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September 13, 2021

**VIA ELECTRONIC FILING**
Adam Teitzman, Commission Clerk
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 20210015-EI
Petition by FPL for Base Rate Increase and Rate Unification

Dear Mr. Teitzman:

Attached for filing on behalf of Floridians Against Increased Rates, Inc. ("FAIR") in the above-referenced docket are the Supplemental Direct Testimony and Exhibits re: Proposed Settlement Agreement of FAIR witness Breandan T. Mac Mathuna.

Please let me know if you should have any questions regarding this submission.

Cordially yours,

Robert Scheffel Wright

Robert Scheffel Wright

RSW:fyh
Encl.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| In re: Petition by Florida Power & Light Company for Rate Unification and for a Base Rate Increase | ) ) ) ) | DOCKET NO. 20210015-EI<br>FILED: SEPTEMBER 13, 2021 |

# SUPPLEMENTAL DIRECT TESTIMONY

# OF BREANDAN T. MAC MATHUNA

# RE: PROPOSED SETTLEMENT AGREEMENT

## On Behalf of

## Floridians Against Increased Rates, Inc.,

## Florida Rising, Inc.,

## The League of United Latin American Citizens of Florida, and

## The Environmental Confederation of Southwest Florida

**IN RE: PETITION BY FLORIDA POWER & LIGHT COMPANY FOR RATE UNIFICATION AND FOR BASE RATE INCREASE, DOCKET NO. 20210015-EI**

**SUPPLEMENTAL DIRECT TESTIMONY OF BREANDAN T. MAC MATHUNA REGARDING PROPOSED SETTLEMENT AGREEMENT ON BEHALF OF FLORIDIANS AGAINST INCREASED RATES, INC., FLORIDA RISING, INC., THE LEAGUE OF UNITED LATIN AMERICAN CITIZENS OF FLORIDA, AND THE ENVIRONMENTAL CONFEDERATION OF SOUTHWEST FLORIDA**

**Table of Contents**

**IN RE: PETITION BY FLORIDA POWER & LIGHT COMPANY FOR RATE UNIFICATION AND FOR BASE RATE INCREASE, DOCKET NO. 20210015-EI**

**SUPPLEMENTAL DIRECT TESTIMONY OF BREANDAN T. MAC MATHUNA REGARDING PROPOSED SETTLEMENT AGREEMENT ON BEHALF OF FLORIDIANS AGAINST INCREASED RATES, INC., FLORIDA RISING, INC., THE LEAGUE OF UNITED LATIN AMERICAN CITIZENS OF FLORIDA, AND THE ENVIRONMENTAL CONFEDERATION OF SOUTHWEST FLORIDA**

## I. INTRODUCTION

**Q. Please state your name, business address, and occupation.**

A. My name is Breandan T. Mac Mathuna, and my business address is GDS Associates, Inc. ("GDS"), 1850 Parkway Place, Suite 800, Marietta, Georgia 30067. I am employed as a Principal with GDS. In my role as one of the company's Principals, I regularly provide, for and on behalf of GDS's clients, analyses and expert testimony regarding the cost of capital and capital structure for regulated electric companies.

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

A. I am testifying on behalf of Floridians Against Increased Rates, Inc. ("FAIR"), a Florida not-for-profit corporation, and its members who are retail customers of Florida Power & Light Company ("FPL"); Florida Rising, Inc.; the League of United Latin American Citizens of Florida ("LULAC"), and the Environmental Confederation of Southwest Florida ("ECOSWF").

**Q. Have you previously submitted testimony in this proceeding?**

A. Yes. I filed direct testimony and exhibits on behalf of FAIR on June 21, 2021. My June 21 testimony was subsequently adopted and co-sponsored by Florida Rising, LULAC, and ECOSWF. My June 21 testimony included my educational background and professional experience as a subject matter expert on cost of capital and capital structure issues. My June 21 testimony and exhibits presented my analyses of the cost of equity capital and the financial equity ratio, i.e., the appropriate percentage of investor-supplied funds from common equity, that should be used for setting FPL's revenue requirements and rates in current capital market conditions. My June 21 testimony presented my analyses and conclusions regarding the appropriate midpoint rate of return on common equity (ROE) for FPL based on current capital market conditions and the appropriate percentage of equity capital to be used for determining FPL's revenue requirements and rates for 2022, also based on current capital market conditions. My June 21 testimony also provided a critique of the testimony of FPL's witness James M. Coyne regarding the proper ROE and financial equity ratio.

## II. PURPOSE AND SUMMARY OF SUPPLEMENTAL TESTIMONY

**Q. What is the purpose of your supplemental direct testimony?**

A. The purpose of my supplemental direct testimony is to address what I understand to be a new primary issue in this proceeding, now that FPL and certain other parties (collectively the "Settling Parties") have submitted a proposed settlement agreement – hereinafter, the "Settlement Agreement" –

for approval by the Florida PSC. As I understand it, that issue is stated as follows:

> Should the Stipulation and Settlement Agreement dated August 9, 2021 be approved?

**Q. Please summarize your supplemental direct testimony.**

A. My supplemental direct testimony addresses whether the Settlement Agreement is in the public interest, based on the fundamental principles of utility regulation, specifically that regulators – the Florida PSC in this case - should set a utility's revenue requirements and rates at levels that are sufficient to cover all of the utility's legitimate costs (including O&M costs and return of amounts invested through allowed depreciation of prudent investments) and yield an ROE and debt cost recovery at competitive rates of return that will support the investments necessary to provide safe and reliable service.

Considering the Settlement Agreement, my analyses, and the other testimony and exhibits submitted in this case, I conclude that, if approved by the PSC, the Settlement Agreement, as proposed by FPL and the other Settling Parties, would result in FPL realizing an ROE and earnings that are significantly greater than FPL requires to provide safe and reliable service, cover all of its O&M costs, cover all of its debt service costs, and realize a fair and reasonable return on its equity investment.

In summary, while the dollar impacts of the proposed Settlement Agreement on FPL's customers would be reduced as compared to FPL's original requests, the Settlement Agreement would still result in FPL earning at least $800 million more in 2022 than it needs under current capital market conditions to provide safe and reliable service, cover all of its costs, and earn a reasonable return, all while maintaining financial integrity. Accordingly, the proposed Settlement Agreement is inconsistent with established regulatory standards and is therefore, in my strong opinion, contrary to the public interest.

Finally, I want to make clear that my ultimate conclusions that the fair and reasonable ROE for FPL should be set at 8.56 percent and that FPL's equity ratio should be set at 55.4 percent for purposes of setting FPL's revenue requirements and rates for 2022 are unchanged. (If rates are to be set for 2023, then these values should be applied for 2023 as well.) Moreover, my critique of the testimony and analyses submitted by James M. Coyne on behalf of FPL likewise remains unchanged; Mr. Coyne's analyses are flawed, and his recommended ROE, like the ROE proposed in the Settlement Agreement, is neither fair nor reasonable and result in the rates being demanded of FPL's retail customers being unfair and unreasonable.

**Q. Are you sponsoring any exhibits with your supplemental direct testimony?**

A. Yes. I am sponsoring the following exhibits:

Exhibit BTM-9: Revenue Requirement Analysis for 2022 and 2023; and

Exhibit BTM-10: Referenced Articles and Reports

## III. BACKGROUND

**Q. Please summarize FPL's original requests for rate increases and your testimony filed in June 2021.**

A. In March 2021, FPL submitted a petition and supporting testimony, exhibits, and related documentation by which it requested the PSC's authorization to increase its rates so as to produce $1,108 million per year in additional base rate revenues in 2022 and further to increase its rates so as to produce an additional $607 million per year in 2023. Relative to the key financial parameters that I addressed in my June testimony, FPL's requests were based on a midpoint ROE of 11.50 percent and an equity ratio of 59.60 percent.

Based on my analyses of FPL and current capital market conditions, I concluded in my June 2021 testimony that FPL could provide safe and reliable service and recover all of its legitimate, reasonable and prudent costs (including O&M costs and return of amounts invested through allowed depreciation of prudent investments), and also including all of its reasonable and prudent costs of debt capital, if the PSC sets FPL's revenue requirements and rates using a mid-point rate of return on common equity of 8.56 percent and a financial equity ratio, defined as the percentage of investor-supplied capital funds provided via common equity, of 55.40 percent for ratemaking purposes.

My June 2021 testimony further concluded that, based on these values for ROE and equity ratio, FPL's annual revenue requirements for 2022 should be $1,230 million ($1.230 billion) less than FPL requested, such that FPL's retail rates should be reduced by approximately $121 million per year in 2022.

**Q. FPL submitted rebuttal testimony on July 14, 2021. Did its proposed revenue and rate increases change?**

A. Yes. Where FPL originally requested a revenue increase of $1,108 million ($1.108 billion) per year in 2022, its July rebuttal testimony indicated a relatively slight reduction from that amount, to $1,075 million ($1.075 billion) per year. FPL's proposed 2023 increase remained virtually unchanged: the original proposal was $607 million per year, and the revised value requested in its July rebuttal testimony was $605 million per year.

**Q. What is your understanding of the proposed Settlement Agreement?**

A. As it relates to the issues that I address, namely ROE and the financial equity ratio, the Settlement Agreement nominally proposes to reduce FPL's ROE for ratemaking purposes from its originally proposed 11.50% to 10.60%, with a range of plus or minus 100 basis points centered on a midpoint ROE of 10.70% i.e., 9.70% to 11.7%, which would result in the maximum of the

ROE range being 110 basis points above the proposed ROE of 10.60%.[1] The proposed financial equity ratio of 59.60% - the percentage of investor-supplied funds from common equity – is unchanged from FPL's original filing. The revenue increases in the Settlement Agreement are $692 million per year for 2022 and $560 million per year for 2023. These values do not reflect an ROE of exactly 10.60 percent, apparently because the revenue increases were agreed to separately by the Settling Parties.[2] The Settlement Agreement also proposes a small reduction in the depreciation reserve amount that FPL would be allowed to use through its proposed Reserve Surplus Amortization Mechanism, from $1.48 billion to $1.45 billion; the proposed RSAM is addressed in the direct and supplemental direct testimony of witness Timothy J. Devlin. Finally, the Settlement Agreement, as presented to the PSC, is "contingent on approval of this Agreement in its entirety by the Commission without modification." Settlement Agreement, para. 30 at page 32. In other words, the Settlement Agreement is an "all or nothing" deal; according to FPL and the other Settling Parties, the Settlement Agreement must be approved in its entirety or not at all.

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1 Additionally, there is a mechanism to increase the ROE of 10.60% to 10.80%, and increase the range to 9.80% - 11.80%, if the average 30-year Treasury bond yields increases by at least 50 bps over a 6-month period.

2 *See* FPL's response to Staff's Second Data Request, Request No. 1, filed on Aug. 16, 2021. The response can be found at http://www2.psc.state.fl.us/library/filings/2021/09630-2021/09630-2021.pdf.

## IV. CONCLUSIONS REGARDING SETTLEMENT AGREEMENT

**Q. In your June 21 direct testimony and exhibits, you concluded that FPL can provide safe and reliable service and recover all of its reasonable and prudent costs, including the costs of its projected investments, if the PSC sets FPL's rates using an ROE of 8.56 percent and a financial equity ratio of 55.40 percent. Have your conclusions regarding these values changed?**

A. No. They have not. While I have not performed a detailed ROE analysis using an updated study period, I examined how key capital market benchmarks have evolved since the end of my six-month study period, which ended in April 2021. The table below summarizes the changes seen from the six-month period ending April 2021 to the four-month period ending August 2021, for the following benchmarks: (1) 30-year Constant Maturity Treasury Bond yield (2) Moody's Public Utility Bond Index "A" and (3) Moody's Public Utility Bond Index "Baa." As Table 1 demonstrates, the bond yields reported for each period were broadly comparable. Additionally, I note the bond yields in the later period remained within the range of the earlier time period.

*Table 1: Capital Market Benchmarks*

| | 30-year Treasury Bond Monthly Average Yield | Moody's Public Utility Bond Index "Baa" Monthly Average Yield | Moody's Public Utility Bond Index "A" Monthly Average Yield |
|---|---|---|---|
| **November 2020 – April 2021** | 1.97% | 3.34% | 3.06% |
| **May 2021 – August 2021** | 2.09% | 3.35% | 3.10% |
| **Basis Points Change** | +12 | +1 | +4 |

Furthermore, I note that FPL's S&P and Moody's long-term credit ratings haven't changed since the end of my original six-month period and neither have the ratings for the members of my proxy group. Therefore, given the lack of change in the credit ratings together with the comparable capital market benchmark data points, it is reasonable to expect that similar ROE results would be achieved today. Accordingly, my conclusions regarding the fair and reasonable ROE of 8.56% and financial equity ratio of 55.4% have not changed.

**Q. In your June 21 testimony, you stated that, if the PSC were to set FPL's revenue requirements and rates using your recommended ROE of 8.56% and financial equity ratio values, FPL could provide safe and reliable service and recover all of its reasonable and prudent costs, including the costs of its projected investments, with revenue requirements $1,230 million ($1.230 billion) per year less than proposed by FPL in its March filing. Do the changes proposed by FPL in its July**

**rebuttal testimony, or any other factors, change your conclusions regarding that total revenue requirement figure?**

A. No, not significantly. Using the recalculated base revenue information presented by Ms. Fuentes in Exhibit LF-12, together with my recommended ROE and equity values, results in a revenue requirement that is approximately $1,228 million lower than that requested by FPL based on its July 2021 request.

**Q. On a related note, in your June 21 testimony, you stated that applying your recommended ROE and equity ratio values would result in an annual rate reduction for FPL's customers, as compared to current rates, of approximately $121 million per year. Do the changes proposed by FPL in July, or any other factors, change your conclusion regarding the annual revenue impact?**

A. Yes. Applying the above reduction in FPL's revenue requirements to FPL's updated revenue requirements per its July rebuttal testimony results in a reduction of $153 million per year from FPL's current rates in 2022, as compared to the decrease of $121 million per year in my June 21 testimony. This increased reduction is driven by the structure of FPL's updated request that incorporated a lower rate base and an increase in jurisdictional net operating income under existing rates.[3] The impact of using my

[3] *See* Fuentes Rebuttal Testimony, Exhibit LF-12.

recommended ROE and equity ratio is virtually unchanged, but because FPL's updated revenue requirement increase is approximately $33 million less than in its original filing, the reduction from current rates and revenue requirements is correspondingly increased by a similar amount.

**Q. How do the ROE and financial equity ratio values agreed to by the Settling Parties in the Settlement Agreement compare to other recent settlements agreed to by Florida utilities?**

A. The ROE and financial equity ratio parameters agreed to in other recent settlements negotiated by Florida investor-owned utilities are considerably lower than the parameters included in the Settlement Agreement. For instance, on June 4, 2021 the Florida PSC approved a settlement involving Duke Energy Florida ("DEF") that included a midpoint ROE of 9.85% and a financial equity ratio of 53 percent.[4] Additionally, in a proceeding involving Tampa Electric Company ("TEC"), a proposed settlement agreement was filed on August 6, 2021, four days before the FPL Settlement Agreement was filed, that includes similar values to those in the DEF settlement: an ROE of 9.95 percent and an equity ratio of 54.0 percent.[5]

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[4] In re: Petition for Limited Proceeding to Approve 2021 Settlement Agreement, including General Base Rates Increases, by Duke Energy Florida, LLC, Docket No. 20210016-EU, Order No. PSC-2021-0202-AS-EI, Final Order Approving 2021 Settlement Agreement at 12 (Fla. Pub. Serv. Comm'n, June 4, 2021).

[5] In re: Petition for Rate Increase by Tampa Electric Company, Docket No. 20210034-EI, Tampa Electric Company's Motion to Suspend Procedural Schedule and Approve 2021 Stipulation and Settlement Agreement, FPSC Document No. 08857-2021, at 2-3 (filed August 6, 2021).

**Q. Can you provide the Commission with any insight into the relative risk profiles of FPL as compared to those of DEF and TEC?**

A. Yes. It is informative to review the respective S&P and Moody's credit ratings for the Florida utilities given that credit ratings reflect an agency's comprehensive review of all the risks a company faces including both business and financial risk, and further recognizing that the agency's ratings are intended to provide an objective and independent measure of a utility's risk. As the Figure below illustrates, FPL's credit rating is of better quality compared to both DEF and TEC. Both DEF and TEC have an S&P long-term rating of BBB+, two notches below FPL, and a rating from Moody's of A3, again two notches below FPL. These rating differentials suggest that FPL has lower investment risk, as measured by credit ratings, than both DEF and TEC. Correspondingly, all else being equal, it would be reasonable to expect that investors would require a lower return for investing in FPL than the other two utilities.

*Figure 1: Credit Ratings Comparison for FPL, DEF and TEC.*

| S&P Rating | FPL | DEF | TEC |
|---|---|---|---|
| AAA | | | |
| AA+ | | | |
| AA | | | |
| AA- | | | |
| A+ | | | |
| A | A | | |
| A- | | | |
| BBB+ | | BBB+ | BBB+ |
| BBB | | | |
| BBB- | | | |
| BB+ | | | |
| BB | | | |
| BB- | | | |

| Moody's Rating | FPL | DEF | TEC |
|---|---|---|---|
| Aaa | | | |
| Aa1 | | | |
| Aa2 | | | |
| Aa3 | | | |
| A1 | A1 | | |
| A2 | | | |
| A3 | | A3 | A3 |
| Baa1 | | | |
| Baa2 | | | |
| Baa3 | | | |
| Ba1 | | | |
| Ba2 | | | |
| Ba3 | | | |

**Q. How do the ROE and financial equity ratio values agreed to by the Settling Parties in the Settlement Agreement compare to the utility rate case decisions reached by other U.S. state regulatory authorities during 2021?**

A. Apart from the Florida PSC's decision regarding the DEF settlement, all the other utility rate case decisions reached during 2021 for vertically integrated utilities (for which data are available) have involved an allowed ROE value that is at least 100 bps lower and a financial equity ratio that is at least seven full percentage points lower than that included in the Settlement Agreement. (The financial equity ratio for DEF is 6.6 full percentage points below the comparable equity ratio value in the FPL Settlement Agreement.) The average allowed ROE for all decisions involving vertically integrated utilities was 9.47%, and the average financial equity ratio was approximately

51.62%.[6] Both parameters are clearly much lower than that included in the Settlement Agreement, which stands in contrast to the persistent downward trend seen over recent years in allowed ROE decisions in particular. Indeed, the Regulatory Research Associates, a group within S&P, recently commented on the persistent trend of regulatory authorities awarding lower allowed ROE:

> While electric equity return authorizations reached record lows in 2020 and the first half of 2021, authorized ROEs had been on a decline before the pandemic took a toll on the U.S. economy. The average allowed ROEs for the electric sector have been trending downward since the 1980s, consistent with the declining interest rate environment. In addition, the proliferation of automatic adjustment and investment recovery mechanisms that reduce the business risk of a utility has often been cited as a contributing factor by commissions in authorizing lower ROEs.[7]

6 Based on data made available by S&P Capital IQ Pro (formerly known as S&P Global Market Intelligence) and decisions made over the period January through August 2021. Note, in respect of the financial equity ratio calculation, I excluded the proceeding involving Kentucky Power Co., Case No. C-2020-00174, as I understand the percentage value reported in the referenced dataset was not a financial equity ratio value. Additionally, in respect of the DEF decision, D-20210016-EI, I used the financial equity ratio of 53% that was reported in the settlement agreement. I also excluded the proceeding involving Oklahoma Gas and Electric Co., D-18-046-FR (2020 update), because the proceeding did not involve determining an allowed ROE and capital structure.

7 S&P Capital IQ Pro, Regulatory Research Associates, RRA Regulatory Focus, *US electric ROE determinations in H1'21 remain at all-time low mark*, August 24, 2021. *See* Exhibit BTM-10 at page 29.

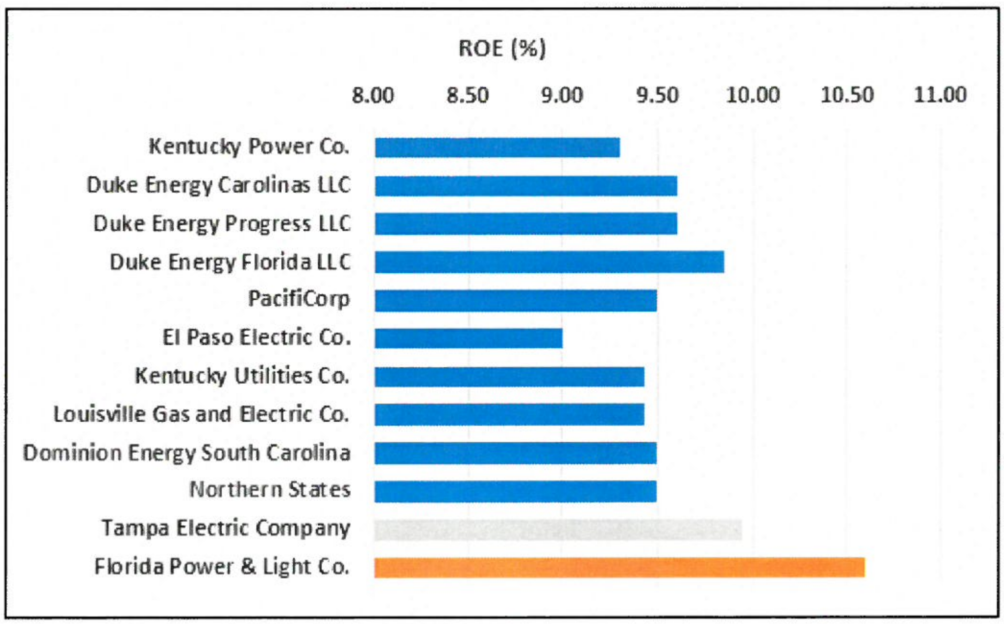
**Q. Please summarize how the ROE and equity ratio parameters included in the Settlement Agreement compare to the recent settlement agreements involving Florida utilities and U.S. state regulatory authorities decisions reached during 2021.**

A. The Figures below summarize, numerically and graphically, how much greater the Settlement Agreement parameters are as compared to these other data points.

*Figure 2: ROE: Settlement Agreement Comparison to State Decision Data & Other Florida Utility Settlements*[8]

**State Allowed ROE Values (Jan - Aug. 2021)**

| Vertically Integrated Cases Companies | State | Date of Decision | ROE | Decision Type |
|---|---|---|---|---|
| Kentucky Power Co. | KY | 01/13/21 | 9.30 | Fully litigated |
| Duke Energy Carolinas LLC | NC | 03/31/21 | 9.60 | Settled |
| Duke Energy Progress LLC | NC | 04/16/21 | 9.60 | Settled |
| Duke Energy Florida LLC | FL | 05/04/21 | 9.85 | Settled |
| PacifiCorp | WY | 05/18/21 | 9.50 | Fully litigated |
| El Paso Electric Co. | NM | 06/23/21 | 9.00 | Fully litigated |
| Kentucky Utilities Co. | KY | 06/30/21 | 9.43 | Settled |
| Louisville Gas and Electric Co. | KY | 06/30/21 | 9.43 | Settled |
| Dominion Energy South Carolir | SC | 07/21/21 | 9.50 | Settled |
| Northern States | ND | 08/18/21 | 9.50 | Settled |
| Tampa Electric Company | FL | TBD | 9.95 | Proposed Settlement |
| Florida Power & Light Co. | FL | TBD | 10.60 | Proposed Settlement |

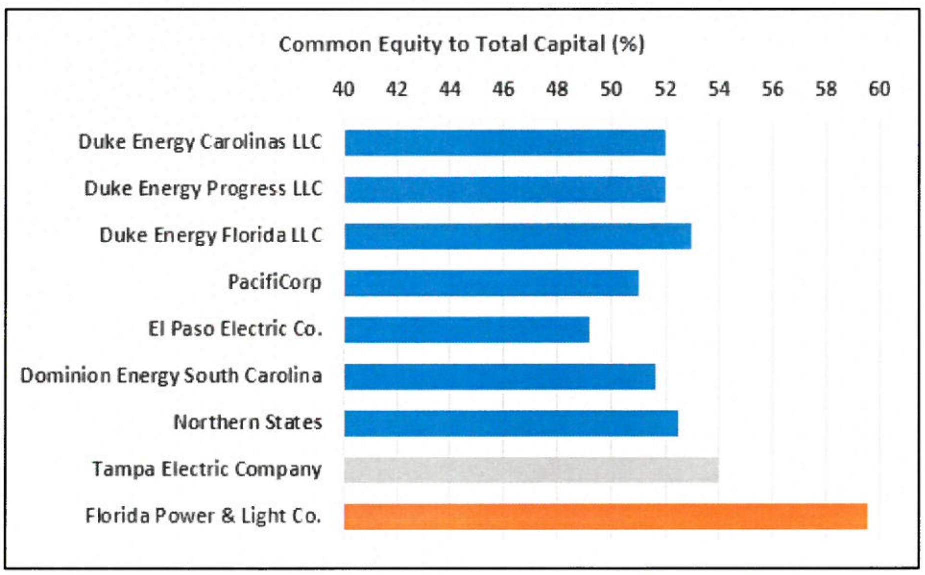



8 Please refer to footnote 6 for further details regarding the proceedings reported in this Figure.

*Figure 3: Equity Ratio: Settlement Agreement Comparison to State Decision Data & Other Florida Utility Settlements*[9]

**State Equity Ratio Values (Jan - Aug. 2021)**

| Vertically Integrated Cases Companies | State | Date of Decision | Common Equity To Total Capital (%) | Decision Type |
|---|---|---|---|---|
| Kentucky Power Co. | KY | 01/13/21 | - | Fully litigated |
| Duke Energy Carolinas LLC | NC | 03/31/21 | 52.00 | Settled |
| Duke Energy Progress LLC | NC | 04/16/21 | 52.00 | Settled |
| Duke Energy Florida LLC | FL | 05/04/21 | 53.00 | Settled |
| PacifiCorp | WY | 05/18/21 | 51.00 | Fully litigated |
| El Paso Electric Co. | NM | 06/23/21 | 49.21 | Fully litigated |
| Kentucky Utilities Co. | KY | 06/30/21 | - | Settled |
| Louisville Gas and Electric Co. | KY | 06/30/21 | - | Settled |
| Dominion Energy South Carolir | SC | 07/21/21 | 51.62 | Settled |
| Northern States | ND | 08/18/21 | 52.50 | Settled |
| **Tampa Electric Company** | **FL** | **TBD** | **54.00** | **Proposed Settlement** |
| **Florida Power & Light Co.** | **FL** | **TBD** | **59.60** | **Proposed Settlement** |




**Q. How have certain industry analysts and observers commented on the Settlement Agreement as it relates to the issues you address in your supplemental testimony?**

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[9] Please refer to footnote 6 for further details regarding the proceedings reported in this Figure.

A. Certain reports focused on the above average nature of the ROE included in the Settlement Agreement. For example, the proposed ROE of 10.60% was highlighted in the industry press as being "significantly above" the average allowed ROE awarded during the first half of 2021.[10] Furthermore, a Morningstar analyst covering NextEra Energy Inc., commented that the Settlement Agreement, if approved, reflects the "favorable treatment NextEra Energy continues to enjoy relative to peer utilities" and the analyst specifically mentioned the lower ROEs provided for in the DEF and TEC settlements.[11]

Additionally, it bears pointing out that the proposed ROE is 310 basis points greater than the ROE of 7.5% included in Morningstar's discounted cash flow valuation model which is used to determine its fair value estimate of NextEra Energy Inc.'s stock price. Moreover, the Morningstar analyst explains that the 7.5% ROE is lower than the "9% rate of return we expect investors will demand for a diversified equity portfolio, reflecting NextEra's lower sensitivity to the economic cycle and lower degree of operating leverage."[12]

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10 S&P Capital IQ Pro, Financial Focus, *Utility valuations edge closer to S&P 500 in August as trading volatility cools*, September 2, 2021. *See* Exhibit BTM-10 at page 1.

11 Morningstar, Stock Analyst Notes, Andrew Bischof, *NextEra Energy Settlement Highlights Constructive Florida Regulation; In Line With Expectations*, August 10, 2021. *See* Exhibit BTM-10 at page 6.

12 Morningstar, Stock Analyst Notes, Andrew Bischof, Increasing Our NextEra FVE on Increased Expectations for Renewable Energy Development, September 07, 2021. *See* Exhibit BTM-10 at page 11.

**Q. Are you aware of other publicly available information that would indicate that the terms of the Settlement Agreement would provide FPL with more revenues than it needs to provide safe and reliable service at reasonable cost?**

A. Yes. On August 23, 2021, Moody's issued an updated Credit Opinion for FPL that includes a discussion of the pending Settlement Agreement. I have attached this Moody's report as part of Exhibit BTM-10 to my supplemental testimony.[13] Of particular significance are the following two facts noted by Moody's. First, with the new Settlement Agreement in place Moody's projects that FPL would have a cash flow interest coverage ratio of about ten times and a ratio of Cash From Operations ("CFO"), pre-working capital to Debt of about 30 percent. The reported cash flow interest coverage ratio result is firmly within Moody's generally stated metric range for an "Aaa" rated utility and the CFO pre-working capital to Debt result of 30% is on the cusp of the stated metric range for an "Aa" or an "A" rated utility (i.e., at the top end of the range for an "A" rated utility and the low end of the range for an "Aa" rated utility).[14] However, of particular note, is that Moody's 12-18 month forward view as of the report's publication date, in respect of these two particular financial strength metrics, classifies the cash flow interest coverage

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[13] *See* Exhibit BTM-10 at page 16.

[14] Moody's Investors Service, Rating Methodology, Regulated Electric and Gas Utilities, page 22 (June 2017). *See* Exhibit BTM-8.2, page 161.

ratio as falling within the "Aaa" rating category and the CFO pre-working capital to Debt ratio as falling within the "Aa" rating category. Additionally, in the report, Moody's continues to refer to a potential downgrade threshold level of 25% in respect of the CFO pre-working capital to Debt metric. Correspondingly, these particular metric results reported by Moody's suggest that the projected revenue produced under the terms of the Settlement Agreement is providing for significantly more than what is needed to maintain the existing credit rating of A1 and can therefore be reasonably considered to be excessive.

The second noteworthy fact is Moody's observation that FPL's debt to capitalization ratio of 32.6 percent (as of March 31, 2021), puts it among the lowest leveraged utilities in the United States. This is compelling evidence, in addition to the evidence I provided in my direct testimony, that FPL's equity ratio is excessively high, resulting in FPL's customers paying more than necessary for safe and reliable service.

**Q. What would FPL's revenue requirements for 2022 and 2023 be if the values in the DEF and TEC settlements were used to set FPL's revenue requirements and rates in this docket?**

A. The tables below summarize the estimated revenue requirements if the ROE and financial equity ratios in the DEF and TEC settlements were applied.

*Table 2: 2022 Test Year Revenue Requirements with DEF & TEC Settlement Values*

| 2022 TEST YEAR REVENUE REQUIREMENT INCREASE ($000's) | REVENUE REQ'T INCREASE AS FILED JULY 14 2021 | REVENUE REQ'T INCREASE USING DEF SETTLEMENT ROE & EQUITY RATIO | REVENUE REQ'T INCREASE USING TEC SETTLEMENT ROE & EQUITY RATIO |
|---|---|---|---|
| Revenue Requirement | $ 1,074,933 | $ 214,815 | $ 286,852 |
| Delta | | $ (860,118) | $ (788,081) |

*Table 3: 2023 Subsequent Year Revenue Requirement with DEF and TEC Settlement Values*

| 2023 SUBSEQUENT YEAR REVENUE REQUIREMENT INCREASE ($000's) | REVENUE REQ'T INCREASE AS FILED JULY 14 2021 | REVENUE REQ'T INCREASE USING DEF SETTLEMENT ROE & EQUITY RATIO | REVENUE REQ'T INCREASE USING TEC SETTLEMENT ROE & EQUITY RATIO |
|---|---|---|---|
| Revenue Requirement | $ 605,390 | $ 550,923 | $ 555,154 |
| Delta | | $ (54,467) | $ (50,235) |

**Q. What would FPL's revenue requirements for 2022 and 2023 be if the average values reported by S&P Capital IQ Pro for other states were used?**

A. The tables below summarize the estimated revenue requirements if the average ROE and financial equity ratios from nationwide State decisions over the period January through August 2021 involving vertically integrated utilities were applied. Again, those values are a national average ROE of 9.47 percent and a national average financial equity ratio of 51.62 percent.

*Table 4: 2022 Test Year Revenue Requirement with State Decision values (Jan - Aug 2021)*

| 2022 TEST YEAR REVENUE REQUIREMENT INCREASE ($000's) | REVENUE REQ'T INCREASE AS FILED JULY 14 2021 | REVENUE REQ'T INCREASE USING STATE DECISIONS (JAN- AUG 2021) ROE & EQUITY RATIO |
|---|---|---|
| Revenue Requirement | $ 1,074,933 | $ 40,783 |
| Delta | | $ (1,034,150) |

*Table 5: 2023 Subsequent Year Revenue Requirement with State Decision Values (Jan - Aug 2021)*

| 2023 SUBSEQUENT YEAR REVENUE REQUIREMENT INCREASE ($000's) | REVENUE REQUIREMENT AS FILED JULY 14 2021 | REVENUE REQ'T INCREASE USING STATE DECISIONS (JAN- AUG 2021) ROE & EQUITY RATIO |
|---|---|---|
| Revenue Requirement | $ 605,390 | $ 539,648 |
| Delta | | $ (65,742) |

**Q. Do any of these recent examples affect your conclusions regarding the appropriate ROE and equity ratio for FPL?**

A. No. None of this new information changes my opinion that, based on current capital market conditions and FPL's risk profile, the fair and reasonable return for FPL is an ROE of 8.56 percent and the appropriate financial equity ratio for FPL is 55.40 percent. Further, this new information does not change my conclusions that, if the PSC were to set FPL's revenue requirements and rates for 2022 using my recommended ROE and equity ratio values, FPL could provide safe and reliable service, make all of its projected investments, and recover all of its reasonable and prudent costs, all while maintaining financial integrity.

Finally, my conclusion that setting FPL's revenue requirements and rates using my recommended ROE and equity ratio will be fair to FPL and to FPL's customers remains unchanged. As I testified then,

> This outcome would provide the necessary fair and symmetrical treatment between FPL and its customers under the guiding principles of utility rate regulation in the United States. FPL would, assuming efficient management, be able to recover its operating costs and debt service expenses, and to raise needed equity and debt capital to support its projected investments, which is what it effectively represents it needs to provide safe and reliable service, and still earn a fair, just, and reasonable rate of return. Moreover, my analyses rely on appropriately designed market-based data and analyses that satisfy the criteria set forth in *Hope* and *Bluefield* and protects both investors and customers alike.

**Q. What are the implications of implementing the proposed Settlement Agreement?**

A. In my expert view, and as discussed above, the revenue requirements and rates that would result from the ROE and equity ratio in the Settlement Agreement would provide FPL with far more than investors' required returns, as estimated using market-based data, and consequently: customers' rates would be higher than necessary, and FPL's earnings would also be higher than necessary for FPL to provide safe and reliable service and to make all necessary investments and recover all reasonable and prudent costs necessary for it to do so.

**Q. Does this conclude your supplemental direct testimony?**

A. Yes, it does.

**Florida Power & Light Company**
**Docket No. 20210015-EI**

**2022 TEST YEAR REVENUE REQUIREMENT ($000's)**

| LINE NO. | DESCRIPTION | REFERENCE | REVENUE REQUIREMENT AS FILED MARCH 12 2021 | REVENUE REQUIREMENT AS FILED JULY 14 2021 | REVENUE REQUIREMENT BTM ROE & EQUITY RECOMMENDATIONS | REVENUE REQUIREMENT DEF SETTLEMENT | REVENUE REQUIREMENT TEC SETTLEMENT | REVENUE REQUIREMENT STATE DECISIONS JAN- AUG 2021 |
|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | |
| 2 | RETURN ON EQUITY | | 11.50% | 11.50% | 8.56% | 9.85% | 9.95% | 9.47% |
| 3 | | | | | | | | |
| 4 | FINANCIAL EQUITY RATIO | | 59.60% | 59.60% | 55.40% | 53.00% | 54.00% | 51.62% |
| 5 | | | | | | | | |
| 6 | JURISDICTIONAL ADJUSTED RATE BASE | | 55,507,996 | 55,423,929 | 55,423,929 | 55,423,929 | 55,423,929 | 55,423,929 |
| 7 | | | | | | | | |
| 8 | RATE OF RETURN ON RATE BASE REQUESTED | | 6.84% | 6.84% | 5.19% | 5.68% | 5.78% | 5.45% |
| 9 | | | | | | | | |
| 10 | JURISDICTIONAL NET OPERATING INCOME REQUESTED | LINE 6 X LINE 8 | 3,797,722 | 3,791,907 | 2,876,610 | 3,150,712 | 3,204,413 | 3,020,975 |
| 11 | | | | | | | | |
| 12 | JURISDICTIONAL ADJUSTED NET OPERATING INCOME | | 2,971,470 | 2,990,573 | 2,990,573 | 2,990,573 | 2,990,573 | 2,990,573 |
| 13 | | | | | | | | |
| 14 | NET OPERATING INCOME DEFICIENCY (EXCESS) | LINE 10 - LINE 14 | 826,252 | 801,334 | (113,963) | 160,139 | 213,840 | 30,402 |
| 15 | | | | | | | | |
| 16 | EARNED RATE OF RETURN | LINE 12 / LINE 6 | 5.35% | 5.40% | 5.40% | 5.40% | 5.40% | 5.40% |
| 17 | | | | | | | | |
| 18 | NET OPERATING INCOME MULTIPLIER | | 1.34153 | 1.34143 | 1.34143 | 1.34143 | 1.34143 | 1.34143 |
| 19 | | | | | | | | |
| 20 | REVENUE REQUIREMENT | LINE 14 X LINE 18 | 1,108,442 | 1,074,933 | (152,873) | 214,815 | 286,852 | 40,783 |
| 21 | | | | | | | | |
| 22 | REVENUE REQUIREMENT DELTA TO AS FILED JULY 14 2021 | | | | (1,227,806) | (860,118) | (788,081) | (1,034,150) |

**2023 SUBSEQUENT YEAR REVENUE REQUIREMENT ($000's)**

| LINE NO. | DESCRIPTION | REFERENCE | REVENUE REQUIREMENT AS FILED MARCH 12 2021 | REVENUE REQUIREMENT AS FILED JULY 14 2021 | REVENUE REQUIREMENT BTM ROE & EQUITY RECOMMENDATIONS | REVENUE REQUIREMENT DEF SETTLEMENT | REVENUE REQUIREMENT TEC SETTLEMENT | REVENUE REQUIREMENT STATE DECISIONS JAN- AUG 2021 |
|---|---|---|---|---|---|---|---|---|
| 23 | | | | | | | | |
| 24 | RETURN ON EQUITY | | 11.50% | 11.50% | 8.56% | 9.85% | 9.95% | 9.47% |
| 25 | | | | | | | | |
| 26 | FINANCIAL EQUITY RATIO | | 59.60% | 59.60% | 55.40% | 53.00% | 54.00% | 51.62% |
| 27 | | | | | | | | |
| 28 | JURISDICTIONAL ADJUSTED RATE BASE | | 59,605,291 | 59,502,725 | 59,502,725 | 59,502,725 | 59,502,725 | 59,502,725 |
| 29 | | | | | | | | |
| 30 | RATE OF RETURN ON RATE BASE REQUESTED | | 6.93% | 6.93% | 5.28% | 5.78% | 5.87% | 5.54% |
| 31 | | | | | | | | |
| 32 | JURISDICTIONAL NET OPERATING INCOME REQUESTED | LINE 28 X LINE 30 | 4,131,069 | 4,124,000 | 3,138,991 | 3,437,749 | 3,494,978 | 3,298,706 |
| 33 | | | | | | | | |
| 34 | JURISDICTIONAL ADJUSTED NET OPERATING INCOME | | 2,847,065 | 2,865,776 | 2,865,776 | 2,865,776 | 2,865,776 | 2,865,776 |
| 35 | | | | | | | | |
| 36 | NET OPERATING INCOME DEFICIENCY (EXCESS) | LINE 32 - LINE 34 | 1,284,004 | 1,258,224 | 273,215 | 571,973 | 629,202 | 432,930 |
| 37 | | | | | | | | |
| 38 | EARNED RATE OF RETURN | LINE 34 / LINE 28 | 4.78% | 4.82% | 4.82% | 4.82% | 4.82% | 4.82% |
| 39 | | | | | | | | |
| 40 | NET OPERATING INCOME MULTIPLIER | | 1.34156 | 1.34135 | 1.34135 | 1.34135 | 1.34135 | 1.34135 |
| 41 | | | | | | | | |
| 42 | REVENUE REQUIREMENT | LINE 36 X LINE 40 | 1,722,568 | 1,687,719 | 366,477 | 767,216 | 843,980 | 580,711 |
| 43 | | | | | | | | |
| 44 | 2022 REVENUE REQUIREMENT | | 1,116,068 | 1,082,329 | (153,925) | 216,293 | 288,825 | 41,063 |
| 45 | | | | | | | | |
| 46 | RATE INCREASE REQUESTED (AFTER FULL 2022 RATE INCREASE) | | 606,500 | 605,390 | 520,402 | 550,923 | 555,154 | 539,648 |
| 47 | | | | | | | | |
| 48 | REVENUE REQUIREMENT DELTA TO AS FILED JULY 14 2021 | | | | (84,988) | (54,467) | (50,235) | (65,742) |

Notes
1/ Underlying data sourced from Exhibit LF-12 of FPL witness Fuentes's rebuttal testimony and also FPL's response to Staff's First Data Request, Request No. 1, filed on Aug. 12, 2021.
1/ Values may differ to that stated in Exhibit LF-12 due to rounding.

**Florida Power & Light Company**
**Docket No. 20210015-EI**

**2022 WACC USING DUKE ENERGY FLORIDA SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2022 TEST YEAR<br>CLASS OF CAPITAL | CAPITAL STRUCTURE AND COST RATES<br>JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 20,235,828 | 36.51% | 3.61% | 1.32% |
| 2 | SHORT_TERM_DEBT | 761,290 | 1.37% | 0.94% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 454,851 | 0.82% | 2.03% | 0.02% |
| 5 | COMMON_EQUITY [a] | 23,677,602 | 42.72% | 9.85% | 4.21% |
| 6 | DEFERRED_INCOME_TAX | 5,884,833 | 10.62% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,369,030 | 6.08% | 0.00% | 0.00% |
| 8 | INVESTMENT_TAX_CREDITS | 1,040,494 | 1.88% | 6.972% | 0.13% |
| 9 | | | | | |
| 10 | TOTAL | $55,423,928 | 100.00% | | 5.68% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $20,235,828 | 46.08% | 3.605% | 1.66% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 23,677,602 | 53.92% | 9.850% | 5.31% |
| 18 | TOTAL | $43,913,430 | 100.00% | | 6.97% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 17,391,478 | 38.93% |
| SHORT_TERM_DEBT | 654,283 | 1.46% |
| COMMON_EQUITY | 26,628,959 | 59.61% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO DEF SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 20,235,828 | 45.30% |
| SHORT_TERM_DEBT | 761,290 | 1.70% |
| COMMON_EQUITY | 23,677,602 | 53.0% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

**2022 WACC USING TAMPA ELECTRIC COMPANY SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2022 TEST YEAR<br>CLASS OF CAPITAL | JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 20,829,987 | 37.58% | 3.61% | 1.35% |
| 2 | SHORT_TERM_DEBT | 783,643 | 1.41% | 0.94% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 454,851 | 0.82% | 2.03% | 0.02% |
| 5 | COMMON_EQUITY [a] | 23,061,090 | 41.61% | 9.47% | 3.94% |
| 6 | DEFERRED_INCOME_TAX | 5,884,833 | 10.62% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,369,030 | 6.08% | 0.00% | 0.00% |
| 8 | WEIGHTED COST | 1,040,494 | 1.88% | 6.683% | 0.13% |
| 9 | | | | | |
| 10 | TOTAL | $55,423,928 | 100.00% | | 5.45% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $20,829,987 | 47.43% | 3.605% | 1.71% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 23,061,090 | 52.51% | 9.470% | 4.97% |
| 18 | TOTAL | $43,891,077 | 99.95% | | 6.68% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 17,391,478 | 38.93% |
| SHORT_TERM_DEBT | 654,283 | 1.46% |
| COMMON_EQUITY | 26,628,959 | 59.61% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO TECO SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 20,829,987 | 46.63% |
| SHORT_TERM_DEBT | 783,643 | 1.75% |
| COMMON_EQUITY | 23,061,090 | 51.6% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

**2022 WACC USING TAMPA ELECTRIC COMPANY SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2022 TEST YEAR<br>CLASS OF CAPITAL | CAPITAL STRUCTURE AND COST RATES<br>JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 19,805,279 | 35.73% | 3.61% | 1.29% |
| 2 | SHORT_TERM_DEBT | 745,092 | 1.34% | 0.94% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 454,851 | 0.82% | 2.03% | 0.02% |
| 5 | COMMON_EQUITY [a] | 24,124,349 | 43.53% | 9.95% | 4.33% |
| 6 | DEFERRED_INCOME_TAX | 5,884,833 | 10.62% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,369,030 | 6.08% | 0.00% | 0.00% |
| 8 | WEIGHTED COST | 1,040,494 | 1.88% | 7.092% | 0.13% |
| 9 | | | | | |
| 10 | TOTAL | $55,423,928 | 100.00% | | 5.78% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $19,805,279 | 45.10% | 3.605% | 1.63% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 24,124,349 | 54.94% | 9.950% | 5.47% |
| 18 | TOTAL | $43,929,628 | 100.04% | | 7.09% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 17,391,478 | 38.93% |
| SHORT_TERM_DEBT | 654,283 | 1.46% |
| COMMON_EQUITY | 26,628,959 | 59.61% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO TECO SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 19,805,279 | 44.33% |
| SHORT_TERM_DEBT | 745,092 | 1.67% |
| COMMON_EQUITY | 24,124,349 | 54.0% |
| TOTAL CAPITALIZATION | 44,674,720 | 100% |

**Florida Power & Light Company**
**Docket No. 20210015-EI**

**2023 WACC USING DUKE ENERGY FLORIDA SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2023 SUBSEQUENT YEAR<br>CLASS OF CAPITAL | CAPITAL STRUCTURE AND COST RATES<br>JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 21,762,571 | 36.57% | 3.77% | 1.38% |
| 2 | SHORT_TERM_DEBT | 872,785 | 1.47% | 0.97% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 490,182 | 0.82% | 2.04% | 0.02% |
| 5 | COMMON_EQUITY [a] | 25,524,975 | 42.90% | 9.85% | 4.23% |
| 6 | DEFERRED_INCOME_TAX | 6,253,783 | 10.51% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,398,407 | 5.71% | 0.00% | 0.00% |
| 8 | INVESTMENT_TAX_CREDITS | 1,200,022 | 2.02% | 7.052% | 0.14% |
| 9 | | | | | |
| 10 | TOTAL | $59,502,725 | 100.00% | | 5.78% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $21,762,571 | 46.02% | 3.770% | 1.74% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 25,524,975 | 53.98% | 9.850% | 5.32% |
| 18 | TOTAL | $47,287,546 | 100.00% | | 7.05% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 18,706,686 | 38.84% |
| SHORT_TERM_DEBT | 750,229 | 1.56% |
| COMMON_EQUITY | 28,703,416 | 59.60% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO DEF SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 21,762,571 | 45.19% |
| SHORT_TERM_DEBT | 872,785 | 1.81% |
| COMMON_EQUITY | 25,524,975 | 53.0% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

**2023 WACC USING TAMPA ELECTRIC COMPANY SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2023 SUBSEQUENT YEAR<br>CLASS OF CAPITAL | JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 22,401,557 | 37.65% | 3.77% | 1.42% |
| 2 | SHORT_TERM_DEBT | 898,411 | 1.51% | 0.97% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 490,182 | 0.82% | 2.04% | 0.02% |
| 5 | COMMON_EQUITY [a] | 24,860,363 | 41.78% | 9.47% | 3.96% |
| 6 | DEFERRED_INCOME_TAX | 6,253,783 | 10.51% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,398,407 | 5.71% | 0.00% | 0.00% |
| 8 | WEIGHTED COST | 1,200,022 | 2.02% | 6.765% | 0.14% |
| 9 | | | | | |
| 10 | TOTAL | $59,502,725 | 100.00% | | 5.54% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $22,401,557 | 47.37% | 3.770% | 1.79% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 24,860,363 | 52.57% | 9.470% | 4.98% |
| 18 | TOTAL | $47,261,920 | 99.95% | | 6.76% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 18,706,686 | 38.84% |
| SHORT_TERM_DEBT | 750,229 | 1.56% |
| COMMON_EQUITY | 28,703,416 | 59.60% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO TECO SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 22,401,557 | 46.51% |
| SHORT_TERM_DEBT | 898,411 | 1.87% |
| COMMON_EQUITY | 24,860,363 | 51.6% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

**2023 WACC USING TAMPA ELECTRIC COMPANY SETTLEMENT ROE AND FINANCIAL EQUITY RATIO ($000's)**

| LINE NO. | 2023 SUBSEQUENT YEAR<br>CLASS OF CAPITAL | CAPITAL STRUCTURE AND COST RATES<br>JURISDICTIONAL ADJUSTED | RATIO | COST RATES | WEIGHTED COST |
|---|---|---|---|---|---|
| 1 | LONG_TERM_DEBT | 21,299,537 | 35.80% | 3.77% | 1.35% |
| 2 | SHORT_TERM_DEBT | 854,215 | 1.44% | 0.97% | 0.01% |
| 3 | PREFERRED_STOCK | 0 | 0.00% | 0.00% | 0.00% |
| 4 | CUSTOMER_DEPOSITS | 490,182 | 0.82% | 2.04% | 0.02% |
| 5 | COMMON_EQUITY [a] | 26,006,579 | 43.71% | 9.95% | 4.35% |
| 6 | DEFERRED_INCOME_TAX | 6,253,783 | 10.51% | 0.00% | 0.00% |
| 7 | FAS 109 Def Tax | 3,398,407 | 5.71% | 0.00% | 0.00% |
| 8 | WEIGHTED COST | 1,200,022 | 2.02% | 7.170% | 0.14% |
| 9 | | | | | |
| 10 | TOTAL | $59,502,725 | 100.00% | | 5.87% |
| 11 | | | | | |
| 12 | | JURISDICTIONAL | | | WEIGHTED |
| 13 | ITC WEIGHTED COC | ADJUSTED | RATIO | COST RATES | COST |
| 14 | | | | | |
| 15 | LONG TERM DEBT | $21,299,537 | 45.04% | 3.770% | 1.70% |
| 16 | PREFERRED STOCK | 0 | 0.00% | 0.000% | 0.00% |
| 17 | COMMON EQUITY | 26,006,579 | 55.00% | 9.950% | 5.47% |
| 18 | TOTAL | $47,306,116 | 100.04% | | 7.17% |

| FINANCIAL CAPITAL STRUCTURE AS FILED JULY 14 2021 | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 18,706,686 | 38.84% |
| SHORT_TERM_DEBT | 750,229 | 1.56% |
| COMMON_EQUITY | 28,703,416 | 59.60% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

| FINANCIAL CAPITAL STRUCTURE CONVERTED TO TECO SETTLEMENT | JURISDICTIONAL ADJUSTED | PERCENTAGE OF TOTAL |
|---|---|---|
| LONG_TERM_DEBT | 21,299,537 | 44.23% |
| SHORT_TERM_DEBT | 854,215 | 1.77% |
| COMMON_EQUITY | 26,006,579 | 54.0% |
| TOTAL CAPITALIZATION | 48,160,331 | 100% |

S&P Capital IQ PRO

FINANCIAL FOCUS

# Utility valuations edge closer to S&P 500 in August as trading volatility cools

**Thursday, September 2, 2021 12:05 PM ET**

By Jason Lehmann
*Market Intelligence*

Positive momentum in U.S. energy and water utility equities that began at the start of the third quarter carried into August, as the S&P 500 Utilities index outperformed the broader S&P 500 for a second consecutive month, further narrowing valuations on a stock price to next-12-months earnings, or P/E, basis, between the indices.

The S&P 500 Utilities' 3.5% gain in August lifted the index's year-to-date gain to 8.7%, while the S&P 500 rose 2.9% to bring 2021's increase to approximately 20%. On a last-12-month basis, the S&P 500 is up approximately 29% versus the S&P 500 Utilities' 16% gain.

The water utility group, led by Middlesex Water Co., American Water Works Co. Inc. and California Water Service Group, has outperformed energy utility stocks thus far in 2021, rising 15.6% on average, though wide performance disparities exist within the relatively small group. Electric utility stocks have gained 11.4% on average in 2021, followed by gas utilities (+10.5%) and multi-utilities (+7.9%).

The forward P/E spread between the S&P 500 Utilities and the S&P 500 narrowed further in August, as calendar-2022 P/Es improved within the water and energy utility subsectors owing to share price appreciation with the exception of gas utility stocks.

## Utility stock price performance

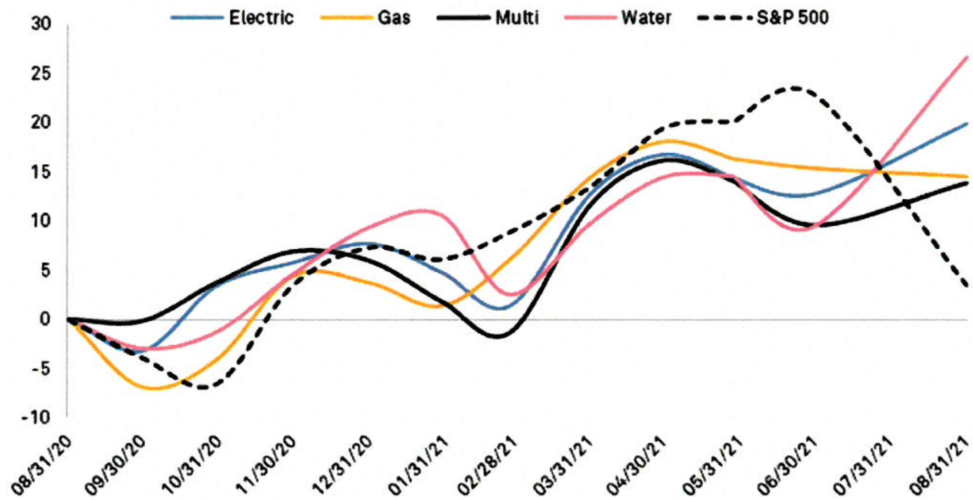
| | Change (%) | |
|---|---|---|
| **Top performers** | **Month** | **YTD** |
| Otter Tail Corp. | 8.0 | 28.8 |
| NextEra Energy Inc. | 7.8 | 8.9 |
| Middlesex Water | 7.5 | 51.0 |
| Entergy Corp. | 7.5 | 10.8 |
| American Water Works | 7.1 | 18.8 |
| The York Water Co. | 6.9 | 10.7 |
| Edison International | 6.1 | -7.9 |
| Eversource Energy | 5.2 | 4.9 |
| Portland General Electric Co. | 5.0 | 20.1 |
| Evergy Inc. | 5.0 | 23.3 |
| **Bottom performers** | | |
| Pinnacle West Capital Corp. | -8.0 | -3.8 |
| Spire Inc. | -6.0 | 4.2 |
| ALLETE Inc. | -4.1 | 8.8 |
| New Jersey Resources | -3.1 | 5.0 |
| ONE Gas Inc. | -2.7 | -6.4 |
| Avista Corp. | -2.3 | 4.3 |
| Northwest Natural Holding | -1.6 | 11.9 |
| CenterPoint Energy Inc. | -1.5 | 15.9 |
| South Jersey Industries | -1.4 | 15.1 |
| Atmos Energy Corp. | -1.1 | 2.2 |

Prices are through Aug. 31, 2021.
Source: S&P Global Market Intelligence

Electric utility 2022 P/Es rose 2.4% to 18.6x on average, led by NextEra Energy Inc., which was trading at nearly 31x the 2022 EPS through August. The NextEra shares saw their largest monthly gain year-to-date at approximately 8% while the S&P Capital IQ consensus EPS estimate for 2022 increased marginally to $2.74. The company's Florida Power & Light Co. subsidiary and intervenors in its pending electric rate case in Florida reached a settlement in early August, calling for the Florida Public Service Commission to authorize a combined $1.252 billion increase in rates in 2022 and 2023, and a healthy 10.6% ROE that is significantly above the 9.43% average of returns authorized for electric utilities in rate case decisions, including limited-issue riders issued in the first half of 2021.

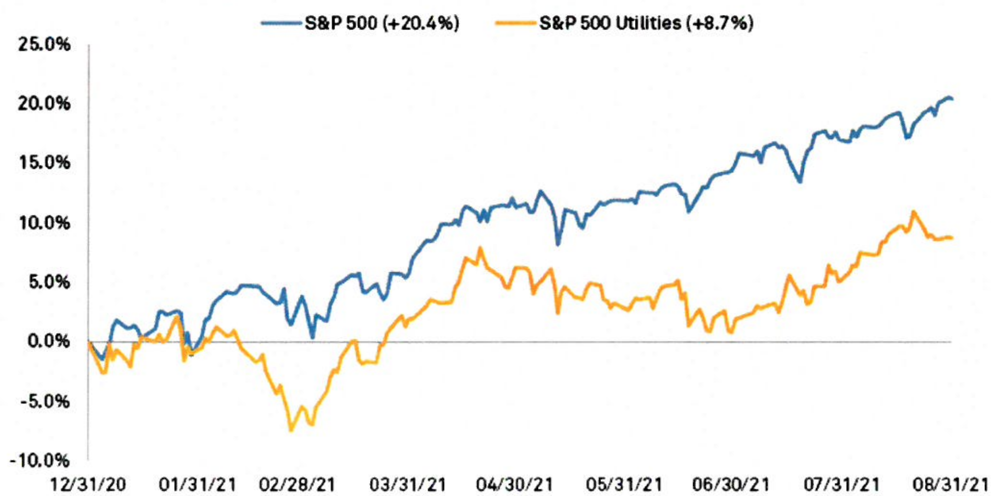
Otter Tail Corp.'s 2022 P/E declined approximately 5% in August to 17.5x, owing to a 13.4% increase to its S&P Capital IQ consensus EPS estimate to $3.13 from $2.76. Early in the month, management increased its 2022 EPS guidance to a range of $3.50 to $3.65 from $2.47 to $2.62 in light of second-quarter results and strong earnings expectations within the company's plastics segment.

## Utility monthly average share price change (%)




Prices are through Aug. 31, 2021.
Source: S&P Global Market Intelligence

## S&P 500 Utilities, broad index YTD performance (%)



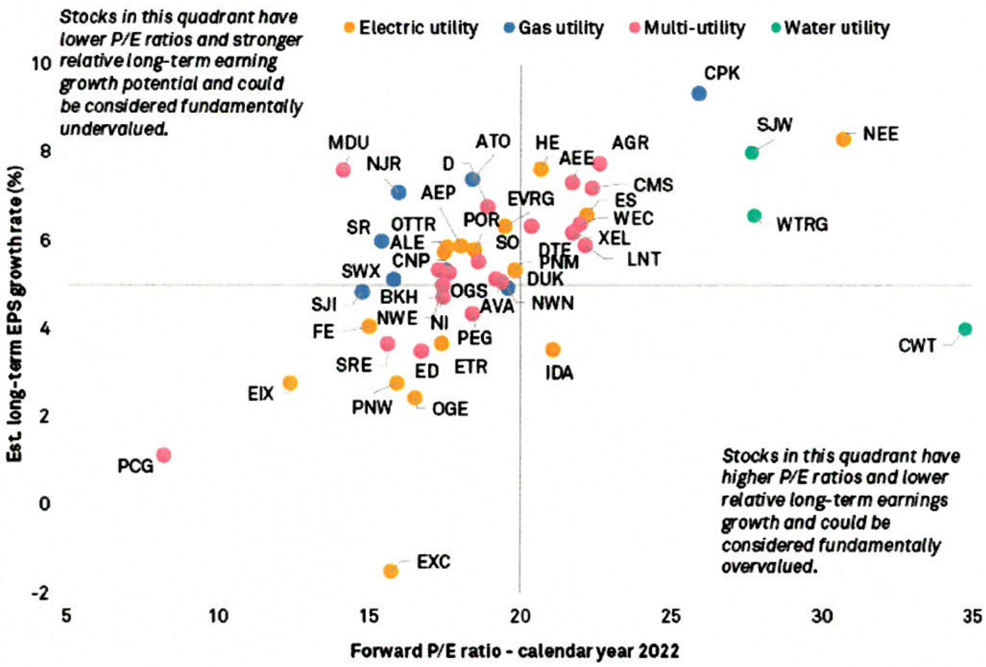

As of Aug. 31, 2021, close.
Source: S&P Global Market Intelligence

In the gas utility sector, Chesapeake Utilities Corp.'s P/E rose 2.5% in August to 25.9x estimated 2022 EPS — well above the gas utility group average of 17.1x — after the utility reported second-quarter EPS that surpassed S&P Capital IQ consensus estimates by 4.6% and maintained its capital expenditure and earnings growth outlook.

Multi-utility 2022 P/Es rose 2.3% on average in August to 18.9x; excluding outlier PG&E Corp. that saw its 2022 P/E increase 4.7% in August to 8.2x, the average multi-utility P/E stood at 19.5x at the end of the month. The PG&E shares have attracted significant interest in recent months, with most of the top 10 institutional investors in power holdings adding PG&E shares to their portfolios in the second quarter. For additional detail, see the Aug. 31 S&P Capital IQ Pro news article 7 of top 10 institutional firms in power sector boost holdings in PG&E Corp.

The quadrant chart below shows how the RRA utility universe appears when comparing the P/E ratio and the estimated long-term earnings growth rate. Energy utility 2022 P/E multiples have remained largely in the upper left quadrant, suggesting the names could be relatively undervalued considering their lower P/E values and long-term earnings growth potential. Water utilities including California Water, Essential Utilities Inc. and SJW Group continue to maintain outsized 2022 P/Es.

**Valuation quadrant: EPS growth forecast vs. forward P/E ratio**

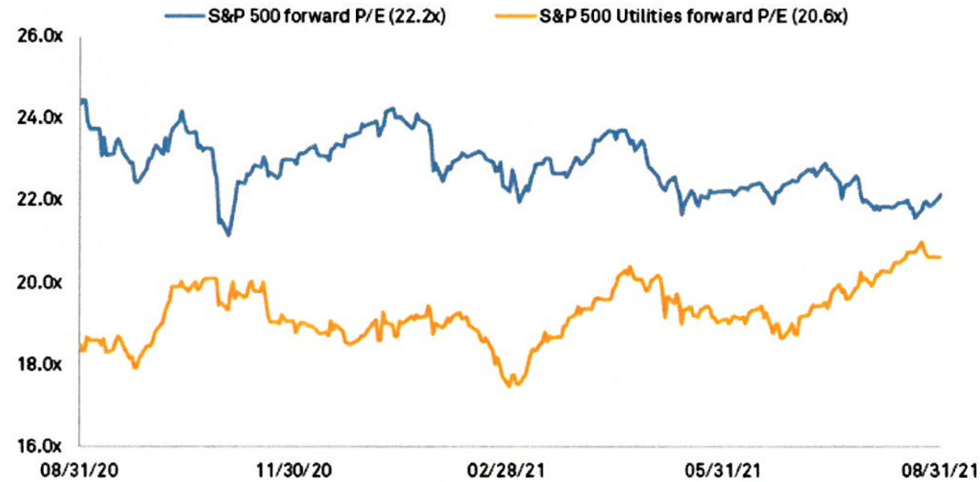



As of Aug. 31, 2021.
For the 12 months ended Dec. 31, 2022. P/E = price-to-earnings ratio
Source: S&P Global Market Intelligence

The S&P 500 Utilities index traded at about a 7% discount on a 2022 P/E basis to the S&P 500 as of Aug. 31, compared to approximately 9% at the end of July.

S&P Capital IQ PRO

## S&P 500 Utilities, broad index NTM P/E




As of Aug. 31, 2021, close.
NTM = next 12 months; P/E = stock price-to-estimated EPS ratio
Source: S&P Global Market Intelligence

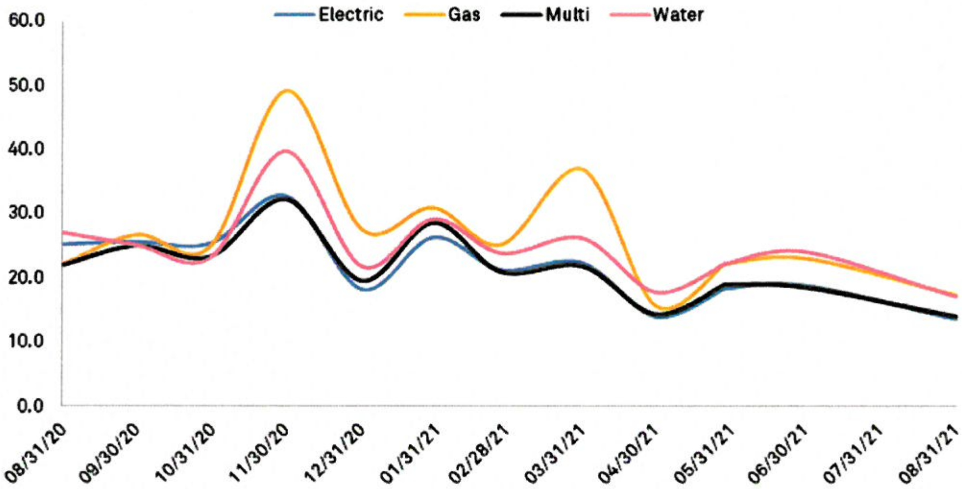
### Share price volatility

Smaller-cap companies generally have lower trading liquidity and therefore, all other things being equal, tend to have more significant share price swings than larger-cap equities. An analysis of the standard deviation of log-normalized daily price returns for utility stocks over the last year supports this thesis, with the generally smaller-cap gas and water utility sectors displaying the highest average price volatility.

Average price volatility in the overall energy and water utility group declined to about 15% in August from 20% in July, though sector-specific variances were apparent. Within the water utility sector, Middlesex Water saw the highest share price volatility at 23%, above the group average of 17%. The stock is up 51% year-to-date, following August's relative outperformance likely related to funds taking a position in the Middlesex shares. Share price volatility within the electric and multi-utility sectors cooled in August, declining to 13.6% and 14%, respectively.

**S&P Capital IQ** PRO

## Utility monthly share price volatility (%)




Prices are through Aug. 31, 2021.
Volatility is calculated as the annualized standard deviation of daily log-normal price returns over each month.
Source: S&P Global Market Intelligence

*Regulatory Research Associates is a group within S&P Global Market Intelligence.*

*For a complete, searchable listing of RRA's in-depth research and analysis, please go to the S&P Capital IQ Pro Energy Research Library.*

*This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.*

# NextEra Energy Settlement Highlights Constructive Florida Regulation; In Line With Expectations

**Andrew Bischof**

**Analyst Note** Aug 10, 2021

We are reaffirming our $75 per share fair value estimate, along with our narrow economic moat and stable moat trend ratings, after NextEra Energy reached a four-year rate settlement agreement with numerous key stakeholders in Florida. The agreement requires approval by the Florida Public Service Commission.

The company's Florida Power & Light, or FP&L, filed a four-year request for 2022-25 in a joint application with Gulf Power, which legally merged with FP&L this year. The company sought annual base rate increases of $1.1 billion in 2022 and $605 million in 2023 with an 11.5% allowed return on equity midpoint. The settlement agreement maintains the company's current 10.6% allowed return on equity midpoint, reducing the rate increases to $692 million in 2022 and $560 million in 2023. The agreement is in line with our forecast.

The settlement agreement, if approved by regulators, highlights not only the constructive regulatory environment in Florida, but the favorable treatment NextEra Energy continues to enjoy relative to peer utilities. Duke Energy Florida received a 9.85% midpoint allowed ROE and Emera's Tampa Electric received a 9.95% ROE in its recent settlement.

We believe NextEra enjoys best-in-class regulation through its management execution and continued ability to deliver operating efficiencies. NextEra parlayed this success into reducing costs and boosting investment at the recently acquired Gulf Power.

Residential bills should remain affordable, with the average customer bill increasing 2.5% annually through the rate case. Customer bills will be 20% below the national average. Customer affordability is a crucial consideration for regulators, further supporting likely regulatory approval of the settlement agreement.

We are currently experiencing technical issues. Kindly log-out and sign-in to access Portfolio Manager. We sincerely appreciate your patience while we investigate.



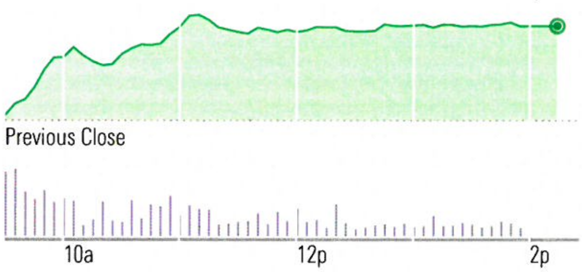
# NextEra Energy Inc NEE ★★

Rating as of Sep 7, 2021

Quote | Stock Analysis | News | Price vs Fair Value | Sustainability | Trailing Returns | Financials | Valuation | O

**Show Full Chart >**

$86.75 ↑ **1.75 | 2.06%**




USD | New York Stock Exchange |
Prices updated as of Sep 08, 2021, 2:14 PM EST |
BATS BZX Real-Time Price

Quote | Key Ratios | Short Interest

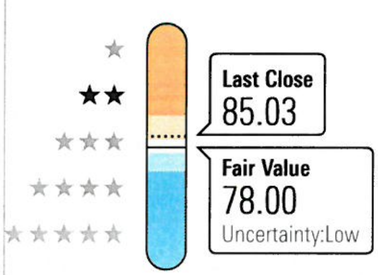
| **Bid/Size** | **Ask/Size** | **Day Range** | **Volume / Avg** |
|---|---|---|---|
| 86.71×2 | 86.72×6 | 84.79 – 86.97 | 3.3 Mil / 6.8 Mil |
| **Year Range** | **Forward Div Yield** | **Market Cap** | **Investment Style** |
| 66.79 – 87.69 | 1.81% | 170.1628 Bil | Large Core |
| **Price/Sales** | **Beta (5-Year)** | **Consensus Forward P/E** | **Price/Book** |
| 9.95 | 0.19 | 31.06 | 4.52 |

## Morningstar's Analysis

Summary | Competitors | Bulls Say/Bears Say

**Valuation** Sep 07, 2021
Currency in USD

NEE is at a 9% Premium.




# Increasing Our NextEra FVE on Increased Expectations for Renewable Energy Development

**Andrew Bischof**
Senior Equity Analyst

**Analyst Note** | by Andrew Bischof Updated Sep 07, 2021

We are increasing our NextEra Energy fair value estimate to $78 per share from $75 after updating our renewable energy outlook. Our

**1-Star Price**
> 97.50

**Economic Moat**
Narrow
Trend: Stable

**5-Star Price**
< 62.40

**Capital Allocation**
Exemplary

narrow economic moat and stable moat trend ratings are unchanged. Increasing our long-term growth expectations to align more closely with our updated forecast and incorporating time value appreciation since our last update led to the fair value estimate increase.

We now forecast clean energy, which includes solar, wind, geothermal, nuclear, and hydro, will be 65% of U.S. electricity generation by 2030, up from 40% today. This is higher than other forecasts but short of President Joe Biden's 100% goal by 2035. We expect utility-scale wind and solar to more than triple to 33% of total generation by the end of the decade. Solar will be the big winner during the next decade, eventually matching wind generatior
primary building blocks driving renev
demand, state renewable portfolio st
improving renewable economics.

Analyst Note
Business Strategy and Outlook
Economic Moat
Fair Value and Profit Drivers
Risk and Uncertainty
Capital Allocation
Close Full Analysis

No utility in the U.S. is better positior
renewable energy transition and the
energy focus than NextEra. Its histor
us confidence it can retain its positio
owner and developer in the U.S.

The company was an early adopter o
competitive advantage by securing some of the country's most desirable locations and locking in 20-year purchased power agreements with price-escalator clauses. Management plans to install 23-30 gigawatts of renewable energy over 2021-24 at its Energy Resources subsidiary, more than double its current renewable energy portfolio. In its current plans, the company is shifting its focus to solar. Nearly half of its planned renewable energy growth through 2024 will be solar, with the remaining a mix of wind and energy storage.

**Business Strategy and Outlook** | by Andrew Bischof Updated Sep 07, 2021

NextEra Energy's high-quality regulated utility in Florida and fast-growing renewable energy business give investors the best of both worlds: a secure dividend and industry-leading renewable energy growth potential.

NextEra's regulated utility, Florida Power & Light, benefits from constructive regulation that offers high allowed returns, little regulatory lag, and low customer rates. Florida's strong economy and population growth support our rate base growth forecast through 2025. FP&L's goal to build 10 gigawatts of solar will support nearly 40% of zero-emission generation by 2030.

FP&L is over 40% complete on its 30-by-30 plan to complete 30 million solar panels by 2030 in the state. Given the progress to date, we wouldn't be surprised if FP&L surpasses management's solar growth goal in the back half of the decade. Investors will earn an immediate return on those investments under automatic customer rate adjustments. Management aims to pair battery storage with its solar installations. Additional growth opportunities include storm hardening investments and transmission.

The company's recent settlement agreement supports our view that FP&L enjoys industry-leading constructive regulation. The four-year rate settlement for 2022-25 maintains the company's 10.6% allowed return on equity, among the highest of its regulated utilities peers. The allowed return is higher than Duke Energy Florida and Emera's Tampa Electric received in recent settlements. The agreement requires approval by the Florida Public Service Commission.

The highly contracted competitive energy business, NextEra Energy Resources, is well positioned to benefit from our renewable energy growth outlook. NextEra has proved to be a best-in-class renewable energy operator and developer.

Management's continued execution on its NEER development program leaves us confident that NextEra will deliver at the high end of its four-year, 23-30 GW development target range in 2021-24. Nearly half of its planned renewable energy growth through 2024 will be solar, with the remaining a mix of wind and energy storage.

**Economic Moat** | by Andrew Bischof Updated Sep 07, 2021

Considering NextEra Energy's full suite of businesses, we think the company has a narrow moat.

Service territory monopolies and efficient scale advantages are the primary sources of economic moat for regulated utilities such as NextEra Energy's regulated Florida utility, FP&L. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital it invests to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This is particularly true for FP&L. The company's below-average retail rates have garnered comparatively favorable treatment in the already-constructive Florida regulatory jurisdiction. FP&L enjoys above-average returns on equity (allowed range of 9.6%-11.6%), forward-looking rate adjustments, and automatic general base-rate adjustments for investments upon completion. The addition of Southern's Gulf Power, also in Florida, further enhances its narrow moat.

We also believe NextEra's renewable energy business has a sustainable competitive advantage. This segment has secured some of the country's most desirable wind and solar generation sites, locking in 20-year-plus purchase power agreements with escalator clauses protecting returns. Moreover, a large, diversified generation fleet gives this segment scale, cost, and flexibility advantages over smaller competitors.

**Fair Value and Profit Drivers** | by Andrew Bischof Updated Sep 07, 2021

We are increasing our fair value estimate to $78 per share from $75 after updating our renewable energy outlook. Increasing our long-term growth expectations to align more closely with our updated forecast and incorporating time value appreciation since our last update led to the fair value estimate increase.

Our near-term profit outlook accounts for forecast rate increases at FP&L and investments through 2025, additional wind and solar generation investments at NEER, normal weather, and continued strong demand and economic growth in Florida. We forecast management will top its 6%-8% 2021-23 earnings expectations. At FP&L, we assume an 11.5% long-term allowed return on equity.

We estimate the company will invest on average roughly $14 billion annually through 2025. We expect its regulated utilities will focus on new generation, existing generation maintenance, and transmission and distribution investments. We anticipate that NextEra will continue to pivot toward solar development after aggressively building our its wind portfolio the past two decades. We forecast NextEra will add wind, solar and battery storage at the top end of management's 2021-24 target range of 23-30 GW. Management has secured 16.7 GW of its plan.

In our discounted cash flow valuation, we use a 6.1% cost of capital based on a 7.5% cost of equity. This is lower than the 9% rate of return we expect investors will demand for a diversified equity portfolio, reflecting NextEra's lower sensitivity to the economic cycle and lower degree of operating leverage. We incorporate $4 per share of incremental value to better recognize the benefit accruing to NextEra from issuing debt at coupon rates far below our cost of debt.

**Risk and Uncertainty** | by Andrew Bischof Updated Sep 07, 2021

The primary uncertainty surrounding our fair value estimate is NextEra's ability to achieve timely, constructive regulatory rate adjustments, particularly given the company's investment plans during the next several year. Florida's history of constructive regulation mitigates this concern.

Much of the company's success hinges on the relationships it has built through years of low power prices and excellent customer service. Although regulatory relations in Florida are exceptional, it's always possible that regulators could reverse their stance and put at risk FP&L's ability to deploy capital at attractive rates of return.

NextEra is positioned well to manage its ESG risk compared with its utility peers. The company is the largest developer of renewable energy in the U.S. through its NextEra Energy Resources subsidiary. The company's pipeline of renewable energy projects is nearly 30 gigawatts over the next four years, aiding in the transition away from carbon emissions. At its regulated utilities, the company owns natural gas and nuclear generation. NextEra's Florida utility plans to invest aggressively to build out its solar portfolio in the state. This would reduce the utility's reliance on natural gas and nuclear generation, although both forms of generation will play a key role in grid reliability in the near term.

As with all regulated utilities, NextEra faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Volatile commodity power markets, weather, and reliance on government subsidies for renewable energy create some uncertainty around NextEra's long-term earnings strength at its renewable generation business. Over the past decade, renewable energy economics have improved significantly, reducing the risk that growth will depend on subsidies.

**Capital Allocation** | by Andrew Bischof Updated Sep 07, 2021

We assign NextEra Energy an Exemplary capital allocation rating, which reflects our assessment of NextEra's balance sheet strength, management's investment decisions, and plans to return capital to shareholders.

We expect the company to pay out roughly 60% of earnings over the next five years through the dividend, a level we view as appropriate, given the high-quality and relatively stable nature of NextEra's regulated Florida assets and highly contracted renewable energy portfolio. We expect the balance sheet to remain sound, with the company maintaining its balance sheet in line with its regulatory requirements, supported by low revenue cyclicality and operating leverage.

We expect the company's investment strategy to mainly focus on growing assets through regulated investments and adding to the company's merchant renewable energy portfolio, which we think is a reasonable approach. We think management could look externally for acquisitions, which we think is appropriate, given the company's strong equity currency and proven record of successfully integrating and creating value from prior acquisitions.

Management took early advantage of federal renewable energy tax credits, producing higher returns than pure regulated utilities. NextEra is the largest renewable energy developer, and management has positioned it well for the next phase of renewable energy growth in solar and battery storage.

NextEra's largest regulated utility, FP&L, consistently earns at or near the top end of its allowed returns. The utility has built strong regulatory relationships by keeping customer costs low, consistently driving efficiencies in the business, and consistently completing its investment projects on time and on budget.

Management has rewarded shareholders with a dividend that has averaged over 10% annual growth since 2011. We forecast 10% annualized dividend growth through 2025.

Management has significant internal growth opportunities but has also used its balance sheet to look for opportunistic acquisitions. Regulators rejected management's Oncor bid due to what we view as a flawed assessment of its unregulated renewable energy business. This was mostly out of management's control.

We think shareholders were better off when Hawaii regulators nixed management's attempt to buy Hawaiian Energy for what we considered too high of a price. However, the acquisition would have offered an opportunity to explore the benefits of solar and battery storage. We like management's acquisition of Southern's Gulf Power, which increases the company's regulated mix in highly constructive Florida. We believe management can achieve its aggressive cost-cutting and capital investment goals at the unit. Progress on these initiatives has been impressive.

CEO James Robo has held various leadership positions throughout the organization since joining in 2002. He has proved himself to be a strong leader, driving shareholder value and dividend growth. Before his experience at NextEra, Robo held multiple leadership positions at General Electric.

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## Company Profile

**Business Description**

NextEra Energy's regulated utility, Florida Power & Light, distributes power to roughly 5 million customers in Florida. Florida Power & Light contributes roughly 60% of the group's operating earnings. The renewable energy segment generates and sells power throughout the United States and Canada. Consolidated generation capacity totals more than 50 gigawatts and includes natural gas, nuclear, wind, and solar assets.

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**Sector**
Utilities

**Industry**
Utilities - Regulated Electric

**Most Recent Earnings**
Jun 30, 2021

**Fiscal Year End**
Dec 31, 2021

**Stock Type**
Slow Growth

**Employees**
14,900

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CREDIT OPINION
23 August 2021

Update

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RATINGS

**Florida Power & Light Company**

| | |
|---|---|
| Domicile | Juno Beach, Florida, United States |
| Long Term Rating | A1 |
| Type | LT Issuer Rating |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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# Florida Power & Light Company

## Update to credit analysis

## Summary

Florida Power and Light Company's (FPL) credit quality reflects its robust financial profile and the highly supportive Florida regulatory environment. FPL is the principal subsidiary of NextEra Energy, Inc. (NEE), one of the largest power and utility holding companies in North America. The utility's credit quality is important to NEE's consolidated credit quality. FPL, including Gulf Power Company, is the largest vertically integrated regulated utility in Florida, with approximately 31,200 megawatts (MW) of generating capacity and over 5.6 million customer accounts.

The Florida regulatory framework includes timely cost recovery mechanisms that enable FPL to generate predictable and stable cash flow and consistently maintain strong financial metrics. Its large, mainly residential service territory benefits from solid economic expansion that leads to organic sales growth and continued infrastructure investments. To meet the needs of customer and load growth and ensure service reliability and resiliency, FPL continues to make substantial capital investments in its rate base, which provides steady earnings and cash flow growth potential. FPL finances these investments in a manner that maintains the utility's regulated capital structure, including an approximate 60% equity ratio.

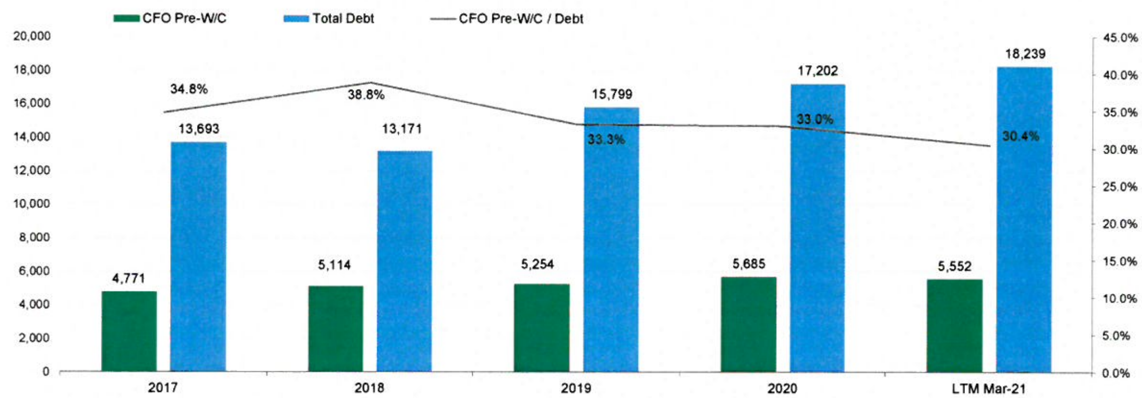
FPL's credit profile considers its geographic concentration risk, as it operates solely in one state that is exposed to extreme weather events such as hurricanes and tropical storms. As we expect extreme weather events to be more severe and more frequent with climate change, credit supportive regulation remains critical going forward. At the same time, FPL's credit is also constrained by high levels of holding company debt at its parent, NEE, which is a key driver of the three notch differential in ratings between the parent and subsidiary.

### Recent developments

On 12 March 2021, FPL, along with Gulf Power, filed a joint rate case application with the FPSC that proposed a four-year rate plan that would effectively merge the retail rates of both utilities beginning in January 2022. Subsequently, on 10 August 2021, FPL and key intervenors filed a settlement with the FPSC which reflects the merged retail rates and provides for increased base annual revenue requirements of $692 million in 2022 ($408 million below what had been requested), $560 million in 2023 ($47 million below the requested amount), and $140 million in 2024 and 2025 (as had been requested). FPL expects an FPSC decision on this settlement later this year.

On 1 January 2021, Gulf Power legally merged into FPL after the Federal Energy Regulatory Commission (FERC) approved their merger application on 15 October 2020. With the completed merger, Gulf Power no longer exists as a separate organization and FPL continues as the surviving entity. FPL assumed all of Gulf Power's short and long-term debt obligations, liabilities and physical assets.

Exhibit 1
**Historical CFO Pre-WC, Total Debt and ratio of CFO Pre-W/C to Debt ($ MM)**




*Source: Moody's Financial Metrics*

## Credit strengths

» Consistent and credit supportive regulatory environment, with new rate case settlement pending

» Regulatory mechanisms provide timely recovery of prudent costs and investments

» Very strong financial profile with stable credit metrics

» Large residential customer base enhances stability of revenues and cash flow even during pandemic

» Solid customer and load growth provides for rate base investment opportunities and further revenue and cash flow growth potential

## Credit challenges

» Capex program, including natural gas-fired generation upgrades, grid hardening, and renewables investments, remains elevated, requiring sizeable debt financing

» High levels of parent debt constrain the rating

» Geographic concentration in a state that is prone to extreme weather event risk from tropical storms and hurricanes

» From time to time can be subject to potential pressures from Florida's political environment

## Rating outlook

FPL's stable outlook reflects our expectation that the Florida regulatory framework will remain highly credit supportive, including a multiyear settlement of the current rate case pending, prescriptive base rate adjustments for investments in solar generating capacity, the ability to petition for storm cost recovery outside of a base rate case, and the ability to recover storm hardening investments via a rider mechanism. The stable outlook incorporates an outcome of FPL's pending rate case that will support the company's current credit quality, such that FPL will be able to maintain strong financial metrics, including a ratio of CFO pre-W/C to debt of around 30%.

## Factors that could lead to an upgrade

While FPL exhibits strong credit metrics, its rating is constrained by its geographic concentration in a state that is prone to event risk from hurricanes and tropical storms as well as its parent's high level of holding company debt, which is the key driver in the relatively wide rating differential between the two entities. Over the longer term, FPL could be upgraded in conjunction with an upgrade of NEE, and if NEE's level of holding company debt declines substantially as a percentage of its consolidated debt.

## Factors that could lead to a downgrade

A downgrade of FPL's rating could be considered if there is an adverse outcome of its pending rate case; if there are significant cost disallowances, delays or other changes that would weaken Florida's credit supportive regulatory and cost recovery framework; if the political environment were to become contentious; or if there is a sustained decline in key credit metrics, such that its ratio of CFO pre-W/C to debt declines below 25%, or there is an increase in debt to capitalization above the 40% range, for an extended period. A downgrade of NEE could also result in a downgrade of FPL, due to the utility's affiliation with a weaker parent.

## Key indicators

Exhibit 2
**Florida Power & Light Company [1]**

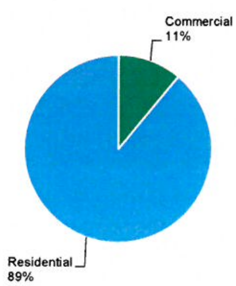
| | Dec-17 | Dec-18 | Dec-19 | Dec-20 | LTM Mar-21 |
|---|---|---|---|---|---|
| CFO Pre-W/C + Interest / Interest | 10.9x | 10.5x | 9.8x | 10.5x | 10.4x |
| CFO Pre-W/C / Debt | 34.8% | 38.8% | 33.3% | 33.0% | 30.4% |
| CFO Pre-W/C – Dividends / Debt | 24.3% | 35.0% | 19.3% | 20.2% | 18.3% |
| Debt / Capitalization | 38.4% | 33.6% | 37.2% | 36.8% | 32.6% |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
*Source: Moody's Financial Metrics*

## Profile

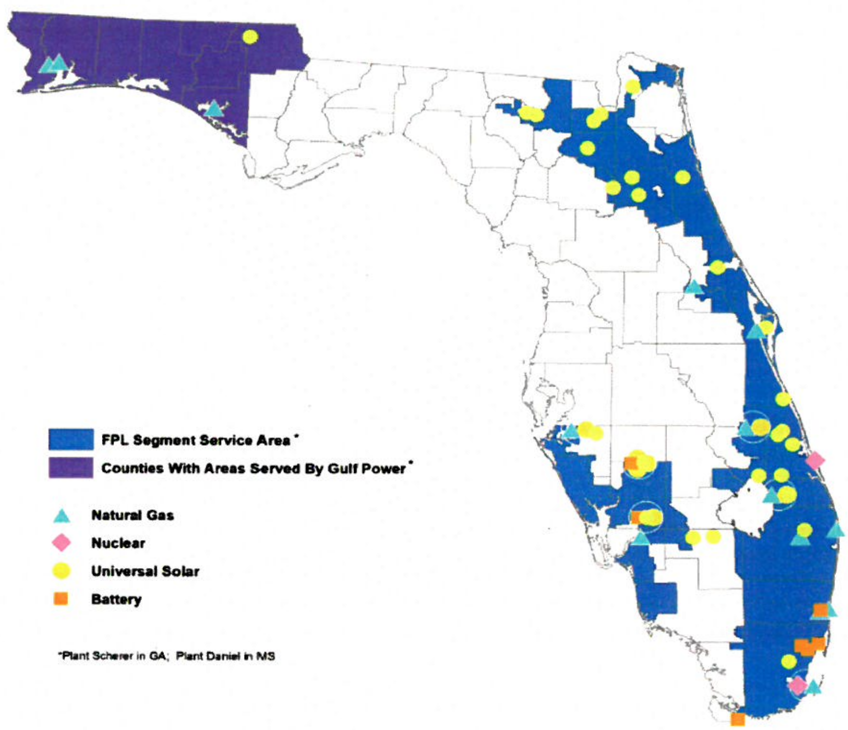
Headquartered in Juno Beach, FL, Florida Power & Light Company is one of the largest regulated electric utilities in the US and the principal subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest power and utility holding companies globally. FPL serves 5.6 million customer accounts or more than 11 million residents across more than half of the state of Florida and has about 31.2 gigawatts (GW) of generation capacity. FPL accounts for about 70% of NEE's consolidated EBITDA and ended 2020 with about $61.6 billion of assets. Before Gulf Power was legally merged into FPL on 1 January 2021, NEE acquired Gulf Power from The Southern Company (Southern, Baa2 stable) in January 2019 for approximately $5.75 billion, which included $4.35 billion in cash plus the assumption of approximately $1.4 billion of debt.

Exhibit 3
**FPL's customer account mix**




As of 31 December 2020
*Source: Company Filing*

Exhibit 4
**FPL's service territory including Gulf Power**




*Source: Company Presentations*

## Detailed credit considerations

### Historically consistent regulatory decisions provide an environment highly supportive of credit quality with new rate case settlement pending

The regulatory environment for investor-owned utilities in Florida remains highly credit supportive. In previous proceedings, FPL has been able to achieve multiyear rate settlements which have provided a high degree of rate certainty and have supported the company's credit quality. Provisions have included timely recovery of rate base investments, including generation as well as grid hardening to combat extreme weather events, and have addressed the impacts of federal tax reform and storm restoration costs.

On 12 March 2021, FPL, along with Gulf Power, filed a joint rate case application with the FPSC. The filing proposed a four-year rate plan that would effectively merge the retail rates of both utilities beginning in January 2022. The proposed rate plan requested a $1.1 billion increase in base annual revenue requirements effective January 2022, and a subsequent $607 million increase in January 2023. The filing requested the use of a Solar Base Rate Adjustment (SoBRA) mechanism to increase base rates for the addition of up to 894 MW of solar projects in 2024 and 894 MW in 2025. The base rate adjustments in 2024 and 2025 would be approximately $140 million each year if the full amount of new solar capacity allowed under the proposed SoBRA mechanism is constructed. The rate case filing also included FPL's current cost recovery mechanisms including the continuation of its storm cost recovery mechanism and reserve amortization mechanism from its previous 2016 rate settlement.

On 10 August 2021, FPL and key intervenors in the rate proceeding, including the State of Florida Office of Public Counsel, the Florida Retail Federation, the Florida Industrial Power Users Group and the Southern Alliance for Clean Energy, filed a settlement with the FPSC. The settlement proposes to merge the retail rates of FPL and Gulf Power, with base annual revenue requirements increasing by

$692 million in 2022, $560 million in 2023, and $140 million in 2024 and 2025. The $140 million base rate adjustments in 2024 and 2025 correspond to the full amount of new solar capacity allowed to be constructed each year (up to 894 MW in 2024 and 894 MW in 2025) under the proposed SoBRA mechanism. The settlement also includes a midpoint ROE of 10.6% with an authorized range of 9.7% to 11.7%, which could increase in the event of a sustained material increase in the 30-year treasury rate, and the continuation of its storm recovery mechanism. FPL will be able to adjust the rate agreement if corporate income tax changes are implemented during the term of the settlement. FPL expects an FPSC decision on the settlement later this year.

While Gulf Power ceased being a distinct corporate entity at the time of the merger, the company will continue to provide service to customers in its service territory in northwest Florida under the pre-existing Gulf Power brand during 2021, as a separate operating division with separate retail and wholesale rates. Beginning in 2022, once the new combined retail rates go into effect as proposed in the joint rate case filing, Gulf Power's customers would be served by a consolidated FPL. Over the long term, we expect Gulf Power's customer rates will benefit from being a part of the much larger combined entity that has a large customer base, greater scale and from improved operational, regulatory and administrative efficiencies.

FPL's last rate case order was in November 2016, which approved an agreed upon settlement with key parties, and demonstrated Florida's historically stable and credit supportive regulatory environment. The settlement, based on a forward test year, became effective on 1 January 2017 and provided revenue visibility over its four-year term (a total of $811 million in rate increases) through 2020; extended later through 2021. The rate order included an authorized ROE range of 9.6% to 11.6% with a midpoint of 10.55% based on an equity ratio that FPL has consistently maintained at about 60%. The company has been able to achieve earned ROE's towards the upper end of its authorized ROE range through strong customer and sales growth as well as continued improvements in operating efficiency.

FPL earns most of its net income through its base rates but the various clauses provide for adequate and timely cost recovery and returns on certain other investments. The company has experienced very little in disallowances and regulatory lag in cost recovery. For example, its fuel and capacity clauses are adjusted annually based on expected fuel and purchased power prices and for prior period differences between projected and actual costs. FPL may also recover pre-construction costs and carrying charges for construction work-in-progress for nuclear capital expenditures. Additionally, FPL has an environmental cost recovery clause that is adjusted annually for capital spending and operating expenses related to emission controls.

The 2016 rate settlement retained the cost recovery mechanisms that have allowed FPL to produce consistently strong credit metrics. An example includes storm cost recovery provisions, which are important in Florida where hurricanes are prevalent. A SoBRA mechanism was included in the settlement order, which provides FPL the ability to increase base rates on a timely basis without a rate case for the addition of new solar generation assets. The SoBRA mechanism is similar to the Generation Base Rate Adjustment which allows for gas plant modernization projects to be reflected in rates once completed and in-service.

Changes to the US tax law in December 2017 did not have a material impact on FPL's financial metrics. FPL used the federal tax savings arising from tax reform to replenish the depreciation surplus reserve, which was used to offset approximately $1.3 billion of storm restoration costs resulting from Hurricane Irma in September 2017. FPL's last rate case settlement agreement set parameters for base rates and storm surcharges from January 2017 through at least December 2020. In addition to avoiding a Hurricane Irma surcharge, in May 2019, the FPSC allowed FPL to use future federal tax savings to replenish its reserve amortization account, which was depleted from Hurricane Irma storm costs. The FPSC also allowed FPL to keep the excess tax reform savings once the reserve account was replenished as long as the utility did not earn above its upper end of the range of 11.6% on its allowed ROE. Because of this decision, FPL filed its current general rate application one year later than it originally intended.

### Strong financial profile expected to remain stable, pending outcome of current rate case

FPL has a strong financial profile that supports its credit quality. The company's financial metrics are among the strongest in the US regulated utilities sector because of increasing rate base growth opportunities, a well capitalized capital structure with a targeted equity ratio of about 60% and the company's ability to earn above average returns with operating cost efficiency and timely cost recovery. For the three-year period ending 31 March 2021, FPL's cash flow interest coverage ratio and ratio of CFO pre-W/C to debt have averaged 10.1x and 34.1%, respectively. Pending the outcome of FPL's pending rate case settlement, which we expect will be ultimately finalized in a credit supportive and consistent manner as with previous FPSC rate case orders, we expect FPL's financial profile to remain stable including a cash flow interest coverage ratio of about 10x and a ratio of CFO pre-W/C to debt of about 30%.

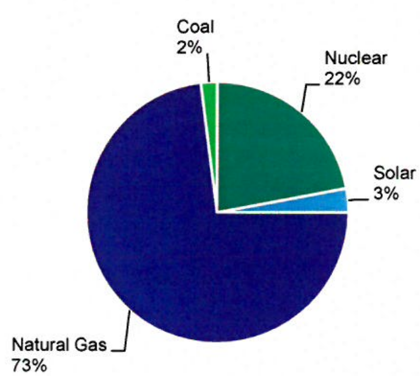
The company's debt to capitalization ratio was 32.6% at 31 March 2021, putting it among the lowest leveraged utilities in the US. At the same time, the company's pension plan is fully funded, which is not the norm for the largest utilities in the industry. FPL receives capital contributions from and distributes dividends to NEE on an as needed basis, maintaining its reported equity ratio at about 60%, which is consistent with historical levels and its last approved capital structure. We expect the utility to continue to finance its capital expenditure program with a mix of long-term debt and capital contributions from the parent, which helps limit the amount of additional leverage incurred and maintain its debt to capitalization ratio in the mid-30% range on a Moody's adjusted basis, which includes deferred income taxes.

For the 12-months ended 31 March 2021, it is worth noting the sizeable difference between FPL's ratio of CFO pre-W/C to debt of 30.4% and its ratio of retained cash flow (cash flow pre-W/C less dividends) to debt of 18.3%. This is mainly due to FPL's dividend distributions up to its parent. However, not considered in the ratio of retained cash flow to debt are capital contributions received by FPL from NEE, which serve to counterbalance FPL's dividend distributions to NEE; importantly, the sole function of all such activity is to maintain FPL's capital structure at the targeted, regulatorily approved level on an ongoing basis. When netting parent equity contributions received of $1.3 billion for the 12-months ended 31 March 2021 against dividend distributions of $2.2 billion, FPL's ratio of RCF to debt would have been roughly 26%.

### Capital expenditure program remains elevated primarily due to T&D resiliency investments as well as natural gas and solar generation

FPL is investing heavily to modernize its predominantly gas fired generation portfolio, a strategy meant to maintain low customer rates and effectively manage the utility's carbon transition risk. Historically, FPL incorporated a strategy of buying coal plants and replacing them with cleaner generation. FPL eliminated its last remaining Florida coal plant (Indiantown) in December 2020. The utility's minimal remaining coal exposure includes ownership of approximately 75% of Unit 4 (634 MW) at the Scherer coal facility in Georgia, expected to be retired by January 2022; as well as Gulf Power's 25% share of Scherer Unit 3 (215 MW); and 50% ownership of the Daniel coal plant in Mississippi (500 MW), expected to be retired by January 2024. The approximate 965 MW Gulf Clean Energy Center (formerly Plant Crist) in Florida was converted to a gas-fired facility in 2020. Additionally, FPL plans to continue to increase the fuel efficiency of its natural gas power plants through increased investments while also investing heavily in solar generation. In 2020, the majority of FPL's energy was generated from natural gas (73%), with the remainder coming from nuclear (22%), coal (2%), and solar (3%).

Exhibit 5
**FPL Generation fuel mix by MWh**

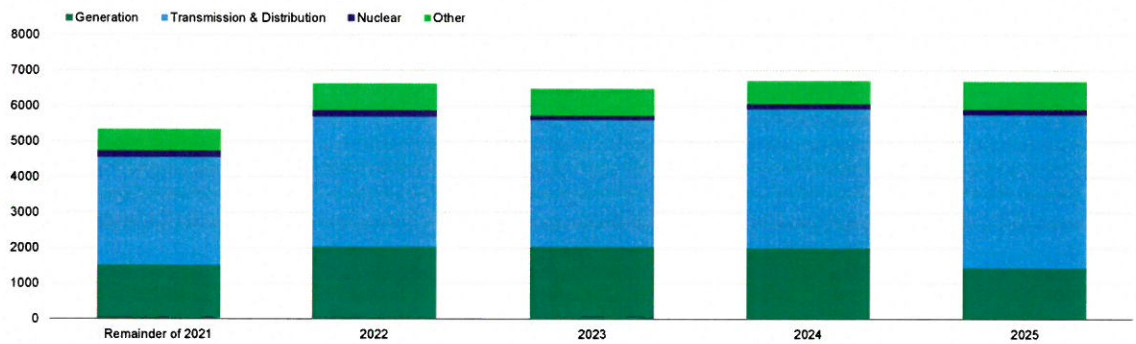



As of December 31, 2020
*Source: Company Filling*

In addition to modernizing its natural gas generation assets, FPL continues to incorporate cost effective renewables into its generation portfolio. As of 31 March 2021, approximately 8% of FPL's (combined with Gulf Power) approximately 31,200 MW of generation capacity was solar. FPL is projecting to have over 11,700 MW of installed solar power capacity by 2030, which equates to adding roughly 1,000 MW of solar per year. In its 2016 rate case settlement, FPL was allowed timely recovery of up to 300 MW annually of new solar generation from 2017 through 2020 through the SoBRA recovery mechanism. In FPL's pending rate case settlement filing, the company is requesting FPSC approval to recover up to 894 MW of solar projects in 2024 and 894 MW in 2025 through the SoBRA mechanism.

FPL expects to invest approximately $33.4 billion of new capital from 2021 - 2025. About two-thirds of the $6-$7 billion of capex that FPL plans to spend annually over the next few years will be used towards updating its transmission and distribution network including grid hardening and reliability investments. About 15% of the projected spending is earmarked towards modernizing its existing generation portfolio by increasing its cleaner, more fuel-efficient power generation. About 15% of the investments will go towards new generation capacity which will include natural gas as well as solar power.

Exhibit 6
**FPL's elevated capital expenditures will continue to grow rate base and cash flow**
**($ millions)**




*Source: Company Filings*

Furthermore, FPL is the principal offtaker of two pipelines that became operational in June 2017: Sabal Trail (42.5% owned by NEE, 50% by Spectra Energy, 7.5% by Duke Energy) and Florida Southeast Connection (100% owned by NEE). These pipelines have helped secure additional gas supply needed by FPL.

### Credit support from Florida's regulatory framework during severe storms is critical to credit quality of geographically concentrated utility

FPL's service territory is solely in the state of Florida, primarily along the coast and panhandle, which means the utility is vulnerable to severe storm related event risk. Since utilities in Florida are vulnerable to storm and hurricane activity, regulatory treatment to address costs related to extreme weather events has also been an important factor supporting FPL's credit quality during storm affected years. The company can and has petitioned for recovery of storm damage costs in excess of its storm reserve that would be collected through a storm surcharge. Securitization legislation for the recovery of storm-related costs is also in place in Florida, if necessary.

In June 2019, the governor of Florida signed into law Senate Bill 796, which requires investor-owned utilities (IOUs) to submit storm protection plans to the FPSC that detail how the IOUs will harden their grids and make them more resilient during extreme weather events like hurricanes. The law is credit positive for the state's utilities because it allows them to grow rate base through increased investments and obtain timely recovery of these investments, all in an effort to ensure customer reliability.

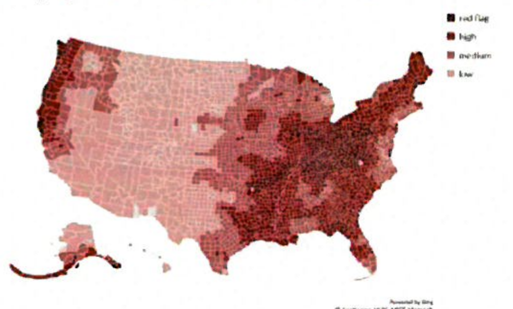
In October 2019, the FPSC issued a rule to implement a Storm Protection Plan (SPP) Cost Recovery Clause. This new mechanism allows for recovery of new transmission and distribution storm hardening investments not already included in base rates. This is a sign that

Florida regulators support proactive management of physical risks arising from climate change, which is expected to cause storms to be more frequent and more powerful over the long term.

In April 2020, FPL submitted its storm protection plan proposing to spend about $10.2 billion to upgrade its grid infrastructure from 2020-2029, which included about $5.1 billion for undergrounding power lines. FPL expects to spend approximately $3-4 billion in transmission and distribution storm hardening investments from 2020-2022 and obtain timely recovery through the SPP recovery mechanism.

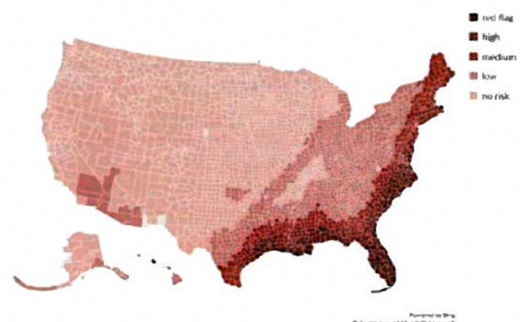
FPL's service territory is among the few areas nationwide that continues to exhibit customer and load growth, benefiting from migration into the state that has increased the number of FPL's retail customers (average number of customer accounts up 1.5% in 2020). Growth in the service territory has also necessitated additional investments in the utility's infrastructure to maintain safety and reliability, and on which FPL will earn a return. In addition, as mentioned above, Florida enacted legislation requiring utilities in the state to submit storm protection plans in an effort to harden their grids and make them more resilient during extreme weather events (see Regulated electric utilities – US:New Florida law requiring storm-hardening measures is credit positive for utilities).

Exhibit 7
**Relative projected extreme rainfall and flood stress**




This metric is a combination of 3 projected components (wet days, very wet days, rainfall intensity) with annual changes from 2030-2040 vs. 1975-2005 + 2 historical components (flood frequency and flood severity, on return inundation basis).
*Source: 427 (data sourced from CMIP5 models and Fathom)*

Exhibit 8
**Hurricane risk (historical data)**




The indicator reflects the cumulative wind velocity from recorded cyclones over the period 1980-2016
*Source: 427 (data sourced from IBTrACS version 3)*

### Holding company leverage remains elevated and constrains credit profile

We estimate NEE's holdco debt as a percentage of consolidated debt to be currently about 53%, including the proportional consolidation of its ownership in NEP. However, when allocating some parent debt to certain unlevered assets, NEE's holdco debt percentage would be roughly 49% of consolidated debt. NEE's holding company debt is one of the highest within the regulated utility sector, and is a constraint on the credit quality of the entire corporate family. This holding company debt also includes about $6 billion of debentures related to equity units issued in September 2019, February 2020, and September 2020. These securities cause equity to be issued in three years and the proceeds have historically been used to reduce holding company debt. When taking a forward looking view on the conversion of these equity units and assuming the company pays off debt with the proceeds as it has done historically with previous equity units, NEE's holdco debt would fall to approximately 41% of consolidated debt. We expect NEE's percentage of holding company debt to gradually decline over time.

## ESG considerations

FPL has moderate carbon transition risk within the regulated utility sector because it has substantial ownership of natural gas-fired generation, although it has minimal coal exposure. NEE is also in the early stages of exploring hydrogen technology that can be deployed at FPL to eventually facilitate a carbon emissions-free future. NEE is proposing a hydrogen pilot project at one of FPL's gas-fired generation plants, subject to FPSC approval, that is expected to be in service in 2023. There are no renewable portfolio standards in Florida and the state's political and regulatory environment is not requiring an increase in renewables to the same degree as in other states. However, as mentioned above, the company plans to materially increase its solar generation over the next decade. Like other utilities along the coasts of Florida, FPL is vulnerable to storm related event risk as discussed above.

Social risks are primarily related to demographic and societal trends, health and safety, customer and regulatory relations particularly around reliability of company services and supply as well as business reputation. FPL continues to work towards ensuring safe, reliable and affordable electricity service to its customers through grid hardening investments and improving its generation portfolio mix to lower cost natural gas and renewable energy sources.

From a governance perspective, financial and risk management policies including a strong financial profile are important characteristics for managing environmental and social risks, particularly amid the group's elevated capital expenditure program. We view the governance of FPL as strong and consistent with NEE's overall governance assessment.

## Liquidity analysis

FPL maintains ample liquidity through stable and strong cash flow generation and through access to external liquidity sources. As of 31 March 2021, FPL had net available liquidity of about $3.8 billion, which included $44 million of cash on hand. The company has access to $4.6 billion of revolving bank credit facilities that also backstop its commercial paper (CP) program under which $818 million was outstanding. The credit facilities also support about $1,375 million of variable rate pollution control revenue bonds in the event the bonds are put back to the company and not remarketed.

Owing to its solid credit profile, FPL maintains strong access to the capital markets, which typically allows the utility to easily refinance its debt maturities. Commitments under the core revolver are laddered, with the vast majority terminating in 2026. FPL's credit facilities do not contain a material adverse change clause that could prevent new borrowings and the company was in compliance with the debt-to-capitalization financial covenant contained in these agreements as of 31 March 2021, which it does not disclose.

For the 12-months ended 31 March 2021, FPL generated about $5.4 billion of cash flow from operations, had approximately $6.5 billion in capital expenditures, and made distributions of $2.2 billion to NEE. The shortfall in funding cash outflows through internally generated cash flow was supplemented with short-term borrowings, long-term debt issuances and capital contributions from its parent of $1.3 billion. Going forward, we expect the company will use short and long-term debt borrowings, as well as parent capital contributions, to supplement internal cash flow generation to finance its elevated capital investment program and dividend distributions. We expect any financings will be done in a balanced manner that will maintain its regulated capital structure of about 60% equity. FPL's next debt maturities include a $300 million term loan due in September 2021 and a $200 million term loan due in December 2021.

## Rating methodology and scorecard factors

Exhibit 9
**Methodology Scorecard Factors**
**Florida Power & Light Company**

| Regulated Electric and Gas Utilities Industry Scorecard [1][2] | Current LTM 3/31/2021 | | Moody's 12-18 Month Forward View As of Date Published [3] | |
|---|---|---|---|---|
| **Factor 1 : Regulatory Framework (25%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Legislative and Judicial Underpinnings of the Regulatory Framework | A | A | A | A |
| b) Consistency and Predictability of Regulation | Aa | Aa | Aa | Aa |
| **Factor 2 : Ability to Recover Costs and Earn Returns (25%)** | | | | |
| a) Timeliness of Recovery of Operating and Capital Costs | Aa | Aa | Aa | Aa |
| b) Sufficiency of Rates and Returns | A | A | A | A |
| **Factor 3 : Diversification (10%)** | | | | |
| a) Market Position | A | A | A | A |
| b) Generation and Fuel Diversity | A | A | A | A |
| **Factor 4 : Financial Strength (40%)** | | | | |
| a) CFO pre-WC + Interest / Interest (3 Year Avg) | 10.1x | Aaa | 10.4x - 10.9x | Aaa |
| b) CFO pre-WC / Debt (3 Year Avg) | 34.1% | Aa | 30% - 35% | Aa |
| c) CFO pre-WC – Dividends / Debt (3 Year Avg) | 23.7% | A | 25% - 30% | Aa |
| d) Debt / Capitalization (3 Year Avg) | 33.5% | Aa | 33% - 36% | Aa |
| **Rating:** | | | | |
| Scorecard-Indicated Outcome Before Notching Adjustment | | Aa3 | | Aa3 |
| HoldCo Structural Subordination Notching | | 0 | | 0 |
| a) Scorecard-Indicated Outcome | | Aa3 | | Aa3 |
| b) Actual Rating Assigned | | A1 | | A1 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2021(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
*Source: Moody's Financial Metrics*

## Appendix

Exhibit 10

**Cash Flow and Credit Metrics [1]**

| CF Metrics | Dec-17 | Dec-18 | Dec-19 | Dec-20 | LTM Mar-21 |
|---|---|---|---|---|---|
| As Adjusted | | | | | |
| **FFO** | **4,979** | **5,131** | **5,311** | **5,756** | **5,677** |
| +/- Other | -208 | -17 | -57 | -71 | -125 |
| **CFO Pre-WC** | **4,771** | **5,114** | **5,254** | **5,685** | **5,552** |
| +/- ΔWC | -612 | -640 | -73 | -304 | -177 |
| **CFO** | **4,159** | **4,474** | **5,181** | **5,381** | **5,375** |
| - Div | 1,450 | 500 | 2,200 | 2,210 | 2,210 |
| - Capex | 5,291 | 5,135 | 5,755 | 6,680 | 6,455 |
| **FCF** | **-2,582** | **-1,161** | **-2,774** | **-3,509** | **-3,290** |
| | | | | | |
| (CFO Pre-W/C) / Debt | 34.8% | 38.8% | 33.3% | 33.0% | 30.4% |
| (CFO Pre-W/C - Dividends) / Debt | 24.3% | 35.0% | 19.3% | 20.2% | 18.3% |
| FFO / Debt | 36.4% | 39.0% | 33.6% | 33.5% | 31.1% |
| RCF / Debt | 25.8% | 35.2% | 19.7% | 20.6% | 19.0% |
| | | | | | |
| Revenue | 11,972 | 11,862 | 12,192 | 11,662 | 11,764 |
| Interest Expense | 481 | 541 | 594 | 600 | 588 |
| Net Income | 1,823 | 2,019 | 2,234 | 2,546 | 2,637 |
| Total Assets | 50,254 | 53,484 | 57,188 | 61,610 | 72,097 |
| Total Liabilities | 33,319 | 32,602 | 35,946 | 37,870 | 41,057 |
| Total Equity | 16,935 | 20,882 | 21,242 | 23,740 | 31,040 |

**[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months**
***Source: Moody's Financial Metrics***

Exhibit 11

**Peer Comparison Table [1]**

| | Florida Power & Light Company A1 (Stable) | | | Alabama Power Company A1 (Stable) | | | Duke Energy Carolinas, LLC A2 (Stable) | | | Madison Gas and Electric Company A1 (Stable) | | | MidAmerican Energy Company (P)A1 (Stable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (In US millions) | FYE Dec-19 | FYE Dec-20 | LTM Mar-21 | FYE Dec-19 | FYE Dec-20 | LTM Mar-21 | FYE Dec-19 | FYE Dec-20 | LTM Mar-21 | FYE Dec-19 | FYE Dec-20 | LTM Mar-21 | FYE Dec-19 | FYE Dec-20 | LTM Mar-21 |
| Revenue | 12,192 | 11,662 | 11,764 | 6,125 | 5,830 | 6,038 | 7,395 | 7,015 | 6,983 | 569 | 539 | 557 | 2,925 | 2,720 | 3,106 |
| CFO Pre-W/C | 5,254 | 5,685 | 5,552 | 2,247 | 2,276 | 2,352 | 3,143 | 2,704 | 2,761 | 147 | 160 | 169 | 1,495 | 1,578 | 1,641 |
| Total Debt | 15,799 | 17,202 | 18,239 | 8,840 | 9,257 | 9,258 | 12,151 | 12,853 | 12,967 | 605 | 647 | 647 | 7,320 | 7,337 | 7,738 |
| CFO Pre-W/C + Interest / Interest | 9.8x | 10.5x | 10.4x | 7.1x | 7.5x | 7.8x | 7.3x | 6.2x | 6.3x | 6.8x | 7.0x | 7.4x | 6.3x | 6.4x | 6.6x |
| CFO Pre-W/C / Debt | 33.3% | 33.0% | 30.4% | 25.4% | 24.6% | 25.4% | 25.9% | 21.0% | 21.3% | 24.3% | 24.7% | 26.1% | 20.4% | 21.5% | 21.2% |
| **CFO Pre-W/C – Dividends / Debt** | 19.3% | 20.2% | 18.3% | 15.9% | 14.3% | 15.0% | 23.6% | 16.4% | 19.0% | 20.4% | 21.4% | 23.1% | 20.4% | 21.5% | 21.2% |
| Debt / Capitalization | 37.2% | 36.8% | 32.6% | 41.7% | 41.0% | 39.6% | 42.2% | 43.1% | 42.8% | 38.0% | 37.7% | 37.0% | 42.7% | 39.8% | 40.6% |

**[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade**
***Source: Moody's Financial Metrics***

## Ratings

Exhibit 12

| Category | Moody's Rating |
|---|---|
| **FLORIDA POWER & LIGHT COMPANY** | |
| Outlook | Stable |
| Issuer Rating | A1 |
| First Mortgage Bonds | Aa2 |
| Senior Secured | Aa2 |
| Senior Unsecured | A1 |
| Commercial Paper | P-1 |
| Other Short Term | VMIG 1 |
| **PARENT: NEXTERA ENERGY, INC.** | |
| Outlook | Stable |
| Issuer Rating | Baa1 |
| Senior Unsecured Shelf | (P)Baa1 |
| Jr Subordinate Shelf | (P)Baa2 |
| Pref. Shelf | (P)Baa3 |

*Source: Moody's Investors Service*

REPORT NUMBER 1292783

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# US electric ROE determinations in H1'21 remain at all-time low mark

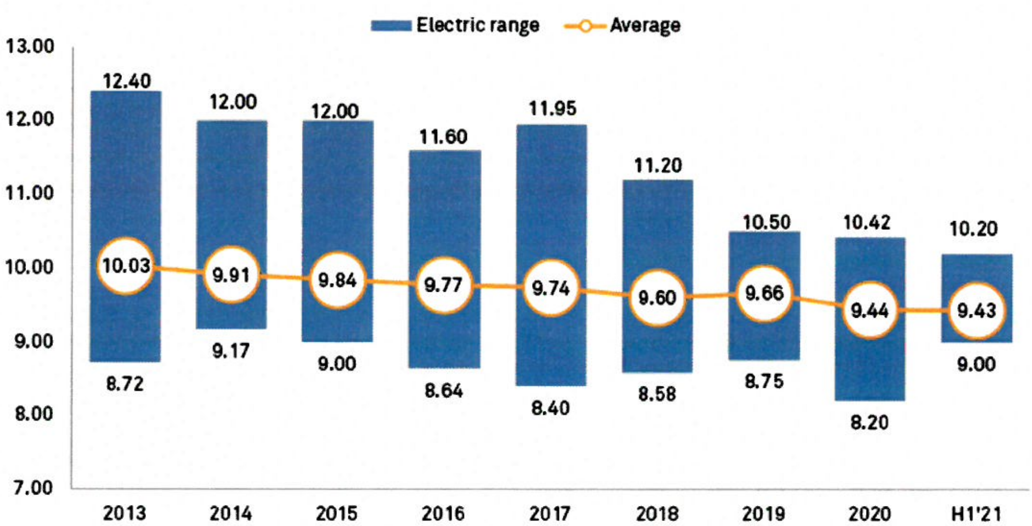
**Tuesday, August 24, 2021 3:22 PM ET**

By Lisa Fontanella
*Market Intelligence*

The overall average authorized return on equity in the first half of 2021 for electric utilities remained at an all-time low.

According to data gathered by Regulatory Research Associates, the average ROE authorized electric utilities was 9.43% in the first half of 2021, in line with the 9.44% average for cases in full year 2020. There were 20 electric ROE determinations in the first half of 2021 versus 55 in full year 2020.

## Electric ROE authorizations (%)



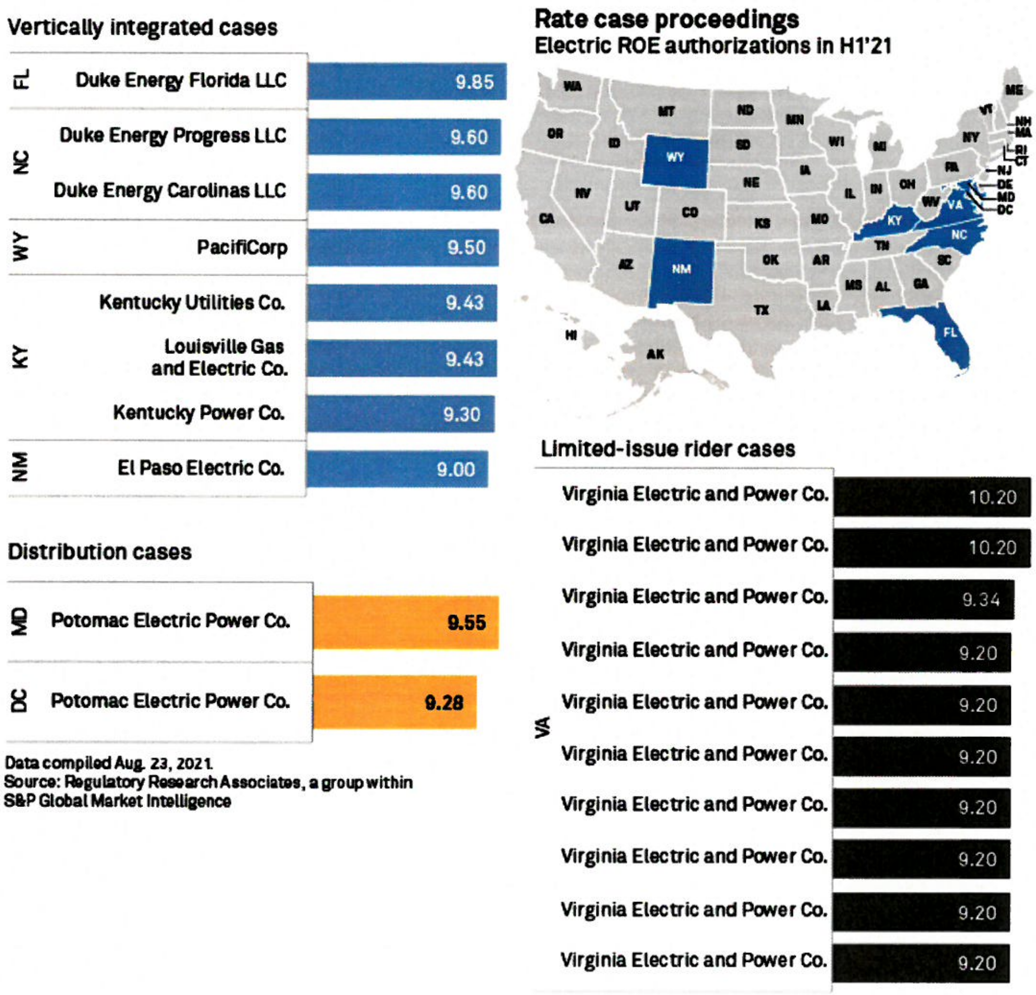

Data compiled Aug. 23, 2021.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

As the COVID-19 pandemic carries on in the U.S., the associated economic fallout will likely continue to weigh on utilities, regulators and rate case outcomes.

While electric equity return authorizations reached record lows in 2020 and the first half of 2021, authorized ROEs had been on a decline before the pandemic took a toll on the U.S. economy. The average allowed ROEs for the electric sector have been trending downward since the 1980s, consistent with the declining interest rate environment. In addition, the proliferation of automatic adjustment and investment recovery mechanisms that reduce the business risk of a utility has often been cited as a contributing factor by commissions in authorizing lower ROEs.

This data includes several limited-issue rider cases. Stripping out these cases from the data to reflect only general rate cases, the average authorized ROE was 9.45% in the first half of 2021 versus 9.39% observed in full year 2020. There is, however, little difference between the ROE averages including or excluding rider cases for the first half of 2021. Historically, 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 substantial 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 has narrowed between the average ROE observed in the rider cases and in general rate cases. The ROE determinations authorized by state public utility commissions in 2020 ranged from 8.20% to 10.42%, with an average of 9.44% and a median of 9.45%. Looking at recent years, the average ROE determinations for electric utilities have declined from 10.03% in 2013 to 9.43% in the first half of 2021.

There were 20 authorizations in the first half of 2021 in eight jurisdictions. Regulators in only one jurisdiction of Virginia awarded an ROE of 10% or above, eight jurisdictions — District of Columbia, Florida, Kentucky, Maryland, New Mexico, North Carolina, Virginia and Wyoming — authorized an ROE of 10% or below, while no jurisdictions authorized an ROE below 9%.




Data compiled Aug. 23, 2021.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Of the 20 ROE determinations in the first half of 2021, eight were authorized in vertically integrated cases, two in distribution-only cases and 10 in limited-issue rider proceedings. In the first half of 2021, 13 of the 20 cases with ROE determinations were fully litigated and seven were settled.

The highest ROE approved for an electric company in a case decided in the first half was 10.20%, awarded by the Virginia State Corporation Commission, or SCC, in two limited-issue rider proceedings for Dominion Energy Inc.

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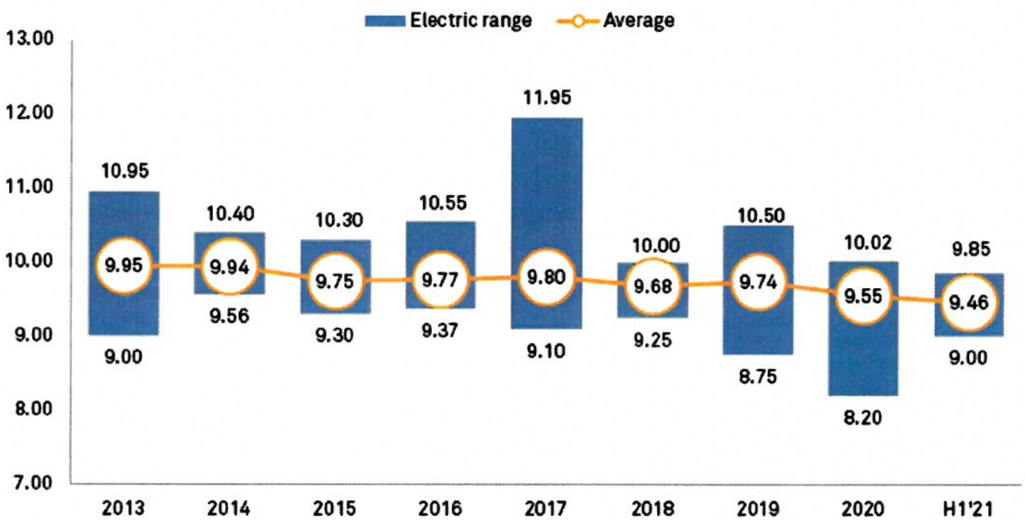
subsidiary Virginia Electric and □ower Co. for the utility□s investments in the Virginia City Hybrid Energy Center and the Warren County □ower Station. The SCC approved the Virginia City Hybrid Energy Center project and associated generation adjustment clause in 2008, with a 100-basis-point ROE adder that would apply during construction and continue through the first 12 years of the plant□s life. The Virginia City plant achieved commercial operation in □uly 2012. The SCC granted certificates of public convenience and necessity for the Warren County □roject in 2012 and approved the associated generation adjustment clause with a 100-basis-point incentive ROE premium that began during construction and continues through the first 10 years of commercial operation. The Warren County plant achieved commercial operation in 2014.

In the 10 limited-issue rate proceedings, authorized returns have ranged from 9.20% to 10.20%, averaging 9.41% in the first half of 2021 with a median of 9.20%.

In the eight vertically integrated cases, authorized returns have ranged from 9.00% to 9.85%, averaging 9.4□% in the first half of 2021, with a median of 9.4□%.

## Electric ROE authorizations for vertically integrated utilities (%)




Data compiled Aug. 23, 2021.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

The highest ROE for the vertically integrated group, 9.85%, was authorized by the Florida □ublic Service Commission for Duke Energy Corp. subsidiary Duke Energy Florida LLC following a multiyear rate settlement. The approved settlement includes a provision that allows the 9.85% authorized ROE to be increased by 25 basis points to 10.10% if the average 30-year □.S. Treasury rate increases 50 basis points or more above 2.2□4% over a consecutive six-month period.

The second-highest ROE determination for this group was 9.□0%, which was authorized by the North Carolina □tilities Commission, or NC□C, for Duke Energy subsidiaries Duke Energy □rogress LLC and Duke Energy Carolinas LLC following settlements.

In awarding a 9.□0% ROE in both the aforementioned cases, the NC□C stated that □based upon the general state of the economy and the need for the continuing affordability of electric utility service, and after weighing and balancing factors affected by the changing economic conditions in making the subjective decisions re□uired, the ... stipulated ROE of 9.□0% will not cause undue hardship to customers even though, the commission acknowledges, some customers will struggle to pay for electric utility service.□

The lowest authorized e□uity return for the vertically integrated rate cases, at 9.00%, was authorized by the New Mexico

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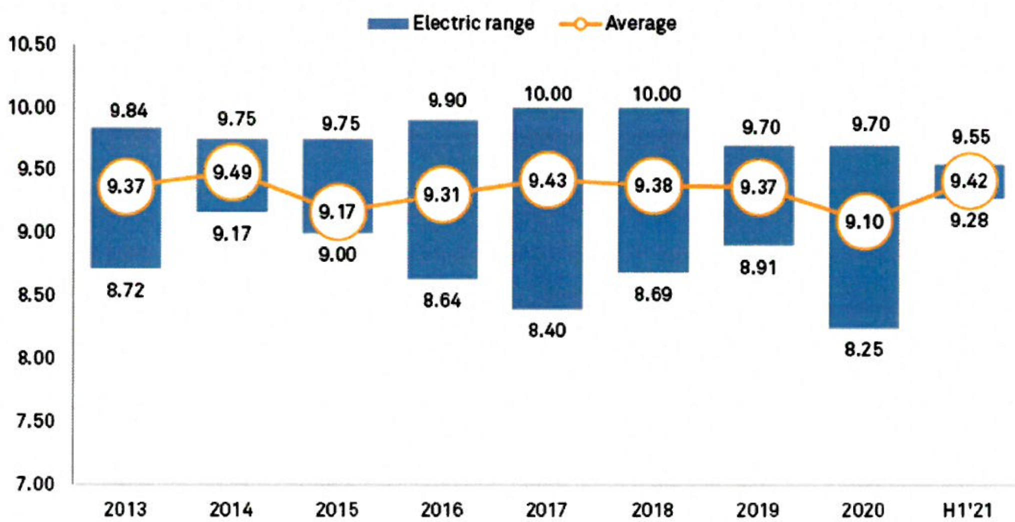
□ublic Regulation Commission, or □RC, for El □aso Electric Co.. In arriving at this return, the □RC relied exclusively on its preferred constant-growth discounted cash flow approach. The □RC stated that □it is wary of reaching a decision on the ROE that is merely a compromise among highly subjective ROEs, each one of which is predictably skewed in the direction favored by the party presenting it. The commission is not a mediator seeking a compromise solution, the ROE analysis is a factual in□uiry, albeit one with some unavoidable level of subjectivity and, of course, the need for expert testimony. Accordingly, the commission is persuaded to adopt the hearing examiner□s reasoned analysis, which accepts certain methods and approaches while rejecting others based upon the extent to which they bear indicators of reliability. The commission is not persuaded by □El □aso□s□unreasoned recommendation to blend the results of multiple tests and adjust the blended result if it is not in line with recent ROE decisions by other utility regulators.□

El □aso Electric has appealed the □RC□s decision to the New Mexico Supreme Court. According to El □aso Electric, the □RC□s order □severely□limits the extent to which it □can reasonably invest its capital in New Mexico.□The company indicated that as a result of this rate case outcome, it may file another rate case in 2021, □a costly and administrative burden which will also delay □its□plans for investment in New Mexico.□

The second-lowest ROE determination for this group was 9.3% for American Electric □ower Co. Inc., or AE□, subsidiary Kentucky □ower Co. The Kentucky □ublic Service Commission found that return to be □fair, just and reasonable.□AE□ has recently announced a strategic review of its Kentucky assets. Rumors have surfaced that Algon□uin □ower □ □tilities Corp. could be interested in ac□uiring Kentucky □ower.

There were only two ROE authorizations rendered in distribution-only cases in the first half of 2021. The two returns rendered were 9.28% and 9.55% for Exelon Corp. subsidiary □otomac Electric □ower Co., or □epco, in its District of Columbia and Maryland jurisdictions, respectively, following the adoption of multiyear rate plans. The distribution cases averaged 9.42% in the first half of 2021, with a median of 9.42%.

## Electric ROE authorizations for distribution utilities (%)




Data compiled Aug. 23, 2021.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

In approving a 9.28% ROE, the District of Columbia □ublic Service Commission stated that □epco benefits from □the combined risk-reducing effects□of the bill stabilization adjustment and modified enhanced multiyear rate plan, or EMR□, □which further supports our recommended ROE range with a midpoint that is 25 basis points below the currently approved ROE of 9.525%.□According to the commission, the approved EMR□, □□1□strengthens □epco□s credit profile□ □2□reduces regulatory lag and provides □epco certainty in revenue re□uirements□□3□allows □epco to maintain top decile electric reliability industry performance in the District□and □4□allows □epco to redeploy efforts from litigation focusing on continuing enhancements to the interconnection process, and pending □distributed energy resource□

initiatives.□

According to the Maryland □ublic Service Commission, a 9.55% ROE for □□epco□s distribution service is appropriate, within the zone of reasonableness, and supported by the evidence and consistent with statutory and other legal standards. The commission finds that the approved ROE is comparable to returns investors expect to earn on investments of similar risk as demonstrated through the use of the witnesses□proxy groups□is sufficient to assure confidence in □epco□s financial integrity□and is ade□uate to maintain and support □epco□s credit and attract needed capital.□

## Electric ROE authorizations, H1'21

| Companies | State | Date of decision | ROE (%) | Decision type |
|---|---|---|---|---|
| **Vertically integrated cases** | | | | |
| Kentucky Power Co. | KY | 01/13/21 | 9.30 | Fully litigated |
| Duke Energy Carolinas LLC | NC | 03/31/21 | 9.60 | Settled |
| Duke Energy Progress LLC | NC | 04/16/21 | 9.60 | Settled |
| Duke Energy Florida LLC | FL | 05/04/21 | 9.85 | Settled |
| PacifiCorp | WY | 05/18/21 | 9.50 | Fully litigated |
| El Paso Electric Co. | NM | 06/23/21 | 9.00 | Fully litigated |
| Kentucky Utilities Co. | KY | 06/30/21 | 9.43 | Settled |
| Louisville Gas and Electric Co. | KY | 06/30/21 | 9.43 | Settled |
| **Average** | | | 9.46 | |
| **Median** | | | 9.47 | |
| **Distribution-only cases** | | | | |
| Potomac Electric Power Co. | DC | 06/04/21 | 9.28 | Fully litigated |
| Potomac Electric Power Co. | MD | 06/28/21 | 9.55 | Fully litigated |
| **Average** | | | 9.42 | |
| **Median** | | | 9.42 | |
| **Limited-issue rider cases** | | | | |
| Virginia Electric and Power Co. | VA | 02/24/21 | 9.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 02/24/21 | 9.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 02/24/21 | 9.34 | Fully litigated |
| Virginia Electric and Power Co. | VA | 02/24/21 | 10.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 02/24/21 | 10.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 02/26/21 | 9.20 | Settled |
| Virginia Electric and Power Co. | VA | 03/31/21 | 9.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 03/31/21 | 9.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 04/30/21 | 9.20 | Fully litigated |
| Virginia Electric and Power Co. | VA | 06/09/21 | 9.20 | Settled |
| **Average** | | | 9.41 | |
| **Median** | | | 9.20 | |
| **All electric cases** | | | | |
| **Average** | | | 9.43 | |
| **Median** | | | 9.32 | |

Data compiled Aug. 23, 2021.

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**Source: Regulatory Research Associates, a group within S&P Global Market Intelligence**

For a chronological listing of the major energy rate case decisions issued during 2021 as well as historical summary data going back to 1990, see RRA□s latest Rate Case Decisions □uarterly □pdate.

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*For a full listing of past and pending rate cases, rate case statistics and upcoming events, visit the S&P Capital IQ Pro Energy Research Home Page.*

*For a complete, searchable listing of RRA's in-depth research and analysis, please go to the S&P Capital IQ Pro Energy Research Library.*

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