BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: DOCKET NO. 20250011-EI

Petition for rate increase by
Florida Power & Light Company.
_____/

VOLUME 9
PAGES 1956 - 2066

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN MIKE LA ROSA
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW GILES FAY
COMMISSIONER GABRIELLA PASSIDOMO SMITH

DATE: Thursday, October 9, 2025

TIME: Commenced: 9:00 a.m.
Concluded: 8:10 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter

PREMIER REPORTING
TALLAHASSEE, FLORIDA
(850) 894-0828

I N D E X

P R O C E E D I N G S

(Transcript follows in sequence from Volume 8.)

CHAIRMAN LA ROSA: All right. Let's go ahead and take our seats and we will get started with the next witness.

All right. FPL, you can call your witness. It looks like the witness is already in the witness stand.

MS. MONCADA: He is seated. This is Mr. Jim Coyne for FPL.

CHAIRMAN LA ROSA: Mr. Coyne, do you mind standing and raising your right hand?

Whereupon,

JAMES M. COYNE

was called as a witness, having been first duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

THE WITNESS: I do.

CHAIRMAN LA ROSA: Thank you.

MS. MONCADA: Thank you.

EXAMINATION

BY MS. MONCADA:

Q Mr. Coyne, would you please state your full name and business address for the record?

A It is James M. Coyne, and my business address is 293 Boston Post Road, Marlborough, Massachusetts, 01752.

Q Thank you.

By whom are you employed, and can you please also explain your position?

A I am employed by Concentric Energy Advisors, where I am a Senior Vice-President, and I am an expert in utility economics and finance and related issues, and provide testimony on these issues before regulators in the United States and Canada.

Q Thank you.

Did you prepare and cause to be filed 64 pages of direct testimony on February 28th?

A I did.

Q Do you have any changes or revisions to your direct testimony?

A No.

Q If I asked you the same questions contained in that testimony today, would your answers be the same?

A Yes.

Q Thank you.

MS. MONCADA: Mr. Chairman, I would like to move Mr. Coyne's direct testimony into the record.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled direct testimony of James M. Coyne was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250011-EI

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF JAMES M. COYNE

Filed: February 28, 2025

TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE

Q. Please state your name and business address.

A. My name is James M. Coyne, and I am employed by Concentric Energy Advisors, Inc. ("Concentric") as a Senior Vice President. Concentric is a management consulting and economic advisory firm, focused on the North American energy and water industries. Based in Marlborough, Massachusetts, Washington, D.C., and Calgary, Alberta, Concentric specializes in regulatory and litigation support, financial advisory services, energy market strategies, market assessments, energy commodity contracting and procurement, economic feasibility studies, and capital market analyses. My business address is 293 Boston Post Road West, Suite 500, Marlborough, MA 01752.

Q. On whose behalf are you testifying?

A. I am submitting this testimony to the Florida Public Service Commission (the "Commission") on behalf of Florida Power & Light Company ("FPL" or the "Company"), which is a wholly owned subsidiary of NextEra Energy, Inc.

Q. Please describe your experience in the energy and utility industries and your educational and professional qualifications.

A. I am among Concentric's professionals who provide expert testimony before federal, state, and Canadian provincial agencies on matters pertaining to economics, finance, and public policy in the energy industry. I regularly advise regulatory agencies, utilities, generating companies, and private equity investors on business issues pertaining to the utility industry. This work includes calculating the cost of capital for the purpose of ratemaking and providing expert testimony

and studies on matters pertaining to rate policy, valuation, capital costs, and performance-based regulation. I have authored numerous articles on the energy industry, lectured on utility regulation for regulatory commission staff, and provided testimony before the Federal Energy Regulatory Commission ("FERC") as well as state and provincial jurisdictions in the U.S. and Canada, including this Commission. I hold a B.S. in Business Administration from Georgetown University and an M.S. in Resource Economics from the University of New Hampshire. My educational and professional background is summarized more fully in Exhibit JMC-1.

Q. Are you sponsoring any exhibits in this case?

A. Yes. My analyses and recommendations are supported by the data presented in Exhibits JMC-2 through JMC-11, which have been prepared by me or under my direction. I am sponsoring the following exhibits:

- Exhibit JMC 2 – Comprehensive Summary of ROE Results
- Exhibit JMC-3 – Proxy Group Screening Analysis
- Exhibit JMC-4 – Constant Growth DCF Analysis
- Exhibit JMC-5.1 – Market Risk Premium
- Exhibit JMC-5.2 – CAPM Analysis
- Exhibit JMC-6 – Risk Premium Analysis
- Exhibit JMC-7 – Expected Earnings Analysis
- Exhibit JMC-8 – Capital Expenditures Analysis
- Exhibit JMC-9 – Regulatory Risk Assessment

- Exhibit JMC-10 – Flotation Cost Analysis
- Exhibit JMC-11 – Capital Structure Analysis

Q. What is the purpose of your testimony?

A. The purpose of my direct testimony is to present evidence and provide a recommendation for FPL's return on equity ("ROE"). My direct testimony also discusses the Company's capital structure in comparison to the proxy group companies supporting my analysis.

II. OVERVIEW AND SUMMARY

Q. What is your conclusion regarding the appropriate cost of equity for FPL?

A. I estimate four ROE models that produce a range of results. These models include the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), the Bond Yield Plus Risk Premium model, and the Expected Earnings model. As shown in Exhibit JMC-2, for each proxy company, I give equal weight to the four individual models. I then calculate the average of these four methods for the proxy group, which produces a base ROE of 11.83 percent. Adding nine basis points for flotation costs brings the total ROE to 11.92 percent. Based on my analysis, I recommend an ROE of 11.92 percent, which rounds down to 11.90 percent, as just and reasonable for FPL for the 2026-2029 rate period.

Q. Please provide a brief overview of the analyses that you conducted to support your ROE recommendation.

A. My ROE recommendation is based on results produced from four modeling methodologies, the DCF model, the CAPM, the Risk Premium approach, and the

Expected Earnings analysis. Analysts and academics understand that ROE models are tools to be used in the ROE estimation process, and that strict adherence to any single approach, or the specific results of any single approach, can lead to flawed conclusions. No model can exactly pinpoint the correct cost of equity, but rather each model brings its own perspective and set of inputs that inform the estimate of the ROE. Therefore, my analysis considers the range of results produced by these four different models. From within that range, regulators use informed judgment to select an authorized ROE that takes into consideration the relevant risk factors, as well as capital market conditions and the management performance of the utility, in order to send appropriate market signals.

The DCF analysis estimates the cost of equity based on market data on dividend yields and analysts' projected earnings per share growth rates from reputable third-party sources. The CAPM analysis is based on both current and forecasted interest rates and a forward-looking market risk premium. The Risk Premium approach calculates the risk premium as the spread between authorized ROEs for integrated electric utilities and Treasury bond yields to estimate the ROE. The Expected Earnings approach estimates the cost of equity based on projected returns on book equity that investors expect to receive over the next three to five years. My ROE recommendation is ultimately based on the 4-model average ROE estimates produced by these methodologies, including a nine-basis point adjustment for flotation costs.

My recommendation also considers the general economic and capital market environment and the influence capital market conditions exert over the results of the models. In addition, I also consider the Company's business and regulatory risks in relation to the proxy companies to assist in the determination of the appropriate ROE and capital structure from within the range of my analytical results. I identify risk factors that indicate FPL is above average risk. While I have not made any explicit risk adjustment in my ROE or capital structure analysis, FPL's risk profile warrants such consideration.

Q. Your ROE recommendation for FPL is higher than what was included in the Settlement Agreement in the Company's last rate case that was filed in March 2021. Please summarize the primary factors that support this view.

A. In Docket 20210015-EI, the Commission approved FPL's Settlement Agreement with an ROE of 10.60 percent, within a range from 9.70 percent to 11.70 percent. The Settlement Agreement included a provision that would raise the authorized ROE 20 basis points to 10.80 percent (within a range of 9.80 percent to 11.80 percent) if the 30-year Treasury bond yield increased 50 basis points or more for six consecutive months after the date the Settlement Agreement was filed (August 10, 2021). On August 19, 2022, that provision was triggered and the Company filed notice with the Commission on August 23, 2022. On October 4, 2022, the Commission approved the provision that increased the authorized ROE to 10.80 percent.

I first note that the current ROE was the result of a settlement with several components. Settlements invariably include gives and takes, so any one result is not necessarily representative of a litigated outcome. Further, yields on government and corporate bonds have increased significantly since I filed my direct testimony in the Company's last rate case in March 2021. As discussed in Section IV, government and utility bond yields have increased more than 200 basis points. The increase in the model results between my testimony in the Company's last rate case and this case support the conclusion that the cost of equity capital has risen. Longer term, the industry faces complex structural challenges associated with cyber security, grid modernization, and shifting consumer preferences. These challenges faced by the industry have not eased since I filed my direct testimony in Docket 20210015-EI in March 2021.

Q. How do the model results presented in this case compare to those submitted in Docket 20210015-EI in March 2021?

A. As shown in Figure 1, each of the model results has increased. All but two of the proxy companies that were in my proxy group in the last rate case[1] are included in my proxy group in this proceeding. As Figure 1 illustrates, the model results have increased between 63 and 148 basis points since the time I prepared my analysis in the Company's last rate case.

[1] ALLETE, Inc. and Hawaiian Electric Industries. ALLETE was excluded due to its pending acquisition by the Canadian Pension Plan Investment Board and Global Infrastructure Management LLC. Hawaiian Electric Industries was downgraded to below investment grade after the Maui wildfire and ceased paying dividends. Therefore, neither meet my screening criteria. Two additional companies that meet my screening criteria were added: Southern Company, and TXNM Energy.

Figure 1: Comparison of DCF, CAPM, Risk Premium, and Expected Earnings Results

Model	Docket 20210015-EI	Docket 20250011-EI[2]	Difference (basis points)
DCF	9.29%	10.28%	+99
CAPM	14.17%	15.65%	+148
Risk Premium	9.88%	10.51%	+63
Expected Earnings	10.22%	10.91%	+69

Q. Does your recommendation consider the current interest rate environment and expectations regarding the Federal Reserve's changing stance on monetary policy?

A. Yes, it does. First, my analysis considers both current and projected interest rates. Second, investors' expectations regarding the future path of interest rates are reflected in the market data in my analyses. For example, Federal Reserve ("the Fed") began reducing the Federal Funds target rate in early Fall 2024. More recently, however, the Fed has signaled that it may slow the pace of rate cuts in 2025, and in fact held the Federal Funds rate steady in January 2025.[3] Lastly, the Fed's actions have a lesser effect on long-term interest rates than they do on short-term interest rates. Therefore, long-term interest rates, like the 30-year Treasury yield used in my analysis, have not declined commensurate with reductions in the Federal Funds rate.

[2] CAPM and Risk Premium results presented in this case reflect the average of each model's results using current and projected bond yields. The 2021 results reflect projected bond yields.

[3] Transcript of Chair Powell's Press Conference, December 18, 2024, at 2-6. https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20241218.pdf; Federal Reserve Press Release January 29, 2025, https://www.federalreserve.gov/newsevents/pressreleases/monetary20250129a.htm

Q. How is the remainder of your Direct Testimony organized?

A. The remainder of my Direct Testimony is organized as follows. Section III provides background on the regulatory principles that guide the determination of ROE. Section IV presents a review of current and prospective economic and capital market conditions and the implications for utility cost of capital. Section V describes the criteria and approach for the selection of a proxy group of comparable companies. Section VI provides a description of the data and methodologies used to estimate the cost of equity, as well as the results of the various ROE estimation models. Section VII provides an assessment of the business and regulatory risk factors I have considered in arriving at an appropriate ROE for FPL. Section VIII reviews FPL's capital structure in the context of the proxy group. Finally, Section IX summarizes my results, conclusions, and recommendations.

III. REGULATORY PRINCIPLES

Q. Please describe the guiding principles used in establishing the cost of capital for a regulated utility.

A. The foundations of public utility regulation require that utilities receive a fair rate of return sufficient to attract needed capital to maintain important infrastructure for customers at reasonable rates. The basic tenets of this regulatory doctrine originate from several bellwether decisions by the United States Supreme Court, notably *Bluefield Waterworks and Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*"), and *Federal Power Commission*

v. Hope Natural Gas Company, 320 U.S. 591 (1944) ("*Hope*"). In *Bluefield*, the Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties . . .
>
> The return should be reasonably sufficient to assure investor confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

Later, in *Hope*, the Court established a standard for the ROE that remains the guiding principle for ratemaking regulatory proceedings to this day:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Q. Has the Commission provided similar guidance?

A. Yes, the Commission applies the precedents of the *Hope* and *Bluefield* decisions. For example, in a May 2008 decision for Florida Public Utilities, the Commission stated:

> The statutory principles for determining the appropriate rate of return for a regulated utility are set forth by the U.S. Supreme Court in its Hope and Bluefield decisions. These decisions define the fair and reasonable standards for determining rate of return for regulated enterprises. Namely, these decisions hold that the authorized return for a public utility should be commensurate with return on investments in other companies of comparable risk, sufficient to maintain the financial integrity of the company, and sufficient to maintain its ability to attract capital on reasonable terms.[4]

[4] Order No. PSC-08-0327-FOF-EI, Docket Nos. 070300-EI, 070304-EI, at 35.

More recently, the Commission again applied the *Hope* and *Bluefield* standard in its supplemental order approving FPL's 2021 settlement agreement, Order No. PSC-2024-0078-FOF-EI issued March 25, 2024 in Docket 20210015-EI.

Q. Please explain how these principles apply in the context of the regulated rate of return.

A. Regulated utilities rely primarily on common stock and long-term debt to finance permanent property, plant, and equipment. The allowed rate of return for a regulated utility is based on its weighted average cost of capital, where the costs of the individual sources of capital (i.e., debt and equity) are weighted by their respective book values. The ROE represents the cost of raising and retaining equity capital and is estimated by using one or more analytical techniques that use market data to quantify investor requirements for equity returns. However, the ROE cannot be derived through quantitative metrics and models alone. To properly estimate the ROE, the financial, regulatory, and economic context must also be considered.

The DCF, CAPM, Risk Premium, and Expected Earnings approaches, while fundamental to the ROE determination, are still only models. The results of these models cannot be mechanistically applied without also using informed judgment to consider economic and capital market conditions and the relative risk of FPL as compared to the proxy group companies.

Based on these widely recognized standards, the Commission's order in this case should provide FPL with the opportunity to earn a return on equity that is:

- Commensurate with returns on investments in enterprises having comparable risks;
- Adequate to attract capital on reasonable terms, thereby enabling FPL to provide safe, reliable service; and
- Sufficient to ensure the financial soundness of FPL's electric utility operations.

Importantly, a fair return must satisfy all three of these standards. The allowed ROE should enable FPL to finance capital expenditures on reasonable terms and provide the Company with the ability to raise capital under a full range of capital market circumstances.

Q. What are your conclusions regarding regulatory principles?

A. The ratemaking process is premised on the principle that, in order for investors and companies to commit the capital needed to provide safe and reliable utility services, the utility must have the opportunity to recover invested capital and the market-required return on that capital. Because utility operations are capital-intensive, regulatory decisions should enable the utility to attract capital on favorable terms. The financial community carefully monitors the current and expected financial condition of utility companies as well as the regulatory environment in which they operate. In that respect, the regulatory environment is one of the most important factors considered by both debt and equity investors in their assessments of risk. It is therefore essential that the ROE authorized in this proceeding takes into consideration the current and expected capital market conditions that FPL faces, as well as investors' expectations and requirements regarding both risks and returns.

A reasonable ROE is required for FPL to continue to provide customers with superior service and to maintain confidence in Florida's regulatory environment among credit rating agencies and investors.

IV. ECONOMIC AND CAPITAL MARKET CONDITIONS

Q. Why is it important to consider the effects of current and expected economic and financial market conditions when setting the appropriate ROE?

A. It is important to consider current and expected conditions in the general economy and financial markets because the authorized ROE for a public utility should allow the utility to attract investor capital at a reasonable cost under a variety of economic and financial market conditions, as underscored by the *Hope* and *Bluefield* decisions. The standard ROE estimation tools, such as the DCF, CAPM, and Risk Premium models, each reflect the state of the general economy and financial markets by incorporating specific economic and financial data. These inputs are, however, only samples of the various economic and market forces that determine a utility's required return. Consideration must be given to whether the assumptions relied on in the current or projected market data are appropriate. If investors do not expect current market conditions to be sustained in the future, it is possible that the ROE estimation models will not provide an accurate estimate of investors' forward-looking required return. Therefore, an assessment of current and projected market conditions is integral to any ROE recommendation.

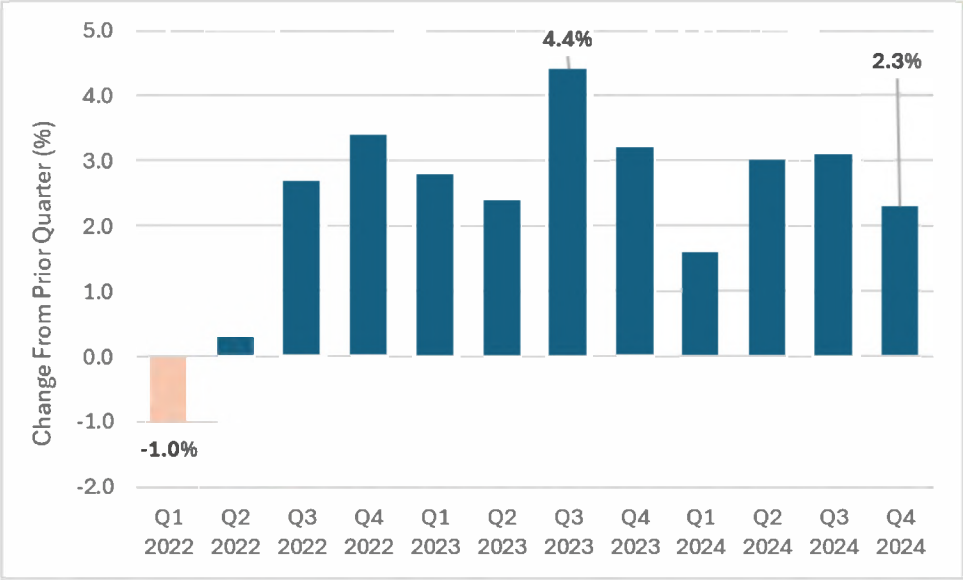
Q. What are the key factors affecting the cost of equity for regulated utilities in the current and prospective capital markets?

A. The cost of equity for regulated utilities is being affected by several key factors, including: (1) the interest rate environment and central bank monetary policy; (2) inflationary pressure and the longer-term outlook for inflation; and (3) uncertainty in the economic environment as a result of a change in administration at the federal level. In this section, I discuss each of these factors and how it affects the models used to estimate the cost of equity for regulated utilities.

Q. Please discuss current economic and capital market conditions.

A. Following the Company's last rate case, economic conditions were unsettled in 2022 and 2023 due to ongoing inflationary pressure and the prospects for weaker economic growth or a possible recession as the Federal Reserve continued to tighten monetary policy to combat higher than expected inflation. Real Gross Domestic Product ("GDP") grew at an annual rate of 2.9 percent and 2.8 percent, respectively, in 2023 and 2024 compared to 2.5 percent in 2022. Figure 2 shows that real GDP growth ranged from -1.0 percent to 4.4 percent over the past twelve quarters and settled most recently at 2.3 percent in the fourth quarter of 2024.

Figure 2: Percent Change in Real GDP (From Previous Quarter)[5]

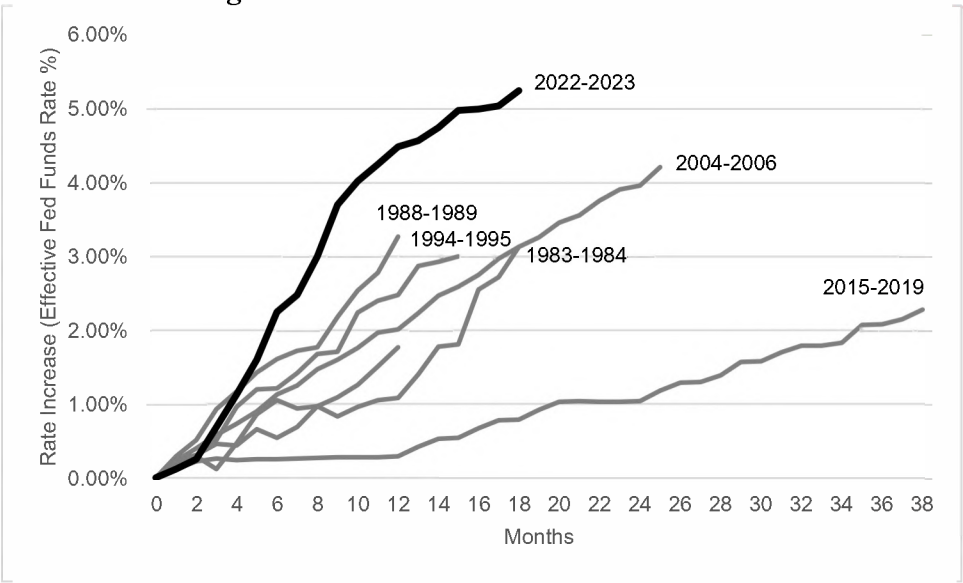


Q. Please discuss the changes in monetary policy that have occurred.

A. In 2022 and 2023, the Fed tightened monetary policy at the fastest pace in the last 40 years to slow economic growth and combat higher than expected inflation. Specifically, the Fed raised the Federal Funds rate from a range of 0.00 percent to 0.25 percent in March 2022 to a range of 5.25 to 5.50 percent by July 2023 (see Figure 3), which it held constant until September 2024.

[5] Source: U.S. Bureau of Economic Analysis.

Figure 3: Federal Funds Rate Increases[6]



At the December 2023 Federal Open Market Committee ("FOMC") meeting, the Fed signaled that it was likely finished raising the Federal Funds rate. Capital markets interpreted this as an indication that the Fed would start cutting short-term interest rates sooner than expected. However, throughout the first half of 2024, Chair Jerome Powell reiterated repeatedly that the timing of future interest rate cuts remained dependent on progress toward achieving the Fed's goal of returning to the 2 percent inflation target and that the FOMC was "prepared to maintain the current target range for the federal funds rate for longer, if appropriate."[7, 8]

In August 2024, Chair Powell signaled that the economic data on inflation and unemployment was likely to lead to a reduction in short-term interest rates. During his speech at Jackson Hole, Wyoming, Chair Powell stated:

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6 Federal Reserve Bank of St. Louis, Federal Reserve Economic Data ("FRED") *available at* https://fred.stlouisfed.org/.

7 Transcript of Chair Powell's Press Conference, March 20, 2024, at 3.

8 Semiannual Monetary Policy Report to Congress, Chair Jerome H. Powell, Before the Committee on Financial Services, U.S. House of Representatives, March 6, 2024.

> Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate.[9]

The FOMC subsequently cut the Federal Funds rate by 50 basis points in September 2024 as the FOMC gained greater confidence that inflation was moving sustainably toward its two percent target, and that risks to achieving employment and inflation goals were roughly in balance. However, the FOMC noted that "the economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate."[10] In November and December 2024, the FOMC further reduced the Federal Funds rate by 25 basis points in each meeting. In its press releases, the FOMC reiterated these points and noted that "inflation has made progress toward the Committee's 2-percent objective but remains somewhat elevated."[11] After the December 2024 meeting, Chair Powell signaled that the Fed would slow the pace of rate cuts in 2025, and the FOMC in fact held the Federal Funds rate steady at the January 2025 meeting.[12]

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9 Review and Outlook, Remarks by Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, at "Reassessing the Effectiveness and Transmission of Monetary Policy," an economic symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 23, 2024, at 3.

10 Federal Reserve FOMC Press Release, September 18, 2024.

11 Federal Reserve FOMC Press Release, November 7, 2024, https://www.federalreserve.gov/newsevents/pressreleases/monetary20241107a.htm; Federal Reserve FOMC Press Release, December 18, 2024, https://www.federalreserve.gov/newsevents/pressreleases/monetary20241218a.htm.

12 Federal Reserve FOMC Press Release, December 18, 2024, https://www.federalreserve.gov/newsevents/pressreleases/monetary20241218a.htm; Federal Reserve FOMC Press Release, January 29, 2025, https://www.federalreserve.gov/newsevents/pressreleases/monetary20250129a.htm

Q. Please discuss the path of government bond yields and explain the implications for equity investors in the utility sector.

A. As the U.S. economy improved and the Federal Reserve moved aggressively in 2022 and 2023 to tighten monetary policy to fight stubbornly higher inflation, prevailing interest rates rose to their highest levels since 2010.[13] As shown in Figure 4, the 30-day average yield on 30-year Treasury bonds was 1.69 percent on January 11, 2021 (when FPL notified the Commission of its rate case) and 2.02 percent as of October 26, 2021 (when the Commission voted to approve the Settlement Agreement in the 2021 rate case). As shown in Figure 4, as of December 31, 2024, the 30-day average yield on the 30-year Treasury bond was 4.56 percent. As of December 2024, the 30-year Treasury yield is projected to be approximately 4.5 percent in 2025[14] and 4.30 percent over the period from 2026-2030.[15] As shown in Figure 4, the underlying 30-day average 30-year Treasury bond yield has increased by 287 basis points, or nearly 170 percent, from January 11, 2021 to December 31, 2024. According to the U.S. Department of Treasury, the 30-year Treasury bond yield increased 312 basis points, or more than 180 percent, between January 2021 and December 2024.[16] The upward pressure on long-term interest rates cuts across all forms of capital, including that for utilities.

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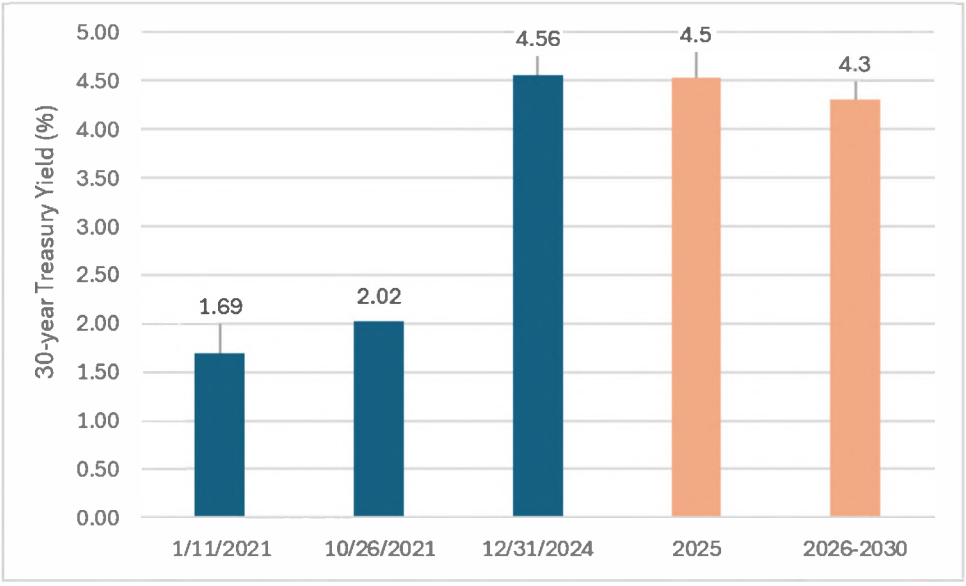
13 Source: Federal Reserve Bank of St. Louis, FRED Economic Database.
14 Source: Blue Chip Financial Forecasts, Vol. 44, No. 1, December 30, 2024, at 2.
15 Source: Blue Chip Financial Forecasts, Vol. 43, No. 12, November 27, 2024, at 14.
16 Source: U.S. Department of Treasury, Daily Treasury Par Yield Curve Rates, January 3, 2021 to December 31, 2024. https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2024

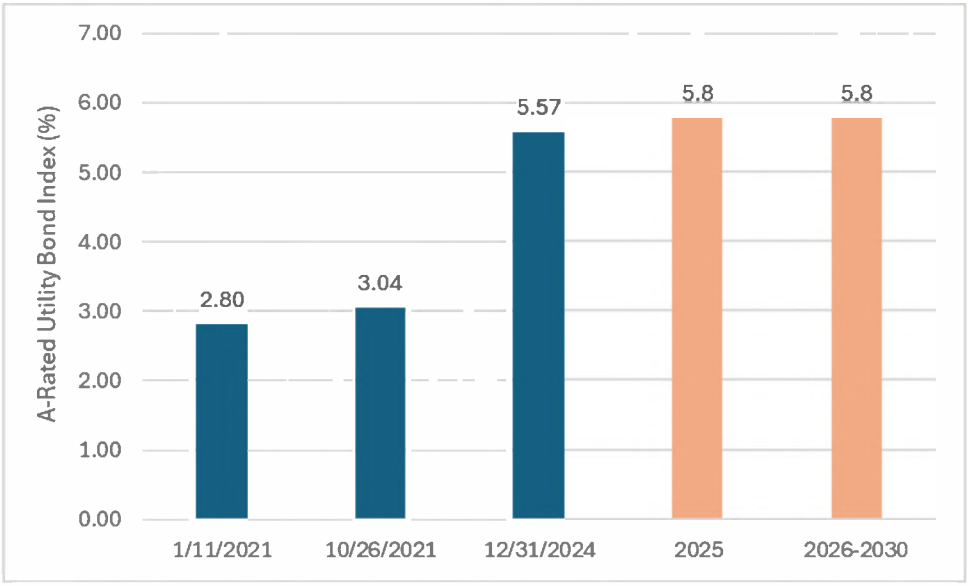
Figure 41: Comparison of 30-Year Treasury Bond Yields[17]



The same pattern exists for utility bond yields. As shown in Figure 5, Moody's A-rated Utility Bond Index increased from 2.80 percent at the time FPL filed its last rate case to 5.57 percent as of December 31, 2024, a 99 percent increase. As with Treasury bond yields, utility bond yields are also expected to remain at elevated levels, if not increase in the near term.

[17] Sources: Federal Reserve Bank of St. Louis, FRED Economic Database, Blue Chip Financial Forecasts, Vol. 44, Issue No. 1, December 30, 2024, at 2, Blue Chip Financial Forecasts, Vol. 43, Issue No. 12, November 27, 2024, at 14.

Figure 5: Comparison of Utility Bond Yields[18]



As noted previously, long-term bond yields are less sensitive to the Federal Reserve's monetary policy, and as such have not responded to the Federal Reserve's reduction in the Federal Funds rate as short-term yields have. As shown in Figure 6, since the end of June 2024, the 1-year and 2-year Treasury yields have declined by 93 and 46 basis points, respectively, whereas the 10-year and 30-year Treasury yields have increased by 22 and 27 basis points, respectively.

[18] Sources: Federal Reserve Bank of St. Louis, FRED Economic Database, Blue Chip Financial Forecasts, Vol. 44, Issue No. 1, December 30, 2024, at 2, Blue Chip Financial Forecasts, Vol. 43, Issue No. 12, November 27, 2024, at 14. Projected Utility "A" bond yields are estimated from Blue Chip's projected AAA corporate bond yields plus the average historical spread between A-rated corporate and utility bond yields over the last five years.

Figure 6: U.S. Treasury Yields (June 2024 vs. December 2024)[19]

	1-year Treasury	2-year Treasury	10-year Treasury	30-year Treasury
June 28, 2024	5.09%	4.71%	4.36%	4.51%
December 31, 2024	4.16%	4.25%	4.58%	4.78%
Change	-0.93%	-0.46%	0.22%	0.27%

Current long-term yields have not declined commensurately with reductions in the Federal Funds rate. These movements are consistent with the normalization of the yield curve, where long-term rates are expected to exceed short-term rates.

Q. Please explain why these higher interest rates are important to the ROE analysis.

A. The 30-yield Treasury bond yield is a direct input to both the CAPM and the Risk Premium models. As yields increase, the cost of capital generally increases, and the ROE estimates from those two models also increase, although not on a one-to-one basis. Further, while interest rates are not a direct input to the DCF model, dividend yields on utility stocks must compete with yields on Treasury bonds. As interest rates on government bonds increase, utilities must offer a higher dividend yield to attract and retain investors, signaling an increase in the cost of equity for utilities. All else equal, higher dividend yields produce higher ROE estimates in the DCF model.

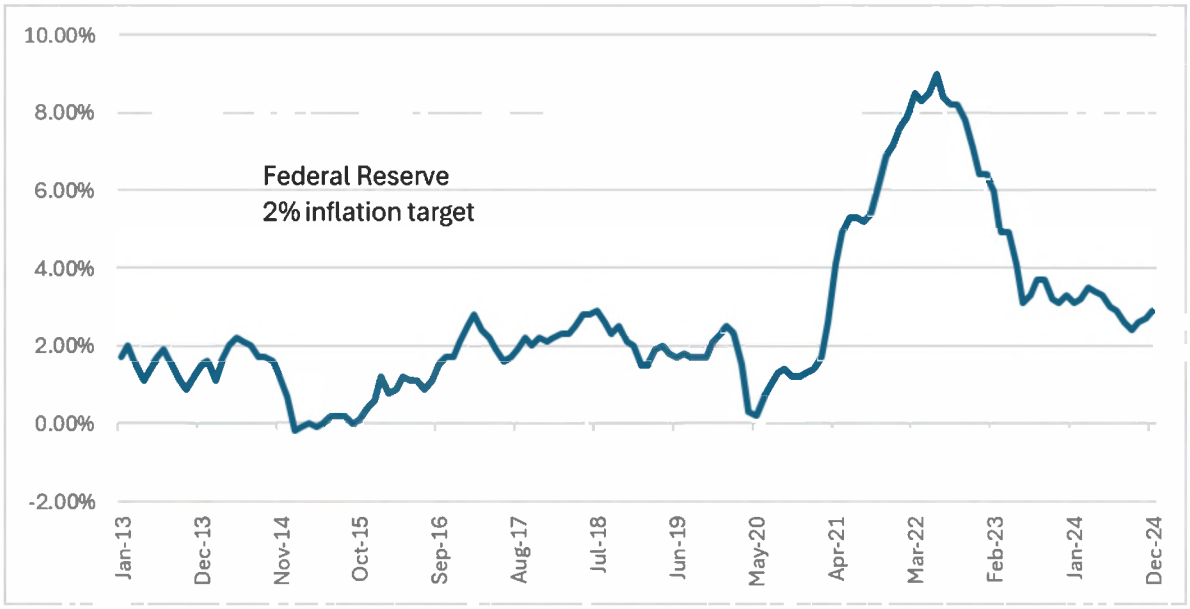
Q. What has been the path of inflation since 2021?

A. As shown in Figure 7, inflation levels are down significantly from the peak of 9.1 percent in June 2022, but remain slightly elevated at 2.9 percent as of December

[19] Source: Spot yields reported by Federal Reserve Board of Governors, H15 Selected Interest Rates. https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15

2024, relative to the Federal Reserve's target of 2.0 percent. Moreover, the downward trend in inflation has reversed, increasing in each month in October, November, and December 2024.

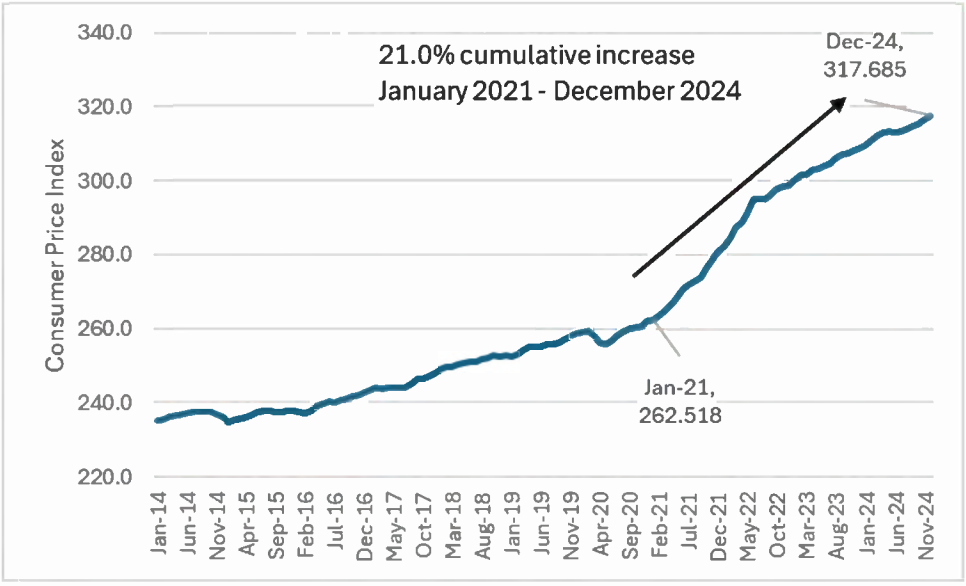
Figure 7: Consumer Price Index, 12-month Percentage Change[20]



As shown in Figure 8, on a cumulative basis, inflation has increased 21 percent between January 2021 and December 2024.

[20] Source: Bureau of Labor Statistics, https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm.

Figure 8: Consumer Price Index, Cumulative Change (2014-2024)[21]



While inflation has subsided from the historic levels experienced in 2022, the era of record low interest rates and low inflation has likely ended. As noted above, long-term interest rates have increased considerably since the Federal Reserve began tightening monetary policy, and expectations for interest rates are markedly higher than in the five years prior to the pandemic. As Blue Chip Financial Forecasts explains:

> Of particular interest is that even though the economy is expected to grow at around its potential rate and that inflation is expected to stabilize near the Fed's target, these occur at markedly higher expected interest rate levels (both short- and long-term) than in the five years prior to the pandemic and marginally higher than the consensus envisaged last December. This points to a meaningfully higher neutral [Federal Funds Rate] and higher real interest rates over the longer term than experienced just prior to the pandemic.[22]

Furthermore, even though the pace of inflation has slowed, U.S. consumers continue to expect inflation to remain elevated. As the University of Michigan's

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[21] Source: Bureau of Labor Statistics, https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm.

[22] Blue Chip Financial Forecasts, Vol. 43, No. 6, at 1 (June 1, 2024). Clarification added.

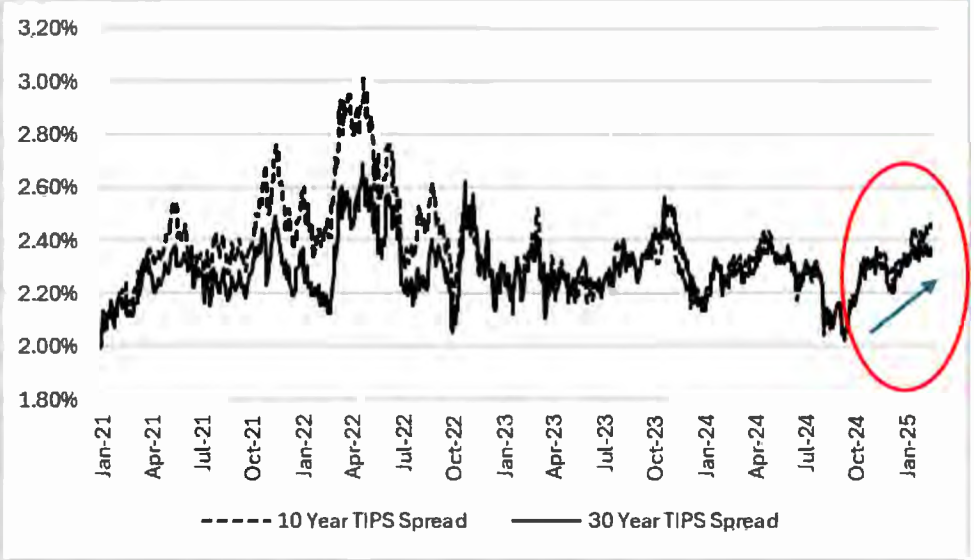
January 2025 survey explains regarding consumer sentiment on inflation: "[a]s of January 2025, long-run expectations remain modestly elevated relative to the two years pre-pandemic but exhibit substantial uncertainty, particularly in light of the presidential election."[23] While inflation expectations have moderated since 2022, as of January 2025, they have not returned to pre-pandemic levels.[24]

Additionally, the breakeven inflation rate provides another view of the market's expectation for inflation. The breakeven rate is a measure of expected inflation derived from 10-year and 30-year Treasuries and is calculated as the difference between constant maturity Treasury securities and Treasury Inflation-Protected Securities ("TIPS"). The 10-year breakeven inflation rate implies what market participants expect inflation to be in the next 10 years, on average, whereas the 30-year measure reflects what market participants expect inflation to be in the next 30-years on average. As shown in Figure 9, both measures have increased since September, consistent with the recent uptick in inflation noted earlier.

[23] University of Michigan, Survey of Consumers, January 2025. https://data.sca.isr.umich.edu/fetchdoc.php?docid=77942

[24] University of Michigan, Survey of Consumers, January 2025. https://data.sca.isr.umich.edu/fetchdoc.php?docid=77942

Figure 9: Breakeven Inflation Rate (2021-2025)[25]



Q. How might the change in administration affect inflation and bond yields?

A. On February 1, 2025, President Trump issued an executive order implementing a 25 percent additional tariff on imports from Canada and Mexico, and a 10 percent additional tariff on imports from China.[26] Further, on February 10, President Trump restored a 25 percent tariff on steel and increased the tariff on aluminum to 25 percent.[27] Although the effect of these tariffs on the economy is uncertain, economists generally agree that higher tariffs increase inflation by increasing the cost of consumer goods. Higher inflation could complicate the Federal Reserve's unwinding of restrictive monetary policies, as well as increase long-term bond yields like the 30-year Treasury yield. Longer-term bonds are more sensitive to inflation expectations because their value is eroded more by inflation; thus, as the

[25] Source: Federal Reserve Board H.15 Selected Interest Rates. January 1, 2021 – February 13, 2025.
[26] https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/
[27] https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-restores-section-232-tariffs/

value (price) of bonds declines due to higher inflation expectations, the yield increases. Because utilities are capital intensive enterprises, higher inflation and interest rates tend to have a negative effect on utility stocks. If realized, all these factors would suggest that the cost of capital for utilities may increase in the future.

Q. What are your conclusions regarding the effects of the current market environment on the cost of equity for FPL?

A. Since the Company's last rate case was decided in 2021, yields on government and utility bond yields increased sharply. As a result, it is reasonable that equity investors would require a higher ROE to keep pace with the increases in lower-risk bonds and compensate them for the additional risks of owning common stock. These circumstances are reflected in the results of multiple models used to estimate the cost of equity. Additionally, although inflation has subsided from its peak in 2022, inflation is expected to remain at higher levels than experienced prior to the COVID-19 pandemic. Lastly, although the effect of the new presidential administration on the economy is uncertain, proposals for higher tariffs, for example, could complicate investor expectations for lower inflation and interest rates. These factors emphasize the importance of considering the results of multiple models, and the use of both current and forecasted bond yields, as I have with my analysis.

V. PROXY GROUP SELECTION

Q. Why is it necessary to select a proxy group to estimate the cost of equity for FPL?

A. Since the ROE is a market-based concept and FPL is not publicly traded, it is necessary to establish a group of companies that is both publicly traded and comparable to FPL. Even if FPL were a publicly traded entity, it is possible that transitory events could bias the Company's market value in one way or another in a given period of time. A significant benefit of using a proxy group is the ability to mitigate the effects of short-term events that may be associated with any one company. The proxy companies used in my ROE analyses possess a set of business and operating characteristics similar to FPL's vertically integrated electric utility operations, and thus provide a reasonable basis for estimating the Company's ROE.

Q. Please provide a summary profile of FPL.

A. FPL is a wholly owned subsidiary of NextEra Energy, Inc., providing electric generation, transmission, and distribution service to over 6 million residential, commercial, and industrial customers in Florida. FPL owns 35, 052 MW of regulated generation assets, including nuclear facilities, gas-fired plants, and solar generation facilities, approximately 91,000 circuit miles of transmission and distribution lines, and 921 substations.[28] As demonstrated in the testimony of FPL witness Reed, FPL is the most efficient provider of electricity services in the U.S., as measured by average O&M costs per kilowatt hour. FPL is making significant investments in a diverse generation fleet comprised of solar, nuclear, and advanced

[28] NextEra Energy, Inc., 2024 SEC Form 10-K, at 5.

gas combined cycle power plants, as well as battery storage projects. In addition, FPL has a substantial capital expenditure program that is focused on improving the reliability of the electricity grid and increasing storm resiliency. FPL has long-term issuer ratings from S&P of A (Outlook: Stable), Moody's Investors Service ("Moody's") of A1 (Outlook: Stable), and FitchRatings ("Fitch") of A (Outlook: Stable).[29]

Q. Please describe the specific screening criteria you have utilized to select a proxy group.

A. I began with the 36 investor-owned domestic electric utilities covered by Value Line, an independent investment research firm, and then screened companies according to the following criteria:

1. Consistently pays quarterly cash dividends;
2. Maintains an investment grade long-term issuer rating (BBB- or higher) from S&P;
3. Is covered by more than one equity analyst;
4. Has positive earnings growth rates published by at least two of the following sources: S&P Capital IQ, Value Line, and Zack's Investment Research ("Zacks");
5. Owns regulated electric generation assets;
6. Regulated revenue and net operating income make up at least 60 percent of the consolidated company's revenue and net operating income (based on a 3-year average from 2021-2023);

[29] *Ibid.*, at 47.

7. Regulated revenue and net operating income from regulated electric operations makes up at least 80 percent of the consolidated company's regulated revenue and net operating income (based on a 3-year average from 2021-2023); and

8. Is not involved in a merger or other transformative transaction for an approximate six-month period.

Q. Did you include NextEra Energy, Inc. in your analysis?

A. No, I did not. In order to avoid the circular logic that would otherwise occur, it is my practice to exclude the subject company, or its parent holding company, from the proxy group.

Q. What is the composition of your resulting proxy group?

A. Based on the screening criteria discussed above, I arrived at a proxy group consisting of the 15 companies shown in Figure 10. The results of my screening process are shown in Exhibit JMC-3.

Figure 10: Proxy Group

Company	Ticker
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Duke Energy Corporation	DUK
Edison International	EIX
Entergy Corporation	ETR
Evergy, Inc.	EVRG
IDACORP, Inc.	IDA
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Company	POR
PPL Corporation	PPL
The Southern Company	SO
TXNM Energy	TXNM
Xcel Energy Inc.	XEL

Q. Do your screening criteria result in a group of companies that investors would view as comparable to FPL?

A. Yes. I have selected this group of electric utilities to best align with the financial and operational characteristics of FPL. The proxy group screening criterion requiring an investment grade credit rating ensures that the proxy group companies, like FPL, are in sound financial condition. Because credit ratings take into account business and financial risks, the ratings provide a broad measure of investment risk for investors. I have only included companies in the proxy group that own regulated generation assets because vertically-integrated electric utilities have operating

characteristics and unique business risks that cause investors to require a higher return on equity to compensate for those risks. These unique risks are not shared by pure Transmission and Distribution utilities. Additionally, I have screened on the percent of revenue and net operating income from regulated operations to differentiate between utilities that are protected by regulation and those with substantial unregulated operations or market-related risks. Also, I have screened on the percentage contribution of the electric utility segment to regulated consolidated financial results to select companies that, like FPL, derive the majority of their revenue and operating income from regulated electric operations. These screens collectively reflect key risk factors that investors consider in making investments in electric utilities.

Q. What is your conclusion with regard to the proxy group for FPL?

A. My conclusion is that my group of 15 vertically integrated electric utilities adequately reflects the broad set of risks that investors consider when investing in a U.S.-regulated vertically integrated electric utility such as FPL. Later in my testimony, I will evaluate whether an adjustment should be made to the results of my ROE analyses to account for differences in FPL's company-specific risks relative to the proxy group companies.

VI. DETERMINATION OF THE APPROPRIATE COST OF EQUITY

Q. What models did you use in your ROE analyses?

A. I have considered the results of four ROE estimation models, including the DCF model, the CAPM, the Bond Yield Plus Risk Premium approach, and an Expected

Earnings analysis. When faced with the task of estimating the cost of equity, analysts gather and evaluate as much relevant data (both quantitative and qualitative) as can be reasonably obtained. Consistent with the *Hope* finding, "it is the result reached, not the method employed, which is controlling."[30]

A. Constant Growth DCF Model

Q. Please describe the DCF approach.

A. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its simplest form, the DCF model expresses the ROE as the sum of the expected dividend yield and long-term growth rate:

$$k = \frac{D(1+g)}{P_0} + g \qquad [1]$$

Where "k" equals the required return, "D" is the current dividend, "g" is the expected growth rate, and "P" represents the subject company's stock price.

Assuming a constant growth rate in dividends, the model may be rearranged to compute the ROE accordingly, as shown in Formula [2]:

$$r = \frac{D}{P} + g \qquad [2]$$

Stated in this manner, the cost of common equity is equal to the dividend yield plus the expected growth rate.

[30] Hope *op. cit.*

Q. What are the assumptions underlying the Constant Growth DCF model?

A. The Constant Growth DCF model is based on the following assumptions: (1) a constant average growth rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a constant price-to-earnings multiple; and (4) a discount rate greater than the expected growth rate.

Q. Please summarize your application of the DCF model.

A. I calculated DCF results for each of the proxy group companies using the following inputs:

1. Average stock prices for the historical period, over 30-, 90-, and 180-trading days through December 31, 2024;
2. Annualized dividend per share as of December 31, 2024; and
3. Company-specific earnings growth forecasts for the term *g*.

My application of the model is provided in Exhibit JMC-.

Q. Why did you use averaging periods of 30, 90, and 180 trading days?

A. It is important to use an average of recent trading days to calculate the term *P* in the DCF model to ensure that the calculated ROE is not skewed by anomalous events that may affect stock prices on any given trading day. At the same time, it is important to reflect the conditions that have defined the financial markets over the recent past. In my view, consideration of those three averaging periods reasonably balances these interests.

Q. Did you adjust the dividend yield to account for periodic growth in dividends?

A. Yes, I did. Utility companies tend to increase their quarterly dividends at different times throughout the year, so it is reasonable to assume that such increases will be

evenly distributed over calendar quarters. Given that assumption, it is reasonable to apply one-half of the expected annual dividend growth rate for the purposes of calculating this component of the DCF model. This adjustment ensures that the expected dividend yield is representative of the coming 12-month period. Accordingly, the DCF estimates reflect one-half of the expected growth in the dividend yield.[31]

Q. What sources of growth have you used in your DCF analysis?

A. I have used the consensus analyst five-year growth estimates in earnings per share ("EPS") from S&P Capital IQ and Zacks, as well as projected EPS growth rate estimates published by Value Line.

Q. Why did you focus on earnings per share growth?

A. The Constant Growth DCF model assumes that dividends grow at a constant rate in perpetuity. Accordingly, in order to reduce the long-term growth rate to a single measure, one must assume a constant payout ratio, and that earnings per share, dividends per share, and book value per share all grow at the same constant rate. Over the long term, however, dividend growth can only be sustained by earnings growth. As noted by Brigham and Houston in their text, *Fundamentals of Financial Management*: "Growth in dividends occurs primarily as a result of growth in *earnings per share* (EPS)."[32] It is therefore important to focus on measures of long-term earnings growth from credible sources as an appropriate measure of long-term growth in the DCF model.

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[31] The expected dividend yield is calculated as $d_1 = d_0 (1 + ½ g)$.

[32] Eugene F. Brigham and Joel F. Houston, Fundamentals of Financial Management (Concise Fourth Edition, Thomson South-Western), at 317 (emphasis added).

Q. What are the results of your DCF analysis?

A. The results of my Constant Growth DCF analysis are provided in Exhibit JMC-4 and summarized in Figure 11.

Figure 11: DCF Results

	Mean Low	Mean	Mean High
30-day average	8.94%	10.16%	11.18%
90-day average	8.99%	10.22%	11.24%
180-day average	9.22%	10.45%	11.47%

Q. How did you calculate the Mean High, Mean Low, and Overall Mean DCF results?

A. I calculated the Mean High DCF result using the maximum growth rate (i.e., the maximum of the S&P Capital IQ, Value Line, and Zacks EPS growth rates) in combination with the expected dividend yield for each of the proxy group companies. I used a similar method to calculate the Mean Low DCF results, using the minimum growth rate for each company. The Mean results reflect the average growth rate from each source for each company in combination with the expected dividend yield.

B. CAPM Analysis

Q. Please briefly describe the general form of the Capital Asset Pricing Model.

A. The CAPM is a risk premium approach that estimates the cost of equity as a function of a risk-free return plus a risk premium (to compensate investors for the

non-diversifiable or "systematic" risk of that security).[33] As shown in Equation [3], the CAPM is defined by four components, each of which must theoretically be a forward-looking estimate:

$$K_e = r_f + \beta(r_m - r_f) \qquad [3]$$

where:

K_e = the required ROE for a given security;

r_f = the risk-free rate of return;

β = the Beta of an individual security; and

r_m = the required return for the market as a whole.

The term $(r_m - r_f)$ represents the Market Risk Premium ("MRP"). According to the theory underlying the CAPM, since unsystematic risk can be diversified away, investors should be concerned only with systematic or non-diversifiable risk. Non-diversifiable risk is measured by Beta, which is defined as:

$$\beta = \frac{Covariance(r_e, r_m)}{Variance(r_m)} \qquad [4]$$

where:

r_e = the rate of return for the individual security or portfolio.

The variance of the market return, noted in Equation [4], is a measure of the uncertainty of the general market, and the covariance between the return on a specific security and the market reflects the extent to which the return on that

[33] Systematic risks are fundamental market risks that reflect aggregate economic measures and therefore cannot be mitigated through diversification. Unsystematic risks reflect company-specific risks that can be mitigated and ultimately eliminated through investments in a portfolio of companies and/or market sectors.

security will respond to a given change in the market return. Thus, Beta represents the risk that the selected security will not be effective in diversifying systematic market risks.

Q. What risk-free rate did you use in your CAPM analysis?

A. I considered both the 30-day average yield on 30-year Treasury bonds as of December 31, 2024 (4.56 percent) and the Blue Chip forecast of the 30-year Treasury bond yield for 2026-2030 of 4.30 percent as my estimate of the risk-free rate.[34] That time period reflects a forward-looking view, which is the objective of the ROE analysis. Further, this time period aligns with FPL's proposed rate years under the multiyear rate plan.

Q. What measures of Beta did you use in your CAPM analysis?

A. As shown in Exhibit JMC-5.2, I considered two measures of Beta for the proxy group companies: (1) the Beta coefficients from Bloomberg (which I calculated using five years of weekly data against the S&P 500 Index); and (2) the reported Beta coefficients from Value Line (which are calculated using five years of weekly data against the New York Stock Exchange Composite Index).

Q. What Market Risk Premium did you use in your CAPM analysis?

A. I used the Constant Growth DCF model to estimate the total market return for the S&P 500 Index, using projected earnings growth rates and dividend yields from three sources: (1) S&P's Earnings and Estimates report; (2) Bloomberg Professional; and (3) Value Line. As of December 31, 2024, the average total

[34] Blue Chip Financial Forecasts, Volume 43, No. 12, November 27, 2024, at 14.

market return from these three sources is 16.68 percent, as shown in Figure 12 (also see Exhibit JMC-5.1).

Figure 12: Total Market Return

Source	Market Return
S&P Earnings & Estimates	17.08%
Bloomberg Professional	17.44%
Value Line	15.50%
Average	16.68%

I then calculated the MRP by subtracting the risk-free rate from the total market return of 16.68 percent. My calculation as shown in Exhibit JMC-5.2 yielded a market derived ex-ante MRP of 12.11 percent using the current 30-day average risk-free rate (4.56 percent) and 12.38 percent using the projected interest rate (4.30 percent).

Q. What are the results of your CAPM analyses?

A. The CAPM results range from 15.34 percent to 15.95 percent as shown in Exhibit JMC-5.2 and summarized in Figure 13.

Figure 13: CAPM Results

	Current Risk-Free Rate (4.56%)	**Projected Risk-Free Rate (4.30%)**
Value Line Betas	15.95%	15.93%
Bloomberg Betas	15.37%	15.34%

C. Risk Premium Analysis

Q. Please describe the Risk Premium approach that you used.

A. In general terms, this approach recognizes that equity is riskier than debt because equity investors bear the residual risk associated with ownership. Equity investors, therefore, require a greater return (i.e., a premium) than would a bondholder. The Risk Premium approach estimates the cost of equity as the sum of the Equity Risk Premium and the yield on a particular class of bonds.

$$ROE = RP + Y \qquad [5]$$

Where:

RP = Risk Premium (difference between allowed ROE and the 30-Year Treasury Yield) and

Y = Applicable bond yield.

Since the equity risk premium is not directly observable, it is typically estimated using a variety of approaches, some of which incorporate *ex-ante*, or forward-looking, estimates of the cost of equity and others that consider historical, or *ex-post*, estimates. For my Risk Premium analysis, I have relied on authorized returns from a large sample of vertically-integrated electric utility companies.

Q. What did your Risk Premium analysis reveal?

A. To estimate the relationship between risk premia and interest rates, I conducted a regression analysis using the following equation:

$$RP = a + (b \times Y) \qquad [6]$$

where:

RP = Risk Premium (difference between allowed ROEs and the 30-Year Treasury Yield);

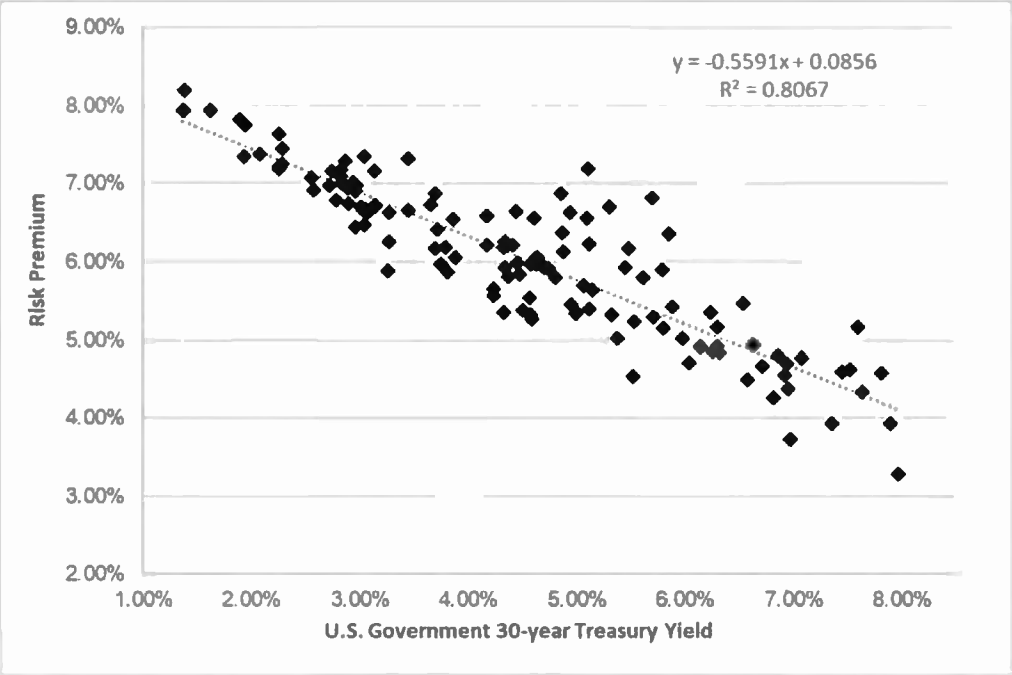
a = Intercept term;

b = Slope term; and

Y = 30-Year Treasury Yield.

Data regarding allowed ROEs were derived from 769 integrated electric utility company rate cases from January 1992 through December 31, 2024, as reported by Regulatory Research Associates.

Figure 14: Risk Premium



As illustrated by Figure 14, the risk premium varies with the level of bond yield, and generally increases as the bond yields decrease, and vice versa. In order to apply this relationship to current and expected bond yields, I consider three estimates of the 30-year Treasury yield, including the current 30-day average, a near-term Blue Chip consensus forecast for Q2 2025 – Q2 2026, and a Blue Chip

consensus forecast for 2026-2030. Based on the regression coefficients in Exhibit JMC-6, which allow for the estimation of the risk premium at varying bond yields, the results of my Risk Premium analysis are shown in Figure 15.

Figure 15: Risk Premium Results Using 30-Year Treasury Yield

	Using 30-Day Average Yield on 30-Year Treasury Bond	Using Q2 2025–Q2 2026 Forecast for Yield on 30-Year Treasury Bond[35]	Using 2026-2030 Forecast for Yield 30-Year Treasury Bond[36]
Yield	4.56%	4.48%	4.30%
Risk Premium	6.01%	6.05%	6.15%
Resulting ROE	10.57%	10.53%	10.45%

D. Expected Earnings Analysis

Q. Have you conducted any other analysis to estimate the cost of equity for FPL?

A. Yes. I have also conducted an Expected Earnings analysis to estimate the cost of equity for FPL based on the projected ROEs for the proxy group companies.

Q. What is an Expected Earnings Analysis?

A. The Expected Earnings methodology is a comparable earnings analysis that calculates the earnings that an investor expects to receive on the book value of a stock. The Expected Earnings analysis is a forward-looking estimate of investors' expected returns. The use of an Expected Earnings approach based on the proxy companies provides a range of the expected returns on a group of risk-comparable

[35] Blue Chip Financial Forecasts, Vol. 44, No. 1, December 30, 2024, at 2
[36] Blue Chip Financial Forecasts, Vol. 43, No. 12, November 27, 2024, at 14.

companies to the subject company. This range is useful in helping to determine the opportunity cost of investing in the subject company, which is relevant in determining a company's ROE.

Q. How did you develop the Expected Earnings Approach?

A. I relied primarily on the projected ROE for the proxy companies as reported by Value Line for the period from 2027-2029. I then adjusted those projected ROEs to account for the fact that the ROEs reported by Value Line are calculated on the basis of common shares outstanding at the end of the period, as opposed to average shares outstanding over the entire period. As shown in Exhibit JMC-7, the Expected Earnings analysis results in a mean of 10.91 percent and a median of 10.27 percent.

E. Evaluating the Model Results

Q. Please explain how you have considered the results of the DCF, CAPM, Risk Premium and Expected Earnings analysis to arrive at your ROE recommendation.

A. For each proxy company, I calculate the 4-model average giving equal weight on the results of the DCF, CAPM, Bond Yield Risk Premium, and Expected Earnings analyses. My ROE recommendation is ultimately based on the average produced by these four methodologies. As shown in Figure 16 (and computed in JMC-2 as the 4-Model Average), I derive an average base ROE estimate for the proxy group companies of 11.82 percent to 11.85 percent using projected and current interest rates, respectively, for an average of 11.83 percent, excluding flotation costs.

Figure 16: Base ROE Results

	ROE Estimate Using Current Interest Rates	ROE Estimate Using Projected Interest Rates
DCF	10.28%	10.28%
CAPM	15.65%	15.63%
Risk Premium	10.57%	10.45%
Expected Earnings	10.91%	10.91%
Range	10.28% - 15.65%	10.28% - 15.63%
Proxy Group Average ROE	11.85%	11.82%

As discussed in the next Section of my testimony, this estimate serves as a base prior to consideration of relative business risks and flotation costs.

VII. BUSINESS RISKS AND FLOTATION COSTS

Q. Are there factors specific to FPL's risk profile that you also considered in developing your ROE recommendation?

A. Yes, there are several factors that have a direct bearing on FPL's risk profile in relation to the proxy group. Those risk factors include: (a) the Company's substantial capital expenditure program; (b) FPL's nuclear generation fleet; (c) risk associated with storm damage and resulting outages; (d) regulatory risk relative to the proxy group companies; and (e) risk related to the term of FPL's proposed 4-year rate plan. In aggregate, those risk factors elevate FPL's risk profile relative to the proxy group and would support an authorized ROE above the mean, although I

have not made a risk adjustment above the mean. I also considered flotation costs associated with the issuance of common equity.

A. Capital Expenditure Program

Q. Please discuss FPL's capital spending program.

A. FPL projects that the Company will spend $39.0 billion on capital projects over the period from 2025-2028, or approximately $9.75 billion per year on average.[37] The primary purpose of these capital projects is to enhance the reliability of FPL's electric transmission and distribution system, to support customer growth, to meet the Company's generating capacity needs, and to harden the electrical system so as to further prepare for potential storm damage. FPL's projected capital expenditures represent approximately 56.86 percent of the Company's net utility plant of $68.6 billion as of December 31, 2023.[38]

Q. How is FPL's risk profile affected by its capital expenditure requirements?

A. As with any utility facing substantial capital expenditure requirements, the Company's risk profile is affected in two significant and related ways: (1) the heightened level of investment increases the risk of under recovery or delayed recovery of the invested capital; and (2) an inadequate return would put downward pressure on key credit metrics.

[37] NextEra Energy, Inc. and Florida Power & Light Company, SEC Form 10-K, for the year ended December 31, 2024, at 108.
[38] S&P Capital IQ.

Q. Do credit rating agencies recognize the risks associated with elevated levels of capital expenditures?

A. Yes. From a credit perspective, the additional pressure on cash flows associated with higher levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. To that point, Moody's explains the implications of large capital expenditure programs on utilities' credit profiles and notes that "[h]igh capital expenditures were a key driver of most of [Moody's] negative rating actions" in 2024:[39]

> Credit pressure is emerging most acutely for companies with large, complex or multiyear projects or for those that are experiencing a delay in the recovery of investment costs. Unlike exogenous events of recent years – such as severe storms, commodity price spikes and the COVID-19 pandemic, which we viewed as temporary events – capital spending and related financings are core long-term financial policy issues. As such, we are not regarding them as temporary and believe they will likely continue to lead to negative rating actions if not sufficiently mitigated.[40]

S&P explains the importance of regulatory support for large capital projects:

> When applicable, a jurisdiction's willingness to support large capital projects with cash during construction is an important aspect of our analysis. This is especially true when the project represents a major addition to rate base and entails long lead times and technological risks that make it susceptible to construction delays. Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more

[39] Moody's Ratings, Electric and Gas Utilities – US Sector In-Depth, "High capital spending will weigh on credit quality without supportive company actions," at 3 (October 21, 2024).

[40] Moody's Ratings, Electric and Gas Utilities – US Sector In-Depth, "High capital spending will weigh on credit quality without supportive company actions,", at 2 (October 2024)

> favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.[41]

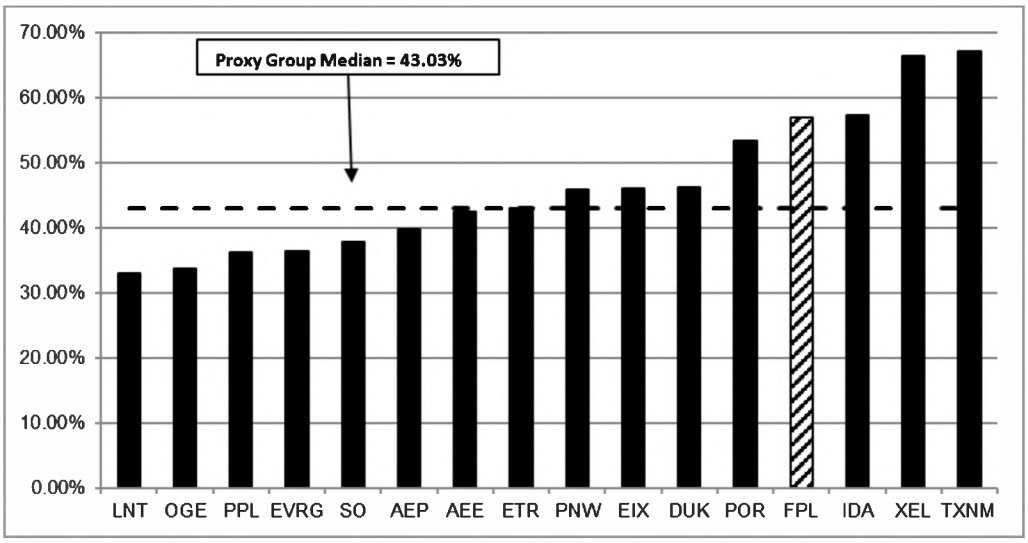
Therefore, to the extent that FPL's rates do not permit the Company an opportunity to recover its full cost of doing business, FPL will face increased recovery risk and thus increased pressure on its credit metrics. Maintaining access to capital markets on favorable terms is important for utilities and their customers, especially during periods of significant capital investment.

Q. Have you analyzed how FPL's capital spending program compares to those of the proxy group companies?

A. Yes. I compared the ratio of projected capital expenditures to net utility plant for FPL to the ratios for the proxy group companies. Figure 17 shows that FPL's ratio of projected capital expenditures to net utility plant is the fourth highest of the proxy companies and is 1.3 times higher than the median ratio for the proxy group of 43.03 percent. As discussed in the Direct Testimony of FPL witnesses Bores, Laney, Broad, De Varona and others, the Company's capital expenditure program is designed to benefit and deliver value for customers but does slightly elevate the risk profile of FPL.

[41] S&P Global Ratings, "Assessing U.S. Investor-Owned Utility Regulatory Environments," August 10, 2016, at 7.

Figure 17: Ratio of 2025-28 Capital Expenditures to 2023 Net Utility Plant



Q. What is your conclusion regarding how FPL's projected capital expenditure program affects the Company's risk profile and cost of equity?

A. My primary conclusion is that FPL is undertaking a substantial capital spending program through 2028 that will require the Company to maintain continuous access to capital markets on reasonable terms and conditions. FPL's ratio of capital expenditure requirements to net utility plant is higher than the median ratio for the proxy group companies, and places pressure on the Company's cash flows and credit metrics. For these reasons, it is important that the authorized ROE be set at a level that allows FPL to continue to attract both debt and equity under favorable terms under a variety of economic and financial market conditions.

B. Nuclear Generation Ownership

Q. Does the Company's generation portfolio include nuclear generating assets?

A. Yes. FPL's generation portfolio includes approximately 3,479 MW of owned nuclear generating capacity. Specifically, the Company owns 1,821 MW of

existing net generating capacity at the St. Lucie plant (which excludes the Orlando Utilities Commission's and Florida Municipal Power Agency's 15 percent ownership interest in St. Lucie Unit No. 2) and 1,681 MW of existing net generating capacity at the Turkey Point plant.[42]

Q. Please discuss the risk associated with nuclear generation ownership.

A. Nuclear generation resources are regulated by the U.S. Nuclear Regulatory Commission ("NRC"). FPL is subject to NRC mandates to meet licensing and safety-related standards that may require increased capital spending and incremental operating costs to ensure the continued operation of this low cost and emission-free generating source. With respect to the risk associated with NRC regulation generally, NextEra Energy's SEC Form 10-K specifically notes that, "NRC orders or new regulations related to increased security measures and any future safety requirements promulgated by the NRC could require NEE and FPL to incur substantial operating and capital expenditures at their nuclear generation facilities and/or result in reduced revenues."[43] Further, NextEra Energy also notes the risk associated with new regulatory requirements from the NRC as follows: "A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear generation facility. An incident at a nuclear facility anywhere in the world could also cause the NRC to impose additional conditions or other requirements on the industry, or

[42] NextEra Energy, Inc., 2024 SEC Form 10-K, at 8.
[43] NextEra Energy, Inc., 2024 SEC Form 10-K, at 31.

on certain types of nuclear generation units, which could increase costs, reduce revenues and result in additional capital expenditures for NEE and FPL."[44]

Q. Are there examples of the increased risk of new regulatory requirements that nuclear generation plant operators face?

A. Yes. One example is the increased oversight and regulatory requirements put in place after the March 11, 2011 earthquake and tsunami which caused significant damage to the Fukushima Daiichi nuclear complex in Japan and threatened the public health. After the Fukushima accident, the NRC formed a task force to assess current regulations and determine if new measures were required to ensure safety. The task force issued a report in July 2011 that included a set of recommendations for NRC consideration, and NRC Staff issued the first set of related regulatory requirements in March 2012. The Fukushima accident clearly demonstrates that additional regulatory oversight and requirements, which affect the cost of operating FPL's nuclear plants, can result from events wholly unrelated to FPL or its facilities.

Q. How does the investment community view the risk associated with nuclear generation assets?

A. Both equity analysts and credit rating agencies are aware of the operating and safety risks associated with nuclear generation assets. For example, Moody's noted in its August 2024 report for FPL, "[t]he company's nuclear generation fleet adds risks of waste management and pollution. While FPL has not had any problems with its nuclear fleet or nuclear waste to date, it remains an inherent risk for nuclear

[44] NextEra Energy, Inc., 2024 SEC Form 10-K, at 31.

operators in the industry."[45] S&P Global Ratings made the following comments on the challenges for nuclear operators:

> Nuclear energy has faced mounting criticism over security concerns, especially in the aftermath of the Fukushima disaster on March 11, 2011. Nuclear operators face unique risks of low-probability, but high-impact catastrophic events. As a consequence, operators face increasing political and social pressures on safety, waste disposal, and storage. While profitability remains a key pillar of our business risk assessment of nuclear operators, we equally take these other risks into account. Furthermore, nuclear-related long-term liabilities typically represent a large portion of nuclear operators' overall S&P-adjusted debt.[46]

UBS refers to FPL's nuclear operating risk;[47] and BMO Capital Markets notes that the Company's nuclear assets are subject to federal and state operational and safety standards.[48]

Q. Do other companies in the proxy group also face nuclear generation risk?

A. Yes. Ten of the 15 companies in the proxy group also own regulated nuclear generating assets. From that perspective, all other things equal, FPL has higher risk than five of the companies in the proxy group and comparable risk to ten of the companies in the proxy group. The extent of nuclear risk does vary by company according to the age, technologies, invested assets, fleet management capabilities, location, and other factors that would distinguish one company from another. FPL's regulated generation operating capacity is 9.9 percent nuclear versus an average of 9.3 percent for the proxy group, based on 2023 data. On a net generation basis,

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45 Moody's Investors Service, Credit Opinion, Florida Power & Light Company, August 14, 2024, at 9.

46 "The Energy Transition: Nuclear Dead or Alive," S&P Global Ratings, November 11, 2019, p. 10.

47 UBS, NextEra Energy Inc., July 24, 2024, at 2.

48 BMO Capital Markets, "NextEra Energy: Origination Drives Outperformance – Focus Turns Now to Election and FPL Rate Case," July 24, 2024, at 8.

FPL had a slightly higher proportion of nuclear generation in 2023 (20.1 percent) than the proxy group on average (19.9 percent). Further, FPL is the only investor-owned electric utility in Florida with nuclear generation. Considering that FPL has established a track record of safely operating its nuclear fleet, I conclude that FPL has comparable risk to the proxy group companies, on average, with respect to nuclear generating assets.

C. Severe Weather Risk

Q. Please explain the risk associated with severe weather in FPL's service territory.

A. FPL faces the risk of sudden, unexpected damage from severe storms. The prevalence of hurricanes, such as Hurricane Ian, the second costliest hurricane in U.S. history,[49] make FPL's operating area an especially high-risk area for incurring weather-related infrastructure repair costs and service disruptions. As FPL witness Bores reports, hurricanes, and storms over 2016-2024 (including Matthew, Irma, Dorian, Isaias, Eta, Ian, Nicole, Debby, Helene and Milton) inflicted a total of more than $4.6 billion of damage to FPL's system, before adjusting for inflation. Mr. Bores shows how these risks have grown substantially over the decades. The last four years have yielded the fourth (2023), third (2021), and most active (2020) Atlantic hurricane seasons in history. In the Atlantic Basin there were 30 named storms in 2020, of which 14 became hurricanes; 21 named storms in 2021, 7 of

[49] Source: Insurance Information Institute: https://www.iii.org/fact-statistic/facts-statistics-hurricanes#U.S.%20Hurricane%20Wind%20Risk,%20Gulf%20and%20Atlantic%20States,%202024

which became hurricanes; 14 named storms in 2022, of which 8 became hurricanes; and 20 named storms in 2023, of which 7 became hurricanes. In 2024 there were 18 named storms, 11 of which became hurricanes and five strengthened into major hurricanes (category 3 or higher).[50]

In addition to the need to fund repair costs, severe weather often leads to customer outages due to damage of transmission or distribution infrastructure, the disruption of generating capacity, or property damage so extensive that it prevents customers from taking service. Together, these effects can reduce FPL's revenue and strain the Company's operating cash flow. In order to continue to attract capital on reasonable terms, FPL must have the financial strength and flexibility to cover these severe weather costs until the Company is able to recover the costs from customers, which can take several years.

Q. Have credit rating agencies commented on FPL's risk related to severe weather?

A. Yes. For example, Moody's has noted that, "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."[51]

[50] Source: National Oceanic and Atmospheric Association ("NOAA") https://www.nesdis.noaa.gov/news/2024-atlantic-hurricane-season-wraps

[51] Moody's Investor Service, Florida Power & Light Company Credit Opinion, August 14, 2024, at 1.

Q. Does FPL have a regulatory mechanism that mitigates the risk related to severe weather?

A. Yes. The approved settlement from the 2021 rate case provides that FPL's future storm costs would be recoverable on an interim basis beginning 60 days from the filing of a cost recovery petition but in some cases its interim recovery for the first 12 months could be capped at an amount that falls far short of what the Company incurs to complete restoration after a major hurricane. If storm restoration costs exceed $800 million in any given calendar year, FPL was authorized to request an increase to the surcharge limit. As part of its four-year plan, FPL is proposing a similar mechanism that would allow FPL to petition for authority to recover costs over the cap, with the amounts and the recovery period to be determined by the Commission.

In 2019, Florida enacted Florida Statute Section 366.96 entitled "Storm protection plan cost recovery," a law that mandates the preparation of 10-year storm protection plans for utilities that must be updated every three years. According to the Commission:

> Section 366.96, F.S., requires each investor owned electric utility (IOU) to file a transmission and distribution storm protection plan (storm protection plan) for the Commission's review and directs the Commission to hold an annual proceeding to determine the IOU's prudently incurred costs to implement the plan and allow recovery of those costs through a Storm Protection Plan Cost Recovery Clause (SPPCRC).[52]

[52] http://www.psc.state.fl.us/library/filings/2019/08909-2019/08909-2019.pdf

Q. Do other companies in the proxy group also have storm-related risk?

A. Several other companies in the proxy group have storm-related risk. However, the severe weather risk for FPL is greater in magnitude due to the potential for storm damage that may cause extended outages and cost a substantial amount to repair. As FPL witness Bores points out in his testimony, "Florida's peninsular location within the subtropical latitudes and its topography exposes its electrical infrastructure to a higher likelihood of adverse weather events compared to most other parts of the country . . ."[53] Florida is consistently ranked among, or at the top, of the highest level of natural disaster risk in comparison to other U.S. states. Further, as Moody's noted, the Company's operations are concentrated solely in Florida, so it is not able to diversify its geographic, storm, or regulatory risk as the majority of other proxy companies are.

Q. Is risk associated with severe weather an increasing concern for utilities and their investors?

A. Yes. The credit rating agencies are increasingly concerned with growing physical risks to utilities associated with severe weather and climate events. In a November 2023 report, S&P noted that the increasing frequency of extreme and devastating physical events is heightening risks for North American investor-owned utilities.[54] S&P commented that it "has downgraded more IOUs due to physical events (e.g., hurricanes, storms, and wildfires) over the past six years by nearly 10 times

[53] Bores Direct.

[54] S&P Global Ratings, "A Storm Is Brewing: Extreme Weather Events Pressure North American Credit Quality," November 9, 2023.

compared with the previous 13 years."[55] From 2005-2017, S&P downgraded only two investor-owned utilities because of physical risks, but downgraded 19 between 2018-2023. S&P further noted that on an inflation-adjusted basis, 2021 and 2022 represented two of the top five most destructive years for extreme weather events since 1980, according to the National Oceanic and Atmospheric Administration. In its 2025 Industry Credit Outlook for the Utility Sector, S&P assumes that "these trends will persist, magnifying physical risks for the utility industry."[56]

Accentuating these reports, the 2020 Atlantic storm season was the most active on record for the number of named storms (30), exceeding the total of 27 in 2005. 2021 and 2023 were the third and fourth most active on record. Prior to 2005, no season had exceeded 20 since reliable record keeping began in 1944, and only once prior to then in 1933, with 21.[57]

Q. What is your conclusion with respect to FPL's risk due to severe weather?

A. My conclusion is that FPL has above average risk due to severe weather compared to the proxy group companies. As Moody's observes, FPL provides service in a state that is exposed to extreme weather events such as hurricanes and tropical storms. Unlike other companies in the proxy group, FPL (as an operating company) is unable to diversify this risk through operations in other jurisdictions that are not exposed to severe weather. While FPL has a storm cost recovery mechanism that

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55 S&P Global Ratings, "A Storm Is Brewing: Extreme Weather Events Pressure North American Credit Quality," November 9, 2023.

56 S&P Global Ratings, Industry Credit Outlook 2025, "North America Regulated Utilities: Capex and climate change pressures credit quality," at 9 (January 14, 2025).

57 https://www.ncdc.noaa.gov/sotc/tropical-cyclones/20051

allows the Company to petition for recovery of costs associated with restoring service after severe weather events, depending on the level of storm costs, recovery above a modest threshold lies within the Commission's discretion in terms of both amount and period of recovery. In all cases, final cost recovery is often the subject of protracted litigation before the Commission. The storm hardening mandate under Section 366.96, Florida Statutes offers the ability to further mitigate these risks, but climate change increases the risk that severe weather events will increase in frequency and magnitude. As FPL witness Bores points out, "These risks have the potential to directly impact FPL's credit profile and, therefore, financial strength. Customers will be disadvantaged if the Company is unable to deploy the necessary capital to continue to mitigate these risks and respond quickly and efficiently when these events occur."[58] FPL is undertaking substantial capital spending over the next decade to improve the reliability and resiliency of its electric transmission and distribution system. When evaluating cost of capital, it is necessary for the Company to have an authorized ROE that will allow FPL to attract capital to finance these investments that other utilities are not required to make.

D. Regulatory Risk

Q. Have you performed an analysis of the regulatory mechanisms for FPL as compared to those for the proxy group companies?

A. Yes. I have conducted an analysis of the regulatory mechanisms that are in place for FPL compared with those for the operating utility companies held by the proxy

[58] Bores Direct.

group. The results of my analysis are presented in Exhibit JMC-9. Specifically, I examined the following factors that affect the regulatory risk of FPL and the proxy group companies: (1) test year convention; (2) rate base convention; (3) revenue decoupling; (4) capital cost recovery; and (5) CWIP in rate base.

As shown in Exhibit JMC-9, 60 percent of the operating companies in the proxy group like FPL provide service in jurisdictions that allow the use of a fully or partially forecasted test year. Further, 56 percent of the operating companies in the proxy group use average rate base like FPL, while 44 percent are allowed to use year-end rate base. FPL does not have any revenue protection against fluctuations in customer demand, while approximately 68 percent of the operating companies held by the proxy group have either full or partial revenue decoupling mechanisms that protect against volumetric risk. However, I recognize that FPL's requested Tax Adjustment Mechanism ("TAM") has the potential to stabilize its non-cash earnings and customer bills, similar to the Reserve Surplus Amortization Mechanisms previously approved for FPL. Generally, FPL's generation costs must be recovered through rate cases, although the generation base rate adjustment and solar and battery base rate adjustment mechanisms (known as GBRA and SoBRA) have allowed FPL to recover costs for certain units between rate cases when those mechanisms have been approved by the Commission. Approximately 22 percent of the operating companies in the proxy group have a cost recovery mechanism for generation capacity, and about 59 percent have cost recovery for other

infrastructure. Finally, FPL is allowed to include CWIP in rate base, similar to approximately 74 percent of the operating companies held by the proxy group.

Q. Based on this analysis, what is your conclusion regarding the level of regulatory risk for FPL relative to that of the proxy group companies?

A. As discussed above and as shown in Exhibit JMC-9, FPL has similar regulatory risk to the proxy group companies in terms of test year and rate base convention. Moreover, FPL has comparable regulatory risk with respect to cost recovery for large capital projects and the ability to include CWIP in rate base. However, FPL does not have protection against volumetric risk, while slightly more than 68 percent of the operating companies held by the proxy group have revenue decoupling mechanisms that mitigate the effect on revenue of variations in demand. On balance, my conclusion is that FPL has comparable regulatory risk to the proxy group.

E. Multi-Year Rate Plan

Q. Please explain the risk associated with FPL's proposed four-year rate plan.

A. FPL is proposing a four-year rate plan under which the rates set in this proceeding would be in effect from 2026-2029. A multi-year rate plan has benefits for the Company and customers in terms of providing rate stability, but there are also certain risks associated with a longer-term rate plan. One of those risks relates to inflation. As evidenced over the past several years, both monetary policy from the Federal Reserve and fiscal policy from the U.S. Congress play pivotal roles in determining the levels of inflation. It remains to be seen how President Trump's

economic policies will impact the economy, but as mentioned previously, an aggressive stance on trade tariffs could spark a new round of inflationary pressure as tariffs are reflected into consumer goods.

Q. Are there other risks related to a multi-year rate plan?

A. Yes, in addition to the potential for higher interest rates over the term of the four-year rate plan, a multi-year rate plan limits the Company's ability to request a change in rates due to other factors. This inability to seek recovery of higher costs during the term of the rate plan increases the utility's risk. Further, if the cost of equity for FPL increases during the rate term, the Company will be required to wait to reflect that change in a subsequent rate proceeding.

Q. What is your conclusion with regard to the multi-year rate plan?

A. While FPL's proposed four-year rate plan provides rate certainty for both customers and the Company, there are attendant costs and risks of any multi-year rate plan. In particular, a multi-year stay-out agreement places certain risks on FPL's shareholders, including unexpected increases in costs or the cost of capital.

F. Flotation Costs

Q. What are flotation costs, and how do they affect the cost of capital?

A. Flotation costs are the costs associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other costs of issuance of common stock. To the extent that a company is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diminishing

the utility's ability to attract adequate capital on reasonable terms. To estimate flotation costs, the DCF calculation is modified to provide a dividend yield that reimburses investors for issuance costs. Based on the proxy group actual issuance costs shown in Exhibit JMC-10, flotation costs for the proxy companies have equaled roughly 2.51 percent of gross equity raised. To properly reflect these issuance costs in my cost of capital estimates, it is necessary to increase the authorized ROE by approximately nine basis points for FPL, as shown in Exhibit JMC-10.

Q. Do your final results include an adjustment for flotation cost recovery?

A. Yes. I add nine basis points to my base ROE recommendation of 11.83 percent for flotation costs, for a final ROE recommendation of 11.90 percent (rounded).

VIII. CAPITAL STRUCTURE

Q. What is FPL's proposed capital structure?

A. FPL is proposing a financial capital structure consisting of 59.6 percent common equity and 40.4 percent debt. In Florida, Accumulated Deferred Income Taxes are included in rate base and are part of the regulatory capital structure at 0 percent cost. Florida also includes customer deposits in the regulatory capital structure. FPL's proposed equity ratio using a regulatory capital structure is 48.04 percent in the 2026 and 2027 Projected Test Years. As explained by FPL witness Bores, this is the Company's actual capital structure and is how the Company has been financed for nearly twenty-five years.

Q. How have you assessed the reasonableness of FPL's proposed capital structure with respect to the proxy group?

A. The proxy group has been selected to reflect comparable companies in terms of business and financial risks. Therefore, it is appropriate to compare the financial capital structures of the proxy group companies to the financial capital structure proposed by FPL in order to assess whether the Company's capital structure is reasonable and consistent with industry standards for companies with commensurate risk. I calculated the weighted average capital structures for each of the proxy group operating companies for the three years ended 2023. Exhibit JMC-11 shows that the Company's proposed common equity ratio of approximately 59.6 percent on a financial basis is the upper end of the range of actual common equity ratios of 41.43 percent to 59.22 percent for the operating companies held by the proxy group over this period.

Q. What is your conclusion regarding the appropriateness of FPL's proposed capital structure in this proceeding?

A. Based on the analysis presented in Exhibit JMC-11, my conclusion is that FPL's proposed financial capital structure of 59.6 percent common equity and 40.4 percent debt is reasonable. FPL's equity ratio of 59.6 percent on a financial basis is the upper end of the range established by the operating companies held by the proxy group. Sufficient equity in the capital structure is an important factor for maintaining FPL's financial integrity and investment grade credit rating. As noted by FPL witness Bores, "FPL has maintained the current equity ratio for nearly twenty-five years, and it is foundational to FPL's current credit rating, financial

strength and flexibility to raise capital when needed to make long-term investments for the benefit of customers."[59] This capital structure represents management's decisions on how best to finance its operations. The Company's proposed equity ratio is reasonable, given the additional risk borne by FPL relative to the proxy group—i.e., the Company's projected capital expenditure requirements, risk associated with ownership of regulated nuclear generation assets, and storm-related risks.

IX. CONCLUSIONS AND RECOMMENDATION

Q. What is your conclusion regarding a fair ROE for FPL?

A. As discussed throughout my testimony, it is important to consider a variety of quantitative and qualitative information in reviewing analytical results and arriving at a reasonable and appropriate ROE determination. Based on the quantitative analyses produced by the DCF, CAPM, Risk Premium, and Expected Earnings approach, I recommend a base authorized ROE for FPL of 11.83 percent equal to the average of the four methodologies, plus nine basis point adjustment for flotation costs, for a total of 11.92 which rounds down to my final recommendation of 11.90 percent. As discussed herein, my recommendation considers the Company's relative risk profile and the current economic and capital market environment.

[59] Bores Direct

Q. What is your recommendation with regard to the capital structure for FPL in this proceeding?

A. I support FPL's proposed financial capital structure of 59.6 percent common equity and 40.4 percent debt as reasonable, relative to the range of capital structures for the operating companies held by the proxy group companies, and consistent with the actual capital structure of the Company. This capital structure appropriately reflects FPL's substantial capital expenditure program, ownership of nuclear generation, and the Company's storm-related risk which place it at higher risk than the proxy companies. I recommend the Commission adopt FPL's proposed capital structure.

Q. Does this conclude your Direct Testimony?

A. Yes.

BY MS. MONCADA:

Q Mr. Coyne, are you also sponsoring exhibits JMC-1 through JMC-11 to your direct testimony?

A Yes.

Q And were those prepared under your direction or supervision?

A They were.

MS. MONCADA: Mr. Chairman, these have been pre-marked on staff's list as Exhibits 114 through 124.

CHAIRMAN LA ROSA: Okay.

MS. MONCADA: Thank you.

BY MS. MONCADA:

Q And, Mr. Coyne, could you provide a summary of your testimony in a minute or less?

A I will. I know the hour is late.

Q Thanks.

A I appreciate the stamina of this commission and all parties.

My direct testimony presents evidence and provides a recommendation for FPL's return on equity and capital structure based on a comprehensive set of analyses that utilize market data and compare FPL to a proxy group of 15 industry peer companies.

No model can exactly pinpoint the correct cost

of equity, so my analysis considers the range of results produced by four models. From within that range, I take into consideration capital market conditions and relevant risk factors in order to arrive at a final recommendation for FPL.

Current market data indicate that the cost of equity has increased since the Commission approved the settlement in FPL's last rate proceeding in December of 2021. Reflecting these factors, I find that a base ROE of 11.9 percent, and capital structure with a common equity ratio of 59.6 percent is both just and reasonable for shareholders and customers for the 2026 through 2029 rate period.

I look forward to responding to your questions.

Q Thank you.

MS. MONCADA: Mr. Coyne is available for cross.

CHAIRMAN LA ROSA: OPC, you are recognized for questioning.

MS. CHRISTENSEN: Yes.

EXAMINATION

BY MS. CHRISTENSEN:

Q Good evening, Mr. Coyne.

A Good evening.

Q You filed direct testimony in this docket occupancy February 28th, 2025, correct?

A The direct testimony?

Q Correct.

A Yes.

Q Okay. And on page four of that testimony, you list the exhibits you are sponsoring, is that correct?

A Yes.

Q And you have been providing testimony on cost of capital issues for over 20 years, is that right?

A That's right.

Q And you would agree that the majority of your clients have been utilities, am I correct?

A That's correct.

Q Looking at your Exhibit JMC-1, and that is C61562. That's your curriculum vitae, correct?

A Yes.

Q Okay. And I wanted to ask you about a few of your cases on that curriculum vitae. If you turn to page 11 out of the 13. Do you see at the bottom of there, under the South Carolina Public Service Commission header, do you see Duke Energy Carolinas 2024?

A I do, yes.

Q And do you recall that in that South Carolina

case for Duke, you filed testimony on May 17th, 2024, on the settlement that agreed to an ROE of 9.94 percent with a 51.21 percent equity ratio, is that correct?

A I recall the case. I would have to see the settlement to be able to confirm those numbers.

Q Okay. Did you want to take a look at a copy of your testimony that you filed in that, or would you take it subject to check?

A This is the settlement testimony in that case?

Q Correct.

A Okay. And the settlement you are citing was an ROE of?

Q 9.94 percent with a 51.21 percent equity ratio.

A Why don't I accept that subject to check?

Q Okay. And that was 56 basis points below your recommended ROE, correct?

A I don't have that in front of me.

Q Okay. Do you want me to pull it up -- well, let me ask you this question and we will see.

Subject to check, would you agree that your recommended ROE prior to the settlement was 10.5 percent in that case?

A Again, subject to check, yes.

Q Okay. And -- well, let me ask -- let me go

ahead and have you take a look at your testimony in that case? That would be F2-11783.

And does that look like the testimony that you filed in that case? Does that look familiar?

A Yes. Can we just go to -- is that your first page? Do you have a cover page?

Q I believe that was the first page -- no, there is the cover page.

A I have a little bit of a lag here on my screen.

MR. SCHULTZ: You should be able to use the mouse.

THE WITNESS: Oh, I see. I can actually mouse. Okay. Yes. It does.

BY MS. CHRISTENSEN:

Q Okay. And were the numbers that we were discussing earlier the correct numbers?

A The settlement numbers, 9.94 and 51.2 -- did you say -- I thought you said 51.25.

Q No. I said that the settlement number was 9.94 percent ROE --

A Uh-huh.

Q -- with a 52 point -- or I am sorry, 51.21 percent equity ratio. Do you see that?

A I see that here then. I thought you said 25.

Q No.

A But, yes, I see that and can confirm that.

Q Okay. And I believe in a portion of this testimony, it indicates that your initial recommendation was 10.0 -- or 10.5, on page -- basically the last page of the testimony, if you scroll down one more page. There you go. Do you see that? I am sorry, there were two, because there were two different cases, 10.7 and a 10.50 respectively, do you see that?

A I do see that. Yes.

Q Okay. And then on page 13, going back to your curriculum vitae, which is JMC-1, and you have listed Northern States Power Company, is that correct?

A Yes.

Q Okay. And that's a subsidiary of Xcel Energy, is that correct?

A Yes.

Q Okay. And you also filed testimony in that case where you recommended an ROE of 10.25 with a 52.5 percent equities ratio. Do you recall that?

A Which case are you referring to?

Q I'm -- well, let's pull up the case and then we will both be -- know specifically.

A Okay.

Q F2-11778, please? I believe it was the '23

case, but I wanted to confirm. Well, I think I took you to the last page with the equity ratio. Let me take you to the cover page, or closer to the cover page. F2-11748.

A Okay. I am on that page with you.

Q Okay. And I believe if you scroll to the front of the document, it should have the title page for this case?

A I see that, yes.

Q And I believe that was testimony, it looks like you filed, was it '24 -- or '23, is that what it says --

A I believe --

Q -- or is that more recently?

A No, I believe it's 2023 --

Q '23.

A -- it should have a time stamp at the top.

Q Yeah. It looks like it was received April 28th, 2023?

A Correct.

Q Okay. And do you recall recommending an ROE of 10.25 with a 52.5 percent equity ratio in this case?

A Yes.

Q Okay. Now, let's return to your direct testimony, page five, and that's C6-1492. Okay. And

your there?

A I am there.

Q Returning to that page number five, the purpose of your testimony is to present your recommendations for the return on equity for FPL, correct?

A That's right.

Q And you have a section later in your testimony, number, I believe it's nine, and you have a discussion of FPL's capital structure compared to your proxy group, is that correct?

A I do, yes. Which page reference are you referring to?

Q That would be page 10, line 11, and I believe that -- I may have -- I am sorry, section eight was where you discuss FPL's capital structure in the context of the proxy group, is that correct?

A Yes.

Q Okay. Now, looking back at your testimony, would it be fair to say you did not consider the affordability of FPL's rates for customers as a specific section within your testimony?

A As a specific section, no. As I mentioned at the outset, it's my belief that that -- in setting a fair return, it's the Commission's obligation to set a

return that's fair and balanced in the interest of both shareholders and for customers. But it's not an intrinsic element of the cost of capital analysis. That's a market-based analysis.

Q Okay. And you would agree that this commission, in citing the Florida Supreme Court, has said that they recognize the balance between the utility's interest and the customer's interest, and the resolution that rates are to be neither insufficient for the utility nor excessive for customers, correct?

A I recognize that language, and it's consistent with the public interest standards that generally guide commissions across the country.

Q And would it be fair to say that, other than applying the Supreme Court Hope and Bluefield standards, you did not consider the affordability of FPL's in your -- rates in your analysis?

A That's right. It's not intrinsic to a cost of capital analysis.

Q And while you would agree that FPL's management is sensitive to the issue of affordability, you did not make any changes to your approach to your ROE recommendation, correct?

A No. It's based on capital markets.

Q Okay. And speaking of the capital markets, to

make your ROE recommendation, you applied the standard ROE estimation tools such as discounted cash flow model, the capital asset pricing model, risk premium models, correct?

A Yes, I did.

Q And would you agree that each of these models reflect the state of the general economy and financial market by incorporating specific economic and financial data?

A In general, yes.

Q And if you look at page 14 of your direct testimony, specifically lines 14 through 17, you say that these inputs are, however, only samples of various economic and market forces that determine a utility's required return. Consideration must be given to whether the assumptions rely on the current or projected market data, and whether they are appropriate, correct?

A That's right.

Q And to do that, you use a proxy group of companies that you determined best approximated FPL in the marketplace by applying specific screening criteria, which are listed on page 29 of your direct testimony; is that correct?

A Yes. That's correct.

Q And one of the listed criteria that you

applied on page 29, and I think it's going over to the following page, specifically bullet point number eight, is that a company not be involved in a merger or other transformative transaction for approximately six months, correct?

A Yes.

Q And your list of proxy groups is contained on JMC-3, in figure 10 on page 31, correct?

A That's right.

Q And you said you picked this group because it best aligns with the financial and operational characteristics of FPL, in that, they are investment grade and in sound financial condition, correct?

A Those were among the factors that I considered. All the factors were listed in those eight criteria.

Q Okay. And you included the TXNM Energy as part of your proxy group, is that correct?

A That's right.

Q And TXNM Energy announced that it was being acquired on May 19th, 2025, right?

A I don't know the date. I am aware of the acquisition, yes.

Q Okay. And that announcement was made after you did your initial analysis and choosing your proxy

group?

A It was. Yeah. And that's why I changed my proxy group in my rebuttal testimony.

Q Okay. And we will get their tomorrow, I am sure, or a few days.

A Okay.

Q Turning back to 29, lines three through six. Is it your testimony that FPL has long-term issuer ratings from S&P of A with a stable outlook, or Moody's of an A1 with a stable outlook, and Finch of A with a stable outlook?

A That's my understanding. Yes.

Q In developing your selected proxy group, you only used S&P for screening, not Moody or Finch's long-term credit ratings, is that correct?

A That's right.

Q And in creating your proxy group, you used investment grade utilities rather than screening for only utilities with BB+ or stronger; is that also correct?

A That's right.

Q And although the prox -- although a proxy group with a B+ or better would have produced utilities with more similar credit rating characteristics to FPL than investment grade only, you chose to keep the

investment grade criteria for the proxy group as being representative for FPL, right?

A That's right. When I choose proxy groups, I start with a screen that is designed to produce what I consider to be a robust enough proxy group to give me a good sample statistically, and also from a risk analysis perspective to compare it to the target company. And these are the typical rate that I use.

I would add that most of the companies are ranked in the BBB or BBB+ range or higher, but I do start with BBB-. There aren't many utilities that are at that level.

Q Okay. Would you agree that a company's credit rating refers to the risk of repayment to debt investors?

A Yes.

Q And would you agree that the higher the company credit rating reflects a lower risk of it's not repayment -- if it's not repaying to debt investors?

A In general, yes, but the -- let's underscore your language and mine, that we are talking about debt investors. So what I am trying to do here is to create a proxy group based on these eight criteria, that's one of them, that give me a sufficient window into an equity investor's required return. So these are criteria

designed to select a proxy group that I can then begin to work with for my analysis.

Q Okay. And I think, as you just said, that it was one of the criteria that you looked at, correct?

A I am sorry, could you repeat the question?

Q The credit rating of the companies you chose, that was one of the things you looked at, was the credit rating?

A Yes. Yes. That's one of the eight.

Q Okay. And although equity investors look at earnings growth and earning volatility, things of that nature, you would agree that equity investors also look at the company's credit ratings as well?

A I believe they do. Yes.

Q Okay. And you would agree that the purpose of the screening criteria you selected is to find a group of companies that will tell you what the appropriate rate of return is for a company like FPL, not its parent company, that has other risk factors that FPL does not have, correct?

A That's right. If we could pause there, I would like to take you to my exhibits.

Q Well, I don't think I have a pending question, so unless --

A But I have a pending response.

Q Well, yeah, but if you have a further explanation, I am sure your counsel will be happy to ask you a follow-up question.

A Well, if I may, the question that I believe that I was answering for you was the relevance of the credit profile of these companies to an equity investor like FPL.

CHAIRMAN LA ROSA: If counsel would want further --

MS. CHRISTENSEN: No --

CHAIRMAN LA ROSA: If counsel would want further explanation, then you can ask a follow-up question.

BY MS. CHRISTENSEN:

Q Right. And I think my question was a little bit more narrow than that, Mr. Coyne. It was just whether or not the screening criteria you selected to find the company will tell you the appropriate rate of return is for a company like FPL, not the parent company, that has other risk factors. I think you agreed with that.

A Well, no, that's not the question as I heard it.

Q Well, that was the question that I asked. So if you could answer that question, that would be

wonderful. Thank you.

A It would be helpful to me to repeat the question, then.

Q Absolutely.

Would you agree that the purpose of the screening criteria you selected is to find a group of companies that would tell you what the appropriate return on return is for a company like FPL, not its parent company, that has other risk factors that FPL does not have?

A Well, the screening criteria -- okay, now that I have heard your question more carefully. The screening criteria will not tell me the required return. What the screening criteria will do is to give me a group of companies that I can then analyze, and through that analysis, produce a required -- an estimated equity return for companies with a similar risk profile to that proxy group. And then -- and then as an analyst, it is my role to look at the risk profiles of those utilities compared to FPL to see if there is any adjustment that's required.

So that would be a more fulsome answer to your question as I now fully understand it.

Q Okay. And I just wanted to make sure that I am clear and that I understood your answer. That

this -- the idea of the proxy group is to match FPL, not its parent company, correct?

A Well, I wouldn't use the word match. Again --

Q Well, I mean, to a proxy -- I mean, you are putting it together to create similar risk for FPL, not for the proxy -- for the parent company, correct?

A Sufficiently similar risk to the target company, which is FPL, and not the parent company. That's correct.

Q Okay. That's all I was asking for. Thank you.

A Okay.

Q Now, let's discuss a little bit your discounted cash flow model. You use that as part of your analysis, correct?

A I do.

Q And if we look at, I think it's your DCF model results from JMC-2, page one of one, and that's C6-1565, and have you go there.

Okay. And this lists your DCF results, is that correct?

A I do, yes. I am looking for my hard copy as well.

Q Okay.

A I am with you.

Q Okay. And the DCF model results are from 10.16 percent to 10.45 percent with the average being 10.28 percent, is that correct?

A Those are the averages for the proxy group.

Q Okay. And if I take you then again back to page 33 of your direct testimony, you use a constant growth DCF model, is that right?

A That's right.

Q And it's your testimony that the constant DCF model is based on the following assumptions: One, a constant average growth rate for earnings and dividends; two, a stable dividend payout ratio; three, a constant price to earnings multiple; and, four, a discount rate greater than expected growth rate; is that correct?

A That's correct. Yeah.

Q Okay. Now, you chose a constant growth DCF model because FPL is at a mature stage of its life cycle, right?

A As a utility compared to other companies, it would be considered so, yes.

Q And you would agree that the long-term growth rate should theoretically be the growth rate that a company can sustain into perpetuity, correct?

A That is an assumption of the constant growth model. Yes.

Q And would you also agree that often, gross domestic product growth for the risk-free rate can serve as a proxy for that growth rate?

A As a growth rate for which?

Q For a long-term sustainable growth rate into perpetuity?

A For which company? I am not sure if I am with you in your question.

Q Well, if you are doing the DCF model and you are doing it for a company like FPL, and you are looking at a long-term growth rate, you could use the gross domestic product as a substitute for the risk-free rate, correct, people do do that?

A I don't know why you would ever use a gross domestic product number as a substitute for a risk-free rate. That would make no economic sense.

Q Well, would you at least agree that in the long-term, that it is not realistic for a company's growth to outpace the growth of the general economy?

A Could you repeat your question for me?

Q Sure.

Would you agree that over the long-term, that it is not realistic for a company's growth to outpace that of the overall general economy?

A Well, I would disagree with that.

Q Okay.

A Better companies do all the time. The S&P 500 companies do all the time. Utilities do.

Q Well, let me ask you this: For your DCF evaluation, isn't it true that a constant growth rate is also known as the terminal growth rate, and it's typically assumed to be two percent and four percent to reflect a realistic and sustainable growth rate which mirrors GDP growth rate or the risk-free rate?

A There is a lot in your question. Could you break -- let's break it down to pieces, if you could.

Q Okay.

A So you are asking me -- in the beginning of your question, you are asking me if a growth rate of what numbers?

Q I said, isn't it true that a constant growth rate is also known as a terminal growth rate, which is typically assumed to be between two percent and four percent to reflect a realistic sustainable rate, which often mirrors GDP growth for the risk-free rate?

A It's -- that's a generic statement. If you are applying it to utilities, I would say absolutely not. If you look at the utilities in my -- in this proxy group, they are all growing at rates of multiples of that. And if you look at the electric utility

industry at a time of unprecedented growth in terms of capital requirements for the industry, there is -- there -- it would be a very unrealistic assumption that two- to four-percent is earnings growth rate, because we know that rate base has to grow faster than that just to accommodate all the requirements of our electric grid that are today, and on the horizon, some might argue that that is -- that that's appropriate. There is nothing in the data that I see that would support that.

Q Okay. But let me ask you this: Have you used and relied on multistage DCF analysis in your testimony filed in other regulatory jurisdictions?

A Yes, I have used the multistage model at times, yes.

Q Okay. And would you agree that one of the reasons that you have used a multistage DCF analysis in other proceedings is because there may be concerns about the sustainability of growth rates?

A Yes, I hear that there I may be concerns about sustainability of growth rates, and I will, at times, introduce the multistage model to show what those results would look like if they were tempered so.

I am also aware that this commission, in its most recent order for TECO, examined this issue, and accepted the argument that I believe that utilities

operate in mature industries, and that it is appropriate to use the constant growth model form of the DCF model for these purposes. So I think I am aligned with the Commission's finding in that regard.

Q Well, it also has not made a finding that multistage DCF approach is inappropriate, correct?

A I have not seen that, but to me, that's a reciprocal side of the same issue.

Q Okay. And on page 36 of your testimony, you show the results of your DCF model and the average of the mean load -- low growth is 9.05 percent, right?

A Which page of my testimony are you on?

Q I am on page 36, if you look at figure 11.

A Yeah.

Q And if you look at the column that states mean low. And if you average those results for the 30-day average, the 90-day average and the 180-day average, you would end up with a 9.05 percent, would you agree to that, subject to check?

A I would prefer just to go ahead and do that math.

Q If you have a calculator, please do check my math. I am an attorney, so subject to correction.

A I would, rather than to come back later. I know it's late in the evening, but if the Commission

will bear with me, I will. I hadn't realized you wanted to take an average of those numbers.

Q Yep, just a simple average.

A I get that number. The average of those three numbers is 9.05 percent.

Q Okay. And then the mean column, the average for that column would be 10.28 percent, correct?

A That looks about right.

Q Okay. And then for the mean high column, if you took the average of that column, it would be 11.30 percent, correct?

A Again, it looks about right.

Q Okay. And in your figure 16 on page 44 of your testimony, you show the 10.28 ROE figure for your DCF results, correct?

A I do. Yeah.

Q Okay. And then you also used a capital asset pricing model, correct?

A I do.

Q And I believe your analysis, or your discussion of that starts on page 36 of your testimony?

A Yes, it does.

Q And in your constant -- or in your CAPM modeling, you used the constant growth DCF model to system the total market return for the S&P 500 Index

using projected earnings growth rates and dividend yields, is that correct?

A I did.

Q And with regard to the overall methodology for using the DCF model, the method you have used to calculate the forward-looking market risk premium is you claim is consistent with the methodology used by FERC in opinion number 531-B, is that correct?

A Where are you in my testimony?

Q I am looking at, I believe -- I am not sure if this was your discussion that we had in deposition or if -- where it says it exactly in your testimony. But would you agree that the -- it's your position that using the DCF constant growth model and the S&P 500 Index, that would be consistent with the calculation for the forward-looking market risk premium methodology used by FERC in its opinion 531-B?

A I think of it as being similar to FERC's methodology in 569-A and B, and I lay this out in great detail in my rebuttal testimony exactly what the similarities are and what the differences are.

Q Okay. So there are differences between your approach and what FERC does as part of their methodology?

A There are differences, yes.

Q Okay. And the method you used to calculate the forward-looking market risk premium for the S&P 500 market risk premium includes both dividend paying and non-dividend paying companies, correct?

A In my analysis?

Q Correct.

A Yes.

Q And you would agree that FERC, in its opinion 531-B, excludes the non-dividend paying companies in its application when calculating the total S&P 500 MRP, right?

A They did, and I have testified -- I provided evidence to FERC on that issue pointing out what I believe are the flaws in that approach, but, yes, that was -- that was -- that's where FERC is on this issue even now.

Q Okay.

A And I point out the inconsistency between that approach and the use of beta, which is actually based on the entire market, and the flaws with excluding many companies from the market that are going into the same CAPM model. So it's an issue that, in my mind, FERC has yet to adequately resolve.

Q However, FERC --

MR. BURNETT: Mr. Chairman, I am sorry, brief

interruption. We are getting into rebuttal issues, which we don't mind at all. We are happy to bang those two together and have rebuttal and direct at the same time, if it's helpful for counsel. I believe we had asked earlier and gotten declined.

CHAIRMAN LA ROSA: We did. Is that -- would counsel agree, OPC, that we are going into rebuttal segment or discussion?

MS. CHRISTENSEN: I don't -- I think these are probably fair questions, because his direct testimony talks about how he calculates the CAPM using the S&P 500, and how he does that. And so I am testing whether or not it's consistent with FERC. If counsel would prefer, we can save these questions for rebuttal.

MR. BURNETT: Thank you, Mr. Chairman. I don't prefer at all. We asked earlier if we could merge the two together for efficiency, and we were told no by OPC. If they want to do it now, they changed their mind, we would love it.

CHAIRMAN LA ROSA: Yeah.

MS. CHRISTENSEN: I mean, I don't think that they are, you know, encroaching solely on rebuttal testimony. I can ask my questions, I won't -- I don't think it will be going into the same area in

rebuttal so we can do now or we can do it later. I don't really care. Would you prefer that I --

CHAIRMAN LA ROSA: I am sorry?

MS. CHRISTENSEN: I said I am happy to defer the questions on the FERC order until we get to rebuttal.

CHAIRMAN LA ROSA: Yeah, let's do that.

MS. CHRISTENSEN: Okay. Let me just take a look real briefly.

BY MS. CHRISTENSEN:

Q Okay. Now, let me ask you about the CAPM. That uses three inputs. First is the risk-free rate of interest, usually long-term bonds such as the 30-year U.S. Treasury, correct?

A That's right.

Q An the S&P 500 has a beta of .1, and a company above .1 is usually considered more risky than the stock market, and below .1 is less risky, is that correct?

A The beta for the market is 1.0.

Q All right. 1.0, sorry. It's getting late, I am getting a little tired, but -- okay.

So 1.0 is the S&P 500. Above 1.0 is usually considered more risky, and below 1.0 is usually considered less risky than the market, correct?

A Generally so, yes.

Q Okay. And you would agree that the financial components of a CAPM is the expected equity or market risk premium which is often -- which is often the most difficult input to measure, correct?

A I would say that all three inputs to the CAPM are difficult to measure. The beta, the market equity risk premium and, for that matter, the risk-free rate. So that's one of the challenges of the model, is that all three are difficult to estimate, and there is a great amount of debate about both the robustness of the model and sources of those inputs. That's one of the things that we deal with when we use the model.

Q Okay. But generally speaking, the 30-year U.S. Treasury, that's something that you can find that's published by the U.S. government on a daily basis, correct?

A I have been in long dragged out debates regarding the future of the risk-free rate. So I would love to say the answer to your question is yes, but not in say experience, even that is subject to considerable scrutiny and debate, whether or not you use a current or forward-looking risk-free rate is an issue.

And just look at, since this commission last set the ROE for Florida Power & Light in 2021, when the risk-free rate was below two percent, you know, it's now

been hovering between 4 and 5 percent. So I wouldn't restrict the difficulty to just the market equity risk premium.

Q All right. Fair enough.

You would -- if you look at figure 13 on page 39 of your direct testimony, this shows the results of your CAPM, correct?

A Yes.

Q And your results of your CAPM using Bloomberg and -- the result are you CAPM using the Bloomberg current risk-free rate of 4.56 percent results in a 15.37 percent end result with an implied risk premium of 10.82 percent, correct?

A The 15.37 and the implied risk premium, where are you getting that from?

Q Correct. If you look at figure 13 --

A Uh-huh.

Q -- and you say the current risk-free rate, 4.56 percent, correct?

A Yes.

Q And if you look at the Bloomberg betas, that's 15.37, so if you subtract the risk-free rate from the Bloomberg rate, you end up with an implied risk premium of 10.81, correct, subject to check?

A Yes.

Q Okay. And subject to check, looking at the CAPM results using the Bloomberg projected risk-free rate of 4.30, and taking that from the 15.34 percent, you would end up with an implied risk premium of 11.04, correct?

A Yes.

Q Okay. And looking at, then, the Value Line betas, if you look at the current risk-free rate column and subtract that from the Value Line beta of 15.95, you would end up with an implied risk premium of 11.04, correct, subject to check?

A Subject to check, yes.

Q And subject to check, on the projected risk-free rate of 4.30 using the Value Line betas of 15.93, if you subtract that, would you end up with an implied risk premium of 11.63 percent, correct?

A Yes.

Q Okay. And if you averaged out the implied risk premiums that we just discussed, subject to check, the average of your implied risk premiums in the CAPM is 11.21 percent, correct?

A Well, subject to check. You have thrown a lot of math at me there that I haven't done.

Q I understand.

Are you familiar with Kroll and its market

risk premium?

A Yes.

Q Okay. And can I ask to go to F2-12323? And this would show the recommended U.S. equity risk premium and corresponding risk-free rates to be used in computing the cost of capital January 2008 to present, would you agree?

A That's the title, yes.

Q Okay. And it shows a 5.5 percent estimated risk premium, correct?

A I don't see it on the screen, but --

Q If you scroll down and you see in big green letters 5.5 percent current U.S. ERP, do you see that?

A I see it now, yes.

Q Okay. And would you agree that you have estimated risk premiums that are at least five percent higher than that of Kroll's?

A Well, they are different numbers, but not only are they different numbers, they don't even represent the same thing.

Q Let me ask you this --

A May I explain why they are different?

Q I accept that, but I think further explanation you might need to wait for your counsel to redirect you on that.

A Okay.

Q Let me ask you this: The risk premium is the investment return an asset is expected to yield in excess of the risk free rate of return, is that a fair statement?

A Could you repeat it but more slowly?

Q Certainly.

The risk premium is the invested -- investment one return an asset is expected to yield in excess of the risk-free rate of return, is that a fair statement?

A That's reasonable.

Q Okay. On page 40 of your testimony, lines 16 and 17, you say that you relied on the authorized returns from a large sample of vertically integrated electric utilities companies, correct?

A That's right.

Q And then on page 42 of your testimony, figure 15, this shows your risk premium result, correct?

A Yes.

Q And the first row shows the yield for the 30-year treasury bond rate depending on which ones you looked at, correct?

A Yes.

Q And the second row shows the risk premium, where you have a risk premiums of 6.01 percent, 6.05

percent and 6.15 percent, correct?

A Yes.

Q And then the third row, that shows the -- what you labeled the resulting ROE of 10.57 percent, 10.53 percent and 10.45 percent, correct?

A That's right. That's one of the models I used.

Q Okay. And looking at your Exhibit JMC-6, this shows the average of the authorized electric ROEs in the fourth quarter of 2024, and that would be C6-1601, and have you go there. Are you there?

A I am there.

Q Okay. And if you go to the last page, that shows the most recent average authorized electric ROEs, is that correct?

A Most recent available at the time I submitted my direct testimony, yes.

Q Okay.

A Yeah.

Q And if you look at the fourth quarter of 2024, that shows the average authorized electric ROE was 9.88 percent, correct?

A Yes.

Q And would you agree that the average authorized electric ROEs have not been above 11 percent

for the last 20 years?

A Yes. If you go to JMC-6, page two of four, that same exhibit, the last time that I could see that the average was over 11 was the fourth quarter of 2004 --

Q Okay.

A -- when the U.S. government treasury yield was 4.86 percent.

Q Right.

A Today, that treasury yield is 4.75 percent, almost exactly what was then, and that's an important point.

Q Right. And if you look at 2005 for the first yachter, that average ROE started dropping to 10.63 percent when the U.S. treasury was 4.69 percent?

A I see that.

Q Okay. And in note one, I believe, of this exhibit, you say that the source for this information was the Regulatory Research Associates through December 31st, 2024; is that correct?

A Yes.

Q Now, going back to your testimony, which should be somewhere around page 43. This is where you start -- or I am sorry, page 42, D, you talk about your expected earnings results, is that correct?

A Yes.

Q Okay. And on 43, you say your mean result for this analysis is a mean of 10.91 percent and a median of 10.27 percent, is that correct?

A Yes.

Q And on page 44, if you look at the results for all of your modeling, the DCF, the CAPM, the risk premium and the expected earnings model, right, that shows all your results?

A Yes.

Q In looking at the figure, the only average model result in this chart with a result higher than 11 percent is your CAPM model result, correct?

A For an average result, yes, average or median, yes.

Q Okay.

CHAIRMAN LA ROSA: Ms. Christensen, I am going to call it a night in a second, but I don't want to stop your momentum, so I just kind of maybe want to give you, like, a two-minute warning.

MS. CHRISTENSEN: I -- well, I have -- right now, I have about three-and-a-half pages left to go, so it, I mean, if you are willing to push through, I probably could finish my cross tonight, but that's up to you. I mean, I think it's only

probably about another 30 minutes, but I leave that to your discretion.

CHAIRMAN LA ROSA: Yeah, I would rather start fresh in the morning.

MS. CHRISTENSEN: Okay.

CHAIRMAN LA ROSA: I want to find a good pivot point. If it's a few more minutes, great. If it's now, wonderful.

MS. CHRISTENSEN: Let me get to my next subject break --

CHAIRMAN LA ROSA: Sure.

MS. CHRISTENSEN: -- and that would be good?

CHAIRMAN LA ROSA: Sure. Yeah, that was my intention.

BY MS. CHRISTENSEN:

Q Okay. Subject to check, the CAPM result using the current interest rates is 4.74 points above the highest result, your expected earnings results, correct?

A Above the next highest, is that your question?

Q If you take the difference between your 15.65 and the expected earnings, which is your next highest result of 10.91, that difference, using the current interest rates, is 4.7 percent higher, correct?

A Yes.

Q And then if you move over to the ROE estimate

using projected interest rates, the difference between the CAPM and the next highest, the expected earnings of 10.91 is 4.72 percent, correct?

A That's right.

Q And if you look at your CAPM results -- if you look at your CAPM results as an outlier and eliminate it from the results, you would agree that, subject to check, the average of your results using the current interest rates would be around 10.59 percent?

A You are asking me to make an assumption that I wouldn't make, and that is that my CAPM results are outliers. They are higher than the others, but that doesn't mean it's an outlier. It's a commonly used model for estimating the cost of capital for utilities, and I weight it equally with the other models, but I don't consider it an outlier, which is the premise of your question.

Q Well, if -- let's assume you didn't consider the 15.65 percent in this determination and just used the average of the three remaining results, you would agree that the average from the three remaining results would be 10.59 percent, correct?

A I would have to do that math.

Q Okay.

A But, of course, if I take a high number away

from three numbers that are lower, the average will be lower. It's just the reciprocal would be true, if I took out the low end of the numbers, the 10.28, the average would be higher. So that's just a fact.

Q Right. And the fact would be that that would be 10.59 percent if the CAPM was removed under the current interest rates and 10.5 percent if you are using projected interest rates, subject to check, as just mathematically the way it was fall out, correct?

A Well, if you have done the math, then I will say, yes, subject to check.

Q Okay. And if you substituted the Kroll estimated market risk premium of 5.5 percent, your elevated current risk market premium of 12.11 percent, or the projected market risk premium in your CAPM results would be in the nine percent to 10 percent range, correct?

A I cannot respond to that question the way you have asked it, because you are now asking me to substitute something from Kroll, which is an overall market premium, into the CAPM model. And the numbers that you discussed earlier deriving an implied market premium, were for the utility group not for the market as a whole. So you are mixing apples with oranges at a minimum, and I really couldn't make the conclusion you

are trying to ask me to make.

Q Well, let's take the -- well, I think for right now, I think I will stop there for tonight and avoid some more complicated math at this late hour and start fresh in the morning.

CHAIRMAN LA ROSA: Okay. Excellent.

All right. So tomorrow, we will start at 9:00 a.m. Obviously, we will pick up right where we left off this evening.

Still have a few witnesses, obviously, to work through tomorrow, and then a schedule, a few for Monday and Tuesday. Of course, we will continue to keep track and just kind of check in as things are moving along tomorrow to figure out what time we can finish.

I just want to say this, I know that working sometimes a little bit later can be a little more difficult. I appreciate everyone's professionalism as we are trying to move, you know, through things. So thank you guys for working with me and working until past eight o'clock now.

MS. MONCADA: Thank you.

MS. EATON: Sure. I wanted to say, our witnesses for Walmart are here, and we have talked with FPL's counsel, and they are willing to, when

we complete this examination, to have our witnesses come on the stand. And I know it's in the middle of their case, but that way they can go ahead and testify and then we can deep going with the FPL case --

CHAIRMAN LA ROSA: Okay.

MS. EATON: -- if that's okay with the Commission?

CHAIRMAN LA ROSA: You are talking about for tomorrow?

MS. EATON: For tomorrow, correct. For tomorrow.

CHAIRMAN LA ROSA: Okay. All right.

MS. EATON: Yeah. Not tonight. Definitely not tonight.

CHAIRMAN LA ROSA: You made it sound like they were here.

MS. EATON: Oh, sorry. No, that would be tomorrow after he is completed.

CHAIRMAN LA ROSA: Yes.

MS. EATON: Yeah. Thank you.

CHAIRMAN LA ROSA: All right. No problem.

Any other housekeeping? All right. Excellent.

All right, see you have guys tomorrow. Thank

you.

(Transcript continues in sequence in Volume 10.)

CERTIFICATE OF REPORTER

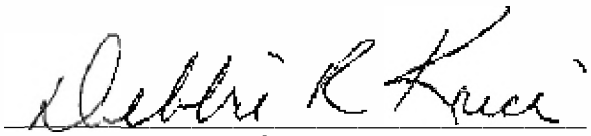
STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 25th day of October, 2025.



DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028