

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by  
Florida Power & Light Company

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DOCKET NO.: 20210015-EI  
FILED AND SERVED: June 21, 2021

**THE FLORIDA INDUSTRIAL POWER USERS GROUP'S  
NOTICE OF FILING TESTIMONY OF BILLIE LaCONTE**

The Florida Industrial Power Users Group (FIPUG), provides notice that it has filed the testimony of Billie LaConte in the above-referenced docket this 21<sup>st</sup> day of June, 2021. The testimony is attached to this Notice of Service.

DATED this 21st day of June 2021.

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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 AND EXHIBITS OF  
BILLIE S. LACONTE**

**ON BEHALF OF  
THE FLORIDA INDUSTRIAL POWER USERS GROUP**



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## LIST OF EXHIBITS

| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| <b>BSL-1</b>   | RRA Regulatory Focus, Major Rate Case Decisions 2020 Report |
| <b>BSL-2</b>   | Change Return on Equity to National Average ROE             |
| <b>BSL-3</b>   | Change Common Equity Ratio to 51.73%                        |
| <b>BSL-4</b>   | Reduce ROE and Common Equity Ratio to National Average      |
| <b>BSL-5</b>   | Regulatory Weighted Average Cost of Capital                 |
| <b>BSL-6</b>   | Financial Weighted Average Cost of Capital                  |
| <b>BSL-7</b>   | Change ROE to 9.59%   |

## GLOSSARY OF ACRONYMS

| <b>Term</b>    | <b>Definition</b>                      |
|----------------|--|
| <b>CAPM</b>    | Capital Asset Pricing Model            |
| <b>DCF</b>     | Discounted Cash Flow                   |
| <b>FIPUG</b>   | Florida Industrial Power Users Group   |
| <b>FPL</b>     | Florida Power & Light Company          |
| <b>IOU</b>     | Investor Owned Utility                 |
| <b>MRP</b>     | Market Risk Premium                    |
| <b>ROE</b>     | Return on Equity                       |
| <b>RSAM</b>    | Reserve Surplus Amortization Mechanism |
| <b>S&amp;P</b> | Standard & Poor's                      |
| <b>SoBRA</b>   | Solar Base Rate Adjustment             |

**Direct Testimony of Billie S. LaConte**

**1. INTRODUCTION, QUALIFICATIONS AND SUMMARY**

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Billie S. LaConte, 12647 Olive Blvd., Suite 585, St. Louis, MO 63141.

3 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

4 A I am an energy advisor and Associate at J. Pollock, Incorporated.

5 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6 A I have a Bachelor of Arts degree in Mathematics from Boston University and a Master's  
7 degree in Business Administration from Washington University. Since graduating in  
8 1995, I have been engaged in a variety of consulting assignments, including energy  
9 procurement and regulatory matters in both the United States and several Canadian  
10 provinces. More details are provided in **Appendix A**. A list of my appearances is  
11 provided in **Appendix B**.

12 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

13 A I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG). FIPUG  
14 members purchase electricity from Florida Power & Light Company (FPL). They  
15 consume significant quantities of electricity, often around-the-clock, and require a  
16 reliable affordably-priced supply of electricity to power their operations. Therefore,  
17 FIPUG members have a direct and significant interest in the outcome of this  
18 proceeding.



1 Q WHAT ISSUES DO YOU ADDRESS?

2 A I am addressing the following issues:

- 3 • Cost of Capital;
- 4 • Scherer Unit 4 Retirement and JEA payment;
- 5 • Rate case expense amortization; and
- 6 • Income tax adjustment.

7 Q ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

8 A Yes. I am sponsoring Exhibits BSL-1 through BSL-7.

9 Q ARE YOU ACCEPTING FPL'S POSITIONS ON THE ISSUES NOT ADDRESSED IN  
10 YOUR DIRECT TESTIMONY?

11 A No. One should not interpret the fact that I do not address every issue raised by FPL  
12 as an endorsement of its proposals.

13 **Summary**

14 Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

15 A My findings and recommendations are as follows:

16 **Cost of Capital**

- 17 • FPL's proposed 11% cost of equity (before any performance incentive) is  
18 excessive relative to the returns authorized by other state regulatory  
19 commissions nationwide in rate case decisions since 2019 for vertically  
20 integrated electric investor-owned utilities. Authorized returns on equity (ROE)  
21 have averaged below 10% since 2013.
- 22 • On average, other vertically integrated, A-rated electric investor-owned utilities  
23 collectively had an average 51.73% financial equity ratio in 2020, which is 787  
24 basis points lower than the equity ratio FPL is proposing in this case.

- 1           • FPL’s capital structure is inefficient because it fails to employ an appropriate  
2           amount of leverage. Accordingly, for ratemaking purposes, the Commission  
3           should adjust FPL’s common equity ratio so that it is more in line with the  
4           average of other vertically integrated A-rated electric investor-owned utilities  
5           and should not exceed 52%
- 6           • The 11% return on equity (ROE) (before any performance adder)  
7           recommended by FPL’s ROE witness, Mr. Coyne, is based on improper  
8           application of widely used and accepted methods, as well as other methods,  
9           such as the Expected Earnings method, which is not widely used.
- 10          • Mr. Coyne’s recommendation to select an ROE from the higher end of his  
11          recommended range due to FPL’s level of risk compared to the companies in  
12          the proxy group is unnecessary. FPL’s risk is less than the risk of the  
13          companies in the proxy group. Due to its excessive common equity ratio, FPL  
14          is less risky than the proxy company.
- 15          • A 59.6% financial equity ratio is clearly excessive in this case because FPL’s  
16          proposed 11% cost of equity is 739 basis points more expensive than long-  
17          term debt. This excessive equity ratio results in a higher cost of capital and  
18          higher rates than a utility with a more leveraged capital structure.

19           **Scherer Unit 4 Retirement and JEA Payment**

- 20          • FPL proposes the early retirement of Scherer Unit 4. In the 2016 rate case,  
21          FPL proposed retiring the unit in 2039. Pursuant to the settlement, the  
22          retirement date was extended to 2052.
- 23          • Despite moving up the retirement date by 30 years, FPL proposes amortizing  
24          the remaining undepreciated balance of the plant over ten years, and earning  
25          a fully regulated return on the unamortized balance.
- 26          • FPL should recover the remaining plant balance through 2039, as established  
27          in the 2016 depreciation study. Further, because FPL has already monetized  
28          capital recovery of Scherer Unit 4 in the RSAM that was implemented in the  
29          2016 rate case through earnings and because the asset is no longer used and  
30          useful, FPL should not earn a return on the unamortized balance.
- 31          • FPL has agreed to pay JEA a “Consummation Payment” of \$100 million as part  
32          of its plan to retire Scherer Unit 4 early. FPL proposes to amortize the  
33          “Consummation Payment” over ten years and earn a fully regulated return on  
34          the unamortized balance.

- 1           • FPL customers did not benefit from JEA’s portion of the Scherer Unit 4, and  
2 they should not be responsible for JEA’s outstanding revenue bonds for  
3 Scherer Unit 4. Further, to the extent that the retirement of Scherer Unit 4 was  
4 prompted by a corporate goal to eliminate coal-fired generation, the JEA  
5 payment would clearly be a shareholder benefit.

6           **Rate Case Expense Amortization**

- 7           • FPL projects it will incur \$5 million of rate case expenses in this proceeding. It  
8 proposes to recover the rate case expense over four years. It is also proposing  
9 to earn a return on the unamortized balance of these expenses in its claimed  
10 2022 test year and 2023 subsequent year revenue requirements.
- 11          • FPL should only recover actual rate case expenses that it incurs through the  
12 conclusion of the hearing in this proceeding.
- 13          • FPL should not earn a return on the unamortized balance of the rate case  
14 expense regulatory asset. The proposed return unnecessarily inflates the rate  
15 case expenses and does not provide FPL with an incentive to control its rate  
16 case expenses. Therefore, FPL’s proposal to earn a return on its rate case  
17 expenses should be rejected.

18          **Income Tax Adjustment**

- 19          • FPL proposes to adjust base rates if the federal corporate income tax rate  
20 increases. Such an adjustment is not necessary because the change in federal  
21 income tax may not occur. However, if the Commission approves FPL’s  
22 proposal, should the federal corporate income tax rate decrease, then base  
23 rates should similarly be adjusted to reflect the lower income tax rate.

## 2. COST OF CAPITAL

1 Q WHAT ARE YOUR CONCERNS WITH FPL'S PROPOSED COST OF CAPITAL?

2 A My primary concerns are:

- 3 • FPL's proposed ROE is out-of-step with the electric utility industry. Even  
4 without the 50 basis point performance incentive, the proposed ROE of 11% is  
5 excessive relative to the ROEs authorized by other state regulatory  
6 commissions for electric investor-owned electric utilities (IOUs).
- 7 • FPL's common equity ratio is excessive as compared to the national average  
8 in 2020 and the average for A-rated vertically integrated electric utilities.
- 9 • Mr. Coyne's analysis is based on faulty assumptions, which inflate FPL's  
10 required return on equity (ROE). His analysis includes the improper application  
11 of widely accepted cost of equity methodologies. He also makes use of the  
12 Expected Earnings methodology, which is not widely accepted. Further, his  
13 assessment of FPL's risk relative to the companies in his proxy group is flawed.

### Trends in State Authorized ROEs

14 Q IS FPL'S PROPOSED ROE CONSISTENT WITH THE TREND IN THE NATIONAL  
15 AVERAGE ROE FOR ELECTRIC UTILITIES?

16 A No. The national average authorized ROE for vertically integrated electric utilities was  
17 9.74% in 2019, and 9.55% in 2020, as reported by RRA. A copy of the RRA Report is  
18 provided in **Exhibit BSL-1**. These averages reflect the actual decisions from rate  
19 cases in Florida as well as decisions by other state regulatory commissions in general  
20 rate cases. As discussed later, this is a reasonable basis for assessing the trend in  
21 authorized ROEs.

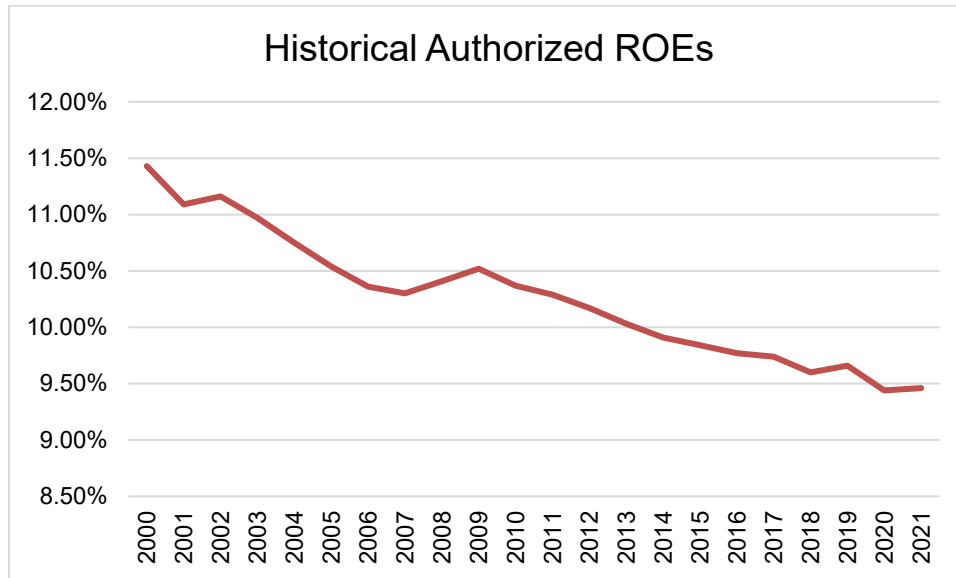
22 Q WHY SHOULD THE COMMISSION GIVE SIGNIFICANT WEIGHT TO ROE  
23 DETERMINATIONS RESULTING FROM EVIDENTIARY RECORDS THAT ARE  
24 NOT A PART OF THIS PROCEEDING?

25 A The trend in utility authorized ROEs indicates that, in general, utilities' current risks are

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2. Cost of Capital

1 lower than in the past. The graph below shows the average historical authorized ROE  
2 for U.S. based electric utilities since 2000 through the first quarter of 2021.



3 The lower ROEs are due, in part, to the lower risk-free cost of capital and the  
4 implementation of various cost recovery mechanisms and other enhancements that  
5 have reduced regulatory lag.

6 **Q HOW DOES FPL'S REQUESTED ROE COMPARE TO THE NATIONAL AVERAGE**  
7 **ROE FOR ELECTRIC UTILITIES?**

8 A FPL's requested 11.5% ROE (including the performance incentive) is 195 basis points  
9 higher than the average authorized ROE for vertically integrated electric utilities  
10 (9.55%) in 2020. The average authorized ROE for the first quarter of 2021 is 9.45%.<sup>1</sup>

<sup>1</sup> S&P Global Market Intelligence, RRA Regulatory Focus, Major Rate Case Decisions – January – March 2021 (Apr. 28, 2021).

1 Q HOW WOULD FPL'S PROJECTED REVENUE REQUIREMENT BE AFFECTED IF  
2 THE COMMISSION SET FPL'S ROE AT THE RRA NATIONAL AVERAGE FOR  
3 2020?

4 A FPL's projected revenue requirement would decrease by \$697.6 million in 2022 and  
5 \$752.1 million in 2023. The details of this calculation are shown in Exhibit BSL-2  
6 pages 1 and 2.

### Capital Structure

7 Q. WHAT IS THE BASIS FOR YOUR STATEMENT THAT FPL'S PROPOSED EQUITY  
8 RATIO IS EXCESSIVE?

9 A. Table 1 summarizes the average financial equity ratio of each vertically integrated  
10 electric IOU in the most recent rate case decided during the period 2016 through 2020.

| Table 1<br>Average Authorized<br>Financial Equity Ratios<br>2016 - 2020 |                                   |
|---|-----------------------------------|
| Year  | Average<br>Common Equity<br>Ratio |
| 2016  | 50.43%                            |
| 2017  | 50.94%                            |
| 2018  | 49.83%                            |
| 2019  | 51.99%                            |
| 2020  | 50.99%                            |

11 A *financial* capital structure comprises debt and equity. This is in contrast to a  
12 *regulatory* capital structure, which may also include deferred taxes, customer deposits  
13 and deferred investment tax credits.

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## 2. Cost of Capital

1 As shown above, the average common equity ratio in 2020 is more than 860  
2 basis points lower than FPL's proposed equity ratio of 59.6%. FPL's proposed equity  
3 ratio is excessive, as compared to the national average equity ratio, and considering  
4 FPL's requested 11.5% ROE. For example, in 2018, Hawaiian Electric Company was  
5 authorized a 56.91% common equity ratio; however, the authorized return on equity  
6 was 9.5%, or 200 basis points lower than FPL's requested ROE. As discussed above,  
7 FPL's proposed weighted average cost of capital, based on its financial capital  
8 structure, is significantly higher than the national average.

9 **Q IS FPL'S COMMON EQUITY RATIO HIGHER THAN OTHER A-RATED UTILITIES?**

10 A Yes. Table 2 provides the average common equity ratio for A-rated utilities from 2016  
11 through 2020. FPL's common equity ratio is significantly higher than the common  
12 equity ratios each year. FPL's proposed 59.6% financial common equity ratio is 787  
13 basis points higher than the electric IOU average for A-rated utilities in 2020.

| <b>Table 2<br/>Average Authorized Financial<br/>Equity Ratios<br/>A-Rated Vertically Integrated<br/>Utilities<br/>2016 - 2020</b> |  |
|---|--|
| <b>Year</b>   | <b>Average<br/>Common Equity<br/>Ratio</b> |
| <b>2016</b>   | 48.33%                                     |
| <b>2017</b>   | 51.04%                                     |
| <b>2018</b>   | 50.53%                                     |
| <b>2019</b>   | 51.94%                                     |
| <b>2020</b>   | 51.73%                                     |

1    **Q    ARE THERE ANY CONSEQUENCES OF USING MORE EQUITY AND LESS DEBT**  
2    **TO FINANCE THE UTILITY'S RATE BASE?**

3    A    Yes. FPL's higher percentage of equity and lower percentage of debt in its capital  
4    structure lowers its financial risk. Furthermore, common equity is more expensive than  
5    debt. In this case, FPL is proposing an 11.5% cost of equity, but the proposed cost of  
6    debt would be only 3.61%, which is 789 basis points lower. A utility with too much  
7    equity in its capital structure has a higher cost of capital than a utility with a more  
8    balanced common equity ratio. All else being equal, the higher the overall common  
9    equity ratio, the greater the benefits to FPL's shareholders and executives and the  
10   higher the rates all FPL retail customers will bear. FPL should not be rewarded for its  
11   overly conservative use of debt and high equity ratio.

12   **Q    WHAT IS THE IMPACT ON FPL'S REVENUE REQUIREMENT IF ITS COMMON**  
13   **EQUITY RATIO IS REDUCED TO THE NATIONAL AVERAGE COMMON EQUITY**  
14   **RATIO IN 2020 FOR A-RATED UTILITIES?**

15   A    If FPL's financial common equity ratio is reduced to 51.73%, its revenue requirement  
16   would be \$419.8 million lower in 2022 and \$446.6 million lower in 2023. The details  
17   are shown in **Exhibit BSL-3**, pages 1 and 2.

18   **Q    WHAT IS THE IMPACT ON FPL'S REVENUE REQUIREMENT IF ITS RETURN ON**  
19   **EQUITY AND COMMON EQUITY RATIO ARE REDUCED TO THE NATIONAL**  
20   **AVERAGE RETURN ON EQUITY AND COMMON EQUITY RATIO?**

21   A    If FPL's ROE is reduced to 9.55% and its financial common equity ratio is reduced to  
22   51.73%, it revenue requirement would be \$1,025 million lower in 2022 and \$1,099  
23   million lower in 2023. The details are shown in **Exhibit BSL-4**, pages 1 and 2.

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2. Cost of Capital



1 Q WHAT DO YOU RECOMMEND REGARDING FPL'S COMMON EQUITY RATIO?

2 A I recommend that FPL's capital structure should be more in line with the average of A-  
3 rated electric IOUs. Accordingly, I recommend that FPL's equity ratio not exceed 52%.

**Analysis of FPL's Requested ROE**

4 Q HAS YOU REVIEWED FPL'S PROPOSED COST OF CAPITAL?

5 A Yes. FPL's proposed 6.84% cost of capital is summarized in Table 3 below.

| <b>Description</b>                 | <b>Percent of<br/>Capital</b> | <b>Cost</b> | <b>Weighted<br/>Cost</b> |
|------------------------------------|-------------------------------|-------------|--------------------------|
| <b>Long-Term Debt</b>              | 31.37%                        | 3.61%       | 1.13%                    |
| <b>Customer Deposits</b>           | 0.82%                         | 2.03%       | 0.02%                    |
| <b>Short-Term Debt</b>             | 1.18%                         | 0.94%       | 0.01%                    |
| <b>Deferred Income Tax</b>         | 10.62%                        | 0.00%       | 0.00%                    |
| <b>FAS 109 Deferred Income Tax</b> | 6.08%                         | 0.00%       | 0.00%                    |
| <b>Investment Tax Credits</b>      | 1.89%                         | 8.38%       | 0.16%                    |
| <b>Common Equity</b>               | 48.04%                        | 11.50%      | 5.52%                    |
| <b>Total</b>                       | 100.00%                       |             | 6.84%                    |

**Source:** MFR Schedule D-1a.

6 As Table 3 demonstrates, FPL is seeking an 11.5% ROE including the proposed 50  
7 basis point performance incentive. Ignoring customer deposits, deferred income  
8 taxes, and investment tax credits, FPL's "financial" capital structure would consist of  
9 approximately 40.4% (short and long-term) debt and 59.6% equity.

10 Q WHAT IS THE FINANCIAL CAPITAL STRUCTURE?

11 A Financial capital structure comprises debt and equity only. Investors base their  
12 estimated returns on financial capital, not on non-financial, regulatory capital, such as  
13 deferred income taxes and customer deposits. The regulatory capital structure

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**2. Cost of Capital**

1 determines FPL's weighted average cost of capital (WACC) for regulatory purposes.  
2 Investors review the financial capital structure to determine their estimated return.

3 **Q FPL WITNESS BARRETT CLAIMS THAT FPL'S WEIGHTED AVERAGE COST OF**  
4 **CAPITAL IS LOWER THAN THE NATIONAL WEIGHTED AVERAGE COST OF**  
5 **CAPITAL OF 6.9% OVER THE LAST THREE YEARS.<sup>2</sup> IS HE CORRECT?**

6 A No. Mr. Barrett is making an apples to oranges comparison. Because FPL uses a  
7 regulatory capital structure, which includes zero cost of capital items, such as  
8 customer deposits and deferred income taxes, its weighted average cost of capital,  
9 6.84%, is lower than utilities whose capital structure includes only debt and equity.  
10 FPL's weighted average cost of capital including only debt and equity is 8.04%, which  
11 is higher than national weighted average cost of capital.

12 **Q ARE THERE OTHER UTILITIES THAT USE A REGULATORY CAPITAL**  
13 **STRUCTURE?**

14 A Yes, but only a few. Utilities in Arkansas, Indiana, and Michigan also use a regulatory  
15 capital structure that include zero cost of capital items.

16 **Q HOW DOES FPL'S WEIGHTED AVERAGE COST OF CAPITAL COMPARE TO**  
17 **UTILITIES IN THOSE JURISDICTIONS?**

18 A FPL's requested 6.84% cost of capital is significantly higher than the weighted average  
19 cost of capital in states that use a regulatory capital structure. As shown in **Exhibit**  
20 **BSL-5**, the three-year average after-tax weighted average cost of capital for vertically

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<sup>2</sup> Direct Testimony of Robert E. Barrett at 47-48.

1 integrated utilities that use a regulatory capital structure is 5.57%, compared to FPL's  
2 6.84%, or 127 basis points lower than FPL.

3 **Q IS FPL'S WEIGHTED AVERAGE COST OF CAPITAL ON A FINANCIAL BASIS**  
4 **SIGNIFICANTLY HIGHER THAN THE NATIONAL AVERAGE?**

5 A Yes. As shown in **Exhibit BSL-6**, FPL's requested financial cost of capital is 8.04%,  
6 compared to the 2020 national average of 7.02%. On a pre-tax basis, FPL's cost of  
7 capital is 10.20%, compared to the 2020 national average of 8.68%. FPL's  
8 significantly higher weighted average cost of capital is due to its extremely high  
9 requested ROE of 11.5% and excessive common equity ratio of 59.6%. I will  
10 subsequently discuss each of these in more detail.

### **FPL's Cost of Equity Analysis**

11 **Q HOW DID FPL DETERMINE ITS ROE?**

12 A Mr. Coyne's ROE analyses is based on four methodologies: the Discounted Cash Flow  
13 (DCF) method, the Capital Asset Pricing model (CAPM), a Risk Premium method, and  
14 the Expected Earnings method, using a proxy group of companies that are similar to  
15 FPL. **Appendix C** provides a description of the DCF, CAPM, and Risk Premium  
16 methodologies.

17 **Q WHAT ARE THE RESULTS OF MR. COYNE'S ANALYSES?**

18 A Mr. Coyne's analyses result in a range of 7.98% - 14.17%. However, he rejected his  
19 own analysis and estimated a range of 9.29% - 14.17%. Ultimately, Mr. Coyne  
20 recommended a range of 10.5% - 11.5%.<sup>3</sup> Based on his recommended range,

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<sup>3</sup> Direct Testimony of James M. Coyne at 53, 64.

1 concerns regarding the DCF methodology, and observations regarding FPL's relative  
2 risk and flotation costs, he recommends an 11% ROE, or 11.5% ROE including the  
3 performance incentive.

4 **Q WHAT DO YOU MEAN BY A PROXY GROUP?**

5 A A proxy group is a group of companies involved in similar operations as FPL.

6 **Q WHY IS A PROXY GROUP RELEVANT IN DETERMINING AN APPROPRIATE**  
7 **ROE?**

8 A A proxy group is relevant because it provides a group of companies that are  
9 comparable in risk to FPL, hence estimating the cost of equity for the proxy group  
10 represents the economic opportunity costs that have an impact on the ROE for FPL.

11 **Q DO YOU AGREE WITH THE GROUP OF COMPANIES THAT MR. COYNE**  
12 **INCLUDED IN HIS PROXY GROUP?**

13 A Yes. The companies in Mr. Coyne's proxy group are comparable to FPL, based on  
14 Mr. Coyne's screening requirements, with which I agree.

15 **Q WHAT ARE YOUR CONCERNS WITH MR. COYNE'S DCF ANALYSIS?**

16 A Mr. Coyne rejected his DCF analysis. He stated:

17 My primary conclusion is that the results of the DCF model understate the cost  
18 of equity for electric utilities under current market conditions and should not be  
19 used exclusively to establish the return for FPL in this proceeding.<sup>4</sup>

20 Based on this concern, Mr. Coyne excluded the results of his "Mean Low" estimates.

21 As a result, Mr. Coyne's estimated DCF ROE is inflated by 61 basis points. The

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<sup>4</sup> *Id.* at 54.

1 average DCF ROE excluding the Mean Low results is 9.83% and the average DCF  
2 ROE including the Mean Low results is 9.22%. Excluding the Mean Low results, thus,  
3 artificially inflates the ROE.

4 **Q IS MR. COYNE'S DCF ANALYSIS REASONABLE?**

5 A Yes. Although I agree that the DCF should be used in conjunction with other models  
6 to determine FPL's estimated return on equity, I disagree with Mr. Coyne's conclusion  
7 that the DCF results are not reliable and do not properly reflect current market  
8 conditions.

9 Further, Mr. Coyne's DCF analysis is based on reasonable assumptions  
10 including forecast earnings growth and expected dividend yields for the companies in  
11 his proxy group. The results of his DCF analysis are shown in Table 4.

| <b>Table 4<br/>DCF Results</b> |                     |             |                      |
|--------------------------------|---------------------|-------------|----------------------|
| <b>Stock Price<br/>Period</b>  | <b>Mean<br/>Low</b> | <b>Mean</b> | <b>Mean<br/>High</b> |
| <b>30-Day Average</b>          | 8.08%               | 9.33%       | 10.41%               |
| <b>90-Day Average</b>          | 7.98%               | 9.23%       | 10.31%               |
| <b>180-Day Average</b>         | 8.04%               | 9.30%       | 10.37%               |

**Source:** Direct Testimony of James M. Coyne at 53.

12 Based on my review, I conclude that the results are reasonable, and further, they  
13 should be used, in conjunction with other accepted methodologies, to determine FPL's  
14 ROE. Thus, the estimated DCF ROE should also include the Mean Low results.

15 **Q DO YOU AGREE WITH MR. COYNE'S CAPM ANALYSES?**

16 A No. Mr. Coyne's CAPM analysis uses betas calculated by Value Line and Bloomberg,

1 a 2.80% forecast risk-free rate, and a forecast market risk premium (MRP).<sup>5</sup> His  
2 forecast MRP is based on the average of *projected* returns for Standard & Poor's  
3 (S&P) 500 Index using S&P's Earnings and Estimates report, Bloomberg Professional,  
4 and Value Line, using the DCF model to project the earnings. The average of his total  
5 market return is 15.75%.<sup>6</sup> Based on this market return, Mr. Coyne's estimated a  
6 14.17% ROE.

7 While I agree with his use of a *forecast* MRP, Mr. Coyne failed to estimate the  
8 ROE using a *historical* MRP. Therefore, his estimated CAPM ROE is significantly  
9 overstated.

10 **Q IS IT A COMMON PRACTICE TO ALSO USE THE LONG-TERM HISTORICAL MRP**  
11 **TO ESTIMATE THE CAPM ROE?**

12 A Yes. A long-term estimate of the historical MRP is a commonly used method which is  
13 based on actual, historical MRPs over several decades and provides a reliable  
14 estimate of the expected MRP.

15 **Q HAVE YOU CALCULATED THE ROE USING THE CAPM AND THE LONG-TERM**  
16 **HISTORICAL MRP?**

17 A Yes. The historical MRP (1926-2020) is 7.15%, based on data from Ibbotson's 2020  
18 *SBBI Valuation Yearbook*.<sup>7</sup> Using Mr. Coyne's average beta of 0.88, and a 2.80%

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<sup>5</sup> *Id.* at 57.

<sup>6</sup> *Id.* at 59.

<sup>7</sup> *In the Matter of the Application of DTE Gas Company for Authority to Increase its Rates, Amend its Rate Schedules and Rules Governing the Distribution and Supply of Natural Gas, and for Miscellaneous Accounting Authority*, Case No. U-20940, Direct Testimony of Dr. Bente Villadsen at 44 (Feb. 12, 2021).

1 risk-free rate with the 7.15% MRP, the estimated ROE for FPL is 9.09%.<sup>8</sup>

2  $2.80\% + 0.88 * 7.15\% = 9.09\%$

3 The historical MRP provides a reasonable estimate of FPL's ROE and should be  
4 included in Mr. Coyne's analysis.

5 **Q IS MR. COYNE'S RISK PREMIUM ANALYSIS VALID?**

6 A No. Mr. Coyne's Risk Premium method estimates the ROE based on the historical  
7 relationship between allowed ROEs in electric utility rate cases and the risk-free rate  
8 at the time the ROEs were authorized, from 1992 through February 2021. Using this  
9 data, Mr. Coyne created a regression analysis to estimate the ROE. Mr. Coyne's  
10 regression analysis purports to demonstrate that there is an inverse relationship  
11 between the equity risk premium and interest rates. However, his regression analysis  
12 does not encompass other factors that could affect the equity risk premium, such as  
13 different Federal monetary and fiscal policies, or economic risk, such as employment,  
14 consumption and growth. These factors could have an impact on authorized ROEs  
15 due to their effect on market risk, which may cause regulators to adjust their authorized  
16 ROEs. The change in interest rates is one of many factors that may affect a utility's  
17 authorized ROE.

18 **Q HAVE YOU REVISED DR. COYNE'S RISK PREMIUM ANALYSIS?**

19 A Yes, using the data provided by Mr. Coyne, I used his long-term average equity risk  
20 premium of 6% and long-term risk free rate of 2.8% to derive an estimated ROE of  
21 8.8%. The long-term risk premium estimate recognizes that the risk premium can

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<sup>8</sup> Direct Testimony of James M. Coyne, Exhibit JMC-5.2.

1 fluctuate depending on market conditions and investor expectations. Therefore, using  
2 the average risk premium over this time-period is a reasonable method to estimate  
3 FPL's cost of equity.

4 **Q WHAT IS MR. COYNE'S ESTIMATED ROE USING HIS EXPECTED EARNINGS**  
5 **METHODOLOGY?**

6 A Mr. Coyne's Expected Earnings analysis estimates the ROE at 10.22%.<sup>9</sup> However, I  
7 disagree with the Expected Earnings methodology.

8 **Q WHY DO YOU DISAGREE WITH THE EXPECTED EARNINGS METHODOLOGY?**

9 A The Expected Earnings methodology is not a reliable method to estimate the ROE. It  
10 represents a forecast return on book equity and not a required return or cost of equity  
11 and therefore should not be relied upon to estimate FPL's ROE.

12 **Q WHAT DO YOU MEAN BY THE ESTIMATED EARNINGS METHOD REPRESENTS**  
13 **A FORECAST ROE AND NOT A REQUIRED RETURN OR COST OF EQUITY?**

14 A The Expected Earnings method uses forecasted earned returns on *book* equity. This  
15 is not a reasonable proxy for investors' expected *market* returns. It is a book  
16 accounting return and does not reflect investors' market expectations. FERC rejected  
17 the Expected Earnings method in a 2019 Order.<sup>10</sup> As explained by FERC:

18 Because an investor cannot purchase a utility's common stock at book value  
19 and must instead pay the prevailing market price for common equity, the  
20 utility's expected earned return on book value is indicative of neither what

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<sup>9</sup> *Id.* at 64.

<sup>10</sup> *Association of Businesses Advocating Tariff Equity et al. v. Midcontinent Independent System Operator, Inc. et al*, Docket Nos. EL 14-12-003 and EL 15-45-000, Opinion No. 569 at 104 (Nov. 21, 2019).



1 an investor can expect to earn on an investment in the utility's common stock  
2 nor what return an investor requires to invest in the utility's common stock.

3 As such, Mr. Coyne's Expected Earnings method is not a reliable proxy for the  
4 estimated ROE for FPL and should be rejected.

### **Flotation Costs**

5 **Q WHAT ARE FLOTATION COSTS?**

6 A Flotation costs include two components. The first component is the actual cost paid  
7 by a company to the underwriter for issuing the stock. The second is indirect and  
8 represents the potential dilutive impact due to the issuance of new stock.

9 **Q HOW DO FLOTATION COSTS AFFECT THE ROE DETERMINATION?**

10 A Flotation costs increase the ROE. For example, Mr. Coyne made an upward  
11 adjustment of 11 basis points to his estimated ROEs to account for flotation costs.<sup>11</sup>

12 **Q DOES FPL INCUR FLOTATION COSTS?**

13 A No. First, Mr. Coyne's estimate of flotation costs was based on the companies in his  
14 proxy group, not on any actual flotation costs incurred by FPL or expected to be  
15 incurred during the Four-Year Rate Plan. This is because FPL is a regulated utility  
16 that does not issue stock and therefore does not incur flotation costs. The flotation  
17 costs are incurred by FPL's parent company, NextEra Energy. Therefore, a flotation  
18 cost adjustment is not necessary.

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<sup>11</sup> Direct Testimony of James M. Coyne at 83.

1 Q IF FPL IS RESPONSIBLE FOR NEXTERA'S FLOTATION COSTS, SHOULD THE  
2 COMMISSION APPROVE MR. COYNE'S FLOTATION COST ADJUSTMENT?

3 A No. As noted above, Mr. Coyne's flotation cost adjustment is not based on actual  
4 flotation costs incurred. If the Commission allows FPL to recover flotation costs, it  
5 should be based on a reasonable projection of flotation costs that FPL's parent  
6 company will incur during the Four-Year Rate Plan.

**Impact of Correcting FPL's ROE Analysis**

7 Q IF THE VARIOUS FLAWS IN FPL'S ROE ANALYSIS ARE CORRECTED, HOW  
8 WOULD THIS AFFECT FPL'S ESTIMATED ROE?

9 A Correcting the errors in Mr. Coyne's ROE analysis and excluding a flotation cost  
10 adjustment, it is clear that FPL's cost of equity does not exceed 9.59%. The derivation  
11 of 9.59% is shown in Table 6 below. It is based on the results of the restated DCF  
12 results and the revised CAPM and Risk Premium analyses.

| <b>Table 6<br/>Revised ROE</b> |            |
|--------------------------------|------------|
| <b>Methodology</b>             | <b>ROE</b> |
| <b>DCF Low</b>                 |            |
| 30-day Average                 | 8.08%      |
| 90-day Average                 | 7.98%      |
| 180-day Average                | 8.04%      |
| <b>DCF Mean</b>                |            |
| 30-day Average                 | 9.33%      |
| 90-day Average                 | 9.23%      |
| 180-day Average                | 9.30%      |
| <b>DCF High</b>                |            |
| 30-day Average                 | 10.41%     |

| <b>Table 6<br/>Revised ROE</b> |            |
|--------------------------------|------------|
| <b>Methodology</b>             | <b>ROE</b> |
| 90-day Average                 | 10.31%     |
| 180-day Average                | 10.37%     |
| <b>CAPM Projected MRP</b>      | 14.17%     |
| <b>CAPM Historical MRP</b>     | 9.09%      |
| <b>Risk Premium</b>            | 8.80%      |
| <b>Average</b>                 | 9.59%      |

1 My revised ROE reflects the inclusion of Mr. Coyne's Mean Low DCF results, the  
2 projected and historical MRP, and the historical equity risk premium for electric utilities.  
3 Furthermore, a flotation cost adjust was excluded because FPL does not issue  
4 common stock.

5 **Q WHAT IS THE IMPACT ON FPL'S REVENUE REQUIREMENT USING YOUR**  
6 **REVISED ROE?**

7 A Replacing FPL's requested 11.5% ROE with the revised ROE of 9.59% reduces FPL's  
8 revenue requirement by \$683.2 million in 2022 and \$736.6 million in 2023. **Exhibit**  
9 **BSL-7** pages 1-2 provides the detailed calculations.

10 **Q PLEASE SUMMARIZE YOUR CRITICISMS OF MR. COYNE'S ROE ANALYSES.**

11 A Mr. Coyne relies on four methods to estimate FPL's ROE. His DCF analysis excludes  
12 his Mean Low results, which overstates his estimated DCF ROE.

13 His CAPM analysis excludes the historical MRP, which is a common method  
14 to estimate a utility's ROE. The exclusion of the historical MRP results inflates FPL's  
15 estimated ROE.

1           The Risk Premium method uses a regression analysis that only considers the  
2           impact of long-term interest rates on the equity risk premium. Other factors also affect  
3           the equity risk premium, such as Federal monetary policy. Ignoring other factors that  
4           may affect the equity risk premium produces inaccurate ROE estimates.

5           The Expected Earnings methodology is not a common method used to  
6           estimate the ROE for a regulated utility. As detailed above, the utility's expected  
7           earned return on book value is indicative of neither what an investor can expect to  
8           earn on an investment in the utility's common stock nor what return an investor  
9           requires to invest in the utility's common stock. Therefore, it should be rejected.

10           The flotation cost analysis is misplaced because FPL does not issue stock.

### **Risk Factors**

11   **Q     IS FPL MORE RISKY THAN MR. COYNE'S PROXY GROUP COMPANIES?**

12   **A**No. Mr. Coyne suggests that FPL's risk as it relates to the proxy group is higher and  
13           would support an ROE at the high end of his recommended range. These risk factors  
14           include FPL's capital expenditures program, its nuclear generation fleet, risk  
15           associated with storm damage and resulting outages, regulatory risk, and risk related  
16           to FPL's proposed Four-Year Rate Plan.

17           However, although its capital expenditure program is significant, FPL's risk  
18           related to the proxy group regarding the risk factors identified by Mr. Coyne is lower.  
19           For example, as noted by Mr. Coyne, over half of the companies in the proxy group  
20           have nuclear assets. Further, FPL is an above average nuclear operator, which credit  
21           rating agencies view as favorable. FPL has similar risk associated with storm damage,

1           however, its regulatory risk is significantly below the proxy group's regulatory risk and  
2           the proposed Four-Year Rate Plan reduces its risk compared to the proxy group.

3   **Q    ARE ANY OF THE COMPANIES IN THE PROXY GROUP EXPOSED TO STORM**  
4   **DAMAGE AND OUTAGES?**

5   A    Yes.   Several companies in the proxy group are exposed to storm damage and  
6       outages, such as tropical storms and hurricanes, severe thunderstorms, tornados, ice  
7       storms and in the case of Edison International, outages due to wildfires. FPL's risk  
8       regarding exposure to storms is similar to the proxy group's exposure to adverse  
9       weather events and, therefore, FPL's is not riskier than the proxy group regarding its  
10      exposure to storm damage and outages.

11   **Q    DOES FPL HAVE HIGHER REGULATORY RISK?**

12   A    No. FPL's regulatory risk is significantly below the companies in the proxy group.  
13       According to Regulatory Research Associates (RRA), the regulatory climate in Florida,  
14       as it relates the risk faced by investors, is significantly better than the regulatory climate  
15       in other states. As noted by RRA:

16               Florida regulation is viewed as quite constructive from an investor  
17               perspective....In recent years, the Florida Public Service Commission has  
18               issued a number of decisions, most of which adopted multiyear settlements  
19               that were supportive of the utilities' financial health. Florida has not  
20               restructured its electric industry, and the state's utilities remain vertically  
21               integrated and are regulated within a traditional framework. PSC-adopted  
22               equity returns have tended to exceed industry averages when established, and  
23               the commission utilizes forecast test years and frequently authorizes interim  
24               rate increases. As a result, utilities are generally accorded a reasonable  
25               opportunity to earn the authorized returns....Mechanisms are in place that  
26               allow utilities to reflect in rates, on a timely basis, changes in fuel, purchased  
27               power, certain new generation, conservation, environmental compliance,  
28               purchased gas and other costs. Additionally, the state has been very proactive  
29               in providing utilities cost-recovery mechanisms for costs related to major

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**2. Cost of Capital**

1 storms. Additionally, in 2019 the state adopted a Storm Protection Plan Cost  
2 Recovery Clause that allows utilities to seek more timely recovery of storm  
3 hardening investments outside a general rate case. RRA currently accords  
4 Florida regulation an Above Average/2 ranking.<sup>12</sup>

5 **Q HOW DOES FLORIDA'S REGULATORY RANK COMPARE TO OTHER STATES?**

6 A Florida's regulatory rank is significantly above other jurisdictions. RRA's regulatory  
7 evaluation scale uses three categories, Above Average, Average, and Below Average.  
8 Within each category, it includes a ranking of 1, 2, or 3. According to RRA,

9 An Above Average designation indicates that, in RRA's view, the regulatory  
10 climate in the jurisdiction is relatively more constructive than average,  
11 representing *lower risk* for investors that hold or are considering acquiring the  
12 securities issued by the utilities operating in that state.<sup>13</sup> (emphasis added)

13 Florida is ranked Above Average/2. Out of the 53 ranked jurisdictions, Florida is in the  
14 top 5. The proxy group of companies represent 47 regulated utilities. Out of those 47  
15 regulated utilities, four have an RRA rank that is equal to Florida. The remaining 43  
16 are ranked below Florida. This demonstrates that FPL has significantly less regulatory  
17 risk than the companies in the proxy group.

18 **Q DOES THE FOUR-YEAR RATE PLAN INCREASE FPL'S RISK?**

19 A No, quite the opposite. FPL's proposed Four-Year Rate Plan uses two forward looking  
20 test-years, 2022 and 2023. It also allows FPL to adjust its rates in 2024 and 2025 for  
21 solar based rate adjustments, which, as discussed in Mr. Pollock's testimony, is clearly  
22 piecemeal ratemaking. Piecemeal ratemaking allows a utility to implement a change  
23 in rates outside of a base rate case, while ignoring the utility's earnings. The SoBRAs

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<sup>12</sup> S&P Global Market Intelligence, Regulatory Research Associates, RRA Evaluation (Apr. 29, 2021).

<sup>13</sup> S&P Global Market Intelligence, RRA Regulatory Focus, State Regulatory Evaluations (Aug. 19, 2020).

1 will mitigate FPL's risk because it will change rates on an expedited basis and outside  
2 the context of a traditional rate case in accordance with cost changes. Further, as  
3 noted by RRA, multi-year rate plans approved in Florida are supportive of the utility's  
4 financial health. The Four-Year Rate Plan does not increase FPL's risk relative to the  
5 companies in its proxy group, but reduces its risk.

### **Financial Risk Factors**

6 **Q DOES FPL HAVE SIGNIFICANT FINANCIAL RISK?**

7 A No. FPL does not have significant financial risk for several reasons, including: (1) the  
8 use of multiple fully projected future test years; (b) piecemeal cost recovery clauses  
9 that allow rates to be adjusted outside of base rate cases; and (c) a regulatory  
10 commission that employs many constructive ratemaking practices.

11 **Q DOES FPL CURRENTLY HAVE ANY ADJUSTMENT CLAUSES IN PLACE THAT  
12 REDUCE ITS VARIABILITY IN INCOME AND LOWER ITS FINANCIAL RISK?**

13 A Yes, FPL currently recovers a number of its costs through various surcharges and cost  
14 recovery factors. These include the following adjustment clauses:

- 15 • Fuel and Purchased Power;
- 16 • Energy Conservation;
- 17 • Capacity;
- 18 • Environmental; and
- 19 • Storm Protection

20 FPL's adjustment clauses shift the risk of cost recovery from shareholders to  
21 customers. FPL is able to change its rates to recover costs on a current basis, which  
22 reduces regulatory lag and income variability.

1 Q HOW HAS THE RESERVE SURPLUS AMORTIZATION MECHANISM (RSAM)  
2 AFFECTED FPL'S FINANCIAL RISK?

3 A The RSAM has effectively removed FPL's financial risk because it has allowed FPL to  
4 earn its authorized ROE since 2010. Table 7 shows FPL's earned ROE without the  
5 RSAM and with the RSAM since 2010.

| <b>Year</b> | <b>Without<br/>RSAM</b> | <b>With<br/>RSAM</b> |
|-------------|-------------------------|----------------------|
| <b>2010</b> | 10.97%                  | 11.0%                |
| <b>2011</b> | 9.69%                   | 11.0%                |
| <b>2012</b> | 8.00%                   | 11.0%                |
| <b>2013</b> | 10.12%                  | 10.96%               |
| <b>2014</b> | 11.66%                  | 11.5%                |
| <b>2015</b> | 11.57%                  | 11.5%                |
| <b>2016</b> | 11.45%                  | 11.5%                |
| <b>2017</b> | 5.91%                   | 11.08%               |
| <b>2018</b> | 14.08%                  | 11.6%                |
| <b>2019</b> | 13.05%                  | 11.6%                |
| <b>2020</b> | 11.61%                  | 11.6%                |

**Source:** Response to FIPUG First Set of Interrogatories No. 22, Attachment No. 1.

6 FPL has consistently earned its authorized ROE at the top of the range every year. In  
7 years where FPL earned below its authorized ROE, the RSAM was implemented to  
8 increase its ROE. The RSAM guarantees investors that FPL has lower risk and will  
9 likely earn its authorized ROE every year.



1 Q DOES THE SOLAR BASE RATE ADJUSTMENT MECHANISM REDUCE FPL'S  
2 RISK?

3 A Yes. The SoBRA allows FPL to make adjustments to its revenue requirement outside  
4 of a rate case, which is also another form of piecemeal ratemaking. Allowing additional  
5 adjustments to FPL's revenue requirement outside of a rate case, without a thorough  
6 review of all of its revenues and costs, reduces its income volatility and thus, reduces  
7 its financial risk.

8 Q HOW DOES LOWER FINANCIAL RISK IMPACT FPL'S EXPECTED COST OF  
9 CAPITAL?

10 A FPL's reduced financial risk lowers investors required return. Thus, investors' required  
11 return for FPL will be lower. Hence, the risk-reducing measures and the RSAM  
12 support a reduction to FPL's proposed ROE of 11% (excluding the 50 basis point  
13 performance incentive).

### **Risk-Free Cost of Capital**

14 Q WHAT IS THE RISK-FREE COST OF CAPITAL?

15 A The risk-free cost of capital is represented by the yield on 30-year U.S. Treasury  
16 bonds. The 30-year U.S. Treasury bond interest rate is used because the term of the  
17 security should closely match the lifetime of the underlying assets.

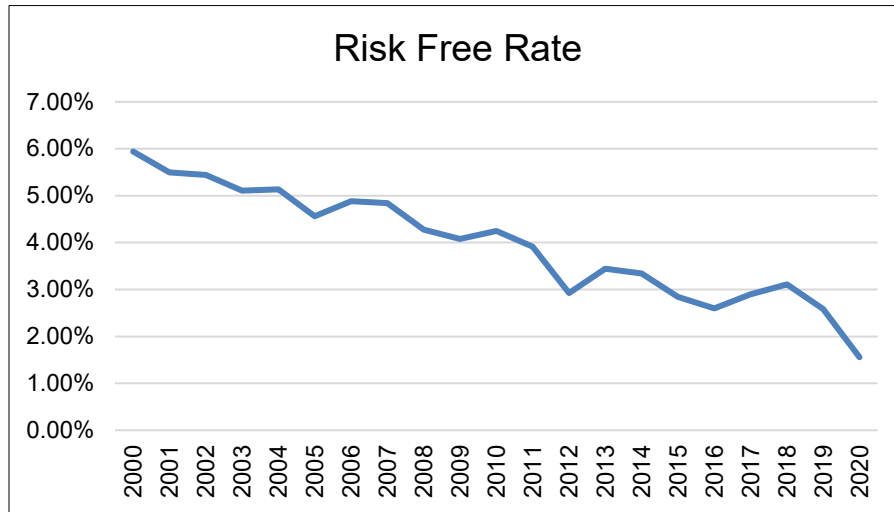
18 Q HAS THE RISK-FREE COST OF CAPITAL CHANGED IN THE PAST TWENTY  
19 YEARS?

20 A Yes. The risk-free cost of capital is represented by the yield on 30-year U.S. Treasury  
21 bonds. The 30-year U.S. Treasury bond interest rate is used because the term of the  
22 security should closely match the lifetime of the underlying assets. As can be seen in

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## **2. Cost of Capital**

1 the graph below, the risk-free cost of capital has steadily declined over the last 20  
2 years.<sup>14</sup>



3 **Q WHAT ARE THE IMPLICATIONS OF THE DECLINE IN THE RISK-FREE COST OF**  
4 **CAPITAL IN DETERMINING A FAIR AND REASONABLE ROE?**

5 A All other things being equal, a declining risk-free cost of capital should translate into a  
6 correspondingly lower authorized ROE.

7 **Q WHY DOES A DECLINING RISK-FREE COST OF CAPITAL SUPPORT A LOWER**  
8 **AUTHORIZED ROE?**

9 A A lower risk-free rate, coupled with the risk premium, will produce a lower ROE. The  
10 risk premium measures the additional risk to a stock above the risk-free rate. This risk  
11 premium plus the risk-free rate is one methodology used to estimate a utility's ROE.  
12 A lower risk-free rate will reduce the estimated ROE.

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<sup>14</sup> Calculated using data from U.S. Department of the Treasury, Resource center:  
<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

1 **Q DOES FPL'S PROPOSED ROE REFLECT ITS LOWER RISK?**

2 A No. FPL faces lower regulatory and financial risks than the proxy group. This is due  
3 to the very constructive regulatory environment and FPL's excessive equity ratio. The  
4 proposed Four-Year Rate Plan further reduces these risks because, as discussed by  
5 Mr. Pollock, it would guarantee that FPL earns at the top end of its authorized ROE  
6 due to the proposed extension of the RSAM. Further, the risk-free cost of capital  
7 continues to decline. Thus, even assuming no change in the risk premium associated  
8 with equity financing, the cost of equity is lower. For all of these reasons, FPL's  
9 requested ROE is clearly excessive.

10 **Q WHAT DO YOU RECOMMEND?**

11 A I am not recommending a specific ROE at this time. FPL's proposed 11.5% ROE is  
12 excessive compared to the revised ROE of 9.59% and the national average ROE in  
13 2020 of 9.55%. Accordingly, I recommend that the Commission set FPL's ROE at or  
14 below the average of the authorized ROEs by other state regulatory commissions.

### 3. SCHERER UNIT 4 RETIREMENT AND JEA PAYMENT

1 **Q PLEASE DESCRIBE SCHERER UNIT 4.**

2 A Scherer Unit 4 is an 850 MW coal fired generating facility that is jointly owned by FPL  
3 (76.36%) and JEA (23.64%).<sup>15</sup>

4 **Q IS FPL PLANNING TO RETIRE SCHERER UNIT 4?**

5 A Yes. FPL proposes to retire its portion of Scherer Unit 4 as of January 1, 2022.<sup>16</sup> Per  
6 FPL:

7 The modernization of FPL's generation fleet over the last decade...has  
8 increasingly pushed coal to the bottom of the dispatch stack. Ongoing capital  
9 costs and O&M obligations have rendered FPL's legacy coal plants as prime  
10 candidates for overall cost reduction efforts.<sup>17</sup>

11 The early retirement of Scherer Unit 4 is consistent with the Environmental, Social  
12 and Governance plans of FPL's parent company, NextEra. It also allows FPL to  
13 invest in new capacity, which benefits its shareholders.

14 **Q CAN FPL RETIRE SCHERER UNIT 4 WITHOUT JEA'S APPROVAL?**

15 A No. Without JEA's agreement to retire its share, FPL may not retire its portion of  
16 Scherer Unit 4 under the settlement obligation. FPL and JEA have a joint agreement  
17 with Georgia Power to jointly own Scherer Unit 4. FPL and JEA also own undivided  
18 interests in the common facilities of Scherer Unit 3 and Unit 4, as well as undivided

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<sup>15</sup> Direct Testimony of Sam Forrest at 19.

<sup>16</sup> *Id.* at 21.

<sup>17</sup> *Id.* at 19-20.

1 interests in the Scherer common facilities related to Units 1-4. FPL and JEA also  
2 maintain their own coal stockpiles and a portion of the materials and spare parts.

3 **Q WHAT IS FPL'S REMAINING UNDEPRECIATED BALANCE OF SCHERER UNIT 4**  
4 **AND ITS COMMON FACILITIES?**

5 A The remaining undepreciated balance of Scherer Unit 4 is \$831 million.<sup>18</sup> FPL's  
6 proposal to recover these costs is to create a regulatory asset and amortize the  
7 balance over 10 years. The unamortized balance would earn a full return.

8 **Q ARE THERE ANY OTHER COSTS ASSOCIATED WITH THE EARLY RETIREMENT**  
9 **OF SCHERER UNIT 4?**

10 A Yes. In order to retire the unit early, FPL needed JEA to agree with its proposal.  
11 However, JEA has ongoing bond obligations related to its share of Scherer ownership  
12 and needs to pay off the bonds in the event of a retirement. The outstanding balance  
13 of the revenue bonds is approximately \$100 million.<sup>19</sup> In order to retire the plant early,  
14 FPL negotiated with JEA a "Consummation Payment" of \$100 million to satisfy the  
15 revenue obligations.

16 **Q WHAT IS FPL'S PROPOSAL TO RECOVER THE "CONSUMMATION PAYMENT"**  
17 **FROM FPL CUSTOMERS?**

18 A FPL proposal would create a regulatory asset for the "Consummation Payment" and  
19 amortize it over ten years. FPL would also receive a full return on the unamortized  
20 portion.

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<sup>18</sup> Direct Testimony of Liz Fuentes at 21-22.

<sup>19</sup> Direct Testimony of Sam Forrest at 21.

1 **Q ARE FPL CUSTOMERS OBLIGATED TO PAY THE “CONSUMMATION**  
2 **PAYMENT”?**

3 A No. FPL customers should only pay FPL’s share of the Scherer Unit 4 costs. FPL  
4 customers should not be responsible for JEA’s \$100 million outstanding revenue  
5 obligation bonds. FPL customers received the benefit of FPL’s share of Scherer  
6 Unit 4, and JEA’s customers received the benefit of JEA’s share. Therefore, if Scherer  
7 Unit 4 is retired, FPL customers should only pay FPL’s remaining undepreciated  
8 balance of the plant, or \$831 million, and not the \$100 million “Consummation  
9 Payment.”

10 **Q SHOULD FPL AMORTIZE THE REMAINING NET BALANCE OF SCHERER UNIT 4**  
11 **OVER TEN YEARS?**

12 A No. FPL should amortize the remaining plant balance over the original life of the plant,  
13 2039. This was the retirement date established in FPL’s 2016 Depreciation Study for  
14 Scherer Unit 4.<sup>20</sup> However, as a result of the settlement of FPL’s 2016 rate case, the  
15 Scherer Unit 4 retirement date was extended to 2052.

16 **Q SHOULD FPL EARN A RETURN ON THE REMAINING BALANCE OF SCHERER**  
17 **UNIT 4?**

18 A No. Extending the retirement date of Scherer Unit 4 to 2052 allowed FPL, in part, to  
19 continue the RSAM. FPL subsequently monetized Scherer Unit 4 through lower  
20 depreciation expense to achieve earnings at the top end of its authorized ROE. Now

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<sup>20</sup> *In re: Petition for rate increase by Florida Power & Light Company*, Docket No. 160021-EI, Order Approving Settlement Agreement, Attachment A, Exhibit D at 2 (Dec. 15, 2016).

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**3. Scherer Unit 4 Retirement  
and JEA Payment**

1 FPL seeks not only to retire the unit 30 years sooner, it is also asking to earn a return  
2 on the unamortized plant balance. Notwithstanding the “bait and switch” on the  
3 Scherer Unit 4 retirement date, FPL should not have two bites at the same earnings  
4 apple. It used the RSAM funds created in part by extending the life of Scherer plant  
5 to prop up its earnings and it should not be allowed recovery of an additional return on  
6 the remaining plant balance.

7 **Q IS THERE ANY OTHER REASON WHY FPL SHOULD NOT EARN A RETURN ON**  
8 **THE REMAINING BALANCE OF SCHERER UNIT 4?**

9 A Yes. When Scherer Unit 4 is retired on January 1, 2022, it will no longer provide  
10 service to customers; therefore, it will no longer be used and useful. If a plant is no  
11 longer used to provide service or is not capable of providing service, then a utility  
12 should not earn a return on that plant, because it is not providing a benefit to  
13 customers.

14 **Q WHAT DO YOU RECOMMEND?**

15 A The \$100 million JEA “Consummation Payment” should be rejected. I recommend  
16 that the remaining undepreciated balance of Scherer Unit 4 be recovered through the  
17 original life of the plant, 2039, and FPL should not earn a return on the remaining net  
18 balance. The JEA “Consummation Payment” should be rejected. FPL customers are  
19 not responsible for JEA’s outstanding revenue obligations regarding Scherer Unit 4  
20 because FPL customers did not benefit from JEA’s ownership portion of Scherer Unit 4.

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**3. Scherer Unit 4 Retirement  
and JEA Payment**

#### 4. RATE CASE EXPENSE AMORTIZATION

1 **Q IS FPL SEEKING RECOVERY OF ITS RATE CASE EXPENSES IN THIS**  
2 **PROCEEDING?**

3 A Yes. FPL is seeking recovery of \$5 million of estimated rate case expenses it will incur  
4 in the current proceeding over four years.<sup>21</sup> In addition, it is requesting that the  
5 unamortized balance be included in rate base in the 2022 test year and the 2023  
6 subsequent year.

7 **Q SHOULD FPL RECOVER ALL OF ITS RATE CASE EXPENSES IN THIS**  
8 **PROCEEDING?**

9 A Yes. However, the amount of the rate case expenses should be based on the actual  
10 rate case expenses incurred by the conclusion of the hearing in this proceeding. Any  
11 rate case expense incurred after the conclusion of the hearing in this proceeding  
12 should be recovered in FPL's next base rate case.

13 **Q SHOULD FPL INCLUDE RATE CASE EXPENSES IN RATE BASE?**

14 A No, FPL should not include rate case expenses in the 2022 test year or the 2023  
15 subsequent year. Including rate case expenses in rate base would be detrimental to  
16 customers because FPL would also recover a full return on the unamortized balance,  
17 which would unnecessarily increase costs for customers. Further, allowing FPL to  
18 earn a return on its rate case expenses removes any incentive to control its costs and  
19 favors shareholders, not customers.

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<sup>21</sup> Direct Testimony of Liz Fuentes at 18.



1 Q WHAT DO YOU RECOMMEND?

2 A I recommend that FPL recover its actual rate case expenses incurred through the  
3 conclusion of the hearing in this proceeding. The actual rate case expenses incurred  
4 may be recovered over four years; however, FPL should not include the unamortized  
5 portion of the balance in rate base in the 2022 test year or the 2023 subsequent year.

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4. Rate Case Expenses Amortization

## 5. FUTURE INCOME TAX CHANGE PROPOSAL

1 Q HAS FPL PROPOSED AN ADJUSTMENT IF THE FEDERAL CORPORATE  
2 INCOME TAX RATE INCREASES DURING THE TERM OF THE FOUR-YEAR RATE  
3 PLAN?

4 A Yes. FPL proposes to adjust base rates if the federal corporate income tax rate  
5 increases. Within 90 days of the enactment of the new tax law, FPL will submit revised  
6 base rates to the Commission. If the tax rate change occurs after the new base rates  
7 are implemented, FPL will submit the calculation of the change in base rates to the  
8 Commission for a subsequent base rate adjustment.

9 Q HOW WILL FPL QUANTIFY THE REQUIRED CHANGE IN BASE RATES?

10 A FPL will provide two sets of MFR Schedules A-1, B-1, C-1 and D-1a for both the 2022  
11 test year and the 2023 subsequent year adjustment. The updated schedules will  
12 reflect base rates using the current corporate income tax rate and base rates using  
13 the revised corporate income tax rate. If the corporate income tax rate changes after  
14 2023, FPL will use the 2023 MFRs to determine the change in base rates.

15 Q IS THE INCOME TAX PROPOSAL NECESSARY?

16 A No. It is piecemeal ratemaking. However, if the Commission approves FPL's  
17 proposal, then it is allowing a change in base rates outside the context of a rate case.  
18 If that occurs, then the adjustment should occur only when the income tax change  
19 goes into effect and affects FPL's income tax expense.

1 **Q SHOULD THE MECHANISM ALSO REQUIRE FPL TO REDUCE BASE RATES IF**  
2 **THE FEDERAL CORPORATE INCOME TAX DECREASES?**

3 A Yes. Similar to the proposal to adjust base rates if the federal corporate income tax  
4 increases, FPL should be required to reduce base rates to reflect the lower income tax  
5 expense when the tax rate change has become effective.

6 **Q WHAT DO YOU RECOMMEND?**

7 A I recommend that the Commission reject FPL's proposal because it is not needed at  
8 this time. If the Commission approves FPL's proposed base rate adjustment to reflect  
9 an increase in the federal corporate income tax rate, then it should also apply if the  
10 federal corporate income tax rate decreases. The adjustment should be made only  
11 after the new income tax rate goes into effect and actually affects FPL's income tax  
12 expense.

## 6. CONCLUSION

1 Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

2 A The Commission should accept the following recommendations:

- 3 • Reject FPL's proposed 11.5% ROE (including the performance incentive)
- 4 • Set FPL's ROE at or near the average of the ROEs authorized by state  
5 regulatory commissions.
- 6 • Reduce FPL's financial equity ratio to not exceed 52%.
- 7 • Reject FPL's proposed capital recovery schedule for Scherer Unit 4 and  
8 require FPL to amortize the remaining balance through 2039, the original  
9 remaining life of the plant, without a return on the unamortized balance.
- 10 • Disallow the \$100 million "Consummation Payment" to JEA.
- 11 • Authorize the recovery of actual rate case expenses incurred through the  
12 conclusion of the hearing in this proceeding and disallow rate base treatment  
13 in the 2022 test year or the 2023 subsequent year.
- 14 • Reject FPL's proposed corporate income tax mechanism at this time as it  
15 is not necessary. If the Commission approves FPL's proposal, the mechanism  
16 should recognize both increases and decreases in the federal corporate  
17 income tax rate and that base rates are not adjusted until FPL experiences a  
18 change in income tax expense due to the tax rate change.

19 Q DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

20 A Yes.

## APPENDIX A

### Qualifications of Billie S. LaConte

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Billie S. LaConte. My business mailing address is 12647 Olive Blvd., Suite 585, St.  
3 Louis, Missouri 63141.

4 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 A I am an energy advisor and am currently employed by J. Pollock, Incorporated as  
6 Associate Consultant.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A I have a Bachelor of Arts Degree in Mathematics from Boston University and a  
9 Master's degree in Business Administration from Washington University.

10 Upon graduation in May 1995, I joined Drazen Consulting Group, Inc. (DCGI).  
11 DCGI was incorporated in 1995 assuming the utility rate and economic consulting  
12 activities of Drazen Associates, Inc., active since 1937. I joined J. Pollock in May  
13 2015.

14 During my tenure at DCGI and J. Pollock my work has focused on revenue  
15 requirement issues, cost of capital (return on equity and capital structure), cost  
16 allocation, rate design, sales and price forecasts, power cost forecasting, electric  
17 restructuring issues, integrated resource plans, formula rate plans, asset management  
18 agreements and contract interpretation.

19 I have been engaged in a wide range of consulting assignments including  
20 energy and regulatory matters in both the United States and several Canadian  
21 provinces. This has included advising clients on economic and strategic issues  
22 concerning the natural gas pipeline, oil pipeline, electric, wastewater and water

1 utilities. I have prepared cost allocation and rate design studies to provide timely  
2 support to clients engaged in settlement negotiations in electric and gas utilities,  
3 provided power cost forecasting studies to assist clients in project planning and  
4 negotiated contracts with electric utilities for standby services and interruptible rates.  
5 I have also prepared studies on electric and gas utilities' performance-based rates  
6 (PBR) and benchmarking programs to evaluate their success and to provide  
7 recommendations on methods to be used. I worked on contract interpretation to  
8 resolve contract disputes for several clients. I have provided financial and cost of  
9 service analysis for natural gas pipelines certificate approval from the Federal Energy  
10 and Regulatory Commission (FERC) and the Canadian National Energy Board (NEB).  
11 Additionally, I completed the Corporate Credit Rating Analysis course presented by  
12 Moody's Analytics.

13 I have worked on various projects located in many states and several Canadian  
14 provinces including Alberta, British Columbia, Saskatchewan, Nova Scotia and  
15 Quebec. I have testified before the state regulatory commissions of Arkansas,  
16 Georgia, Iowa, Louisiana, Michigan, Minnesota, Missouri, New Mexico, Pennsylvania,  
17 Texas and South Carolina, and the provincial regulatory boards of Alberta and Nova  
18 Scotia. I similarly have appeared before the St. Louis Metropolitan Sewer District  
19 Commission.

20 **Q PLEASE DESCRIBE J. POLLOCK, INCORPORATED.**

21 A J. Pollock assists clients to procure and manage energy in both regulated and  
22 competitive markets. The J. Pollock team also advises clients on energy and  
23 regulatory issues. Our clients include commercial, industrial and institutional energy  
24 consumers. J. Pollock is a registered Class I aggregator in the State of Texas.

**APPENDIX B**  
**Testimony Filed in Regulatory Proceedings**  
**by Billie S. LaConte**

| UTILITY                             | ON BEHALF OF                                       | DOCKET                       | TYPE                        | REGULATORY JURISDICTION | SUBJECT   | DATE       |
|-------------------------------------|--|------------------------------|-----------------------------|-------------------------|---|------------|
| DTE GAS COMPANY                     | Association of Businesses Advocating Tariff Equity | U-20940                      | Direct                      | MI                      | Return on Equity; Operation and Maintenance Expenses; Incentive Compensation  | 6/3/2021   |
| SOUTHWESTERN PUBLIC SERVICE COMPANY | Occidental Permian Ltd.                            | 20-00238-UT                  | Direct                      | NM                      | Rate Design, Retired Plant, Expense Amortization  | 5/17/2021  |
| PHILADELPHIA WATER DEPARTMENT       | Philadelphia Large Users Group                     | Fiscal Years 2022-2023       | Rebuttal                    | PA                      | Class Cost-of-Service Study; Stormwater Incentive Program   | 4/7/2021   |
| SOUTHWESTERN ELECTRIC POWER COMPANY | Texas Industrial Energy Consumers                  | 51415                        | Direct                      | TX                      | Early Plant Retirement; Excess Accumulated Deferred Federal Income Taxes; Self-Insurance Reserve; Imputed Capacity  | 3/31/2021  |
| SHARYLAND UTILITIES, L.L.C.         | Texas Industrial Energy Consumers                  | 51611                        | Direct                      | TX                      | Rate-Case Expenses; Operation and Maintenance Expense; Transmission Cost of Service Refund Rider  | 3/8/2021   |
| PECO ENERGY COMPANY                 | Philadelphia Area Industrial Energy Users Group    | 2020-3018929                 | Surrebuttal                 | PA                      | Revenue Allocation; Rate Design   | 2/9/2021   |
| PECO ENERGY COMPANY                 | Philadelphia Area Industrial Energy Users Group    | 2020-3018929                 | Rebuttal                    | PA                      | Allocation of Distribution Mains; Revenue Allocation; Rate Design; Universal Service Fund Charge  | 1/19/2021  |
| PECO ENERGY COMPANY                 | Philadelphia Area Industrial Energy Users Group    | 2020-3018929                 | Direct                      | PA                      | Class Cost-of-Service Study; Class Revenue Allocation   | 12/22/2020 |
| ENTERGY ARKANSAS, LLC               | Arkansas Electric Energy Consumers, Inc.           | 16-036-FR                    | Surrebuttal (FRP Extension) | AR                      | FRP Extension; Return on Equity; Capital Structure; Class Cost-of-Service Study; Industrial Rate Design   | 11/17/2020 |
| PENNSYLVANIA-AMERICAN WATER COMPANY | Pennsylvania-American Large Water Users Group      | 2020-3019369<br>2020-3019371 | Surrebuttal                 | PA                      | Rate Design; Regionalization and Consolidation Surcharge; Return on Equity  | 10/20/2020 |
| ENTERGY ARKANSAS, LLC               | Arkansas Electric Energy Consumers, Inc.           | 16-036-FR                    | Direct (FRP Extension)      | AR                      | FRP Extension; Return on Equity; Capital Structure; Class Cost-of-Service Study; Industrial Rate Design   | 10/19/2020 |
| ENTERGY ARKANSAS, LLC               | Arkansas Electric Energy Consumers, Inc.           | 16-036-FR                    | Direct (2020 Eval. Report)  | AR                      | Historical Year Netting Adjustment; :Long-Term Debt Costs   | 10/5/2020  |
| PENNSYLVANIA-AMERICAN WATER COMPANY | Pennsylvania-American Large Water Users Group      | 2020-3019369<br>2020-3019371 | Rebuttal                    | PA                      | Rate Design   | 9/29/2020  |
| PENNSYLVANIA-AMERICAN WATER COMPANY | Pennsylvania-American Large Water Users Group      | 2020-3019369<br>2020-3019371 | Direct                      | PA                      | Regionalization and Consolidation Surcharges; Commercial Rate Design  | 9/8/2020   |
| CONSUMERS ENERGY COMPANY            | Association of Businesses Advocating Tariff Equity | U-20697                      | Rebuttal                    | MI                      | Financial Compensation Mechanism; Deferred Capital Spending Recovery Mechanism; Karn 1 & 2 Retention and Separation costs, return on equity, storm restoration deferral; PowerMIFleet Pilot Foundational Infrastructure Program; Conservation Voltage Reduction | 7/14/2020  |
| CENTERPOINT ENERGY RESOURCES CORP   | Arkansas Gas Consumers, Inc.                       | 17-010-FR                    | Direct                      | AR                      | Projected Year Capital Expenditures; Capitalization Policy; Projected Year Adjustments  | 7/2/2020   |
| CONSUMERS ENERGY COMPANY            | Association of Businesses Advocating Tariff Equity | U-20697                      | Direct                      | MI                      | Return on Equity; Capital Structure; Debt Cost; Additional Surcharges and Deferred Regulatory Accounts  | 6/24/2020  |
| CONSUMERS ENERGY COMPANY            | Association of Businesses Advocating Tariff Equity | U-20650                      | Rebuttal                    | MI                      | Return on Equity; Statistical Analysis of Distribution Mains Allocation   | 5/5/2020   |
| CONSUMERS ENERGY COMPANY            | Association of Businesses Advocating Tariff Equity | U-20650                      | Direct                      | MI                      | Return on Equity; Capital Structure; Long-Term Debt Cost  | 4/14/2020  |
| DTE GAS COMPANY                     | Association of Businesses Advocating Tariff Equity | U-20642                      | Rebuttal                    | MI                      | Return on Equity  | 4/14/2020  |
| DTE GAS COMPANY                     | Association of Businesses Advocating Tariff Equity | U-20642                      | Direct                      | MI                      | Return on Equity; Operation and Maintenance Expenses  | 3/24/2020  |
| CONSUMERS ENERGY COMPANY            | Association of Businesses Advocating Tariff Equity | U-20618                      | Direct                      | MI                      | Certificate of Convenience and Necessity  | 1/17/2020  |

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|--|---|------------|--------------------------|-------------------------|--|------------|
| ENTERGY ARKANSAS, LLC                    | Arkansas Electric Energy Consumers, Inc.                          | 16-036-FR  | Settlement Support       | AR                      | Support of Settlement  | 10/30/2019 |
| GEORGIA POWER COMPANY                    | Georgia Association of Manufacturers and Georgia Industrial Group | 42516      | Direct                   | GA                      | Alternate Rate Plan; Coal Combustion Residual Cost Recovery; Amortization of Retired Plant   | 10/17/2019 |
| ENTERGY ARKANSAS, LLC                    | Arkansas Electric Energy Consumers, Inc.                          | 16-036-FR  | Direct                   | AR                      | Tax Cuts and Jobs Act Impact; Projected Year Revenues; Projected Year BRORB; Grid Modernization; Advanced Metering Infrastructure Expense                                    | 10/4/2019  |
| SOUTHWESTERN ELECTRIC POWER COMPANY      | Western Arkansas Large Energy Consumers                           | 19-008-U   | Surrebuttal              | AR                      | SWEPCO's Formula Rate Review; Energy Cost Recovery Rider; Distribution Reliability Rider   | 9/24/2019  |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 17-010-FR  | Settlement Support       | AR                      | Support of Settlement  | 7/31/2019  |
| SOUTHWESTERN ELECTRIC POWER COMPANY      | Western Arkansas Large Energy Consumers                           | 19-008-U   | Direct                   | AR                      | SWEPCO's Formula Rate Review; Capital Structure; Distribution Reliability Rider; Arkansas Formula Rate Plans   | 7/16/2019  |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 17-010-FR  | Direct                   | AR                      | Formula Rate Plan, Capital Additions, Operation and Maintenance Expenses   | 7/2/2019   |
| ENTERGY LOUISIANA, LLC                   | Occidental Chemical Corporation                                   | U-35130    | Cross-Answering          | LA                      | Fuel Tracking Mechanism  | 7/1/2019   |
| CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC | Texas Industrial Energy Consumers                                 | 49421      | Direct                   | TX                      | Unprotected Excess Deferred Income Tax Rider; Incentive Compensation   | 6/6/2019   |
| ENTERGY LOUISIANA, LLC                   | Occidental Chemical Corporation                                   | U-35130    | Direct                   | LA                      | Fuel Tracking Mechanism  | 5/10/2019  |
| CONSUMERS ENERGY COMPANY                 | Association of Businesses Advocating Tariff Equity                | U-20322    | Rebuttal                 | MI                      | Return on Equity   | 4/29/2019  |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 18-057     | Supplemental Surrebuttal | AR                      | Gas Distribution Upstream Services Contracting Process   | 4/23/2019  |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 18-057     | Surrebuttal              | AR                      | Gas Distribution Upstream Services Contracting Process   | 4/12/2019  |
| CONSUMERS ENERGY COMPANY                 | Association of Businesses Advocating Tariff Equity                | U-20322    | Direct                   | MI                      | Return on Equity; Capital Structure; Project vs. Historical Test Year; Earnings Sharing Mechanism  | 4/5/2019   |
| DUKE ENERGY PROGRESS, LLC                | Nucor Steel - South Carolina                                      | 2018-318-E | Direct                   | SC                      | Excess Deferred Income Tax Rider; Post-Test Year Adjustments; Coal Ash Pond Closure Expense; End-of-Life Nuclear Costs; Regulatory Assets; Return on Equity and Equity Ratio | 3/4/2019   |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 18-057     | Direct                   | AR                      | Gas Distribution Upstream Services Contracting Process   | 2/12/2019  |
| ENTERGY ARKANSAS, INC.                   | Arkansas Electric Energy Consumers, Inc.                          | 16-036-FR  | Settlement Support       | AR                      | Support of Settlement  | 10/30/2018 |
| ENTERGY ARKANSAS, INC.                   | Arkansas Electric Energy Consumers, Inc.                          | 16-036-FR  | Direct                   | AR                      | Formula Rate Plan Tariff; Long-Term Debt Cost and Preferred Equity; Projected Year Capital Additions; Historical Year Capital Additions                                      | 10/4/2018  |
| CONSUMERS ENERGY COMPANY                 | Association of Businesses Advocating Tariff Equity                | U-20134    | Rebuttal                 | MI                      | Return on Equity   | 10/1/2018  |
| CONSUMERS ENERGY COMPANY                 | Association of Businesses Advocating Tariff Equity                | U-20134    | Direct                   | MI                      | Return on Equity, Capital Structure and Long-Term Debt Cost, Investment Recovery Mechanism Excess Sharing Mechanism  | 9/10/2018  |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 17-010-FR  | Opposition               | AR                      | Opposition to Settlement Agreement   | 8/3/2018   |
| CENTERPOINT ENERGY RESOURCES CORP        | Arkansas Gas Consumers, Inc.                                      | 17-010-FR  | Direct                   | AR                      | Impact of Tax Cuts and Jobs Act of 2017; Forecast Revenues; Uncollectible Expense; Pipeline Integrity Assessment and Remediation Expense                                     | 7/2/2018   |



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**by Billie S. LaConte**

| UTILITY   | ON BEHALF OF   | DOCKET   | TYPE               | REGULATORY JURISDICTION | SUBJECT  | DATE       |
|---|--|--|--------------------|-------------------------|--|------------|
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 17-052   | Surrebuttal        | AR                      | Utility Restructuring Costs and Tax Effects                                | 5/31/2018  |
| PUBLIC SERVICE COMPANY OF NEW MEXICO  | City of Farmington, New Mexico;<br>Board of County Commissioners for San Juan County | 17-00174                                       | Direct             | NM                      | Integrated Resource Plan; Future of San Juan Generation Station            | 5/4/2018   |
| ENTERGY ARKANSAS, INC. and CENTERPOINT ENERGY ARKANSAS GAS                        | Arkansas Electric Energy Consumers, Inc. and Arkansas Gas Consumers, Inc.            | 18-006   | Direct             | AR                      | Effect on Revenue Requirement due to 2017 Tax Cuts and Jobs Act            | 3/29/2018  |
| CONSUMERS ENERGY COMPANY  | Association of Businesses Advocating Tariff Equity                                   | U18424   | Rebuttal           | MI                      | Rate of Return   | 3/21/2018  |
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 18-014-TF                                      | Direct             | AR                      | Impact of Tax Cuts and Jobs Act of 2017 and Tax Adjustment Rider           | 3/19/2018  |
| CONSUMERS ENERGY COMPANY  | Association of Businesses Advocating Tariff Equity                                   | U-18424  | Direct             | MI                      | Rate of Return, Capital Structure  | 2/28/2018  |
| CENTERPOINT ENERGY ARKANSAS GAS   | Arkansas Gas Consumers, Inc.   | 17-050-U                                       | Surrebuttal        | AR                      | Asset Management Agreement Proposal  | 1/12/2018  |
| CENTERPOINT ENERGY ARKANSAS GAS   | Arkansas Gas Consumers, Inc.   | 17-050-U                                       | Direct             | AR                      | Asset Management Agreement Proposal  | 12/8/2017  |
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 16-036-FR                                      | Settlement Support | AR                      | Support of Settlement  | 10/31/2017 |
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 16-036-FR                                      | Direct             | AR                      | Forecast Revenues, Cost of Debt, Revenue Requirement and Capital Additions | 10/4/2017  |
| CONSUMERS ENERGY COMPANY  | Association of Businesses Advocating Tariff Equity                                   | U-18322  | Rebuttal           | MI                      | Return on Equity   | 9/7/2017   |
| CONSUMERS ENERGY COMPANY  | Association of Businesses Advocating Tariff Equity                                   | U-18322  | Direct             | MI                      | Return on Equity, Capital Structure  | 8/10/2017  |
| CENTERPOINT ENERGY RESOURCES CORP   | Arkansas Gas Consumers, Inc.   | 17-010-FR                                      | Settlement Support | AR                      | Support of Settlement  | 7/31/2017  |
| CENTERPOINT ENERGY RESOURCES CORP   | Arkansas Gas Consumers, Inc.   | 17-010-FR                                      | Direct             | AR                      | Rate of Return, Capital Structure, Labor Expense                           | 7/3/2017   |
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 16-036-FR                                      | Settlement Support | AR                      | Support of Settlement  | 10/24/2016 |
| ENTERGY ARKANSAS, INC.  | Arkansas Electric Energy Consumers, Inc.   | 16-036-FR                                      | Direct             | AR                      | Rate of Return, Forecast Revenue, Capitalization                           | 9/30/2016  |
| METROPOLITAN EDISON COMPANY;<br>PENNSYLVANIA ELECTRIC COMPANY AND WEST PENN POWER | MEIUG, PICA and WPPII  | 2016-2537349,<br>2016-2537352,<br>2016-2537359 | Surrebuttal        | PA                      | Return on Equity   | 8/31/2016  |
| METROPOLITAN EDISON COMPANY;<br>PENNSYLVANIA ELECTRIC COMPANY AND WEST PENN POWER | MEIUG, PICA and WPPII  | 2016-2537349,<br>2016-2537352,<br>2016-2537359 | Direct             | PA                      | Return on Equity   | 7/22/2016  |
| NORTHERN STATES POWER   | Xcel Large Industrials   | 15-826   | Direct             | MN                      | Return on Equity, Multi-Year Rate Plan                                     | 6/14/2016  |
| CENTERPOINT ENERGY RESOURCES CORP   | Arkansas Electric Energy Consumers, Inc.   | 15-098-U                                       | Surrebuttal        | AR                      | Return on Equity, Formula Rate Plan, Capital Structure                     | 6/7/2016   |
| CENTERPOINT ENERGY RESOURCES CORP   | Arkansas Electric Energy Consumers, Inc.   | 15-098-U                                       | Direct             | AR                      | Return on Equity, Captial Structure  | 4/14/2016  |
| MISSOURI-AMERICAN WATER COMPANY   | BJC Healthcare   | WR-2011-0337                                   | Rebuttal           | MO                      | Return on Equity   | 1/19/2012  |
| MISSOURI-AMERICAN WATER COMPANY   | BJC Healthcare   | WR-2011-0337                                   | Direct             | MO                      | Return on Equity   | 11/17/2011 |
| METROPOLITAN ST. LOUIS SEWER DISTRICT   | Barnes-Jewish Hospital   | N/A  | Supplemental       | MO                      | Rate Model   | 9/16/2011  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT   | Barnes-Jewish Hospital   | N/A  | Surrebuttal        | MO                      | Rate Increase, CIRP, Consent Decree  | 8/19/2011  |

**APPENDIX B**  
**Testimony Filed in Regulatory Proceedings**  
**by Billie S. LaConte**

| UTILITY                               | ON BEHALF OF                             | DOCKET        | TYPE                | REGULATORY JURISDICTION | SUBJECT  | DATE       |
|---------------------------------------|--|---------------|---------------------|-------------------------|--|------------|
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Barnes-Jewish Hospital                   | N/A           | Rebuttal            | MO                      | Rate Increase, CIRP, Consent Decree  | 7/18/2011  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2011-0028  | Surrebuttal         | MO                      | Return on Equity, Energy Efficiency Cost Recovery                              | 4/15/2011  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2011-0028  | Rebuttal            | MO                      | Return on Equity, Energy Efficiency Cost Recovery                              | 3/25/2011  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2011-0028  | Direct              | MO                      | Return on Equity   | 2/8/2011   |
| AMEREN UE                             | Missouri Energy Group                    | EO-2010-0255  | Direct              | MO                      | Prudence Audit of FAC Periods 1 and 2  | 11/22/2010 |
| ENTERGY ARKANSAS, INC.                | Arkansas Electric Energy Consumers, Inc. | 09-084-U      | Direct - In Support | AR                      | Supporting the Proposed Settlement Agreement                                   | 5/11/2010  |
| ENTERGY ARKANSAS, INC.                | Arkansas Electric Energy Consumers, Inc. | 09-084-U      | Surrebuttal         | AR                      | Return on Equity   | 4/14/2010  |
| ENTERGY ARKANSAS, INC.                | Arkansas Electric Energy Consumers, Inc. | 09-084-U      | Direct              | AR                      | Return on Equity   | 2/26/2010  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2010-0036  | Direct              | MO                      | Energy Efficiency Costs  | 12/18/2009 |
| AMEREN UE                             | Missouri Energy Group                    | ER-2008-0318  | Surrebuttal         | MO                      | Return on Equity   | 11/5/2008  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2008-0318  | Direct              | MO                      | Return on Equity, Off-System Sales   | 8/28/2008  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Missouri Energy Group                    | N/A           | Rebuttal            | MO                      | Long-Term Financial Plan, Capital Financing                                    | 5/2/2007   |
| AMEREN UE                             | Missouri Energy Group                    | ER-2007-0002  | Surrebuttal         | MO                      | Return on Equity, Interruptible Demand, Response Pilot                         | 2/27/2007  |
| AMEREN UE                             | Missouri Energy Group                    | ER-2007-0002  | Direct              | MO                      | Interruptible Rate   | 12/29/2006 |
| AMEREN UE                             | Missouri Energy Group                    | ER-2007-0002  | Direct              | MO                      | Return on Equity, Off-System Sales, Sharing Mechanism, 10% Cap on Residentials | 12/15/2006 |
| AMEREN UE                             | Missouri Energy Group                    | EA-2005-0180  | Rebuttal            | MO                      | Economic Analysis  | 1/31/2005  |
| NOVA SCOTIA POWER INC.                | Avon Valley Greenhouses                  | NSUAR-B-P-881 | Direct              | NS                      | Cost of Capital  | 10/12/2004 |
| MISSOURI-AMERICAN WATER COMPANY       | Missouri Energy Group                    | WR-2003-0500  | Surrebuttal         | MO                      | Working Capital, Return on Equity, Cost Allocation                             | 12/5/2003  |
| MISSOURI-AMERICAN WATER COMPANY       | Missouri Energy Group                    | WR-2003-0500  | Rebuttal            | MO                      | Rate Design  | 11/10/2003 |
| MISSOURI-AMERICAN WATER COMPANY       | Missouri Energy Group                    | WR-2003-0500  | Direct              | MO                      | Return on Equity, Acquisition Adjustment, Cash Working Capital                 | 10/3/2003  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Missouri Energy Group                    | N/A           | Direct              | MO                      | Revenue Requirement, Financial Planning  | 4/22/2003  |
| INTERSTATE POWER AND LIGHT COMPANY    | Lee County Energy Users Group- Direct    | RPU-02-3      | Surrebuttal         | IA                      | Revenue Requirement, Return on Equity  | 9/19/2002  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Missouri Energy Group                    | N/A           | Surrebuttal         | MO                      | Revenue Requirement, Capital Financing   | 8/13/2002  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Missouri Energy Group                    | N/A           | Surrebuttal         | MO                      | Revenue Requirement, Capital Financing, Cost Allocation                        | 7/28/2002  |
| INTERSTATE POWER AND LIGHT COMPANY    | Lee County Energy Users Group- Direct    | RPU-02-3      | Direct              | IA                      | Revenue Requirement, Return on Equity  | 7/26/2002  |
| METROPOLITAN ST. LOUIS SEWER DISTRICT | Missouri Energy Group                    | N/A           | Rebuttal            | MO                      | Revenue Requirement, Capital Financing   | 7/10/2002  |

## APPENDIX C

### Return on Equity Methodologies

#### Discounted Cash Flow Method

##### Single Stage Discounted Cash Flow

1 The discounted cash flow model is used by investors to determine the present value  
2 of a stock, based on future cash flows (dividends), which are discounted by the stock's  
3 known return and its forecast growth.

4 The formula is:

$$5 \quad P = \frac{D}{r-g}$$

6 Where:

7 P = current stock price

8 D = dividend yield

9 r = rate of return

10 g = growth rate

11 We can re-arrange the formula thus:

$$12 \quad r = \frac{D}{P} + g$$

13 In other words, the expected return equals (1) the current dividend rate, plus (2) the  
14 expected growth in dividends. The expected growth in dividends is also measured by  
15 the expected growth in earnings.

16 The stock prices are based on the average stock closing prices, typically for  
17 the past 30 days. The average is used to ensure that the results reflect stock prices  
18 over a period of time that is not overly reliant on any particular events affecting stock  
19 prices on a given day and that represent capital market conditions over the past month

1                   The growth rates are the forecast earnings per share growth rates for the next  
2 five years. The dividends are forecast figures and are adjusted to reflect any quarterly  
3 adjustments during the year.

4                   *Multi-Stage Discounted Cash Flow Methodology*

5                   A multi-stage DCF analysis uses three separate growth estimates or stages. The  
6 first stage measures the near-term growth rate based on the analysts' forecast  
7 earnings growth used in my constant growth DCF analysis. The second stage  
8 (intermediate-term) growth rates are linear interpolations of the first and third stage  
9 growth rates. The third stage (long-term) is the forecast of the long-term growth rate  
10 of gross domestic product (GDP). Using these inputs, the model calculates the  
11 required internal rate of return to meet these dividend growth rates, or the ROE.

12                   The multi-stage method is used because analysts' growth rates for the first  
13 stage may not be sustainable over the long-term. The multi-stage model recognizes  
14 short-term growth (whether it be higher or lower than the long-term), but also  
15 accounts for a more realistic, long-term growth rate. Analysts' growth rates should  
16 be viewed in conjunction with other growth estimates to achieve a reasonable  
17 forecast of expected earnings.

18                   The long-term growth in GDP is used because the underlying assumption is  
19 that mature, established companies can grow at a rate that is similar to, or lower  
20 than, the GDP growth rate. While some companies in the economy will grow faster  
21 than GDP for a while, this cannot happen consistently over a long period.

1 **Capital Asset Pricing Model**

2 The CAPM is a Risk Premium method that is used to estimate the ROE. It states that  
3 the expected return of a security equals the risk-free rate plus a risk premium. Simply  
4 put, investors require a premium over the risk-free rate if they are going to invest in a  
5 riskier security. The formula for the CAPM is:

$$6 \quad \textit{Expected ROE} = \textit{Risk-Free Rate} + \beta * \textit{Market Risk Premium}$$

7 The equity risk premium for a particular stock is the MRP times the stock's beta ( $\beta$ ).  
8 The MRP is the difference between the return on the market on average (*i.e.*, the S&P  
9 500) and the risk-free rate. Thus, it is the premium that reflects the risk on an average  
10 stock. Beta is the price volatility of that stock relative to the market as a whole. Thus,  
11 the risk premium for a *specific* stock equals the *average MRP* times the beta. Since  
12 utility stocks are lower risk than the average stock, the risk premium for a utility stock  
13 is lower than the average MRP. Multiplying the beta times the MRP gives the  
14 appropriate risk premium for the company (or group of comparable companies) being  
15 studied.

16 The risk-free rate is the projected yield on 30-year U.S. Treasury bonds. This  
17 rate is considered to be risk-free because the return is guaranteed by the U.S.  
18 government.

19 Two MRP estimates may be used, including the historical MRP estimate and  
20 a projected MRP. The historical MRP is based on historical data dating back to 1996.  
21 The projected MRP is based on the projected median three-to-five year price  
22 appreciation of the 1,700 stocks from Value Line and the projected median dividend  
23 yield over the next 12 months for all dividend paying stocks. The forecast annual  
24 return is based on the forecast annual growth rate of the stocks plus the forecast

1 median dividend produces a projected annual return. The projected risk-free rate is  
2 deducted from the projected annual return to determine the projected MRP.

3 Beta measures the volatility of a security in comparison to the market as a  
4 whole. A beta equal to 1.00 means that a stock's price fluctuates exactly as the market  
5 as a whole. A beta higher than 1.00 implies that the stock's price is more volatile than  
6 the market; a beta less than 1.00 implies the stock's price is less volatile than the  
7 market. The standard formula for estimating beta is the covariance between a  
8 security's return and the return of the market divided by the variance of the market  
9 returns over a specified period.

10 Beta is typically based on the betas provided by Value Line. Value Line's  
11 method to estimate beta is based on "a regression analysis of the relationship between  
12 weekly percentage changes in the price of a stock and weekly percentage changes in  
13 the NYSE Composite Index over a period of five years. Value Line then adjusts these  
14 Betas to account for their long-term tendency to converge toward 1.00."

### 15 **Risk Premium Method**

16 The Risk Premium method estimates the ROE for a utility as the sum of a bond yield  
17 plus a risk premium yield. The bond yield is the projected return on the long-term  
18 government bond plus the risk premium. The risk premium is a measure of the  
19 additional return an investor requires due to the additional risk of the security.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

|  |  |
|--|--|
| In re: Petition for rate increase by Florida Power & Light Company | DOCKET NO. 20210015-EI<br>Filed: June 21, 2021 |
|--|--|

AFFIDAVIT OF BILLIE S. LACONTE

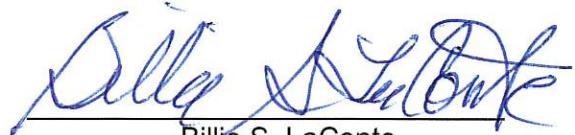
State of Missouri        )  
                                      ) SS  
County of St. Louis    )

Billie S. LaConte, being first duly sworn, on her oath states:

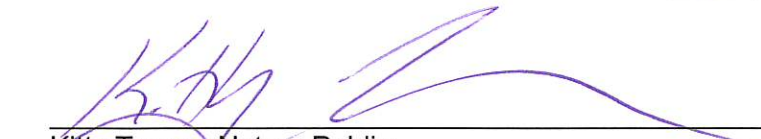
1. My name is Billie S. LaConte. I am an Association of J. Pollock, Incorporated, 12647 Olive Blvd., Suite 585, St. Louis, Missouri 63141. We have been retained by Florida Industrial Power Users Group to testify in this proceeding on its behalf;

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony and Exhibits, which have been prepared in written form for introduction into evidence in Florida Public Service Commission Docket No. 20210015-EI; and,

3. I hereby swear and affirm that the answers contained in my testimony and the information in my exhibits are true and correct.

  
Billie S. LaConte

Subscribed and sworn to before me this 21<sup>st</sup> day of June 2021.

  
Kitty Turner, Notary Public  
Commission #: 15390610

My Commission expires on April 25, 2023.

KITTY TURNER  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Lincoln County  
My Commission Expires: April 25, 2023  
Commission Number: 15390610

Affidavit

# RRA Regulatory Focus

## Major Rate Case Decisions - January - December 2020

With the U.S. economy challenged in 2020 by the fallout from the COVID-19 pandemic, the equity returns authorized electric and gas utilities nationwide fell to its worst year on record.

Based on data gathered by Regulatory Research Associates, a group within S&P Global Market Intelligence, the average return on equity authorized electric utilities was 9.44% in all rate cases decided in 2020, below the 9.66% average for cases in 2019. There were 55 electric ROE determinations in 2020, versus 47 in 2019.

The average ROE authorized gas utilities was 9.46% in cases decided in 2020 versus 9.71% in 2019. There were 34 gas cases that included an ROE determination in 2020 versus 32 in 2019.

Included in the electric ROE average is a decision by the [Maine Public Utilities Commission](#) in which the commission reduced [Central Maine Power Co.'s](#) ROE by 100 basis points to 8.25% due to imprudence associated with a new billing system. The adjustment is to be lifted when the utility meets all performance benchmarks for all service quality metrics for at least 18 consecutive months after March 1, 2020, and formally demonstrates to the commission that the problems have been resolved.

In addition, the electric ROE average in 2020 was also weighed down by an 8.20% ROE authorized Green Mountain Power, as calculated under the company's multiyear regulation plan which employs a formulaic approach tied to U.S. Treasuries.

This data includes several limited-issue rider cases. Excluding these cases, the average authorized ROE was 9.39% in electric rate cases decided in 2020, versus 9.65% observed in 2019. The difference between the ROE averages including rider cases and those excluding the rider cases is driven by ROE premiums allowed in Virginia for riders that address recovery of specific generation projects.

In 2020, the median ROE authorized in all electric utility rate cases was 9.45%, versus 9.65% in 2019; for gas utilities, the metric was 9.42% in 2020, versus 9.70% in 2019.

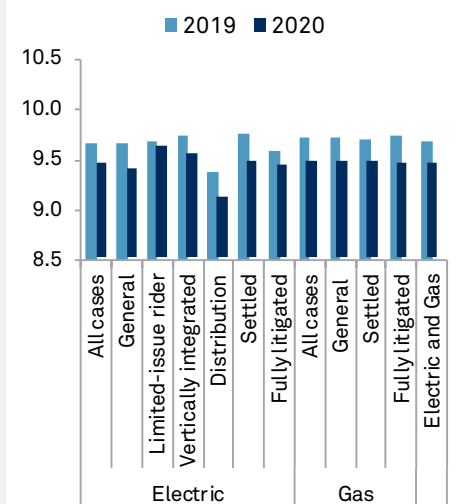
**Lisa Fontanella, CFA**  
Research Director

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[support.mi@spglobal.com](mailto:support.mi@spglobal.com)

**For Detailed Data**  
Click [here](#) to see supporting data tables.

### Average authorized return on equity (%) Dashboard



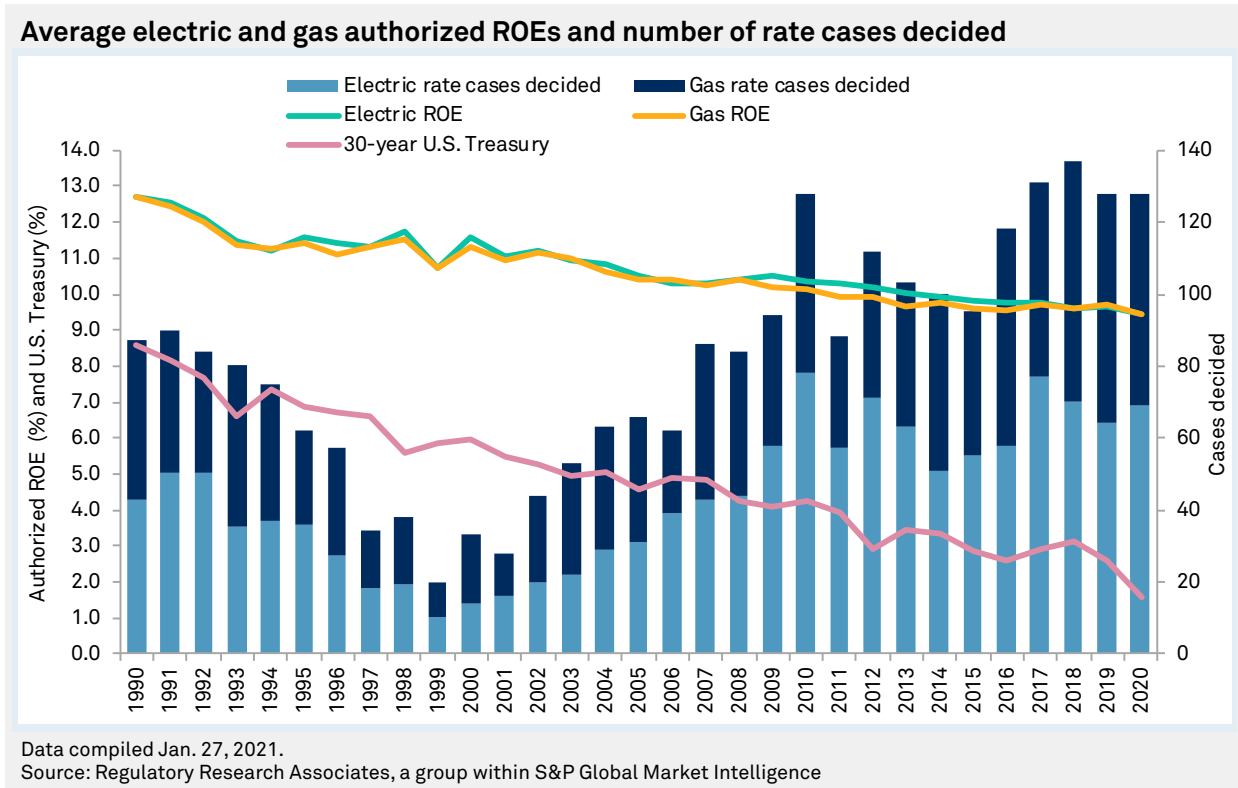
| Electric average                    | 2019 | 2020 |
|-------------------------------------|------|------|
| All cases                           | 9.66 | 9.44 |
| General rate cases                  | 9.65 | 9.39 |
| Limited-issue rider cases           | 9.68 | 9.62 |
| Vertically integrated cases         | 9.74 | 9.55 |
| Distribution cases                  | 9.37 | 9.10 |
| Settled cases                       | 9.76 | 9.46 |
| Fully litigated cases               | 9.58 | 9.43 |
| Gas average                         | 2019 | 2020 |
| All cases                           | 9.71 | 9.46 |
| General rate cases                  | 9.72 | 9.46 |
| Settled cases                       | 9.70 | 9.47 |
| Fully litigated cases               | 9.74 | 9.44 |
| Composite electric and gas averages | 2019 | 2020 |
| Electric and Gas                    | 9.68 | 9.45 |
| U.S. Treasury                       | 2019 | 2020 |
| 30-year bond yield                  | 2.58 | 1.56 |

Data compiled Jan. 27, 2021.  
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence



The averages in 2020 are at the lowest levels ever witnessed in the industry, and with the recent interest rate cuts by the U.S. Federal Reserve and current pandemic-induced recession, even lower authorized returns may be on the horizon.

From a longer-term perspective, interest rates, as measured by the 30-year U.S. Treasury bond yield, fell almost steadily from the early 1980s until 2015 or so, placing downward pressure on authorized ROEs. Even though the decline has been less dramatic in the period since 1990, average authorized ROEs fell below 10% for gas utilities in 2011 and for electric utilities in 2014.



Since 2010, rate case activity has been robust, with 100 or more cases adjudicated in nine of the last 11 calendar years. This count includes electric and gas cases where no ROEs have been specified; however, withdrawn cases are not included. After reaching an almost 30-year high in 2018, when almost 140 cases were decided, rate case activity moderated somewhat in both 2019 and 2020, with about 128 electric and gas cases resolved in each year.

Absent the pandemic, increased costs associated with environmental compliance, generation and delivery infrastructure upgrades and expansion, renewable generation mandates, storm and disaster recovery, cybersecurity and employee benefits have contributed to an active rate case agenda over the last decade.

Due to COVID-19 and the challenging economic backdrop, many utilities and state commissions in 2020 found creative ways to limit the immediate impact of rate hikes by pushing rate changes into a future period or agreeing to forgo rate hikes.

Currently, there are about 75 rate cases pending. With the economy still reeling from the pandemic, we expect the pace of rate case activity to be somewhat measured in 2021.

Rising interest rates over the past several years also likely contributed to the increased rate case activity. After holding rates near zero for several years, the Federal Reserve began raising the federal funds rate in 2015. Before the pandemic hit, the Fed, after more than a decade without a cut, lowered rates three times in 2019, due to signs of a slowing

economy. In addition, to stabilize the economy from the fallout from the coronavirus outbreak, the Fed cut rates twice in March 2020, resulting in a target range of 0%-0.25%. To facilitate economic recovery, Fed policymakers have indicated that it will keep rates anchored near zero through 2023.

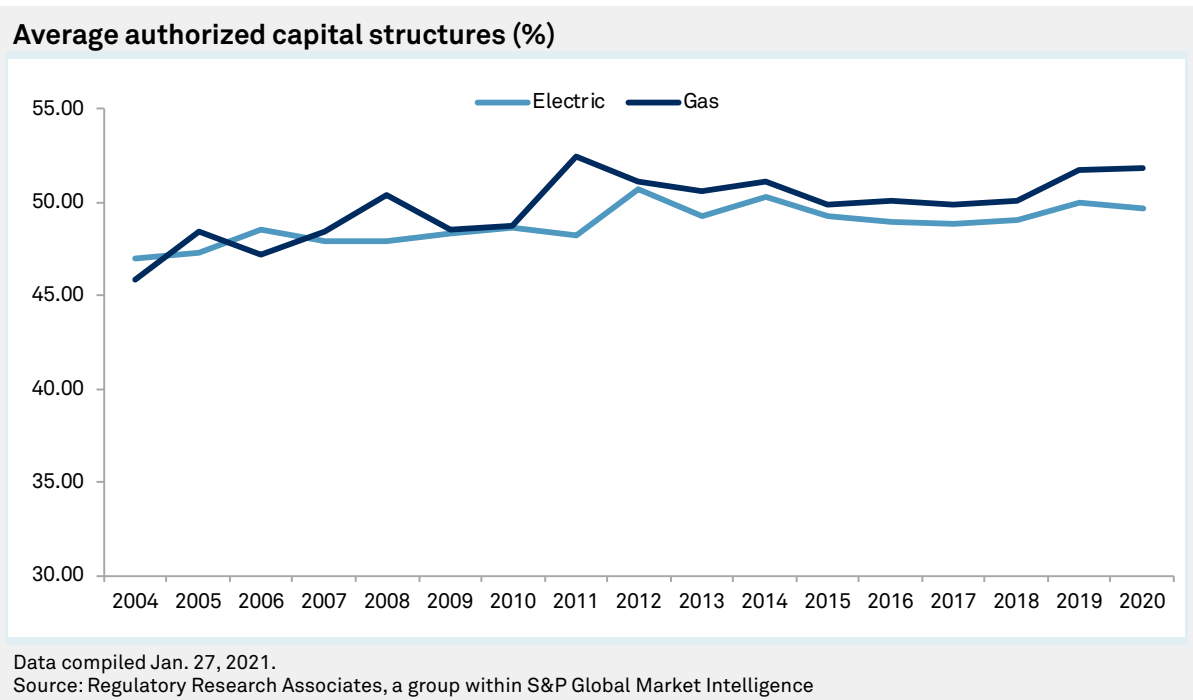
While changes in the federal funds rate do not move in lockstep with longer-term treasuries and authorized ROEs do not move in lockstep with interest rates, the expectation is that as interest rates change, authorized ROEs would also change in a similar fashion. However, several factors impact the timing and magnitude of such a shift. Normal regulatory lag, i.e., the amount of time it takes for a utility to put together a rate case filing and tender it to the commission and then for the commission to process the case, would without any other influences delay a change in average authorized ROEs relative to interest rates.

It is also worth noting that while both interest rates and authorized ROEs have generally been declining since 1990, the gap between authorized ROEs and interest rates widened somewhat over this period, largely as a result of an often-unstated understanding by regulators that the drop in interest rates caused by Federal Reserve intervention was unusual.

However, given the focus on customers' ability to pay and the need to maintain universal service as the pandemic drags on, regulators may be more apt to further lower authorized ROEs to mitigate the level of bill increases that result from recovery of pandemic-related costs. These considerations could be further complicated if the Biden administration seeks to roll-back the 2017 corporate tax reform initiatives.

### Capital structure trends

To offset the negative cash flow impact of 2017 federal tax reform, many utilities sought higher common equity ratios, and the average authorized equity ratios adopted by utility commissions in 2019 were modestly higher than the levels observed in 2018 and 2017. In cases decided in 2020, the average authorized equity ratio for electric utilities was 49.69%. For 2019, 2018 and 2017, the average equity ratios authorized in electric utility cases were 49.94%, 49.02% and 48.90%, respectively. The average allowed equity ratio for gas utilities nationwide in cases decided in 2020 was 51.86%. For 2019, 2018 and 2017, the average was 51.75%, 50.12% and 49.88%, respectively.



Taking a longer-term view, equity ratios have generally increased over the last several years — the average equity ratio approved in electric rate cases decided during 2004 was 46.96%, while the average for gas utilities was 45.81%. Many commissions began approving more equity-rich capital structures in the wake of the 2008 financial crisis.

### A more granular look at ROE trends

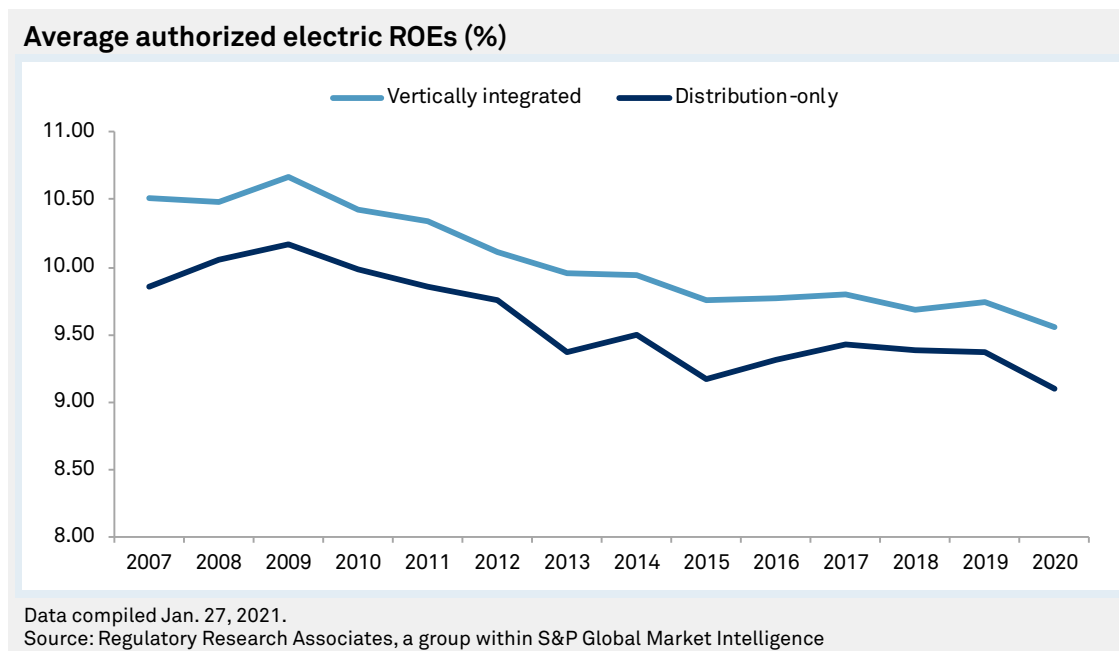
The discussion thus far has looked broadly at trends in authorized ROEs; the sections that follow provide a more granular view based upon the types of proceedings/decisions in which these ROEs were established.

RRA has observed that there can be significant differences between the average ROEs from one subcategory of cases to another.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for delivery operations.

Comparing electric vertically integrated cases versus delivery-only proceedings over the past several years, RRA finds that the annual average authorized ROEs in vertically integrated cases typically are about 30 to 65 basis points higher than in delivery-only cases, arguably reflecting the increased risk associated with ownership and operation of generation assets.

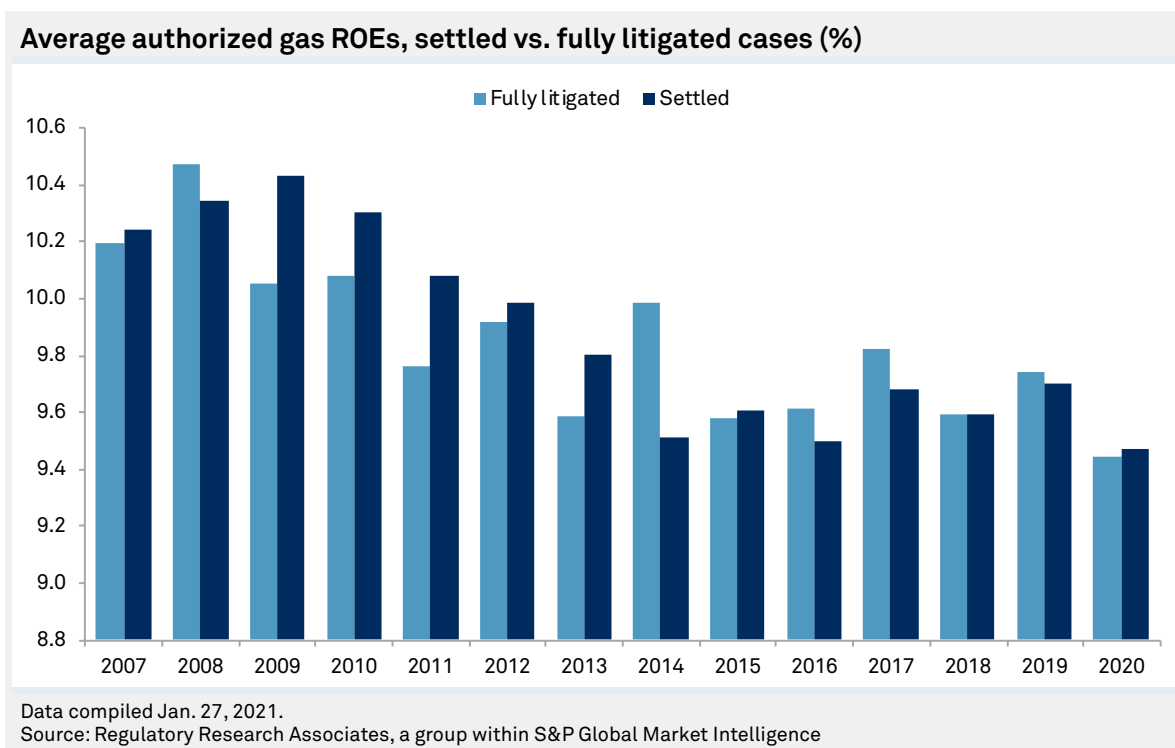
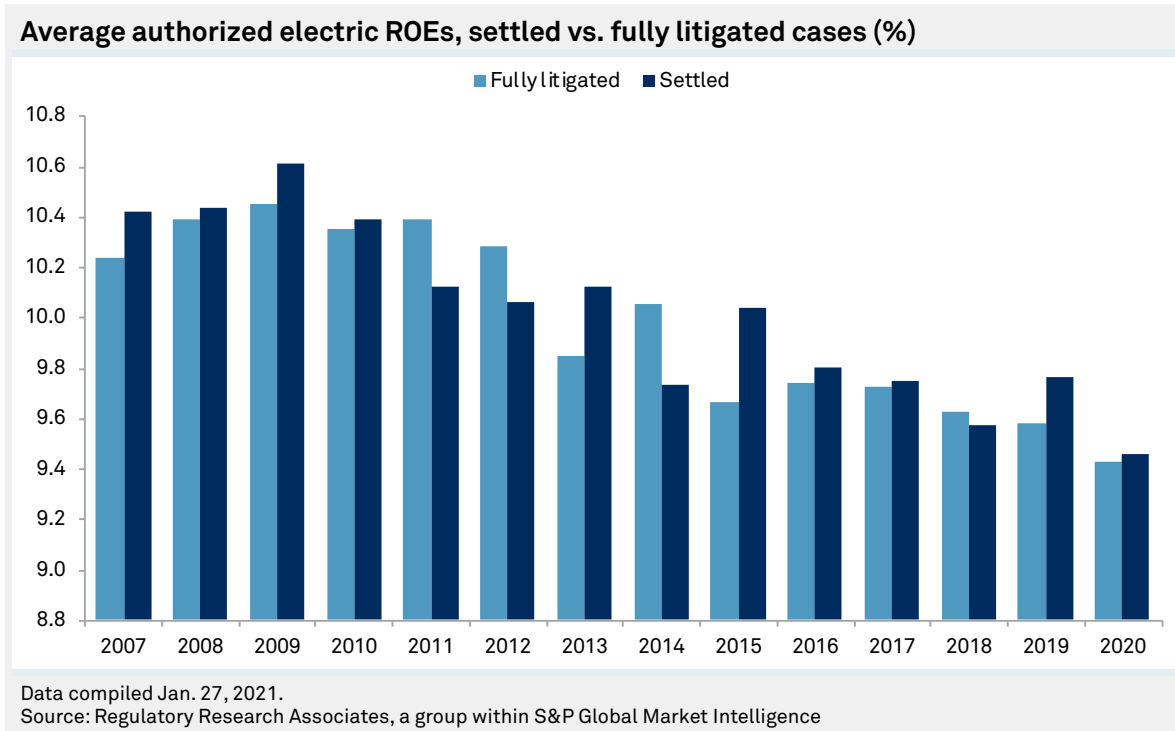
The industry average ROE for vertically integrated electric utilities was 9.55% in cases decided in 2020, versus the 9.74% average posted in 2019. By comparison, for electric distribution-only utilities, the industry average ROE authorized in 2020 was 9.10%, versus 9.37% in 2019.



Settlements have frequently been used to resolve rate cases over the last several years, and in many cases, these settlements are “black box” in nature and do not specify the ROE and other typical rate case parameters underlying the stipulated rate change. However, some states preclude this type of treatment, and settlements must specify these values, if not the specific adjustments from which these values were derived.

**Major Rate Case Decisions**

For both electric and gas cases, RRA has found no discernible pattern in the average authorized ROEs in cases that were settled versus those that were fully litigated. In some years, the average authorized ROE was higher for fully litigated cases, in others, it was higher for settled cases, and in a handful of years, the authorized ROE was similar for both fully litigated and settled cases.



For several years, the annual average authorized ROEs in electric cases that involve limited-issue riders were meaningfully higher than those approved in general rate cases, driven primarily by the ROE premiums authorized in generation-related limited-issue rider proceedings in Virginia. However, these premiums were approved for limited durations and have since begun to expire. As a result, the gap between the average ROE observed in the rider cases and that observed in general rate cases has narrowed. Limited-issue rider cases in which a separate ROE is determined have had limited use in the gas industry, as most of the gas riders rely on ROEs approved in a previous base rate case.

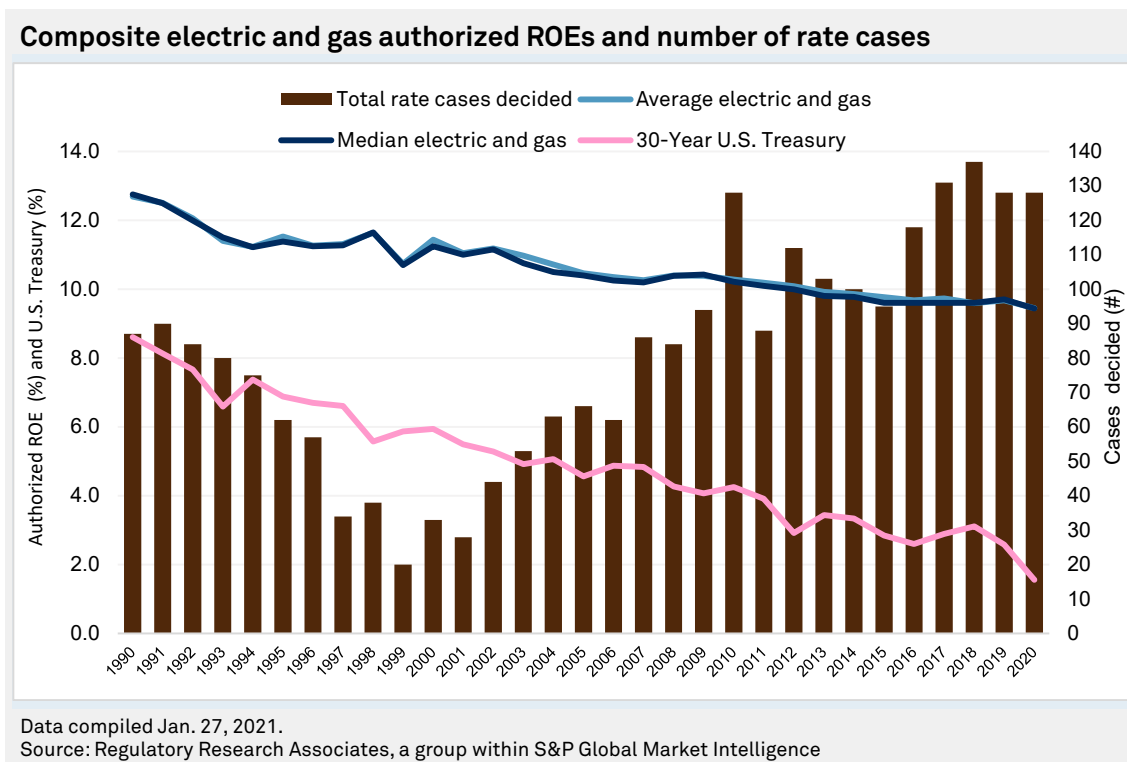
The following discussion focuses on the corresponding tables available [here](#).

**Table 1** shows the average ROE authorized in major electric and gas rate decisions annually since 1990 and by quarter since 2016, followed by the number of observations in each period. **Table 2** indicates the composite electric and gas industry data for all major cases, summarized annually since 2004 and by quarter for the past eight quarters.

**Tables 3 and 4** provide comparisons since 2007 of average authorized ROEs for settled versus fully litigated cases, general rate cases versus limited-issue rider proceedings and vertically integrated cases versus delivery-only cases for electric and gas utilities, respectively.

The individual electric and gas cases decided in 2020 are listed in **Table 5**, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return, the ROE and the percentage of common equity in the adopted capital structure. Next, RRA indicates the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

The simple mean is utilized for the return averages. In addition, the average equity returns indicated in this report reflect the ROEs approved in cases that were decided during the specified time periods and are not necessarily representative of either the average currently authorized ROEs for utilities industrywide or the returns actually earned by the utilities.



**Table 6** and the graph above track the average and median equity return authorized for all electric and gas rate cases combined by year for the last 30 years. As the table indicates, since 1990, authorized ROEs have generally trended downward, reflecting the significant decline in interest rates and capital costs that has occurred over this time frame. The combined average and median equity returns authorized for electric and gas utilities in each of the years 1990 through 2019 and the number of observations for each year are presented in the accompanying chart.

*Please note: In an effort to align data presented in this report with data available in S&P Global Market Intelligence's online database, earlier historical data provided in previous reports may not match historical data in this report due to certain differences in presentation, including the treatment of cases that were withdrawn or dismissed, as well as the addition of cases that were previously not part of RRA's coverage.*

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**FLORIDA POWER AND LIGHT COMPANY**  
Change ROE to National Average ROE 2022 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 17,415,346                   | 31.37%        | 3.61%            | 1.13%                | 1.13%          | Long-term Debt                   | 17,415,346                   | 31.37%        | 3.61%            | 1.13%                | 1.13%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          | Customer Deposits                | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 654,984                      | 1.18%         | 0.94%            | 0.01%                | 0.01%          | Short-term Debt                  | 654,984                      | 1.18%         | 0.94%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          | Investment Tax Credits           | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          |
| 8           | Common Equity               | <u>26,665,503</u>            | <u>48.04%</u> | 11.50%           | <u>5.52%</u>         | <u>7.41%</u>   | Common Equity                    | <u>26,665,503</u>            | <u>48.04%</u> | <u>9.55%</u>     | <u>4.59%</u>         | <u>6.15%</u>   |
| 9           | Total                       | 55,507,997                   | 100.00%       |                  | 6.84%                | 8.73%          | Total                            | 55,507,997                   | 100.00%       |                  | 5.91%                | 7.47%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34153              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$55,507,996         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$697,565)    |

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SOURCES:  
MFR Schedule A-1 (with RSAM) 2022  
MFR Schedule D-1a (with RSAM) 2022

**FLORIDA POWER AND LIGHT COMPANY**  
Change ROE to National Average ROE in 2023 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 18,736,084                   | 31.43%        | 3.77%            | 1.19%                | 1.19%          | Long-term Debt                   | 18,736,084                   | 31.43%        | 3.77%            | 1.19%                | 1.19%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          | Customer Deposits                | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 751,215                      | 1.26%         | 0.97%            | 0.01%                | 0.01%          | Short-term Debt                  | 751,215                      | 1.26%         | 0.97%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          | Investment Tax Credits           | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          |
| 8           | Common Equity               | <u>28,748,525</u>            | <u>48.23%</u> | 11.50%           | <u>5.55%</u>         | <u>7.44%</u>   | Common Equity                    | <u>28,748,525</u>            | <u>48.23%</u> | <u>9.55%</u>     | <u>4.61%</u>         | <u>6.18%</u>   |
| 9           | Total                       | 59,605,291                   | 100.00%       |                  | 6.93%                | 8.83%          | Total                            | 59,605,291                   | 100.00%       |                  | 5.99%                | 7.57%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34156              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$59,605,291         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$752,073)    |

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SOURCES:  
MFR Schedule A-1 (with RSAM) 2023  
MFR Schedule D-1a (with RSAM) 2023



**FLORIDA POWER AND LIGHT COMPANY**  
Change Common Equity Ratio to 51.73% in 2022 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional<br/>Amount</u> | <u>Ratio</u>  | <u>Cost<br/>Rate</u> | <u>Weighted<br/>Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional<br/>Amount</u> | <u>Ratio</u>  | <u>Cost<br/>Rate</u> | <u>Weighted<br/>Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|----------------------------------|---------------|----------------------|--------------------------|----------------|----------------------------------|----------------------------------|---------------|----------------------|--------------------------|----------------|
| 1           | Long-term Debt              | 17,415,346                       | 31.37%        | 3.61%                | 1.13%                    | 1.13%          | Long-term Debt                   | 20,811,283                       | 37.49%        | 3.61%                | 1.35%                    | 1.35%          |
| 2           | Preferred Stock             | -                                | 0.00%         | 0.00%                | 0.00%                    | 0.00%          | Preferred Stock                  | -                                | 0.00%         | 0.00%                | 0.00%                    | 0.00%          |
| 3           | Customer Deposits           | 455,339                          | 0.82%         | 2.03%                | 0.02%                    | 0.02%          | Customer Deposits                | 455,339                          | 0.82%         | 2.03%                | 0.02%                    | 0.02%          |
| 4           | Short-term Debt             | 654,984                          | 1.18%         | 0.94%                | 0.01%                    | 0.01%          | Short-term Debt                  | 782,704                          | 1.41%         | 0.94%                | 0.01%                    | 0.01%          |
| 5           | Deferred Income Tax         | 5,894,990                        | 10.62%        | 0.00%                | 0.00%                    | 0.00%          | Deferred Income Tax              | 5,894,990                        | 10.62%        | 0.00%                | 0.00%                    | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,372,609                        | 6.08%         | 0.00%                | 0.00%                    | 0.00%          | FAS 109 Deferred Income Tax      | 3,372,609                        | 6.08%         | 0.00%                | 0.00%                    | 0.00%          |
| 7           | Investment Tax Credits      | 1,049,226                        | 1.89%         | 8.38%                | 0.16%                    | 0.16%          | Investment Tax Credits           | 1,049,226                        | 1.89%         | 8.38%                | 0.16%                    | 0.16%          |
| 8           | Common Equity               | <u>26,665,503</u>                | <u>48.04%</u> | 11.50%               | <u>5.52%</u>             | <u>7.41%</u>   | Common Equity                    | <u>23,141,846</u>                | <u>41.69%</u> | <u>11.50%</u>        | <u>4.79%</u>             | <u>6.43%</u>   |
| 9           | Total                       | 55,507,997                       | 100.00%       |                      | 6.84%                    | 8.73%          | Total                            | 55,507,997                       | 100.00%       |                      | 6.34%                    | 7.97%          |
| 10          | Tax multiplier              |                                  |               |                      | 1.34153                  |                |                                  |                                  |               |                      |                          |                |
| 11          | Rate Base                   |                                  |               |                      | \$55,507,996             |                | Reduction in revenue requirement |                                  |               |                      |                          | (\$419,822)    |

**SOURCES:**

MFR Schedule A-1 (with RSAM) 2022

MFR Schedule D-1a (with RSAM) 2022

|              | <u>\$</u>         | <u>%</u> | <u>Revised</u>    | <u>%</u> |
|--------------|-------------------|----------|-------------------|----------|
| Current Debt | 18,070,330        | 40.4%    | 21,593,987        | 48.3%    |
| Equity       | <u>26,665,503</u> | 59.6%    | <u>23,141,846</u> | 51.7%    |
| Total        | 44,735,833        |          | 44,735,833        |          |
| LT Debt      | 17,415,346        | 96.4%    | 20,811,283        |          |
| ST Debt      | <u>654,984</u>    | 3.6%     | <u>782,704</u>    |          |
|              | 18,070,330        |          | 21,593,987        |          |

**Docket No. 2021--15-EI**  
**Revise Common Equity Ratio to National Average 2023**  
**Exhibit BSL-3, Page 2 of 2**

**FLORIDA POWER AND LIGHT COMPANY**  
**Change Common Equity Ratio to 51.73% in 2023 (\$000)**

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 18,736,084                   | 31.43%        | 3.77%            | 1.19%                | 1.19%          | Long-term Debt                   | 22,385,880                   | 37.56%        | 3.77%            | 1.42%                | 1.42%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          | Customer Deposits                | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 751,215                      | 1.26%         | 0.97%            | 0.01%                | 0.01%          | Short-term Debt                  | 897,552                      | 1.51%         | 0.97%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          | Investment Tax Credits           | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          |
| 8           | Common Equity               | <u>28,748,525</u>            | <u>48.23%</u> | 11.50%           | <u>5.55%</u>         | <u>7.44%</u>   | Common Equity                    | <u>24,952,392</u>            | <u>41.86%</u> | <u>11.50%</u>    | <u>4.81%</u>         | <u>6.46%</u>   |
| 9           | Total                       | 59,605,291                   | 100.00%       |                  | 6.93%                | 8.83%          | Total                            | 59,605,291                   | 100.00%       |                  | 6.43%                | 8.08%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34156              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$59,605,291         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$446,648)    |

**SOURCES:**

MFR Schedule A-1 (with RSAM) 2023  
MFR Schedule D-1a (with RSAM) 2023

|              | <u>\$</u>         | <u>%</u> | <u>Revised</u>    | <u>%</u> |
|--------------|-------------------|----------|-------------------|----------|
| Current Debt | 19,487,299        | 40.4%    | 23,283,432        | 48.3%    |
| Equity       | <u>28,748,525</u> | 59.6%    | <u>24,952,392</u> | 51.7%    |
| Total        | 48,235,824        |          | 48,235,824        |          |
| LT Debt      | 18,736,084        | 96.1%    | 22,385,880        |          |
| ST Debt      | <u>751,215</u>    | 3.9%     | <u>897,552</u>    |          |
|              | 19,487,299        |          | 23,283,432        |          |

Docket No. 2021--15-EI  
Revise ROE and Common Equity Ratio to National Average 2022  
Exhibit BSL-4, page 1 of 2

**FLORIDA POWER AND LIGHT COMPANY**  
Reduce ROE and Common Equity Ratio to National Average in 2023 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 17,415,346                   | 31.37%        | 3.61%            | 1.13%                | 1.13%          | Long-term Debt                   | 20,811,283                   | 37.49%        | 3.61%            | 1.35%                | 1.35%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          | Customer Deposits                | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 654,984                      | 1.18%         | 0.94%            | 0.01%                | 0.01%          | Short-term Debt                  | 782,704                      | 1.41%         | 0.94%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          | Investment Tax Credits           | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          |
| 8           | Common Equity               | <u>26,665,503</u>            | <u>48.04%</u> | 11.50%           | <u>5.52%</u>         | <u>7.41%</u>   | Common Equity                    | <u>23,141,846</u>            | <u>41.69%</u> | <u>9.55%</u>     | <u>3.98%</u>         | <u>5.34%</u>   |
| 9           | Total                       | 55,507,997                   | 100.00%       |                  | 6.84%                | 8.73%          | Total                            | 55,507,997                   | 100.00%       |                  | 5.52%                | 6.88%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34153              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$55,507,996         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$1,025,208)  |

SOURCES:

MFR Schedule A-1 (with RSAM) 2022

|                                    | <u>\$</u>         | <u>%</u> | <u>Revised</u>    | <u>%</u> |
|------------------------------------|-------------------|----------|-------------------|----------|
| MFR Schedule D-1a (with RSAM) 2022 |                   |          |                   |          |
| Current                            |                   |          |                   |          |
| Debt                               | 18,070,330        | 40.4%    | 21,593,987        | 48.3%    |
| Equity                             | <u>26,665,503</u> | 59.6%    | <u>23,141,846</u> | 51.7%    |
| Total                              | 44,735,833        |          | 44,735,833        |          |
| LT Debt                            | 17,415,346        | 96.4%    | 20,811,283        |          |
| ST Debt                            | <u>654,984</u>    | 3.6%     | <u>782,704</u>    |          |
|                                    | 18,070,330        |          | 21,593,987        |          |

**Docket No. 2021--15-EI**  
**Revise ROE and Common Equity Ratio to National Average 2023**  
**Exhibit BSL-4, page 2 of 2**

**FLORIDA POWER AND LIGHT COMPANY**  
**Reduce ROE and Common Equity Ratio to National Average in 2023 (\$000)**

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 18,736,084                   | 31.43%        | 3.77%            | 1.19%                | 1.19%          | Long-term Debt                   | 22,385,880                   | 37.56%        | 3.77%            | 1.42%                | 1.42%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          | Customer Deposits                | 490,827                      | 0.82%         | 2.04%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 751,215                      | 1.26%         | 0.97%            | 0.01%                | 0.01%          | Short-term Debt                  | 897,552                      | 1.51%         | 0.97%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 6,266,839                    | 10.51%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,402,881                    | 5.71%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          | Investment Tax Credits           | 1,208,920                    | 2.03%         | 8.48%            | 0.17%                | 0.17%          |
| 8           | Common Equity               | <u>28,748,525</u>            | <u>48.23%</u> | 11.50%           | <u>5.55%</u>         | <u>7.44%</u>   | Common Equity                    | <u>24,952,392</u>            | <u>41.86%</u> | <u>9.55%</u>     | <u>4.00%</u>         | <u>5.36%</u>   |
| 9           | Total                       | 59,605,291                   | 100.00%       |                  | 6.93%                | 8.83%          | Total                            | 59,605,291                   | 100.00%       |                  | 5.62%                | 6.98%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34156              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$59,605,291         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$1,099,413)  |

**SOURCES:**

MFR Schedule A-1 (with RSAM) 2023

MFR Schedule D-1a (with RSAM) 2023

|              | <u>\$</u>         | <u>%</u> | <u>Revised</u>    | <u>%</u> |
|--------------|-------------------|----------|-------------------|----------|
| Current Debt | 19,487,299        | 40.4%    | 23,283,432        | 48.3%    |
| Equity       | <u>28,748,525</u> | 59.6%    | <u>24,952,392</u> | 51.7%    |
| Total        | 48,235,824        |          | 48,235,824        |          |
| LT Debt      | 18,736,084        | 96.1%    | 22,385,880        |          |
| ST Debt      | <u>751,215</u>    | 3.9%     | <u>897,552</u>    |          |
|              | 19,487,299        |          | 23,283,432        |          |

**FLORIDA POWER AND LIGHT COMPANY**  
**Regulatory Weighted Average Cost of Capital**

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| <b>Line</b> | <b>Year</b>  | <b>After-Tax WACC<br/>National<br/>Average</b> |
|-------------|--------------|--|
| 1           | 2018         | 5.89%  |
| 2           | 2019         | 5.48%  |
| 3           | 2020         | 5.36%  |
| 4           | Average      | 5.57%  |
| 5           | FPL          | 6.84%  |
| 6           | FPL vs. Avg. | 1.27%  |

**FLORIDA POWER AND LIGHT COMPANY**  
**Financial Weighted Average Cost of Capital**

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| <u>Line</u> | <u>Year</u>  | <u>After-Tax WACC<br/>National<br/>Average</u> | <u>Pre-Tax WACC<br/>National<br/>Average</u> |
|-------------|--------------|--|--|
| 1           | 2016         | 7.42%  | 9.03%  |
| 2           | 2017         | 7.51%  | 9.28%  |
| 3           | 2018         | 7.10%  | 8.56%  |
| 4           | 2019         | 6.91%  | 8.83%  |
| 5           | 2020         | 7.02%  | 8.68%  |
| 6           | FPL          | 8.04%  | 10.20%                                       |
| 7           | FPL vs. 2020 | 1.01%  | 1.53%  |

**FLORIDA POWER AND LIGHT COMPANY**  
Change ROE to 9.59% in 2022 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional Amount</u> | <u>Ratio</u>  | <u>Cost Rate</u> | <u>Weighted Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|------------------------------|---------------|------------------|----------------------|----------------|----------------------------------|------------------------------|---------------|------------------|----------------------|----------------|
| 1           | Long-term Debt              | 17,415,346                   | 31.37%        | 3.61%            | 1.13%                | 1.13%          | Long-term Debt                   | 17,415,346                   | 31.37%        | 3.61%            | 1.13%                | 1.13%          |
| 2           | Preferred Stock             | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          | Preferred Stock                  | -                            | 0.00%         | 0.00%            | 0.00%                | 0.00%          |
| 3           | Customer Deposits           | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          | Customer Deposits                | 455,339                      | 0.82%         | 2.03%            | 0.02%                | 0.02%          |
| 4           | Short-term Debt             | 654,984                      | 1.18%         | 0.94%            | 0.01%                | 0.01%          | Short-term Debt                  | 654,984                      | 1.18%         | 0.94%            | 0.01%                | 0.01%          |
| 5           | Deferred Income Tax         | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          | Deferred Income Tax              | 5,894,990                    | 10.62%        | 0.00%            | 0.00%                | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          | FAS 109 Deferred Income Tax      | 3,372,609                    | 6.08%         | 0.00%            | 0.00%                | 0.00%          |
| 7           | Investment Tax Credits      | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          | Investment Tax Credits           | 1,049,226                    | 1.89%         | 8.38%            | 0.16%                | 0.16%          |
| 8           | Common Equity               | <u>26,665,503</u>            | <u>48.04%</u> | 11.50%           | <u>5.52%</u>         | <u>7.41%</u>   | Common Equity                    | <u>26,665,503</u>            | <u>48.04%</u> | <u>9.59%</u>     | <u>4.61%</u>         | <u>6.18%</u>   |
| 9           | Total                       | 55,507,997                   | 100.00%       |                  | 6.84%                | 8.73%          | Total                            | 55,507,997                   | 100.00%       |                  | 5.93%                | 7.50%          |
| 10          | Tax multiplier              |                              |               |                  | 1.34153              |                |                                  |                              |               |                  |                      |                |
| 11          | Rate Base                   |                              |               |                  | \$55,507,996         |                | Reduction in revenue requirement |                              |               |                  |                      | (\$683,256)    |

**SOURCES:**

MFR Schedule A-1 (with RSAM) 2022  
MFR Schedule D-1a (with RSAM) 2022

**FLORIDA POWER AND LIGHT COMPANY**  
Change ROE to 9.59% in 2023 (\$000)

| <u>Line</u> | <u>Description</u>          | <u>Jurisdictional<br/>Amount</u> | <u>Ratio</u>  | <u>Cost<br/>Rate</u> | <u>Weighted<br/>Cost</u> | <u>Pre-Tax</u> | <u>Description</u>               | <u>Jurisdictional<br/>Amount</u> | <u>Ratio</u>  | <u>Cost<br/>Rate</u> | <u>Weighted<br/>Cost</u> | <u>Pre-Tax</u> |
|-------------|-----------------------------|----------------------------------|---------------|----------------------|--------------------------|----------------|----------------------------------|----------------------------------|---------------|----------------------|--------------------------|----------------|
| 1           | Long-term Debt              | 18,736,084                       | 31.43%        | 3.77%                | 1.19%                    | 1.19%          | Long-term Debt                   | 18,736,084                       | 31.43%        | 3.77%                | 1.19%                    | 1.19%          |
| 2           | Preferred Stock             | -                                | 0.00%         | 0.00%                | 0.00%                    | 0.00%          | Preferred Stock                  | -                                | 0.00%         | 0.00%                | 0.00%                    | 0.00%          |
| 3           | Customer Deposits           | 490,827                          | 0.82%         | 2.04%                | 0.02%                    | 0.02%          | Customer Deposits                | 490,827                          | 0.82%         | 2.04%                | 0.02%                    | 0.02%          |
| 4           | Short-term Debt             | 751,215                          | 1.26%         | 0.97%                | 0.01%                    | 0.01%          | Short-term Debt                  | 751,215                          | 1.26%         | 0.97%                | 0.01%                    | 0.01%          |
| 5           | Deferred Income Tax         | 6,266,839                        | 10.51%        | 0.00%                | 0.00%                    | 0.00%          | Deferred Income Tax              | 6,266,839                        | 10.51%        | 0.00%                | 0.00%                    | 0.00%          |
| 6           | FAS 109 Deferred Income Tax | 3,402,881                        | 5.71%         | 0.00%                | 0.00%                    | 0.00%          | FAS 109 Deferred Income Tax      | 3,402,881                        | 5.71%         | 0.00%                | 0.00%                    | 0.00%          |
| 7           | Investment Tax Credits      | 1,208,920                        | 2.03%         | 8.48%                | 0.17%                    | 0.17%          | Investment Tax Credits           | 1,208,920                        | 2.03%         | 8.48%                | 0.17%                    | 0.17%          |
| 8           | Common Equity               | <u>28,748,525</u>                | <u>48.23%</u> | 11.50%               | <u>5.55%</u>             | <u>7.44%</u>   | Common Equity                    | <u>28,748,525</u>                | <u>48.23%</u> | <u>9.59%</u>         | <u>4.63%</u>             | <u>6.21%</u>   |
| 9           | Total                       | 59,605,291                       | 100.00%       |                      | 6.93%                    | 8.83%          | Total                            | 59,605,291                       | 100.00%       |                      | 6.01%                    | 7.59%          |
| 10          | Tax multiplier              |                                  |               |                      | 1.34156                  |                |                                  |                                  |               |                      |                          |                |
| 11          | Rate Base                   |                                  |               |                      | \$59,605,291             |                | Reduction in revenue requirement |                                  |               |                      |                          | (\$736,646)    |

**SOURCES:**

MFR Schedule A-1 (with RSAM) 2023  
MFR Schedule D-1a (with RSAM) 2023