)⁴¹



2

3 **Q. HOW DOES THE 59.60% EQUITY RATIO REQUESTED BY FPL**
4 **COMPARE TO THE EQUITY RATIO OF NEXTERA ENERGY'S NON-**
5 **REGULATED SUBSIDIARIES?**

6 **A.** Per the data included within page 2 of **Schedule D-2** of FPL's MFR's in this case,
7 the unregulated subsidiaries/companies of NextEra Energy averaged equity ratios
8 of 44.3% for 2019 and 39.5% for 2020 on a Non-Regulated Operations Combined
9 basis.

⁴¹ *Id.*

1 **Q. HOW DOES THE 59.60% EQUITY RATIO REQUESTED BY FPL**
2 **COMPARE TO THE EQUITY RATIO OF NEXTERA ENERGY?**

3 A. Per the data included within page 2 of **Schedule D-2** of FPL's MFR's in this case,
4 NextEra Energy had a common equity ratio that *declined* from 46.5% for 2019 to
5 43.2% for 2020 on an NEE Consolidated basis.

6

7 **Q. WHY IS THE COMMON EQUITY RATIO OF NEXTERA'S**
8 **UNREGULATED SUBSIDIARY GROUPING CONSIDERABLY LOWER**
9 **THAN THE EQUITY RATIO REQUESTED BY FPL?**

10 A. The unregulated subsidiary companies of NextEra, and sister companies of FPL,
11 are leveraging their operations to the maximum extent possible knowing that
12 NextEra has a strong cash flow stream from the regulated operations of FPL, which
13 is protected from retail competition due to regulation in Florida. These strong cash
14 flow payments go to the parent company from FPL and in turn, can support the
15 unregulated operations of NextEra Energy.

16

17 **Q. IS THE CAPITAL STRUCTURE REQUESTED BY FPL IN THIS CASE**
18 **DRIVEN BY THE MARKETPLACE?**

19 A. No, it is not. Any capital structure for a regulated utility in a parent/subsidiary
20 structure is hypothetical because NextEra Energy has pre-determined the capital
21 structure ratios. The Company has stated that the capital structure on which the
22 Company wants revenue requirements to be determined in this case is one with a
23 59.60% equity ratio. If the marketplace was driving the capital structure of the

1 various NextEra subsidiaries, the competition-facing non-regulated subsidiaries
2 would have an equity ratio much higher than 39.5%, and FPL would have an equity
3 ratio much lower than the 59.60% requested in this case.

4
5 **D. OPC Recommendation and Impact on FPL Consumers**

6 **Q. PLEASE SUMMARIZE YOUR FINDINGS IN REGARD TO THE**
7 **REQUESTED EQUITY RATIO IN THIS CASE RELATIVE TO THE**
8 **EQUITY RATIO OF OTHER ELECTRIC UTILITIES.**

9 A. I have provided a summary in **Table 7** below of how FPL’s request in this case
10 compares to each of the metrics previously outlined above within the **Subsection**
11 **C: “Capital Structure Comparison”**.

Table 7: Common Equity Ratio Comparison

FPL Eq Ratio Request per Witness Coyne	59.60%
Per Exhibit JMC-11:	
Q4 2018 – Q3 2020 Witness Coyne Proxy Group Actual Eq Ratio Average	52.44%
Q4 2018 – Q3 2020 Witness Coyne Utility Operating Companies Actual Eq Ratio Average	51.65%
Per Table 5:	
2019 OPC Proxy Group Actual Eq Ratio Average	47.70%
2020 OPC Proxy Group Actual Eq Ratio Average	46.31%
2021 OPC Proxy Group Expected Eq Ratio Average	46.35%
2022 OPC Proxy Group Expected Eq Ratio Average	46.57%
2024 – 2026 OPC Proxy Group Expected Eq Ratio Average	46.44%
Per Table 6:	
2019 Witness Coyne Proxy Group Actual Eq Ratio Average	48.99%
2020 Witness Coyne Proxy Group Actual Eq Ratio Average	46.63%
2021 Witness Coyne Proxy Group Expected Eq Ratio Average	46.43%
2022 Witness Coyne Proxy Group Expected Eq Ratio Average	46.54%
2023 – 2025 Witness Coyne Proxy Group Expected Eq Ratio Average	45.82%
2020 Average Annual Regulator Granted Eq Ratio (Above)	50.94%
2006 – 2020 Average Annual Regulator Granted Eq Ratio (Above)	49.91%
NextEra Non-Regulated Subsidiaries Eq Ratio (Above)	39.50%
NextEra’s Eq Ratio (Above)	43.20%

1
2 As shown in the table above, each of the metrics is closer to a 50.00% equity ratio
3 rather than the 59.60% equity ratio requested by the Company.

4

5 **Q. GIVEN THAT THE MOST ELECTRIC UTILITY EQUITY RATIOS ARE**
6 **CLOSER TO 50.00%, DO YOU BELIEVE THAT THE CAPITAL**
7 **STRUCTURE PROPOSED BY FPL IN THIS CASE IS APPROPRIATE**
8 **FOR RATEMAKING PURPOSES?**

9 A. No, it is not. The requested capital structure for FPL is not reasonable for
10 ratemaking purposes. Nothing in the make-up of FPL suggests that it requires a
11 high equity ratio in the range that they are requesting than any of the companies
12 within the comparable company proxy groups. Indeed, some of the companies

1 included within the proxy groups are involved in a wider array of business activities
2 that involve more business risk than a utility's production and delivery of
3 generation and distribution of electricity within its monopoly service territory. As
4 such, if anything, the financial risk (as represented by the equity ratio) of the
5 comparable company proxy group should be higher, not lower, than a traditional
6 electric utility such as FPL. Customers of FPL should not pay higher rates
7 associated with a capital structure that consists of so much common equity which,
8 as previously discussed, is more expensive than debt.

9
10 **Q. WHO HAS THE MOST TO GAIN IF THE COMMISSION ALLOWED FPL**
11 **TO USE A 59.60% EQUITY RATIO IN ITS CAPITAL STRUCTURE FOR**
12 **RATEMAKING PURPOSES?**

13 A. If a 59.60% equity ratio is allowed, the shareholders of FPL would continue to gain
14 at the expense of consumers. If rates are set using an equity ratio of 59.60%, rather
15 than an equity ratio of 50.00%, FPL shareholders will receive approximately an
16 additional \$511 million annually. Additionally, if rates are set using an equity ratio
17 of 59.60%, rather than an equity ratio of 55.00%, FPL shareholders will receive
18 approximately an additional \$245 million annually. Each of these scenarios is
19 outlined within **Exhibit KWO-1**.

20 Ultimately, FPL's customers will come out on the "losing" side as this the
21 difference in rates in each of the two scenarios outlined above would result in these
22 amounts essentially being transferred to FPL's shareholders (NextEra Energy).

1 **Q. WHAT IS THE SIGNIFICANCE OF THE FACT THAT FPL'S**
2 **REQUESTED EQUITY RATIO IS MUCH MORE EXPENSIVE THAN**
3 **OTHER REGULATED UTILITIES AS OUTLINED WITHIN THIS**
4 **TESTIMONY?**

5 A. As stated previously, common equity is much more expensive than long-term debt.
6 As such, captive ratepayers of FPL are being tasked with supporting an equity ratio
7 that cannot be justified or explained based on any empirical data or quantitative
8 reasoning. The ratepayers of other utilities with lower equity ratios are not being
9 forced to support such excessively inflated equity ratios. Within pre-filed direct
10 testimony, none of the Company witnesses attempted to demonstrate quantitatively
11 how such an excessive equity ratio could be justified, and certainly did not present
12 any evidence that any other utility comparable to FPL had been allowed an equity
13 ratio above 59%.

14

15 **Q. WHAT WOULD BE THE IMPACT ON RATES IF THE COMMISSION**
16 **EMPLOYED A CAPITAL STRUCTURE THAT CONTAINED 50%**
17 **COMMON EQUITY?**

18 A. As mentioned above, if FPL utilized a capital structure that instead consisted of
19 50% common equity, the revenue requirement in this case would be approximately
20 \$511 million lower on an annual basis than the requested revenue requested in this
21 case.

22 On a per customer residential basis, FPL's request amounts to an additional
23 \$50 per year of higher costs for the typical residential customer using 1,000 kWhs

1 per year. The full details of these calculations can be seen in **Exhibit KWO-1**, but
 2 the primary calculations can be seen in **Table 8** below.

3 **Table 8:** Impact of FPL’s Requested 59.60% Equity Ratio Versus a 50% Ratio

FPL Requested Pre-Tax Cost of Capital	8.73%
OPC Recommended Pre-Tax Cost of Capital	7.81%
Difference	0.92%
Rate Base	\$55,392,402 (\$000s)
Impact	\$510,842 (\$000s)
Retail Sales (kWhs)	122,096,501,415
Impact per kWh	\$0.00418
Annual Impact to Res Cust Using 1,000 kWhs/mo.	\$50.21

4
 5 Florida also has many senior citizens that live on fixed incomes, as well as low-
 6 income customers. An additional \$50 per year per year for a usage of 1000 kWh
 7 per month, for this single element of the rate case is in my view, a subsidy FPL is
 8 asking this Commission to approve from captive consumers to NextEra to support
 9 its ventures into unregulated activities.

10
 11 **Q. WHAT WOULD BE THE IMPACT OF A CAPITAL STRUCTURE OF 50%
 12 COMMON EQUITY TO A LARGE INDUSTRIAL CUSTOMER?**

13 **A.** An industrial consumer with a load of 10 MW and an 85% load factor would spend
 14 approximately an additional \$312,000 per year. The calculations for this cost
 15 increase can be seen in the table below as sourced from **Exhibit KWO-1**:

1

Table 9: Cost Impact for 10 MW Industrial Consumer

Load size	10,000 kW, a
Hours in year	8,760 B
Load factor	85.0% C
Impact per kWh	\$0.00418 D
Annual Impact to Ind Cust	\$ 311,535 = a * b * c * d

2

3 **Q. ARE YOU RECOMMENDING A 50% COMMON EQUITY RATIO IN**
4 **THIS CASE?**

5 A. No. I understand FPL has received a 59.6% equity ratio from this Commission for
6 quite some time. Given that history, and given above-stated facts that show FPL’s
7 requested common equity ratio is more than excessive for Florida consumers, I am
8 recommending the Commission employ the gradualism concept and grant FPL an
9 equity ratio of 55% from investor-supplied sources in this case. This
10 recommendation should not alarm the investment community as, clearly, the
11 requested 59.6% equity ratio is considerably higher than every other comparison of
12 regulated common equity ratios as I have demonstrated above. The movement from
13 a 59.6% equity ratio to a 55.0% equity ratio is a gradual change that should give
14 confidence to the investment community in that it represents a slow movement
15 towards a more reasonable and balanced capital structure on which the Commission
16 sets rates.

17 Converting the recommended 55% equity ratio to the all-sources capital
18 structure of FPL yields the following recommendation, while continuing to use
19 FPL’s 11.50% ROE request for strict comparison purposes, as shown in **Exhibit**
20 **KWO-1.**

1
2

Table 10: Capital Structure and Cost Rates Under a 55% Common Equity Ratio Scenario

Source of Capital	Ratio (%)	Cost Rate (%)	Post-Tax Cost Rate
Long-Term Debt	34.95%	3.61%	1.26%
Short-Term Debt	1.31%	0.94%	0.01%
Common Equity	44.32%	11.50%	5.10%
Preferred Stock	0.00%	0.00%	0.00%
Customer Deposits	0.82%	2.03%	0.02%
Deferred Income Taxes	10.63%	0.00%	0.00%
FAS 109 Deferred Income Tax	6.08%	0.00%	0.00%
Investment Tax Credits	1.89%	8.38%	0.16%
Total	100.00%		6.55%

3

4 **Q. WHAT IS THE IMPACT ON THE REVENUE REQUIREMENT BASED ON**
5 **YOUR RECOMMENDATION TO USE A 55% EQUITY RATIO FOR**
6 **INVESTOR-SOURCES OF CAPITAL FOR SETTING RATES IN THIS**
7 **PROCEEDING?**

8 A. **Table 11** below replicates **Table 8** from above, but with the difference being that
9 **Table 11** shows the results if the equity ratio were to be set at 55%. This calculation
10 can also be found in **Exhibit KWO-1**.

Table 11: Impact of OPC Recommended 55% Equity Ratio

FPL Requested Pre-Tax Cost of Capital	8.73%	
OPC Recommended Pre-Tax Cost of Capital	8.29%	
Difference	0.44%	
Rate Base (without RSAM)	\$55,392,402	(\$000s)
Impact	\$244,927	(\$000s)
Retail Sales (kWhs)	122,096,501,415	
Impact per kWh	\$0.00201	
Annual Impact to Cust Using 1,000 kWhs/mo.	\$24.07	

As demonstrated in the table above, establishing FPL’s equity ratio at 55% for ratemaking purposes reduces the customer’s bill impact by \$24.07 per year for a usage of 1000 kWh per month. As stated earlier, in the current economy every dollar saved is important to customers who are trying to get back on their feet.

Q. HOW DO YOU THINK FPL WILL RESPOND TO YOUR ARGUMENT THAT FPL’S REQUESTED EQUITY RATIO IS UNFAIR AND TOO EXPENSIVE FOR CUSTOMERS CAPTIVE TO FPL?

A. I expect FPL to argue that its bond and credit ratings will be negatively impacted by any decision to allow an equity ratio under 59.60%, or anything close to my recommendation of 55%, for calculating revenue requirements in this case.

Q. DO YOU BELIEVE FPL’S CREDIT RATING WOULD BE DOWNGRADED IF THE COMMISSION DID NOT AWARD THE UTILITY WITH ITS REQUESTED 59.60% EQUITY RATIO?

A. Credit rating agencies examine a myriad of different factors such as business risk and financial risk when determining the credit rating of a utility. It is difficult for anyone to know with any certainty if FPL would suffer a downgrade in its credit

1 rating based solely on the Commission authorizing a capital structure with a lower
2 equity ratio than 59.60% for ratemaking purposes. However, for the sake of
3 argument, I have calculated the cost of a one-notch downgrade in the FPL credit
4 rating so that we can compare the cost of such a downgrade to the higher revenue
5 requirement sought by FPL in this case.

6
7 **Q. PLEASE EXPLAIN HOW YOU CALCULATED THE COST OF A**
8 **POTENTIAL DOWNGRADE IN FPL’S CREDIT RATING?**

9 A. The higher interest costs that would accompany a downgrade are a product of the
10 amount of debt the Company would issue in the future, multiplied by the credit
11 spread that is accompanied by the difference in spreads between bond ratings. So,
12 the first step in the process is determining the amount of debt FPL may issue in the
13 future. To do so, within **Exhibit KWO-3**, I first examined FPL’s year-end 2020
14 total asset amount and compared that total asset amount to the estimated total asset
15 amounts from the MFR’s for 2021 and 2022.

16 For subsequent years post-2023, I assumed an annual growth rate of 10%,
17 which is well above the 2.3% gross domestic product (“GDP”) forecast of the
18 Congressional Budget Office (“CBO”)⁴² to provide estimated capital expenditures
19 for FPL over the next 10 years. I next developed a series of possible annual debt
20 needs for the next 10 years, assuming 50% of capital expenditure needs are financed
21 with debt, that will be required to fund the various FPL investments (**Exhibit**
22 **KWO-3**, page 1). I also developed a series of possible annual debt needs for the

⁴² Congressional Budget Office, “The Budget and Economic Outlook: 2019 to 2029”, page 22,
available at: <https://www.cbo.gov/system/files/2019-03/54918-Outlook-3.pdf>.

1 next 10 years, assuming 45% of capital expenditure needs are financed with debt
2 that will be required to fund the various FPL investments (**Exhibit KWO-3**, page
3 2).

4 Having taken those steps, I examined yield spreads to determine the
5 increase in interest costs associated with the possible one-notch downgrade. The
6 period I examined was from January 2011 through December 2020. The bond yield
7 spread information came from the Mergent Bond Record and listed the average
8 yields on Public Utility “A” rated bonds and Public Utility “Baa” bonds. From
9 January 2011 through December 2020, the average yield spread between these
10 bonds was 55-basis points (*i.e.*, 0.55%). For calendar year 2020, the yield spread
11 was 38-basis points, which equated to 0.38% in interest rate costs. I used 46-basis
12 points (*i.e.*, 0.46%) as a conservative estimate of the future yield spread as it was
13 approximately the average of 55-basis points and 38-basis points. However, this
14 spread represented a 3-notch difference, whereas any potential (unlikely) credit
15 downgrade for FPL would be, in my opinion, a maximum downgrade of only one
16 notch (*i.e.*, A2 to A3). As a result, for the purposes of this analysis, I assumed the
17 yield spread change would be approximately 15-basis points (*i.e.*, 46-basis points
18 divided by 3, rounded to 15-basis points). The details of this analysis can be seen
19 in **Exhibit KWO-2**, attached to my testimony.

20 In **Exhibit KWO-3**, I provided calculations showing the effect of the higher
21 interest costs as applied to future capital expenditures financed with debt. As can
22 be seen in that exhibit, the first-year difference in interest costs (2021) under the
23 50% common equity ratio scenario and the 55% common equity recommendation

1 are approximately \$3.8 million and \$3.4 million, respectively. By way of
2 comparison, the difference in revenue requirements for consumers due to FPL's
3 higher equity ratio, would cost consumers approximately \$511 million in 2022
4 under the 50% common equity ratio scenario or \$245 million in 2022 under the
5 55% common equity recommendation.

6 By asking for a 59.6% common equity ratio which results in higher rates
7 than would otherwise result from using a significantly more reasonable 55%
8 common equity, FPL is essentially seeking a subsidy from its customers that allows
9 FPL to invest these unjustified funds from these excessive rates into FPL's non-
10 regulated activities.

1 **VI. DEBT**

2 **Q. WHAT ARE THE DEBT RATIOS TO BE USED WITHIN YOUR CAPITAL**
3 **STRUCTURE RECOMMENDATION?**

4 A. As shown in **Table 2** above, within my recommended capital structure for investor-
5 only sources of capital, I have included a long-term debt ratio of 43.37%, a short-
6 term debt ratio of 1.63%, and a common equity ratio of 55.00%.

7 With regard to the split of the remaining 45.00% of the capital structure, I
8 have recommended a long-term debt ratio of 43.37% and a short-term debt ratio of
9 1.63%. This calculation was based upon the short-term and long-term debt ratios
10 included within **Table 1** above. If one were to take the total debt percentage and
11 then calculate the respective long-term and short-term debt component ratios out of
12 the total debt percentage, the associated percentages are a long-term debt ratio of
13 43.37% and a short-term debt ratio of 1.63%. This calculation is also shown in
14 **Exhibit KWO-1.**

15
16 **Q. WHAT IS THE COMPANY’S COST OF DEBT USED IN THIS**
17 **PROCEEDING?**

18 A. As shown in **Schedule D-1a** to the Company’s MFR’s, the long-term debt cost rate
19 is 3.61% and the short-term debt cost rate is 0.94%.

20 The short-term cost of debt is developed based upon **Schedule D-3** within
21 the Company’s MFR’s. Per Mr. Barrett’s testimony, the short-term debt cost rate
22 was developed based upon the “...forward Intercontinental London Interbank

1 Exchange Offered Rate (“LIBOR”) curve for its short-term debt cost projections.”⁴³

2 The long-term cost of debt is developed based upon **Schedule D-4a** within the

3 Company’s MFR’s.

4

5 **Q. DO YOU AGREE WITH THE COMPANY’S PROPOSED 3.61% LONG-**
6 **TERM COST OF DEBT AND 0.94% SHORT-TERM COST OF DEBT?**

7 A. Yes, I do. Based on my evaluation of the cost of debt supporting documents
8 provided by the Company, I agree with the Company’s proposed long-term debt
9 cost rate of 3.61% and short-term debt cost rate of 0.94%.

⁴³ Witness Barrett’s Direct Testimony, page 47: lines 2 – 3.

1 **VII. FPL INCENTIVE MECHANISM**

2 **Q. WHAT IS THE INCENTIVE MECHANISM THAT FPL IS**
3 **PROPOSING?**

4 A. As described in FPL Witness Forrest’s Direct Testimony, FPL proposes to
5 continue the Economy Sales, Economy Purchase Savings, Natural Gas
6 Optimization, and Other Incentive Mechanisms. In addition, FPL proposes
7 to update the asset optimization incentive mechanism by reducing the
8 number of thresholds from four threshold levels to three threshold levels
9 and update the variable power plant O&M.⁴⁴ FPL also is asking to expand
10 the asset optimization incentive mechanism to include all fuel sources and
11 monetize Renewable Energy Credits (“RECs”).⁴⁵

12
13 **Q. DO YOU RECOMMEND THAT THE COMMISSION APPROVE**
14 **FPL’S PROPOSED INCENTIVE MECHANISM?**

15 A. No, I cannot recommend wholesale approval of FPL’s proposed incentive
16 mechanism at this time. While we have been able to examine activities
17 approved by the Commission in the original pilot program, and have fairly
18 good understanding of how they would work in the future, there is not
19 sufficient information to understanding how the requested expansions of the
20 incentive mechanism would work or if it would benefit customers.

⁴⁴ Witness Forrest’s Direct Testimony, page 17: lines 5-6.

⁴⁵ Witness Forrest’s Direct Testimony, page 16: lines 17-18.

1 **VIII. RESPONSE TO COMPANY WITNESS BARRETT**

2 **Q. DO YOU AGREE WITH MR. BARRETT’S CLAIM THAT THE RECENT**
3 **MARKET VOLATILITY HAS MADE IT IMPERATIVE THAT FPL**
4 **MAINTAIN ITS INCREDIBLY HIGH EQUITY RATIO IN ITS PROPOSED**
5 **CAPITAL STRUCTURE?**

6 **A.** I disagree with Mr. Barrett’s claim that utilities with only very high credit ratings
7 were able to access the credit markets during the COVID-19 crisis. Specifically,
8 Mr. Barrett stated:

9 The three leading credit rating agencies, S&P Global Ratings (“S&P”),
10 Moody’s Investors Service (“Moody’s”), and Fitch Ratings (“Fitch”),
11 each issue short-term CP ratings. Those CP ratings, in order of credit
12 quality from high to low are tier-1, tier-2 and tier-3. During periods of
13 extreme volatility and market uncertainty, generally only the tier-1
14 rated CP issuers such as FPL are able to maintain access, and when
15 lower rated issuers are able to issue CP, those issuances are at
16 significantly elevated rates as illustrated below.⁴⁶
17

18 Mr. Barrett went on to state:

19
20 However, even for strong tier-1 issuers like FPL, liquidity was
21 extremely limited. While FPL typically issues CP to meet liquidity
22 for a minimum of thirty days, during this extremely constrained
23 period FPL often was only able to issue CP overnight, meaning each
24 day brought concerns about liquidity for the next day. Only FPL’s
25 strong financial position, particularly its strong capital structure and
26 credit ratings, enabled it to have continued access to CP markets
27 while other lesser credits were completely essentially shut out of the
28 market.⁴⁷
29
30

⁴⁶ Witness Barrett’s Direct Testimony, page 16.

⁴⁷ *Id.*, page 17.

1 There are two fundamental problems with Mr. Barrett’s testimony on this matter.
2 First, his conclusions are contradicted by an *S&P Global* article, “*US Utilities*
3 *Access to Capital with Billions in Debt Offerings*,”⁴⁸ published April 2, 2020, that
4 discussed how utilities across the country were able to raise capital with relative
5 ease during the COVID-19 crisis that I previously cited in this testimony in **Section**
6 **II: Current State of the Financial Markets**. The article noted FPL when it stated:

7 Several utilities, including Xcel Energy and NextEra Energy Inc.
8 subsidiary Florida Power & Light Co., which issued \$1.1 billion in
9 first mortgage bonds, are "using the opportunity to take advantage
10 of attractive borrowing costs, so there does not appear to be an
11 inability to access capital," they said.

12
13 "Utilities are reporting that recent deals have been significantly (7x)
14 oversubscribed, highlighting that the capital markets are open for
15 investment grade-rated utilities," the analysts wrote. "At the same
16 time, we have also observed some utility companies that have fully
17 drawn their bank lines as a precaution to provide them with
18 liquidity in the event that markets seize up," such as Duke Energy
19 Corp. and American Electric Power Co. Inc.⁴⁹
20

21 The strength of utilities did not limited access to the credit markets. On February 3,
22 2021, *S&P Global* also stated:

23 The S&P 500 utility sector has "far and away" experienced the least
24 impact from earnings revisions since Feb. 28, the corporate bond
25 research firm found. Despite market turmoil and the ongoing
26 economic downturn, analysts have only cut earnings per share
27 expectations for stocks in the utility sector by an average 1% for
28 2020 and 2021, according to CreditSights.⁵⁰

29 Furthermore, in regard to FPL, itself, *Moody’s* stated the following in regard to the
30 Company’s exposure to risk with relation to the COVID-19 pandemic:

⁴⁸ *S&P Global Market Intelligence*, April 20, 2020 “US Utilities Demonstrated Access to Capital with Billions in Debt Offerings.”

⁴⁹ *Id.*

⁵⁰ *S&P Global Market Intelligence*, February 3, 2021, “Utility Sector “Far and Away” least impacted by EPS Estimate Cuts.”

1 We expect FPL to be relatively resilient to recessionary pressures
2 related to the coronavirus because of its rate regulated business
3 model, very large residential customer base, and timely cost
4 recovery mechanisms. Nevertheless, we are watching for electricity
5 usage declines, utility bill payment delinquency, and the regulatory
6 response to counter these effects on earnings and cash flow. As
7 events related to the coronavirus continue, we are taking into
8 consideration a wider range of potential outcomes, including more
9 severe downside scenarios. The effects of the pandemic could result
10 in financial metrics that are weaker than expected; however, we see
11 these issues as temporary and not reflective of the long-term
12 financial profile or credit quality of FPL.⁵¹
13

14 The above statement shows that Mr. Barrett’s concerns about utilities not being
15 able to access the capital markets during COVID-19 is simply not an accurate one.
16

17 **Q. DO YOU HAVE ANY CONCERNS ABOUT MR. BARRETT’S POSITION**
18 **THAT THERE IS NO “SOUND REASON” THE COMPANY’S**
19 **REQUESTED EQUITY RATIO OF 59.6% SHOULD NOT BE**
20 **APPROVED?**⁵²

21 A. Yes, I do. As I discussed previously, I have provided several “sound reasons” for
22 denying the Company’s requested equity ratio of 59.60% based on quantifiable
23 historical data and associated forecasted projections. Specifically, FPL’s 59.60%
24 requested equity ratio results in higher rates for the typical FPL customer and these
25 customers are not receiving any benefit from the unnecessarily high equity ratio.
26 As I have shown above, the high equity ratio was not needed to access the capital
27 markets during the COVID-19 pandemic.

⁵¹ *Moody’s Credit Opinion, Florida Power & Light, August 25, 2020, page 1.*
⁵² *Witness Barrett’s Direct Testimony, pages 11 – 12.*

1 In his testimony, Mr. Barrett claims that there is no “sound reason” for
2 adopting any capital structure other than the one that he was recommending in this
3 case. However, FPL has the burden of proving the need for their excessive 59.60%
4 equity ratio request. As I previously referenced, Mr. Barrett essentially provided a
5 non-response answer when he was asked to provide a cost/benefit analysis showing
6 how FPL’s equity ratio being set a level in the 59-60 percent level for the last two
7 decades provided FPL the ability to reliably serve customers well and at the lowest
8 cost possible to these customers.⁵³

9 Unless there is any evidence to the contrary that the Company has declined
10 to provide, the Company has not performed any type of study that would help them
11 to determine its optimal or appropriate capital structure. Instead, in comparison to
12 a more reasonable 55% equity ratio, the Company is simply continuing to ask
13 Florida ratepayers to pay approximately \$245 million per year in higher rates (refer
14 to **Table 11** above) to support a regulatory capital structure that is grossly excessive
15 by any standard. I do not believe the Florida Public Service Commission should
16 allow the Company to arbitrarily set a high equity ratio that punishes consumers
17 \$245 million per year without the Company providing any evidence to support its
18 continued request of this 59.60% equity ratio.

⁵³ OPC’s Third Request for Production of Documents, Request No. 73.

1 **Q. DO YOU AGREE WITH WITNESS BARRETT THAT FPL'S RATES ARE**
2 **LOWER THAN THE NATIONAL AVERAGE?**

3 A. Yes, I agree that FPL's rates are lower than the national average. However, I
4 believe Mr. Barrett should have examined this topic more deeply and explained
5 exactly why FPL's rates are below the national average.

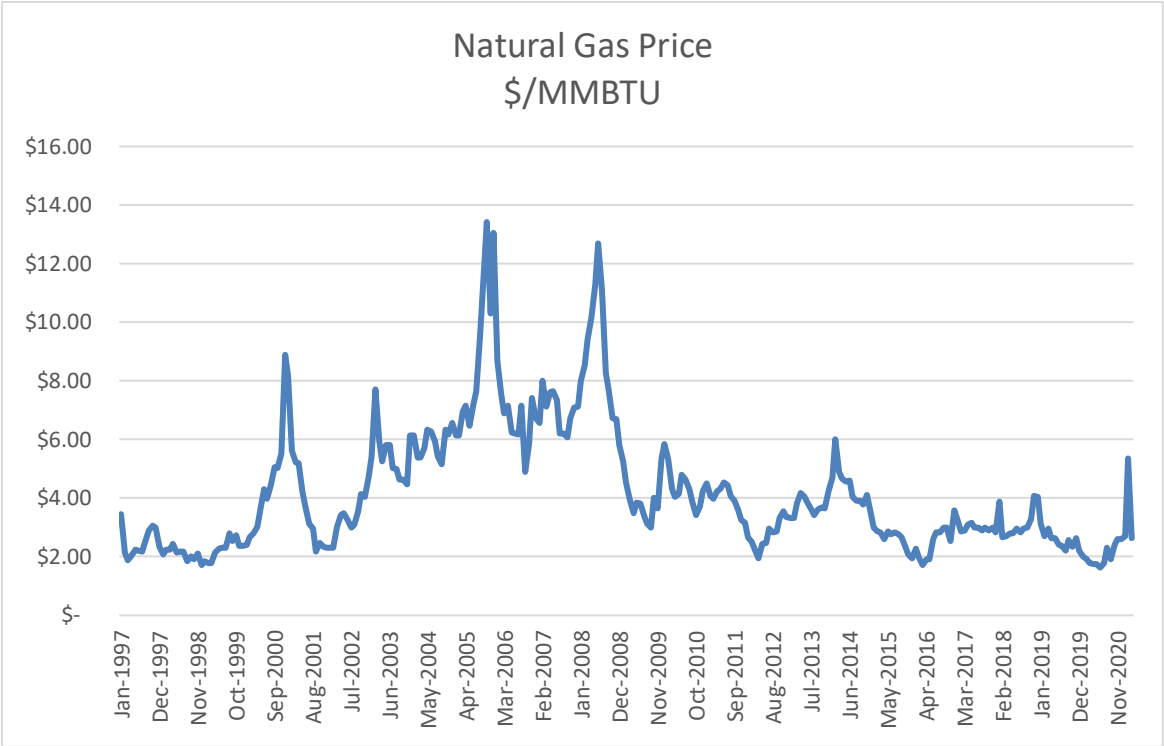
6 FPL's electric rates have not always been lower than the national average.
7 As can be seen in **Chart 3** below, prior to the development of natural gas fracking,
8 FPL's rates were higher than the national average. However, in the 2008/2009
9 timeframe, fracking was implemented on more of a widespread basis, and FPL's
10 rates began to fall soon thereafter relative to the national average. I believe the
11 primary reason for FPL's relatively low rates is because fracking has driven down
12 the price of natural gas and the United States now has an abundance of natural gas
13 which has driven down the price of the fuel.

14
15 **Q. PLEASE DESCRIBE HOW FRACKING HAS LED TO LOWER**
16 **ELECTRIC RATES FOR FPL.**

17 A. FPL, as well as the state's two other investor-owned electric utilities, Duke Energy
18 Florida ("DEF") and Tampa Electric Company ("TECO"), obtain a large amount
19 of their generation output from natural gas-fired electric generators. As such, FPL,
20 DEF, and TECO are all heavily dependent upon pricing as found in the natural gas
21 markets. Prior to 2008, most of the natural gas that served electric utilities in the
22 southeast was obtained in the Gulf of Mexico and transported up the eastern
23 seaboard by various interstate pipelines. However, in response to the high natural

1 gas prices from 2000 to early 2008, the “shale revolution”, which was driven by
2 hydraulic fracturing (“fracking”), drove natural gas prices downward
3 tremendously.⁵⁴ **Chart 2** below shows the price of natural gas dating back to 1997.

4 **Chart 2: Historical Natural Gas Prices**



5
6
7 As can be seen above, natural gas was seemingly abundant and cheap in the late
8 1990s through 2000. However, in the winter of 2000/2001, gas prices went up to
9 over \$8 per MMBTU and, essentially, provided a foreshadowing of the volatility
10 that was to come in the natural gas markets.

11 In 2008 and 2009, fracking was more widely implemented and, as shown
12 above, prices fell as the new supplies were brought into the marketplace. One of
13 the greatest beneficiaries of the lower cost natural gas were electric utilities with a

⁵⁴ <https://www.eia.org/news-policy-and-issues/blog/2016/03/29/americas-fracking-energy-progress>

1 heavy reliance on natural gas. **Table 12** below shows the percentage of natural gas
2 generation for the Florida investor-owned electric utilities as compared to the
3 national average.

4 **Table 12:** Percentage of Electric Energy Produced Using Natural Gas

Utility	Natural Gas Generation as a Percentage of Total Generation
FPL	71.8% ⁵⁵
Duke Florida	87.9% ⁵⁶
Tampa Electric	76.6% ⁵⁷
National Average	39.0% ⁵⁸

5
6 As can be seen in the above table, all the Florida utilities rely quite heavily on
7 natural gas, particularly in comparison to the national average. As such, any change
8 in the price of natural gas will have a dramatic impact on prices for electricity
9 produced by any of the three major Florida utilities.

10 The evolution of fracking and lower natural gas prices can be seen vividly
11 for the Florida utilities in **Chart 3** below. This chart is a double y-axis chart that
12 shows historical electric prices for the Florida utilities and the national average on
13 the right y-axis and historical natural gas prices on the left y-axis.

⁵⁵ Raw data sourced from *S&P Global*.

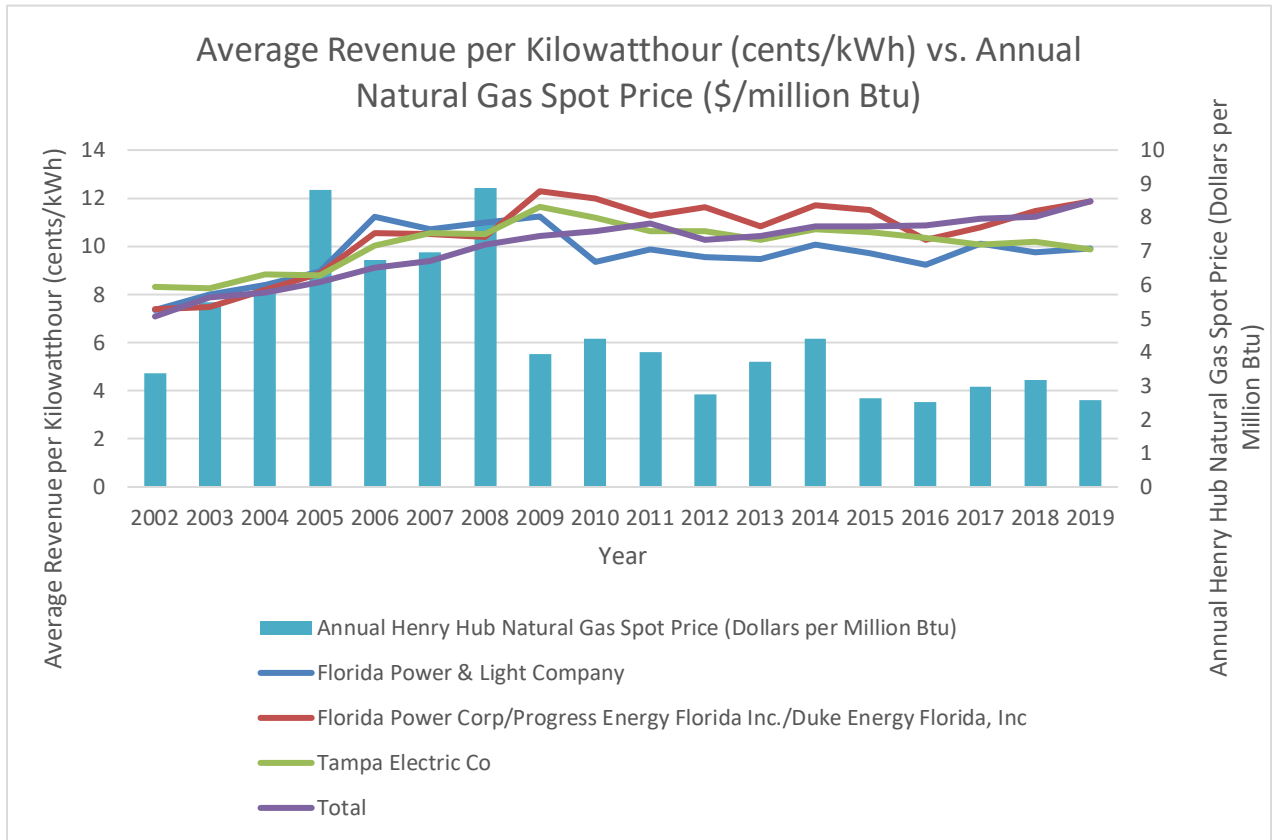
⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ <https://www.eia.gov/energyexplained/natural-gas/use-of-natural-gas.php#:~:text=Natural%20gas%20accounted%20for%2038,by%20all%20sectors%20in%202019>

1
2

Chart 3: Florida Electric Costs Compared to National Average and Natural Gas Prices⁵⁹



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FPL’s cost line is in blue in the above chart. As can be seen in this chart, the average cost of service from FPL fell sharply in 2009 as the effect of lower natural gas prices began to show up in the electric rates offered by the utility. Specifically, the average electric cost of FPL, as compared to the national average from the period of 2006 through 2010, can be seen in the table below.

⁵⁹ <https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm> - Annual data from the Energy Information Association

1

Table 13: Average Revenue per MWH

Year	Avg. Rev per MWH ⁶⁰	Annual Gas Price at Henry Hub ⁶¹
2006	\$11.22	\$6.75
2007	\$10.70	\$6.98
2008	\$10.99	\$8.86
2009	\$11.24	\$3.95
2010	\$9.37	\$4.39

2

The table above provides the numerical data that was shown in **Chart 3** and show that FPL’s electric rates fell dramatically when the price of natural gas fell due to fracking and an abundant new supply of natural gas hitting the United States market.

3

4

5

6

7

Q. ARE THERE REASONS WHY THE COSTS FOR FPL COULD BE LOWER THAN DUKE ENERGY FLORIDA AND TAMPA ELECTRIC, ALTHOUGH BOTH UTILITIES HAVE A HIGHER AMOUNT OF NATURAL GAS GENERATION?

8

9

10

11

A. Yes. One possible explanation may simply be a function of timing. The current regulated utility model is comprised of historical fixed costs and current variable costs. Historical fixed costs are, generally, for assets such as electric generating plants as well as transmission and distribution lines. Recovery of these costs take place over time – 30 years in many cases. As a result, some utilities will, generically, have higher/lower costs than other utilities based on decisions made at the time the assets were constructed and put into service. Without knowing the

12

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17

⁶⁰ https://www.eia.gov/electricity/sales_revenue_price/

⁶¹ <https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm>

1 exact timing of each major plant investment on the Duke Energy Florida, Tampa
2 Electric, and FPL systems, it is possible that timing of the plant investments had a
3 lot to do with current rates. This possibility cannot be discounted in the rush to
4 make claims about superior performance.

5
6 **Q. WHY DO YOU BELIEVE THE LINK BETWEEN NATURAL GAS AND**
7 **FPL'S RATES ARE IMPORTANT FOR THIS COMMISSION TO**
8 **UNDERSTAND?**

9 A. I have two reasons for bringing this information to the Commission's attention.

10 First, Mr. Barrett seemingly wants to credit himself and his employer, FPL,
11 for the fact that its rates are below the national average. However, I believe that
12 natural gas prices, over which FPL has no control, has been a significant driver to
13 lower electric prices for FPL. As such, it would appear as though FPL and its
14 customers simply were fortunate with the dramatic turn in natural gas prices. If
15 natural gas prices had remained as high as \$8.86 per MMBTU, I do not believe
16 FPL's rates would now be below the national average.

17 Secondly, while natural gas prices moving forward appear to be relatively
18 stable, one should also recognize the risk inherent in such forecasts. With the
19 government's new administration advocating for cleaner energy, a federally
20 mandated carbon tax is certainly possible in the next two to four years. Such a tax
21 would disproportionately impact Florida due to the prevalence of natural gas
22 generation in the generation portfolios of the State's utilities.

1 In addition, with the movement away from coal to natural gas-fired
2 generation and permitting for new interstate pipelines facing mounting legal
3 obstacles, capacity on interstate pipelines continues to tighten. Such supply/demand
4 imbalances may drive up the price of natural gas thereby also driving up the price
5 of electricity in the State.

6 If the price of natural gas reverses course and increases, FPL's rates may,
7 once again, be above the national average.

8
9 **Q. HOW DO YOU RESPOND TO MR. BARRETT'S COMMENTS ABOUT**
10 **FPL'S LOW NON-FUEL O&M COSTS?**

11 A. As was the case with Mr. Barrett's claim of low FPL rates, I believe he should have
12 provided more of an explanation as to exactly why FPL's non-fuel O&M costs are
13 lower than comparable utilities. In **Exhibit KWO-4**, I have provided a table that
14 compares non-fuel O&M costs per MWH for companies for which I could obtain
15 the necessary data from *S&P Global*. There are a total of 46 companies for which
16 the data was available.

17 **Exhibit KWO-4** shows that companies with a high portion of natural gas
18 in the total portfolio mix generally have lower non-fuel O&M costs. One potential
19 explanation is that natural gas plants require fewer employees, for example, than
20 do coal plants. *The Wall Street Journal* noticed how fewer employees were needed
21 at natural gas plants when it stated the following in its January 16, 2018 edition:

22 "Natural gas, solar and wind are all less job intensive for ongoing
23 operations," says Philip Jordan, a vice president at the Carlsbad,
24 Calif., based group, which has analyzed worker data for the U.S.
25 Energy Department.

1 Coal plants require people and machines to unload the combustible
2 rocks, sort them into piles and prepare them to be pulverized into a
3 fine mist, which is then blown into boilers. Once the coal is burned,
4 the resulting ash needs to be collected and disposed.

5 Natural gas is typically delivered straight to power plants by
6 pipeline—no unloading required. It combusts completely, so it
7 doesn't need people or machines to handle the residue.⁶²

8 So, while Mr. Barrett is correct in that FPL does have low non-fuel O&M costs, he
9 has not mentioned that FPL's generation mix is a major reason for the lower costs.

⁶² *The Wall Street Journal*, Jan. 16, 2018.

1 **IX. SUMMARY**

2 **Q. MR. O'DONNELL, PLEASE SUMMARIZE YOUR TESTIMONY.**

3 A. FPL's requested rate increase in this case is excessive, unnecessary, and
4 burdensome on the ratepayers of Florida. My specific recommendations in this case
5 are as follows:

- 6 • FPL's requested capital structure is unnecessarily expensive to consumers
7 in Florida. Relative to a 50% common equity ratio, Florida consumers are
8 being asked to pay an additional \$511 million per year for the excessive
9 capital structure requested by FPL in this case. This \$511 million cost
10 equates to an annual average cost increase of approximately \$50 to the
11 typical residential consumer and \$312,000 (**Exhibit KWO-1** page 1) for a
12 typical industrial consumer;
- 13 • Relative to the OPC recommendation of a 55% common equity ratio,
14 Florida consumers are being asked to pay an additional \$245 million per
15 year for the excessive capital structure requested by FPL in this case. This
16 \$245 million cost equates to an annual average cost increase of
17 approximately \$24 to the typical residential consumer and \$149,000
18 (**Exhibit KWO-1** page 2) for a typical industrial consumer;
- 19 • The proper capital structure using investor-only sources of capital in this
20 proceeding is 43.37% long-term debt, 1.63% short-term debt, and 55.00%
21 common equity; and
- 22 • Mr. Barrett's remarks regarding FPL's relatively low electric rates and low
23 O&M expenses can be misleading as to the underlying cause for the lower

1 costs. The reality of the situation is that FPL's low costs can, largely, be
2 explained by the fact that the Company sources a very large amount of its
3 generation mix from natural gas fired electric plants that, due to the advent
4 of fracking and lower gas prices, have allowed the Company to offer rates
5 below the national average, have allowed the Company to operate at
6 relatively low O&M costs per MWH produced.

7

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.

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Kevin W. O'Donnell, is the founder of Nova Energy Consultants, Inc. in Cary, NC. Mr. O'Donnell's academic credentials include a B.S. in Civil Engineering - Construction Option from North Carolina State University as well as a MBA in Finance from Florida State University. Mr. O'Donnell is also a Chartered Financial Analyst (CFA).

Mr. O'Donnell has over thirty-four years of experience working in the electric, natural gas, and water/sewer industries. He is very active in municipal power projects and has assisted numerous southeastern U.S. municipalities cut their wholesale cost of power by as much as 67%. On Dec. 12, 1998, *The Wilson Daily Times* made the following statement about O'Donnell.

Although we were skeptical of O'Donnell's efforts at first, he has shown that he can deliver on promises to cut electrical rates.

Mr. O'Donnell has completed close to 30 wholesale power projects for municipal and university-owned electric systems throughout North and South Carolina. In May of 1996 Mr. O'Donnell testified before the U.S. House of Representatives, Committee on Commerce, Subcommittee on Energy and Power regarding the restructuring of the electric utility industry.

Mr. O'Donnell has appeared as an expert witness in over 110 regulatory proceedings before the North Carolina Utilities Commission, the South Carolina Public Service Commission, the Virginia Corporation Commission, the Minnesota Public Service Commission, the New Jersey Board of Public Utilities, the Colorado Public Service Commission, the Wisconsin Public Service Commission, the Maryland Public Service Commission, the District of Columbia Public Service Commission, the Pennsylvania Public Utility Commission, the Indiana Public Utility Commission, the California Public Service Commission, and the Florida Public Service Commission. His area of expertise has included rate design, cost of service, rate of return, capital structure, asset valuation analyses, fuel adjustments, merger transactions, holding company applications, as well as numerous other accounting, financial, and utility rate-related issues.

Mr. O'Donnell is the author of the following two articles: "Aggregating Municipal Loads: The Future is Today" which was published in the Oct. 1, 1995 edition of *Public Utilities Fortnightly*; and "Worth the Wait, But Still at Risk" which was published in the May 1, 2000 edition of *Public Utilities Fortnightly*. Mr. O'Donnell is also the co-author of "Small Towns, Big Rate Cuts" which was published in the January, 1997 edition of *Energy Buyers Guide*. All of these articles discuss how rural electric systems can use the wholesale power markets to procure wholesale power supplies.

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

Year	Name of Applicant	State Jurisdiction	Docket No.	Client/ Employer	Case Issues
1985	Public Service Company of NC	NC	G-5, Sub 200	Public Staff of NCUC	Return on equity, capital structure
1985	Piedmont Natural Gas Company	NC	G-9, Sub 251	Public Staff of NCUC	Return on equity, capital structure
1986	General Telephone of the South	NC	P-19, Sub 207	Public Staff of NCUC	Return on equity, capital structure
1987	Public Service Company of NC	NC	G-5, Sub 207	Public Staff of NCUC	Return on equity, capital structure
1988	Piedmont Natural Gas Company	NC	G-9, Sub 278	Public Staff of NCUC	Return on equity, capital structure
1989	Public Service Company of NC	NC	G-5, Sub 246	Public Staff of NCUC	Return on equity, capital structure
1990	North Carolina Power	NC	E-22, Sub 314	Public Staff of NCUC	Return on equity, capital structure
1991	Duke Energy	NC	E-7, Sub 487	Public Staff of NCUC	Return on equity, capital structure
1991	North Carolina Natural Gas	NC	G-21, Sub 306	Public Staff of NCUC	Natural gas expansion fund
1991	North Carolina Natural Gas	NC	G-21, Sub 307	Public Staff of NCUC	Natural gas expansion fund
1991	Penn & Southern Gas Company	NC	G-3, Sub 186	Public Staff of NCUC	Return on equity, capital structure
1995	North Carolina Natural Gas	NC	G-21, Sub 334	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1995	Carolina Power & Light Company	NC	E-2, Sub 680	Carolina Utility Customers Assoc.	Fuel adjustment proceeding
1995	Duke Power	NC	E-7, Sub 559	Carolina Utility Customers Assoc.	Fuel adjustment proceeding
1996	Piedmont Natural Gas Company	NC	G-9, Sub 378	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Piedmont Natural Gas Company	NC	G-9, Sub 382	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Public Service Company of NC	NC	G-5, Sub 356	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1996	Cardinal Extension Company	NC	G-39, Sub 0	Carolina Utility Customers Assoc.	Capital structure, cost of capital
1997	Public Service Company of NC	NC	G-5, Sub 327	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1998	Public Service Company of NC	NC	G-5, Sub 386	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
1998	Public Service Company of NC	NC	G-5, Sub 386	Carolina Utility Customers Assoc.	Natural gas transportation rates
1999	Public Service Company of NC/SCANA Corp	NC	G-5, Sub 400	Carolina Utility Customers Assoc.	Merger case
1999	Public Service Company of NC/SCANA Corp	NC	G-43	Carolina Utility Customers Assoc.	Merger Case
1999	Carolina Power & Light Company	NC	E-2, Sub 753	Carolina Utility Customers Assoc.	Holding company application
1999	Carolina Power & Light Company	NC	G-21, Sub 387	Carolina Utility Customers Assoc.	Holding company application
1999	Carolina Power & Light Company	NC	P-708, Sub 5	Carolina Utility Customers Assoc.	Holding company application
2000	Piedmont Natural Gas Company	NC	G-9, Sub 428	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2000	NUI Corporation	NC	G-3, Sub 224	Carolina Utility Customers Assoc.	Holding company application
2000	NUI Corporation/Virginia Gas Company	NC	G-3, Sub 232	Carolina Utility Customers Assoc.	Merger application
2001	Duke Power	NC	E-7, Sub 685	Carolina Utility Customers Assoc.	Emission allowances and environmental compliance costs
2001	NUI Corporation	NC	G-3, Sub 235	Carolina Utility Customers Assoc.	Tariff change request.
2001	Carolina Power & Light Company/Progress E	NC	E-2, Sub 778	Carolina Utility Customers Assoc.	Asset transfer case
2001	Duke Power	NC	E-7, Sub 694	Carolina Utility Customers Assoc.	Restructuring application
2002	Piedmont Natural Gas Company	NC	G-9, Sub 461	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2002	Cardinal Pipeline Company	NC	G-39, Sub 4	Carolina Utility Customers Assoc.	Cost of capital, capital structure
2002	South Carolina Public Service Commission	SC	2002-63-G	South Carolina Energy Users Committee	Rate of return, accounting, rate design, cost of service
2003	Piedmont Natural Gas/North Carolina Natural Gas	NC	G-9, Sub 470	Carolina Utility Customers Assoc.	Merger application
2003	Piedmont Natural Gas/North Carolina Natural Gas	NC	G-9, Sub 430	Carolina Utility Customers Assoc.	Merger application
2003	Piedmont Natural Gas/North Carolina Natural Gas	NC	E-2, Sub 825	Carolina Utility Customers Assoc.	Merger application
2003	Carolina Power & Light Company	NC	E-2, Sub 833	Carolina Utility Customers Assoc.	Fuel case
2004	South Carolina Electric & Gas	SC	2004-178-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2005	Carolina Power & Light Company	NC	E-2, Sub 868	Carolina Utility Customers Assoc.	Fuel case
2005	Piedmont Natural Gas Company	NC	G-9, Sub 499	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2005	South Carolina Electric & Gas	SC	2005-2-E	South Carolina Energy Users Committee	Fuel application
2005	Carolina Power & Light Company	SC	2006-1-E	South Carolina Energy Users Committee	Fuel application
2006	IRP in North Carolina	NC	E-100, Sub 103	Carolina Utility Customers Assoc.	Submitted rebuttal testimony in investigation of IRP in NC.
2006	Piedmont Natural Gas Company	NC	G-9, Sub 519	Carolina Utility Customers Assoc.	Creditworthiness issue
2006	Public Service Company of NC	NC	G-5, Sub 481	Carolina Utility Customers Assoc.	Return on equity, capital structure, rate design, cost of service
2006	Duke Power	NC	E-7, 751	Carolina Utility Customers Assoc.	App to share net revenues from certain wholesale pwr trans

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

Year	Name of Applicant	State Jurisdiction	Docket No.	Client/ Employer	Case Issues
2006	South Carolina Electric & Gas	SC	2006-192-E	South Carolina Energy Users Committee	Fuel application
2007	Duke Power	NC	E-7, Sub 790	Carolina Utility Customers Assoc.	Application to construct generation
2007	South Carolina Electric & Gas	SC	2007-229-E	South Carolina Energy Users Committee	Rate of return, accounting, rate design, cost of service
2008	South Carolina Electric & Gas	SC	2008-196-E	South Carolina Energy Users Committee	Base load review act proceeding
2009	Western Carolina University	NC	E-35, Sub 37	Western Carolina University	Rate of return, accounting, rate design, cost of service
2009	Duke Power	NC	E-7, Sub 909	Carolina Utility Customers Assoc.	Cost of service, rate design, return on equity, capital structure
2009	South Carolina Electric & Gas	SC	2009-261-E	South Carolina Energy Users Committee	DSM/EE rate filing
2009	Duke Power	SC	2009-226-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2009	Tampa Electric	FL	080317-EI	Florida Retail Federation	Return on equity, capital structure
2010	Duke Power	SC	2010-3-E	South Carolina Energy Users Committee	Fuel application - assisted in settlement
2010	South Carolina Electric & Gas	SC	2009-489-E	South Carolina Energy Users Committee	Return on equity, capital structure, rate design, cost of service
2010	Virginia Power	VA	PUE-2010-00006	Mead Westvaco	Rate design
2011	Duke Energy	SC	2011-20-E	South Carolina Energy Users Committee	Nuclear construction financing
2011	Northern States Power	MN	E002/GR-10-971	Xcel Large Industrials	Return on equity, capital structure
2011	Virginia Power	VA	PUE-2011-0027	Mead Westvaco	Capital structure, revenue requirement
2011	Duke Energy	NC	E-7, Sub 989	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
2011	Duke Energy	SC	2011-271-E	South Carolina Energy Users Committee	Accounting, cost of service, rate design, ROE, capital structure
2011	Dominion Virginia Power	VA	PUE-2011-00073	Mead Westvaco	Rate design
2012	Town of Smithfield/Partners Equity Group	NC	ES-160, Sub 0	Partners Equity Group	Rate design, asset valuation
2012	Florida Power & Light	FL	120015-EI	Florida Office of Public Counsel	Capital structure
2012	South Carolina Electric & Gas	SC	2012-218-E	South Carolina Energy Users Committee	Accounting, cost of service, rate design, ROE, capital structure
2013	Progress Energy Carolinas	NC	E-2, Sub 1023	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
2013	Duke Energy Carolinas	NC	E-7, Sub 1026	Carolina Utility Customers Assoc.	Rate design
2013	Jersey Central Power & Light	NJ	BPU ER12111052	Gerdau Ameristeel	Return on equity, capital structure
2013	Duke Energy Carolinas	SC	2013-59-E	South Carolina Energy Users Committee	Accounting, cost of service, rate design, ROE, capital structure
2013	Tampa Electric	FL	130040-EI	Florida Office of Public Counsel	Capital structure and financial integrity
2013	Piedmont Natural Gas	NC	G-9, Sub 631	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
2014	Dominion Virginia Power	VA	PUE-2014-00033	Mead Westvaco	Recoverable fuel costs, hedging strategies
2014	Public Service Company of Colorado	CO	14AL-0660E	Colorado Healthcare Electric Coordinating Council	Return on equity, capital structure
2015	WEC Acquisition of Integrys	WI	9400-YO-100	Staff of Wisconsin Public Service Commission	Merger analysis
2015	Dominion Virginia Power	VA	PUE-2015-00027	Federal Executive Agencies	Return on equity
2015	South Carolina Electric & Gas	SC	2015-103-E	South Carolina Energy Users Committee	Return on equity
2015	Western Carolina University	NC	E-35, Sub 45	Western Carolina University	Accounting, cost of service, rate design, ROE, capital structure
2016	Sandpiper Energy	MD	9410	Maryland Office of People's Counsel	Return on equity, capital structure
2016	Washington Gas Light	DC	FC 1137	Washington, DC Office of People's Counsel	Return on equity, capital structure
2016	Florida Power & Light	FL	160021-EI	Florida Office of Public Counsel	Capital Structure
2016	Jersey Central Power & Light	NJ	EM15060733	NJ Division of Rate Counsel	Asset valuation
2016	Rockland Electric Company	NJ	ER16050428	NJ Division of Rate Counsel	Rate design
2016	Dominion NC Power	NC	E-22, Sub 532	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
				Healthcare Council of the National Capitol Area (HCNCA)	
2017	Potomac Electric Power	DC	FC 1139		ROE and capital structure
2017	Columbia Gas of Maryland	MD	FC 9447	Maryland Office of People's Counsel	ROE and capital structure
2017	Washington Gas Light	DC	FC 1142	Washington, DC Office of People's Counsel	Merger analysis
2017	Duke Energy Progress	NC	E-2, Sub 1142	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
2018	Public Service Electric & Gas	NJ	GR17070776	NJ Division of Rate Counsel	ROE and capital structure
2018	Duke Energy Carolinas	NC	E-7, Sub 1146	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE, capital structure
2018	Elkton Gas/SJI	MD	FC 9475	Maryland Office of People's Counsel	Merger analysis
2018	Entergy Texas	TX	PUC 48371	Entergy Texas Cities	ROE
2018	Duke Energy Carolinas	SC	2018-3-E	South Carolina Energy Users Committee	Fuel case

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

Year	Name of Applicant	State Jurisdiction	Docket No.	Client/ Employer	Case Issues
2018	Elkton Gas Company	MD	FC 9488	Maryland Office of People's Counsel	Accounting, ROE, capital structure
2018	Baltimore Gas & Electric	MD	FC9484	Maryland Office of People's Counsel	ROE, capital structure
2018	South Carolina Electric & Gas	SC	2017-370-E	South Carolina Energy Users Committee	Creditworthiness issue
2018	Jersey Central Power & Light	NJ	EO18070728	NJ Division of Rate Counsel	ROE and capital structure
2019	Duke Energy Carolinas	SC	2018-319-E	South Carolina Energy Users Committee	Accounting, rate design
2019	Duke Energy Progress	SC	2018-318-E	South Carolina Energy Users Committee	Accounting, rate design
2019	Public Service Electric and Gas	NJ	EO18060629	NJ Division of Rate Counsel	ROE and capital structure
2019	Potomac Electric Power	MD	FC 9602	Maryland Office of People's Counsel	ROE, capital structure
2019	Oklahoma Gas and Electric	OK	PUD 201800140	Sierra Club	Creditworthiness issue
2019	Peoples Natural Gas	PA	R-2018-3006818	Pennsylvania Office of Consumer Advocate	ROE, capital structure
2019	UGI Natural Gas	PA	R-2018-3006814	Pennsylvania Office of Consumer Advocate	ROE, capital structure
2019	Dominion Virginia Power	VA	PUR-2019-00050	Federal Executive Agencies	Return on Equity
2019	Piedmont Natural Gas	NC	G-9, Sub 743	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE
2019	Edison, San Diego Gas & Electric	CA	A-1904014, et al	Federal Executive Agencies	ROE, capital structure
2019	Duke Energy Indiana	IN	Cause 45253	Federal Executive Agencies	ROE, capital structure
2020	Duke Energy Carolinas	NC	E-7 Sub 1214	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE
2020	Duke Energy Progress	NC	E-2 Sub 1219	Carolina Utility Customers Assoc.	Accounting, cost of service, rate design, ROE
2020	Dominion Virginia Power	VA	PUR-2019-00154	Southern Environmental Law Center	Financial analysis of plant investment
2020	Southwest Electric Power Company	LA	U-35324	Alliance for Affordable Energy	Financial analysis of plant investment
2020	Texas Gas Company	TX	PUC 10928	Texas Gas Cities	ROE, capital structure
2020	Potomac Electric Power	DC	FC 1156	District of Columbia Office of Peoples Counsel	ROE, capital structure
2020	UGI Gas	PA	R-2019-3015162	Pennsylvania Office of Consumer Advocate	ROE, capital structure, creditworthiness
2020	Columbia Gas of Maryland	MD	FC 9644	Maryland Office of People's Counsel	ROE, capital structure
2020	Columbia Gas of Pennsylvania	PA	R-2020-3018835	Pennsylvania Office of Consumer Advocate	ROE, capital structure
2020	New Mexico Gas Company	NM	19-00317-UT	Federal Executive Agencies	ROE, capital structure, accounting, rate design, cost of service
2020	Washington Gas Light	DC	FC 1162	District of Columbia Office of Peoples Counsel	ROE, capital structure
2020	Dominion Energy South Carolina	SC	2020-125-E	South Carolina Energy Users Committee	Accounting, rate design
2021	Suez Water Company	NJ	BPU WR2011	NJ Division of Rate Counsel	ROE, capital structure, rate design

FPL All-Sources Requested Cap Structure					
Source of Capital	Ratio	Cost Rate	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	FPL Minimum Filing Requirement ("MFR"), Schedule D-1a (without RSAM)				
	a	b, Below	Rx, c = a * b	d	Rx, e = c * d
Long-Term Debt	31.37%	3.61%	1.13%	1.00000	1.13%
Preferred Stock	0.00%	0.00%	0.00%	1.00000	0.00%
Customer Deposits	0.82%	2.03%	0.02%	1.00000	0.02%
Short-Term Debt	1.18%	0.94%	0.01%	1.00000	0.01%
Deferred Income Taxes	10.63%	0.00%	0.00%	1.00000	0.00%
FAS 109 Deferred Income tax	6.08%	0.00%	0.00%	1.00000	0.00%
Investment Tax Credits	1.89%	8.38%	0.16%	1.00000	0.16%
Common Equity	48.03%	11.50%	5.52%	1.34153	7.41%
Total	100.00%		6.84%		8.73%

Below

FPL Investor-Sourced Requested Cap Structure		
Source of Capital	Ratio	Investor-Sourced
	Above, f	Rx, h = f / g
Long-Term Debt	31.37%	38.93%
Preferred Stock	0.00%	0.00%
Short-Term Debt	1.18%	1.46%
Common Equity	48.03%	59.61%
Total	80.58%	100.00%

g

	Above, i	k = i / j	50% Scenario, l	m = k * l
Short-Term Debt	1.18%		3.63%	50.00%
Long-Term Debt			96.37%	50.00%
Total Debt	32.55%		100.00%	Below

j

Source of Capital	Investor-Sourced	Cost Rate	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	Above, n	Above, o	Rx, p = n * o	q	Rx, r = p * q
Long-Term Debt	48.19%	3.61%	1.74%	1.00000	1.74%
Preferred Stock	0.00%	0.00%	0.00%	1.00000	0.00%
Short-Term Debt	1.81%	0.94%	0.02%	1.00000	0.02%
Common Equity	50.00%	11.50%	5.75%	1.34153	7.71%
Total	100.00%		7.51%		9.47%

Capital Structure Using All Sources of Capital Under 50% Common Equity Ratio Scenario						
Source of Capital	Ratio (%)		Cost Rate (%)	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	s		Above, t	u = s * t	v	w = u * v
Long-Term Debt	38.83%	= n / g	3.61%	1.40%	1.00000	1.40%
Short-Term Debt	1.46%		0.94%	0.01%	1.00000	0.01%
Common Equity	40.29%	▼	11.50%	4.63%	1.34153	6.22%
Preferred Stock	0.00%	Above	0.00%	0.00%	1.00000	0.00%
Customer Deposits	0.82%		2.03%	0.02%	1.00000	0.02%
Deferred Income Taxes	10.63%		0.00%	0.00%	1.00000	0.00%
FAS 109 Deferred Income tax	6.08%		0.00%	0.00%	1.00000	0.00%
Investment Tax Credits	1.89%	▼	8.38%	0.16%	1.00000	0.16%
Total	100.00%			6.22%		7.81%

Below

Sample Residential Consumer Cost for Requested FPL Equity Ratio Under 50% CE Ratio Scenario	
FPL Requested Pre-Tax Cost of Capital	8.73% Above, x
OPC Recommended Pre-Tax Cost of Capital	7.81% Above, y
Difference	0.92% Rx, z = x - y
Rate Base	\$55,395,402 (\$000s), FPL MFR Schedule B-1 without RSAM,aa
Impact of Higher Rates for Single Year	\$510,842 (\$000s), ab = z * aa, Exhibit KWO-3
Retail Sales (kWhs)	122,096,501,415 FPL MFR Schedule E-6a,ac
Impact per kWh	\$0.00418 ad = (ab * 1000) / ac, Below
Annual Impact Using 1,000 kWh/month	\$50.21 = 12,000 kWh / year * ac

Sample Industrial Cost for Requested FPL Equity Ratio Under 50% CE Ratio Scenario	
Load size	10,000 kW, ae
Hours in year	8,760 af
Load factor	85.0% ag
Impact per kWh	\$0.00418 ad, Above
Total Cost Impact	\$ 311,535 = ac * af * ag * ad

FPL All-Sources Requested Cap Structure					
Source of Capital	Ratio	Cost Rate	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	FPL Minimum Filing Requirement ("MFR"), Schedule D-1a (without RSAM)				
	a	b, Below	Rx, c = a * b	d	Rx, e = c * d
Long-Term Debt	31.37%	3.61%	1.13%	1.00000	1.13%
Preferred Stock	0.00%	0.00%	0.00%	1.00000	0.00%
Customer Deposits	0.82%	2.03%	0.02%	1.00000	0.02%
Short-Term Debt	1.18%	0.94%	0.01%	1.00000	0.01%
Deferred Income Taxes	10.63%	0.00%	0.00%	1.00000	0.00%
FAS 109 Deferred Income tax	6.08%	0.00%	0.00%	1.00000	0.00%
Investment Tax Credits	1.89%	8.38%	0.16%	1.00000	0.16%
Common Equity	48.03%	11.50%	5.52%	1.34153	7.41%
Total	100.00%		6.84%		8.73%

Below

FPL Investor-Sourced Requested Cap Structure		
Source of Capital	Ratio	Investor-Sourced
	Above, f	Rx, h = f / g
Long-Term Debt	31.37%	38.93%
Preferred Stock	0.00%	0.00%
Short-Term Debt	1.18%	1.46%
Common Equity	48.03%	59.61%
Total	80.58%	100.00%

g

	Above, i	k = i / j	OPC Recommendation 55% Scenario 1	m = k * l
Short-Term Debt	1.18%	3.63%	45.00%	1.63%
Long-Term Debt	31.37%	96.37%	45.00%	43.37%
Total Debt	32.55%	100.00%		Below

j

Source of Capital	Investor-Sourced	Cost Rate	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	Above, n	Above, o	Rx, p = n * o	q	Rx, r = p * q
Long-Term Debt	43.37%	3.61%	1.57%	1.00000	1.57%
Preferred Stock	0.00%	0.00%	0.00%	1.00000	0.00%
Short-Term Debt	1.63%	0.94%	0.02%	1.00000	0.02%
Common Equity	55.00%	11.50%	6.33%	1.34153	8.49%
Total	100.00%		7.91%		10.07%

Capital Structure Using All Sources of Capital Under the 55% Common Equity Ratio Recommendation						
Source of Capital	Ratio (%)		Cost Rate (%)	Post-Tax Cost Rate	Tax Gross-up	Pre-Tax Cost Rate
	s	= n / g	Above, t	u = s * t	v	w = u * v
Long-Term Debt	34.95%		3.61%	1.26%	1.00000	1.26%
Short-Term Debt	1.31%		0.94%	0.01%	1.00000	0.01%
Common Equity	44.32%	▼	11.50%	5.10%	1.34153	6.84%
Preferred Stock	0.00%	Above	0.00%	0.00%	1.00000	0.00%
Customer Deposits	0.82%		2.03%	0.02%	1.00000	0.02%
Deferred Income Taxes	10.63%		0.00%	0.00%	1.00000	0.00%
FAS 109 Deferred Income tax	6.08%		0.00%	0.00%	1.00000	0.00%
Investment Tax Credits	1.89%	▼	8.38%	0.16%	1.00000	0.16%
Total	100.00%			6.55%		8.29%

Below

Sample Residential Consumer Cost for Requested FPL Equity Ratio Under 55% CE Ratio Recommendation	
FPL Requested Pre-Tax Cost of Capital	8.73% Above, x
OPC Recommended Pre-Tax Cost of Capital	8.29% Above, y
Difference	0.44% Rx, z = x - y
Rate Base	\$55,395,402 (\$000s), FPL MFR Schedule B-1 without RSAM, aa
Impact of Higher Rates for Single Year	\$244,927 (\$000s), ab = z * aa, Exhibit KWO-3
Retail Sales (kWhs)	122,096,501,415 FPL MFR Schedule E-6a, ac
Impact per kWh	\$0.00201 ad = (ab * 1000) / ac, Below
Annual Impact Using 1,000 kWh/month	\$24.07 = 12,000 kWh / year * ac

Sample Industrial Cost for Requested FPL Equity Ratio Under 55% CE Ratio Recommendation	
Load size	10,000 kW, ae
Hours in year	8,760 af
Load factor	85.0% ag
Impact per kWh	\$0.00201 ad, Above
Total Cost Impact	\$ 149,368 = ac * af * ag * ad

Yield Spread 2011 through 2020			
Year	Month	Public Utility Bonds	
		A	Baa
2011	Jan	5.57	6.06
	Feb	5.68	6.10
	March	5.56	5.97
	April	5.55	5.98
	May	5.32	5.74
	June	5.26	5.67
	July	5.27	5.70
	August	4.69	5.22
	Sept.	4.48	5.11
	Oct.	4.52	5.24
	Nov.	4.25	4.93
	Dec.	4.33	5.07
2012	Jan	4.34	5.06
	Feb	4.36	5.02
	March	4.48	5.13
	April	4.40	5.11
	May	4.20	4.97
	June	4.08	4.91
	July	3.93	4.85
	August	4.00	4.88
	Sept.	4.02	4.81
	Oct.	3.91	4.54
	Nov.	3.84	4.42
	Dec.	4.00	4.56
2013	Jan	4.15	4.66
	Feb	4.18	4.74
	March	4.20	4.72
	April	4.00	4.49
	May	4.17	4.65
	June	4.53	5.08
	July	4.68	5.21
	August	4.73	5.28
	Sept.	4.80	5.31
	Oct.	4.70	5.17
	Nov.	4.77	5.24
	Dec.	4.81	5.25
2014	Jan	4.63	5.09
	Feb	4.53	5.01
	March	4.51	5.00
	April	4.41	4.85
	May	4.26	4.69
	June	4.29	4.73
	July	4.23	4.66
	August	4.13	4.65
	Sept.	4.24	4.79
	Oct.	4.06	4.67
	Nov.	4.09	4.75
	Dec.	3.95	4.70
2015	Jan	3.58	4.39
	Feb	3.67	4.44
	March	3.74	4.51
	April	3.75	4.51
	May	4.17	4.91
	June	4.39	5.13
	July	4.40	5.22
	August	4.25	5.23
	Sept.	4.39	5.42
	Oct.	4.29	5.47
	Nov.	4.40	5.57
	Dec.	4.35	5.55
2016	Jan	4.27	5.49
	Feb	4.11	5.28
	March	4.16	5.12
	April	4.00	4.75
	May	3.93	4.60
	June	3.78	4.47
	July	3.57	4.16
	August	3.59	4.20
	Sept.	3.66	4.27
	Oct.	3.77	4.34
	Nov.	4.08	4.64
	Dec.	4.27	4.79
2017	Jan	4.14	4.62
	Feb	4.18	4.58
	March	4.23	4.62
	April	4.12	4.51
	May	4.12	4.50
	June	3.94	4.32
	July	3.99	4.36
	August	3.86	4.23
	Sept.	3.87	4.24
	Oct.	3.91	4.26
	Nov.	3.83	4.16
	Dec.	3.79	4.14
2018	Jan	3.86	4.18
	Feb	4.09	4.42
	March	4.13	4.52
	April	4.17	4.58
	May	4.28	4.73
	June	4.27	4.71
	July	4.27	4.67
	August	4.26	4.64
	Sept.	4.32	4.74
	Oct.	4.45	4.91
	Nov.	4.52	5.03
	Dec.	4.37	4.92
2019	Jan	4.35	4.91
	Feb	4.25	4.76
	March	4.16	4.65
	April	4.08	4.55
	May	3.98	4.47
	June	3.82	4.31
	July	3.69	4.13
	August	3.29	3.63
	Sept.	3.37	3.71
	Oct.	3.39	3.72
	Nov.	3.43	3.76
	Dec.	3.40	3.73
2020	Jan	3.29	3.60
	Feb	3.11	3.42
	March	3.50	3.96
	April	3.19	3.82
	May	3.14	3.63
	June	3.07	3.44
	July	2.74	3.09
	August	2.73	3.06
	Sept.	2.84	3.17
	Oct.	2.95	3.27
	Nov.	2.85	3.17
	Dec.	2.77	3.05
Average 2011 - 2020		a	b
		4.10	4.65
Average 2020		c	d
		3.02	3.39

Difference across 2011 - 2020 e = b - a 0.55
Difference across 2020 alone f = d - c 0.38
Average g = (e + f) / 2, Three-notch downgrade estimate 0.46
One-notch downgrade estimate = g / 3, Exhibit KWO-3 0.15

Source for data: Mergent Bond Record, May 2021

Interest Cost Differential from Possible Downgrade Under 50% CE Ratio Scenario

Year	Year	Total Assets (\$000's)		CapEx (\$000's)		Cumulative Capex		To Be Financed 50% With Debt (\$000's)		Total (\$000's)	
		Rx	Rx	Rx	Rx	Rx	Rx	Rx	Rx	Rx	Rx
2020	Reported Total Assets from EOY books from FPL MFR Schedule B-1	\$	53,804,267								
2021	Estimated Total Assets from FPL MFR Schedule B-1 2021	\$	58,859,768	\$	5,055,501						
2022	Estimated Total Assets from FPL MFR Schedule B-1 2022	\$	69,990,586	\$	11,130,818						
2023	Estimated - Previous Year Inflated at 10% per year	\$	76,989,645	\$	6,999,059						
2024	Estimated - Previous Year Inflated at 10% per year	\$	84,688,609	\$	7,698,964						
2025	Estimated - Previous Year Inflated at 10% per year	\$	93,157,470	\$	8,468,861						
2026	Estimated - Previous Year Inflated at 10% per year	\$	102,473,217	\$	9,315,747						
2027	Estimated - Previous Year Inflated at 10% per year	\$	112,720,539	\$	10,247,322						
2028	Estimated - Previous Year Inflated at 10% per year	\$	123,992,593	\$	11,272,054						
2029	Estimated - Previous Year Inflated at 10% per year	\$	136,391,852	\$	12,399,259						
2030	Estimated - Previous Year Inflated at 10% per year	\$	150,031,037	\$	13,639,185						
Average											

Impact of Higher Rates for Ten Years	\$	5,108,417,741	= a * 10, b
Impact of Possible Downgrade	\$	353,439,483	Above, c
Net Difference	\$	4,754,978,258	= b - c

Impact of Higher Rates for Single Year	\$	510,841,774	Exhibit KWO-1, a
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Basis Point Differential 0.15% Exhibit KWO-2

Interest Cost Differential from Possible Downgrade Under 55% CE Ratio Recommendation

Year	Year	Total Assets (\$000's)	CapEx (\$000's)	Cumulative Capex (\$000's)	To Be Financed 45% With Debt (\$000's)	Total (\$000's)
		Rx	Rx	Rx	Rx	Rx
2020	Reported Total Assets from EOY books from FPL MFR Schedule B-1	\$ 53,804,267	---	---	---	---
2021	Estimated Total Assets from FPL MFR Schedule B-1 2021	\$ 58,859,768	\$ 5,055,501	5,055,501	2,274,975	\$ 3,412
2022	Estimated Total Assets from FPL MFR Schedule B-1 2022	\$ 69,990,586	\$ 11,130,818	16,186,319	7,283,844	\$ 10,926
2023	Estimated - Previous Year Inflated at 10% per year	\$ 76,989,645	\$ 6,999,059	23,185,378	10,433,420	\$ 15,650
2024	Estimated - Previous Year Inflated at 10% per year	\$ 84,688,609	\$ 7,698,964	30,884,342	13,897,954	\$ 20,847
2025	Estimated - Previous Year Inflated at 10% per year	\$ 93,157,470	\$ 8,468,861	39,353,203	17,708,941	\$ 26,563
2026	Estimated - Previous Year Inflated at 10% per year	\$ 102,473,217	\$ 9,315,747	48,668,950	21,901,027	\$ 32,852
2027	Estimated - Previous Year Inflated at 10% per year	\$ 112,720,539	\$ 10,247,322	58,916,272	26,512,322	\$ 39,768
2028	Estimated - Previous Year Inflated at 10% per year	\$ 123,992,593	\$ 11,272,054	70,188,326	31,584,746	\$ 47,377
2029	Estimated - Previous Year Inflated at 10% per year	\$ 136,391,852	\$ 12,399,259	82,587,585	37,164,413	\$ 55,747
2030	Estimated - Previous Year Inflated at 10% per year	\$ 150,031,037	\$ 13,639,185	96,226,770	43,302,046	\$ 64,953
	Average					\$ 318,096

Impact of Higher Rates for Ten Years	\$ 2,449,268,506 = a * 10, b
Impact of Possible Downgrade	\$ 318,095,535 Above, c
Net Difference	\$ 2,131,172,971 = b - c

Basis Point Differential 0.15% Exhibit KWO-2

Residential Impact of Higher Rates for Single Year	\$ 244,926,851 Exhibit KWO-1, a
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O&M Costs per MWH Compared to Amount of Mix of Natural Gas Generation

Ranking	Company	Non-Fuel O&M per MWH	% of Gas in Total Gen
1	UNS Electric, Inc.	3.71	100.0%
2	Duke Energy Florida, LLC	4.20	87.9%
3	Nevada Power Company	4.22	92.7%
4	Florida Power & Light Company	4.35	71.8%
5	Entergy Mississippi, LLC	4.83	84.6%
6	Tampa Electric Company	5.62	76.6%
7	Southwestern Public Service Company	6.21	50.6%
8	Upper Michigan Energy Resources Corporat	6.23	100.0%
9	Gulf Power Company	6.33	47.1%
10	Idaho Power Company	6.40	13.9%
11	Cleco Power LLC	6.49	68.0%
12	Mississippi Power Company	6.50	94.4%
13	Entergy Texas, Inc.	6.92	89.5%
14	Oklahoma Gas and Electric Company	7.21	65.5%
15	Empire District Electric Company	7.70	57.5%
16	Portland General Electric Company	8.23	53.3%
17	Kentucky Utilities Company	8.26	24.6%
18	Minnesota Power Enterprises, Inc.	8.55	0.3%
19	PacifiCorp	8.82	24.1%
20	Appalachian Power Company	8.84	19.8%
21	Monongahela Power Company	9.12	0.0%
22	Southwestern Electric Power Company	9.23	23.3%
23	Duke Energy Carolinas, LLC	9.55	16.5%
24	Black Hills Power, Inc.	9.87	15.4%
25	Duke Energy Progress, LLC	10.51	35.0%
26	AES Indiana	10.65	38.9%
27	Virginia Electric and Power Company	10.95	49.6%
28	Georgia Power Company	11.06	48.1%
29	Tucson Electric Power Company	11.14	49.5%
30	Otter Tail Power Company	11.37	1.8%
31	Alabama Power Company	11.86	28.1%
32	Entergy Arkansas, LLC	12.39	31.2%
33	Wheeling Power Company	13.06	0.0%
34	Kentucky Power Company	13.23	29.7%
35	Consolidated Water Power Company	13.72	0.0%
36	Public Service Company of Oklahoma	13.83	94.1%
37	Public Service Company of New Mexico	14.28	22.4%
38	Arizona Public Service Company	14.64	32.5%
39	El Paso Electric Company	14.99	50.6%
40	Duke Energy Indiana, LLC	15.91	29.5%
41	Indiana Michigan Power Company	16.97	0.0%
42	Upper Peninsula Power Company	17.32	0.0%
43	DTE Electric Company	18.20	5.8%
44	Alaska Electric Light and Power Company	18.96	0.0%
45	Southern California Edison Company	21.07	24.8%
46	Green Mountain Power Corporation	23.22	0.0%

Source: S&P Global