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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 Daniel J. Lawton. 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,

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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

DANIEL J. LAWTON

ON BEHALF OF

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DIRECT TESTIMONY OF
DANIEL J. LAWTON

SECTION I: <u>INTRODUCTION</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel J. Lawton. My business address is 12600 Hill Country Boulevard, Suite R-275, Austin, Texas 78738.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have been working in the utility consulting business as an economist since 1983. My consulting engagements have included electric utility load and revenue forecasting, cost of capital analyses, financial analyses, revenue requirements/cost of service reviews, regulatory policy issues, and rate design analyses in litigated rate proceedings before federal, state and local regulatory authorities, and in court proceedings. I have worked with numerous municipal utilities developing electric rate cost of service studies for reviewing and setting rates. In addition, I have a law practice based in Austin, Texas. My main areas of legal practice include administrative law representing municipalities in electric and gas rate proceedings and other litigation and contract matters. I have included a brief description of my relevant educational background and professional work experience in Exhibit DJL-1.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE PROCEEDINGS?

A. Yes, I have, including a number of cases before the Florida Public Service Commission. A list of cases where I have previously filed testimony is included in Exhibit DJL-1.

Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. I have been asked to review certain aspects of the Florida Power & Light ("FPL" or "Company") rate filing. I am filing this testimony on behalf of the Office of the Public Counsel ("OPC").

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

A. The purpose of my testimony in this proceeding is to address certain parts of the FPL four-year Rate Plan proposed by the Company in this case. Specifically, I address the Company's requested four-year rate plan forecasted 2022 test year, 2023 Subsequent Year Adjustment ("SYA") test year, the 2024 adjusted year revenue requirement for the requested Solar Base Rate Adjustment Mechanism ("SoBRA"), and the 2025 adjusted year revenue requirement for the requested subsequent year SoBRA mechanism. In addition, I address the proposed Reserve Surplus Amortization Mechanism ("RSAM"), the proposed return on equity ("ROE") Inflator, and issues related to financial integrity.

Q. WHAT MATERIALS DID YOU REVIEW AND RELY ON FOR THIS

TESTIMONY?

A. I have reviewed prior orders of the Florida Public Service Commission ("Commission"), FPL's prior rate filings, Company Direct Testimony in this docket, historical Earnings Surveillance Reports, other testimony and supporting schedules from other cases, FPL's responses to discovery, financial reports and other financial information available in the public domain. When relying on various sources, I have referenced such sources in my testimony and/or attached Schedules and included copies or summaries in my Schedules and/or work papers.

SECTION II: <u>OVERVIEW OF FPL FOUR-YEAR RATE PLAN PROPOSAL</u>

Q. PLEASE PROVIDE A SUMMARY OF THE COMPANY'S PROPOSED RATE PLAN IN THIS CASE?

A. The FPL proposed Four-Year Rate Plan is addressed by a number of FPL witnesses, but the most complete summary appears in the direct testimony of FPL Witness Barrett at page 65 through page 69. The FPL Four-Year Rate Plan consists of the following key elements:

FPL commits not to request any additional general,[1] base rate increase effective prior to January 1, 2026 (except those identified in this proceeding).[2]

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[1] FPL uses the qualifier "general" here. I am aware that Section 366.076, Fla. Stat. authorizes something called "limited" proceedings to adjust rates. I will not opine on scope of non-general base rate proceedings authorized under this statute, but I would urge the Commission to evaluate whether this is an exception to the stay-out commitment FPL purports to make.

[2] Direct Testimony Witness Barrett at page 65 line 22 through page 66 line 1.

i) In exchange for this four-year stay out provision FPL requests the following:

A. January 1, 2022 base rate increase of $1,108,000,000,[3]

B. January 1, 2023 base rate increase of $607,000,000,[4]

C. January 1, 2024 base rate increase of $140,000,000,[5]

D. January 1 2025 base rate increase of $140,000,000.[6]

E. Commission approval of the requested Reserve Surplus Amortization ("RSAM") amount of $1.48 billion to be available to FPL for the 2022 through 2025 period or until the next general base rate change.[7] I discuss later, FPL may in fact delay the next rate increase and stay out longer given the enormous amount of revenue increase in this case and the substantial likelihood that the test year forecasts of sales and economic recovery are understated.

F. Approving the RSAM adjusted depreciation rates set forth in FPL Witness Ferguson Exhibit KF-3(B) creating the $1.48 billion Reserve Amount and the revenue requirement amounts set forth in items A and B above.[8] (Witness Ferguson asserts that the actual depreciation rates are approximately $200 million higher than the proposed RSAM depreciation rates in the four-year rate plan.)

[3] Direct Testimony FPL Witness Silagy at page 36 line 23.
[4] Direct Testimony Witness Silagy at page 37 line 1.
[5] Direct Testimony FPL Witness Cohen at page 33 line 15.
[6] Direct Testimony Witness Cohen at page 33 line 15.
[7] Direct Testimony Witness Barrett at page 66 lines 11 through line 14.
[8] Direct Testimony Witness Barrett at page 66 line 15 through page 20.

G. Approval of the Solar Base Rate Adjustment ("SoBRA") mechanism set forth in Witness Barrett's Exhibit REB-12 which supports two additional base rate increases of about $140 million each; the first SoBRA increase in 2024 and the second SoBRA increase in 2025.[9]

H. Approval of the accelerated amortization of the unprotected excess deferred income taxes (unprotected EDITs) that were to be amortized in 2026 and 2027 would instead be amortized in 2024 and 2025 as described by FPL Witness Bores.[10] The impact of the acceleration is to defer cash rate increases over the 2024 and 2025 period.[11] The impact of the deferral is about $163 million over the two years.[12]

I. Included in the above four-year rate plan components are the following items:

1. A 50-basis point increase to the requested ROE requirement of 11.0% up to 11.50% at a revenue requirement cost to consumers of about $183 million per year or over $732 million during the for-year rate plan;[13]

2. Expansion of the authorized equity return range of earnings from the original 10% to 12.0% with an 11.0% midpoint up to 10.5% to 12.5%. with an 11.50% midpoint;

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[9] Direct Testimony Witness Barrett at page 66 line 21 through page 67 line 2.
[10] Direct Testimony FPL Witness Bores at page 10 line 1 through line 4.
[11] Direct Testimony Witness Bores at page 10 line 4 through line 5.
[12] Direct Testimony Witness Bores at page 41 line 5 through line 6.
[13] The annual revenue requirement impact of a 50-basis point adjustment to the requested equity return is provided in Schedule (DJL-2)

3. FPL proposes to retain other mechanisms in place such as the Storm Cost Recovery Mechanism ("SCRM") to assure revenue recovery to address unforeseen or unpredictable events.[14] Mechanisms such as the SCRM lower business risks for FPL.

To summarize, FPL is proposing to not file a general base rate increase over the four-year period 2022 through 2025 if FPL is allowed a year 2022 increase of $1.108 billion, a year 2023 increase of $607 million, a year 2024 increase of $140 million, and a year 2025 increase of $140 million. In other words, FPL will commit to not filing a general base rate increase for four years if the Commission will preapprove four annual increases totaling $1.995 billion over four years. Included in these $1.995 billions of rate increases between 2022 and 2025 is the authorization of an 11.0% equity return, where an 11.0% ROE is about 160 basis points above the current 9.4% authorized average ROE for the average electric utility operations in 2020.[15] FPL is certainly less risky than the average electric utility in the United States. OPC Witness Woolridge addresses this ROE issue in detail.

FPL further enhances the shareholder profit by requesting an additional 50 basis points of equity return to a level of 11.50%.[16] This 50-basis point inflator translates into another $136.432 million of added profit and an additional $183.027 of annual revenue requirement. Thus, the FPL first year revenue requirement includes significant

[14] Direct Testimony Witness Barrett at Exhibit REB-10, Page 1 of 1.
[15] Average ROE awarded by regulatory authorities to the average electric utility in 2020 per Edison Electric Institute Financial Data publication 4th quarter 2020.
[16] Direct Testimony Witness Barrett at page 49 lines 4 through line 7.

amounts of excess profits and when taxes are considered, substantial excess revenue requirement. Thus, the first-year rate increase of $1.108 billion includes a substantial amount of excess profit request.

The Company's proposed four-year rate plan includes yet another shareholder profit enhancement through the RSAM. Through the RSAM, FPL is able to generate an additional 100 basis points of shareholder profits up to a 12.50% equity return. As shown in Schedule DJL-2, FPL has employed the RSAM to generate top end earnings at 11.6% equity return each reporting month since July 2018 through the present. Thus, through RSAM earnings management an added 100 basis point of equity return which further increase FPL annual revenue requirements by $366.054 million.[17]

The end result is that the Company's proposed four-year rate plan is the pre-approval of four annual increases that produce excessive profits for FPL shareholders at the expense of customers. The Subsequent Year Adjustment ("SYA") is a second forecast further into the future designed to maintain the excess profit level again at the expense of customers.[18] In fact Witness Bores states: "[a]ssuming FPL's 2022 request is granted in full, the 2023 SYA reflects only the incremental revenue need in 2023 to achieve a projected ROE equal to the requested midpoint of 11.50%."[19] FPL's sole goal in the SYA is to maintain excess profits. The third and fourth year 2024 and 2025 increases for the SoBRA proposal allows for the targeted piecemeal rate increases for specific solar assets and ignore other cost decreases or revenue increases again at the expense of customers. Then on top of the four proposed rate increases between 2022 and 2025, the FPL proposed RSAM allows the Company to maximize earnings at a

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[17] Calculated from Schedule (DJL-2) by doubling the 50-basis point adjustment quantification.
[18] Direct Testimony Witness Bores at, Page 35 line 20 through page 36, lines 1 through 5.
[19] Direct Testimony Witness Bores at, Page 36 lines 1 through 3.

substantial expense to future customers. As I discuss in the RSAM section of this testimony, historically FPL has used the RSAM to enhance shareholder returns causing customers to incur more costs in the future. Then, we have the proposed Inflator equity return which is not supported by a more complete review of FPL's historical performance.

The FPL proposed 4-year rate plan is not a good plan for customers and should be rejected. The FPL plan is based on earning excess profits at the expense of customers and then maximizing these excess profits to an even higher level through the RSAM which will result in putting hundreds of millions of dollars of added costs on future customers. The maximization of the excess profits is maintained over three additional years through more, uncertain forecasts in the guise of what FPL calls a SYA and additional piecemeal ratemaking adjustments called SoBRAs. The FPL four-year rate plan is not good or sound regulatory policy and the Company plan should be rejected by the Commission.

Q. PLEASE PROVIDE A SUMMARY OF YOUR RECOMMENDED ADJUSTMENTS IN THIS CASE?

A. Each issue is addressed in detail in the following pages, but a summary of the recommendations I make in this case are as follows:

(1) The test year in this case should be limited to the forecast 2022 test period. Thus, the proposed Subsequent Year Adjustment 2023 test year should be eliminated. The forecasting uncertainty surrounding the 2020 pandemic make estimates beyond 2022 substantially uncertain and not reliable for sound rate setting. As I discuss below, the FPL forecast of sales, customers, and load is based on an analysis

conducted in mid to late 2020. The analysis does not consider more rapid recovery and the influences of recent fiscal policy and some monetary initiatives. This recommendation does not threaten FPL's revenues or financials. If it turns out future increases are necessary FPL may file such requests at that time. Moreover, this approach to dealing with uncertain test year forecasts made during an economic crisis is exactly how this Commission handled the matter in Docket No. 20080677-EI when FPL requested multiple test year adjustments following the Great Recession.

(2) Consistent with the removal of the Subsequent Year Adjustment, I recommend that the two proposed SoBRA $140 million annual increases 2024 and 2025 be eliminated. In addition to the increased forecast uncertainty, there are fundamental fairness issues of targeting future increases while ignoring offsetting cost factors. Also like the Subsequent Test Year Adjustment, this Commission handled the matter of targeted future rate increases by eliminating them in Docket No. 20080677-EI when FPL requested multiple year rate increase adjustments following the Great Recession.

(3) Third, FPL's proposed RSAM proposal should be denied in total. The fundamental reason for denying FPL's request is that the proposal harms customers and FPL acknowledges this customer harm. Specifically, FPL proposes a $1.48 billion RSAM starting balance.[20] Now, when FPL amortizes the RSAM reserve amount such **amortization is recorded as a credit to depreciation expense and a corresponding debit to the accumulated depreciation reserve – an increase to**

[20] Direct Testimony FPL Witness Barrett at page 66 lines 11 through line 14.
[

rate base.[21] The Company employed this RSAM flexibility through the last base rate case settlement to maintain a high-end ROE of 11.60%.[22] Now, FPL proposes to employ the $1.48 billion RSAM for the next four years. But as Witness Bores acknowledges each time FPL credits depreciation expense to enhance shareholder profits to maximum levels – customers incur an increase to rate base (i.e. more cost obligations). This is wrong to take ratepayer depreciation payments and rather than reduce plant investment through higher levels of accumulated depreciation, instead boost shareholder profits.

To address RSAM and Theoretical Depreciation Reserve issues I have made the following recommendations:

a. OPC witness McCullar's Theoretical Reserve imbalance should be employed using the remaining life technique supported in Ms. McCullar's depreciation analysis as well as in that of Company's own depreciation Witness Ned Allis.

b. The expected year-end 2021 outstanding balance of RSAM reserve should remain as a component of depreciation reserve, not subject to amortization discretion, and be dealt with in the next FPL base rate case.

(4) Fourth, the FPL requested 50-basis point ROE incentive or surplus return should be rejected. The requested incentive is excessive adding about $183 million in annual revenue requirement.[23] The requested incentive is even more excessive when one considers all other incentives already in rates or further requested by FPL. I discuss this issue in detail below. For all these reasons, I recommend that the

[21] Direct Testimony FPL Witness Bores at page 31 lines 8 through line 10.

[22] Direct Testimony FPL Witness Bores at page 31 lines 10 through line 13, also see FPL's February 28, 2021 Earnings Surveillance Report at Attachment 1.

[23] Calculated as a 50-basis point equity adjustment from FPL's filed Schedule A where revenue requirement is grossed-up employing a 21% Federal Income Tax Rate.

proposed inflator or surplus profit be rejected.

SECTION III: <u>TEST YEAR, SUBSEQUENT YEAR ADJUSTMENTS, AND FORECASTING ISSUES</u>

Q. WHAT ISSUE(S) DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony, I address the essential part of FPL's four-year rate plan that being the multi-year approximately $2.0 billion of rate increases, of which $1.1 billion is through a forecasted 2022 test year, about $607 million more through what FPL calls a Subsequent Year Adjustment, and two more $140 million annual increases through a mechanism called the SoBRA. I explain the problems with forecasting rates far into the future, the unfairness of one-sided mechanisms, and the basic reason for one test period for setting rates. The key issue being addressed is that FPL has forecasted 5-years of data from 2021 through 2025 and ended up with about $1.995 billion of consumer rate increases for the period 2022 through 2025.

In evaluating all of the issues in FPL's request, the Commission should keep one overriding issue in mind "what is driving this requested $2.0 billion increase?" FPL as a vertically integrated electric utility has managed to earn one of the highest if not the highest equity return profits in the country of 11.60% every month since July 2018 to the present. What exactly is causing a sudden need for a $2.0 billion increase?

The simply answer is that there are substantial capital additions on the FPL system, but FPL's employing an overstated profit request is the driving factor causing a need for such a substantial rate change. A careful examination of this request shows it is entirely driven by profit enhancement. That is profit enhancement beyond a fair, just, and reasonable profit level and leads to excessive rates.

Q. HOW DID FPL CALCULATE THE FUTURE REVENUE REQUIREMENTS FOR THE 2022 TEST YEAR, THE 2023 SUBSEQUENT YEAR ADJUSTMENT TEST YEAR, AND THE 2023 AND 2024 SOBRA MECHANISM ADJUSTMENT YEARS?

A The answer is starting with 2020 historical data in the midst of the COVID-19 pandemic and one of U.S. history's most severe and sudden economic downturns, FPL employed forecasts, more forecasts and even more forecasts to predict the future $2.0 billion in rate requirements for customers. Starting from the 2020 historical base line, FPL first made forecasts for estimating the year 2021, and then additional forecasts for estimating year 2022 (the first test year). Then FPL estimated a Subsequent Year Adjustment test year 2023. FPL then estimated 2024 and 2025 and layered in about $140 million of solar plant estimates for those years.

To get a sense of the FPL forecasting efforts one need look no further than Mr. Bores direct testimony where he points out that FPL and Gulf provided separate O&M expense and capital expenditure forecasts for the period 2021 through 2025.[24] In addition to these separate FPL and Gulf forecasts, estimates of merger synergy savings were developed on the assumption of legally combined FPL and Gulf operation.[25] These merger assumptions were worked into the final FPL and Gulf forecast estimates to arrive at a legally combined utility cost estimate. The major assumptions underlying

[24] FPL Direct Testimony Witness Bores at page 20, line 10 to 11.
[25] FPL Direct Testimony Witness Bores at page 20, line 11 to 21.

the forecasts are shown in the 22 pages that make up Schedule MFR F-8 attached to Mr. Bores testimony.[26] I should note that FPL Witness Park estimated future customers, energy, and demands by class in separate regression forecasts. The general assumptions and inputs to Mr. Park's analysis are also contained in MFR F-8. Also, Mr. Park is the witness responsible for the inflation factors employed in the models. The bottom line is that there is no factual dispute that the entirety of the $2.0 billion in proposed FPL rate increases is based on forecasts well into the future.

Q. IS THERE GOOD REASON TO HAVE CONCERN ABOUT THESE FORECASTS?

A. Absolutely. First, the starting point or the base line historical year of 2020 was a year full of economic turmoil, uncertainty, with major economic disruptions. A February 2021 report by the Congressional Budget Office concluded: "the 2020-2021 coronavirus pandemic caused severe economic disruptions last year as households, governments, and businesses adopted a variety of mandatory and voluntary measures-collectively referred to here as social distancing. The impact was focused on particular sectors of the economy, such as travel and hospitality . . . ."[27] Florida knows full well the impact of the disruptions to the economy surrounding the travel, leisure, and hospitality industries.

The Congressional Budget Office currently projects a stronger economy in its February 2021 forecast than it did in the third quarter 2020 forecast in large part because the economic downturn in 2020 was not as severe as expected and recovery

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[26] FPL Direct Testimony Witness Bores at Exhibit SRB-6, pages 1 through 22.
[27] *An Overview of the Economic Outlook 2021 to 2031*, Congressional Budget Office, (February 2021) at 1.

was sooner and stronger than expected.[28] But the Congressional Budget Office points out that these current projections are "subject to an unusually high degree of uncertainty and that uncertainty stems from many sources, including the course of the pandemic, **the effectiveness of monetary and fiscal policies, and the response of global financial markets to substantial increases in public deficits and debt**."[29] Other forecasting concerns and uncertainty surround the impact of the pandemic on the economy over the longer term, including the impacts on productivity, the labor force, and technological innovation.[30]

There are many economic uncertainties never before experienced, but FPL seems to plow ahead with enormous rate increases all based on estimates – none of which directly consider recent monetary and or fiscal policy impacts. Further, this case is not just a forecasted test year, but involves **FIVE** future year forecasts 2021 through 2025. During times of increased uncertainties, it is generally not wise to estimate more years of rate increases. Forecasting a test year two years into the future is already subject to uncertainty, but forecasting multiple test years using an extremely volatile economic year such as 2020 for the base historic year is fraught with pitfalls. The Commission should have concerns in this environment with extended future test years, all piling on more and more rate increases.

Q. IS THERE ANY WAY TO EVALUATE THE QUALITY OF THE FPL REVENUE REQUIREMENT FORECASTS AT THIS TIME?

[28] *An Overview of the Economic Outlook 2021 to 2031*, Congressional Budget Office, (February 2021) at 4.
[29] *An Overview of the Economic Outlook 2021 to 2031*, Congressional Budget Office, (February 2021) at 4. (Emphasis added.)
[30] *An Overview of the Economic Outlook 2021 to 2031*, Congressional Budget Office, (February 2021) at 4.

A. Yes. First, one does need to wait until 2026 to see how close the forecasts came in relative to actuals. That could be an expensive and costly wait for customers. Instead, the Commission can exercise its judgement based on the facts and decide not to employ any rate adjustments beyond the 2022 forecasted test year.

This Commission has previously addressed similar forecasting uncertainties in Docket Nos. 20080677-EI and 20090130-EI, where FPL requested a $247 million increase in a Subsequent Year Adjustment beyond the 2010 forecasted test year. (See, Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket Nos. 20080677-EI and 20090130-EI, In Re: Petition for Increase in Rates by Florida Power & Light Company, In Re: 2009 Depreciation and Dismantlement Study by Florida Power & Light at page 7).

In that case, after concluding that the Commission has legal authority to employ a forecasted test year and authority to authorize a Subsequent Year Adjustment, the Commission decided a Subsequent Year Adjustment and back-to-back increases was a bridge to far. (Order No. PSC-10-0153-FOF-EI at pages 9 - 11). Specifically, the Commission found that back-to-back rate increases should only be allowed in "extraordinary circumstances." (Order No. PSC-10-0153-FOF-EI at page 9). There are no extraordinary circumstances requiring FPL to request a Subsequent Year Adjustment in this case – instead FPL claims that the equity return earnings deteriorate following the 2022 test year and the purpose of the Subsequent Year Adjustment is to increase equity earnings.[31] This is exactly the same argument FPL made in Docket Nos. 20080677-EI and 20090130-EI. (Order No. PSC-10-0153-FOF-EI at page 9). The Commission soundly rejected FPL's Docket Nos. 20080677-EI and 20090130-EI

[31] FPL Direct Testimony Witness Bores at page35, lines 22 to 23 through. Page 36, lines 1 – 5.

Subsequent Year Adjustment request stating; "[t]he Company's ratepayers deserve a full investigation into the cause of FPL's claimed deterioration of its earnings." (Order No. PSC-10-0153-FOF-EI at page 10).

The Commission made two additional points on the merits of the FPL Subsequent Year Adjustment in Docket Nos. 20080677-EI and 20090130-EI that are relevant to the current case. First, the Commission pointed out that regulatory authorities that make use of forecasted test year ratemaking typically only look one year into the future. (Order No. PSC-10-0153-FOF-EI at page 10). This case also requests the Commission look into a future 2022 test year and then look out another year for the second test period basis for the Subsequent Year Adjustment. As the Commission noted in PSC-10-0153-FOF-EI at page 10 "[a]s one reaches farther into the future, predictions and projections of future economic conditions become less certain and more subject to the vagaries of changing variables." The current FPL Subsequent Year Adjustment for 2023 like FPL's prior case discussed above reaches farther into the future, predictions and projections of future economic conditions become less certain and more subject to the vagaries of changing variables.

Second, in Order No. PSC-10-0153-FOF-EI at page 10, the Commission pointed out that the economic environment when the test year projections were made was heavily influenced by the impact of the subprime mortgage crisis of 2008 – 2009. The Commission pointed out that it is certainly possible that FPL's claimed need for a Subsequent Year Adjustment could be offset by changes in sales growth, billing determinants, fiscal policy Stimulus Bill benefits and other cost-decreasing measures. (Order No. PSC-10-0153-FOF-EI at page 10) Finally in Order No. PSC-10-0153-FOF-EI at page 10, the Commission concluded "FPL's claim that it will need a rate increase in 2011 simply is too speculative, and is hereby rejected."

The same is true in this case. The forecasts were made during 2020, down economic times and certainly do not include all the impacts of monetary and fiscal policy Stimulus Bill benefits that continue to have economic impacts in enhancing economic growth. On the monetary policy front the Federal Reserve Federal Open Market Committee ("FOMC") is committed to a policy of low inflation and full employment. Maintaining inflation controls requires the continued low federal funds rate along with continued quantitative easing efforts resulting in lower cost of capital for the immediate future.[32]

Q. HAVE YOU IDENTIFIED ANY FORECAST ASSUMPTIONS THAT MAY BE SUSPECT GIVEN ECONOMIC TURMOIL AND SUBSEQUENT ECONOMIC TURNAROUND?

A. I have not considered all modeling assumptions, but a review of the customer and energy forecast used in this case shows rather low or anemic growth over the 2021 through 2025 period.[33] The compound growth rate is less than 1.0% at about 0.79%.[34] The longer-term growth rate for the 2021 through 2068 period is also less than 1.0% at about 0.98%. A review of the recent forecasts from the U.S. Energy Information Administration ("EIA") for the South Atlantic region has about a 1.95% growth rate in energy consumption in the 2020 to 2022 period.[35] In terms of overall forecasts, the EIA

[32] See Federal Reserve FOMC Press Release (April 28, 2021) see www.federalreserve.gov/newsevents/pressreleases/monetary20210428a.htm
[33] FPL Direct Testimony Witness Sims at Exhibit bSRS-4, page 3 of 3 column 3.
[34] FPL Direct Testimony Witness Sims at Exhibit bSRS-4, page 3 of 3 column 3, CAGR for 2022 -2025.
[35] See *Short – Term Energy Outlook*, U.S. Energy Information Administration May 6, 2021 Forecast, Table 7b. US regional Electricity Retail Sales (S. Atlantic Region 2020 2022).

states that electricity consumption in the United States will increase by 2.2% in 2021 after falling 3.9% in 2020 and EIA forecasts industrial sales to increase by 3.3% in 2021.[36] FPL's current estimates do appear understated. So, FPL's conclusion of low, under 1.0% growth is an assumption that should be questioned.

Another questionable assumption is FPL's assumed unemployment rate (Florida) for 2022 of 6.61% which is overstated.[37] A recent study by Goldman Sachs forecasts a jobs boom and unemployment rate of 4.1% by the end of 2021.[38] The Congressional Budget Office current 2021 and 2022 projections estimate unemployment at 4.9% in 2022 and 4.6 % in 2023, declining to 4.0% in the 2024-2025 period.[39] Further, based on the most current U.S. Bureau of Labor Statistics, the Florida unemployment rate is 4.8% well below FPL's forecast model assumption of 6.61%. This is a problem.

In summary there are valid concerns surrounding FPL's revenue requirement and billing determinants forecasts in this case. There should be significant concern regarding forecasts formulated in the midst of the 2020 COVID-19 pandemic and economic collapse during the second and third quarters of 2020. These forecasts are then employed through 2023 and incorporate an unacceptable level of uncertainty for setting future rates. Fundamental assumptions such as the Florida unemployment rate are factually incorrect and the anemic growth resulting from these uncertain estimates means fewer billing units and higher rates for all customers. It is just not necessary to rely on these uncertain estimates. The biggest concerns surround the increased

[36] *Short – Term Energy Outlook*, U.S. Energy Information Administration May 6, 2021 at page 1.
[37] See MFR Schedule F-8 at page 1, line 9.
[38] See Goldman Sachs forecasts a jobs boomwww.cnbc.com/2021/03/08/goldman-sachs.
[39] *An Overview of the Economic Outlook 2021 to 2031*, Congressional Budget Office, (February 2021) at 2.

uncertainty surrounding the FPL 2023 forecasts for the subsequent year adjustment. The forecast and proposed 2023 test year Subsequent Year Adjustment is not necessary and should be excluded from this case. If the 2022 test year turns out to be less than adequate in terms of future cost recovery, FPL can file for new and changed rates at that time. There is no evidence in this proceeding that indicates filing a new case if necessary is an undue burden on FPL or customers and may in fact be quite beneficial to customers given the uncertainty of the forecasting environment.

Q. HAVE YOU IDENTIFIED ANY FORECAST ISSUES THAT THE COMPANY CONSIDERED AS A RESULT OF THE YEAR 2020 ECONOMIC TURMOIL AND EXPECTED ECONOMIC TURNAROUND?

A. Several parts of Witness Park's testimony seem to address these topics. First, Mr. Park does state that the Great Recession (2007 – 2009) affected the Florida economy far greater than other parts of the United States.[40] He also points out that the Florida economy grew at a faster rate than the U.S. from 2016 through 2019 – then the pandemic hit.[41]

To make estimates in this case Mr. Park assumed a population growth estimate of about 1% versus the 2016 to 2019 historical 1.4%.[42] From the start, by employing lower population growth levels, Mr. Park's analyses failed to consider a more rapid rebound to pre-pandemic levels. Then Mr. Park readily acknowledges the impacts of COVID-19 to-date, and the projected recovery are captured in the forecasts.[43] The

[40] Direct Testimony Witness Park at page 8, line 1-2.
[41] Direct Testimony Witness Park at page 8, lines 7 - 8.
[42] Direct Testimony Witness Park at page 8, lines 19 - 22.
[43] Direct Testimony Witness Park at page 9, lines 8 - 9.

problem is that Mr. Park's forecasts do not have added data showing a quicker economic turn-around. Instead, Mr. Park's analysis employed economic projections for customer, energy sales and peak demand forecasts from IHS Markit's August 2020 economic forecast and the CPI projections are based on IHS Markit's May 2020 forecasts.[44] The pandemic and associated economic outlook has changed swiftly and dramatically over a short period of time and these dramatic changes have not been incorporated in Mr. Park's analyses.

To see the problem and results from Mr. Park's forecasting efforts on customer quantities one need look no further than the following table.

TABLE 1
FPL HISTORICAL AND FORECAST of CUSTOMER DATA[45]

YEAR	CUSTOMERS	ANNUAL PERCENT GROWTH
2013	5,065,000	
2014	5,151,000	1.7%
2015	5,223,000	1.4%
2016	5,293,000	1.3%
2017	5,361,000	1.3%
2018	5,426,000	1.2%
2019	5,526,000	1.8%
2020	5,608,000	1.5%
2021 FORECAST	5,664,000	0.998%
2022 FORECAST	5,718,000	0.993%
2023 FORECAST	5,785,000	1.172%

As can be seen in the table above, historical customer quantities grew historically at rates well above 1 percent. But Mr. Park employing his 2020 forecast along with

[44] Direct Testimony Witness Park at page 9, lines 11 - 13.
[45] Historical and forecast customer quantities from Witness Park Direct Testimony Exhibit JKP-3.

pandemic and economic collapse assumptions has changed those customer growth expectations to less than 1 percent. Only starting later in 2023 do we see customer growth climb above 1 percent. Mr. Park's failure to recognize a more rapid turn-around in the economy by using outdated data has led to these understated estimates.

Q. HAS FPL ALSO UNDERSTATED THE ENERGY SALES FORECAST?

A. Yes. I have developed an analysis of FPL's energy sales forecast in Table 3 below.

TABLE 2
FPL HISTORICAL AND FORECAST SALES DATA[46]

YEAR	DELIVERED SALES GWH'S[47]	COMPOUND GROWTH
2017	116,821	
2018	120,355	
2019	119,536	
2020	120,134	0.90%[48]
2022 FORECAST	122,083	0.80%[49]
2023 FORECAST	122,980	0.78%[50]

Like the customer forecast, the estimate of delivered sales grow at a lower rate than pre-pandemic levels. Again, Mr. Park has understated the future.

For all of the above reasons, the Commission should avoid looking beyond the 2022 forecasted test year. Use of Mr. Park's forecasts beyond 2022 only compound the understatement of sales and revenues all to the detriment of consumers. This is the approach this Commission took during the last economic crisis 2007 - 2009 and it should follow that approach in this case as well.

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[46] Historical and forecast customer quantities from Witness Park Direct Testimony Exhibit JKP-3.
[47] Historical and forecast delivered sales quantities from Witness Park Direct Testimony Exhibit JKP-4.
[48] Compound growth rate for historical period 2017 – 2020.
[49] Compound growth rate for forecast period 2020 – 2022.
[50] Compound growth rate for forecast period 2020 – 2023.

SECTION IV: <u>THE SOLAR BASE RATE ADJUSTMENT MECHANISM ("SoBRA)</u>

Q. PLEASE ADDRESS THE 2024 AND 2025 RATE INCREASES UNDER THE FPL PROPOSED SOLAR BASE RATE ADJUSTMENT ("SOBRA") MECHANISM?

A. In this case the Company proposes to continue the SoBRA mechanism that has been in place as the result of the settlement of FPL's 2016 rate case.[51] The fact that a SoBRA mechanism was part of an overall Settlement in the 2016 FPL rate case should have no impact of this proceeding. Parties in a prior case engaged in the give and take of negotiation and ultimately agreed on a total package leading to the Settlement of the prior case. Now, proposals in this case must stand on their own merits -- not the fact that previous settlements included similar types of rate mechanisms.

As to the merits of the SoBRA mechanisms, FPL proposes to have rate increases of about $140 million per year in 2024 and 2025 to accommodate expected in-service dates of new solar facilities.[52] To achieve the expected $140 million revenue requirement, the rate increase will be implemented by adjusting the customer charge, demand charge and energy charge by an equal percentage to recover the revenue requirement approved. Also these revenue requirements are to be subject to true up.[53] The Company asserts that the SoBRA mechanism is similar to the Generation Base Rate Adjustments employed by the Commission in past cases.[54]

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[51] See Order No. PSC-16-0560-AS-EI (December 15, 2016).
[52] FPL Direct Testimony Witness Cohen at page 33, lines 10 – 15.
[53] Direct Testimony Witness Cohen at page 34, lines 10 – 21.
[54] Direct Testimony Witness Cohen at page 35, lines 5 – 10.

Q. DO YOU AGREE WITH THE COMPANY'S SOBRA PROPOSAL AND $140 MILLION INCREASES FOR 2024 AND 2025?

A. The short answer is no. The proposed 2024 and 2025 SoBRA rate increases should be denied. First, I discussed above how the longer-term forecast are uncertain and the claimed need for the Subsequent Year Adjustment as well as these outer year SoBRA adjustments must be questioned. It is certainly possible that economic conditions, increased customer growth, increased electric sales, and lower capital costs will all tend to offset costs of power plants and/or other plant additions. Alternatively, if it turns out increases are necessary in 2024 and 2025, FPL can file a rate case and demonstrate the need for a rate change. The 2025 SoBRA estimates are four years down the road and the Company will have more current data and estimates at that time.

As to the FPL argument that the SoBRA mechanism is similar to the Generation Base Rate Adjustment ("GBRA") employed in past proceedings – such an analogy does not support the SoBRA in this case. For example, in FPL's Docket No. 080677-EI the Commission ruled; "We deny FPL's request to continue the GBRA mechanism. It is not possible for us to exercise as adequate a level of economic oversight within the context of a GBRA mechanism as we can exercise within the context of a traditional rate case proceeding." (See Order No. PSC-10-0153-FOF-EI at p. 16.). In that analysis, the Commission pointed out a concern for formalizing the GBRA process. The Commission also pointed out that a substantial portion of FPL's total revenue requirement (61% as of 2009) was already subject to pass through mechanisms and recovery clauses and another clause mechanism versus traditional rate cases may not provide any advantage or benefits. Since this time, the Storm Protection Plan mechanism to process capital improvements under the plan has been added which shifts additional revenues from base rates to a clause mechanism.

It does not appear that the benefits of employing a SoBRA mechanism outweigh the risks to customers. FPL is in the best position to determine when a new revenue requirement proceeding is necessary. So, if economic recovery in 2024 and 2025 make a new rate case necessary FPL can file a case at that time. For all of the above reasons, I recommend that the Commission not adopt the proposed SoBRA mechanism.

SECTION V: RESERVE SURPLUS AMORTIZATION MECHANISM (RSAM)

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS RELATED TO FPL'S REQUEST FOR APPROVAL OF A RSAM.

A. FPL's request for a RSAM demonstrates the Company's over-reach for increased rates and revenues in this case to the detriment of the customers. First, FPL creates a $1.48 billion RSAM balance out of whole cloth that will likely drive future depreciation rates and customer rates to higher levels.[55] Second, FPL proposes to amortize the RSAM, at its sole discretion to maintain the FPL return on equity between 10.5% and 12.5%.[56] This provision of the RSAM should raise alarms when FPL needs a mechanism to assure the equity return earned will be maintained below an astounding 12.5%. This certainly indicates that FPL's request is overstated.

Third, the FPL RSAM proposal is actually a taking of customer assets to be used to enhance shareholder profits. FPL Witness Bores actually acknowledges this obvious taking of depreciation payments and turning that into increased rate base and

[55] Direct Testimony FPL Witness Barrett Exhibit REB-11, page 1 of 1, paragraph 2.
[56] Direct Testimony FPL Witness Barrett Exhibit REB-11, page 1 of 1, paragraph 4(a),(b),(c),(d),(e),(d),(e).

increased cost obligations.[57] Taking of consumer assets is unfair, unwarranted, and unjust. Fourth, historical evidence shows that FPL's RSAM proposal will lead to consistent excessive earnings levels. Fifth, the Company calculation of the RSAM is a substantial overstatement of the Theoretical Reserve which will likely increase customers future depreciation charges.

It is my recommendation that the proposed RSAM be denied. Instead, a more accurately calculated Theoretical Reserve as calculated in OPC witness Ms. McCullar's testimony should be employed in calculating the proposed remaining life depreciation rates ion this proceeding. Each of the five recommendations and final conclusion are explained below.

Q. PLEASE DESCRIBE AND EXPLAIN THE SOURCE OF THE RSAM'S RESERVE AMOUNT BALANCE OF $1.48 BILLION – WHAT IS IT AND WHERE DID IT COME FROM?

A. The Reserve Amount component of the RSAM amounts to $1.48 billion and represents what is called the Theoretical Reserve Imbalance. The Theoretical Reserve Imbalance is calculated as the difference between FPL's book accumulated depreciation, or book reserve, and the calculated accrued depreciation, or theoretical reserve.

Now, the "book reserve" referenced above is also known as the accumulated provision for depreciation, which reflects the running or historical total of recorded depreciation activity. This historical balance is equal to the historical depreciation accruals, less retirements and cost of removal, plus historical gross salvage. This

[57] Direct Testimony Witness Bores, page 31, lines 8 – 10.

historical book reserve of depreciation activity represents a reduction to the original cost of plant in the rate base calculation.

The Theoretical Reserve is an estimate of the book reserve or accumulated provision for depreciation described in the prior two sentences. The Theoretical Reserve is calculated based on the current plant balances and depreciation parameters (service life and net salvage estimates) at the current point in time. In other words, the Theoretical Reserve would be the reserve balance if current estimates of service life and net salvage materialize.

Now, the Theoretical Reserve is not based on actual recorded depreciation resulting from the application of approved depreciation rates. Instead, the Theoretical Reserve is an estimate at a point in time employing current depreciation parameters. For example, after completing his depreciation study, FPL witness Allis calculated the Theoretical Reserve Imbalance to be a negative $437 million.[58] This means if Mr. Allis' depreciation estimates are correct the current accumulated provision for depreciation is about $437 million short of where it needs to be given the estimate of theoretical reserve.[59] This implies future depreciation rates would need to increase if Mr. Allis' estimates are correct.

Q. GIVEN MR. ALLIS' DEPRECIATION STUDY RESULTS HOW DID THE THEORETICAL RESRVE BALANCE INCREASE TO $1.48 BILLION?

A. Mr. Allis' depreciation study and negative $437 million Theoretical Reserve estimate would not afford FPL the opportunity to implement the proposed RSAM. So, to

[58] See Direct Testimony Witness Allis at page 48, lines 24 – 26.
[59] See Direct Testimony Witness Allis at page 48, lines 24 – 26.

facilitate the RSAM request, FPL Witness Ferguson asked Witness Allis to "calculate several alternative parameters" to enable (increase) the Theoretical Reserve and RSAM balance.[60]

The resulting adjustments made by Witness Allis included;

i) Increase St. Lucie Nuclear plant life from 60 years to 80 years;

ii) Increase combined cycle generating plant lives from 40 years to 50 years;

iii) Increase solar plant lives from 30 years to 35 years;

iv) For transmission, distribution, and general functions adopt the lives and/ or net salvage from the FPL 2016 Rate Settlement or 2021 Allis depreciation study whichever results in longer lives or higher net salvage (i.e. whichever increases the Theoretical Reserve the most).[61]

The results of these cherry-picking adjustments caused annual depreciation expense to decrease $239 million in test year 2022 and $249 million for test year 2023.[62] The key result of Mr. Allis' altered analysis is to increase the Theoretical Reserve imbalance from a negative $437 million to a positive $1,480,000,000 for use in the proposed RSAM.[63]

Q. HOW DOES FPL PROPOSE TO EMPLOY THIS $1.480 BILLION THEORETICAL RESERVE?

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[60] See Direct Testimony Witness Ferguson at page 14, lines 7 – 10.
[61] See Direct Testimony Witness Ferguson at page 14, lines 13 – 21, also see Exhibit KF-3(B).
[62] See Direct Testimony Witness Ferguson at page 17, lines 11 – 13.
[63] See Direct Testimony Witness Ferguson at Exhibit KB-3(B), page 47 of 47, column 4.

A. The Company proposes the establishment of an RSAM as part of the proposed four-year rate plan employing the same framework from the 2016 Settlement Agreement updated for the assumptions and projections in this current filing.[64] Mr. Barrett explains the RSAM as an accounting mechanism to address underlying changes in revenues and expenses in order to maintain the authorized equity return level.[65] These RSAM earnings are non-cash earnings to the Company so there are no additional tariff charges to the customer.[66] But, when the RSAM is used as a credit to depreciation it results in an increase in rate base (decrease to the accumulated provision) by an equal and offsetting amount.[67] Therefore, if this proposed $1.480 billion RSAM is approved and used by the Company for enhanced shareholder earnings, then in the next case, customers will have a rate base that is $1.48 billion higher. Customers pay dearly for enhanced shareholder earnings.

Q HOW HAS FPL EMPLOYED A SIMILAR RSAM FROM PAST CASES?

A. The Company was authorized an RSAM mechanism as part of the 2016 comprehensive settlement of that proceeding. I have included in Schedule DJL-2 the claimed historical equity return earned by month as reported in the FPL Earnings Surveillance Reports.[68] The 2016 Settlement proceeding started with a balance of $1,252,100,355.[69] It is expected that all but $340 million will be used by FPL by year end 2021.[70]

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[64] See Direct Testimony Witness Barrett page 61, lines 14 – 18.
[65] See Direct Testimony Witness Barrett page 60, lines 3 – 6.
[66] See Direct Testimony Witness Barrett page 60, lines 11 – 14.
[67] See Direct Testimony Witness Barrett page 60, lines 11 – 14.
[68] Between October 2018 and the present FPL reported the maximum 11.60% ROE. From January 2017 through September 2018 the Company generally reported an 11.50% ROE with the lowest month at 11.15% in January 2018.
[69] See FPL February 2021 Earnings Surveillance Report Attachment 1 (1/1/17) Balance at Settlement.
[70] See Witness Barrett Direct Testimony Exhibit REB-11 page I at paragraph 2.

The prior 2016 Settlement was just that a comprehensive rate case settlement by the parties and it should not be used as precedent or any basis to normalize the RSAM as a rate making function. Parties to that 2016 Settlement Agreement engaged in give and take on issues and made an agreement on a comprehensive settlement package.

In this case, the Company proposes to employ the Theoretical Reserve balance of $1.480 much the same in this case to maintain a 12.50% top end of the proposed equity return range in this case. But the basis for the creation of the $1.480 billion RSAM balance is based on cherry-picking depreciation studies to arrive at the highest balance without regard to sound depreciation analysis.[71] Such an inflated balance is not reflective of any expert's opinion on depreciation, but rather reflects adjustments solely to drive the reserve to higher levels. Such an approach is not consistent with setting just and reasonable depreciation rates. Nor does this Company proposal look out for customer interests. Instead, the likely outcome is that FPL shareholders will report 12.50% equity returns each month and ratepayers will pay for this through a $1.48 billion increase in rate base.

Q. DO YOU HAVE ADDITIONAL CONCERNS WITH THE RSAM AS PROPOSED BY FPL?

A. Yes, I do. FPL is asking the Commission to approve the RSAM in the amount of $1.48 billion to be available to FPL for the 2022 through 2025 period or **until the next base rate change.**[72] The RSAM has allowed FPL to manage its earnings in a way that has allowed it to

[71] See Direct Testimony Witness Ferguson at page 14, lines 13 – 21, also see Exhibit KF-3(B).
[72] Direct Testimony Witness Barrett at page 66 lines 11 through line 14.

stay out for five years while earning at the top of its range. FPL may in fact delay the next rate increase and stay out longer given the enormous amount of revenue increase in this case and the substantial likelihood that the test year forecasts of sales and economic recovery are understated. If FPL has the RSAM mechanism that would allow them to manage their earnings level to keep them in the range without a termination point like in a Settlement, this could unintentionally limit the Commission and other parties ability to review FPL's rates in the future by creating a self-regulating mechanism. This could happen since rate proceedings are generally triggered because the Company is either over-earning or under-earning outside the Commission approved range. If the earnings are managed within the range, then no review would be triggered. The Commission should reject any mechanism where it could thwart the Commission's exercise of an adequate level of economic oversight that can be exercised using the context of a traditional rate case proceeding.

Q. HAVE YOU CONSIDERED AN ALTERNATIVE RESERVE AMOUNT AND AN ALTERNATIVE RESERVE TREATMENT BALANCING THE INTERESTS OF FPL'S CUSTOMERS?

A. Yes, OPC depreciation Witness Ms. McCullar calculated a Theoretical Reserve based on her depreciation recommendations. Witness McCullar's Theoretical Reserve analysis showing a Theoretical Reserve of $638 million. While the OPC calculated reserve is much smaller than FPL's $1.480 billion, the OPC reserve reflects the reality of sound depreciation practices. OPC employs the Theoretical Reserve as part of the remaining life depreciation rate calculation. For these reasons the OPC proposed reserve should be recognized by the Commission.

SECTION VI: <u>THE FPL SURPLUS EQUITY RETURN INFLATOR (INCENTIVE ROE)</u>

Q. PLEASE DESCRIBE THE IMPACT OF THE FPL PROPOSED SURPLUS ROE INFLATOR.

A. In this case Witness Barrett describes FPL Witness Coyne's ROE recommendation of 11.0% as "appropriate considering FPL's unique risk profile and the Company's commitment to a strong financial position . . ."[73] Then in the very next page Witness Barrett argues an 11.0% equity return is not enough and proceeds to argue for a 50-basis point adder (11.50% ROE) which he calls a "ROE Performance Incentive."[74] Mr. Barrett claims the 50-basis point equity return inflator is to compensate FPL for the Company's "superior value proposition" for customers and as an incentive to promote further efforts to improve the "customer value proposition."[75] Mr. Barrett is asking that the Commission to consider past performance as the basis for awarding the 50 basis point surplus ROE inflator.[76] Witness Barrett claims that "[a]cross almost every metric, FPL stands among the best in the industry delivering value for its customers . . .'[77]

Among the metrics described by Mr. Barrett are non-fuel O&M expenses, lower base rate revenue requirements associated with lower O&M expenses.[78] Mr. Barrett describes how FPL's fossil fuel heat rate is more than 30% better than the industry then

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[73] Witness Barrett Direct Testimony at page 48, lines 7 -9.
[74] Witness Barrett Direct Testimony at page 49.
[75] Witness Barrett Direct Testimony at page 49, lines 5 - 7.
[76] Witness Barrett Direct Testimony at page 49, lines 13 – 23.
[77] Witness Barrett Direct Testimony at page 49, 16 - 18.
[78] Witness Barrett Direct Testimony at page 50, lines 13 – 21.

he goes on to tout FPL's reliability performance relative to the industry.[79] Mr. Barrett goes on to boast about FPL's emissions profile and avoided fuel costs along with additional awards received by FPL[80]

Mr. Barrett would have this Commission believe that the decisions made by FPL were always correct and always led to superb customer results and cost savings. Further, performance since the last settlement should be outstanding given the advantages FPL had during this period. Mr. Barrett fails to mention that during the period 2018 through the present, customers have been paying rates based on a 35% federal income tax rate rather than the statutory 21% tax rate as a result of the Tax Cut and Jobs Act of 2017 ("TCJA"). Rather, than lower income taxes by the 40% statutory decrease (35% to 21%) like most all utility operations across the country, FPL enjoyed these amounts as added profits at the expense of consumers. These excess tax earnings combined with the ability to alter monthly earnings through the RSAM provided the Company substantial opportunity to perform well financially. It is no wonder FPL has been a strong financial performer, after receiving many millions of pure profit enhancements FPL would be imprudent if it were not a financially strong utility.

Other items left out of Mr. Barrett's testimony are the poor decisions made by FPL that other parties had to challenge and the Florida Courts had to stop from going forward. For example, in Docket No. 140001 FPL proposed the "Woodford Project" a speculative investment in an Oklahoma gas reserve. While the Woodford project would have guaranteed profits to shareholders, customers would have been on the

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[79] Witness Barrett Direct Testimony at page 51, lines 5 – 8, and page 52, lines 4 – 7.
[80] Witness Barrett Direct Testimony at page 52, lines 4 – 21.

hook for substantial costs in the hundreds of millions.[81] Ultimately, the Florida Supreme Court stopped this project.

Another costly practice by FPL was gas hedging. FPL lost billions that consumers ultimately paid in higher fuel costs, but this is never mentioned in Mr. Barrett's testimony. The bottom-line is that FPL does not always make the correct decision and FPL certainly doesn't always lower consumer costs. I have already pointed out in this case that FPL proposes an RSAM mechanism that is designed to enhance profits, but only after increasing consumer cost obligations by about $1.48 billion. These actions do not deserve a profit enhancement.

Q. DO YOU AGREE WITH FPL'S ARGUMENTS AND JUSTIFICATIONS FOR A SURPLUS EQUITY RETURN INFLATOR GIVEN FPL'S PAST PERFORMANCE?

A. No. Even accepting FPL's claims as totally accurate, which they are not, exceptional service should be the norm not something worthy of expanded profits. For example, customers settled the last rate proceeding and with FPL's settlement mechanisms like the RSAM and the retention of hundreds of millions of excess taxes it would be very difficult for FPL to perform poorly. Customers provided FPL every opportunity to succeed now FPL seeks to take added profits for the success that was handed to the Company.

Moreover, past rates did not contain terms and conditions that exceptional performance by FPL will lead to higher rates and shareholder profits in the future. Customers paid the legal tariff rate and that should be the end of the customer

[81] FPL's gas price forecast in the Woodford case was woefully overstated, leaving customers' rather than gas savings.to pay the Woodford costs.

obligations. FPL's historical management met the regulatory expectation of prudent management. If FPL wishes to deem prudent management as exceptional service, so be it, but that doesn't make FPL's performance worthy of added profits.

Customers pay through rates millions for FPL's capital investment. The efficient heat rate projects are paid for by customers. The FPL generation, transmission, and distribution infrastructure cost billions to build, millions to operate and maintain - all paid by customers through rates. Reliability and other efficiencies resulting from the electric infrastructure have been paid for by customers.

Mr. Barrett goes on to state that all utilities have access to the same technology, and access to the capital markets, but the human capital differentiates superior performance from average performance.[82] I agree the human capital and the leadership from the organization make a difference in the corporate culture and firm success. What Mr. Barrett fails to address is that the human capital FPL management and employees receive bonuses and other financial benefits through compensation packages paid by customers. Giving an added 50 basis points to shareholder returns will not change that fact or facilitate added success.

Q. WHAT IS THE ANNUAL REVENUE REQUIREMENT IMPACT OF THE FPL REQUESTED EQUITY RETURN SURPLUS INFLATOR?

A. The impact is substantial as I demonstrate in the following table. A 50-basis point reduction in equity return from the 11.50% request to 11.0% results in about a $183 million annual revenue requirement reduction. Given that FPL has proposed a four-

[82] FPL Witness Barrett Direct Testimony at page 49, lines 16 – 23.

year rate plan the FPL proposal costs customers about $732.1 million ($183,027 * 4 years). This equity return inflator or bonus proposal is an excessive over-reach by FPL.

In summary FPL's 50-basis point ROE inflator request should be rejected. FPL staff receive annual performance bonus and other benefits as part of the compensation package. FPL customers pay through rates for all costs that have led to efficiencies on the system.

Q. IS FPL REQUESTING OTHER INCENTIVE COMENSATION IN THIS CASE?

A. Yes. I described above the 50-basis point incentive request which would cost customers about $183,027,000 per year in added revenue requirements. Also, I already described how FPL proposes an RSAM mechanism which if historical practices are a guide would result in another 100 – basis points of equity return. The potential estimated cost of this incentive is about $370,000,000 in increased rate base investment to consumers per year.[83] Then we have FPL Witness Forrest's proposal to continue the Economy Sales, Economy Purchase Savings, Natural Gas Optimization, and Other Incentive Mechanisms.[84] This mechanism has provided FPL about $7.5 million annually.[85] These three requested mechanisms alone cost consumers about $560.5 million in revenues.[86]

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[83] Calculated as $1.480 billion/ 4 years = $370 million per year as added rate base which is ultimately included in future rates.
[84] FPL Witness Forrest Direct Testimony at Exhibit SAF-1, page 1 of 1.
[85] FPL Witness Forrest Direct Testimony at Exhibit SAF-1, page 1 of 1.
[86] It should be noted that the RSAM costs are future costs.

It is my understanding that FPL employees (what Mr. Barrett calls human capital) have about $100 million of annual incentive compensation built in the proposed rates. So, it would appear FPL is requesting something on the order of $660.5 million of annual incentive compensation costs. This obviously translates into $2.642 billion over the four-year rate plan. This ROE Inflator by any measure or metric is an over-reach that must be denied.

SECTION VII: FPL FINANCIAL INTEGRITY AND CREDIT RATING METRICS

Q. WHAT IS THE SIGNIFICANCE OF FINANCIAL INTEGRITY AND CREDIT RATING METRICS?

A. Financial integrity is essential for creditworthiness. More specifically, credit ratings and underlying credit metrics are necessary measures and determinants of creditworthiness of a Company's debt borrowing. The Company's creditworthiness, as reflected in credit ratings, will directly affect the Company's ability to attract capital at reasonable a cost and prevailing market conditions. The lower the credit rating, the higher will be the associated cost of borrowing. Customers in the end pay these higher costs in rates. Rating agencies ultimately evaluate a specific firm's cash flows and overall credit metrics and ultimately assign a credit rating to each specific company. In evaluating the specific credit rating to assign a company these rating agencies ultimately evaluate a company's ability to pay the contractual interest on borrowings and ultimately the principal balance of the borrowing when due.

Q. WHAT RATING AGENCIES RATE FPL'S DEBT?

A. FPL's debt is rated by the three main rating agencies; Standard & Poor's ("S&P"), Moody's Investor Services ("Moody's"), and Fitch Ratings ("Fitch"). The final determination and assignment of a credit rating by these rating agencies is premised on several credit metrics that evaluate cash flow and amount of leverage and interest obligations. These leverage and interest obligations consist of direct contractual requirements and imputed amounts based on leases and/or purchase power obligations.

Q. WHAT ARE FPL'S CURRENT CREDIT RATINGS?

A. The credit ratings of FPL and NextEra are outline in the following Table 4.

Table 4
Credit Ratings FPL & NextEra

	FPL			NextEra		
	S&P[87]	Moody's[88]	Fitch[89]	S&P[90]	Moody's[91]	Fitch[92]
Credit Rating	A	A1	A	A-	Baa1	A-
Outlook	STABLE	STABLE	STABLE	STABLE	STABLE	STABLE

All these credit ratings are well above the minimum for investment grade (where investment grade is above Baa3 for Moody's or BBB- for S&P or Fitch) and this allows the Company to access capital markets on reasonable terms. FPL ratings are consistently above NextEra ratings by at least one ratings notch and in the case of Moody's, three ratings notches. Maintaining investment grade rating is most important given most institutional investors (such as many banks, insurance companies, pension funds, endowments, mutual funds, or other institutions) are not permitted to invest in non-investment grade securities.

[87] S&P 1/15/21.
[88] Moody's 8/25/20.
[89] Fitch 12/22/20.
[90] S&P 1/26/21.
[91] Moody's 1/26/21.
[92] Fitch 12/20/20.

Q. WHAT FACTORS DO THE CREDIT RATING AGENCIES CONSIDER TO ESTABLISH A COMPANY'S CREDIT RATING?

A. Credit rating agencies base credit ratings on a number of qualitative and quantitative factors. For a utility company one major qualitative factor is the quality of the regulatory environment including the ability to earn the authorized returns. Quantitative considerations typically address cash flow and leverage financial metrics. Generally, the three main rating agencies employ similar quantitative evaluations, but all three have subtle differences in calculating cash flow metrics. A primary consideration by all rating agencies is the assessment and evaluation of a company's ability to pay interest and principal obligations in a timely manner. Also, the amount of margin available in these payments is an important consideration.

Q. WHAT DO THE CURRENT RATING AGENCY CREDIT REPORTS CONCLUDE WITH REGARD TO FPL'S RISKS AND CREDIT QUALITY?

A. An early 2021 credit report from S&P states the following with regard to FPL;

i. We believe there is a strong economic basis for NEE to preserve FPL's credit strength reflecting FPL's low-risk, profitable, and regulated business model FPL is also a significant portion of NEE, reflecting more than 60% of the consolidated company's EBITDA.[93]

ii. S&P Global Ratings' stable outlook on FPL is consistent with its stable outlook on parent NEE and its expectations that FPL's stand-alone financial measures will not materially weaken.[94]

Similarly, the Fitch Ratings of FPL stated the following:

iii. Fitch does not expect the coronavirus pandemic to have a material impact on FPL's operations and access to capital. Fitch pointed out that FPL's uncollectible expenses could rise but should remain manageable

[93] S&P 1/15/21 at page 3.
[94] S&P 1/15/21 at page 3.

pointing out that during the 2008 - 2009 financial crisis uncollectible revenues as a percentage of revenues were approximately 0.2%.[95]

iv. Fitch forecast of FPL's credit metrics estimates the Company's credit metrics remaining robust over the 2020 – 2022 period. Fitch expects the Company's Funds From Operations (FFO) relative to leverage to be in the 2.9x to 3.2x range and FFO to interest to be in the 8.5x to 9.0x range.[96]

Overall, FPL is viewed by rating agencies as strong financially operating in a favorable regulatory environment

Q. IN YOUR OPINION WILL FPL MAINTAIN A STRONG AND FAVORABLE CREDIT RATING UNDER THE ALTERNATIVE CAPITAL STRUCTURE AND CAPITAL COST RECOMMENDATIONS IN THIS CASE?

A. Yes. I evaluated FPL financial metrics under the OPC ROE 8.75% recommendation along with a 55%/45% equity debt capital structure. As expected, FPL's financial metrics decline under the OPC proposal, but the reduction in the cash flow metrics does not impair the Company's financial integrity. For example, FPL collects substantial revenues under clause mechanisms, the collection of these revenues are not impacted by FPL financials. The remaining revenues provide sufficient cash flows to maintain FPL's financials. I have included these financial metric calculations in my attached Schedule (DJL-3).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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[95] See Fitch Ratings Florida Power & Light Company at page 1 (December 22, 2020).
[96] See Fitch Ratings Florida Power & Light Company at page 2 (December 22, 2020).

DANIEL J. LAWTON
B.A. ECONOMICS, MERRIMACK COLLEGE
M.A. ECONOMICS, TUFTS UNIVERSITY
J.D. LAW, TEXAS SOUTHERN UNIVERSITY

Prior to beginning his own consulting practice Diversified Utility Consultants, Inc., in 1986 where he practiced as a firm principal through December 31, 2005, Mr. Lawton had been in the utility consulting business with R.W. Beck and Associates a national engineering and consulting firm. In addition, Mr. Lawton has been employed as a senior analyst and statistical analyst with the Department of Public Service with the Public Utilities Commission of Minnesota. Prior to Mr. Lawton's involvement in utility regulation and consulting he taught economics, econometrics and statistics at Doane College.

Mr. Lawton has conducted numerous revenue requirements, fuel reconciliation reviews, financial, and cost of capital studies on electric, gas and telephone utilities for various interveners before local, state and federal regulatory bodies. In addition, Mr. Lawton has provided studies, analyses, and expert testimony on statistics, econometrics, accounting, forecasting, and cost of service issues. Other projects in which Mr. Lawton has been involved include rate design and analyses, prudence analyses, fuel cost reviews and regulatory policy issues for electric, gas and telephone utilities. Mr. Lawton has developed software systems, databases and management systems for cost of service analyses.

Mr. Lawton has developed and numerous forecasts of energy and demand used for utility generation expansion studies as well as municipal financing. Mr. Lawton has represented numerous municipalities as a negotiator in utility related matters. Such negotiations ranges from the settlement of electric rate cases to the negotiation of provisions in purchase power contracts.

In addition to rate consulting work Mr. Lawton through the Lawton Law Firm represents numerous municipalities in Texas before regulatory authorities in electric and gas proceedings. Mr. Lawton also represents municipalities in various contract and franchise matters involving gas and electric utility matters.

A list of cases in which Mr. Lawton has provided testimony is attached.

UTILITY RATE PROCEEDINGS IN WHICH TESTIMONY HAS BEEN PRESENTED BY DANIEL J. LAWTON

PUBLIC UTILITIES COMMISSION OF CALIFORNIA		
ALASKA REGULATORY COMMISSION		
Beluga Pipe Line Company	P-04-81	Cost of Capital
Municipal Light & Power	U-13-184	Cost of Capital
Enstar Natural Gas Co.	U-14-111	Cost of Capital & Revenue Requirements
Enstar Natural Gas Co.	U-16-066	Cost of Capital & Revenue Requirements
Municipal Light & Power	U-16-094	Cost of Capital
Southern California Edison	12-0415	Cost of Capital
San Diego Gas and Electric	12-0416	Cost of Capital
Southern California Gas	12-0417	Cost of Capital
Pacific Gas and Electric	12-0418	Cost of Capital

PUBLIC UTILITIES COMMISSION OF COLORADO		
Public Service Co. of Colorado	19AL-0268E	Cost of Capital

GEORGIA PUBLIC SERVICE COMMISSION		
Georgia Power Co.	25060-U	Cost of Capital

FEDERAL ENERGY REGULATORY COMMISSION		
Alabama Power Co.	ER83-369-000	Cost of Capital

Arizona Public Service Co.	ER84-450-000	Cost of Capital
Florida Power & Light	EL83-24-000	Cost Allocation, Rate Design
Florida Power & Light	ER84-379-000	Cost of Capital, Rate Design, Cost of Service
Southern California Edison	ER82-427-000	Forecasting

LOUISIANA PUBLIC SERVICE COMMISSION		
Louisiana Power & Light	U-15684	Cost of Capital, Depreciation
Louisiana Power & Light	U-16518	Interim Rate Relief
Louisiana Power & Light	U-16945	Nuclear Prudence, Cost of Service

MARYLAND PUBLIC SERVICE COMMISSION		
Baltimore Gas and Electric Co.	9173	Financial
Baltimore Gas and Electric Co.	9326	Financial

MINNESOTA PUBLIC UTILITIES COMMISSION		
Continental Telephone	P407/GR-81-700	Cost of Capital
Interstate Power Co.	E001/GR-81-345	Financial
Montana Dakota Utilities	G009/GR-81-448	Financial, Cost of Capital
New ULM Telephone Co.	P419/GR81767	Financial
Norman County Telephone	P420/GR-81-230	Rate Design, Cost of Capital
Northern States Power	G002/GR80556	Statistical Forecasting, Cost of Capital
Northwestern Bell	P421/GR80911	Rate Design, Forecasting

MISSOURI PUBLIC SERVICE COMMISSION		
Missouri Gas Energy	GR-2009-0355	Financial
Ameren UE	ER-2010-0036	Financial

FLORIDA PUBLIC SERVICE COMMISSION		
Progress Energy	070052-EI	Cost Recovery
Florida Power and Light	080677-EI	Financial
Florida Power and Light	090130-EI	Depreciation
Progress Energy	090079-EI	Depreciation
Florida Power and Light	120015-EI	Financial Metrics
Florida Power and Light	140001-EI	Economic and Regulatory Policy Issues
Florida Power and Light	150001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160021-EI	Equity Bonus Rewards & Financial Metrics
Florida Power and Light	20170057-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Gulf Power Company & Florida Public Utilities Company	20200151-EI & 20200194-PU	Deferred Accounting
Florida Power and Light	20210015-EI	General Rate Case Issues & Financial Integrity

NORTH CAROLINA UTILITIES COMMISSION		
North Carolina Natural Gas	G-21, Sub 235	Forecasting, Cost of Capital, Cost of Ser

OKLAHOMA PUBLIC SERVICE COMMISSION		
Arkansas Oklahoma Gas Corp.	200300088	Cost of Capital
Public Service Co. of Oklahoma	200600285	Cost of Capital
Public Service Co. of Oklahoma	200800144	Cost of Capital
Public Service Co. of Oklahoma	201200054	Financial and Earnings Related
Oklahoma Natural Gas	201500213	Return on Equity, Financial, capital Structure

PUBLIC SERVICE COMMISSION OF INDIANA		
Kokomo Gas & Fuel Company	38096	Cost of Capital

PUBLIC UTILITIES COMMISSION OF NEVADA		
Nevada Bell	99-9017	Cost of Capital
Nevada Power Company	99-4005	Cost of Capital
Sierra Pacific Power Company	99-4002	Cost of Capital
Nevada Power Company	08-12002	Cost of Capital
Southwest Gas Corporation	09-04003	Cost of Capital
Sierra Pacific Power Company	10-06001 & 10-06002	Cost of Capital & Financial
Nevada Power Co. and Sierra Pacific Power Co.	11-06006 11-06007 11-06008	Cost of Capital

Southwest Gas Corp.	12-04005	Cost of Capital
Sierra Power Company	13-06002 13-06003 13-06003	Cost of Capital
NV Energy & MidAmerican Energy Holdings Co.	13-07021	Merger and Public Interest Financial
Sierra Pacific Power Company	16-06006	Cost of Capital
Nevada Power Company	17-06003	Cost of Capital
Nevada Power & Sierra Pacific	18-02012 Consolidated	Tax Cut and Jobs Act Issues
Southwest Gas	18-05031	Cost of Capital
Sierra Pacific Power Company	19-06002	Cost of Capital
Southwest Gas	20-02023	Cost of Capital

PUBLIC SERVICE COMMISSION OF UTAH		
PacifiCorp	04-035-42	Cost of Capital
Rocky Mountain Power	08-035-38	Cost of Capital
Rocky Mountain Power	09-035-23	Cost of Capital
Rocky Mountain Power	10-035-124	Cost of Capital
Rocky Mountain Power	11-035-200	Cost of Capital
Questar Gas Company	13-057-05	Cost of Capital
Rocky Mountain Power	13-035-184	Cost of Capital
Dominion Energy Utah	19-057-13	Capital Structure & Imputed Debt

Dominion Energy Utah	19-057-02	Cost of Capital

SOUTH CAROLINA PUBLIC SERVICE COMMISSION		
Piedmont Municipal Power	82-352-E	Forecasting

PUBLIC UTILITY COMMISSION OF TEXAS		
Central Power & Light Co.	6375	Cost of Capital, Financial Integrity
Central Power & Light Co.	9561	Cost of Capital, Revenue Requirements
Central Power & Light Co.	7560	Deferred Accounting
Central Power & Light Co.	8646	Rate Design, Excess Capacity
Central Power & Light Co.	12820	STP Adj. Cost of Capital, Post Test-year adjustments, Rate Case Expenses
Central Power & Light Co.	14965	Salary & Wage Exp., Self-Ins. Reserve, Plant Held for Future use, Post Test Year Adjustments, Demand Side Management, Rate Case Exp.
Central Power & Light Co.	21528	Securitization of Regulatory Assets
El Paso Electric Co.	9945	Cost of Capital, Revenue Requirements, Decommissioning Funding
El Paso Electric Co.	12700	Cost of Capital, Rate Moderation Plan, CWIP, Rate Case Expenses
El Paso Electric Co.	46831	Cost of Capital, Decommissioning Funding, Allocation
Entergy Gulf States Inc.	16705	Cost of Service, Rate Base, Revenues, Cost of Capital, Quality of Service
Entergy Gulf States Inc.	21111	Cost Allocation
Entergy Gulf States Inc.	21984	Unbundling
Entergy Gulf States Inc.	22344	Capital Structure
Entergy Gulf States Inc.	22356	Unbundling

Entergy Gulf States Inc.	24336	Price to Beat
Gulf States Utilities Co.	5560	Cost of Service
Gulf States Utilities Co.	6525	Cost of Capital, Financial Integrity
Gulf States Utilities Co.	6755/7195	Cost of Service, Cost of Capital, Excess Capacity
Gulf States Utilities Co.	8702	Deferred Accounting, Cost of Capital, Cost of Service
Gulf States Utilities Co.	10894	Affiliate Transaction
Gulf States Utilities Co.	11793	Section 63, Affiliate Transaction
Gulf States Utilities Co.	12852	Deferred acctng., self-Ins. reserve, contra AFUDC adj., River Bend Plant specifically assignable to Louisiana, River Bend Decomm., Cost of Capital, Financial Integrity, Cost of Service, Rate Case Expenses
GTE Southwest, Inc.	15332	Rate Case Expenses
Houston Lighting & Power	6765	Forecasting
Houston Lighting & Power	18465	Stranded costs
Lower Colorado River Authority	8400	Debt Service Coverage, Rate Design
Southwestern Electric Power Co.	5301	Cost of Service
Southwestern Electric Power Co.	4628	Rate Design, Financial Forecasting
Southwestern Electric Power Co.	24449	Price to Beat Fuel Factor
Southwestern Bell Telephone Co.	8585	Yellow Pages
Southwestern Bell Telephone Co.	18509	Rate Group Re-Classification
Southwestern Public Service Co.	13456	Interruptible Rates
Southwestern Public Service Co.	11520	Cost of Capital
Southwestern Public Service Co.	14174	Fuel Reconciliation
Southwestern Public Service Co.	14499	TUCO Acquisition
Southwestern Public Service Co.	19512	Fuel Reconciliation

Southwestern Public Service Co. Southwestern Public Service Co.	47527 49831	Cost of Capital Cost of Capital
Texas-New Mexico Power Co.	9491	Cost of Capital, Revenue Requirements, Prudence
Texas-New Mexico Power Co.	10200	Prudence
Texas-New Mexico Power Company	17751	Rate Case Expenses
Texas-New Mexico Power Company	21112	Acquisition risks/merger benefits
Texas Utilities Electric Co.	9300	Cost of Service, Cost of Capital
Texas Utilities Electric Co.	11735	Revenue Requirements
TXU Electric Company	21527	Securitization of Regulatory Assets
West Texas Utilities Company	7510	Cost of Capital, Cost of Service
West Texas Utilities Company	13369	Rate Design

RAILROAD COMMISSION OF TEXAS		
Energas Company	5793	Cost of Capital
Energas Company	8205	Cost of Capital
Energas Company	9002-9135	Cost of Capital, Revenues, Allocation
Lone Star Gas Company	8664	Rate Design, Cost of Capital, Accumulated Depr. & DFIT, Rate Case Exp.
Lone Star Gas Company-Transmission	8935	Implementation of Billing Cycle Adjustment
Southern Union Gas Company	6968	Rate Relief
Southern Union Gas Company	8878	Test Year Revenues, Joint and Common Costs
Texas Gas Service Company	9465	Cost of Capital, Cost of Service, Allocation

TXU Lone Star Pipeline	8976	Cost of Capital, Capital Structure
TXU-Gas Distribution	9145-9151	Cost of Capital, Transport Fee, Cost Allocation, Adjustment Clause
TXU-Gas Distribution	9400	Cost of Service, Allocation, Rate Base, Cost of Capital, Rate Design
Westar Transmission Company	4892/5168	Cost of Capital, Cost of Service
Westar Transmission Company	5787	Cost of Capital, Revenue Requirement
Atmos	10000	Cost of Capital
ATMOS	10580	Cost of Capital

TEXAS WATER COMMISSION		
Southern Utilities Company	7371-R	Cost of Capital, Cost of Service

SCOTSBLUFF, NEBRASKA CITY COUNCIL		
K. N. Energy, Inc.		Cost of Capital

HOUSTON CITY COUNCIL		
Houston Lighting & Power Company		Forecasting

PUBLIC UTILITY REGULATION BOARD OF EL PASO, TEXAS		
Southern Union Gas Company		Cost of Capital

DISTRICT COURT CAMERON COUNTY, TEXAS		
City of San Benito, et. al. vs. PGE Gas Transmission et. al.	96-12-7404	Fairness Hearing

DISTRICT COURT HARRIS COUNTY, TEXAS		
City of Wharton, et al vs. Houston Lighting & Power	96-016613	Franchise fees

DISTRICT COURT TRAVIS COUNTY, TEXAS		
City of Round Rock, et al vs. Railroad Commission of Texas et al	GV 304,700	Mandamus

DISTRICT COURT SOUTH DAYTONA, FLORIDA		
City of South Daytona v. Florida Power and Light	2008-30441-CICI	Stranded Costs

Florida Power & Light Company
Earning Surveillance Reports

Month-Year	*Percentage*
January-21	11.60%
December-20	11.60%
November-20	11.60%
October-20	11.60%
September-20	11.60%
August-20	11.60%
July-20	11.60%
June-20	11.60%
May-20	11.60%
April-20	11.60%
March-20	11.60%
February-20	11.60%
January-20	11.60%
December-19	11.60%
November-19	11.60%
October-19	11.60%
September-19	11.60%
August-19	11.60%
July-19	11.60%
June-19	11.60%
May-19	11.60%
April-19	11.60%
March-19	11.60%
February-19	11.60%
January-19	11.60%
December-18	11.60%
November-18	11.60%
October-18	11.60%
September-18	11.60%
August-18	11.60%
July-18	11.60%
June-18	11.52%
May-18	11.41%
April-18	11.50%
March-18	11.22%
February-18	11.23%
January-18	11.15%
December-17	11.08%
November-17	11.50%
October-17	11.50%

September-17	11.50%
August-17	11.50%
July-17	11.50%
June-17	11.50%
May-17	11.50%
April-17	11.50%
March-17	11.50%
February-17	11.50%
January-17	11.50%

FLORIDA POWER & LIGHT COMPANY
DOCKET NO. 20210015-EI
FORECASTED TEST YEAR ENDEDDECEMBER 31, 2022
RETURN AND FINANCIAL METRICS

COMPANY REQUESTED CAPITAL STRUCTURE COST RATES AND RETURN WITHOUT RSAM BUT WITH FPL ADJUSTMENTS

		A	B	C	D	E	F	G	H
	DESCRIPTION	CAPITAL (000's)	RATIO	COST RATE	WEIGHTED COST	RETURN (000's)	WEIGHTED COST w/FIT GROSS UP @ 21%	RETURN W/FIT GROSS UP @ 21%	TAX DELTA
1	LONG TERM DEBT	$17,359,623	31.3751%	3.61%	1.13%	$626,682	1.1326%	$626,682	$0
2	PREFERRED STOCK	$0	0.0000%	0.00%	0.00%	$0	0.0000%	$0	$0
3	CUSTOMER DEPOSITS	$454,023	0.8206%	2.03%	0.02%	$9,217	0.0167%	$9,217	$0
4	SHORT-TERM DEBT	$653,093	1.1804%	0.94%	0.01%	$6,139	0.0111%	$6,139	$0
5	DEFERRED INCOME TAX	$5,877,975	10.6236%	0.00%	0.00%	$0	0.0000%	$0	$0
6	FAS 109 DEFERRED INCOME TAX	$3,363,283	6.0787%	0.00%	0.00%	$0	0.0000%	$0	$0
7	INVESTMENT TAX CREDITS	$1,041,048	1.8815%	8.39%	0.16%	$87,344	0.1579%	$87,344	$0
8	COMMON EQUITY	$26,580,272	48.0401%	11.50%	5.52%	$3,056,731	6.9932%	$3,869,280	$812,549
9	TOTAL CAPITAL	$55,329,317	100.0000%		6.8429%	$3,786,113	8.3114%	$4,598,662	$812,549
10	RATE BASE			$55,329,317					

CAPITAL STRUCTURE AND COST RATES PER COMPANY AND OPC WITNESS R. SMITH EXHIBIT RCS-2 SCHEDULE D, COLUMN H, LINES 1-9.

ALTERNATIVE COST OF CAPITAL WITH ADJUSTED CAPIUTAL STRUCTURE AND EQUITY RETURN @ 8.75%

		A	B	C	D	E	F	G	H
	DESCRIPTION	CAPITAL	RATIO	COST RATE	WEIGHTED COST	RETURN	WEIGHTED COST w/FIT GROSS UP @ 21%	RETURN W/FIT	TAX DELTA
11	LONG TERM DEBT	$19,315,684	34.96%	3.61%	1.26%	$698,227	1.2619%	$698,227	$0
12	PREFERRED STOCK	$0	0.00%	0.00%	0.00%	$0	0.0000%	$0	$0
13	CUSTOMER DEPOSITS	$453,417	0.82%	2.03%	0.02%	$9,217	0.0167%	$9,217	$0
14	SHORT-TERM DEBT	$726,659	1.32%	0.94%	0.01%	$6,840	0.0124%	$6,840	$0
15	DEFERRED INCOME TAX	$5,870,132	10.62%	0.00%	0.00%	$0	0.0000%	$0	$0
16	FAS 109 DEFERRED INCOME TAX	$3,358,796	6.08%	0.00%	0.00%	$0	0.0000%	$0	$0
17	INVESTMENT TAX CREDITS	$1,039,658	1.88%	6.48%	0.12%	$67,460	0.1219%	$67,460	$0
18	COMMON EQUITY	$24,491,174	44.32%	8.75%	3.88%	$2,145,840	4.9092%	$2,716,253	$570,413
19	TOTAL CAPITAL	$55,255,520	100.00%		5.2912%	$2,927,583	6.3221%	$3,497,997	$570,413
20	RATE BASE			$55,329,317		($858,530)		($1,100,666)	($242,136)

CAPITAL STRUCTURE AND COST RATES PER COMPANY AND OPC WITNESS R. SMITH EXHIBIT RCS-2 SCHEDULE D, COLUMN H, LINES 10-18.

LINE NO.		A	B	C		
		COMPANY FINANCIALS REQUESTED & CASH FLOWS ($000's)	ALTERNATIVE COMPANY FINANCIALS REQUESTED & CASH FLOWS ($000's)	Difference	SOURCES COL. A	SOURCES COL. B
21	RATE BASE	$55,329,317	$55,255,520	($73,797)	LINE 10, COLUMN C	LINE 20 COLUMN C
22	RETURN	$3,786,113	$2,927,583	($858,530)	LINE 9, COLUMN E	LINE 19 COLUMN E
23	RETURN/W FIT	$4,598,662	$2,716,253	($1,882,409)	LINE 9, COLUMN G	LINE 19, COLUMN G
24	DEPRECIATION & AMOTIZ.	$2,039,172	$1,884,902	($154,270)	MFR-C SCHEDULE C-:	MFR-C SCHEDULE C-1
25	EARNINGS BEFORE INTEREST, TAXES, DEPREC, AMORT (EBITDA)	$6,637,834	$4,601,155	($2,036,679)	LINE 10, COLUMN G	LINE 10, COLUMN G PLUS DEPRECIATION
26	CURRENT DEFERRED INCOME TAXES	$392,347	$392,347	$0	OPC EITNESS SMITH	OPC EITNESS SMITH EXHIBIT RCS-2 SCHEDULE C-1
27	FUNDS FROM OPERATIONS FFO	$5,488,250	$4,423,089	($1,065,161)	LINE 8, COLUMN E PLUS DEPRECIATION AND DEFERRED TAXES	
28	TOTAL DEBT	$17,359,623	$19,315,684	$1,956,061	LINE 1 COLUMN A	LINE 1 COLUMN A
29	TOTAL INTEREST ESTMATED	$626,682	$698,227	$71,545	LINE1 COLUMN E	LINE1 COLUMN E

		(D) OPC RECOMMENDED FINANCIAL METRIC RESULTS	(E) RATING AGENCY GUIDELINE RANGE METRICS	(F) RATING AGENCY SOURCE
30	FINANCIAL METRICS			
31	FFO/DEBT (%) [excludes interest]	23%	13% - 23%	S&P
32	DEBT/EBITDA(x)	4.20	3.5X TO 4.5X	S&P
33	FFO/ INTEREST COVERAGE(x) PER FITCH RATINGS	6.33	5.0X	FITCH
34	DEBT/FFO	4.37	3.5X	FITCH

SOURCES
COLUMNS D ROW 31: COL. B:27/B:28
COLUMNS D ROW 32: COL. B:28/B:25
COLUMNS D ROW 33: COL. B:27/B:29
COLUMNS D ROW 34: COL. B:28/B:27
SEE WORKPAPERS VOLUME 1