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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In re: DOCKET NO. 20250011-EI  
Petition for rate increase by  
Florida Power & Light Company.

VOLUME 19  
PAGES 4244 - 4540

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

DATE: Tuesday, October 14, 2025

TIME: Commenced: 9:00 a.m.  
Concluded: 6:00 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

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1	EXHIBITS		
2	NUMBER:		ID ADMITTED
3	284-286	As identified in the CEL	4258
4	1077-1078	As identified in the CEL	4255
5	287	As identified in the CEL	4273
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1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume  
3 18.)

4 MR. STILLER: Now Mr. Sparks has our PSC  
5 witnesses.

6 CHAIRMAN LA ROSA: Great.

7 MR. SPARKS: Staff calls Angela Calhoun.

8 CHAIRMAN LA ROSA: Ms. Calhoun, do you mind  
9 continue standing and raise your right hand?

10 Whereupon,

11 ANGELA L. CALHOUN

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

15 THE WITNESS: Yes.

16 CHAIRMAN LA ROSA: Great. Thank you.

17 EXAMINATION

18 BY MR. SPARKS:

19 **Q Good afternoon. Can you please state your**  
20 **full name for the record?**

21 A Angela Calhoun.

22 **Q And by whom are you employed and what position**  
23 **do you hold?**

24 A I am employed by the Florida Public Service  
25 Commission, and I am in the -- I am the Bureau Chief of

1 the Office of Consumer Assistance.

2 Q And did you prepare and cause to be filed in  
3 this docket on June 17, 2025, prepared direct testimony  
4 consisting of four pages?

5 A Yes.

6 Q And did you prepare and cause to be filed  
7 Exhibits numbered. ALC-1, ALC-2 and ALC-3, which are  
8 attached to your direct prefiled testimony?

9 A Yes.

10 Q And do you have any changes to your testimony  
11 or exhibits?

12 A No.

13 Q If I were to ask you the questions contained  
14 in your prepared direct testimony today, would your  
15 answers be the same?

16 A Yes.

17 MR. SPARKS: Mr. Chairman, staff requests that  
18 the prepared direct testimony of Ms. Calhoun be  
19 inserted into the record as though read.

20 CHAIRMAN LA ROSA: So moved.

21 (Whereupon, prefiled direct testimony of  
22 Angela L. Calhoun was inserted.)

23

24

25

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
2                                   **COMMISSION STAFF DIRECT TESTIMONY OF ANGELA L. CALHOUN**

3                                   **DOCKET NO. 20250011-EI**

4                                   **June 17, 2025**

5   **Q.     Please state your name and address.**

6   A.     My name is Angela L. Calhoun. My address is 2540 Shumard Oak Boulevard;  
7           Tallahassee, Florida 32399-0850.

8   **Q.     By whom are you employed and in what capacity?**

9   A.     I am employed by the Florida Public Service Commission (FPSC or Commission) as  
10           Chief of the Bureau of Consumer Assistance in the Office of Consumer Assistance &  
11           Outreach.

12   **Q.     Please give a brief description of your educational background and professional**  
13           **experience.**

14   A.     I graduated from Florida State University in 1993 with a Bachelor of Arts degree. I  
15           have worked for the Commission for more than 24 years, and I have experience in  
16           consumer complaints and consumer outreach. I work in the Bureau of Consumer  
17           Assistance within the Office of Consumer Assistance & Outreach where I manage  
18           consumer complaints and inquiries.

19   **Q.     What is the function of the Bureau of Consumer Assistance?**

20   A.     The Bureau's function is to resolve disputes between regulated companies and their  
21           customers as quickly, effectively, and inexpensively as possible.

22   **Q.     Do all consumers that have a dispute with their regulated company contact the**  
23           **Bureau of Consumer Assistance?**

24   A.     No. Consumers may initially file their complaint with the regulated company and reach  
25           a resolution without the Bureau's intervention. In fact, consumers are encouraged to

1 allow the regulated company the opportunity to resolve the dispute prior to any  
2 Commission involvement.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to discuss/outline the number of consumer complaints  
5 logged with the Commission against Florida Power & Light (FP&L) and Gulf Power  
6 Company (Gulf Power) under Rule 25-22. 032, Florida Administrative Code (F.A.C.),  
7 Consumer Complaints, from June 16, 2021 to May 16, 2025. My testimony will also  
8 provide information on the type of complaints logged and those complaints that appear  
9 to be rule violations.

10 **Q. What do your records indicate concerning the number of complaints filed for  
11 FP&L and Gulf Power?**

12 A. From June 16, 2021 to May 16, 2025, the Commission logged 26,724 complaints  
13 against FP&L and Gulf Power. Of those, 20,754 were transferred to the company for  
14 resolution via Commission's Transfer-Connect (Warm-Transfer) System.

15 **Q. What have been the most common types of complaints logged against FP&L and  
16 Gulf Power during the period of June 16, 2021 to May 16, 2025?**

17 A. During the specified time period, approximately Fifty-four percent (54%) of the  
18 complaints logged with the Commission concerned billing issues, while approximately  
19 Forty-six percent (46%) of the complaints involved quality of service issues.

20 **Q. Do you have any exhibits attached to your testimony?**

21 A. Yes. I am sponsoring ALC-1 and ALC-2, which are summaries of consumer  
22 complaints logged with the Commission against FP&L and Gulf Power under Rule 25-  
23 22.032, F.A.C. The complaints listed were received between June 16, 2021 to May 16,  
24 2025, and were captured in the Commission's Consumer Activity Tracking System  
25 (CATS). Exhibit ALC-1 lists a summary of quality of service complaints, and Exhibit

1 ALC-2 lists a summary of billing complaints. Both exhibits group the complaints by  
2 Close Type.

3 **Q. What is a Close Type and/or Close Code?**

4 A. A Close Code is an internal categorization code. It is assigned to each complaint once  
5 staff completes its investigation, and a proposed resolution is provided to the  
6 consumer. A Close Type is a brief description of the Close Code.

7 **Q. Do you have any additional exhibits?**

8 A. Yes. Exhibit ALC-3 is a summary of complaints resolved as Close Type GI-02,  
9 Courtesy Call/Warm Transfer.

10 **Q. Can you explain Close Type GI-02?**

11 A. Yes. FP&L and Gulf Power participate in the Commission's Transfer-Connect (Warm-  
12 Transfer) System. This system allows the Commission to directly transfer a customer  
13 to the company's customer service personnel. Once the call is transferred to FP&L and  
14 Gulf Power, the Company provides the customer with a proposed resolution.  
15 Customers who are not satisfied with the company's proposed resolution have the  
16 option of re-contacting the Commission. While the Commission is able to categorize  
17 each of the complaints in the GI-02 category, a specific Close Type is not assigned  
18 because the proposed resolution is provided by the company. Consequently, the GI-02  
19 Close Type only allows staff to monitor the number of complaints resolved via the  
20 Commission's Transfer-Connect System.

21 **Q. How were most FP&L and Gulf Power complaints received during the June 16,  
22 2021 to May 16, 2025 resolved or closed?**

23 A. Exhibits ALC-1 and ALC-2 indicate that Commission staff closed the majority of the  
24 logged complaints as GI-72/72 Hour Close Outs.

25 **Q. Can you explain the Close Type GI-72?**



1 A. Yes. FPL and Gulf Power participate in the Commission's Transfer-Connect (Warm  
2 Transfer) System. One of the benefits of a utility participating in the Warm Transfer  
3 System is that any complaint can be resolved within 72 hours as long as the customer  
4 is satisfied with the proposed resolution. If the customer accepts the company's  
5 resolution to the complaint, the complaint will not be reported in the number of  
6 complaints shown for that company in the PSC's Consumer Activity Report, which is  
7 published on the PSC's website. However, all of the information is retained for the  
8 PSC to perform its regulatory obligations.

9 **Q. How many complaints logged against FP&L and Gulf Power were resolved within**  
10 **72 hours?**

11 A. FP&L and Gulf Power resolved 5,106 complaints within 72 hours.

12 **Q. How many of the complaints summarized on your exhibit has staff determined**  
13 **may be a violation of Commission rules for FP&L and Gulf Power?**

14 A. Staff determined that, of the 26,724 complaints logged against FP&L during the period  
15 of June 16, 2021 to May 16, 2025, there were 17 service quality complaints and 6  
16 billing complaints that appear to demonstrate a violation of Commission Rules.

17 **Q. What was the nature of the apparent rule violations?**

18 A. The apparent rule violations were related to billing errors, disconnections, and delay in  
19 restoring service.

20 **Q. Does that conclude your testimony?**

21 A. Yes.

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1 MR. SPARKS: And, Mr. Chairman, staff requests  
2 exhibits numbered ALC-1, ALC-2 and ALC-3 be marked  
3 per the CEL as Exhibits 284, 285 and 286.

4 CHAIRMAN LA ROSA: Okay.

5 MR. SPARKS: Staff tenders Ms. Calhoun for  
6 cross-examination.

7 CHAIRMAN LA ROSA: Great. Thank you.

8 OPC, you are recognized.

9 MR. WATROUS: Thank you, Mr. Chairman, and the  
10 OPC has no questions.

11 CHAIRMAN LA ROSA: Okay. FEL?

12 MS. McMANAMON: Thank you.

13 EXAMINATION

14 BY MS. McMANAMON:

15 Q Good afternoon, Ms. Calhoun. I just have a  
16 few questions for you.

17 On page one of your testimony, you discuss  
18 that consumers may efficiently file their complaint with  
19 the regulated company and reach resolution without the  
20 bureau's intervention. So you would agree that not all  
21 customer complaints come through the Bureau of Consumer  
22 Assistance, correct?

23 A Correct.

24 Q Do you have any idea how many complaints get  
25 resolved without the bureau's intervention?

1 A No.

2 Q On page two of your testimony, you state that  
3 between June 16th, 2021 and May 16th, 2025, the  
4 Commission logged 26,724 complaints against FPL and Gulf  
5 Power. Do these numbers include the number of  
6 complaints that originated with FPL instead of going  
7 through the Commission first?

8 A No.

9 Q On page four, you explained that there were 17  
10 service quality complaints and six billing complaints  
11 that violate the Commission rules, correct?

12 A Yes.

13 Q Do you know the specific rules implicated by  
14 these violations?

15 A No.

16 Q So that information is not in your testimony,  
17 correct?

18 A It is part of the exhibit, but the specific  
19 cases, are you asking about those specific cases?

20 Q Uh-huh. Yeah.

21 A I don't have those specific cases in front of  
22 me, so I couldn't comment on those. However, the -- in  
23 the Exhibit ALC-1, it does list for billing -- I am  
24 sorry, service complaints, the ES designation. Those  
25 would be the cases that were apparent infractions.

1           **Q**     Okay. Thank you.

2                   And do you know what the next steps are once  
3 it has been determined that a utility has violated  
4 Commission rules?

5           A     I am sorry, can you ask that again?

6           **Q**     Yes.

7                   Do you know what the next steps are once it  
8 has been determined that a utility has violated  
9 Commission rules?

10          A     Well, the Office of Consumer Assistance  
11 doesn't handle those steps directly. However,  
12 Commission staff in other divisions may take those  
13 apparent infractions and make determinations as to what  
14 they would like to do with them.

15          **Q**     And for complaints that originate with the  
16 utility instead of the Commission, does the Commission  
17 have a way of tracking if any of those resulted in rule  
18 violations?

19          A     No.

20          **Q**     For complaints that are not resolved in the 72  
21 hours, do you review the amount of time lapsed between  
22 the date of the complaint and the date the complaint is  
23 closed?

24          A     Yes. Not all cases are closed within the  
25 72-hour period, but they -- the utility has 15 working

1 days to respond to the Commission if they choose not to  
2 respond within the 72 hours.

3 **Q Do you have an idea of how long it takes to**  
4 **resolve an issue on average outside of this 72-hour**  
5 **window?**

6 A I am not sure what you mean by resolving.

7 **Q By the time the complaint is closed out.**

8 A Generally 35 days.

9 **Q Okay. If we could look at FEL 204, which is**  
10 **master number F10-14784, Exhibit 1078?**

11 **And this is a compilation of service**  
12 **complaints from approximately 2021 to 2025, correct?**

13 A I don't know what this -- where this  
14 information came from.

15 **Q This was provided in discovery by your office.**

16 A Oh, okay.

17 **Q Under the closed type column, can you explain**  
18 **what safety violation typically means, starting on row**  
19 **113?**

20 A I don't see --

21 **Q It will be up, sorry, in a second. Where it's**  
22 **the safety issues.**

23 A Uh-huh. And what was your question?

24 **Q Can you explain what safety violation, or what**  
25 **that is typically referring to?**

1           A       I would have to look at the case individually  
2       to tell you specifically what that is. I could only  
3       give you generalizations.

4           **Q       Okay. And the next if we could go to master**  
5       **number F10-14681, which is Exhibit 1077?**

6                   **And this is a compilation of billing**  
7       **complaints for FPL from 2021 to 2025, correct?**

8           A       Looks like it.

9           **Q       Thank you. That's all my questions.**

10          A       Okay.

11                   CHAIRMAN LA ROSA: Thank you.

12                   FAIR?

13                   MR. SCHEF WRIGHT: No questions. Thank you,  
14       Mr. Chairman.

15                   CHAIRMAN LA ROSA: FEIA?

16                   MR. MAY: No questions.

17                   CHAIRMAN LA ROSA: Walmart?

18                   MS. EATON: No questions.

19                   CHAIRMAN LA ROSA: FEA?

20                   CAPTAIN RIVERA: No questions.

21                   CHAIRMAN LA ROSA: FRF?

22                   MR. BREW: No questions.

23                   CHAIRMAN LA ROSA: FIPUG?

24                   MR. MOYLE: No questions.

25                   CHAIRMAN LA ROSA: FPL?

1 MS. MONCADA: No questions.

2 CHAIRMAN LA ROSA: Commissioners, any  
3 questions?

4 Seeing none, back to staff for redirect.

5 MR. SPARKS: No redirect, Mr. Chairman.

6 Staff requests that Exhibit Nos. 284, 285 and  
7 286 be entered into the record and that the witness  
8 be excused.

9 CHAIRMAN LA ROSA: Okay. Seeing no objections  
10 to those, so moved.

11 (Whereupon, Exhibit Nos. 284-286 were received  
12 into evidence.)

13 CHAIRMAN LA ROSA: Anything else need to be  
14 moved in the record?

15 MS. McMANAMON: Yes. We would move Exhibits  
16 1077 and 1078.

17 CHAIRMAN LA ROSA: Okay. Any objections to  
18 those?

19 Seeing none -- no objection? Seeing none, so  
20 moved.

21 (Whereupon, Exhibit Nos. 1077-1078 were  
22 received into evidence.)

23 CHAIRMAN LA ROSA: Anything else that needs to  
24 be moved? It does not look like it.

25 Ms. Calhoun, thank you have very much. You

1 are excused.

2 (Witness excused.)

3 MR. SPARKS: Staff calls Kathryn Guan.

4 CHAIRMAN LA ROSA: Ms. Guan, if you don't mind  
5 standing and raising your right hand?

6 Whereupon,

7 KATHRYN GUAN

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

11 THE WITNESS: Yes.

12 CHAIRMAN LA ROSA: Great. Thank you.

13 Feel free to get settled in.

14 Mr. Sparks, over to you whenever you are  
15 ready.

16 EXAMINATION

17 BY MR. SPARKS:

18 **Q Good afternoon, Ms. Guan. Can you please**  
19 **state your full name for the record?**

20 **CHAIRMAN LA ROSA: Your microphone might be**  
21 **off.**

22 THE WITNESS: My name is Kathryn Guan.

23 BY MR. SPARKS:

24 **Q By whom are you employed and what position do**  
25 **you hold?**



1           A     I am employing Public Service Commission as a  
2     Regulatory Analyst Supervisor in the Office of Auditing  
3     and Performance Analysis.

4           **Q     Did you prepare and cause to be filed in this**  
5     **docket on June 17, 2025, prepared direct testimony**  
6     **consisting of two pages?**

7           A     Yes, I did.

8           **Q     And did you prepare and cause to be filed**  
9     **Exhibit No. KG-1, consisting of the auditor's report for**  
10    **Florida Power & Light Company, dated June 2nd, 2025, and**  
11    **attached to your direct prefiled testimony?**

12          A     Yes, I did.

13          **Q     Do you have any changes to your testimony or**  
14    **the exhibit?**

15          A     No.

16          **Q     If I were to ask you the questions contained**  
17    **in your prepared direct testimony today, would your**  
18    **answers be the same?**

19          A     Yes.

20                MR. SPARKS: Mr. Chairman, staff requests that  
21     the prepared direct testimony of Ms. Guan be  
22     inserted into the record as though read.

23                CHAIRMAN LA ROSA: So moved.

24                (Whereupon, prefiled direct testimony of  
25     Kathryn Guan was inserted.)

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **ON BEHALF OF COMMISSION STAFF**

3                   **DIRECT TESTIMONY OF KATHRYN GUAN**

4                   **DOCKET NO. 20250011-EI**

5                   **June 17, 2025**

6 **Q.     Please state your name and business address.**

7 **A.     My name is Kathryn Guan. My business address is 2540 Shumard Oak Blvd,**  
8 **Tallahassee, FL 32399.**

9 **Q.     By whom are you presently employed and in what capacity?**

10 **A.     I am employed by the Florida Public Service Commission (FPSC or Commission)**  
11 **as a Regulatory Analyst Supervisor in the Office of Auditing and Performance Analysis.**

12 **Q.     Briefly review your educational and professional background.**

13 **A.     I received a Bachelor of Science degree with a major in Economics from**  
14 **Binghamton University, SUNY in 2012. I have been employed by the FPSC since**  
15 **February, 2024. Prior to my employment with the Commission, I was employed by IBM**  
16 **as a Financial Analyst.**

17 **Q.     Please describe your current responsibilities.**

18 **A.     My responsibilities consist of planning and conducting utility audits of manual**  
19 **and automated accounting systems for historical and forecasted data.**

20 **Q.     Have you presented testimony before this Commission or any other**  
21 **regulatory agency?**

22 **A.     No**

23 **Q.     What is the purpose of your testimony today?**

24 **A.     The purpose of my testimony is to sponsor the staff audit report of Florida Power**  
25 **& Light Company which addresses the Utility's application for a rate increase. This audit**

1 report is filed with my testimony and is identified as Exhibit KG-1.

2 **Q. Was this audit prepared by you or under your direction?**

3 **A.** Yes, it was prepared under my direction.

4 **Q. What audit period did you use in this audit?**

5 **A.** We audited the historical twelve months ended December 31, 2024. We did not  
6 audit any subsequent year.

7 **Q. Please describe the work you performed in this audit?**

8 **A.** The procedures that we performed in this audit are listed in the Objectives and  
9 Procedures section of the attached Exhibit KG-1, pages 4 of 12 through 8 of 12.

10 **Q. Please review the audit findings in this audit report.**

11 **A.** There were no findings.

12 **Q. Does that conclude your testimony?**

13 **A.** Yes.

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1 MR. SPARKS: And, Mr. Chairman, staff requests  
2 that Exhibit KGD-1 be marked per the CEL as 287.

3 CHAIRMAN LA ROSA: Okay.

4 MR. SPARKS: Staff tenders Ms. Guan for  
5 cross-examination.

6 CHAIRMAN LA ROSA: Great.

7 OPC, you are recognized for questioning.

8 MR. WATROUS: Thank you, Mr. Chair.

9 EXAMINATION

10 BY MR. WATROUS:

11 Q And good afternoon, Ms. Guan.

12 A Good afternoon.

13 Q So you joined the Public Service Commission in  
14 February of 2024?

15 A Yes.

16 Q And have you ever performed an audit of a  
17 water or wastewater utility?

18 A No.

19 Q And have you ever performed an audit of a gas  
20 utility?

21 A I did the audit before, both of them.

22 Q Which gas utility did you do an audit of?

23 A Like, FPL, TECO, Duke, all of them.

24 Q Okay. Thank you.

25 Would you agree that the Public Service

1 **Commission audits are relied on by various stakeholders?**

2 A Can you please repeat that question again?

3 Q Yeah. I will make it easier.

4 Would you agree that PSC audits are relied on  
5 by stakeholders?

6 A Yes.

7 Q And in preparation for this audit, did you  
8 review Commission staff's audit of Florida Power & Light  
9 in 2012?

10 A I reviewed the audit report.

11 Q The audit report for Florida Power & Light in  
12 the 2012 case?

13 A Yes, I reviewed during the audit.

14 Q And then you -- did you also review Commission  
15 staff's audit of FPL from the 2016 case?

16 A No, I didn't.

17 Q And did you review Commission staff's audit of  
18 FPL in the 2021 case?

19 A Yes, I did.

20 Q And your audit covered only the 12 months  
21 ending in December 31st of 2024?

22 A Yes.

23 Q And your Exhibit KG-1, those are the audit  
24 procedures that were limited to this case, is that  
25 correct?

1 A Yes.

2 Q And there was nothing else done beyond those  
3 steps listed in your exhibit?

4 A Yes.

5 Q And would it be correct to say that those  
6 procedures listed were designed to test whether the  
7 numbers reconciled?

8 A Yeah, it's all in the audit report.

9 Q And you did not review any data from 2025, is  
10 that correct?

11 A Yes. We do historical data.

12 Q But from 2025?

13 A We do historical data ended December 31st,  
14 2024.

15 Q Okay. So it's correct to say you did not  
16 review any data from 2025?

17 A Yes.

18 Q Okay. Did you examine any of FPL's future  
19 forecasts?

20 A No, we didn't do forecasting.

21 Q And why not?

22 A Audit -- we are doing the historical data  
23 audit ending the December 31st, 2024.

24 Q And when doing the audit, you relied on  
25 information provided by FPL's records, correct?

1 A Yes.

2 Q And did you independently verify the source  
3 documents?

4 A I did, and I also have my audit staff.

5 Q And how did you and your audit staff  
6 independently verify those source documents?

7 A Could you please repeat the question again?

8 Q Yeah. How did you independently verify the  
9 source documents that FPL provided?

10 A So I reviewed the audit workpapers and also  
11 the audit report.

12 Q And your audit concluded with no findings?

13 A Yes.

14 Q And can you give us an overview in regard to  
15 the audit's sampling of the transactions?

16 A We do judgmental sample.

17 Q Did you say judgmental sample?

18 A Yes.

19 Q Can you please explain what a judgmental  
20 sample is?

21 A So the judgmental example is based on our  
22 experience. Judgmental we do based on the account  
23 numbers, category and amount in account.

24 Q Okay. So would it be correct to say that the  
25 audit staff did not use a random audit sampling method?

1           A     We didn't.

2           **Q     And you did not use a statistical sampling**  
3 **method?**

4           A     Yes, we didn't.

5           **Q     So it's correct to say that you -- staff**  
6 **judgmentally sampled transactions from the list and**  
7 **requested copies of all the invoices supporting each**  
8 **transaction?**

9           A     No.

10          **Q     Would you agree that staff's sampling of the**  
11 **transactions was adequate?**

12          A     The sample testing in the workpaper we go  
13 through, yes, we confirmed.

14          **Q     So you would agree that the sampling was**  
15 **adequate?**

16          A     Yes.

17          **Q     And you are aware that the final audit report**  
18 **did not capture the company's self-identified \$170,000**  
19 **of lobbying expenses?**

20          A     Can you please guide me where the number is  
21 from?

22          **Q     Yes. So that would be master page number**  
23 **D9-458.**

24          A     D9? I am sorry, D9?

25          **Q     Yes. D9-458?**



1           **CHAIRMAN LA ROSA:** It should be on the screen  
2           there in front of you. No, the screen there as  
3           well, and you can scroll through it as you need to.

4           **THE WITNESS:** Can you please repeat the number  
5           again?

6           **BY MR. WATROUS:**

7           **Q**     Yeah, so it actually starts on the page before  
8           for D9-457, but it's the bottom page. But I asked if  
9           you were aware -- or the final audit report did not  
10          capture the company's self-identified \$170,000 of  
11          lobbying expenses? And if you can see here, Ms. Liz  
12          Fuentes' rebuttal, page 13, lines 22 through 23, and  
13          page 14, one through four, shows that FPL did  
14          self-identify \$170,000 of lobbying expenses, do you  
15          see --

16          **A**     Can you guide me where it is in our  
17          workpapers, because this -- I don't know where this goes  
18          from?

19          **Q**     This is from Ms. Liz Fuentes' rebuttal  
20          testimony?

21          **A**     This is not in our workpaper or audit report.

22          **Q**     Okay. So would you take my word for it that  
23          the audit report did not capture this \$170,000 worth of  
24          lobbying expenses?

25          **A**     I cannot tell you. This is not including our

1 audit report or workpaper.

2 MR. WATROUS: Okay. Thank you so much,

3 Mr. Chair, I have no more questions.

4 CHAIRMAN LA ROSA: Thank you.

5 FEL?

6 EXAMINATION

7 BY MS. McMANAMON:

8 Q Good afternoon, Ms. Guan. I also have a few  
9 questions for you.

10 A Uh-huh.

11 Q If we could pull up master number F10-14618?

12 And this document shows miscellaneous dues  
13 from FPL that would have been reviewed in the audit,  
14 correct?

15 A This is not our workpaper.

16 Q It was provided to you from FPL?

17 A This is -- where did you get it? This is not  
18 in our official scanned workpaper.

19 Q No, it was provided supplementally.

20 A So are you -- are you saying this is our B  
21 files?

22 Q Yes.

23 A So the B file is the files provided by the  
24 utility, and also sometimes it's from our workpapers.  
25 It's not the official scanned workpapers. It's for

1 convenient use only.

2 **Q But would you have reviewed miscellaneous dues**  
3 **from FPL in your audit?**

4 A We have to go specific transactions. This  
5 page, I cannot tell.

6 **Q So you didn't review this at all?**

7 A Which transaction specifically are you asking  
8 for?

9 **Q Any of them.**

10 A We do the judgmental sampling, so it should  
11 really be based on our workpaper on the sample page. If  
12 just by this, I cannot tell you.

13 **Q Okay. So I am not sure if you heard Ms.**  
14 **Fuentes' cross, but she confirmed this account, this**  
15 **FERC account is above the line, account number 93200?**

16 A Can you direct me which transaction are we  
17 talking about?

18 **Q Well, all of them are account 93200?**

19 A I cannot see the amount for the transaction.  
20 There is no amount on this page.

21 **Q I am just talking about the FERC account**  
22 **number.**

23 A We -- everything we need to go through the  
24 whole information, we need account number and also the  
25 amount in the account number. By this one, there is no

1 amount --

2 **Q I am just clarifying the account number 93200,**  
3 **you would agree that that's an above-the-line -- that's**  
4 **recorded above the line, correct?**

5 A It depend on the transaction we requested from  
6 the utility. From this page, I cannot tell you.

7 **Q So you would disagree that this account is all**  
8 **recorded above the line?**

9 A I cannot tell you without seeing our  
10 workpapers. This is just, like, a short screen shot of  
11 the page. It's not the complete information even.

12 **Q So if Ms. Fuentes, during her cross, confirm**  
13 **that some of these were improperly recorded above the**  
14 **line, do you know if that was captured in your audit**  
15 **report?**

16 A I need to go through our workpapers and also  
17 see the files. Based on this page, I cannot tell you.

18 **Q You agree that your audit had no findings,**  
19 **correct?**

20 A Yes.

21 **Q So would it be safe to assume that you would**  
22 **not have reported if any of these had been improperly**  
23 **recorded above the line?**

24 A We do the judgmental sample, we can say  
25 everything we tested on has no problem.

1           **Q**     **Right. So if it was not in your audit report**  
2     **findings, you might not have used the judgmental**  
3     **sampling on those accounts that were improperly recorded**  
4     **above the line?**

5           **A**     **Are you asking about if they are not including**  
6     **our sample, or they are including our sample.**

7           **Q**     **If they were not in your sample, you would not**  
8     **have found that, correct?**

9           **A**     **Yes.**

10          **Q**     **Okay. So when you do your audit, you are no**  
11     **the going through all of these and verifying what**  
12     **these --**

13          **A**     **Due to the time constraints and resource**  
14     **constraints, we can't go through all the transactions.**

15          **Q**     **Okay. One moment.**

16                   **No more questions. Thank you.**

17                   **CHAIRMAN LA ROSA: Thank you.**

18                   **FAIR?**

19                   **MR. SCHEF WRIGHT: Thank you, Mr. Chairman.**

20                   **Welcome, Ms. Guan. I have no questions for Ms.**

21                   **Guan. Thanks again.**

22                   **CHAIRMAN LA ROSA: Thank you.**

23                   **FEIA?**

24                   **MR. MAY: No questions.**

25                   **CHAIRMAN LA ROSA: Walmart?**

1 MS. EATON: No questions.

2 CHAIRMAN LA ROSA: FEA?

3 CAPTAIN RIVERA: No questions.

4 CHAIRMAN LA ROSA: FRF?

5 MR. BREW: No questions.

6 CHAIRMAN LA ROSA: FIPUG?

7 MR. MOYLE: No questions.

8 CHAIRMAN LA ROSA: FPL?

9 MS. MONCADA: No questions.

10 CHAIRMAN LA ROSA: Commissioners, do we have  
11 any questions of the witness?

12 Seeing none, back to staff for redirect.

13 MR. SPARKS: No redirect, Mr. Chairman, but  
14 staff requests that Exhibit No. 287 be entered into  
15 the record, and that the witness be excused.

16 CHAIRMAN LA ROSA: Okay. Are there objections  
17 to that? I don't see any objections, seeing so  
18 none, so moved.

19 (Whereupon, Exhibit No. 287 was received into  
20 evidence.)

21 CHAIRMAN LA ROSA: Anything else moved into  
22 the record?

23 MS. McMANAMON: FEL would move in Exhibit  
24 1073.

25 CHAIRMAN LA ROSA: 1073, objections to that?

1           Seeing no objections, so moved.

2                   (Whereupon, Exhibit No. 1073 was received into  
3 evidence.)

4           CHAIRMAN LA ROSA: Anything else that needs to  
5 be entered in? Great.

6           Ms. Guan, thank you very much. You are  
7 excused.

8           THE WITNESS: Thank you.

9                   (Witness excused.)

10          CHAIRMAN LA ROSA: All right. So I believe I  
11 am going back to FPL for redirect of its witness,  
12 and I will let you call your next witness.

13          MS. MONCADA: Just to clarify, did you mean  
14 rebuttal?

15          CHAIRMAN LA ROSA: I'm sorry. Rebuttal. I am  
16 so sorry.

17          MS. MONCADA: No, no problem.

18          CHAIRMAN LA ROSA: I'm in that redirect mode.  
19 So, yes, for rebuttal, it's in your hands to, yes,  
20 call your next witness.

21          MS. MONCADA: All fine. We have two rebuttal  
22 witnesses. The first one is Jim Coyne. And, Mr.  
23 Chairman, Mr. Coyne was sworn in last week.

24          CHAIRMAN LA ROSA: Yes.

25          MS. MONCADA: I don't know if he needs to be

1 sworn in next week. Whatever your pleasure is.

2 CHAIRMAN LA ROSA: Sure. Staff, what should I  
3 do?

4 MS. CIBULA: He doesn't need to be sworn in  
5 again.

6 CHAIRMAN LA ROSA: Excellent. Save a few  
7 seconds. I know Mr. Coyne will be excited to be  
8 backs back in the witness box. He was ready to go  
9 yesterday. It's taken us almost 20 hours to get  
10 back to you, but we are back to Mr. Coyne.

11 Feel free to --

12 THE WITNESS: It's nice to be back.

13 CHAIRMAN LA ROSA: -- have a seat, get settled  
14 in.

15 And, FPL, in your hands when your witness is  
16 ready.

17 Whereupon,

18 JAMES M. COYNE

19 was recalled as a witness, having been previously duly  
20 sworn to speak the truth, the whole truth, and nothing  
21 but the truth, was examined and testified as follows:

22 EXAMINATION

23 BY MS. MONCADA:

24 **Q Mr. Coyne, are you ready to proceed?**

25 **A** I am. Thank you. Good afternoon, everybody.



1           **Q**     **Mr. Coyne, did you prepare and cause to be**  
2     **filed 62 pages of rebuttal testimony on July 9th of this**  
3     **year?**

4           A     I did.

5           **Q**     **Do you have any changes to that testimony?**

6           A     I do not.

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

9           A     Yes.

10          **Q**     **Thank you.**

11                   MS. MONCADA: Mr. Chair, I would ask that Mr.  
12     Coyne's rebuttal testimony be entered into the  
13     record as though read.

14                   CHAIRMAN LA ROSA: So moved.

15                   MS. MONCADA: Thank you.

16                           (Whereupon, prefiled rebuttal testimony of  
17     James M. Coyne was inserted.)

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**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 20250011-EI**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF JAMES M. COYNE**

**Filed: July 9, 2025**

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is James M. Coyne, and I am employed by Concentric Energy Advisors,  
4 Inc. (“Concentric”) as a Senior Vice President. My business address is 293 Boston  
5 Post Road West, Suite 500, Marlborough, MA 01752.

6 Q. Did you previously file testimony in this proceeding?

7 A. Yes.

8 Q. Are you sponsoring any rebuttal exhibits in this case?

9 A. Yes. My analyses and recommendations are supported by the data presented in  
10 Exhibits JMC-12 through JMC-21, which have been prepared by me or under my  
11 direction. I am sponsoring the following exhibits:

- 12 • Exhibit JMC-12 – Comprehensive Summary of ROE Results
- 13 • Exhibit JMC-13 – Proxy Group Selection
- 14 • Exhibit JMC-14 – Constant Growth DCF Analysis
- 15 • Exhibit JMC-15.1 – Market Risk Premium
- 16 • Exhibit JMC-15.2 – CAPM Analysis
- 17 • Exhibit JMC-16 – Risk Premium Analysis
- 18 • Exhibit JMC-17 – Expected Earnings Analysis
- 19 • Exhibit JMC-18 – Capital Structure Analysis
- 20 • Exhibit JMC-19 – Weather Analysis
- 21 • Exhibit JMC-20 – Revised Mr. Lawton CAPM Analysis
- 22 • Exhibit JMC-21 – Revised Mr. Walters Risk Premium Analysis

1 **Q. What is the purpose of your rebuttal testimony?**

2 A. The purpose of my rebuttal testimony is to respond to the direct testimonies of Daniel  
3 J. Lawton on behalf of the Florida Office of Public Counsel (“OPC”), Christopher C.  
4 Walters on behalf of the Federal Executive Agencies (“FEA”), Frederick Bryant on  
5 behalf of Floridians Against Increased Rates, Inc. (“FAIR”), Jeffrey Pollock on behalf  
6 of the Florida Industrial Power Users Group (“FIPUG”), Karl R. Rábago on behalf of  
7 Florida Rising, League of United Latin American Citizens of Florida, and  
8 Environmental Confederation of Southwest Florida, Inc. (“FEL”), and Lisa V. Perry  
9 on behalf of Walmart Inc. (“Walmart”) as it relates to the appropriate return on equity  
10 (“ROE”) and capital structure for FPL for the 2026-2029 rate period. I collectively  
11 refer to these witnesses as “Intervenor Witnesses.”

12 **Q. How is the remainder of your rebuttal testimony organized?**

13 A. My rebuttal testimony is organized by topic/issue, starting in Section II with an  
14 overview and summary of the results and recommendations presented by the various  
15 ROE witnesses in this proceeding. Section III responds to the Intervenor Witnesses  
16 regarding their views of the utility industry’s credit outlook and the importance of  
17 financial strength so that FPL has access to capital on reasonable terms and conditions  
18 under a variety of economic and financial market conditions. Section IV discusses the  
19 flaws associated with using authorized returns for electric utilities in other  
20 jurisdictions as a benchmark for establishing the return for FPL in this proceeding, and  
21 the importance of placing those authorized returns in the proper context. Section V  
22 presents the results of my updated ROE analyses based on market data through May  
23 30, 2025. Section VI discusses economic and capital market conditions and how those

1 conditions are affecting the various models used to estimate the cost of equity. In  
2 Section VII, I address the proper application of the Discounted Cash Flow (“DCF”)  
3 model, and I discuss areas of disagreement in the application of the DCF model. In  
4 Section VIII, I discuss areas of disagreement in the application of the Capital Asset  
5 Pricing Model (“CAPM”), and in particular the appropriate inputs to that model. In  
6 Section IX, I respond to comments and concerns with regard to my application of the  
7 Bond Yield Plus Risk Premium (“Risk Premium”) model, as well as provide a critique  
8 of their Risk Premium models. In Section X, I address concerns regarding the use of  
9 an Expected Earnings model to estimate the cost of equity. In Section XI, I address  
10 comments related to the inclusion of flotation costs in the authorized ROE. In Section  
11 XII, I discuss the unique business risk of FPL and how those risks differentiate the  
12 Company from the proxy group, and I respond to comments concerning the credit  
13 ratings of FPL relative to those for the proxy group companies. In Section XIII, I  
14 respond to concerns raised by certain witnesses with respect to the proposed capital  
15 structure, and I explain why that capital structure is reasonable by comparison to the  
16 proxy group and given the business risks of FPL. Lastly, in Section XIV, I summarize  
17 my key conclusions and recommendations.

18

## 19 **II. COMPARISON OF COST OF CAPITAL RECOMMENDATIONS**

20 **Q. Please summarize the cost of capital recommendations presented by the various**  
21 **witnesses in this proceeding.**

22 A. The Intervenor Witnesses who perform an ROE analysis (Mr. Lawton, Mr. Walters)  
23 recommend an authorized ROE for FPL between 9.20 percent and 9.50 percent. Other

1 Intervenor Witnesses (Mr. Rábago, Mr. Bryant, Mr. Pollock and Ms. Perry) do not  
2 perform their own ROE analysis, but reference authorized returns for electric utilities  
3 in Florida and other U.S. jurisdictions and argue that FPL's authorized ROE should  
4 be set at or below those levels. As it relates to capital structure, several of the  
5 Intervenor Witnesses recommend a reduction in FPL's proposed equity ratio from  
6 59.60 percent to somewhere within a range from 50.52 percent 53.20 percent.

7  
8 As is evident, there is a broad array of recommendations from multiple witnesses.  
9 Some are supported by analytical approaches while others are more judgmental or  
10 based on decisions from other jurisdictions. At the outset, I submit that the only  
11 reliable method for determining the cost of capital is through the application of  
12 rigorous analysis using financial models and market data from reliable sources,  
13 coupled with a comprehensive risk assessment of the regulated utility.

14

### 15 III. UTILITY INDUSTRY CREDIT OUTLOOK AND 16 THE IMPORTANCE OF FINANCIAL STRENGTH

17 **Q. Certain Intervenor Witnesses (Walters, Rábago) contend that utilities, including**  
18 **FPL, have been able to consistently access capital markets (both equity and debt)**  
19 **to finance investments.<sup>1</sup> What is your response?**

20 **A.** I agree that utilities have been able to access debt and equity markets, but the important  
21 distinction is that they must be prepared to do so in all capital market conditions. The  
22 obligation to serve places constraints on utilities that drive their financing

---

<sup>1</sup> See, for example, Direct Testimony of FEA witness Christopher C. Walters, at 10, Direct Testimony of FEL witness Karl R. Rábago, at 19.

1 requirements, most notably the need for continuous access to capital regardless of the  
2 prevailing capital market environment. Utilities require access to capital not only  
3 when markets are strong, but also when markets are constrained. Financial strength  
4 is especially critical during periods of market dislocation, such as those experienced  
5 in 2020 and during the financial crisis and Great Recession of 2008-2009. A 2009  
6 report by EEI documented similar findings regarding the impact of the 2008 Financial  
7 Crisis on utilities' access to capital. EEI notes, for example, that when Lehman  
8 Brothers collapsed, "the commercial paper market literally evaporated."<sup>2</sup> The depth  
9 and duration of the pandemic beginning in 2020 could have been even more severe,  
10 and utilities must be prepared for these events with a margin of safety. In the  
11 Company's last rate case, FPL witness Barrett explained in his rebuttal testimony that  
12 several companies were unable to access debt markets in 2020, while several other  
13 companies were able to access debt markets but at very elevated spreads against  
14 Treasury bonds.<sup>3</sup>

15  
16 Mr. Walters observes that more utilities have been downgraded than upgraded by  
17 credit rating agencies in the past five years.<sup>4</sup> Many of these utilities had credit metrics  
18 that did not provide sufficient financial flexibility to maintain and support their ratings  
19 and withstand significantly higher inflation and interest rates. Another important  
20 consideration is that, as discussed in my direct testimony, FPL has a higher ratio of

---

<sup>2</sup> Edison Electric Institute, "The Financial Crisis and Its Impact On the Electric Utility Industry," at 5 (February 2009).

<sup>3</sup> Rebuttal Testimony of FPL witness Robert E. Barrett, docket no. 20210015-EI, July 14, 2021, at 22-25.

<sup>4</sup> Direct Testimony of FEA witness Christopher C. Walters, at 18.



1 projected capital expenditures to net plant than 12 of 15 companies in the proxy group.  
2 FPL will require continued access to capital on reasonable terms and conditions in  
3 order to finance the investment necessary to continue providing safe and reliable  
4 electric utility service to its customers.<sup>5</sup> In summary, the authorized ROE and capital  
5 structure for FPL should be set at levels that enable the Company to maintain access  
6 to capital under a variety of economic and financial market conditions. Never was  
7 this more important than in 2020 when financial markets were under extreme stress  
8 due to an external shock to the economy that no one could have predicted. In  
9 retrospect, it is easy to say that utilities have been able to access capital, but those  
10 without sufficient financial strength faced more challenges and obtained capital at  
11 higher costs to customers.

12 **Q. Mr. Walters refers to several reports by S&P, Moody's, and Fitch, concluding**  
13 **that the current rating outlook for regulated utilities is under pressure primarily**  
14 **due to affordability concerns.<sup>6</sup> Please respond.**

15 A. First, the Moody's and Fitch rating agency credit outlooks for the sector that Mr.  
16 Walters cites are outdated and do not reflect the most current outlooks. In its sector  
17 outlook for 2025, for example, Fitch states that its "neutral outlook reflects moderation  
18 in inflationary conditions and a continued subdued commodity environment that eases  
19 near-term pressure on customer bills."<sup>7</sup> The Moody's report cited by Mr. Walters is  
20 the rating agency's outlook from 2023. In its January 2025 report, S&P notes that  
21 "[t]he average electric customer bill is about 2 percent of U.S. median household

---

<sup>5</sup> Direct Testimony of James M. Coyne, at 48.

<sup>6</sup> Direct Testimony of FEA witness Christopher C. Walters, at 18-22.

<sup>7</sup> Fitch Ratings, "Neutral Outlook for North American Utilities in 2025," December 5, 2024.

1 income, which represents good value for customers relative to other typical household  
2 bills,”<sup>8</sup> which Mr. Walters acknowledges. Additionally, S&P notes that “common  
3 equity issuance has been weak and consistently below our expectations since 2021,  
4 pressuring the industry’s financial measures.”<sup>9</sup> Finally, S&P reiterates that it expects  
5 regulatory jurisdictions will support credit quality by “allowing for the *full recovery*  
6 *of all their operating and capital costs in a timely manner*” and will “provide a  
7 consistent and predictable regulatory framework that results in cash flow stability.”<sup>10</sup>  
8 On the contrary, the Intervenor Witnesses’ ROE and capital structure  
9 recommendations, if adopted, will undermine Florida’s constructive regulatory  
10 environment.

#### 12 IV. COMPARABLE RETURNS FOR ELECTRIC UTILITIES

13 **Q. The Intervenor Witnesses reference authorized ROEs for electric utilities in**  
14 **Florida and other jurisdictions.<sup>11</sup> Do you agree that these returns are relevant**  
15 **for establishing the ROE for FPL in this proceeding?**

16 A. National average returns must be placed in the proper context in order to be useful.  
17 While I agree that investors consider authorized returns in other states in assessing the  
18 reasonableness of the authorized ROE for FPL, I have several concerns with the

---

<sup>8</sup> S&P Global Ratings, “Industry Credit Outlook 2025 North America Regulated Utilities: Capex and climate change pressures credit quality,” January 14, 2025, at 11.

<sup>9</sup> S&P Global Ratings, “Industry Credit Outlook 2025 North America Regulated Utilities: Capex and climate change pressures credit quality,” January 14, 2025, at 7.

<sup>10</sup> S&P Global Ratings, “Industry Credit Outlook 2025 North America Regulated Utilities: Capex and climate change pressures credit quality,” January 14, 2025, at 8.

<sup>11</sup> See, for example, Direct Testimony of Walmart witness Lisa V. Perry, at 11-12, Direct Testimony of OPC witness Daniel J. Lawton, at 32, Direct Testimony of FEL witness Karl R. Rábago, at 18, Direct Testimony of FIPUG witness Jeffry Pollock, at 3, Exhibit JP-1; Direct Testimony of FAIR witness Frederick M. Bryant, at 17; and Direct Testimony of FEA witness Christopher C. Walters, at 3-4.

1 nationwide average ROE information presented by certain Intervenor Witnesses.  
2 First, several witnesses (Mr. Walters, Mr. Lawton, Mr. Rábago, Mr. Bryant) present  
3 average return data for all electric utilities instead of focusing on those with regulated  
4 electric generation. Vertically-integrated electric utilities have a different, higher level  
5 of business risk than Transmission and Distribution (“T&D”) utility companies.<sup>12</sup>  
6 This higher risk profile differentiates integrated electric utilities from T&D utilities  
7 and supports a higher authorized ROE and equity ratio in the capital structure.

8  
9 Second, market conditions at the time the authorized returns were established may be  
10 very different than conditions expected going forward. For example, equity returns  
11 set when interest rates were very low in 2020 and 2021 are not a reasonable basis of  
12 comparison for evaluating the authorized ROE when bond yields have increased 200  
13 to 300 basis points since the Company’s last rate case.<sup>13</sup> Recommendations to reduce  
14 FPL’s authorized return run counter to the increasing trend in capital costs that FPL  
15 faces. Mr. Walters’ Table CCW-1 illustrates two key points: (1) authorized ROEs  
16 have increased since 2021 and (2) two-thirds to three-quarters of all returns authorized  
17 for electric utilities in 2024 and 2025 were higher than Mr. Walters’ 9.50 percent ROE  
18 recommendation, and at least 60 percent were above 9.70 percent. Again, Mr. Walters  
19 includes authorized ROEs for wires-only utilities in his analysis, so the statistics in his  
20 Table CCW-1 understate the authorized returns for a vertically integrated electric  
21 utility like FPL. Since 2022, the annual average authorized ROE for vertically  
22 integrated electric utilities has been approximately 9.81 percent, within a range of

---

<sup>12</sup> Moody’s Investors Service, Rating Methodology for Electric and Gas Utilities, August 6, 2024, at 14.

<sup>13</sup> See, e.g., Direct Testimony of James M. Coyne, at 19-21.

1 9.25 percent to 11.45 percent, above Mr. Walters' and Mr. Lawton's  
2 recommendations in this proceeding.<sup>14</sup> Notably, every authorized ROE for vertically  
3 integrated electric utilities has been above Mr. Lawton's 9.20 percent ROE  
4 recommendation and approximately 74 percent have been above Mr. Walters' 9.50  
5 percent.

6  
7 Third, FPL has a different risk profile than other electric utility companies for which  
8 returns were set in other jurisdictions. This means that FPL's cost of equity is higher  
9 than the average for other integrated electric utilities. For another perspective, I  
10 reviewed the ROEs authorized between 2022 and 2025 for vertically integrated  
11 electric utilities that own nuclear generation, and the average is 9.90 percent. While  
12 this 9.90 percent understates FPL's cost of equity due to its unique risk profile, and  
13 includes ROEs authorized during a period where interest rates were much lower than  
14 they currently are, it further emphasizes how Mr. Lawton's and Mr. Walters' ROE  
15 recommendations would fail to meet the basic *Hope* and *Bluefield* "comparable  
16 return" standard.

---

<sup>14</sup> Source: Regulatory Research Associates. Excluding ROEs authorized for Green Mountain Power because Green Mountain Power operates under an Alternative Rate Plan in which the authorized ROE is set by an automatic adjustment formula that adjusts the authorized ROE based on changes in the 10-year Treasury bond yield. Therefore, Green Mountain Power's ROEs are not based on a cost of equity analysis.

1 **Q. Several Intervenor Witnesses (Bryant, Pollock, Lawton, Perry) refer to the 2024**  
2 **decisions for Duke Energy Florida (“DEF”) and Tampa Electric Company**  
3 **(“Tampa Electric” or “TECO”) in which the Commission approved ROEs of**  
4 **10.30 percent and 10.50 percent, respectively, and common equity ratios of**  
5 **53.0 percent and 54.0 percent, respectively.<sup>15</sup> What is your response?**

6 A. First, neither Duke Energy Florida nor Tampa Electric own nuclear generation, which  
7 distinguishes FPL’s risk from these companies. Second, FPL’s coastal exposure to  
8 hurricane and storm risk is greater than other Florida utilities. Third, Duke Energy  
9 Florida’s ROE was approved in a Settlement Agreement that includes several  
10 components including general base rate increases, depreciation rates, DEF’s storm  
11 reserve and cost recovery of storm costs, federal and state corporate income tax  
12 changes, matters pertaining to tax credits, and continuation of the Electric Vehicle  
13 (“EV”) Charging Program, among others. The cost of capital is just one element of a  
14 comprehensive settlement that should not be viewed in isolation. Lastly, DEF’s parent  
15 holding company, Duke Energy Corporation, is included in my proxy group for FPL,  
16 so the ROE results already reflect the risk of this company.

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<sup>15</sup> See, for example, Direct Testimony of OPC witness Daniel J. Lawton, at 15, Direct Testimony of Walmart witness Lisa V. Perry, at 10, Direct Testimony of FIPUG witness Jeffrey Pollock, at 3, and Direct Testimony of FAIR witness Frederick M. Bryant, at 17-18.

1 **Q. Mr. Rábago cites to three articles that suggest that authorized ROEs exceed the**  
2 **cost of equity.<sup>16</sup> Do you agree with the conclusions of the authors of those**  
3 **articles?**

4 A. No, I do not. The referenced articles contain serious flaws in the logic that would not  
5 withstand the scrutiny of a Commission proceeding. For example, two of the articles<sup>17</sup>  
6 reference a 2021 study by Karl Dunkle Werner and Stephen Jarvis entitled “Rate of  
7 Return Regulation Revisited” that asserts that authorized ROEs were above levels that  
8 historical relationships would suggest. The first flaw is that authors Dunkle Werner  
9 and Jarvis only rely on the CAPM to estimate the cost of equity, whereas most  
10 regulatory commissions consider multiple models when determining the appropriate  
11 ROE. Additionally, the CAPM as specified by Dunkle Werner and Jarvis has certain  
12 limitations for measuring the cost of equity and relies on assumptions that are  
13 inconsistent with current market data. The authors assume a constant Market Risk  
14 Premium (“MRP”) and a constant unlevered Beta coefficient. Therefore, both  
15 measures of equity risk are held constant and thus do not incorporate changes in  
16 market risk premia or changes in industry risk that have occurred over the study  
17 period. A more complete CAPM, as well as outputs from alternative models, such as  
18 the DCF and Bond Yield Plus Risk Premium models, demonstrate that regulators’  
19 authorized ROEs are consistent with evidence of investors’ return requirements and  
20 are not-overcompensating utilities. This highlights the importance of considering the

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<sup>16</sup> Direct Testimony of FEL witness Karl R. Rábago, at 19-21.

<sup>17</sup> Pearl Street Station Finance Lab blog post by Albert Lin, “Electricity Bills Too High? Then Get the ROE in Line,” <https://www.ourfinancelab.com/post/electricity-bills-too-high-then-get-the-roe-in-line>; Mark Ellis, *Rate of Return Equals Cost of Capital* at 5-6 (January 2025);

1 evidence produced by multiple methodologies provided in the context of capital  
2 market conditions at the time.

3

4 Next, two of the papers point to utility market-to-book (“M/B”) ratios in excess of 1.0  
5 as evidence that regulators are authorizing ROEs above the cost of equity.<sup>18</sup> There are  
6 several flaws with this oversimplified argument. First, the publicly traded utility  
7 holding companies are the entities with a publicly available market value. The  
8 regulated utility operating companies to which the authorized ROEs apply are not  
9 publicly traded and thus their market value is not observable. Second, the publicly  
10 traded holding companies are diversified companies, many of which operate both  
11 regulated and unregulated business segments across multiple jurisdictions. The stock  
12 prices of the publicly traded holding companies therefore reflect investors’ return  
13 requirements for the consolidated entity on a sum-of-the-parts basis.

14

15 Third, the market value of most publicly traded companies, both regulated and  
16 unregulated, exceed book value and this has been historically true for decades. As Dr.  
17 Roger Morin notes, “M/B ratios are determined by the marketplace, and utilities  
18 cannot be expected to compete for and attract capital in an environment where  
19 industrials are commanding M/B ratios well in excess of 1.0 while regulation reduces  
20 their M/B toward 1.0.”<sup>19</sup> To enable utilities the ability to attract capital that is not  
21 dilutive, the market price must be sufficiently above book value.

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<sup>18</sup> See, Mark Ellis, *Rate of Return Equals Cost of Capital* at 5-6 (January 2025); Rocky Mountain Institute, *Rebalancing “Return on Equity” to Accelerate an Affordable Clean Energy Future* (February 21, 2025), at 6-7.

<sup>19</sup> Roger A. Morin, Ph.D., *New Regulatory Finance*, at 377 (2006)

1           Additionally, the Rocky Mountain Institute (“RMI”) article incorrectly asserts that the  
2           geometric average market return should be used in the CAPM.<sup>20</sup> However, geometric  
3           returns are not the proper measurement for estimating the cost of equity. The  
4           geometric return is backward-looking, equating a beginning value to an ending value,  
5           and is often reported by investment banks and asset managers as a standardized metric  
6           to assess past performance across investments or investment managers. However,  
7           geometric returns do not reflect forward-looking uncertainty. The arithmetic return,  
8           on the other hand, assumes that each observation is independent from another and,  
9           therefore, incorporates uncertainty into the calculation of the long-term average.

10

11           Many financial textbooks and investor publications advise against the use of geometric  
12           averages as a basis for a forward-looking estimate of expected returns.<sup>21</sup> For example,  
13           Ibbotson explains:

14                     The geometric average is more appropriate for reporting *past*  
15                     *performance*, since it represents the compound average return... The  
16                     best estimate of the expected value of a variable that has behaved  
17                     randomly in the past is the average (or arithmetic mean) of its past  
18                     values.<sup>22</sup>

19

20

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<sup>20</sup> Rocky Mountain Institute, *Rebalancing “Return on Equity” to Accelerate an Affordable Clean Energy Future* (February 21, 2025), at 11.

<sup>21</sup> See, e.g., Roger A. Morin, Ph.D., *New Regulatory Finance*, at 133-138 (2006); Kroll, *2023 SBBI Yearbook*, at 193.

<sup>22</sup> Ibbotson *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, at 75. [*italics added*]



1 Dr. Roger Morin adds,

2 Because valuation is forward looking, the appropriate average is the  
3 one that most accurately approximates the expected future rate of  
4 return. The best estimate of expected returns over a given future  
5 holding period is the arithmetic average. Only arithmetic means are  
6 correct for forecasting purposes and for estimating the cost of capital.  
7 There is no theoretical or empirical justification for the use of  
8 geometric mean rates of returns as a measure of the appropriate  
9 discount rate in computing the cost of capital or in computing present  
10 values.<sup>23</sup>

11

12 Lastly, the RMI paper attempts to illustrate mathematically that an increase in the cost  
13 of debt as a result of a credit downgrade from a below market authorized ROE is offset  
14 by the lower authorized ROE.<sup>24</sup> This presumes that a credit downgrade only affects  
15 the cost of debt and not the cost of equity. An authorized return below what the market  
16 expects, as presumed by a credit downgrade, indicates higher regulatory risk and  
17 greater uncertainty in returns to the equity investor. Equity investors will require a  
18 higher return to compensate them for greater risk. Thus the required cost of equity  
19 *increases* in response.

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<sup>23</sup> Roger A. Morin, Ph.D., *New Regulatory Finance*, at 116-117 (2006).

<sup>24</sup> Rocky Mountain Institute, *Rebalancing "Return on Equity" to Accelerate an Affordable Clean Energy Future* (February 21, 2025), at 14.

1 **Q. Mr. Rábago applies NextEra Energy’s M/B ratio to estimate FPL’s cost of equity,**  
2 **concluding that FPL’s authorized ROE is above its cost of equity.<sup>25</sup> What is your**  
3 **response to Mr. Rábago’s analysis?**

4 A. Mr. Rábago’s calculation is flawed and misplaced. FPL is not publicly traded and  
5 does not have a stock price. FPL is not the entirety of NextEra Energy’s business and  
6 the market price of its equity reflects the entirety of NextEra Energy’s business  
7 operations, both regulated and unregulated. It is simply inappropriate to apply NextEra  
8 Energy’s M/B ratio to FPL.

9  
10 Lastly, for the reasons discussed earlier, the use of M/B ratios to evaluate the cost of  
11 equity is an outdated and oversimplified view that does not consider that most publicly  
12 traded companies trade above book value and utilities compete for capital among all  
13 companies, both regulated and nonregulated.

14

## 15 **V. UPDATED ROE AND CAPITAL STRUCTURE RESULTS**

16 **Q. Have you updated your ROE analyses?**

17 A. Yes, I have updated the results of the financial models used to estimate the cost of  
18 equity for FPL in my direct testimony (data as of December 31, 2024) to include  
19 market data through May 30, 2025. I have updated the proxy group to remove TXNM  
20 Energy Inc. (“TXNM”), as TXNM announced its agreement to be acquired by  
21 Blackstone Infrastructure on May 19, 2025.<sup>26</sup> I have added FirstEnergy Corp. and

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<sup>25</sup> Direct testimony of FEL witness Karl R. Rábago, at 21-22.

<sup>26</sup> <https://ttmp.com/about-us/news-media/ttmp-parent-company-txnm-energy-enters-agreement-be-acquired-blackstone>.

1 Dominion Energy Resources back to my proxy group, as their recent merger &  
2 acquisition activity occurred more than six months prior to my updated analysis. The  
3 results of those updated analyses are shown in Figure 1.

4 **Figure 1: Updated Base ROE Results**

	<b>Dec 31 '24 Data</b>	<b>May 30 '25 Data</b>
DCF	10.28%	10.43%
CAPM	15.65%	12.53%
Risk Premium	10.51%	10.59%
Expected Earnings	10.91%	11.29%
Range	10.28% - 15.65%	10.43-12.53%
Recommended Base ROE	11.83%	11.83%
Flotation Costs	0.09%	0.09%
Recommended ROE <sup>27</sup>	11.90%	11.90%

5

6 **Q. How do these updated results compare with those presented in your direct**  
7 **testimony?**

8 A. Three of the models (the DCF, Risk Premium, and Expected Earnings Models)  
9 increased since the end of December 2024. The mean DCF results have increased by  
10 15 basis points, the Risk Premium results have increased by 8 basis points, and the  
11 mean Expected Earnings results have increased by 38 basis points. The CAPM results  
12 however, decreased by 312 basis points. These results emphasize the importance of  
13 using multiple models to estimate the cost of equity.

<sup>27</sup> Recommended ROE is the base ROE of 11.83 percent plus 9 basis points for flotation, rounded down to 11.90 percent.

1 **Q. What caused the DCF results to increase?**

2 A. Three factors led to the 15 basis point increase in the DCF results. The dividend yields  
3 for the proxy group went up in both the 30 and 90-day periods, but declined slightly  
4 over 180 days. Projected earnings growth increased slightly. The change in the proxy  
5 group for merger activity was also a factor; removing TXNM eliminated a low-end  
6 result; including First Energy added back a below-average result, but including  
7 Dominion added an above-average result.

8 **Q. What caused the Risk Premium results to increase?**

9 A. One primary factor caused the 8 basis point increase in the Risk Premium results.  
10 Interest rates are higher for all periods: the current 30-day, near-term and long-term  
11 forecast. The change in the proxy group composition had no impact on this model.

12 **Q. What caused the Expected Earnings results to increase?**

13 A. Two factors led to the 38 basis point increase in the Expected Earnings results. The  
14 change in the proxy group for merger activity was a factor; removing TXNM  
15 eliminated a low-end result, including First Energy added back an above-average  
16 result, and Dominion was near the average. Second, the Value Line ROEs had  
17 increased for some of the proxy group companies.

18 **Q. What caused the CAPM results to decrease?**

19 A. The CAPM results declined due to reductions in the betas and market risk premiums,  
20 offsetting the increase in interest rates. The change in proxy group companies had  
21 little impact. These changes are summarized in Figure 2 below. The reduction in  
22 betas is primarily due to the movement away from the post-COVID period and  
23 inclusion of April 2025 data, where utility stocks were not as volatile as the overall

1 market. The forward-looking market risk premiums decreased due to updated data  
2 provided by S&P, Bloomberg, and Value Line. Dividend yields for the S&P 500  
3 increased modestly while earnings growth projections declined, reflecting greater  
4 uncertainty in the economic outlook.

5 **Figure 2: Updated CAPM Inputs<sup>28</sup>**

	<b>Dec 31 '24 Data</b>	<b>May 30 '25 Data</b>
Value Line Betas	0.940	0.847
Bloomberg 5-Year Betas	0.892	0.623
<b>Average Beta</b>	<b>0.916</b>	<b>0.735</b>
S&P MRP	17.08%	15.39%
Bloomberg MRP	17.44%	15.66%
Value Line MRP	15.50%	15.10%
<b>Average MRP</b>	<b>16.68%</b>	<b>15.38%</b>

6

7 **Q. Does this change your recommendation?**

8 A. No. Inclusive of 9 basis points of flotation costs, and with rounding, my model results  
9 and the subsequent recommendation remains 11.90 percent. In reaching this  
10 conclusion, I consider that three of the four models produce higher results than those  
11 I estimated based on December market data. My recommendation also remains within  
12 the range of estimates produced based on both December and May market data. I  
13 continue to consider this recommendation a just and reasonable estimate of FPL's  
14 required ROE, given the Company's risk profile and economic and capital market  
15 conditions.

<sup>28</sup> See Exhibits JMC-5 and JMC-15 for more detail.

1 **Q. Have you also updated your capital structure analysis?**

2 A. Yes, I have updated my capital structure analysis (Exhibit JMC-18) to include 2024  
3 data (while still using three years of data – 2022 through 2024). This update reinforces  
4 the results of my original capital structure analysis; the proxy group three-year average  
5 common equity ratio ranges from 40.49 percent to 58.91 percent, the upper end of  
6 which is in line with FPL’s proposed 59.6 percent common equity ratio. As such, my  
7 conclusion that FPL’s proposed capital structure of 59.6 percent common equity and  
8 40.4 percent long-term debt is reasonable remains unchanged.

9

10 **VI. CAPITAL MARKET CONDITIONS**

11 **Q. What changes have occurred in the capital market environment since you**  
12 **prepared your direct testimony?**

13 A. Since I prepared my direct testimony using market data as of December 31, 2024,  
14 several changes have occurred. First, the 30-day average on government and utility  
15 bond yields have increased by 36 and 41 basis points, respectively, as shown in Figure  
16 3.

17 **Figure 3: Government and Utility Bond Yields (30-Day Averages)<sup>29</sup>**

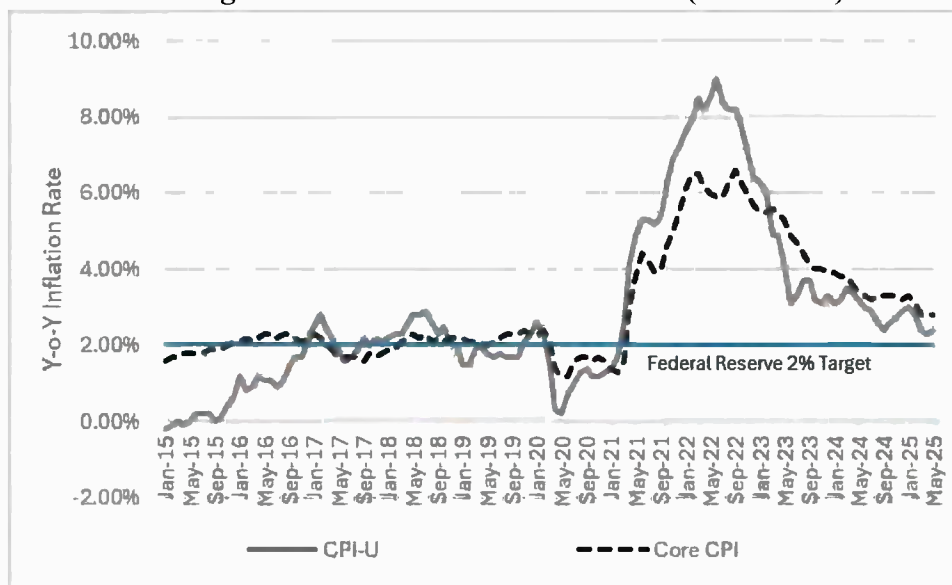
	12/31/2024	6/30/2025	Change (basis points)
30-Year Treasury Bond	4.56%	4.92%	+36
Moody’s Utility ‘A’ Index	5.57%	5.98%	+41
Moody’s Utility ‘Baa’ Index	5.76%	6.17%	+41

18

<sup>29</sup> Sources: Federal Reserve Bank of St. Louis FRED Economic Data and Bloomberg Professional.

1 Further, although the effects of higher tariffs announced earlier in 2025 have yet to  
 2 appear in the monthly inflation statistics, consumers' expectations for inflation have  
 3 increased. Expectations for long-run inflation, defined as the next five to ten years,  
 4 rose to 4.2 percent in May 2025.<sup>30</sup> As shown in Figure 4, the pace of inflation (both  
 5 the overall inflation rate and core inflation rate) has stalled, but remains elevated  
 6 above the Federal Reserve's 2.0 percent target.

7 **Figure 4: Year-Over-Year Inflation (2015-2025)<sup>31</sup>**



8  
 9 Persistent inflation and the effects from uncertain federal trade policy are complicating  
 10 the Federal Reserve's (the "Fed") unwinding of restrictive monetary policy as the Fed  
 11 takes a "wait and see" approach. In his press conference after the June 18, 2025  
 12 Federal Open Market Committee ("FOMC") meeting in which it maintained the  
 13 current federal funds rate at 4.25 percent to 4.50 percent, Chair Powell explained that

<sup>30</sup> Source, University of Michigan Surveys of Consumers, May 2025 Update: Current versus Pre-Pandemic Long-Run Inflation Expectations, <https://data.sca.isr.umich.edu/fetchdoc.php?docid=78838>

<sup>31</sup> Source: U.S. Bureau of Labor Statistics.

1 the FOMC is anticipating inflation to increase with tariff increases but there is  
2 significant uncertainty with how tariffs will affect inflation.

3 What we're waiting for to reduce rates is to understand what will  
4 happen with, with really the tariff inflation. And there's a lot of  
5 uncertainty about that. Every forecaster you can name who, you know  
6 -- who is a professional, you know, forecaster with, with adequate  
7 resources and forecasts for a living, is forecasting, you know a pretty  
8 significant-- everyone that I know is forecasting a meaningful increase  
9 in inflation in coming months from tariffs, because someone has to pay  
10 for the tariffs...So we know that's coming. And we just want to see,  
11 see a little bit of that before we make judgments prematurely.<sup>32</sup>

12 **Q. How will the Trump administration's tax and spending cut legislation impact the**  
13 **economy and financial markets?**

14 A. The "One Big Beautiful Bill" was signed into law by President Trump on July 4, 2025.  
15 A key element of the bill is extension of President Trump's 2017 Tax Cuts and Jobs  
16 Act, which was due to expire at the end of the year. The Bill makes most of the tax  
17 cuts permanent, while increasing spending on border security, defense and energy  
18 production. The Bill is partially paid for by cuts to health care programs and terminate  
19 tax incentives from the 2022 Inflation Reduction Act for clean energy, electric  
20 vehicles and energy efficiency programs. The Congressional Budget Office estimates  
21 the bill would add \$3.4 trillion to federal deficits over the next 10 years.<sup>33</sup> In the near-

---

<sup>32</sup> Federal Reserve Board, Transcript of Chair Powell's Press Conference, June 18, 2025, page 18-19.  
<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20250618.pdf>

<sup>33</sup> <https://www.cbo.gov/system/files/2025-07/61537-hr1-Senate-passed-additional-info7-1-25.pdf>



1 term, these provisions are expected to promote economic growth, but the impacts of  
2 larger deficits are a concern in the longer run. Expanding the national debt risks  
3 sustained elevated interest rates, increasing the costs of financing for consumers and  
4 businesses, and higher rates require the federal government to increase spending to  
5 finance its growing debt. On balance, this latest development in federal policy  
6 suggests that capital costs for businesses, including utilities, are likely to remain at or  
7 near current levels for the next several years.

8 **Q. What is your response to Mr. Walters' assertion that utilities have outperformed**  
9 **the S&P 500 since the second half of 2021?**<sup>34</sup>

10 A. It is unclear what the significance of June 30, 2021 is and why Mr. Walters chose that  
11 date as the starting point of his analysis. Had Mr. Walters chosen a different starting  
12 point, his conclusion would be quite different. For example, as shown in Figure 5  
13 below, looking back over the last five years, utilities underperformed in the wake of  
14 COVID-19 pandemic, and while the sector narrowed the gap in late 2022 and early  
15 2023, utilities have underperformed since.

---

<sup>34</sup> Direct Testimony of FEA witness Christopher C. Walters, at 22-23.

1  
2

**Figure 5: Total Return of the S&P 500 Index vs. S&P 500 Utilities and Electric Utilities Sub Index (January 2020 – June 2025)<sup>35</sup>**



3  
4  
5  
6

Looking to a more recent time period based on a starting point of March 2022, when the Federal Reserve began its aggressively restrictive monetary policy also shows that utilities have generally underperformed the market since the second half of 2023.

<sup>35</sup> Source: S&P Capital IQ.

1  
2

**Figure 6: Total Return of the S&P 500 Index vs. S&P 500 Utilities and Electric Utilities Sub Index (March 2022 – June 2025)<sup>36</sup>**



3

4 Nevertheless, the Beta coefficients that Mr. Walters and I rely on reflect the return  
5 performance of utilities relative to the S&P 500 Index. Thus, it is captured in the  
6 analysis.

7

8

## VII. DCF MODEL

9

**Q. Please describe the proxy groups used by Witnesses Lawton and Walters.**

10

A. Mr. Lawton used the same proxy group as I did, with the exception of removing  
11 TXNM due to its announced acquisition,<sup>37</sup> similar to what I have done in this rebuttal  
12 testimony. Mr. Walters used the same proxy group that I did.

<sup>36</sup>

Source: S&P Capital IQ.

<sup>37</sup>

Direct Testimony of OPC witness Daniel J. Lawton, at 39.

1 **Q. Do you have any significant concerns with Mr. Lawton's or Mr. Walters' proxy**  
2 **groups?**

3 A. I do not.

4 **Q. Please summarize how witnesses Lawton and Walters employ the DCF model.**

5 A. Mr. Lawton uses DCF models with a dividend yield calculation similar to mine. He  
6 uses multiple sources of earnings growth rates, specifically Value Line (historical and  
7 forecasted growth rates of earnings per share, dividends per share, and book value per  
8 share), Zacks forecasted earnings growth rates, and the sustainable growth estimate  
9 (also known as the retention ratio growth estimate or  $b*r + s*v$  when extended to  
10 include the impact of external equity financing). Specifically, Mr. Lawton uses the  
11 historical growth rates as a starting point for his analysis and employs three DCF  
12 models, one using the sustainable growth estimates, a second constant growth model  
13 that uses the average of the Value Line, Zacks, and sustainable growth estimates  
14 (which I'll refer to as the "combined growth rates"), and a third two-stage DCF model  
15 that uses the combined growth rates. Mr. Lawton obtains a midpoint result of  
16 8.70 percent for his sustainable growth DCF model and a 9.80 percent midpoint for  
17 the DCF model that uses the combined growth rates.<sup>38</sup> I cover Mr. Lawton's (and Mr.  
18 Walters') two/multi-stage DCF model later in this section.

19  
20 Mr. Walters also uses DCF models with a dividend yield calculation similar to mine.  
21 Mr. Walters used the average of analysts' growth rate estimates from three sources:  
22 Zacks, S&P Capital IQ, and Institutional Brokers' Estimate System (IBES), which are

---

<sup>38</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 41-45.

1 conceptually similar to the analyst growth rates that I used. His constant growth DCF  
2 model average ROE for his proxy group is 10.43 percent.<sup>39</sup>

3 **Q. Do you agree with the use of growth rates in the DCF model other than forecast**  
4 **earnings per share growth rates from equity analysts?**

5 A. No, I do not. Mr. Lawton considers a variety of growth rates including both historical  
6 and projected earnings per share, dividends per share, and book value per share, and  
7 presents DCF models using sustainable growth rates. As explained in my direct  
8 testimony, over the long term, dividend growth can only be sustained by earnings  
9 growth,<sup>40</sup> while short-term dividend growth can depend on management decisions  
10 regarding the dividend payout ratio over the near-term, which do not reflect the long-  
11 term growth prospects of the company.

12  
13 Further, I do not consider it reasonable to use the sustainable growth rates in the DCF  
14 analysis. Mr. Lawton's sustainable growth rate calculations rely on Value Line's  
15 projected ROE data for the proxy group companies. Those projected ROEs are  
16 substantially higher than the results of the DCF model using sustainable growth rates  
17 presented by Mr. Lawton, and demonstrate that investors are expecting to earn higher  
18 returns on equity from the proxy group companies than those calculated by Mr.  
19 Lawton in his sustainable growth rate DCF model. Finally, the 8.70 percent midpoint  
20 of Mr. Lawton's sustainable growth rate DCF model is not reasonable, since it is over  
21 110 basis points below the average authorized ROE of U.S. vertically integrated  
22 electric utilities in 2024 (9.84 percent) and lower than any authorized ROE in Florida

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<sup>39</sup> Direct Testimony of FEA witness Christopher C. Walters at 34-36.

<sup>40</sup> Direct Testimony of James M. Coyne, at 35.

1 for an electric utility since at least 1980 (9.85 percent).<sup>41</sup> As such, I would recommend  
2 that the Commission not give weight to Mr. Lawton's sustainable growth DCF model  
3 and remove these sustainable growth rates from his other DCF models to the extent  
4 that any weight is given to those.

5 **Q. Witnesses Lawton and Walters have also presented the results of a Multi-Stage**  
6 **DCF model.<sup>42</sup> Do you agree that the results of those analyses are reasonable?**

7 A. No, I do not. In general, a multi-stage DCF model is best utilized for companies that  
8 are in the early growth stages, whereby they may be growing faster at their current  
9 stage than they may grow in later years, as the company enters the mature stage. This  
10 does not apply to regulated utility companies, most if not all of which have been in  
11 business for decades and are in the mature phase of their growth cycle. Consequently,  
12 a single-stage constant growth model, as I have applied, is more appropriate for  
13 estimating the ROE for regulated utilities, such as FPL.

14  
15 Specific to this case, first, Mr. Lawton uses a multi-stage DCF analysis with the first  
16 stage (years 1-5) using Value Line forecasted growth in dividends and a combination  
17 of Value Line, Zacks, and the forecast sustainable growth estimate ("b\*r" + "s\*v").<sup>43</sup>  
18 The issues with using a dividend growth rate, as well as the sustainable growth  
19 method, that I noted above also apply here.

20

---

<sup>41</sup> Source: S&P Capital IQ Pro. Based on data since 1980.

<sup>42</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 45-47, and Direct Testimony of FEA witness Christopher C. Walters at 38-43.

<sup>43</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 46.

1 Second, Mr. Walters uses a GDP growth rate of 4.14 percent in the terminal stage of  
2 his multi-stage DCF analysis, and incorporates it as a bridge (from his short-term  
3 growth rates, which are the same he uses in his constant growth DCF model) in years  
4 6 through 10 of his analysis.<sup>44</sup> The GDP growth rate itself is not unreasonable;  
5 however, using it as a limit on the earnings growth of utilities that exhibit stronger  
6 growth historically is not appropriate.

7 **Q. Is there evidence to support the position that utility growth is not limited by GDP**  
8 **growth?**

9 A. Yes, I will present three analyses that show this. First, from 2010 through the end of  
10 May 2025, the S&P 500 Utilities Index had a compound annual growth rate (“CAGR”)  
11 of 6.45 percent, when looking at price-only growth (excluding dividends, as would be  
12 comparable to the analyst growth rates used in my DCF analysis as stock prices are  
13 driven by earnings growth over the long-term).<sup>45</sup> This CAGR is much more  
14 comparable to the analyst growth rates that I use in my analysis (which average  
15 6.52 percent)<sup>46</sup> than Mr. Walters’ 4.14 percent terminal growth rate.

16  
17 Second, the GDP growth rate is an approximate average of the growth rates of all  
18 public and private U.S. sectors. As such, some sectors will grow faster than the  
19 average, and some will grow slower. As shown in Figure 7 below, from 1947 through  
20 2024, the utility sector as a component of GDP has grown at a faster compound  
21 average annual rate (6.47 percent) than the overall GDP growth rate (6.38 percent).

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<sup>44</sup> Direct Testimony of FEA witness Christopher C. Walters, at 39.

<sup>45</sup> Source: S&P Capital IQ Pro.

<sup>46</sup> Exhibit JMC-14, column [8].

1 Here again, Mr. Walters' premise that GDP growth is an upper limit on an individual  
 2 utility company's growth or the utility sector's growth expectations is unproven.  
 3 Notably, the analyst earnings growth rate projections included in my, Mr. Lawton's,  
 4 and Mr. Walters' DCF analyses are consistent with the long-term historical compound  
 5 annual GDP growth rate for the utility sector. From that perspective, the projected  
 6 EPS growth rates in our respective Constant Growth DCF analyses are not excessive.

7 **Figure 7: GDP Growth by Industry<sup>47</sup>**

<b>Industry</b>	<b>1947</b>	<b>2024</b>	<b>CAGR</b>
Agriculture, forestry, fishing, and hunting	19.9	248.4	3.33%
Mining	5.8	393.7	5.63%
<b>Utilities</b>	<b>3.5</b>	<b>437.3</b>	<b>6.47%</b>
Construction	8.9	1,312.3	6.70%
Manufacturing	63.4	2,913.1	5.10%
Wholesale trade	15.6	1,706.8	6.29%
Retail trade	23.2	1,841.7	5.85%
Transportation and warehousing	14.1	969.2	5.65%
Information	7.7	1,569.5	7.15%
Finance, insurance, real estate, rental, and leasing	25.8	6,190.0	7.38%
Professional and business services	8.2	3,847.4	8.32%
Educational services, health care, and social assistance	4.6	2,542.0	8.55%
Arts, entertainment, recreation, accommodation, and food services	8.0	1,293.2	6.83%
Other services, except government	7.5	626.7	5.92%
Government	33.5	3,293.7	6.14%
<b>Total Gross Domestic Product</b>	<b>249.7</b>	<b>29,185.0</b>	<b>6.38%</b>

8

<sup>47</sup> In billions of dollars. Source: Bureau of Economic Analysis, GDP by Industry, Tables Only (XLSX), table 14, <https://www.bea.gov/data/gdp/gdp-industry>.



1 Finally, Mr. Walters notes that “[a] utility’s earnings and dividend growth is created  
2 by increased utility investment in its rate base.”<sup>48</sup> I agree with this statement and  
3 emphasize that utility capital expenditures have been growing at a rate that far exceeds  
4 GDP, both over the past 10 years and especially over the past 3 years, as can be seen  
5 in Figure 8 below.

6 **Figure 8: Compound Annual Growth in Capital Expenditures (2014-2024)**<sup>49</sup>

	<b>3-yr CAGR (2021-2024)</b>	<b>5-yr CAGR (2019-2024)</b>	<b>10-yr CAGR (2014-2024)</b>
FPL Proxy Group	11.04%	7.20%	6.74%
Total Electric Utility Sector	10.53%	7.19%	7.54%

7  
8 The proxy group analyst average projected earnings growth rates used in my, Mr.  
9 Lawton’s, and Mr. Walters’ Constant Growth DCF analyses (6.52 percent,<sup>50</sup>  
10 6.72 percent,<sup>51</sup> and 6.60 percent,<sup>52</sup> respectively), are lower than growth rates in utility  
11 capital expenditures, and therefore are not overstated. Rather, they are highly  
12 consistent with the rate base growth, as would be expected. Moreover, these capital  
13 expenditure growth rates are much higher than Mr. Walters’ 4.14 percent GDP growth,  
14 which indicates that utility growth is not constrained by economic growth. Given the  
15 substantial amount of capital that is expected to be invested to facilitate the energy  
16 transition,<sup>53</sup> it is unlikely that electric utilities are nearing the end of their investment  
17 cycles; rather it is likely the beginning.

<sup>48</sup> Direct Testimony of FEA witness Christopher C. Walters, at 39.

<sup>49</sup> S&P Global Market Intelligence, *Utility Capex Capital Expenditures Update, H1 2025*, March 24, 2025.

<sup>50</sup> Exhibit JMC-14, column [8].

<sup>51</sup> Exhibit DJL-7, Page 1, Column L.

<sup>52</sup> Exhibit CCW-3, Column (4).

<sup>53</sup> See Exhibit JMC-8 of my direct testimony.

1 **Q. Do you have any concluding thoughts on the appropriateness of using the GDP**  
2 **growth rate in the DCF model?**

3 A. I do. No company, or investor, would be satisfied with growth that simply tracks the  
4 broader economy. Investors would shift capital to more attractive investments.  
5 Companies are constantly searching for new avenues of growth and have levers such  
6 as capital resource allocation to achieve growth greater than GDP. There is no reason  
7 to expect that an individual corporation competing for capital as a going concern will  
8 limit earnings or dividend growth to GDP. Limiting growth in the DCF model to long-  
9 term GDP is an unfounded constraint.

10

11 Additionally, the results of Mr. Walters' multi-stage DCF analysis, a mean of  
12 8.51 percent and median of 8.31 percent,<sup>54</sup> are not reasonable, as they are over 130  
13 and 150 basis points (respectively) below the average authorized ROE of U.S.  
14 vertically integrated electric utilities in 2024 (9.84 percent) and lower than any  
15 authorized for an electric utility in Florida since at least 1980 (9.85 percent).<sup>55</sup>

16 **Q. Has the Commission recognized the limitations of the multi-stage DCF analysis**  
17 **for electric utilities in prior orders?**

18 A. Yes, in its recent decision for Tampa Electric Company, the Commission concluded  
19 that the multi-stage DCF model "is not appropriate for electric utility companies  
20 because they are mature firms in the constant growth business cycle."<sup>56</sup>

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<sup>54</sup> Direct Testimony of FEA witness Christopher C. Walters, at 43.

<sup>55</sup> Source: S&P Capital IQ Pro. Based on data since 1980.

<sup>56</sup> Docket No. 20240026-EI, Order No. PSC 2025-0038-FOF-EI, at 86.

1 **Q. Mr. Lawton noted that you should have considered the low growth DCF results**  
2 **given the potential for a slower growing economy.<sup>57</sup> Do you agree with him?**

3 A. No, I do not. First, as discussed earlier, utility earnings growth is driven by rate base  
4 investment, not GDP growth. Second shown in Figure 2 of my Direct Testimony, the  
5 economy had been consistently growing, and one recent quarter of a small real GDP  
6 decline<sup>58</sup> does not necessarily mean that the economy is slowing. Forecasts generally  
7 point to a continually growing economy as well.<sup>59</sup> Even if the economy were to be  
8 slowing, that assumption would be factored into the analyst growth rate projections  
9 that I use in my DCF analysis.

10 **Q. Mr. Rábago contends that “a straightforward calculation of the cost of equity**  
11 **under a DCF model that focuses on observable market data reveals a cost of**  
12 **equity well below 10 percent.”<sup>60</sup> Do you agree with him?**

13 A. No, I do not. First, Mr. Rábago does not present a DCF model to substantiate his  
14 statement. Second, both my and Mr. Walters’ Constant Growth DCF models, which  
15 are straightforward and focus on observable market data, yield results over 10 percent.

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17  
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<sup>57</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 63.

<sup>58</sup> Real GDP had declined by 0.2 percent in Q1 of 2025 (second estimate). Source: U.S. Bureau of Economic Analysis.

<sup>59</sup> See, e.g., the Federal Reserve’s projection of real GDP growth to be 1.7 to 1.8 percent over the next few years. Source: <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250319.htm>

<sup>60</sup> Direct Testimony of FEL witness Karl R. Rábago, at 26.



1 9.04 percent to 10.63 percent, 7.24 percent to 8.04 percent, and 8.66 percent to  
2 10.09 percent, respectively.<sup>62</sup>

3 **Q. Do you agree with how Mr. Lawton calculates his MRP?**

4 A. No, I do not. Mr. Lawton calculates the MRP based on the difference between the  
5 average authorized ROEs for electric utilities (11.38 percent) and the 30-year U.S.  
6 Treasury yields (5.93 percent) for 1981 through 2024, producing an average electric  
7 utility risk premium of 5.45 percent,<sup>63</sup> which he then divides by his proxy group  
8 median Beta coefficient of 0.875 to arrive at an imputed MRP of 6.23 percent.

9

10 As Mr. Lawton understands, the risk premium is inversely related to the Treasury bond  
11 yield. According to his Risk Premium analysis in Exhibit DJL-11, the 4.25 percent  
12 risk-free rate that Mr. Lawton relies on in his CAPM analysis corresponds to a utility  
13 equity risk premium of 6.14 percent, not 5.45 percent. If the utility equity risk  
14 premium of 6.14 percent were divided by his mean Beta coefficient of 0.875, the  
15 resulting MRP in his CAPM analysis would be 7.02 percent, not 6.23 percent.  
16 Adjusting Mr. Lawton's CAPM analysis to use an MRP of 7.02 percent, along with  
17 fixing PPL's beta error that I mentioned earlier, produces mean CAPM and ECAPM  
18 results of 10.29 percent and 10.54 percent, respectively. Using the same approach but  
19 instead applying Mr. Lawton's 4.66 percent current 30-year Treasury yield and  
20 corresponding MRP of 6.83 percent produces mean CAPM and ECAPM results of  
21 10.54 percent and 10.78 percent, respectively (see Exhibit JMC-20).<sup>64</sup>

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<sup>62</sup> Direct Testimony of FEA witness Christopher C. Walters, at 49-60.

<sup>63</sup> See Exhibit DJL-10.

<sup>64</sup> All other inputs were kept the same. Note that this does not mean that I agree with all of Mr. Lawton's other inputs and assumptions.

1 If the Commission places weight on Mr. Lawton's CAPM and ECAPM analyses, I  
2 recommend using these adjusted versions, not the versions he submitted in his direct  
3 testimony.

4 **Q. Do you agree with Mr. Walters' reliance on Kroll's normalized Market Risk  
5 Premium method?**

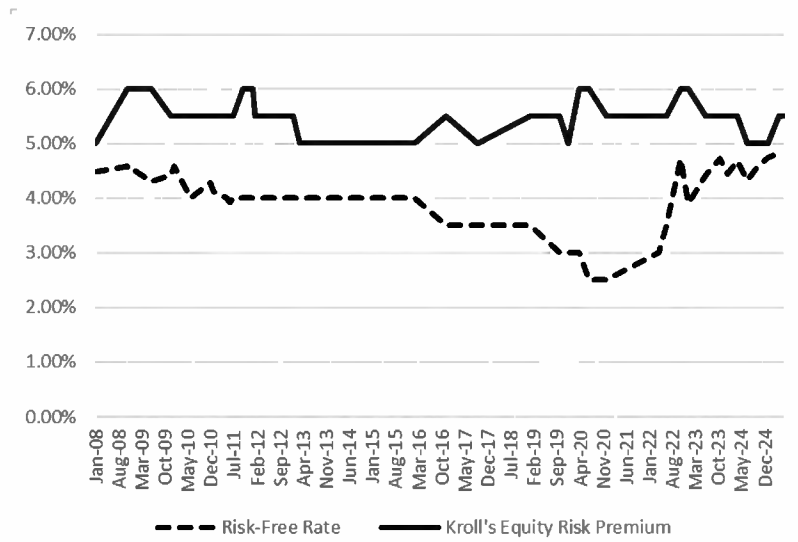
6 A. No, I do not. It is not clear that Kroll develops its market risk premium in relation to  
7 its normalized risk-free rate. The market risk premium is calculated as the difference  
8 between the expected market return and risk-free rate; therefore, it is a function of the  
9 expected market return and risk-free rate at a point in time. Consequently, the market  
10 risk premium and risk-free rate are not independent of each other, they are interrelated.  
11 In fact, academic studies have shown that the two are inversely related.<sup>65</sup> As the risk-  
12 free rate decreases, the market risk premium increases and vice versa. However, as  
13 shown in Figure 9 below, there is no clear relationship between Kroll's recommended  
14 Equity Risk Premium and risk-free rate. Whereas academic studies indicate that the  
15 two lines should move in opposite directions, Figure 9 shows they do not.

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<sup>65</sup> See, e.g., Robert S. Harris and Felicia C. Marston, *Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts*, *Financial Management*, (Summer 1992), at 63-70.

1 **Figure 9: Kroll Recommended Equity Risk Premium and**  
 2 **Risk-Free Rate (2008-May 2025)<sup>66</sup>**



3  
 4 The conclusion - that there is no clear relationship between the two variables provided  
 5 by Kroll - is supported by statistical analysis. The R-squared is 0.001 percent, which  
 6 indicates that Kroll's Risk-Free Rate explains less than 0.10 percent of the change in  
 7 the Equity Risk Premium. This runs counter to the fundamental fact that the market  
 8 risk premium is a function of the risk-free rate, as noted earlier. Additionally, the risk-  
 9 free rate is not statistically significant.

10  
 11 Furthermore, the results of Mr. Walters' CAPM that use the Kroll Normalized MRP  
 12 range from 7.24 percent to 9.38 percent, depending on which beta he uses.<sup>67</sup> These  
 13 results are not reasonable, as they are over 250 and 40 basis points (respectively)  
 14 below the average authorized ROE of U.S. vertically integrated electric utilities in  
 15 2024 (9.84 percent) and below any authorized return for an electric utility in Florida

<sup>66</sup> Sources: Kroll Cost of Capital Navigator, Federal Reserve Bank of St. Louis FRED Economic Data.  
<sup>67</sup> Direct Testimony of FEA witness Christopher C. Walters, Exhibit CCW-15, Page 1, Column (1).

1 since at least 1980 (9.85 percent).<sup>68</sup> In Order No. PSC-2023-0177-FOF-GU, the  
2 Commission found that the use of Kroll’s ERP and the results of the CAPM using  
3 Kroll’s ERP to be unreasonable.<sup>69</sup> The finding remains true regarding Mr. Walters’  
4 analysis in this proceeding.

5 **Q. Does Mr. Walters exclude a large portion of the S&P 500 companies when**  
6 **calculating his S&P 500 market return?**

7 A. Yes. In his S&P 500 MRP calculations, for both dividend paying companies and “all  
8 companies”, Mr. Walters excludes companies with growth rates that were negative or  
9 greater than 20 percent.<sup>70</sup> Upon examining his workpaper,<sup>71</sup> it was evident that this  
10 screen excluded a large portion of the market cap of the S&P 500, as is summarized  
11 below on Figure 10. Mr. Walters’ growth rate and dividend exclusions eliminate  
12 roughly 10 and 14 trillion dollars of additional market cap, or roughly 20 and 28  
13 percent of the total market cap, reducing the S&P 500 to 387 and 330 companies,  
14 respectively. Acknowledging that this is FERC’s methodology, I do not find it  
15 appropriate to exclude these companies, as there are numerous companies that  
16 experience growth rates outside of the 0 to 20 percent threshold; doing so artificially  
17 restricts the market and biases the MRP calculation, as the risk premium is no longer  
18 based on the *market* but instead based on a subset of the market. Making this  
19 adjustment brings the MRP in line with the MRPs that I used.

---

<sup>68</sup> Source: S&P Capital IQ Pro. Based on data since 1980.

<sup>69</sup> Florida Public Service Commission Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas*, Order No. PSC-2023-0177-FOF-GU, at 43 (June 9, 2023).

<sup>70</sup> Direct Testimony of FEA witness Christopher C. Walters, at 56.

<sup>71</sup> FEA witness Walters’ workpaper “CCW Public WP 7”, “SP 500 def of all cos” and “SP 500 def excl no divs” tabs.



1

**Figure 10: Market Cap in Mr. Walters' MRP Calculation<sup>72</sup>**

<b>Description</b>	<b>All Companies</b>	<b>Mr. Walters' "All Companies"</b>	<b>Mr. Walters' "All Companies, No Dividend"</b>
Market Cap \$M	\$48,386,810	\$38,488,417	\$34,228,186
% of Market Cap	95.5%	75.9%	67.5%
Number of Companies	467	387	330
Resultant MRP	15.80%	12.48%	12.09%

2

3 **Q. Are the betas that Mr. Walters used appropriate?**4 A. With the exception of the current, 5-year Value Line beta, no, they are not. The  
5 fundamental risk profile of a company can change over time, and using historical betas  
6 that incorporate over 15 years of data<sup>73</sup> diminishes the proxy group company's recent  
7 risk profile and is likely influenced by the Great Recession.

8

9 Conversely, using only three-year betas can be too short of window. Regulated  
10 utilities have the obligation to serve, and raise capital if necessary, in all market  
11 conditions. As such, having just three years of data can yield results that are not robust  
12 enough to provide a stable estimate of the cost of equity capital.

13

14 Finally, Mr. Walters' estimate of the Beta coefficient includes Vasicek-adjusted beta  
15 coefficients from S&P Global Market Intelligence ("MI") for his proxy companies.

16

17 While I agree MI is a reliable source of utility financial and rate case data, I disagree  
with Mr. Walters' position that beta coefficients calculated using the Vasicek

72 All variations exclude companies without projected growth rates.

73 Mr. Walters' historical betas are calculated with data from the third quarter of 2014 to the first quarter of 2025 using 5-year Value Line betas. Value Line's five-year betas from 2014 would reflect data from 2009-2014. Hence, this incorporates 15.5 years of data.

1 adjustment are “superior”<sup>74</sup> to those calculated using the Blume adjustment. The  
2 conclusion as to which approach is “superior” remains open to debate and there is no  
3 consensus on that issue. As Duff & Phelps explains, “[w]hether betas tend to move  
4 toward market averages or industry averages over time is an issue open to debate.”<sup>75</sup>  
5 Moreover, if there was consensus in the financial community that the Vasicek  
6 adjustment methodology was “superior” to the Blume adjustment methodology, it  
7 would be more widely adopted by well-known investor data resources, such as Value  
8 Line and Bloomberg. However, that is not the case. In my experience, the vast  
9 majority of beta coefficients used by ROE witnesses in regulatory proceedings employ  
10 the Blume adjustment methodology. I am not aware of any regulatory commission  
11 that has accepted the use of Vasicek adjusted beta coefficients. On the contrary, this  
12 Commission has explicitly concluded that the use of MI beta coefficients “is  
13 questionable and subject to analyst bias.”<sup>76</sup> Further, the Vasicek adjustment  
14 methodology requires more inputs and calculations and is more susceptible to  
15 subjective judgment than are the beta coefficients independently reported by Value  
16 Line, or other sources such as Bloomberg that use the Blume adjustment methodology.  
17  
18 As S&P notes (as highlighted by Mr. Walters), the Vasicek adjustment “adjusts the  
19 raw beta via weights determined by the variance of the individual security versus the  
20 variance of a larger sample of comparable companies.”<sup>77</sup> Because S&P’s Beta

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<sup>74</sup> Direct Testimony of FEA witness Christopher C. Walters, at 51, quoting S&P.

<sup>75</sup> Duff & Phelps 2020 Valuation Handbook, at 9.

<sup>76</sup> Florida Public Service Commission Docket No. 20220069-GU, *In re: Petition for rate increase by Florida City Gas*, Order No. PSC-2023-0177-FOF-GU, at 43 (June 9, 2023).

<sup>77</sup> Direct Testimony of FEA witness Christopher C. Walters, at 51-52.

1 Generator model allows the analyst to select up to nine companies in the sample group,  
2 the size and makeup of the chosen sample group is highly subjective and could  
3 substantially affect the results. As a consequence, S&P's Beta Generator model – and  
4 the Vasicek adjustment generally – is susceptible to the size and selection of the  
5 comparable group used in the adjustment. Adjusted beta coefficients from Value Line,  
6 however, are well understood, independently reported, and easily verifiable; they are  
7 therefore not exposed to these criticisms.

8 **Q. Mr. Walters observes that current Beta coefficients from Value Line are higher**  
9 **than the historical average for the electric utility industry.<sup>78</sup> Do you view this as**  
10 **a reason to adjust or question the current Beta coefficients?**

11 A. No, I do not. Beta is the measure of relative risk in the CAPM analysis. The utility  
12 industry has typically had lower than average Beta coefficients because utilities tend  
13 to be less volatile than the broad market. However, that was not the case during the  
14 market dislocation that occurred in response to the COVID-19 pandemic. Five-year  
15 Beta coefficients from both Value Line and Bloomberg increased substantially in  
16 February and March 2020 to levels not seen since the financial crisis of 2008/2009  
17 and remained at those elevated levels until just recently. Utilities were less volatile  
18 than the overall market during the tariff-related market volatility in April 2025. This  
19 five year period included multiple years after the COVID-19 period, which suggests  
20 that the proxy group beta coefficients were being affected by factors other than the  
21 pandemic. Further, as I noted above, utilities have the obligation to serve and raise  
22 capital in all market conditions.

---

<sup>78</sup> Direct Testimony of FEA witness Christopher C. Walters, at 69-70.

1 **Q. Some Intervenor Witnesses challenge the forward-looking market risk premium**  
2 **you have used in your CAPM analysis.<sup>79</sup> Can you please respond to their**  
3 **concerns?**

4 A. First, the cost of equity is forward looking, therefore the inputs to the ROE models  
5 should also be forward looking. Second, the method I have used to calculate the  
6 forward-looking MRP is similar to the methodology used by FERC in their October  
7 17, 2024 Order.<sup>80</sup> Specifically, the forward-looking MRP in my CAPM analysis is  
8 derived by calculating the expected total return for the companies in the S&P 500  
9 Index less the projected risk-free rate. It is appropriate to include growth rates for  
10 non-dividend paying companies because when investors purchase the Index or a  
11 mutual fund or exchange traded fund that mirrors the Index, their total return is based  
12 on the returns for all 500 companies in the Index, not only those companies that pay  
13 dividends, or those with positive EPS growth rates or growth rates less than 20 percent.  
14 Further, my MRP calculation is internally consistent because the betas used in my  
15 CAPM analysis are calculated against all companies in the S&P 500 Index or the  
16 NYSE Composite Index, not just against those companies that pay dividends, or have  
17 positive growth rates, or growth rates less than 20 percent.

18  
19 In addition, I have analyzed the annual performance of the S&P 500 from 1926-2024.

20 As shown in Figure 11 below, the actual return on the S&P 500 Index has exceeded

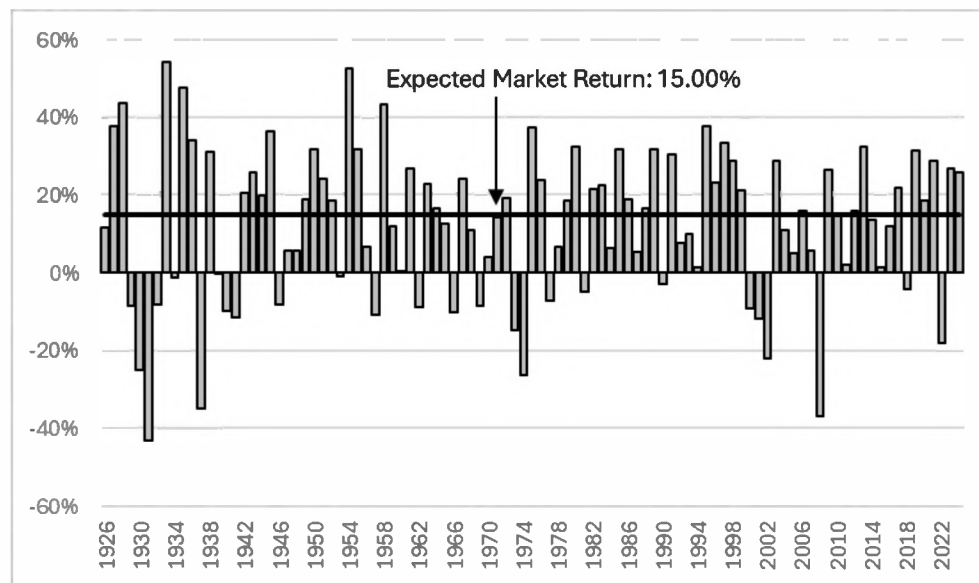
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<sup>79</sup> Direct Testimony of OPC witness Daniel J. Lawton at 63-64; Direct Testimony of FEA witness Christopher C. Walters at 70-73; Direct Testimony of FEL witness Karl R. Rábago, at 21.

<sup>80</sup> Federal Energy Regulatory Commission, Docket Nos. EL14-12-016 and EL15-45-015, Order on Remand, issued October 17, 2024, at paras. 28, 38.

1 15 percent in 50.51 percent (50 out of 99) of the years from 1926-2024.<sup>81</sup> These data  
2 demonstrate that actual total returns for the broad market greater than 15 percent are  
3 not uncommon.

4 **Figure 11: Total Returns of S&P 500 Index – 1926-2024**



5

6

7

## IX. RISK PREMIUM MODEL

8 **Q. Please summarize how witnesses Lawton and Walters employ the Risk Premium**  
9 **model.**

10 A. Mr. Lawton employs a bond yield equity risk premium analysis, similar to my  
11 analysis. He uses over 40 years of 30-year Treasury bond yields and authorized  
12 electric utility equity returns to estimate the relationship between the MRP and 30-  
13 year Treasury bond yields. He then applies that relationship to the current and  
14 projected 30-year Treasury bond yields to calculate ROEs of 10.64 percent and

<sup>81</sup> Kroll, 2025 SBBI Yearbook, Appendix A-1, A-7 (years 1926-2024); Cost of Capital Navigator (2024 data).

1 10.39 percent, respectively.<sup>82</sup> Most importantly, he notes that, “These risk premium  
2 results exceed all other model results and were not considered in the final analysis”  
3 without additional explanation.<sup>83</sup>

4  
5 Mr. Walters takes a slightly different approach. While he uses nearly 40 years of bond  
6 yields and authorized returns, instead of conducting a statistical analysis, he instead  
7 takes an average of the risk premium (both over the entire sample and the most recent  
8 two years) to obtain his risk premium. He does this for 30-year Treasury yields, A-  
9 rated utility bonds, and Baa-rated utility bonds to obtain ROE estimates that range  
10 from 9.98 percent to 10.23 percent.<sup>84</sup>

11 **Q. Why did Mr. Lawton not consider his Risk Premium analysis results in his final**  
12 **analysis?**

13 A. Mr. Lawton did not give an explanation as to why he did not consider his risk premium  
14 results in his final analysis. Presumably it was because they “exceed[ed] all other  
15 model results”<sup>85</sup> and consequently would have raised his ROE recommendation had  
16 he included them. Risk Premium analysis results of 10.39 percent and 10.64 percent  
17 are not unreasonable; they are in-line with my Risk Premium analysis results,<sup>86</sup> in line  
18 with electric utility ROEs that have been authorized in Florida, and below FPL’s  
19 current ROE, which the Commission authorized in 2021 when interest rates were  
20 much lower than they currently are, as shown in Figure 4 of my Direct Testimony. As

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<sup>82</sup> Direct Testimony of OPC witness Daniel J. Lawton, Exhibit DJL-11.

<sup>83</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 50.

<sup>84</sup> Direct Testimony of FEA witness Christopher C. Walters, at 48-49, Exhibit CCW-10, and Exhibit CCW-11.

<sup>85</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 50.

<sup>86</sup> See Exhibit JMC-16.

1 shown in Mr. Lawton’s Table 14,<sup>87</sup> including his Risk Premium results would increase  
2 his model midpoint to 9.70 percent.

3 **Q. What is your primary concern with Mr. Walters’ Risk Premium analysis?**

4 A. Mr. Walters did not conduct a statistical analysis when performing his Risk Premium  
5 analysis, instead opting to take simple averages. Failing to do so does not accurately  
6 capture the relationship between bond yields and risk premiums. As an illustrative  
7 exercise, I have re-done Mr. Walters’ analysis, keeping all other inputs and  
8 assumptions the same, only using a statistical relationship rather than a straight  
9 average.<sup>88</sup> See Exhibit JMC-21, which shows this analysis, which is also summarized  
10 below in Figure 12. The resulting ROEs are 44 to 9 basis points above Mr. Walters’  
11 Risk Premium ROEs<sup>89</sup> and are in line with the Risk Premium ROEs that I calculated.  
12 If the Commission is to place weight on Mr. Walters’ Risk Premium analysis, I  
13 recommend it rely on this version.

14 **Figure 12: Mr. Walters’ Risk Premium ROE Using Statistical Modeling**

<b>Description</b>	<b>Yield</b>	<b>Risk Premium</b>	<b>ROE</b>
Projected Treasury Yield	4.40%	6.02%	10.42%
<b><u>3-Month Average Yields</u></b>			
A-Rated Utility Bond	5.79%	4.66%	10.45%
Baa-Rated Utility Bond	5.97%	4.35%	10.32%
<b><u>6-Month Average Yields</u></b>			
A-Rated Utility Bond	5.73%	4.68%	10.41%
Baa-Rated Utility Bond	5.92%	4.37%	10.29%

15

<sup>87</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 51.

<sup>88</sup> Note that this does not mean that I agree with all of Mr. Walters’ other inputs and assumptions.

<sup>89</sup> Direct Testimony of FEA witness Christopher C. Walters, at 49.

1 **Q. What issues does Mr. Walters have with your Risk Premium analysis?**

2 A. Mr. Walters has two main issues with my Risk Premium analysis. First, he notes that  
3 the results of my Risk Premium analysis are higher than 56 of the 57 authorized ROEs  
4 for electric utilities since 2024.<sup>90</sup> This statement overlooks the key facts that  
5 authorized ROEs are often the result of a comprehensive settlement (as was the case  
6 with 27 of the 57 companies Mr. Walters had referenced), and the fact that Florida has  
7 greater investment risk than many other areas of the country due to its heightened  
8 weather risk. Second, Mr. Walters notes that the recent average equity risk premium  
9 is lower than what I had calculated.<sup>91</sup> As I noted above, taking a simple average of  
10 the past two years is both overly simplistic and not robust.

11

12 More importantly, my Risk Premium results are consistent with ROEs that were  
13 authorized when interest rates were similar to today's rates. Mr. Walters' Exhibit  
14 CCW-10 shows that when the 30-year Treasury yields were last in the range of  
15 4.40 percent to 4.86 percent in 2005 to 2008 (as presented in my updated Risk  
16 Premium analysis in Exhibit JMC-16), authorized ROEs were in the range of  
17 10.30 percent to 10.54 percent, which supports my Risk Premium results. The same  
18 conclusion holds for utility bond yields shown in Mr. Walters Exhibit CCW-11.  
19 During this same time period, utility bond yields were similar to current levels, and  
20 my Risk Premium results correspond to authorized ROEs during those years.

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<sup>90</sup> Direct Testimony of FEA witness Christopher C. Walters, at 74.

<sup>91</sup> *Id.*



1 **Q. Mr. Rábago notes that FERC prohibited the use of the Risk Premium model.<sup>92</sup>**  
2 **Do you agree with him?**

3 A. No, I do not. In its most recent Order on the ROE topic, FERC noted that, “Therefore,  
4 while we do not adopt the Risk Premium model here for the reasons discussed above,  
5 we do not foreclose the use of a Risk Premium model in future proceedings if parties  
6 can demonstrate the concerns discussed above have been addressed.”<sup>93</sup> In my view,  
7 the Risk Premium model presents a straightforward and intuitive relationship between  
8 interest rates and ROE, which adds robustness in estimating a company’s ROE.  
9 Further, the Commission has previously relied on the Risk Premium model in  
10 determining the appropriate ROE for utility companies.<sup>94</sup>

11

12 **X. EXPECTED EARNINGS ANALYSIS**

13 **Q. Mr. Lawton claims that you “ignored” your 10.27 percent Expected Earnings**  
14 **median estimate and “relied solely on the much higher 10.91 percent mean.”<sup>95</sup>**  
15 **Do you agree with him?**

16 A. No, I do not. My ROE recommendation, for all three of the DCF, CAPM, and  
17 Expected Earnings methodologies, uses the average of the proxy group companies,  
18 not the median. I find the average to be the appropriate measure of central tendency

---

<sup>92</sup> Direct Testimony of FEL witness Karl R. Rábago, at 21.

<sup>93</sup> Federal Energy Regulatory Commission, Docket Nos. EL14-12-016 and EL15-45-015, Order on Remand, issued October 17, 2024, at para. 24.

<sup>94</sup> See, for example, Tampa Electric Company, Docket Nos. 20230090-EI, 20230139-EI, and 20240026-EI, Order No. PSC-2025-0038-FOF-EI, issued February 3, 2025, at 90-91, 94-95.

<sup>95</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 64.

1 in this case; I'm not "ignoring" the median result because it's lower as Mr. Lawton  
2 implies.

3 **Q. What concerns does Mr. Walters have with your Expected Earnings analysis?**

4 A. Mr. Walters contends that there are three issues with the Expected Earnings approach,  
5 claiming 1) it does not measure the return an investor requires in order to make an  
6 investment; 2) the Federal Energy Regulatory Committee ("FERC") recently found  
7 that the Expected Earnings model does not satisfy the requirements of *Hope*; and 3)  
8 the historical and projected earned ROE for these holding companies can be  
9 significantly influenced by the financial performance of nonregulated operations.<sup>96</sup> I  
10 do not agree with these contentions.

11

12 In response to Mr. Walters' concerns, the *Hope* and *Bluefield* standards establish that  
13 a utility should be granted the opportunity to earn a return that is commensurate with  
14 the return on other investments of similar risk. Therefore, it is reasonable to consider  
15 the returns that investors expect to earn on the common equity of the electric utility  
16 companies in the proxy group as a benchmark for a just and reasonable return because  
17 that is the expected earned ROE that an investor will consider in determining whether  
18 to purchase shares in the company or to seek alternative investments with a better  
19 risk/reward profile. As Dr. Morin notes:

20 The Comparable Earnings standard has a long and rich history in  
21 regulatory proceedings, and finds its origins in the fair return doctrine  
22 enunciated by the U.S. Supreme Court in the landmark *Hope* case. The

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<sup>96</sup> Direct Testimony of FEA witness Christopher C. Walters, at 76-77.

1 governing principle for setting a fair return decreed in Hope is that the  
2 allowable return on equity should be commensurate with returns on  
3 investments in other firms having comparable risks, and that the  
4 allowed return should be sufficient to assure confidence in the financial  
5 integrity of the firm, in order to maintain creditworthiness and ability  
6 to attract capital on reasonable terms. Two distinct standards emerge  
7 from this basic premise: a standard of Capital Attraction and a standard  
8 of Comparable Earnings. The Capital Attraction standard focuses on  
9 investors' return requirements, and is applied through market value  
10 methods described in prior chapters, such as DCF, CAPM, or Risk  
11 Premium. The Comparable Earnings standard uses the return earned on  
12 book equity investment by enterprises of comparable risks as the  
13 measure of fair return.<sup>97</sup>

14  
15 Mr. Walters fails to consider in his critique of the Expected Earnings analysis that the  
16 authorized ROE that is established in this case will be applied to the net book value of  
17 the Company's rate base (subject to certain regulatory adjustments). In this regard,  
18 the Expected Earnings approach provides valuable insight into the opportunity cost of  
19 investing in FPL's electric utility operations. If investors are to devote capital to the  
20 Company, they must consider the foregone opportunity to invest that same capital in  
21 the other proxy companies (or other market alternatives). The Expected Earnings

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<sup>97</sup> New Regulatory Finance, Roger A. Morin Ph.D., Public Utility Reports, 2006, at 381.

1 approach is informative because it provides a measure of the return on book value that  
2 is available to investors in other proxy companies with comparable risk to FPL.

3

4 Similar to the Risk Premium model, FERC has left the door open for presentation of  
5 an Expected Earnings analysis on a case-by-case basis.<sup>98</sup> In my view, the Expected  
6 Earnings analysis provides an informed picture of the returns that investors are  
7 expecting for companies in the Electric Utility sector based on Value Line data. This  
8 stability is due to Value Line's analysis and projections that change when updated, in  
9 contrast to the CAPM and DCF results, which shift with more volatile market data.  
10 Moreover, as explained in this section, the use of accounting returns is appropriate  
11 because the authorized ROE is being applied to an accounting rate base in order to  
12 determine the net income a company is authorized to recover in rates.

13

14 Finally, in selecting my proxy group, I screened on companies whose regulated  
15 revenue and net operating income from regulated electric operations make up at least  
16 80 percent of the consolidated company's regulated revenue and net operating income.  
17 As such, Mr. Walters' third contention is moot. For all of these reasons, I continue to  
18 support the use of an Expected Earnings analysis to estimate the cost of equity for FPL  
19 in this proceeding.

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<sup>98</sup> Federal Energy Regulatory Commission, Opinion No. 569-A, Order on Rehearing, issued May 21, 2020, at para. 132.



1 actual returns will fall short of expected (or required) returns, thereby diminishing  
2 FPL's ability to attract adequate capital on reasonable terms.

3 **Q. Mr. Rábago contends that FPL should pay for flotation costs from the “potential**  
4 **uplift in earnings” from the 100-basis point ROE band.<sup>102</sup> Do you agree with**  
5 **him?**

6 A. No, I do not. Whether it be flotation costs or any other costs, denying a utility the  
7 opportunity to recover such prudently incurred costs is in stark contrast to the  
8 regulatory compact doctrine established in numerous regulatory orders.

9 **Q. Has the Commission recognized flotation costs in prior orders?**

10 A. Yes, in Order No. PSC-2025-0038-FOF-EI for Tampa Electric Company, the  
11 Commission reiterated its longstanding policy to recognize flotation costs in the cost  
12 of equity models.<sup>103</sup>

## 13 XII. BUSINESS RISK

14 **Q. Mr. Walters asserts that FPL's credit ratings are “two and four notches higher**  
15 **than the proxy group” supporting his position that FPL is less risky than the**  
16 **proxy group.<sup>104</sup> What is your response?**

17 A. Credit ratings, while important, are not the only consideration in assessing business or  
18 financial risk, and the risks for equity investors are not the same as the risks for  
19 bondholders. Credit ratings evaluate a company's risk from the perspective of  
20 bondholders and measure a company's ability to meet its debt obligations. Equity  
21 investors are more concerned with earnings and rate base growth, regulatory support

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<sup>102</sup> Direct Testimony of FEL witness Karl R. Rábago, at 26.

<sup>103</sup> Order No. PSC-2025-0038-FOF-EI, at 92.

<sup>104</sup> Direct Testimony of FEA witness Christopher C. Walters, at 65.

1 for recovery of prudently-incurred costs, the strength of the local economy and  
2 housing markets, capital spending, changes in interest rates, changes in long-term  
3 weather patterns, fleet specific risks such as nuclear generation, and more recently  
4 exposure related to decarbonization of the industry. Bondholders focus more on  
5 stability and predictability of cash flows and timeliness of cost recovery. As discussed  
6 in my direct testimony, FPL has unique business risks that differentiate it from the  
7 proxy group. These risks include elevated capital spending, ownership of nuclear  
8 generation assets, and severe weather risk.<sup>105</sup> Further, while I have considered these  
9 business risks, it is important to recognize that I did not make an adjustment to my  
10 ROE recommendation for business risk even though my testimony demonstrates that  
11 FPL has higher business risk than the proxy group on certain important factors.  
12 Instead, I relied on the mean results of the four financial models I used to estimate the  
13 cost of equity for FPL, plus 9 basis points for flotation costs.

14 **Q. The Intervenor Witnesses (Lawton, Walters, Bryant, Rabago, Pollock) discuss**  
15 **aspects of FPL's regulatory framework and imply that its regulatory framework**  
16 **reduces FPL's business risk.<sup>106</sup> What is your response?**

17 A. Risk analysis is performed on a relative or comparative basis to the proxy group. In  
18 that regard, I compared FPL's cost recovery mechanisms and components of its  
19 regulatory construct. As shown in Exhibit JMC-9, FPL's mechanisms that the  
20 Intervenor assert lowers its risk are similar to those of the proxy group. FPL does not

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<sup>105</sup> Direct Testimony of James M. Coyne, at 44.

<sup>106</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 34; Direct Testimony of FEA witness Christopher C. Walters, at 78; Direct Testimony of FAIR witness Frederick M. Bryant, at 19-20; Direct Testimony of FEL witness Karl R. Rábago, at 24-25; Direct Testimony of FIPUG witness Jeffrey Pollock, at 13-14.

1 have lower risk than the proxy group companies as a result of its regulatory  
2 framework.

3 **Q. Mr. Lawton, Mr. Walters, and Mr. Rábago challenge your conclusions that FPL**  
4 **has greater business risk than the proxy group companies on the factors**  
5 **discussed in your direct testimony.<sup>107</sup> What is your response?**

6 A. First, as a point of clarification, my ROE recommendation does not depend on the  
7 Commission finding that FPL has greater business risk than the proxy group. While  
8 my research and analysis shows FPL has elevated capital spending risk relative to the  
9 proxy group, generates a higher percentage of electricity from nuclear plants than the  
10 average company in the proxy group, and has more exposure to severe weather and  
11 storms than other companies in the proxy group, my ROE recommendation is based  
12 on the range of results from the four financial models I have used to estimate the cost  
13 of equity. Contrary to Mr. Rábago's insinuation, I have not made an adjustment to  
14 ROE for FPL's higher risk profile.<sup>108</sup>

15 **Q. Mr. Rábago, Mr. Bryant, Mr. Pollock, and Mr. Walters, assert that FPL's**  
16 **exposure to severe weather is mitigated by its storm cost recovery mechanisms.**  
17 **Do you agree?**

18 A. Mitigated, yes, but not eliminated. As I understand it, the mechanism approved in  
19 FPL's 2021 settlement provides that FPL's future storm costs would be recoverable  
20 on an interim basis beginning 60 days from the filing of a cost recovery petition but  
21 in some cases its interim recovery for the first 12 months could be capped at an amount

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<sup>107</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 61; Direct Testimony of FEA witness Christopher C. Walters, at 78; and Direct Testimony of FEL witness Karl R. Rábago, at 24-25.

<sup>108</sup> Direct Testimony of FEL witness Karl R. Rábago, at 23.



1 that falls far short of what the Company incurs to complete restoration after a major  
2 hurricane. If storm restoration costs exceed \$800 million in a given calendar year, the  
3 Company is authorized to request an increase to the surcharge limit.

4 **Q. Does FPL face significantly higher severe weather risk than its peers?**

5 A. Yes, it does. In my direct testimony I described FPL's exposure to severe weather as  
6 a result of its geographic location that is predisposed to severe hurricane activity.<sup>109</sup>

7 In response to the Intervenor Witnesses, I prepared an additional analysis based on  
8 data from FEMA's National Risk Index and S&P Capital IQ that quantifies FPL's  
9 exposure to severe weather compared to the proxy group companies on a scale of 0-  
10 100. FEMA's National Risk Index is a dataset that quantifies severe weather risks  
11 communities are exposed to according to 18 natural hazards.<sup>110</sup>

12

13 As shown in Exhibit JMC-19, FPL faces significantly higher weather risk than the  
14 proxy group operating companies. FPL's risk index is 94.4 on a scale of 100,  
15 compared to the proxy group operating company average of 58.8. In other words,  
16 FPL's exposure to severe weather risk is 61 percent higher than the proxy group on  
17 average.

18 **Q. Has the Commission acknowledged the severe weather risk that Florida utilities  
19 face?**

20 A. Yes. In Order No. PSC-2025-0038-FOF-EI for Tampa Electric Company, the  
21 Commission found that Tampa Electric Company had higher business and weather

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<sup>109</sup> Direct Testimony of James M. Coyne, at 52-57.

<sup>110</sup> [https://www.fema.gov/sites/default/files/documents/fema\\_national-risk-index\\_technical-documentation.pdf](https://www.fema.gov/sites/default/files/documents/fema_national-risk-index_technical-documentation.pdf)

1 risk compared to the proxy group that was not offset by its lower financial risk and  
2 that an additional adjustment to the average ROE model results was appropriate.<sup>111</sup>  
3 The Commission also acknowledged that the ability to recover storm costs outside of  
4 a rate case does not entirely mitigate weather risk.<sup>112</sup> The Commission upheld its  
5 findings regarding Tampa Electric Company's risks, including weather risk, in its  
6 Order No. PSC-2025-0203-FOF-EI.<sup>113</sup>

7

8 **XIII. CAPITAL STRUCTURE**

9 **Q. Some Intervenor Witnesses (Lawton, Walters, Rábago, Bryant, and Pollock)**  
10 **contend that FPL's proposed equity ratio is unjustifiably higher than the**  
11 **national, state, and/or proxy group averages.<sup>114</sup> What is your response?**

12 A. The Intervenor Witnesses have compared FPL's proposed common equity ratio of  
13 59.60 percent to the equity ratios of the proxy group companies at the holding  
14 company level. However, the appropriate equity ratio should reflect the relative  
15 business and operating risks of the utility for which the authorized return is being set,  
16 in this case FPL; thus, comparison to equity ratios at the holding company level is not  
17 appropriate. The Company's proposed equity ratio of 59.60 percent takes into  
18 consideration the Company's unique business and operating risks, including elevated  
19 capital spending, ownership of nuclear generation assets, and severe weather and  
20 storm cost risk. As explained in my direct testimony, FPL's equity ratio is at the

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<sup>111</sup> Order No. PSC-2025-0038-FOF-EI, at 95.

<sup>112</sup> *Id.*, at 93.

<sup>113</sup> Order No. PSC-2025-0203-FOF-EI, at 15.

<sup>114</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 56, Direct Testimony of FEA witness Christopher C. Walters, at 24-25, Direct Testimony of FEL witness Karl R. Rábago, at 18, Direct Testimony of FAIR witness Frederick M. Bryant, at 22.

1 high end of the range for the operating companies held by the proxy group.<sup>115</sup> This  
2 capital structure has been maintained for decades and has enabled FPL to maintain its  
3 financial strength, as discussed in my direct testimony and the testimony of FPL  
4 witness Bores, under a variety of economic and financial market conditions. Without  
5 this higher than average equity ratio, FPL may not have the necessary financial  
6 flexibility in the event one of these business risks (e.g., nuclear ownership, storms,  
7 etc.) becomes a material factor in the Company's financial performance.

8  
9 As to the national comparison, as explained previously, FPL has unique business and  
10 operating risks that distinguish the Company from the average electric utility and  
11 warrant a higher authorized equity ratio than the industry average. In addition, the  
12 range of authorized equity ratios from 2022 through May 2025 (after FPL's 2021  
13 settlement) has been from 41.25 percent to 60.70 percent.<sup>116</sup> FPL's proposed equity  
14 ratio of 59.60 percent is within this range.

15  
16 As to the comparison to other Florida utilities, i.e., DEF and Tampa Electric Company,  
17 the Commission has a long-standing policy of setting a company's authorized capital  
18 structure equal to its actual capital structure, as long as it is within the range of 40 to  
19 60 percent.<sup>117</sup>

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<sup>115</sup> Direct Testimony of James M. Coyne, at 62.

<sup>116</sup> Source: S&P Capital IQ. I have excluded decisions in Arkansas, Florida, Indiana and Michigan, which include zero cost capital items that are not part of investor-provided capital.

<sup>117</sup> See, for example, Tampa Electric Company, Docket Nos. 20230090-EI, 20230139-EI, and 20240026-EI, Order No. PSC-2025-0038-FOF-EI, issued February 3, 2025, at 79-80; Florida Public Utilities Company Docket No. 20240099-EI, Order No. PSC-2025-01 14-PAA-EI, issued April 7, 2025, at 31.

1 **Q. Mr. Lawton makes an adjustment to his ROE to account for FPL's equity**  
2 **ratio.<sup>118</sup> Do you agree with this adjustment?**

3 A. No, I do not. First, Mr. Lawton's suggestion to reduce FPL's ROE due to its equity  
4 ratio that "substantially exceeds the comparable group equity average"<sup>119</sup> would  
5 circumvent the Commission's longstanding policy of setting a company's authorized  
6 equity ratio equal to its actual equity ratio. Second, FPL's equity ratio satisfies the  
7 three-prong reasonableness standard widely applied by regulators for equity ratios –  
8 FPL has access to capital markets and issues debt, has its own investment-grade credit  
9 rating, and its equity ratio is within industry standards (as noted above). Ultimately,  
10 lowering FPL's ROE would harm its longstanding policy of maintaining financial  
11 resiliency and conservatively managing financial risk. It would also discourage  
12 utilities from maintaining strong credit metrics and prudently managing their financial  
13 risk, which could be especially problematic in Florida, given its unique risks.

14 **Q. Are there any other relevant considerations with regard to capital structure?**

15 A. None of the Intervenor Witnesses has argued that FPL has lower business risk now  
16 than when the Commission approved the settlement agreement in 2021 that reflected  
17 a common equity ratio of 59.60 percent. Moreover, extreme weather risk continues  
18 to be a factor with increasing frequency of hurricanes, as I noted in my direct  
19 testimony.<sup>120</sup> As demonstrated earlier, FPL's severe weather risk index is 61 percent  
20 higher than the proxy group operating companies.

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<sup>118</sup> Direct Testimony of OPC witness Daniel J. Lawton, at 55-60.

<sup>119</sup> *Id.*, at 58.

<sup>120</sup> Direct Testimony of James M. Coyne, at 52-53.

1 **Q. What is your conclusion with regard to FPL's proposed capital structure?**

2 A. My conclusion is that FPL's proposed capital structure, including a common equity  
3 ratio of 59.60 percent, takes into account the unique business and operating risks of  
4 FPL, and is reasonable compared to the range of equity ratios for the operating  
5 companies held by the proxy group and compared to the authorized equity ratios for  
6 electric utilities in other jurisdictions. Further, FPL's proposed capital structure  
7 enables FPL to maintain its financial strength, which translates into favorable access  
8 for capital for the benefit of customers. For all of these reasons, I agree with Company  
9 witness Bores that the proposed capital structure for FPL is appropriate and should be  
10 approved by the Commission.

11

12 **XIV. CONCLUSIONS AND RECOMMENDATIONS**

13 **Q. Please summarize your key conclusions and recommendations.**

14 A. The Commission has been presented with a broad array of recommendations from  
15 multiple witnesses. Some include proposed analytical approaches, while others are  
16 more judgmental or based on decisions from other jurisdictions. The only reliable  
17 method for determining the cost of capital is through the application of rigorous  
18 analysis using financial models and market data from reliable sources, coupled with a  
19 comprehensive risk assessment of the regulated utility.

20

21 The Commission's cost of capital determination should consider the general economic  
22 and capital market environment, and the influence capital market conditions exert over  
23 the results of the ROE estimation models. Interest rates on government and corporate

1 bonds increased by approximately 300 basis points since the Company's last rate case  
2 was decided in 2021 and increased further since I filed my direct testimony. The level  
3 of interest rates does not suggest that the cost of equity for FPL has declined to the  
4 level proposed by the Intervenor Witnesses. On the contrary, other risk factors and  
5 fluctuating federal trade policy and the recent spending and tax cut bill are contributing  
6 to expectations of higher inflation (and capital costs) in the near and longer-term.

7  
8 I have updated the results of the financial models used to estimate the cost of equity  
9 for FPL in my direct testimony (data as of December 31, 2024) to include market data  
10 through May 30, 2025, which continue to support an ROE of 11.90 percent for FPL.  
11 Three of the four models produce higher results than those estimated based on  
12 December market data, and this recommendation remains within the range of  
13 estimates produced based on both December and May market data. I continue to  
14 consider this recommendation a just and reasonable estimate of FPL's required ROE,  
15 given the Company's risk profile and economic and capital market conditions.

16  
17 As discussed in my direct testimony, FPL has higher than average risk in comparison  
18 to a proxy group of utility peers and its return should reflect that risk.<sup>121</sup> The  
19 Company's equity ratio is consistent with the range of capital structures approved by  
20 the Commission.

21  

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<sup>121</sup> Direct Testimony of James M. Coyne, at 44.

1           The recommended ROE of 11.90 percent and capital structure with a common equity  
2           ratio of 59.60 percent is fair and reasonable for FPL. This capital structure is  
3           consistent with the Company's actual equity ratio, and combined with the authorized  
4           ROE range will support continued financial strength and access to debt and equity  
5           capital to meet the Company's operating requirements.

6   **Q.    Does this conclude your rebuttal testimony?**

7   A.    Yes, it does.

1 BY MS. MONCADA:

2 Q And, Mr. Coyne, with that rebuttal testimony,  
3 you also sponsored Exhibits JMC-12 through JMC-21, is  
4 that correct?

5 A Yes.

6 Q And were these prepared under your direction  
7 or supervision?

8 A Yes.

9 Q Thank you.

10 MS. MONCADA: And, Mr. Chairman, I would note  
11 that these have been pre-identified on staff's list  
12 as 309 through 319.

13 CHAIRMAN LA ROSA: Okay.

14 BY MS. MONCADA:

15 Q Mr. Coyne, could you please provide a brief  
16 summary of the topics addressed in your rebuttal  
17 testimony?

18 A I will. Thank you.

19 My rebuttal testimony responds to the  
20 testimonies of the intervenor witnesses regarding the  
21 appropriate return on equity and capital structure for  
22 FPL for the 2026 through 2029 rate period, and also the  
23 utility industry's credit outlook.

24 I explain that it's important for FPL to have  
25 the financial strength necessary to access capital in



1 reasonable terms and conditions under a variety of  
2 economic and financial market conditions. I discuss the  
3 flaws associated with using authorized returns for  
4 electric utilities in other jurisdictions as a basis for  
5 establishing the return for FPL in this proceeding. I  
6 also present the results of my updated ROE analysis  
7 based on market data through May 30th of 2025. My  
8 direct analysis had included market data through  
9 December of 2024.

10 Reflecting these factors, I confirmed that a  
11 base ROE of 11.9 percent, and a capital structure with a  
12 common equity ratio of 59.6 percent, is both just and  
13 reasonable for shareholders and for customers for the  
14 2026-2029 rate period.

15 That concludes my summary.

16 **Q Thank you.**

17 MS. MONCADA: Mr. Chairman, Mr. Coyne is  
18 available for cross.

19 CHAIRMAN LA ROSA: Okay. Thank you.

20 OPC, you are recognized.

21 MS. CHRISTENSEN: Thank you.

22 EXAMINATION

23 BY MS. CHRISTENSEN:

24 **Q Good afternoon, Mr. Coyne.**

25 A Good afternoon.

1 Q You filed your rebuttal testimony on July 9th,  
2 2025, correct?

3 A I did.

4 Q And you attached Exhibits JMC-12 and JMC-21,  
5 which are the results of what you are calling your  
6 updated ROE analysis based on data from May 25th, 2025,  
7 is that correct?

8 A Through May 30th, 2025.

9 Q Okay. And on page five of your testimony, you  
10 recognize that Mr. Lawton performed an ROE analysis, and  
11 based on his analysis, he is recommending a 9.2 percent  
12 ROE, correct?

13 A Correct.

14 Q And the other intervenor witness to do  
15 modeling, Mr. Walters, is recommending a 9.5 percent  
16 ROE, correct?

17 A Correct.

18 Q Would you agree that the other intervenor  
19 witnesses, Mr. Rábago, Mr. Pollock and Ms. Perry did not  
20 perform their own ROE analysis, but relied on  
21 referencing other authorized ROEs for electric utilities  
22 in Florida and other jurisdictions, arguing that FPL's  
23 ROE should be set at or below those levels?

24 A That's correct.

25 Q And you say that several of the intervenor

1 witnesses also recommend lowering FPL's equity ratio  
2 from the 59.6 percent to a range of 50.2 percent to 53.2  
3 percent, correct?

4 A That's correct.

5 Q Now, Mr. Lawton, he did not recommend an  
6 adjustment to FPL's equity ratio, but, rather, made an  
7 adjustment to his ROE recommended ROE to account for FPL  
8 having an equity ratio higher than the average equity  
9 ratio than your proxy group, correct?

10 A That's my understanding.

11 Q Okay. If we turn to page 11 your rebuttal  
12 testimony, lines seven and eight, I believe you claim  
13 that FPL has a different risk profile than any other  
14 electric utility for which returns were set in other  
15 jurisdictions correct?

16 A Correct.

17 Q And then you provide your review of the  
18 authorized ROEs for vertically integrated electric  
19 utilities that own nuclear generation between 2022 and  
20 2025, and the average was 9.9 percent, correct?

21 A Correct.

22 Q Isn't it true you did not mention the average  
23 equity ratios for these vertically integrated electric  
24 utilities that own nuclear generation?

25 A I did not in that sentence, no.

1           **Q**     Okay. And would it be fair to say that these  
2           **vertically integrated electric utilities have an average**  
3           **equity ratio around 51 percent, similar to the equity**  
4           **ratio average of your proxy group of electric utilities**  
5           **in JMC-18?**

6           **A**     For nuclear utilities?

7           **Q**     **Correct.**

8           **A**     I don't recall that I specifically calculated  
9           the average authorized or book equity ratio for the  
10          nuclear utilities in my proxy group, so I don't have  
11          that number off the top of my head.

12          **Q**     Okay. But you would agree that -- and I think  
13          **we may get there later in this -- that the majority of**  
14          **the companies in your proxy group have some nuclear as**  
15          **part of their fleet, correct?**

16          **A**     They do. I believe it's either nine or 10 out  
17          of my proxy group of 15 or 16, depending upon whether or  
18          not it was my direct or rebuttal testimony, have nuclear  
19          generation.

20          **Q**     Okay. And again, on lines 14 through 16, you  
21          **basically -- hold on, let me --**

22                    Okay. On lines 14 through 16 on page 11, you  
23          **are not claiming that if another analyst determines a**  
24          **lower ROE is required, but the mere fact their ROE**  
25          **recommendation is lower than yours means that it would**

1 fail to meet the basic Hope and Bluefield comparable  
2 return standards, correct?

3 A Could you rephrase your question?

4 Q I don't think so.

5 A Well, maybe you could repeat it?

6 Q I can repeat it, sure.

7 I just want to understand. In this sentence,  
8 where you say that Mr. Lawton and Mr. Waters' ROE  
9 recommendations failed to meet the basic Hope and  
10 Bluefield comparable return standard, my question to you  
11 is, that statement -- in that statement, you are not  
12 claiming that if another analyst determines a lower ROE  
13 is required than what you are proposing in this case,  
14 the mere fact that their ROE is -- ROE recommendation is  
15 lower than yours means that it fails to meet the basic  
16 Hope and Bluefield comparable return standard?

17 A No, that's not my position.

18 Q Okay. Mr. Lawton, for his analysis, used the  
19 same proxy group as your direct testimony excluding TXNM  
20 Energy, Inc., because of the announced merger, correct?

21 A Yes, he did. Just as I did in my rebuttal  
22 testimony.

23 Q Okay. And I was getting to that. And that  
24 is, in your rebut, you chose to run a completely new  
25 updated analysis, is that correct?

1           A     I wouldn't say completely new analysis. I  
2     reapplied the screen to the same prox -- to the same  
3     group of companies and eliminated one and added two  
4     because of merger activity, and then I updated the  
5     inputs to the models.

6           **Q     Okay. So let's talk a little bit about that.**

7                   **You removed the TXNM Energy company due to the**  
8     **pending merger like Mr. Lawton, correct?**

9           A     Correct.

10          **Q     Okay. And then you changed the proxy group by**  
11     **adding two new companies, First Energy Corp and Dominion**  
12     **Energy Resources, correct?**

13          A     I added them because their merger activity had  
14     ceased to be within the look-back period that I used to  
15     determine my proxy group.

16          **Q     Okay. But those two companies were not**  
17     **originally within your proxy group, correct?**

18          A     That's correct, because they had been in the  
19     window of merger activity when I initially conducted my  
20     analysis. And with the passage of that time, that  
21     window of merger activity no longer impacted the stock  
22     price insofar as my standards were concerned.

23          **Q     Okay. But without adding those two new**  
24     **companies to your analysis, would you have had 14**  
25     **companies in your proxy group, right?**

1           A     I had 15. I took out one and I added back in  
2 two, so yes.

3           **Q     And you would agree, 14 companies are**  
4 **sufficient for a comparable proxy group, right?**

5           A     Sufficient statistically, but they wouldn't  
6 have been consistent with my screening criteria.

7           **Q     So you would agree that you could have updated**  
8 **your results just by removing the TXNM, like Mr. Lawton,**  
9 **and your proxy group would have still been sufficient to**  
10 **render a valid ROE result?**

11          A     They would have been statistically significant  
12 insofar as my analysis is concerned, but they wouldn't  
13 have been consistent with my screening criteria.

14                   The constant is my screening criteria. What  
15 changes is the market activity that allows companies do  
16 to either come in or out of proxy group based on whether  
17 or not, you know, their credit rating change -- their  
18 ratings have changed, or they are in merger activities  
19 that would unduly impact the market information that I  
20 rely on to estimate the cost of equity.

21          **Q     Okay.**

22          A     So the constant is the screening criteria that  
23 I use, but the markets do change, and I adjust my  
24 analysis based on how the markets have changed to  
25 influence these companies. And in that way, I still get

1 a proxy group that is most representative of the target  
2 company, which, in this case, is Florida Power & Light.

3 **Q So the only thing that I am understanding from**  
4 **what you are saying is the screening criteria stayed the**  
5 **same between the two different runs?**

6 A That's right. That's what serves as the  
7 constant.

8 **Q Otherwise, the complete -- the two different**  
9 **runs have completely different results based on the**  
10 **change in the proxy groups?**

11 A I wouldn't characterize it that way. As I  
12 mentioned, I am still using the same models. I am still  
13 using the same sources of data. I have updated the data  
14 for five months of new information that transpired  
15 between December and through May, and then I reapply the  
16 screening criteria to make sure I still have a good  
17 sample for calculating my analysis.

18 **Q So the only changes are you updated all the**  
19 **data and you updated the companies in the proxy group,**  
20 **which change the data that were input into the models**  
21 **that you used?**

22 A Well, it changed in the sense that it's  
23 updated.

24 **Q Okay.**

25 A Yes.



1           **Q**     And you were not responding or rebutting any  
2     **intervenor testimony when you added those two new**  
3     **companies, did you?**

4           A     No. I was responding to the fact that I  
5     thought that this commission would like to see updated  
6     results that best represented the passage of time since  
7     I had prepared my direct testimony. And it's common  
8     practice for me to do so when there has been a passage  
9     of time between when I prepare my direct testimony and  
10    if I am preparing rebuttal testimony, to make sure I  
11    have the most up-to-date market information behind my  
12    analysis.

13          **Q**     Okay. On page 18 of your rebuttal testimony,  
14    **you have figure 1. And this figure 1, this shows the**  
15    **difference between the results of your analysis and in**  
16    **your direct testimony based on the December 24 data and**  
17    **the new updated based on your 20 -- our or your May 2025**  
18    **data?**

19          A     Yes.

20          **Q**     And on page 18, it says that your DCF results  
21    **increased by 15 basis points, your risk premium results**  
22    **increased by eight basis points, and your expected**  
23    **earnings increased by 38 basis points, correct?**

24          A     Correct.

25          **Q**     Isn't it true while these results all

1    **increased based on your new updated analysis, none of**  
2    **the results increased by more than 40 basis points?**

3           A     On average, yes, for each of the models, yes.

4           Q     **Yet your CAPM result decreased by 312 basis**  
5    **points, correct?**

6           A     That's right.

7           Q     **So isn't it true that your CAPM result went**  
8    **from 15.65 percent outlier to a 12.53 result, which is**  
9    **significantly closer to your other results?**

10          A     Well, I reject your characterization of  
11    outlier, as I did in our prior cross-examination. It's  
12    higher than the other results, but I reject  
13    characterization as being an outlier.

14                It did move closer to the other model results,  
15    though, from -- as we moved in December to May, and  
16    that's why I cite the differences and changes in each of  
17    these models to point out to all that would view the  
18    testimony how market changes impact each of these  
19    models, and they impact them differently.

20                That's one of benefits of using four models as  
21    I do. If I were using just the CAPM, I might have  
22    thought that the cost of capital had dropped by 312  
23    basis points, but the other three models were indicating  
24    something differently. And in my mind, that's one of  
25    the strengths of using the four-model approach.

1 Q But your CAPM result is still higher than your  
2 other model results, correct?

3 A Yes, it is.

4 Q And the simple average of your results from  
5 December 31st, 2024, was 11.83 percent, correct?

6 A Yes, including flotation costs.

7 Q And then you added --

8 A I am sorry, 11.83 prior to flotation costs.

9 Q Right. And then you added the zero, .09  
10 percent for the flotation costs --

11 A Yes.

12 Q -- that's how you came to the 11.9?

13 A Correct.

14 Q And isn't it true, if you take a simple  
15 average of your new updated results of the models, that  
16 that would be 11.21 percent, correct?

17 A Correct, prior to flotation costs.

18 Q And then if you added the 0.9 flotation  
19 costs, your model result would be 11.3, correct?

20 A Correct.

21 Q And you would agree that if you use the same  
22 simple averaging of your results plus the addition of  
23 flotation costs, your recommendation would have changed  
24 to 11.3 percent, correct?

25 A Had I used just the average for that

1 determination, yes, but as I explained, it's one of the  
2 values of using four different models. And I also  
3 looked at the range of results produced by the models,  
4 and they continued to include the initial 11.9 percent  
5 recommendation.

6 And I also looked at the fact that three of  
7 the model results had increased between December and  
8 May. As interest rates continued to increase, stock  
9 market values continued to evolve for the sector, those  
10 factors all drove results for the other three models  
11 higher. So in my opinion, there was nothing sufficient  
12 in the change in those results that warranted a change  
13 in my recommendation.

14 **Q But you would agree that the 11.9 percent now,**  
15 **under your May 30th, 2025, results is now towards the**  
16 **higher end of your range, correct?**

17 A Yes, it would be. The range is now -- the  
18 range of the results is 10.43 to 12.53 and 11 -- well,  
19 if you include float -- well, let's talk about without  
20 float, because it's easier. The recommended base was  
21 11.83 initially, and that is beyond the middle of the  
22 range between the 10.43 and the 12.53 with the updated  
23 results.

24 **Q Okay. And let's turn to page 20 of your**  
25 **rebuttal testimony. And on page 20, you say you did not**

1 change your recommendation from the 11.9 even though  
2 your over all simple average of your models including  
3 the floatation costs came down by 0.6 percent, correct?

4 A That's correct.

5 Q And on page 21, figure 3, you are using this  
6 table to show the changes in the capital market  
7 condition, correct?

8 A Yes.

9 Q And when you look at the table, you see about  
10 a 40-basis-point increase from December 2024 to June  
11 '25?

12 A Yes, in each of the important -- the  
13 treasury -- of the treasury -- the 30-year treasuries,  
14 Moody's utility A index and the Moody's utility AA  
15 index.

16 Q Okay. And when you look at the updated  
17 results in figure 1, the result of your DCF, risk  
18 premium and expected earnings model are all in line with  
19 this increase, correct?

20 A Well, when you say in line, they don't move in  
21 lockstep. As we talked about, those treasury and bond  
22 yields are up 36 and 41 basis points respectively.  
23 Whereas, my DCF results are up 15 basis points, risk  
24 premium is up eight basis points, expected earnings is  
25 up 38, and the CAPM is down 312. So it varied

1 conservatively across the models, and that's consistent  
2 with what I see these models generally don't move in  
3 perfect lockstep with what's going on with interest  
4 rates --

5 **Q Right.**

6 A -- and that's because interest rates represent  
7 the yield to a debt investor, and equity investor  
8 returns are estimated using the models.

9 **Q But you would agree that your DCF, risk**  
10 **premium and expected models all proved with a similar**  
11 **volatility as the U.S. Treasury and the other utility**  
12 **bond yields that you cite, the CAPM, however, is**  
13 **300-basis-point movement, correct?**

14 A I wouldn't describe it that way.

15 **Q I am sure you wouldn't, but is that a correct**  
16 **mathematical statement?**

17 A No.

18 **Q All right. Let's look figure 4. Now, this is**  
19 **the CPIU and the Core CPI, and it shows that that has**  
20 **decreased about two percent since the last rate case,**  
21 **which was settled in August of 2021, correct?**

22 A Did you say two percent?

23 **Q If you look at from 2021, correct, and I am**  
24 **looking at that, and it looks like it came down from --**  
25 **well, if you look at Core CPI, and then look to just**

1 **recently, it looks like it came down two, two-and-a-half**  
2 **percent, would that be correct this?**

3 MS. MONCADA: I am sorry, Ms. Christensen, can  
4 you say what period of time exactly you are looking  
5 at? You said --

6 MS. CHRISTENSEN: Since the last rate case,  
7 which was August of '21, September of '21, through  
8 today.

9 MS. MONCADA: Okay. So are you referring to  
10 the September '21 time point -- point in time?

11 MS. CHRISTENSEN: Yes.

12 MS. MONCADA: Okay. Thank you.

13 MS. CHRISTENSEN: Certainly.

14 BY MS. CHRISTENSEN:

15 **Q And coming down through the May timeframe, it**  
16 **looks like to me, at least as far as Core CPI, that it**  
17 **came down about two, two-and-a-half percent, is that**  
18 **about right?**

19 A On an annual basis -- I guess, let me just  
20 look at this and see if I can judge from what's go on.  
21 Are you looking at Core CPI?

22 **Q Yeah, Core CPI.**

23 A I can't read that exactly from the table, but  
24 it looks to me from just over four percent to in the  
25 range of two-and-a-half percent. So I guess you could

1 say about one-and-a-half percent a reduction in the  
2 annual change in the core inflation rate.

3 **Q Okay. And then CPI you, it looks like it came**  
4 **down from -- well, it looks like it was already down to**  
5 **six -- around six percent at the time of the --**

6 A It's down about three percent --

7 **Q Three percent?**

8 A -- today on an annual basis, we are about 2.9  
9 percent as of August data. So cumulative inflation, of  
10 course, is much greater than that. That's over 20  
11 percent. But the annual rate of change in inflation has  
12 come down since then.

13 **Q Okay. And if we are just looking at from sort**  
14 **of the end of 2024, if you use that January 25th kind of**  
15 **as an indicator to the May 25th, it looks like there was**  
16 **very slight change in either of those CPIU or Core CPI,**  
17 **is that -- would that be a fair statement?**

18 A Let me see if I can recharacterize your  
19 statement. Are you asking me has inflation been more  
20 stable in 2025 than it was previously and within a  
21 certain range?

22 **Q All I am asking for is it doesn't look like**  
23 **there was much variability in inflation from January of**  
24 **'25 through May of '25, it doesn't look like it changed.**

25 A Much less so than it had been previously as we



1 were coming out of the COVID period.

2           Still above -- the point here is it's still  
3 above the Federal Reserve target, and the important  
4 connection for me when I estimate the cost of capital is  
5 what are investors expecting when it comes to inflation.  
6 And one of the reasons why we still have higher  
7 inflation rates than we have had previously is that  
8 investors do not expect that inflation will come down to  
9 pre-COVID levels.

10           That's why we have treasury yields and utility  
11 bond yields that today are close to five percent. They  
12 were less than two percent when the company last came in  
13 for a rate case. Inflation is a big component of  
14 that --

15           **Q     Right. And I am --**

16           A     -- you are on to a critically important to  
17 that.

18           **Q     Right. And it looks like to me that there may**  
19 **be around 2.5 percent for both them, in that range --**

20           A     Well --

21           **Q     -- based on your graph?**

22           A     -- it's about, today -- well, that graph is,  
23 as we sit here today, that's out of date, because that  
24 was May. Inflation, as of the most recent data, is  
25 running about 2.9 percent.

1           **Q**     But I didn't ask you about for today. I am  
2     just asking you about based on your graph. It looks  
3     like it was around 2.5 percent, is that correct?

4           **A**     Are you asking about core or are you asking  
5     about CPI?

6           **Q**     If you want to give them to me for both, they  
7     look -- they are very same similar to me?

8           **A**     Well, I am reading off the graph, as you are.  
9     To me, they are, you know, they are both between two and  
10    four percent, somewhere between two-and-a-half and  
11    three-and-a-half, I would judge, based on looking at the  
12    chart.

13          **Q**     Okay. Now, on page 23 of your testimony, you  
14    talk about the One Big Beautiful Bill that was signed  
15    into law on July 4th, 2025, correct?

16          **A**     Yes.

17          **Q**     And you would agree, the bill makes most of  
18    the 2017 tax cuts permanent?

19          **A**     Yes, most but not all.

20          **Q**     Okay. And the bill also ends the tax  
21    incentive from the 2022 Inflation Reduction Act, clean  
22    energy?

23          **A**     Yes.

24          **Q**     And isn't it true that the provisions of the  
25    bill, including the 2017 tax cuts that are permanent,

1 **are expected to promote economic growth, correct?**

2 A That's a difficult question. I guess it  
3 depends on who you ask.

4 In the short-term, it's expected to be a  
5 stimulative provision to the economy. There is more of  
6 a concern regarding the mid- to long-term because of  
7 what it does to our national debt. So the general  
8 consensus on the bill is that a near-term stimulus with  
9 concerns regarding inflation and lower economic growth  
10 once you get to the mid- and long-term.

11 **Q Okay. And I know, when we were talking about**  
12 **inflation, you said inflation appeared to be around**  
13 **what, 4.9 percent as of today?**

14 A No, 2.9.

15 **Q 2.9. Would you agree that U.S. 30-year**  
16 **treasuries as of today is around 4.63 percent?**

17 A Which treasury are you referring to?

18 **Q 30-year treasury.**

19 A Yes. That's correct.

20 **Q And I think you believe -- you stated in your**  
21 **testimony that you believe, on balance, the Big**  
22 **Beautiful Bill suggests that capital costs are likely to**  
23 **remain at or near levels -- these high levels for**  
24 **several years?**

25 A Yes.

1           **Q**     And on page 26 of your rebuttal testimony, you  
2     start talking about your DCF model regarding other  
3     intervenors witnesses, Mr. Lawton and Mr. Waters,  
4     conducted, your criticism of them?

5           A     Mr. Lawton and Mr. Walters? Yes.

6           **Q**     Okay. Now, Mr. Lawton used three different  
7     DCF models in developing his ROE recommendation,  
8     correct?

9           A     That's my understanding.

10          **Q**     And you recommend disregarding his sustainable  
11     growth DCF model result of 8.7 percent because it's 110  
12     basis points below the average authorized ROE for  
13     vertically integrated electric utilities in 2024, which  
14     was 9.84 percent, correct?

15          A     Could you point to where in my testimony you  
16     are referring?

17          **Q**     Page 28, lines 21 and 22.

18          A     Well, that's a final point that I make in  
19     terms of comparing his result to the ROEs for vertically  
20     integrated utilities, but I have a fundamental issue  
21     with using the sustainable growth recalculation model as  
22     he has. The reason it provides an unreasonable result  
23     is the sustainable growth rate isn't a reasonable input  
24     to the DCF model.

25          **Q**     All right. So you disagree with that model,

1 but that was one of the rationales that you gave for why  
2 you disagreed with his use of that model, correct?

3 A It is a benchmark that I point to that  
4 illustrates its unreasonableness.

5 Q In your new updated DCF result of 10.43  
6 percent, from page 18 of your testimony, is 59 basis  
7 points above the average authorized ROE of vertically  
8 integrated utilities for 2024, correct?

9 A The -- my updated result of 10.43?

10 Q Uh-huh.

11 A Yeah, is above what other number are you  
12 using?

13 Q Your U.S. vertically integrated electric  
14 utilities in 2024, from page 28, of 9.84 percent.

15 A Yes, it is. Like I say, that's not the sole  
16 criterion I am using to evaluate Mr. Lawton's analysis.  
17 It's the input to the model that produces an  
18 unreasonable result.

19 Q And your updated CAPM result is 269 basis  
20 points above the average authorized ROE of 9.84 percent  
21 for vertically integrated utilities in 2024, as you cite  
22 on page 28, lines 19 through 22, correct?

23 A It is. It's important to recognize that mine  
24 is a forward-looking analysis, and I would not compare  
25 it alone on -- in contrast to previous allowed ROEs as a

1 basis for determining if it's a reasonable  
2 forward-looking estimate of the rate of return. And I  
3 make that point clear in my testimony, both in my direct  
4 and my rebuttal.

5 Q Yeah. And on page 35 of your testimony, you  
6 discuss Mr. Lawton and Mr. Waters' CAPM results,  
7 correct?

8 A I do.

9 Q And Mr. Lawton used his utility risk premium  
10 analysis to provide the market risk premium he used in  
11 the CAPM model, correct?

12 A Yes.

13 Q And you claim that Mr. Lawton's risk -- market  
14 risk premium used in his CAPM should have been higher  
15 than the 5.45 percent he used as shown on his Exhibit  
16 DJL-11, correct?

17 A I do.

18 Q Yet, on lines 11 and 13, you only assert that  
19 the 4.25 percent risk-free rate corresponds to 6.14  
20 percent in your testimony without any other support  
21 being provided, correct?

22 A Can you point to which page of my testimony  
23 you are on?

24 Q I am on page 35, and I believe your discussion  
25 in critique of his testimony you just -- it may be on, I

1 am sorry, 34 -- or 36, I am sorry, specifically line 13,  
2 but other than --

3 A I am sorry, on which page, though?

4 Q Line -- or page 36, line 13.

5 A Yes. And what's your question, please?

6 Q My question -- or my question to you is:

7 Where you make this criticism of Mr. Lawton for  
8 contending he used an incorrect percentage, you did not  
9 provide any other support for this statement, did you?

10 A Well, in my rebuttal testimony, I recalculated  
11 his results illustrating what market risk premium I  
12 thought he meant to use, just being consistent with his  
13 own analysis, and I provided a supporting exhibit that  
14 showed that math.

15 Q Yeah, you just -- you made the statement you  
16 thought he used the wrong one, correct, but you didn't  
17 actually provide the calculation that I can see?

18 A I am not sure if I understand the question.

19 Q Let me ask you this: On page 38 of your  
20 testimony, you present figure 9, which is Kroll's  
21 recommended equity risk free premium and risk-free rate,  
22 correct?

23 A Yes.

24 Q And this shows that the Kroll's market risk  
25 premium is about 5.5 percent, is that correct?

1           A     Yes.

2           **Q     And then -- and you would agree that Kroll's**  
3 **5.5 percent is closer to Mr. Lawton's 5.45 percent MRP**  
4 **than the 6.14 MRP you claim he should have used?**

5           A     As a number, it's closer, but as I note on the  
6 next page, this commission has found, as I do, that the  
7 use of Kroll's equity risk premium and the results of  
8 the CAPM using Kroll's ERP to be unreasonable. So I  
9 find, consistent with my critique of Mr. Lawton, just as  
10 the Commission has found previously. That's not a  
11 reasonable estimate of the market equity risk premium.

12          **Q     Do you have a citation that you put into your**  
13 **testimony?**

14          A     Yes, it's footnote 69 on page 39 of my  
15 rebuttal testimony, where I cite the Commission's order  
16 in the Florida City Gas proceeding.

17          **Q     Okay. And are you aware that the Florida City**  
18 **Gas order is up on appeal?**

19          A     I am not.

20          **Q     On page 43 of your testimony, you say that the**  
21 **FERC method for calculating forward-looking market risk**  
22 **premium -- let me start that question again.**

23                   **On page 43, this is where you talk about**  
24 **FERC -- the FERC methodology for calculating**  
25 **forward-looking market risk premiums, correct?**



1           A     Yes.

2           **Q     And also on page 43, lines nine through 13,**  
3 **you include the S&P companies that were not dividend**  
4 **paying to calculate the MRP, correct?**

5           A     That were not dividend paying, as long -- yes,  
6 as long as I had a growth rate, I would include them,  
7 yes. My -- in using this methodology, my -- I am  
8 looking to include as much of the S&P 500 as I can to  
9 provide an estimate of the forward return for the S&P  
10 500.

11          **Q     Isn't it true that FERC excludes non-dividend**  
12 **paying companies in its calculation of the market risk**  
13 **premium?**

14          A     They would, and I have critiqued FERC's  
15 approach to the FERC, and those of us that practice  
16 before the FERC are still waiting for a determination by  
17 the FERC in terms of its overall approach to its  
18 methodologies.

19                 It put out a notice of proposed rulemaking on  
20 this issue several years ago, and I, along with  
21 colleagues and many others have provided critiques to  
22 FERC, and they have yet to render -- yet to provide a  
23 decision in that proposed rulemaking where we actually  
24 get feedback on those critiques, but I think it's a  
25 serious flaw in how the FERC conducts its own analysis,

1 because the logic breaks down if you are estimate a  
2 forward market return, that you would eliminate a  
3 substantial portion of the companies in the market.

4 **Q And I understand that you have a criticism**  
5 **with the FERC, but as we sit here today, the FERC has**  
6 **not adopted your approach, have they?**

7 A No.

8 **Q Okay. Can we look at figure 11? And this is**  
9 **the total returns of the S&P 500 Index, which include**  
10 **non-dividend paying companies, correct?**

11 A Yes.

12 **Q And one of your screens that you use for**  
13 **collection selection of comparable proxy group was that**  
14 **they were dividend paying, correct?**

15 A For utilities, yes. It's very uncommon for a  
16 utility to not pay a dividend, but it's not uncommon for  
17 an S&P 500 company. The tech companies are a good  
18 example of this. They typically, until they become very  
19 mature, start paying dividends.

20 **Q Okay .**

21 A So the market is characterized by many  
22 companies that don't pay dividends. That's not true of  
23 utilities.

24 **Q Correct. And on page 48, you say that you use**  
25 **the average, not the median, correct?**

1           A     Would you point to the specific line in my  
2 testimony?

3           Q     One moment. Oh, I am sorry. Let me -- let me  
4 clarify that.

5                     On line -- on page 48, now discussing your  
6 expected earnings analysis, lines 16 through 18, you say  
7 that you used the average of the proxy group companies,  
8 not the median, correct?

9           A     Yes.

10          Q     And you calculate a simple average by summing  
11 all the values in a dataset and dividing by the number  
12 of the values, correct? That's the simple average?

13          A     I am sorry, when it comes to computing what?

14          Q     When you are -- when it comes to calculating a  
15 simple average --

16          A     Yes.

17          Q     -- you do that by summing all the values in a  
18 dataset, and then dividing by the number of the value in  
19 that dataset?

20          A     Yes.

21          Q     Okay. And a median, however, is the middle  
22 value in assorted set of data, correct?

23          A     That's correct.

24          Q     Okay. So isn't it true that an average highly  
25 -- isn't it true that an average is highly sensitive to

1 **extreme values such as a very high or a very low number?**

2 A When you say highly sensitive to, I think it  
3 really depends on the range of values in the dataset,  
4 but it would typically be more sensitive to it than the  
5 median, if that's the thrust of your question.

6 Q I will accept that.

7 And you would degree that a single outlier can  
8 significantly shift an average, correct?

9 A It could. Yes.

10 Q And isn't it true that the central tendencies  
11 are statistical values that describe the center or the  
12 typical value of a dataset?

13 A Yes.

14 Q And on page 54 of your testimony, you say --  
15 and we are moving on to business risk -- you say, the  
16 unique business risk to FPL, rather than the proxy group  
17 you chose, is the elevated capital spending, ownership  
18 of nuclear generation assets and the severe weather,  
19 correct?

20 A I do. Yes.

21 Q And FPL just reduced its ten-year site plan  
22 for solar batteries by 50 percent, correct?

23 A I am sorry, would you repeat your question?

24 Q Sure.

25 Were you aware that FPL just reduced its

1 ten-year site plan for the amount of solar that it  
2 intended to put into service by 50 percent?

3 A I was not, no.

4 Q And would you agree that the following groups  
5 in your proxy group have nuclear generation: Southern  
6 Company, Entergy, Ameren, Duke, American Electric Power,  
7 Southern Company, Xcel Energy, Edison International,  
8 Dominion and Entergy, Inc., does that sound about right?

9 A Entergy, Inc., would be the last one. Yes, I  
10 would agree they all have nuclear generation.

11 Q Okay. And that would be about, what is it,  
12 nine or 10 of out of the 16 or the 15 group company that  
13 you have in your proxy group?

14 A That's right, depending on whether or not it  
15 was direct or rebuttal.

16 Q Okay. And you would also agree that Duke,  
17 Southern, Dominion and Entergy are on the coastlines and  
18 subject to hurricanes?

19 A Rename your companies, if you would. Duke?

20 Q Sure. Duke, Southern, Dominion and Entergy  
21 Energy?

22 A Yes, they all have coastal exposure, but not  
23 just to the same degree that Florida Power & Light does.

24 Q And you would agree that companies located in  
25 the midwest and in the north have to deal with

1 **snowstorms, ice storms, tornadoes and other severe**  
2 **weather that which generally we don't have here?**

3 A Well, as you recall, I actually measured the  
4 exposure that Florida Power & Light has to weather risk,  
5 and it is among the top three in the country -- well, in  
6 the proxy groups compared to these others, yes, every  
7 utility has weather risk, but FPL is at the top of the  
8 charts in terms of its exposure as measured by FEMA.

9 **Q We will circle back to your exhibit. But my**  
10 **question you to, and I think you answered it, is, yes,**  
11 **all utilities experience their own significant weather**  
12 **events?**

13 A I would say that all utilities have some  
14 exposure to weather just by virtue of the way their  
15 assets are deployed --

16 **Q Okay.**

17 A -- but there is a significant difference in  
18 the magnitude of that exposure --

19 **Q And you would --**

20 A -- and I rely on FEMA to measure the magnitude  
21 of that exposure in my testimony.

22 **Q You would agree that Florida has allowed for**  
23 **storm hardening costs, correct?**

24 A Yes.

25 **Q And on page 56, you talk about this analysis**

1 of weather risk you were just discussing using FEMA  
2 National Risk Index and the S&P Capital IQ, correct?

3 A Yes.

4 Q You have never done this type of analysis  
5 before, have you?

6 A It's new to me. As our team has become aware  
7 of the FEMA work, and we have looked for ways to apply  
8 it in the work that we for to utilities in general --

9 Q And this --

10 A -- and -- if I could just complete my  
11 statement.

12 Q Certainly.

13 A And as a result of that, I have not started to  
14 incorporate it into my analysis, because it gives me an  
15 important perspective on risk, because just as I have  
16 begun to focus on it, it's also the case that the credit  
17 rating agencies are now focusing on weather and storm  
18 risk as a significant exposure, and they have now -- S&P  
19 specifically has downgraded many companies recently  
20 because of their exposure to storms. So I would say  
21 that those of us that follow the industry are now  
22 looking at it much more closely.

23 Q Okay. But you -- no commission that you are  
24 aware of has accepted this type of analysis that you  
25 proposing in this case, correct?

1           A     I know it's been presented before this  
2     commission, but I am not sure to what extent the  
3     Commission as, quote/unquote, accepted it or  
4     acknowledged it.

5           **Q     Okay.**

6           A     I know it acknowledged in the case of its TECO  
7     decision its greater exposure to weather risk, I know  
8     that data was presented in that case, but I don't know  
9     to what extent the Commission absorbed or accepted it,  
10    per se, or used it as a factor in its decision.

11          **Q     Okay. And let's look at your Exhibit JMC-19.**  
12    **And I think this is the exhibit that you say uses**  
13    **information from FEMA that they created regarding**  
14    **weather risk by county, which you weigh by population**  
15    **and roll it up to fit a utility territory to create a**  
16    **total weather risk factor to make this exhibit, right?**

17          A     What are you quoting from when I say that?

18          **Q     I am quoting from the exhibit and from prior**  
19    **discussions with you.**

20          A     Well, that's not exactly what this is, based  
21    on your question.

22          **Q     Okay. So you -- this is the weather risk**  
23    **index that you have created relying on FEMA data,**  
24    **correct?**

25          A     Relying on FEMA data for -- there are two



1 pieces to this essentially that we have brought  
2 together.

3 FEMA estimates risk for eight different  
4 indicators and by county in the country. In order to  
5 align counties with utilities, we rely on the S&P Global  
6 database of utility service areas to determine which  
7 counties that they operate in. So it's the overlay of  
8 the county data from Standard & Poor's with the weather  
9 risk index created by FEMA that we use to create this  
10 index.

11 **Q Okay.**

12 A It's actually weighted by square miles of  
13 utility -- the square miles of utility in each of those  
14 counties that we use to roll it up to create an  
15 aggregate index. So it's designed to measure the  
16 overall property exposure. S&P gives us the geographic  
17 exposure, and FEMA measures the economic impact of these  
18 events in each of these counties.

19 **Q Well, let me ask you this: The FEMA weather**  
20 **risk assessment was not specifically created to assess**  
21 **utility risk, was it?**

22 A No. In my mind, that's one of its values.  
23 It's created as a comprehensive tool for analyzing a  
24 variety of exposures for emergency preparedness --

25 **Q Right.**

1           A     -- and things of that nature. I am sure  
2 insurance companies and others use it for very different  
3     purpose. But our interest in using this data is that it's  
4     comprehensive, it covers 18 different risks, and it  
5     gives us a unique perspective into looking at a company  
6     such as Florida Power & Light that we wouldn't have  
7     otherwise.

8           **Q     And this list was created in May of '23?**

9           A     No. Oh -- well, our analysis was completed  
10     for my rebuttal testimony in May of 2025. I believe the  
11     data from FEMA was through 2023, yes.

12          **Q     Okay. And in this exhibit, it appears that**  
13 **Portland General in your proxy group has a 95-percent**  
14 **risk, according to your ranking, which is higher than**  
15 **FPL, correct?**

16          A     Yes, I believe there are two companies that  
17     are higher than FPL, Portland General at 95.4 and  
18     Entergy New Orleans at 97.

19          **Q     Okay. And on this exhibit, it also shows Duke**  
20 **Florida with an 83.1 percent risk?**

21          A     Yes.

22          **Q     And I didn't see, but correct me if I am**  
23 **wrong, I didn't see TECO on this list at all, did you?**

24          A     No. You wouldn't see TECO because these are  
25     the operating companies of my proxy groups, and TECO is

1 a subsidiary of Emera, Inc., and, therefore, would not  
2 be covered -- wasn't in my proxy group and wouldn't be  
3 covered by FEMA for that purpose.

4 The U.S. jurisdictions would be covered by  
5 FEMA, but it's not in my proxy group, and that's what  
6 these companies are. They are operating subsidiaries  
7 for each of the companies in my proxy group.

8 **Q Okay. And were you aware that the TECO order**  
9 **that you cite on page 57 to support your business and**  
10 **weather risk analysis is currently on appeal?**

11 A I am not aware of the process. No.

12 **Q Okay. And if we go back to page 58 of your**  
13 **rebuttal --**

14 A And I am sorry, when you say to support my  
15 weather analysis in your question --

16 **Q Your business risk and weather analysis?**

17 A I mentioned that it was cited as a factor in  
18 the Commission's decision in the TECO order, but that  
19 doesn't support my weather analysis.

20 **Q Taking you back to page 58 of your testimony,**  
21 **lines 12 through 14, you recognize that FPL's 59.6**  
22 **percent equity ratio is at the high end of the range of**  
23 **authorized equity ratios from 2022 through May 2025,**  
24 **correct?**

25 A Yes.

1           **Q**     And Duke's approved equity ratio is 53 percent  
2     with a 10.3 percent ROE, is that correct?

3           A     That's correct.

4           **Q**     And TECO has an approved 54 percent equity  
5     ratio with a 10.5 percent ROE, correct?

6           A     That's correct.

7           **Q**     On page 12 of your rebuttal testimony, you  
8     claim because Duke Energy Corporation is included in  
9     your proxy group, your ROE results reflect the risk of  
10    Duke, correct?

11          A     Duke is in my proxy group, so I am picking up,  
12    at least insofar as it represents a portion of Duke  
13    Corporation, I am picking up its risk from an investor  
14    perspective, but Duke's a much bigger company than, of  
15    course, Duke Energy Florida.

16          **Q**     Okay. And you made no adjustment to your ROE  
17    analysis to reflect differences in the average equity  
18    ratios of your proxy group and FPL's requested equity  
19    ratio in this case, did you?

20          A     No. I didn't adjust the ROE either for  
21    differences in risk, even though, in my opinion, the  
22    company's risk profile would warrant an upward  
23    adjustment in the ROE, but I used the average ROE coming  
24    out of my analysis as a baseline.

25                    So I made no adjustment to the ROE, and I

1 examined the company's equity ratio in relationship to  
2 the proxy group, and also considered its long-term  
3 history of maintaining that ROE, and the fact that it  
4 was -- it relies on that balance sheet to raise debt in  
5 capital markets, all those factors led me to believe  
6 that the 59.6 percent was just and reasonable.

7 **Q And isn't it true that Mr. Lawson testi -- or**  
8 **Lawton, testified that he adjusted his ROE down due to**  
9 **FPL's equity ratio being substantially exceeding the**  
10 **comparable group average, correct?**

11 A He did.

12 MS. MONCADA: Objection, asked and answered.

13 THE WITNESS: I spoke too quickly.

14 MS. CHRISTENSEN: I will let the answer stand.

15 BY MS. CHRISTENSEN:

16 **Q In looking at your Exhibit JMC-18, page one of**  
17 **six.**

18 A I will let he -- pardon me, let me just get to  
19 it. You are in my exhibits?

20 **Q Yes. Turning to your Exhibit JMC-18.**

21 A I am with you.

22 **Q Okay. Page one of six?**

23 A Yes, I am there.

24 **Q Okay. And this is where you have the equity**  
25 **ratios for your new proxy group, correct?**

1           A     Yes.

2           **Q     Looking at the columns across the top of the**  
3 **table, you have one average -- one for the average of**  
4 **the proxy group, correct?**

5           A     Yes.

6           **Q     And under the column at the bottom, it shows a**  
7 **mean equity ratio for your new proxy group of 51.27**  
8 **percent, correct?**

9           A     Well, you say new proxy group. It's a proxy  
10 group I relied upon in my rebuttal testimony as adjusted  
11 for the three companies that we discussed.

12          **Q     So would --**

13          A     I wouldn't characterize it as a new proxy  
14 grouper.

15          **Q     Well, you took out one company and added two**  
16 **new companies, and so it's different and new from your**  
17 **original proxy group, correct?**

18          A     Well, that's your language, but it is, as I  
19 mentioned earlier, it's an adjustment to my proxy group  
20 for differences in merger activity.

21          **Q     Okay. And the median average equity ratio for**  
22 **the proxy group is 51.59 percent, correct?**

23          A     Yes, over three years, from 2022 through 2024.

24          **Q     And the proxy group's lowest average equity**  
25 **ratio is 40.49 percent, correct?**

1           A     That's right.

2           **Q     And the proxy group's highest average equity**  
3 **ratio is 58.9 percent, correct?**

4           A     That's right.

5           **Q     In looking at the column labeled 2024, the**  
6 **highest equity ratio for this new proxy group is**  
7 **59.27 percent, am I correct?**

8           A     The highest equity ratio from my rebuttal  
9 testimony proxy group is 59.27 percent.

10          **Q     So mathematically, FPL's equity ratio is 8.3**  
11 **percent higher than the average or mean equity ratio for**  
12 **this rebuttal proxy group, correct?**

13                   MS. MONCADA:  It what was the number?

14                   CHAIRMAN LA ROSA:  Yeah, can you restate the  
15 question?

16                   MS. CHRISTENSEN:  Certainly.

17 BY MS. CHRISTENSEN:

18          **Q     So mathematically, FPL's equity ratio is 8.3**  
19 **percent higher than the average/mean of the updated**  
20 **proxy groups, correct, that's the 51.27 percent?**

21          A     I am not getting your same math.  Let me just  
22 take a second to check it out.

23          **Q     And that's fine.  Certainly, if you take the**  
24 **average mean of 51.27, and subtract that from the**  
25 **requested 59.6, it is quite possible I made a mistake in**

1 **my math, but --**

2 A Oh, no, I thought you were talking about the  
3 2024 column. Now you are back to the average, the  
4 51.27?

5 **Q Correct.**

6 A And you are trying to deduce the difference  
7 between FPL's 59.6 and the 51.27?

8 **Q Correct.**

9 A 8.33 percent is the number that I get.

10 **Q Okay. And FPL is .33 percent higher than the**  
11 **highest average equity proxy -- or average equity ratio**  
12 **in this rebuttal proxy group, correct? If you take the**  
13 **58.91 percent, and subtract that from the 59.6 percent**  
14 **that FPL has requested if this case, that would still be**  
15 **.33 percent higher, is my math correct?**

16 A I have that as a .69 percent difference.

17 **Q I will accept your math.**

18 A Okay.

19 **Q And in the --**

20 A Now, I want to make sure everybody understands  
21 when we are looking at this data, that these are the  
22 book equity ratios for the proxy group at the holding  
23 company level, and those are different than the  
24 authorized or book equity ratios at the operating  
25 company level. And I have all those on the next page,



1 beginning with JMC-18. And there, we can see that there  
2 are several companies that have book equity ratios that  
3 are higher than the 59.6 of Florida Power & Light.

4 So I don't want to limit the observation just  
5 to this table, when, on the next table, I also have that  
6 date for the operating companies.

7 **Q Right, but I didn't see where you provided the**  
8 **averages for those, so --**

9 A What I do is I roll them up into JMC-18 by  
10 taking the companies that are in JMC-18, page two, and I  
11 roll them up and to create the averages for the proxy  
12 group companies. But I don't want to mask the fact in  
13 doing so, that all of that data is there on the next  
14 page, that shows that many of these operating companies  
15 do have equity ratios that are higher than the 59.6.

16 **Q And let me ask you this: In lay persons**  
17 **terms, you would agree that the more debt in a capital**  
18 **structure, the riskier that company is relative to a**  
19 **company with lower debt?**

20 A All else being equal, yes.

21 **Q Okay. Thank you. I have no further**  
22 **questions.**

23 A You are welcome.

24 CHAIRMAN LA ROSA: Thank you, Ms. Christensen.

25 Let's take a quick break between questioning

1 of the parties. Let's take 10 minutes, it's 2:55.  
2 Let's be back at 3:05.

3 Thank you.

4 (Brief recess.)

5 CHAIRMAN LA ROSA: All right. Let's go ahead  
6 and grab our seats and we can pick up where we left  
7 off.

8 All right. So in questioning with Witness  
9 Coyne, FEL, who is being turned over to you. You  
10 are recognized for questions.

11 MS. McMANAMON: Thank you.

12 EXAMINATION

13 BY MS. McMANAMON:

14 **Q Good afternoon, Mr. Coyne.**

15 A Good afternoon.

16 **Q You state on page 10 of your rebuttal**  
17 **testimony that since 2022, the annual average ROE for**  
18 **vertically integrated utilities has been 9.81 percent?**

19 A That's right.

20 **Q And your recommended ROE for FPL is an 11.9**  
21 **percent, which would be 209 basis points above this**  
22 **average, correct?**

23 A Yes.

24 **Q And you also state that the range for ROEs for**  
25 **vertically integrated utilities is 9.25 to 11.45,**

1 correct? I think it might be on the next page.

2 A Correct. Yeah.

3 Q And your recommended ROE would be 45 basis  
4 points higher than the top end of this range, correct?

5 A That's right. These are all historical ROE  
6 decisions.

7 Q Right. Thank you.

8 And if you could grab the red binder behind  
9 you that has the tabs sticking out of it? And if you  
10 could turn to FEL 275C, which is CEL 1149?

11 A I now know when this is here.

12 Q Exactly.

13 This is includes rate cases from 2022 to 2025,  
14 correct? I think the range is at the top.

15 A Yes. Yes.

16 Q So the high end of this range is 11.45, which  
17 is also shown at the top, and that is associated with  
18 Alaska Electric Light & Power, which you can see on row  
19 53?

20 A Yes, I see that.

21 Q Okay. And do you know, are there any other  
22 ROEs on this list higher than 11 percent?

23 A For decisions in this period of time, no.

24 There are effective ROEs for utilities that are higher  
25 than 11 percent. This just characterizes the decisions

1 in this period of time.

2 Q Right. Thank you.

3 And you would agree that this utility, Alaska  
4 Electric Light & Power, is a much smaller utility  
5 compared to FPL, correct?

6 A Oh, yes.

7 Q And would you agree that all else equal,  
8 smaller utilities are riskier than larger utilities?

9 A All else being equal, yes.

10 Q And do you know, I know it might not be easy  
11 to find quickly, but the next highest authorized ROE on  
12 this list from this timeframe? If I represent to you  
13 that it's row 23, which is FPL at 10.8?

14 A I would accept that.

15 Q Okay. Thank you.

16 A Yes. And then Georgia Power, which is at 10.5  
17 percent may also be on here.

18 Q Okay. And you also state on page 11 of your  
19 rebuttal testimony, that the average ROE for vertically  
20 integrated utilities with nuclear generation from 2025  
21 to -- 2022 to 2025 is 9.9 percent, correct?

22 A Yes.

23 Q We will need the binder again. Just letting  
24 you know.

25 A On the same page?

1 Q Different page.

2 A Okay.

3 Q I am sorry. Did you say correct to that?

4 A Oh, yes, you were correct.

5 Q Okay. And your recommended ROE of 11.9 is 200  
6 basis points higher than this average, correct?

7 A Yes.

8 Q And you also discuss the range of equity  
9 ratios from 2022 to 2025, which is 41.25 to 60.7?

10 A Are you back in the testimony?

11 Q I am. I think it's page 58.

12 A Page 50?

13 Q 58.

14 A Oh, 58. Yes.

15 Q And next, if we could turn to, in the red  
16 binder, Exhibit FEL 296, which is CEL 1170?

17 A And what was the FEL number?

18 Q 296C.

19 A I was hoping for larger font. It just got  
20 smaller.

21 Q I know. And this one is a little weird,  
22 because it continues on the back of the page to finish  
23 the rows going across.

24 So do you see that the utility associated with  
25 the top end of the range being at 60.7 is also the

1 **Alaska Electric Power & Light utility, which is on row**  
2 **72?**

3 A I can't read 72 I don't even think with the  
4 magnifying glass, but I recall that being above what the  
5 equity ratio is for Alaska Power & Light --

6 **Q Okay. Thank you.**

7 A -- so I can concur without having to try to  
8 read that.

9 **Q That's fine.**

10 **And you may not be able to see this very well**  
11 **either from the font, but the only other utility within**  
12 **the last four years with a higher equity ratio would**  
13 **also be FPL -- wait, let me reread that. I am sorry.**

14 **You can see from this list that this is --**  
15 **this Alaska Electric Power & Light is the only utility**  
16 **in the last four years with a higher equity ratio than**  
17 **FPL?**

18 A Allowed in the last four years, I believe  
19 that's correct.

20 **Q Okay. And next we will look at FEL 277C. And**  
21 **unfortunately, this one will be even smaller. I am**  
22 **sorry. I -- let me know when you are there.**

23 A You are killing me.

24 **Q I know.**

25 A Okay. I see the numbers on the page. I

1 couldn't possibly make out --

2 **Q I am just verifying that this document was**  
3 **provided by you, which contains all past rate cases and**  
4 **their outcomes, correct?**

5 A Which -- okay, which -- is this a POD  
6 response?

7 **Q Yes. I believe it is associated with your**  
8 **citations from your testimony.**

9 A And what is on the table itself?

10 **Q It is all past rate cases and their outcomes,**  
11 **with the authorized ROEs and equity structures.**

12 A And are these for vertically integrated  
13 utilities?

14 **Q I believe so.**

15 A Okay. Maybe let's proceed with your  
16 questions.

17 **Q Okay. Well, that was my question. I am just**  
18 **verifying that this was, you agree with that?**

19 A Provided --

20 **Q Yes --**

21 A -- by me.

22 **Q -- by you.**

23 A Then I guess I need to answer your questions.  
24 I will try.

25 **Q Well --**

1           A       I just can't see the numbers on the page.

2           **Q       That's okay. You agree that this was provided**  
3 **by you?**

4           A       I recall this.

5           **Q       Okay. Thank you.**

6                   **That's all my questions. Thank you.**

7           A       Okay. You are welcome.

8                   CHAIRMAN LA ROSA: Thank you.

9                   FAIR?

10                  MR. SCHEF WRIGHT: Thank you, Mr. Chairman.

11                                   EXAMINATION

12           BY MR. SCHEF WRIGHT:

13           **Q       Good afternoon, Mr. Coyne.**

14           A       Good afternoon.

15           **Q       How are you doing?**

16           A       I'm great. Thanks. How are you?

17           **Q       I am doing great. Thank you.**

18                   **I don't have very many questions for you.**

19                   **Start on page -- you don't have to go there if**  
20 **you don't want to, but on page 10 of your testimony,**  
21 **your rebuttal testimony, you criticize a handful of the**  
22 **intervenor witnesses, including FAIR's Witness Bryant,**  
23 **for having focused on national ROEs. I am sure you**  
24 **remember that testimony, correct?**

25           A       I do.



1           Q     We covered this in your deposition, and I  
2 think we can handle this very quickly.

3                     You agree that having looked further at Mr.  
4 Bryant's testimony, particularly page seven, and his  
5 exhibits cited there, that he actually did refer to S&P  
6 Global Insight information that addressed to vertically  
7 integrated utilities, correct?

8           A     Are you referring to a deposition discussion?

9           Q     Yes. I can take you to Mr. Bryant's testimony  
10 if we need to go there, but I thought you might remember  
11 that.

12          A     I can accept that, yes.

13          Q     Thank you.

14                     You go on to criticize Mr. Lawton's and Mr.  
15 Walters' testimony based on your statement that  
16 somewhere between half and three-fourths, or two-thirds  
17 and three-fourths of the ROEs for the utilities in the  
18 exhibit are below the -- below -- I think below  
19 10 percent, or below 9.9 percent? Let's get there.

20          A     I am referring both to Mr. Walters 9.5 percent  
21 recommendation --

22          Q     That's right.

23          A     -- and the 9.7 percent recommendation.

24          Q     Right. And you say that the returns  
25 authorized in '24 and '25, a substantial majority of

1 those were greater than Mr. Walters' and Mr. Lawton's  
2 recommended ROEs, correct?

3 A Yes.

4 Q Thank you.

5 And I think go you go on to say that they  
6 would fail to meet the Bluefield standard, correct, on  
7 page 11? Lines 14 through 16 --

8 A I do -- I do see that, yes.

9 Q Okay. Thanks.

10 A Yeah.

11 Q In a previous discussion, you agreed that 34  
12 out of 42 utilities -- we have thrown in Georgia Power  
13 not included in the exhibit we have been discussing --  
14 had ROEs less than 10 percent; do you recall that?

15 A From -- recall that from when? Are you  
16 talking about a deposition?

17 Q Actually, I was talking about  
18 cross-examination yesterday.

19 A The 32 of 34 -- rephrase -- characterize it  
20 again for me, if you would.

21 Q If we just look at the list, it doesn't  
22 include Georgia Power. And we covered this in your  
23 deposition, we covered it again yesterday. 33 out of  
24 the 41 had, on exhibit CEL 266, which is LVP-2, which is  
25 FAIR's FMB-4, et cetera, we have talked about that

1 exhibit a fair amount. You agree that 33 out of the 41  
2 had ROEs less than 10 percent, and then if we include --  
3 I think it's 34 out of 41, and then if we include  
4 Georgia Power, it's 34 out of 42. Are you with me?

5 A I would have to go back and look at the  
6 exhibit to refresh my memory. We've had a lot of  
7 discussions both in deposition and through  
8 cross-examination, so I wouldn't trust my memory  
9 sufficiently to know that it was 33 out of 41 or 34 out  
10 of 42. So maybe we could just bring up the exhibit.

11 Q Sure.

12 A Was this the allowed returns for vertically  
13 integrated utilities, is that the basis for that  
14 discussion?

15 Q That is the basis for the discussion. The  
16 exhibit itself -- and, Brian, this is master C46-5184.  
17 And I think it's also elsewhere in the exhibit list.  
18 But if you go to master C46-5184?

19 If you look down to the second page, which is  
20 C46-5185, that's where the -- oh, sorry, it's 5184 and  
21 5185, that beings -- no, I am sorry. Let's don't use  
22 that exhibit. I apologize. I want to use the other  
23 exhibit. They are very similar, but they are not quite  
24 the same. Hang on.

25 Brian, if you would go to F11-589? That's

1 hearing exhibit already admitted 1245. And this is  
2 exhibit -- this is also Exhibit LVP-2, Ms. Perry's  
3 exhibit on behalf of Walmart submitted in her direct  
4 testimony. And if you would go to the second page.  
5 That's where the 2024 reported cases begin.

6 If you go down through all the cases from --  
7 that start at the -- below the hard line at the -- five  
8 lines down, and go to the bottom, there are 41 cases --  
9 there are 41 cases reported for vertically integrated  
10 utilities there, will you accept that subject to check?  
11 I promise you, we covered this in your deposition.

12 A We may have, but that's been a while ago.

13 So this is a Walmart exhibit as I see it, is  
14 that correct?

15 Q Yes. And the data source is S&P Global  
16 Insight. Do you recognize this data?

17 A I recognize the data source, yes.

18 Q Thank you.

19 A The Walmart exhibit, it's been a while since I  
20 have looked at it. But at any rate, you are stipulating  
21 that already 41 vertically integrated cases from this  
22 exhibit over what period of time?

23 Q 2024 and 2025.

24 A Okay.

25 Q And those are indicated in the column --

1 whatever it is, column seven, I think, as V or D,  
2 Florida Public Utilities Company is incorrectly  
3 identified as a vertically integrated company in this  
4 list. We corrected for that in your deposition.

5 A I do recall.

6 Q Good. Okay. Just trying to move in a long.  
7 We agree that the 34 out of the 41 vertically integrated  
8 utilities here have ROEs less than 10 percent?

9 A Why don't I accept that subject to check? 33  
10 out of 41 --

11 Q Sure.

12 A -- are less than 10 percent?

13 Q And if we include Georgia Power, which we know  
14 has a more recently approved ROE going forward, that  
15 would take -- make it 34 out of 42, correct?

16 A Yes, it would.

17 Q Okay.

18 A Again, subject to check.

19 Q Sure.

20 A I would have to look at the exhibit and do  
21 that accounting all over again, Mr. Wright.

22 Q Thank you. And we have the exhibit, we can  
23 check it, and will.

24 But my question for you is very simple. It  
25 your opinion that the ROEs less than 10 percent that

1 **were approved by public service commissions in the last**  
2 **two years violate Hope -- the Hope and Bluefield**  
3 **standard?**

4 A No. Each of these decisions were rendered by  
5 commissions based on the evidentiary record before them,  
6 and my presumption is that each of these commissions  
7 consider those cases -- I am not sure. Were these all  
8 litigated or a combination of litigated and settled?

9 Q **It is a combination of litigated and settled.**  
10 **That is also shown in the exhibit.**

11 A So my assumption would be that, of course, in  
12 a settlement, other factors would have come into play.  
13 But in each case, the Commission would have decided, and  
14 been guided by Hope and Bluefield in rendering these  
15 decisions, and in settlements, by other factors that  
16 also entered into the settlement by the parties  
17 involved.

18 It's -- so I would not say that they were  
19 violating their Hope and Bluefield standards, but I --  
20 you know, I think each of them stands on the basis of  
21 their own evidentiary records. And this commission has  
22 found the same thinking, that when rendering a decision  
23 on the cost of capital, it should be based on the  
24 evidentiary record in the case, and not based on a  
25 history of what other commissions have decided, and I

1 agree with that approach. As I have stated in both my  
2 direct and rebuttal testimony, it's my opinion that the  
3 only way to properly determine the rate of return is  
4 with a robust analysis and a forward-looking market  
5 analysis.

6 So while these comparisons to history are  
7 interesting, and I do them too, they are not  
8 determinative of the forward-looking cost of capital.

9 And, you know, I think another point that is  
10 worth noting is that these are just decisions that are  
11 made in this period of time, and they are utilities that  
12 operate under rate programs where their ROEs are set in  
13 previous periods of time, and then they move forward  
14 under various rate provisions.

15 Alabama Power is a case in point, as we have  
16 discussed, where they are allowed to earn currently  
17 between 10.87 and 11.18 percent on a 55-percent equity  
18 layer, plus seven additional basis points if they  
19 achieve an A level credit rating, and they are a A level  
20 credit rated company. So that's not there because it  
21 was determined outside this framework. And then there  
22 are also ranges set around these allowed ROEs. For  
23 example, Georgia Power has an earnings band that allows  
24 them to earn up to 11.9 percent.

25 So the picture is not complete without

1 considering the fact that there is more to these  
2 decisions than just what's reported here from S&P.

3 **Q Okay. Are you aware of any of the utilities**  
4 **involved here that has filed any sort of appeal or**  
5 **lawsuit alleging that their ROE was set below the**  
6 **Bluefield standard?**

7 A I have not done that research, so I would have  
8 no awareness of it.

9 **Q Okay. Would it be your opinion that an ROE of**  
10 **10.5 percent for Florida Power & Light set in the**  
11 **as-filed part of this rate case would fail to meet the**  
12 **Bluefield standard?**

13 A In my opinion, it would not meet the -- it  
14 would not meet the standards of the market analysis that  
15 I did to determine the just and reasonable rate, which  
16 determined an 11.9 percent as being appropriate for the  
17 company. It would be up to the Commission to decide if  
18 something that's 1.4 percent lower than what my analysis  
19 provides would still meet the Hope and Bluefield  
20 standard. But in my judgment, 11.9 percent would.

21 **Q Thank you.**

22 **On page six of your testimony, you make the**  
23 **statement that it's important that utilities must be**  
24 **prepared to access debt and capital markets in all**  
25 **capital market conditions?**



1 A Yes. Page six?

2 Q Yeah, it's page six, lines, I think, 20 and  
3 21.

4 My question for you is this: Isn't it true  
5 that many electric utilities in the United States  
6 experienced similar, if not all of the risky conditions  
7 that occurred in capital markets and generally over the  
8 past two to three years in the United States?

9 A I would say that there are similarities that,  
10 as an industry, utilities have faced over the last  
11 several years, but there are also distinguishing  
12 elements of the business environment and risks that are  
13 very different utility to utility. We tend to think of  
14 the utility industry as being much more homogeneous than  
15 it is. There are substantial differences between the  
16 utilities and their operating environments.

17 Q At that page 62, you reaffirm your position  
18 that 11.9 percent is a fair and reasonable return for  
19 FPL, correct?

20 A Let me just catch up to you, Mr. Wright.

21 Q Sure. It's the final conclusion of your  
22 testimony.

23 A Yes.

24 Q Thanks. And my question is simply this: Does  
25 FPL need an ROE -- does FPL needs its revenue

1 **requirements and rates set using an ROE of 11.9 percent**  
2 **in order to provide safe and reliable service?**

3 A No. That's not my opinion that it's a need.  
4 It's, you know, my -- my role is to determine the just  
5 and reasonable rate, you know, based on tools and  
6 analytics that will provide the market-based cost of  
7 capital. It would be a Commission determination as to  
8 whether or not that meets the needs of the company to  
9 provide safe and reliable service, and also the company  
10 itself. But I don't think the company would ever say  
11 that it would not provide safe and reliable service if  
12 it had some different ROE. But that would be a very  
13 good question for Mr. Bores, who follows me. But my  
14 opinion would be that they would not say that.

15 **Q Then I shall probably ask him that question.**  
16 **But that's all the question I have for you, Mr. Coyne.**  
17 **Thanks.**

18 A You are welcome.

19 MR. SCHEF WRIGHT: Thank you, Mr. Chairman.

20 CHAIRMAN LA ROSA: Thank you.

21 FEIA?

22 MR. MAY: No questions.

23 MR. WILLIAMS: Walmart?

24 MS. EATON: No questions.

25 MR. WILLIAMS: FEA?

1 CAPTAIN RIVERA: No questions.

2 MR. WILLIAMS: FRF?

3 MR. BREW: No questions.

4 MR. WILLIAMS: FIPUG?

5 MR. MOYLE: No questions.

6 MR. WILLIAMS: FPL -- oh, sorry. Staff?

7 MR. SPARKS: No questions.

8 CHAIRMAN LA ROSA: I'm just going right down  
9 the line.

10 Commissioners, any questions?

11 Seeing no questions, now FPL.

12 MS. MONCADA: No redirect, and I am going to  
13 look for the exhibit numbers. Give me just a  
14 second.

15 We would ask that Mr. Coyne's Exhibits 309  
16 through 319 be entered into the record.

17 CHAIRMAN LA ROSA: Okay. Seeing no  
18 objections, so moved.

19 (Whereupon, Exhibit Nos. 309-319 were received  
20 into evidence.)

21 CHAIRMAN LA ROSA: Anything else that needs to  
22 be moved into the record, FEL?

23 MS. McMANAMON: We would move in Exhibit No.  
24 1149, 1151 and 1170.

25 CHAIRMAN LA ROSA: Any objections to those?

1           Seeing none, so moved.

2                   (Whereupon, Exhibit Nos. 1149, 1151 & 1170  
3 were received into evidence.)

4           CHAIRMAN LA ROSA:  OPC, anything that needs to  
5 be moved in?  Okay.  Excellent.

6           All right.  Good to excuse Mr. Coyne?

7           MS. MONCADA:  Yes.  We would like Mr. Coyne  
8 excused for this portion of the case, and this does  
9 conclude FPL's rebuttal case.

10          MR. WILLIAMS:  Okay.  Great.

11          MS. CHRISTENSEN:  Mr. Bores has --

12          MS. MONCADA:  Oh, just kidding.

13          CHAIRMAN LA ROSA:  OPC does your question --

14          MS. CHRISTENSEN:  No.  No.  I was going to ask  
15 five minutes before Mr. Bores takes the stand.

16          CHAIRMAN LA ROSA:  Sure.

17          Mr. Coyne, you are excused.  Thank you very  
18 much for your testimony.

19          THE WITNESS:  Thank you.

20          (Witness excused.)

21          CHAIRMAN LA ROSA:  And five minutes?

22          MS. CHRISTENSEN:  Yeah, just a brief break.

23          CHAIRMAN LA ROSA:  Sure.  Let's go ahead and  
24 take a five-minute recess and we will be back 20  
25 minutes till.

1 (Brief recess.)

2 CHAIRMAN LA ROSA: All right. Are we ready to  
3 get back to it?

4 Okay. I will recognize FPL, you can call your  
5 witness.

6 MS. MONCADA: Thank you, Mr. Chairman.

7 FPL calls Scott Bores, who has been previously  
8 sworn.

9 CHAIRMAN LA ROSA: He has. Welcome back.

10 THE WITNESS: Good afternoon.

11 Whereupon,

12 SCOTT R. BORES

13 was recalled as a witness, having been previously duly  
14 sworn to speak the truth, the whole truth, and nothing  
15 but the truth, was examined and testified as follows:

16 EXAMINATION

17 BY MS. MONCADA:

18 Q Good afternoon, Mr. Bores. I tried to get you  
19 stipulated, but it caused a lot of excitement, so here  
20 we go.

21 Did you prepare and cause to be filed 46 pages  
22 of rebuttal testimony on July 9th of this year?

23 A Yes.

24 Q Do you have any changes to that testimony?

25 A I do not.

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

3           A     Yes.

4                   MS. MONCADA:  Mr. Chair, I would ask that Mr.  
5 Bores' rebuttal testimony be inserted into the  
6 record as though read.

7                   CHAIRMAN LA ROSA:  So moved.

8                           (Whereupon, prefiled rebuttal testimony of  
9 Scott R. Bores was inserted.)

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**BEFORE THE**  
**FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. 20250011-EI**  
  
**FLORIDA POWER & LIGHT COMPANY**  
  
**REBUTTAL TESTIMONY OF SCOTT R. BORES**

**Filed: July 9, 2025**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Scott R. Bores. My business address is Florida Power & Light Company,  
4 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

6 A. Yes.

7 **Q. Are you sponsoring any rebuttal exhibits in this case?**

8 A. Yes. I am sponsoring the following rebuttal exhibit:

- 9
  - Exhibit SRB-9: Credit Spreads During Market Volatility

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to respond to intervenors' positions on the  
12 following Florida Power & Light Company ("FPL" or the "Company") issues:

- 13
  - FPL's Four-Year Rate Plan [Office of Public Counsel ("OPC") Schultz,  
14 Lawton, Devlin; Florida Industrial Power Users Group ("FIPUG") Pollock;  
15 Florida Rising, Environmental Confederation of Southwest Florida, League of  
16 United Latin American Citizens of Florida ("FEL") Rábago; Florida Retail  
17 Federation ("FRF") Georgis]
  - Financial strength [OPC Lawton; Federal Executive Agency ("FEA") Walters]
  - Capital structure and cost of debt [OPC Lawton; FEA Walters; FEL Rábago;  
20 Floridians Against Increased Rates ("FAIR") Bryant; FIPUG Pollock]
  - Return on equity ("ROE") [OPC Lawton; Walmart Perry; FEA Walters; FIPUG  
22 Pollock, FAIR Bryant; FEL Rábago]
  - FPL's risk profile [OPC Lawton and Schultz; FEA Walters; FEL Rábago]

- 1           • Tax Adjustment Mechanism (“TAM”) [OPC Devlin, Schultz; FIPUG Pollock;  
2           FRF Georgis; FAIR Bryant, FEL Rábago]
- 3           • Solar and Battery Base Rate Adjustment (“SoBRA”) [OPC Schultz,  
4           Dauphinais; FRF Georgis]
- 5           • Storm Cost Recovery Mechanism (“SCRM”) [OPC Schultz]

6 **Q. Please summarize your rebuttal testimony.**

7 A. FPL has consistently demonstrated that its performance over multi-year rate periods  
8 has benefitted customers. Intervenor testimony does not dispute this. Instead,  
9 intervenors take issue with the various elements upon which those benefits are based,  
10 ostensibly because investors also benefit, and therefore, by their logic, customers must  
11 be harmed. Intervenor never assert that the weakened financial strength and increase  
12 in regulatory uncertainty resulting from their recommendations will allow FPL to  
13 maintain the current level of service it delivers and that its customers have come to  
14 expect. Neither evidence nor logic would support such a backwards notion.

15  
16 FPL delivers the best customer value proposition in the industry. This unmatched value  
17 proposition is built upon a foundation of financial strength. Customers have benefitted  
18 and will continue to benefit from a stronger than average capital structure that provides  
19 access to capital at reasonable rates even during the most uncertain times. Similarly,  
20 FPL has provided appropriate returns for investors that have caused them to continue  
21 to commit capital to the Company to pursue its customer value proposition. The  
22 intervenors, taking largely the same positions they have taken in past cases, completely  
23 miss the comprehensive nature of FPL’s strategy and ignore the results that approach

1 has produced for customers. The intervenors are missing the point that the successful  
2 strategy depends on each of the elements working together to provide superior value  
3 for customers. FPL seeks a continuation of the same core elements in this case.

4  
5 FPL's successful performance would not have been possible if it had been constrained  
6 to filing more frequent rate cases. As I stated in my direct testimony, FPL's multi-year  
7 commitment, including limited cash rate increases, is not possible without a non-cash  
8 mechanism: the TAM, which has been modeled after the Reserve Surplus Amortization  
9 Mechanism ("RSAM") utilized in several prior periods. The flexibility afforded by  
10 such mechanisms enables FPL to "stay out" for several years by deferring cash revenue  
11 increases to customers. The result of those multi-year periods of focusing on running  
12 the business, improving operating cost performance and making strategic investments  
13 have allowed FPL to deliver much lower-than-average customer bills and significantly  
14 higher than average reliability.

15  
16 Intervenor witnesses have engaged in a speculative exercise of cost of capital  
17 minimization through over-generalization and arbitrary reductions in equity ratio and  
18 ROE. FPL, by contrast, focuses on results. Intervenor implicitly deny, or explicitly  
19 minimize, the real-world consequences of the implementation of their  
20 recommendations. Some intervenors string together a slate of recommendations that  
21 would send FPL back to the most non-constructive period in the last generation. If  
22 those recommendations were accepted, rating agencies would react swiftly (with  
23 results lasting many years), and investors would redirect their capital toward more

1 constructive opportunities. FPL would be unable to attract capital at reasonable costs,  
2 and as a result, customers would bear the consequence.

3  
4 OPC witness Schultz and FRF witness Georgis also oppose FPL’s proposed SoBRA  
5 mechanism – another core component of FPL’s Four-Year Rate Plan. Mr. Schultz  
6 opposes because the future costs of solar and batteries are uncertain, and Mr. Georgis  
7 opposes because he believes solar installations should be curtailed. The SoBRA  
8 mechanism does not, however, pre-approve any particular project. All parties will be  
9 free to address the need and costs of the planned generation additions at a future date.

10

11 Finally, contrary to Mr. Schultz’s suggestion, my direct testimony explains that the  
12 modest increase in FPL’s storm reserve amount is intended to reflect more closely the  
13 restoration costs FPL has incurred in recent storm seasons.

14

15 **II. FOUR-YEAR RATE PLAN**

16 **Q. OPC witness Schultz suggests that FPL’s four-year commitment cannot be**  
17 **enforced by the Florida Public Service Commission (“Commission”). How do you**  
18 **respond?**

19 A. Mr. Schultz misunderstands the nature of FPL’s commitment. FPL’s commitment to  
20 “stay out” through 2029 is unilateral and in no way hampers the Commission’s  
21 oversight and regulatory authority. FPL will continue to file the required earnings  
22 surveillance reports on a monthly basis. And, as mentioned in the rate order cited by

1 Mr. Schultz, the Commission retains its “obligation to monitor utility earnings and, if  
2 circumstances warrant, require additional proceedings.”

3

4 This process has efficiently and effectively served to protect customers and the  
5 Company during FPL’s prior multi-year rate plans and “stay outs.” Mr. Schultz does  
6 not argue otherwise. The instant proposal does not differ.

7 **Q. OPC witness Schultz posits that FPL’s four-year stay out commitment has no  
8 value unless FPL can demonstrate it would underearn the last two years. Has  
9 FPL made such a showing?**

10 A. Yes. As calculated by FPL witness Laney and shown on Exhibit IL-13 (Errata), FPL  
11 estimates that its revenue requirements will increase by \$661 million in 2028 and an  
12 additional \$577 million in 2029, totaling an incremental \$1.899 billion by the final year.  
13 As a result, FPL projects to fall outside of the reasonable ROE range in 2028 even if  
14 the Company’s 2026 and 2027 Projected Test Year revenue requirements are granted  
15 in full.

16 **Q. OPC witnesses Schultz and Devlin, FEL witness Rábago and FRF witness Georgis  
17 recommend that the Commission reject FPL’s Four-Year Plan in favor of one- or  
18 two-year plans with interim rate relief if needed. Will customers benefit from  
19 shorter rate periods?**

20 A. No, the intervenors’ fondness for annual base rate proceedings is puzzling, at best.  
21 Although the Company can theoretically file another case in 2026 for rates to be  
22 effective in 2027, and then repeat the exercise in 2027 and 2028, the Company will  
23 expend significant time, money and resources in developing and defending that filing –

1 time that could be spent focusing on its operations and how to improve the service  
2 customers receive. Furthermore, the cost in time and resources will not only be borne  
3 by FPL, but also the Commission, its staff, and all other interested parties. Among the  
4 multiple intervenor witnesses who recommend shorter rate periods, none provided a  
5 single example of how utilities that are subject to pancaked rate cases have delivered  
6 better customer value than FPL.

7 **Q. As a matter of regulatory policy, should the Commission consider FPL's Four-**  
8 **Year Rate Plan to be good for customers and in the public interest?**

9 A. Yes. FPL has operated under multi-year plans for more than two decades and the  
10 results for customers are undeniable. Multi-year plans have provided customers rate  
11 predictability and stability, and importantly they allow the Company the opportunity to  
12 continue to improve the value delivered to customers during a period of regulatory  
13 stability. By approving the Four-Year Plan, the Commission allows FPL's  
14 management to focus on long-term operational improvements, innovation, and system  
15 enhancements that directly benefit customers. Longer periods between rate cases  
16 provide the certainty necessary to efficiently execute the Company's capital investment  
17 program. This longer-term view enables more strategic scheduling of projects, better  
18 supply chain management, and improved resource allocation – all of which lead to  
19 greater cost-effectiveness than would be possible with a shorter planning horizon.  
20 Over these many multi-year periods, FPL has driven its performance to the top of the  
21 industry across the metrics that matter most to customers – low bills, high reliability,  
22 operational cost-effectiveness and good customer service. The implicit assumption  
23 underpinning intervenor witnesses' arguments – that FPL would be delivering the exact

1 same performance today if it had been required to submit annual rate cases – is  
2 unsupported by any evidence. It is just plain wrong.

3 **Q. According to FRF witness Georgis, the Four-Year Plan should be rejected because**  
4 **it is highly contingent. Is this a reasonable basis to reject FPL’s proposal?**

5 A. No, as I will explain in Section VII of my testimony, the uncertainty regarding future  
6 conditions favors customers and is precisely why the TAM is a sensible and necessary  
7 feature of FPL’s proposal.

8 **Q. OPC witness Colton maintains that the Commission should account for the**  
9 **affordability impact associated with FPL’s rate request when it decides issues**  
10 **ranging from a reasonable return on equity, to appropriate cost allocations, to**  
11 **appropriate capital expenditures. How should the Commission evaluate**  
12 **affordability in its review of FPL’s Four-Year Plan?**

13 A. The Commission recently explained that it considers whether a utility’s rates are  
14 affordable within the confines of its “fair, just, and reasonable” rates standard in Section  
15 366.06(1), F.S. *In re: Petition for rate increase by Tampa Electric Company*, Order  
16 No. PSC-2025-0038-FOF-EI (p. 183) issued Feb. 3, 2025 in Docket No. 20240026-EI.  
17 The factors that comprise fair, just and reasonable rates differ from case to case. We  
18 fully expect that the Commission will review the factors applicable in this case and  
19 make an appropriate determination in this proceeding that fairly balances the interests  
20 of customers and the utility.

1                   **III. IMPLICATIONS OF INTERVENOR RECOMMENDATIONS**  
2                   **REGARDING CAPITAL STRUCTURE, ROE AND TAM**

3 **Q. What is your overall conclusion and response to the intervenor witnesses’**  
4 **arguments against FPL’s continuation of a stronger than average financial**  
5 **position, particularly in terms of their capital structure and ROE**  
6 **recommendations?**

7 A. The intervenor witnesses take positions that epitomize what it means to miss the forest  
8 through the trees. They challenge the components of FPL’s financial profile, often with  
9 little to no basis, and turn a blind eye to the tangible and significant value FPL has  
10 delivered for customers which result from FPL’s comprehensive strategy founded on  
11 financial strength. FPL’s strategy consistently has delivered superior performance for  
12 customers through low bills, high service reliability, low cost of operations and high  
13 customer satisfaction.

14 **Q. Are the various intervenor recommendations on ROE, equity ratio and TAM**  
15 **based on a common set of assumptions?**

16 A. The recommendations differ in various ways, but at least one fundamental flaw was  
17 common to all witnesses: each witness presumes that one can isolate and reduce capital  
18 structure or ROE without any detriment to FPL’s overall delivery of customer value.  
19 That is not real-world thinking. A strategy that is focused on having an overall low  
20 cost does not mean trying to be low cost in each individual element. It is the total  
21 package that counts. Intervenors want to focus on one piece of the cost structure,  
22 arguing that it could be lower – but conveniently ignoring the interactions with other  
23 parts of the cost structure noted in more detail in my direct testimony and, most



1 importantly, ignoring the actual industry leading value that customers receive in the  
2 form of low bills, strong customer service and high reliability.

3

4 Anchored on that assumption, intervenors formulaically attempt to solve for an  
5 arithmetic lowest cost of capital in isolation of all other factors. This theory might have  
6 simplistic appeal, but it is purely an academic exercise that is neither appropriate nor  
7 directly applicable to how a real business sets its financial policies based upon the  
8 business risks that it faces. And it is not how FPL approaches its comprehensive view  
9 of customer value. Intervenors' witnesses have the luxury of ignoring financial and  
10 operational dependencies, the vast intricacies and considerations unique to each  
11 company, as well as the circumstances of a company's specific known and unknown  
12 risks. FPL does not have that same luxury. Management is responsible for consistently  
13 securing the financial means with which to meet the obligations associated with  
14 running the largest electric utility in the country in whatever industry or economic  
15 conditions it finds itself. Changes to a Company's financial position will lead to  
16 unintended and potentially severe consequences over the long term.

17 **Q. Please generally describe the intervenor witnesses' recommendations and the**  
18 **attendant consequences.**

19 A. I will address specific ROE and capital structure recommendations in the next sections  
20 of my testimony. In general, intervenors recommend ROEs ranging from 9.2% to  
21 10.5% and equity ratios as low as 50.52%. The lower end of the midpoint ROEs  
22 recommended by intervenors is 140 basis points lower than the ROE approved by the  
23 Commission in 2021 before interest rates began to rise and the lower end of the

1 recommended capital structure reduces FPL's equity financing by more than 15%.  
2 Combined with OPC's and FEL's suggestion that the Commission should not approve  
3 any incremental revenue in 2026, these results would harken back to and be more  
4 punitive than the rate case result rendered in 2010, a result that led to a credit  
5 downgrade that was tempered only by a settlement agreement reached a few months  
6 later. But the fallout lingered for nearly a decade, and the consequences would have  
7 been far worse if the original 2010 rate case order had survived absent the settlement  
8 agreement.

9

10 If the intervenor witnesses' recommendations are adopted, FPL's financial strength  
11 would be meaningfully undermined and over time the Company's ability to continue  
12 delivering superior customer value would erode. Investors that have long supported  
13 the Company would direct their capital elsewhere as they assess the opportunity to earn  
14 a fair risk-adjusted return and surmise that FPL's winning strategy is no longer  
15 supported. Intervenors fail to consider that their demand for industry average equity  
16 ratios and industry average ROEs would likely lead to industry average levels of  
17 performance. They also fail to consider that FPL has become the premier utility in the  
18 country in the metrics that matter to customers by following a superior strategy.

19 **Q. OPC witness Colton, Walmart witness Perry and FEL witness Rábago ask the**  
20 **Commission to consider affordability and customer impacts when setting FPL's**  
21 **ROE in this case. Do you agree?**

22 A. The Commission considers a host of factors in order to reach a balanced decision for  
23 customers and the utility. As expressed in its recent TECO rate case order, one of those

1 factors is whether “the proposed rate of return [is] reasonable in light of legal standards  
2 and all the evidence presented.” FPL fully expects the Commission to make this  
3 determination in the proceeding.

4 **Q. Is there other evidence the Commission can look to in considering the implications  
5 of FPL’s request versus the intervenors’ recommendations?**

6 A. Ultimately, the litmus test for the Commission is whether the overall value proposition  
7 delivered by FPL results in customer rates that are fair, just and reasonable and service  
8 quality that is adequate. Unequivocally, FPL’s filing reflects fair, just and reasonable  
9 rates and service quality that is superior in the industry. The intervenors’ positions on  
10 capital structure tend to be the industry average, while their recommendations on ROE  
11 are absurdly low and ignore current economic conditions. As can be seen in Table 1  
12 below, historically when the 10-year U.S. Treasury yield was greater than 4%, the  
13 Company’s awarded mid-point ROE tended to reflect that economic condition. This  
14 filing should not be viewed any differently, as the 10-year U.S. Treasury yield was in  
15 excess of 4% at the time FPL filed its case in February and continues to exceed that  
16 level today. Tellingly, intervenors give no credible consideration to the consequences  
17 of their recommendations on service quality other than a short-term arithmetic  
18 supposition that FPL can run the business with diminished financial resources.

<b>Table 1. Historical 10-Year Treasury Yield and Awarded ROE</b>		
Docket No.	10-Year Treasury Yield	Awarded ROE
990067	4.76%	11.00%
001148	4.63%	11.00%
050045	4.63%	11.75%
080677	2.51%	10.00%
120015	2.39%	10.50%
160021	1.97%	10.55%
20210015	1.64%	10.60%

1 IV. CAPITAL STRUCTURE

2 **Q. Please respond generally to intervenor witnesses' contentions regarding FPL's**  
3 **proposed capital structure.**

4 A. Intervenor witnesses' positions on capital structure continue their theme that the  
5 Commission's task is to determine what the lowest possible ROE and the weakest  
6 capital structure for FPL could be without affecting FPL's ability to provide minimally  
7 adequate electric service. As I have explained, this is not an appropriate benchmark,  
8 and I strongly caution the Commission against adopting a standard that encourages a  
9 "race to the bottom." Intervenors' recommendations would undermine FPL's financial  
10 position and will ultimately undermine its business position, to the detriment of long-  
11 term customer interests. Intervenors' positions implicitly assert the way in which FPL  
12 has financed its operations over the years has had nothing to do with the benefits that  
13 customers realize today.

14 **Q. Please describe FPL's approach to managing its capital structure.**

15 A. FPL's approach to managing its capital structure has been consistent for decades. Core  
16 to that approach is maintaining a "stronger-than-average" financial position to account  
17 for the Company's above average risk position. This approach has been supported by  
18 this Commission and has served customers extremely well as manifest by the  
19 Company's low-cost access to debt markets even when volatile, its ability to quickly  
20 fund major liquidity needs such as storm restoration efforts and fuel under-recoveries,  
21 as well as fund its capital investment program while delivering highly reliable service.

1 **Q. What would be the consequences of implementing the intervenors'**  
2 **recommendations?**

3 A. The consequences of implementing the intervenors' recommendations would be  
4 numerous and include the following:

- 5 • Immediate negative reactions from debt investors, the rating agencies and  
6 equity investors, as the perception of regulatory risk would be radically  
7 increased. Ironically, this would promptly undermine the very arguments  
8 intervenor witnesses have made for lowering the ROE and decreasing the equity  
9 ratio;
- 10 • Likely downgrades, whether immediate or over time, and lasting multiple  
11 years;
- 12 • Restrictions on FPL's ability to support its liquidity needs;
- 13 • Erosion of FPL's relative cost position;
- 14 • Higher financing costs in the long-term; and
- 15 • Reduction in supportable investments.

16

17 Over time, these cascading consequences would compound and hamstring FPL's  
18 ability to deliver on the value proposition that has served customers well for a long  
19 time. Intervenors' conclusion that the total cost of capital would decrease fails to  
20 account for the fact that while costs might decline initially, the long-term impact of  
21 degradation and heightened risk perception remains unknown and could result in  
22 significant future consequences. As with their unreasonable ROE recommendations,

1 none of the intervenor witnesses point to real world examples illustrating that a  
2 weakened capital structure would lead to lower overall costs over the long term.

3 **Q. If intervenors' positions in this case were accepted, would the negative impacts be**  
4 **experienced only by FPL?**

5 A. No. The effects would be focused on FPL at first but, as we saw in 2010, the effects  
6 of a downgrade linger for multiple years, and it is customers who bear the consequence  
7 in the form of higher borrowing costs. The effects would also likely extend to other  
8 Florida utilities regulated by the Commission. Both debt and equity investors would  
9 view such a change as very negative to risk and as a significant change in the regulatory  
10 environment. Such a large departure from past practice in Florida would be considered  
11 indicative of the broader regulatory environment and cause great concern.

12 **Q. Please summarize and respond to the capital structure recommendations of FAIR**  
13 **witness Bryant, FIPUG witness Pollock and FEL witness Rábago.**

14 A. FAIR, FIPUG and FEL recommend equity ratios of 54.0%, 53.2% and 50.52%,  
15 respectively. These intervenor witnesses claim that FPL's equity ratio is excessive  
16 compared to other utilities in the industry, but they disregard the relative business risk  
17 profile of FPL compared to those in the proxy groups. Every utility faces a unique risk  
18 profile, and these risk differences influence the capital structure that a prudent utility  
19 manager should seek to employ. In my direct testimony, I described the very real  
20 business risks faced by FPL. Intervenors' recommendations are based on an overly  
21 simplistic averaging method that ignores the evidence of FPL-specific risk factors and  
22 the benefits that customers have received over numerous years from FPL's strong  
23 financial position.

1 **Q. OPC witness Lawton and FEA witness Walters recommend no change to FPL’s**  
2 **equity ratio but argue that FPL’s ROE should be lowered to reflect the stronger**  
3 **capital structure. Do you agree with this approach?**

4 A. No, here again intervenors ignore FPL’s specific above average risk position and  
5 strategies, which call for and depend upon maintaining a “stronger-than-average”  
6 overall financial position that does not sacrifice one element of its financial profile for  
7 another. The Company has delivered a superior value proposition to its customers year  
8 after year. Witnesses Lawton and Walters reach conclusions that would seriously  
9 undermine FPL’s financial position and its ability to continue to attract capital and  
10 deliver value for customers.

11 **Q. OPC witness Lawton questions how much credit quality customers can afford and**  
12 **have reasonable electric rates. Is there a specific formula that answers this**  
13 **question?**

14 A. No, Mr. Lawton seems to be searching for the “optimal” level at which overall cost of  
15 capital is minimized, and capital structure should be set. The quest for that  
16 mathematical precision is, again, an academic exercise that falters when reality sets in.  
17 As the proportion of debt in the capital structure approaches the supposed optimal level,  
18 the level of risk in the business increases and that can begin to have a negative impact  
19 on the overall cost of capital. Calculating Mr. Lawton’s elusive theoretical figure not  
20 only presumes a company can pinpoint how close it can approach financial distress  
21 without crossing the wire, but it also improperly assumes there would be no  
22 consequences to operating on the brink. It likely would be impossible for the regulatory  
23 environment to be able to adequately respond to business volatility and correct a

1 company's financial metrics before it plunged into financial distress. Ironically, equity  
2 investors would seek a *higher* return on any capital invested in a company that operates  
3 such a risky proposition. Mr. Lawton's criticism is ultimately self-defeating.

4 **Q. OPC witness Lawton points to Commission precedent that suggests a converse**  
5 **relationship between capital structure and ROE in the context of setting rates for**  
6 **water and wastewater utilities. Is this precedent applicable?**

7 A. No. Mr. Lawton presents no analysis that informs FPL, or the Commission for that  
8 matter, why that order applies to FPL's request in any way, shape or form. He omitted  
9 any description of the similarities between either (i) water and wastewater utilities and  
10 electric utilities, generally or (ii) FPL's risk profile as compared to the utilities  
11 governed by that order, specifically. Speaking as a non-lawyer who has participated in  
12 rate cases before the Commission, I find it curious that this formula-based precedent  
13 has not been applied to electric utilities in prior rate cases and would surmise there is  
14 good reason behind that.

15 **Q. FEA witness Walters likewise argues for an inverse relationship between ROE**  
16 **and capital structure, referring to an Arkansas Public Service Commission order**  
17 **establishing cost of capital for Southwestern Electric Power Company. Does this**  
18 **citation overcome the shortcomings of OPC witness Lawton's reliance on the**  
19 **water and wastewater industry?**

20 A. No, witness Walters fails to explain how Arkansas' utilities are similar to FPL, or how  
21 application of Arkansas' policy would deliver better results for customers or this  
22 Commission. First, compared to FPL's six million customers, the four Arkansas  
23 investor-owned utilities serve approximately 739,000; 126,000; 70,000; and 6,000,



1 suggesting a far lesser need for capital. More specific risks and circumstances of those  
2 utilities were not mentioned by Mr. Walters.

3  
4 Three of the four Arkansas utilities had higher 1,000 kWh residential bills compared to  
5 FPL, notwithstanding their lower ROE and weaker capital structure. Perhaps most  
6 notable, the 2023 SAIDI for independently owned electric utilities in Arkansas was  
7 188.4<sup>1</sup>, or more than 191% higher (worse) than Florida's IOU average of 64.7<sup>1</sup>, even  
8 without miles of coastline or a subtropical climate that produces significant  
9 thunderstorms and lightning. In fact, the very order cited by Mr. Walters points out  
10 that Southwestern Electric Power Company's reliability was in decline. These results  
11 should clearly send a message to this Commission that adopting the Arkansas policy  
12 would be a mistake and take Florida backwards.

13 **Q. Has the Commission in the past acknowledged the customer benefits of a strong**  
14 **capital structure?**

15 A. Yes. As recently as last year, the Commission entered an order that commented  
16 favorably on FPL's capital structure – the same capital structure it has maintained for  
17 25 years and seeks to continue as part of its Four-Year Plan:

18 The preponderance of the evidence demonstrates that the Company's  
19 overall capital structure has contributed to its ability to provide  
20 customers reliable service at reasonable rates while weathering tropical  
21 and financial storms. Continuing this strong capital structure can assure  
22 investors that the utility is financially sound, which in turn benefits all  
23 customers by attracting capital on reasonable terms.

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<sup>1</sup> SAIDI as reported by the U.S. Energy Information Administration ("EIA"). Does not include Oklahoma Gas & Power in Arkansas average or Florida Public Utilities Company in Florida average as this is not reported through the EIA.

1        *In re: Petition for rate increase by Florida Power & Light Co.*, Order No. 2024-0078-  
2        FOF-EI (p. 14) issued March 25, 2024 in Docket No. 20210015-EI. Even in the 2010  
3        Pre-Settlement Order the Commission recognized the importance of financial strength,  
4        finding “FPL’s position of financial strength has served it and its customers by holding  
5        down the Company’s cost of capital.” (Order No. PSC-2010-0153-FOF-EI, p. 119).  
6        The Commission also acknowledged that while others were forced to issue debt at high  
7        rates during times of financial crisis, FPL was able to sell 30-year bonds at very  
8        reasonable rates “due to its strong financial position.” (*id.*). Despite the fact that FPL’s  
9        equity ratio was near the top of the range of equity ratios for its proxy group, the  
10       Commission agreed that FPL’s actual capital structure was reasonable and provided  
11       numerous benefits to customers.

12    **Q.    Please elaborate on how FPL’s customers benefit from FPL’s current capital**  
13    **structure.**

14    A.    FPL’s capital structure has enabled consistent and competitive access to capital markets  
15    in times of economic turmoil, and one need look no further than the events of the last  
16    four years. FPL was able to provide for customers and satisfy its liquidity needs when  
17    faced with a significant increase in natural gas costs (resulting in an under-recovery of  
18    about \$2 billion in 2022) as well as a series of hurricanes that inflicted severe damage  
19    that necessitated a major restoration (over \$1.2 billion in a single season). This is  
20    nothing new – FPL’s capital structure has been able to satisfy instant liquidity needs  
21    caused by unexpected events of the past such as major storms and has been able to  
22    competitively finance large investments to modernize and strengthen its infrastructure  
23    – all of which result in high reliability and low costs for customers. No one can

1 reasonably argue that FPL’s approach to maintaining financial strength over the long  
2 term has not served customers well.

3 **Q. FEA witness Walters claims that all utilities had adequate access to capital over**  
4 **the last several years. Does this refute FPL’s position that it needs a stronger-**  
5 **than-average capital structure?**

6 A. No. Mr. Walters’s statement is simultaneously too general and too narrow. It is too  
7 general in the sense that not all “access to capital” is created equal and has the same  
8 end impact on customers. The terms associated with the capital are tied to each issuer’s  
9 financial profile, including its credit score. Utilities and other market participants with  
10 stronger financial profiles access their debt at lower costs, typically measured by the  
11 difference, or “spread,” between the issuer’s cost rate and the risk-free U.S. treasury  
12 rate. FPL has consistently issued its debt at tighter spreads compared to others.

13  
14 Mr. Walters’s statement is too narrow in the sense that he limits his observation to “the  
15 last several years.” FPL does not disagree that capital markets have been liquid since  
16 2022, and, over the same period, the spreads have been historically tight. It would be  
17 dangerous, however, for FPL or the Commission to assume that this market condition  
18 is permanent.

19  
20 Potential market volatility surrounding tariff policies, deficit/tax-bill uncertainties, and  
21 geopolitical risks suggest that spreads may widen in the forthcoming period compared  
22 to current levels. FPL will be better positioned to continue to issue debt on favorable

1 terms compared to participants with weaker financial profiles who suffer when markets  
2 are constrained.

3 **Q. Please provide examples of constrained market conditions.**

4 A. Exhibit SRB-9 plots investment grade bond spreads over the last 25 years. This broader  
5 historical view provides the Commission better information regarding risks that capital-  
6 intensive participants like FPL must be prepared to face at any given moment. As  
7 shown in Exhibit SRB-9, the spread differential between strong issuers and those with  
8 less financial strength is significant during periods of market volatility.

9

10 Compared to today's 36 basis-point differential, the basis spread has spiked to as high  
11 as 250 basis points, a nearly 600% difference. The graph also illustrates that bouts of  
12 constrained markets are unpredictable yet not uncommon. Over the 25-year period  
13 examined, the market contracted four times, with each bout varying in duration and  
14 spread level: the dot-com bubble of the early 2000s, the 2008 economic crisis, the 2014  
15 to 2016 oil price crash and the COVID pandemic, which began in 2020 and endured  
16 well into 2021.

17

18 FPL cannot predict when these crises will occur or how long they will last. As a public  
19 utility, it does not have the luxury of waiting for a liquidity crunch to resolve. FPL  
20 must provide reliable electric service regardless of market conditions. FPL's financial  
21 strength has allowed the Company to raise the capital it needs to continue delivering  
22 excellent service to its customers even when access to markets is limited.

1 **Q. Is more expensive debt the only consequence that could result from a weakened**  
2 **capital structure?**

3 A. No. Exhibit SRB-9 depicts the spread differentials only for those participants who were  
4 able to issue debt. Those results exclude participants who withdrew their issuances  
5 either after launch due to unfavorable terms or those that planned to issue debt but  
6 elected to cancel before announcement due to constrained markets. Not being able to  
7 issue debt because of a weak credit rating could significantly hamper a utility's ability  
8 to provide reliable and safe electric service to its customers.

9

10

#### V. RETURN ON EQUITY

11 **Q. Do you agree with the ROE recommendations made by intervenor witnesses as set**  
12 **forth in Table 2 below?**

13

**Table 2. Recommended ROE by Intervenor Witness**

14

Party	ROE Midpoint
FPL Proposed	11.9%
OPC	9.2%
FAIR	10.5%
FIPUG	10.5%
FEA	9.5%
FEL	9.6%
Walmart	9.78%

15

16

17

18

19

20 A. Not at all. While each intervenor witness employs different means, they all work  
21 toward achieving the same end. The recommendations of OPC, FEA, FEL and  
22 Walmart would result in reducing FPL's ROE to the bottom or lower than the bottom  
23 of the peer group that FPL witness Coyne presented in his direct testimony. FIPUG

1 and FAIR recommend that FPL's ROE should be reduced to the level awarded to  
2 Tampa Electric Company, but they take aim at FPL's capital structure.

3

4 None of the recommendations appropriately account for FPL's individual risk profile  
5 and circumstances. And none of the intervenors consider the consequences to FPL's  
6 ability to continue to attract capital so that it can continue delivering superior levels of  
7 performance and low customer bills.

8 **Q. The intervenor witnesses raise the appealing notion that lower ROEs will result**  
9 **in lower bills for customers, even if all of FPL's projected capital investments and**  
10 **expenditures are approved. How do you respond?**

11 A. If lowering costs without impairing quality of service could be achieved by simply  
12 reducing its ROE, FPL would already be doing it. Intervenors have not discovered a  
13 magic bullet. While appealing, intervenors' recommendations are unrealistic.

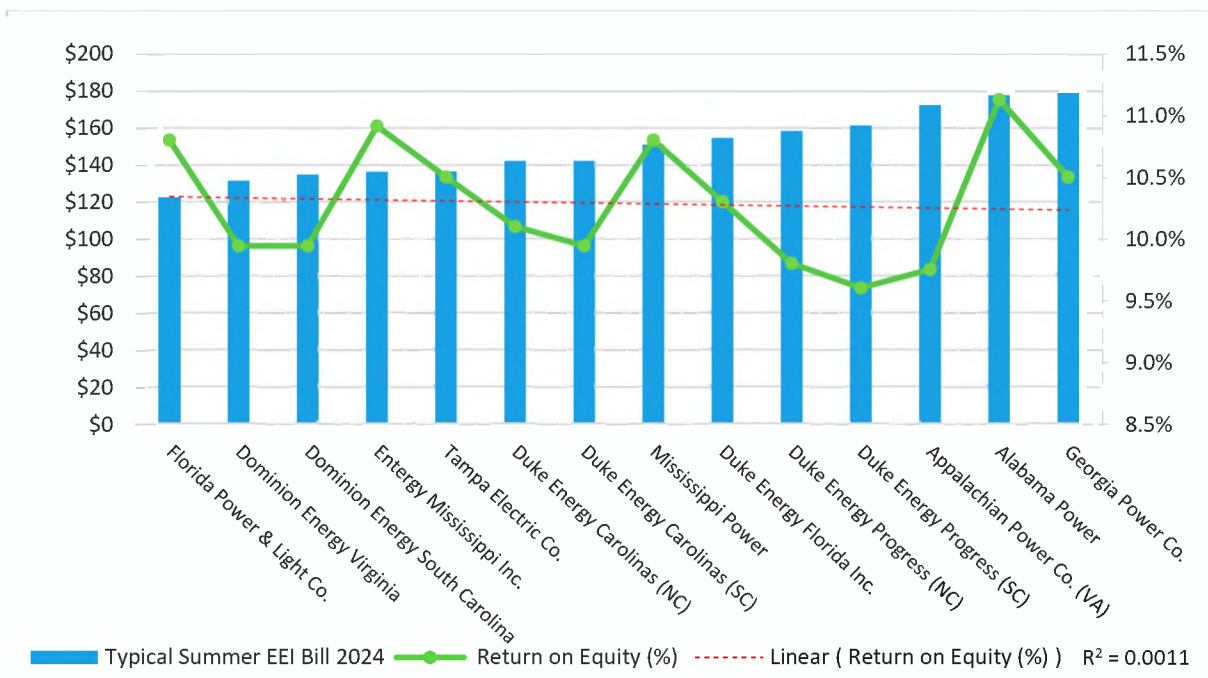
14

15 While it may be possible that bills could be lowered immediately by slashing the  
16 Company's ROE, the reactions to such an action would be swift and profound and long-  
17 lasting. All financial stakeholders would reassess the Company's financial strength  
18 and recalibrate the view of the Florida regulatory environment, leading investors to  
19 reevaluate their willingness to provide capital that is necessary to run such a large utility  
20 with an above average risk profile. Ultimately, customers' bills will increase and  
21 access to financial resources that enable the Company's strategy would be constrained.  
22 It would be extremely short-sighted to view ROE as merely a "lever" to reduce the  
23 revenue increase as seems to be the motivation behind the intervenor recommendations.

1 **Q. Did the intervenor witnesses support their positions with any real-world evidence**  
 2 **establishing a direct link of lower bills to lower ROEs?**

3 A. No. The relationship between a low ROE and a low bill is spurious, and intervenors’  
 4 arguments in this regard are illusory and comprise nothing more than theoretical  
 5 arithmetic. A comparison of ROE versus bill position among southeastern utilities  
 6 refutes the purported correlation advanced by intervenors. Table 3 below would look  
 7 vastly different if intervenors’ theoretical arguments produced actual results in the real  
 8 world. Among the utilities, FPL has the highest awarded ROE but the lowest bill, and  
 9 utilities with the lowest ROEs do not consistently rank among the lowest bills. This  
 10 highlights the point that customers pay a total bill, not an ROE, and that FPL’s  
 11 customers benefit from the strong ability to attract capital.

12 **Table 3. Average Customer Bill Compared to Approved ROE in Southeast**



13

1 **Q. Please address the analysis the intervenor witnesses employed to develop their**  
2 **ROE recommendations.**

3 A. The modeling employed by OPC witness Lawton and FEA witness Walters is  
4 addressed in detail by FPL witness Coyne. FEL witness Rábago, FIPUG witness  
5 Pollock, FAIR witness Bryant and Walmart witness Perry undertook no credible  
6 analysis. Instead, they present different comparisons of authorized ROEs for electric  
7 utilities, with each intervenor witness pointing to different time periods and different  
8 proxy groups and basing their recommendation on a mathematical average or a single  
9 data point.

- 10 • FEL witness Rábago and Walmart witness Perry, for example, rely on ROEs  
11 authorized throughout the country. Curiously, FEL witness Rábago confined  
12 his review to utility commission decisions from 2023 through the first half of  
13 2024, offering no explanation regarding why he omitted the most recent 12  
14 months of data.
- 15 • Walmart witness Perry does not expressly provide a specific ROE calculation  
16 but points to national averages hovering around 9.72% and recommends that  
17 the Commission reject FPL's request. Ms. Perry's approach is somewhat  
18 disingenuous considering Walmart's healthy returns. In 2024, Walmart's  
19 earned ROE was greater than 20% – far in excess of FPL's earned returns and  
20 the ROE it requests in this proceeding.
- 21 • FIPUG witness Pollock and FAIR witness Bryant chose to simply point to the  
22 ROE this Commission awarded Tampa Electric Company.

23



1 None of these witnesses provide evidence on FPL's specific situation. Nothing about  
2 these recommendations would help this Commission apply the *Hope* and *Bluefield*  
3 standards.

4 **Q. Is there also a qualitative reason the Commission should dismiss the**  
5 **recommendations from FEL, FIPUG, FAIR and Walmart?**

6 A. Yes. Intervenors' demand for industry average equity ratios and industry average  
7 ROEs may lead to industry average levels of performance and customer bills. FPL is  
8 not now and has no interest in becoming an average utility. We are proud to deliver  
9 excellent value and have presented a plan that will allow us to continue to live up to  
10 the high standards customers have come to expect from us. A balanced approach from  
11 the Commission is not one that discourages above-average service.

12 **Q. How would investors and rating agencies view a decrease in the allowed ROE to**  
13 **the levels recommended by intervenor witnesses?**

14 A. Reactions are likely to be reminiscent of the aftermath of the adverse decision in PSC  
15 Order No. PSC-10-0153-FOF-EI. Investors and rating agencies all tend to view  
16 allowed ROE as an important indicator of the broader regulatory environment, and such  
17 a large discontinuity relative to past practice in Florida would be perceived as a  
18 deterioration in the regulatory environment. Increased regulatory risk and their  
19 assessment of business risk would be significantly higher. A downgrade could happen  
20 either immediately or over time due to the compounded effect of FPL's eroded financial  
21 position, liquidity position and cost position to customers. Investors value predictability  
22 and stability – regulatory decisions are an important consideration of regulatory  
23 environment.

1  
2 **VI. RISK PROFILE**3 **Q. Intervenors generally characterize FPL as “low risk.” How do you respond?**4 A. Intervenors generally dismiss the important distinction between (i) the risks faced by a  
5 utility given its unique environment and assets, and (ii) the results produced by that  
6 utility which are determined largely by management’s ability to mitigate those risks.  
7 As described in detail in direct testimony, relative to the utilities proxy group, FPL  
8 faces heightened risk through its ownership of nuclear generating assets, peninsula  
9 location, increased storm exposure, and a large capital expenditures program.10 Through strategic execution and vigilance, FPL’s management team has sustained solid  
11 performance. Management has been well-positioned to execute its risk mitigation  
12 strategy due to FPL’s stronger than average financial position, driven in large part by  
13 its strong equity ratio. Using FPL’s effective management of risk and the Company’s  
14 current financial strength as a predicate to support the notion that FPL is “low risk” and  
15 thereby support the intervenors’ recommendations would unequivocally and  
16 counterproductively increase FPL’s riskiness and weaken the Company.17 **Q. FEA witness Walters cites FPL’s strong credit ratings as an indication that FPL  
18 is a low-risk utility warranting a lower ROE. Is this an appropriate correlation?**19 A. No. I agree that FPL’s risks are considered by credit rating agencies, but they are  
20 considered alongside FPL’s financial policies. In other words, FPL’s strong credit  
21 ratings are arrived at despite FPL’s risk factors, thanks to the strong financial policies  
22 it has consistently employed, including an appropriate ROE. Moreover, while credit  
23 ratings are a material driver of fixed income security pricing, they only represent a

1 partial view of investor perceptions. Rating agencies often view investment horizons,  
2 risks and exposure differently than equity investors.

3 **Q. Do you agree with the implication OPC witnesses Schultz and Lawton, FEL**  
4 **witness Rábago, FAIR witness Bryant, FEA witness Walters, and FIPUG witness**  
5 **Pollock that FPL's access to clause recovery mechanisms mitigates FPL's**  
6 **regulatory risk?**

7 A. No. The Commission should not lose sight of the fact that investors measure risk on a  
8 relative basis. Cost recovery clauses are not unique to FPL; mechanisms that allow  
9 utilities to implement rate changes for pass through fluctuations in certain types of costs  
10 are common within the industry. Specifically, the same cost recovery mechanisms  
11 available to FPL also are available to the other investor-owned electric utilities in  
12 Florida and similarly, variations of these clause recovery mechanisms, unique to each  
13 state commission or regulatory jurisdiction, are available to the other U.S. investor-  
14 owned electric utilities outside the state of Florida.

15  
16 Notably, the presence of these clauses only helps to mitigate, not eliminate the risk to  
17 the company and its investors that the utility will not recover all its costs. The mere  
18 existence of a clause recovery mechanism is not a guarantee that a utility will be able  
19 to recover its costs. Nor does it eliminate the underlying risks and varying exposures  
20 of the costs and cash flows the clauses are designed to recover; FPL still bears the  
21 burden of demonstrating recoverability. While Florida has proven to be a constructive  
22 regulatory environment, the Company still bears the risk of future disallowances.

1 **Q. Please address FEL witness Rábago's claim that FPL's proposal to include the**  
2 **TAM and a mechanism to address tax law changes eliminates all risk.**

3 A. Including TAM and the tax law change mechanism certainly does not eliminate all risk,  
4 nor does it render FPL less risky than peer utilities. It could potentially ameliorate a  
5 small part of the additional risk that FPL will shoulder by virtue of committing to a  
6 Four-Year Plan, but as I have explained, the vast majority of the risk remains with the  
7 Company. The tax law change mechanism essentially places FPL on equal footing  
8 with Duke Energy Florida and Tampa Electric Company, both of which have authority  
9 to initiate a similar process, as well as any other utility in the country that is not subject  
10 to an unqualified rate freeze. It is also important to recall that this mechanism is  
11 symmetrical; it applies whether FPL's tax obligations increase or decrease.

12

13 The TAM is likewise risk neutral. By design, the TAM is sized to allow FPL to achieve  
14 earnings at the mid-point during 2028 and 2029 when the Company will not petition  
15 for general base rate increases. If approved, FPL would have flexibility to use the TAM  
16 to address business or market conditions in the first two years. Exercising this  
17 flexibility will shrink the TAM amount available in the last two years, however, leaving  
18 FPL to manage its business without base rate increases and with less non-cash available  
19 to cover incremental revenue requirements. Thus, while use of the TAM may *shift* the  
20 risk during the four-year period, the risk persists. And it continues to be shouldered by  
21 FPL, not customers. I address other aspects of the TAM below.



1 **Q. If the Commission does not approve the proposed TAM, what would occur?**

2 A. The result would be simple and clear-cut. FPL cannot commit to its Four-Year Plan.  
3 FPL's request for new base rates for 2026 and 2027 would remain, and, if approved,  
4 would require FPL to file another base rate petition in 2027 for new cash-based rates  
5 effective in 2028, and if a one-year-at-a-time approach is adopted, another petition in  
6 2028 for cash rates effective in 2029.

7 **Q. Please describe the consequences customers are likely to experience if the**  
8 **Commission limits FPL's relief to only 2026 and 2027.**

9 A. It is not possible to predict all of the consequences with precision, but I can confidently  
10 make two observations. First, without TAM and the associated commitment of a four-  
11 year plan, there would not be a SoBRA mechanism in place. The costs associated with  
12 these projects would instead be included in the necessary cash increases. Based on the  
13 best estimate, it is projected that customers would experience a cash increase of  
14 approximately \$957 million in 2028 and an incremental \$843 million in 2029. These  
15 cash increases in each respective year amount to approximately \$7.66 per month on the  
16 typical 1,000 kWh residential customer bill and an incremental \$6.75 per month for a  
17 total of more than \$14 per month in the second year. This increase is approximately  
18 220% greater than what customers would experience in 2028 and 2029 under a four-  
19 year plan that includes the SoBRA and the use of a non-cash mechanism.

20

21 Second, in all four years (2026 through 2029) customers would miss out on the benefits  
22 that management could have delivered if it were able to focus on improving operations

1 and value instead of planning for and preparing a rate case in each year. While the  
2 dollar value cannot be measured, the opportunity loss is very real and long-lasting.

3

4 Additionally, customers would bear all of the unknown risk when FPL files another  
5 rate case for new rates to be effective in 2028 and 2029. FPL has committed to  
6 managing that risk as part of its four-year rate proposal – from interest rates, tariffs,  
7 global conflict and any resulting market impact. From the time FPL prepared its  
8 forecasts in late 2024, FPL’s revenue requirements over the four-year period have  
9 already increased by more than \$250 million due to higher than projected interest rates,  
10 further highlighting the risk FPL is undertaking in committing to a Four-Year Plan.  
11 These are incremental costs that will be borne by customers in 2028 without the  
12 approval of the TAM. FPL’s four-year rate proposal, enabled by the TAM, would  
13 lower the customer bill impact over the period and create savings for customers over  
14 the longer-term.

15 **Q. Please identify a few of the more significant benefits that customers have realized**  
16 **over the course of the last few multi-year plans that have included the RSAM.**

17 A. In addition to the already mentioned deferral of cash rate increases enabled by prior  
18 multi-year plans, the extended period of rate certainty has enabled FPL to continue to  
19 improve its customer value proposition through lower operating costs, improved  
20 service reliability and an excellent customer service experience. Examples include:

- 21 • Non-fuel operating costs that are roughly \$2.9 billion lower than industry-average  
22 performance would have produced (equivalent to about \$300 annual savings on a  
23 residential customer’s bill);

- 1           • Annual fuel charges that are \$838 million lower than industry average;
- 2           • Avoidance of approximately \$1.7 billion of storm surcharges for customers over
- 3           the last ten years; and
- 4           • Customer interruptions duration as measured by Distribution SAIDI that was 59%
- 5           better than the national average in 2023 and best among Florida’s investor-owned
- 6           utilities in 2023 and 2024.

7

8           These figures are instructive of the opportunity costs present and future customers may

9           bear if intervenor recommendations to reject the TAM and move FPL to an “average”

10          ROE and capital structure are accepted. Compared to the cost of recovering the

11          \$1.7 billion TAM amount over 30 years, FPL customers will lose the opportunity to

12          have FPL create incremental benefits on top of those that already amount to \$3.7 billion

13          annually in fuel and non-fuel O&M.

14   **Q. Several intervenors base their opposition of the TAM on the contention that it**

15   **virtually ensures earnings for FPL at the top of the range. Is this an accurate**

16   **representation?**

17   A. No. Intervenors mischaracterize both the function and the purpose of the TAM.

18   Similar to the RSAM approved pursuant to the 2021 Settlement, the TAM is sized to

19   afford FPL the ability to earn at the mid-point ROE in 2028 and 2029 in lieu of cash

20   rate increases. To ensure earnings at the top of the range, even based on intervenors’

21   math, FPL would need a TAM amount that is at least \$2 billion greater than the

22   \$1.7 billion it is requesting, or a total of at least \$3.7 billion.



1 As I alluded to earlier in my testimony, in committing to a four-year proposal, FPL is  
2 undertaking significant risk and uncertainty. The purpose of the TAM is to allow FPL  
3 to manage the risk and the volatility within the authorized ROE range, while continuing  
4 to deliver safe, reliable service and low bills for its customers.

5 **Q. FRF witness Georgis claims there is too much uncertainty regarding sales growth,**  
6 **new large loads, solar investments, and federal incentives to approve a four-year**  
7 **rate plan with the TAM, while OPC witness Devlin recommends a 50-basis point**  
8 **reduction to ROE for risk reduction if the TAM is approved. Please respond to**  
9 **these two seemingly contradictory intervenor positions.**

10 A. FPL agrees with Mr. Georgis's observation that future uncertainties abound. The  
11 existence of future uncertainties is precisely why the TAM is valuable. The TAM  
12 provides flexibility to manage these uncertainties while maintaining rate stability for  
13 customers. Rather than requiring frequent rate cases to address emerging issues, the  
14 TAM allows FPL to respond to changing conditions within a Commission-approved  
15 framework. This approach has proven successful with the RSAM for many years.  
16 Additionally, FPL has thoroughly analyzed future trends in sales growth, load patterns,  
17 and investment needs in developing our Four-Year Plan, and we have a strong track  
18 record of accurate forecasting. Mr. Devlin's claim that the TAM warrants a 50-basis  
19 point reduction is ironic, to say the least. FPL will shoulder the risks of these  
20 uncertainties over four years, with no incremental cash with which to compensate  
21 investors. Under Mr. Devlin's theory, FPL would be better served coming back for a  
22 rate case in 2027 (for new rates in 2028 and 2029) to the detriment of customers.

1 **Q. Intervenors base their contention on FPL's performance under the RSAM**  
2 **approved as part of the 2021 Settlement. How was FPL able to earn at or near**  
3 **the top of its authorized ROE range over the entire four-year period?**

4 A. The RSAM was not the primary driver behind FPL's ability to earn at or near the top  
5 of its authorized ROE range over the course of 2021 Settlement period. In fact, the  
6 majority of the Reserve Amount associated with the RSAM was needed just to cover  
7 the unanticipated, if not historic, increases in interest expense and inflation as well  
8 supply chain cost pressures. Over the 2022 through 2025 period, those economic  
9 factors increased FPL's cost of doing business above forecasted amounts by about  
10 \$1.1 billion. In other words, about 75% of the RSAM Reserve Amount was necessary  
11 to get FPL back to the mid-point, without accounting for the increased capital  
12 expenditures associated with the unexpected increase in customer growth as a result of  
13 the migration to Florida.

14

15 Earning at or near the top of the authorized ROE range required more. A significant  
16 driver was the Company's focus on continually driving productivity improvements in  
17 its cost structure, which was only possible because FPL was not toiling with rate case  
18 preparation. Having multi-year periods during which the Company can focus its efforts  
19 on cost and service quality improvements, rather than filing and defending rate cases,  
20 has been pivotal in improving all aspects of the business for the benefit of customers  
21 as well as continuing to provide investors with a competitive return. During the current  
22 2022-2025 settlement period, FPL's cost management performance produced a  
23 cumulative \$534 million in non-fuel O&M savings – savings that are now lowering

1 FPL's current ask in this rate case. Those savings coupled with some good luck in the  
2 form of favorable weather that is not presumed to be the norm contributed to FPL's  
3 ability to earn above the mid-point, exceeding the RSAM contributions, which, as I  
4 explained above, largely served to cover economic headwinds.

5 **Q. Does FPL's use of a non-cash mechanism to earn near the top of range render the**  
6 **mid-point meaningless?**

7 A. No. The midpoint ROE is and will remain the basis upon which FPL's rate of return  
8 is calculated for use in base rates, clauses and AFUDC. Achieving base rate earnings  
9 above the mid-point provides an incentive for FPL to effectively manage the business  
10 while allowing for additional book returns for investors in the near-term but creating  
11 long-term value for customers in the form of lower operating expenses.

12 **Q. OPC witness Devlin and FAIR witness Bryant argue that use of the TAM, if**  
13 **approved, should be limited to the mid-point ROE, and it should be used only in**  
14 **2028 and 2029. Does FPL agree with these limits?**

15 A. No. These proposed limitations ignore history and real-world context. Since 2011,  
16 FPL has had authority to use its non-cash mechanism flexibly over the subject period.  
17 This has allowed FPL to manage risks and fluctuations in the business while also  
18 planning over a multi-year horizon, armed with the knowledge that it had access to a  
19 certain level of reserve and has the continued obligation to stay within the authorized  
20 range over the full term with no incremental cash in the latter half.

21  
22 Longer-term planning by a utility may involve such things as accelerating certain  
23 investments when the economics make sense for customers, or shifting the timing of

1 certain expenditures when population growth booms unexpectedly, or covering the cost  
2 of historic storms so that customers can avoid surcharges. Flexibility, not constraints,  
3 allows management to develop these value-added plans within the range of reasonable  
4 ROE as approved by the Commission. The results speak for themselves, which  
5 explains why the intervenor witnesses ignore them.

6  
7 Additionally, limiting use of the TAM to achieving FPL's approved mid-point ROE  
8 fundamentally misunderstands the purpose of establishing an ROE range. The  
9 Commission establishes a range, not just a mid-point, recognizing that utilities need  
10 flexibility to manage operations within changing economic environments. The mid-  
11 point is not, as FAIR witness Bryant suggests, the only "reasonable rate of return."

12  
13 The TAM is designed to work within the authorized range established by the  
14 Commission and provides FPL with the flexibility needed to commit to a four-year rate  
15 plan while managing various risks and uncertainties. Restricting the TAM in the  
16 manner intervenors suggest would undermine its effectiveness and potentially  
17 compromise FPL's ability to attract capital and maintain financial stability throughout  
18 the four-year period.

19 **Q. OPC witness Devlin also recommends that, if the TAM is approved, FPL should**  
20 **use the TAM to offset revenue requirements in 2026 and 2027. Does FPL agree**  
21 **to utilize the TAM in this manner?**

22 A. No, that would not be feasible and ignores the balance of FPL's carefully constructed  
23 Four-Year Plan. That balance includes ensuring FPL receives adequate cash to

1 maintain its credit metrics and strong financial position over the term of the four-year  
2 proposal. Reducing the level of cash revenues and replacing it with non-cash would  
3 do more harm than benefit for customers.

4  
5 FPL has been and will continue to make investments for customers, particularly for  
6 unforeseen growth in new service accounts, with no incremental cash revenue outside  
7 of the SoBRA. FPL's debt and equity investors understand the benefits of the TAM,  
8 but it is still *non-cash*. As I explained in my direct testimony, this is a bridge between  
9 revenue adjustments. In this case, FPL has presented the calculation of the incremental  
10 revenue it will need in order to maintain its financial strength over the period. Mr.  
11 Devlin's recommendation to reduce the revenue even in the first two years by  
12 approximately \$580 million would impair FPL's credit metrics and could stretch  
13 investors' tolerance for non-cash to a breaking point.

14 **Q. How do you respond to FRF witness Georgis's characterization that the TAM**  
15 **would allow FPL to "manipulate" deferred tax liabilities to manage its regulatory**  
16 **earnings?**

17 A. Mr. Georgis's characterization grossly misrepresents how the TAM would function.  
18 The TAM is not a manipulation but rather a Commission-authorized mechanism that  
19 would provide transparent and clearly defined parameters for managing the timing of  
20 tax benefits. As detailed in my direct testimony, the TAM would allow FPL to forgo  
21 cash rate increases in 2028 and 2029 while at the same time respond to changes in  
22 revenues and expenses to maintain an ROE within the authorized range – just as the  
23 RSAM has successfully done for many years. Moreover, the TAM would be subject

1 to Commission oversight through regular surveillance reporting, ensuring that its use  
2 is transparent and consistent with the Commission's authorization.

3 **Q. How do the benefits of the TAM compare to the concerns raised by the witnesses?**

4 A. The benefits of the TAM far outweigh the concerns raised. The TAM will provide  
5 customers with rate stability through at least January 2030, avoiding the need for  
6 general base rate increases in 2028 and 2029. This approach reduces regulatory lag and  
7 costs associated with more frequent rate cases. Furthermore, the TAM allows FPL to  
8 continue its successful approach to providing base rate stability while maintaining the  
9 financial strength needed to continue delivering superior service and reliability. The  
10 concerns raised by the various intervenor witnesses are based on mischaracterizations  
11 of how the TAM would function and overlook the substantial customer benefits that  
12 would result from its implementation.

13 **Q. What are your conclusions regarding the intervenors' arguments against FPL's  
14 proposed TAM?**

15 A. The intervenors' opposition to FPL's proposed TAM is based on their ill-conceived  
16 view that FPL has benefitted at the expense of customers, as if it is inconceivable that  
17 the Company can create complementary value for both customers and shareholders.  
18 Their opinion necessarily requires intervenor witnesses to ignore metrics that matter  
19 most to customers. Results matter, and the Commission should not disregard them.

20 **Q. OPC witness Devlin characterizes the TAM as unprecedented and claims a  
21 generic docket applicable to all utilities is therefore required. Do you agree?**

22 A. Whether a generic docket is necessary is a question perhaps best answered by attorneys.  
23 My non-legal opinion is that the TAM requested by FPL is similar to the treatment that

1 has been authorized for unprotected accumulated excess deferred income taxes. As  
2 there is no IRS regulation governing their treatment, the Commission has the discretion  
3 to dictate the treatment that they see best for customers. Likewise, the function and  
4 purpose of a non-cash mechanism as a tool to enable multi-year stay-outs is well-  
5 understood by this Commission.

6

7

### VIII. SOLAR AND BATTERY BASE RATE ADJUSTMENT

8

**Q. What is your general response to OPC witness Schultz's and FRF witness Georgis's opposition to the SoBRA requested by FPL?**

9

10

A. I will address each of their stated bases for opposition, but it is worth emphasizing a  
11 fundamental aspect of the SoBRA that witnesses Schultz and Georgis missed. FPL is  
12 not asking for recovery of the costs associated with 2028 or 2029 solar and battery  
13 facilities in this case. It only seeks to establish the applicable framework that would  
14 govern a future limited proceeding. The Commission will retain the same oversight it  
15 has exercised under SoBRAs of the past.

16

17

18

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21

22

Although FPL witness Whitley has identified a need and cost-effective resource  
selection in those years, the SoBRA mechanism requires FPL to refresh both its  
resource and its economic analyses and demonstrate in a separate proceeding that  
selected resources would be necessary to meet a need or that the selected resources  
would reduce overall system costs for customers. The results of the resource plan  
presented in this proceeding are not binding or pre-approved.

1 **Q. OPC witness Schultz asserts that the SoBRA should be denied because it depends**  
2 **on solar and battery tax credits that could be cancelled by the current**  
3 **administration. Does the SoBRA mechanism account for this possibility?**

4 A. Yes. The updated economic analyses required under the SoBRA mechanism must  
5 incorporate the tax laws that would be in effect at that time.

6 **Q. OPC witnesses Schultz and Dauphinais and FRF witness Georgis assert that the**  
7 **SoBRA should be denied because FPL may not need to construct solar projects in**  
8 **2028 or 2029. Does the SoBRA mechanism account for this possibility?**

9 A. Yes, the SoBRA addresses this possibility as well. As described above and in my  
10 Exhibit SRB-7, FPL bears the burden of demonstrating either a resource need or an  
11 economic need. If FPL's updated analysis fails to demonstrate a resource need, the  
12 Company must demonstrate that adding the resources would reduce customer costs  
13 (i.e., an "economic need") based on then-current assumptions including tax laws.  
14 Under the mechanism, if neither showing is made no SoBRA could be approved.

15 **Q. Please respond to OPC witness Schultz's statement that the SoBRA provides FPL**  
16 **"automatic recovery of costs without the ability for consumer advocates to**  
17 **properly evaluate the need for adding solar facilities."**

18 A. Nothing could be further from the truth. The cost-recovery procedure under the  
19 SoBRA is well-established and far from automatic. The Commission, consumer  
20 advocates and any other party with standing may participate in the SoBRA proceeding  
21 and would be permitted to probe FPL's analyses and take positions on whether FPL  
22 demonstrated a resource or economic need.



1                                    **IX. STORM COST RECOVERY MECHANISM**

2    **Q. Does any intervenor witness oppose the approval of the Storm Cost recovery**  
3    **Mechanism proposed by FPL?**

4    A. Not in principle. No intervenor recommends against allowing FPL to continue the  
5    storm cost recovery mechanism, which is modeled after the mechanism contained in  
6    each of its last four settlement agreements and has worked well for customers. In fact,  
7    OPC witness Schultz states that “the current framework can work well and should be  
8    continued.” However, he recommends that the Commission reject FPL’s request to  
9    increase the storm reserve component of the mechanism from \$220 million to  
10    \$300 million, stating that the current level, which is actually set at \$150 million, is  
11    adequate and that other jurisdictions do not have a similar mechanism.

12   **Q. Please respond to Mr. Schultz’s claim that the existing reserve component of the**  
13   **Storm Cost Recovery Mechanism is adequate.**

14   A. OPC witness Schultz ignores the importance of having ready access to funds in the  
15   immediate wake of a storm. Neither Mr. Schultz nor any other intervenor denied FPL’s  
16   recent storm loss history or Florida’s unique exposure to hurricane risk. As I detailed  
17   in my direct testimony, FPL faces more hurricane risk than any other utility in the  
18   country, and our service area includes major metropolitan areas at the tip of the Florida  
19   peninsula that are highly susceptible to severe weather events.

20  
21   Over the last four-years, FPL has experienced two hurricane seasons that have each  
22   caused greater than \$1 billion in storm restoration costs, well beyond the current level  
23   of the storm reserve. This history demonstrates that FPL’s request for a \$300 million

1 reserve is reasonable, yet likely still not adequate in comparison to FPL's storm  
2 exposure.

3 **Q. Please respond to OPC witness Schultz's statement that other jurisdictions do not**  
4 **have a similar storm cost recovery mechanism.**

5 A. Mr. Schultz's purported rationale is unhelpful and vague. It fails to provide a proper  
6 basis of comparison to the unnamed jurisdictions or utilities to which he generally  
7 refers. He makes no showing that the Commissions in other jurisdictions have  
8 considered instituting a similar mechanism. Nor does he demonstrate that the other  
9 utilities he references have experienced storm damage events similar to those impacting  
10 the FPL service area, let alone that they were able to achieve similar restoration results  
11 with no liquidity concerns or consequences. He simply offers nothing that will help  
12 the Commission evaluate the reasonableness of FPL's request for a \$300 million storm  
13 reserve.

14 **Q. Does the Storm Cost Recovery Mechanism proposed by FPL in this petition**  
15 **reduce the Company's risk related to storm cost recovery as suggested by FEA**  
16 **witness Walters?**

17 A. No. FPL has greater risk exposure to tropical storms and hurricanes than any other  
18 company in the country. The Mechanism does provide interim cash flow to the  
19 Company; however, FPL retains greater relative risk than other utilities despite this  
20 temporary liquidity measure. To be clear, the Storm Cost Recovery Mechanism  
21 provides interim cash flow for the Company following a restoration event that is capped  
22 as to amount and duration of recovery. The Company still must finance the total  
23 restoration effort and still bears all the prudence risk when the restoration costs are

1 reviewed many months after the restoration is complete. Further, neither the Storm Cost  
2 Recovery Mechanism nor the Commission's Storm Rule 25-6.0143, F.A.C., provide  
3 any recovery of revenues lost during the restoration event.

4

5 **X. CUSTOMER IMPACTS**

6 **Q. OPC witness Colton, Walmart witness Perry, and FEL witness Rábago suggest**  
7 **that the Commission should account for affordability impacts due to inflation**  
8 **when considering FPL's rate request. How does your proposal address customer**  
9 **affordability concerns?**

10 A. We recognize that customers have faced challenges due to inflation, which is precisely  
11 why FPL has worked diligently to improve operational efficiencies and minimize rate  
12 impacts. In this regard, FPL's 2021 Settlement illustrates that multi-year plans provide  
13 value for customers. Customers were not faced with general base rate increases during  
14 2024 or 2025, even though FPL had also been subject to the same inflationary pressures  
15 affecting our customers. As detailed in my direct testimony, during the current  
16 settlement period, FPL experienced significant cost increases in materials, labor, and  
17 equipment that exceeded our forecasts. The Company's strong financial position in  
18 concert with the flexibility of the RSAM enabled us to absorb these impacts while  
19 continuing to provide reliable service without seeking additional rate relief.

20

21 Our proposed Four-Year Plan is designed to continue this approach, providing rate  
22 stability over an extended period while supporting the investments necessary to  
23 maintain our high service standards. FPL's bills remain well below the national

1 average, demonstrating our commitment to affordability even while making necessary  
2 investments in our system.

3

4 Moreover, based on her review, FPL witness Powers concludes that customer bills will  
5 remain affordable by objective standards.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

1 BY MS. MONCADA:

2 Q And, Mr. Bores, you have one Exhibit, SRB-9,  
3 to your rebuttal testimony, is that correct?

4 A Yes.

5 Q And was that prepared under your direction or  
6 supervision?

7 A Yes, it was.

8 MS. MONCADA: Mr. Chairman, I would note that  
9 Mr. Bores' SRB-9 is identified on staff's list as  
10 Exhibit 334.

11 CHAIRMAN LA ROSA: Okay.

12 BY MS. MONCADA:

13 Q Mr. Bores, would you please provide a brief  
14 summary of the topics addressed in your rebuttal  
15 testimony to the Commission?

16 A Certainly.

17 Good afternoon, Commissioners. My rebuttal  
18 testimony refutes the arguments made by intervenors who  
19 challenge FPL's four-year plan and the mechanisms that  
20 make it possible.

21 Intervenor witnesses have engaged in a  
22 speculative exercise of cost of capital minimalization  
23 through overgeneralization and arbitrary reductions in  
24 equity ratio and ROE. Most notably, the intervenor  
25 witnesses ignore the results FPL has produced for its

1 customers and resort to comparing FPL to average  
2 utilities.

3 By contrast, FPL's multiyear rate plans have  
4 allowed FPL to deliver much lower than average customer  
5 bills, and significantly higher than average  
6 reliability. Approval of FPL's four-year rate plan will  
7 allow the company to continue delivering this value for  
8 customers.

9 **Q Thank you, Mr. Bores.**

10 MS. MONCADA: Mr. Chair, Mr. Bores is  
11 available for cross.

12 CHAIRMAN LA ROSA: Great. Thank you.

13 OPC, you are recognized.

14 MS. CHRISTENSEN: Thank you.

15 EXAMINATION

16 BY MS. CHRISTENSEN:

17 **Q Good afternoon, Mr. Bores.**

18 A Good afternoon.

19 **Q And you said that you had filed your rebuttal  
20 testimony -- this is the rebuttal testimony from July  
21 9th, 2025, correct?**

22 A Yes. That is correct.

23 **Q Okay. And in your rebuttal testimony, you  
24 cover the multiyear plan, capital structure, ROE, risk  
25 profile, tax adjustment mechanism, solar and battery**

1 **base rate adjustments and the storm cost recovery**  
2 **mechanism, correct?**

3 A Amongst a few other items, yes.

4 Q Okay. On page four of your rebuttal  
5 testimony, you start your discussion regarding the  
6 four-year plan, correct?

7 A Yes.

8 Q And on line eight of page four, you say the  
9 multiyear plan has benefits for customers, do you see  
10 that?

11 A Has benefited customers, yes.

12 Q Okay. And when you say customers have  
13 benefited, you mean the four-year settlement plans have  
14 allowed FPL to focus on business and operational  
15 efficiencies and provide rate stability, correct?

16 A Yes, amongst other things. I think we have  
17 also been able to support all of the new customer growth  
18 we have had, maintain our best-in-class reliability and  
19 touch on the efficiencies that Ms. Christensen alluded  
20 to.

21 Q And when you refer to rate stability, you do  
22 not mean that there will be no rate increases during the  
23 four years, correct?

24 A That's correct. Essentially giving customers  
25 a glide path over the four-year period of what their

1 bills are going to look like. In this case, it's  
2 roughly a 2.5 percent compound annual growth rate over  
3 the four-year term we are proposing.

4 **Q Okay. And on page five, lines six through**  
5 **seven of your rebuttal testimony, you say that FPL's**  
6 **multiyear commitment, including limited cash increases,**  
7 **is not possible without the noncash mechanism like the**  
8 **TAM; do you see that?**

9 A I do.

10 **Q And when you use the word commitment here,**  
11 **this multiyear commitment is contingent upon FPL**  
12 **receiving everything in its as-filed request, correct?**

13 A Yes. We put forth a very carefully crafted  
14 plan of elements that we view are essential to allowing  
15 us to make that four-year commitment.

16 **Q And the limited cash rate increases you are**  
17 **referring to here are the '28 and the '29 SoBRAs,**  
18 **correct?**

19 A That is correct.

20 **Q And these limited cash rate increases do not**  
21 **include the annual fuel and storm protection plan rate**  
22 **increases that customers will also receive?**

23 A No, this is talking about purely the base rate  
24 increases. But in the bill projections we have provided  
25 that result in the two-and-a-half percent compound



1 annual growth rate, we are looking at what does the  
2 forward fuel curve look like. What is our plan  
3 investment in storm protection plan clause? So we put  
4 forth, as I think Ms. Cohen alluded to, the best  
5 projection of what the bills will look like over the  
6 next four-year period encompassing the clauses.

7 **Q On page five, line 13, you also say you have a**  
8 **significantly higher than average liability, correct?**

9 A Correct.

10 **Q And you would acknowledge that FPL's**  
11 **reliability has significantly improved since the**  
12 **implementation of the storm protection plan cost**  
13 **recovery mechanism, right?**

14 A That's probably a much better question for  
15 Mr. Jarro.

16 **Q But you would have no reason to dispute that,**  
17 **would you?**

18 A Again, I don't know exactly when it started.  
19 I think our reliability started improving before the  
20 storm protection plan clause went into effect in, I  
21 believe, the 2020-2021 timeframe. But, again, a better  
22 question for Mr. Jarro who has and supports that data.

23 **Q And the reliability would have improved**  
24 **because the Commission has had storm hardening programs,**  
25 **or required storm hardening programs for FPL and all the**

1 **electric IOUs over the last 20 years, correct?**

2 A Yeah, I think it really goes back to 2004-2005  
3 hurricane seasons, when coming out of those bad storms,  
4 FPL realized that something had to change, and that's  
5 where we started hardening program, first focusing on  
6 the transmission, the key backbone of the system, and  
7 then moved to more feeder hardening, and they are now  
8 working into the next phase, the lateral undergrounding.

9 Q Okay. And also on page five, lines six  
10 through nine, when you say that the four-year plan is  
11 not possible without the TAM, isn't it true that you are  
12 saying your commitment is contingent on getting that  
13 TAM?

14 A Yes, that is one of the key elements of our  
15 four-year proposal. Without the TAM, we cannot make  
16 that four-year commitment.

17 Q And FPL's commitment to the four-year plan is  
18 also contingent on FPL getting the 11.9 percent ROE with  
19 your requested 59.6 equity ratio?

20 A Yes. Again, that is one of the elements of  
21 the plan.

22 Q And if there are any of your requested items  
23 such as SoBRA, the storm cost recovery mechanism,  
24 additional solar and battery additions that the  
25 Commission does not grant or reduces an amount, would

1 **FPL unilaterally determine -- or would FPL have to**  
2 **unilaterally determine if it was still committed to**  
3 **staying out for the four-year period?**

4 A Yes, I think, ultimately, that's what would  
5 have to happen. If one of those elements was changed,  
6 or multiple of those elements was changed, we would have  
7 to step back and assess whether we could still honor  
8 that commitment depending on the facts and circumstances  
9 of that final order.

10 **Q And isn't it true that irrespective of FPL's**  
11 **commitment to the four-year period, so long as FPL was**  
12 **earning within its authorized range during the four-year**  
13 **timeframe, FPL is not allowed to come in and seek a base**  
14 **rate change?**

15 A I do agree with that. Yes.

16 **Q Okay. And if FPL is earning within its**  
17 **authorized range for a fifth year, FPL could not come in**  
18 **and seek a base rate change, could it?**

19 A Yes. I want to be clear, though. In Florida,  
20 we use a projected test year. So it's really going to  
21 be dependent on what does that forecast show. Just like  
22 we are sitting here today, FPL is still within its  
23 authorized range in 2025, but our forecast shows that we  
24 fall outside of that range in 2026, and that's why we  
25 are seeking new rates at that point in time.

1           Q     And if FPL earns below the authorized range at  
2 any point during the four-year period of the proposed  
3 plan, FPL, under the Commission's established practice,  
4 would be allowed to come in and seek a base rate change,  
5 correct?

6           A     Yes. I agree with that.

7           Q     Looking at page seven of your testimony, lines  
8 seven through 15, you criticize OPC Witness Schultz's  
9 point that the four-year plan has no value unless FPL  
10 can show it would be underearning in 2028 and '29,  
11 correct?

12          A     Yes.

13          Q     And you claim that even if the '26 and '27  
14 revenue requirement request is granted, FPL will fall  
15 out of the range. But isn't it true this shortfall does  
16 not take into account potential new revenue from high  
17 use hyperscalers, correct?

18          A     No, it does not. But I think as has been  
19 talked about numerous other witnesses this week, we do  
20 not have any hyperscalers who have signed any contracts,  
21 accepted any engineering studies at this point in time.  
22 So that is very speculative.

23                   I think it's also important to note that to  
24 serve hyperscalers, we need to build new generation.  
25 And, yes, there is an incremental generation with that.

1 But that incremental generation charge is levelized over  
2 the 20-year term of the contract. So if you think about  
3 an investment and the declining revenue requirement  
4 associated with that, there is going being to be a  
5 shortfall early on from what we collect from these  
6 hyperscalers in revenue in terms of the revenue  
7 requirement versus what they are paying.

8 So they are not going to be giving us this  
9 windfall of money just because they came on our system.  
10 We are actually going to be a little short in the first  
11 few years associated with that.

12 **Q Well, let me ask you this: On page four, you**  
13 **claim that in the past four years, stay-outs have**  
14 **effectively -- efficiency -- excuse me -- and**  
15 **effectively served to protect customers and the company,**  
16 **and this instant proposal was not any different,**  
17 **correct?**

18 A Yes, I agree with that. I think it's  
19 important to note there is a lot of investments make  
20 that are CPVRR beneficial or neutral to the general body  
21 over their term. It's just the timing of when you  
22 collect revenues on a declining revenue requirement  
23 basis versus charging a charge on a levelized basis.

24 As Ms. Cohen talked about, our IGC, our  
25 incremental generation charge for these hyperscalers,

1 they are required to pay 100 percent of that, and post  
2 100 percent collateral associated with that. So the  
3 general body is protected when data centers come up.

4 Q Okay. And let me ask you this: On page  
5 eight, lines seven and eight, you talk about, as a  
6 matter of regulatory policy, the Commission should  
7 consider FPL's four-year plan to be good for customers  
8 and in the public interest, correct?

9 A Yes.

10 Q And the proposal in the as-filed case is not a  
11 product of a settlement agreement, right?

12 A I am sorry, can you rephrase that we question,  
13 please?

14 Q Certainly.

15 The proposal that you put forth as part of  
16 your as-filed case, that was not the product of a  
17 settlement agreement, was it?

18 A No.

19 Q Okay. And the standard to for the Commission  
20 to review whether a settlement, when taken -- the  
21 standard for review of a settlement is whether a  
22 settlement, when taken as a whole, is in the public  
23 interest is not applicable to the as-filed case, is it?

24 MS. MONCADA: Objection to the extent calls  
25 for a legal conclusion and the interpretation of

1 Chapter 366.

2 MS. CHRISTENSEN: To the extent that he knows  
3 or is aware? I would ask if he knows that the  
4 standard is different for a settlement agreement as  
5 different from a filed case?

6 CHAIRMAN LA ROSA: Can you restate question?

7 MS. CHRISTENSEN: Certainly.

8 BY MS. CHRISTENSEN:

9 Q So you would agree, to your knowledge, the  
10 standard for the Commission's review on a filed  
11 settlement is whether, when taken as a whole, that  
12 settlement is in the public interest, correct?

13 A With my limited knowledge, yes, for a  
14 settlement.

15 Q Okay. And in the as-filed case, that's not  
16 the standard that the Commission applies, correct?

17 A That I do not know.

18 Q Okay. The prior four-year plans were a part  
19 of settlement agreements, correct?

20 A Yes, I believe that's correct.

21 Q And FPL was not allowed to come in for new  
22 rates by operation of the settlement unless it was  
23 earning below the bottom of the range, correct?

24 A That is correct.

25 Q And FPL was prohibited from seeking base rate

1 **changes under the settlement agreements with few**  
2 **exceptions, and FPL was not allowed to seek additional**  
3 **base rate cost recovery for costs traditionally and**  
4 **historically recovered in base rates, correct?**

5 A That was a lot of, so I am going to try and  
6 make sure I -- yes, we were not allowed, other than the  
7 SoBRAs, there were no allowed changes to base rates, if  
8 I understood the question correctly.

9 Q And I think you did.

10 And your commitment in this case does not  
11 contractually limit the circumstances under which FPL  
12 can seek a base rate case change, correct?

13 A I am going to say, yes, explicitly, but I  
14 think inexplicitly, I think that would be the same  
15 construct.

16 We understand that if the Commission awards  
17 everything we have asked for as part of this four-year  
18 proposal, we are not going to come in and seek changes  
19 to base rates for things that are normally or currently  
20 not recovered through base rates.

21 Q Okay. And on pages eight and nine of your  
22 testimony, you talk about pancaking or annual rate  
23 cases, correct?

24 A I am sorry, can you just point me to the  
25 lines, please?



1 Q If you look at page eight, lines five and six.

2 A Yes.

3 Q You are not aware of any time since 2011 that  
4 FPL has had annual or pancaking rate cases, are you?

5 A No, I think because we have been under  
6 settlement agreements that have had multiyear rate  
7 plans, and we have shown the benefits of those type of  
8 plans over a period of time.

9 Q And when you talk about having annual base  
10 rate cases, you are not claiming that FPL can not manage  
11 its costs to stay within its authorized range for longer  
12 than two years, assuming no extraordinary costs given  
13 all the clause revenue, are you?

14 MS. MONCADA: Can I just ask, Ms. Christensen,  
15 if you could break that down just a little bit? It  
16 was a little long.

17 BY MS. CHRISTENSEN:

18 Q Do you need me to break that down for you?

19 A Yes, I was going to ask the same thing.

20 Q When you talk about the annual base rate  
21 cases, and having to have annual base rate cases if this  
22 doesn't -- if this as-filed plan did not get approved, I  
23 just want to make sure, that's not based on a claim that  
24 you can't manage your business to stay within the  
25 authorized range for a period of longer than two years,

1 **can you?**

2 A No I think as I talked about when I was up  
3 here last week, Commissioners, when we are doing rate  
4 cases, it's a big distraction for the company, and it  
5 takes away from the amount of time we have to focus on  
6 running the business and finding efficiencies when we  
7 are constantly writing testimony, responding to  
8 discovery, preparing for the case, and so it just makes  
9 it harder to operate the business when you are  
10 constantly doing rate cases versus when you have a  
11 four-year period to step back and really focus on the  
12 business and finding efficiencies.

13 **Q Okay. And nothing -- if you didn't have a**  
14 **four-year settlement plan, there is nothing that stops**  
15 **FPL from continuing to seek efficiencies and trying to**  
16 **maintain its costs within its authorized range, is**  
17 **there?**

18 A No. Absolutely not. I think, as I said, it's  
19 just harder and a bigger distraction to run the business  
20 when you have to prepare and go through a rate case on a  
21 more regular basis.

22 **Q Okay. And you would agree that rate case test**  
23 **years are supposed to be representative of costs going**  
24 **forward?**

25 A I do agree with that, yes.

1           Q     And you would also agree that FPL chooses its  
2 test periods to be representative of rates going  
3 forward, correct?

4           A     Yes.

5           Q     Now, on page five of your testimony, line 22,  
6 you talk about if intervenors' recommendations were  
7 accepted, rating agencies would simply react swiftly  
8 with the results lasting many years, and investors would  
9 redirect their capital towards more constructive  
10 opportunities, correct?

11          A     Yes.

12          Q     Other than the example of when FPL was  
13 downgraded one credit level after the 2010 case, do you  
14 have any other evidence that investors would redirect  
15 their capital?

16          A     No, but I think 2009-2010 serves as a great  
17 example of the consequences what could happen if we  
18 adopted those intervenor recommendations, the rating  
19 agencies would react swiftly, just like they did in  
20 2009, and not only downgrade our long-term debt, but I  
21 think the more important point is downgrading our  
22 commercial paper status where we almost can't access the  
23 market. Yes, investors would absolutely direct their  
24 capital elsewhere, and be a little concerned with what's  
25 happening with the regulatory environment in Florida.

1           **Q**     And I just want to clarify. I don't believe  
2     you say anywhere in your testimony that FPL, even after  
3     2010, was unable to access short-term capital, correct?

4           A     I did in my direct testimony, I did talk about  
5     the commercial paper and inability to access, or have  
6     trouble accessing those markets.

7           **Q**     Right. But you weren't able to not access it,  
8     correct?

9           A     Not to my knowledge.

10          **Q**     Okay. And you are not saying that if the  
11     Commission does not grant the majority your request,  
12     investors will move to less regulatory constructive  
13     states with their capital, are you?

14          A     I don't know, and I don't want to necessarily  
15     say that it's other states. There is a lot of other  
16     opportunities to invest in outside of regulated utility  
17     space.

18          **Q**     Okay. On page 10, looking at line 18 of your  
19     testimony, you claim that investor witnesses make an  
20     error when they presume that one can isolate and reduce  
21     capital structure or ROE without the judgment of FPL's  
22     overall delivery of customer value. Do you see that?

23          A     Can you just point me to the line so I am  
24     reading that the same way?

25          **Q**     It starts, I believe, at 16 and goes down to

1 18, maybe 19. Do you see that?

2 A I do, but you used the word error, and I don't  
3 see that in my testimony anywhere.

4 Q Is it a fairly accurate summation of what you  
5 are testifying to here?

6 A Yeah, I think I said it's a fundamental flaw.

7 Q And on page 12, lines four through five, you  
8 reference the credit downgrade after the 2010 rate case  
9 where FPL went from an A to an A-, correct?

10 A Correct.

11 Q And that 2010 rate case was right after the  
12 2008 Great Recession, correct?

13 A I believe it was -- it came on the heels of  
14 the Great Recession, yes.

15 Q Okay. And on page 12, line 15 through 16, you  
16 say that the intervenors failed to consider that their  
17 to for industry average equity ratio and industry  
18 average ROEs would likely lead to industry average  
19 levels of performance. Do you see that?

20 A I do.

21 Q You are not claiming that if FPL was awarded  
22 an ROE that was more in line with awarded ROEs in the  
23 country that FPL would allow its service to decline even  
24 with the clause in the SPP revenue?

25 A Well, I think the clause is a vastly different

1 thing than what we are talking about here in a base rate  
2 increase.

3 I think having an average equity ratio and an  
4 averages ROE would impact our ability to attract  
5 capital. And if we are not able to attract sufficient  
6 capital. We are going to have trouble making those  
7 discretionary investments. We might not be able to  
8 maintain the level of reliability we have today. We are  
9 going to have to support the growth, those things that  
10 we need to do, maintaining our generating plants. We  
11 are not going to be able to have capital to potentially  
12 find the efficiencies or invest in the technology in the  
13 business that has allowed us to bring more value to our  
14 customers.

15 I think that's the concern I have of having an  
16 average equity ratio and an average ROE, it may push us  
17 more to average as we are not able to attract sufficient  
18 capital.

19 **Q So am I understanding your answer to the**  
20 **question is, yes, you would allow your service to**  
21 **decline?**

22 A I didn't say that. I said no, but there are  
23 unintended consequences of not being able to attract  
24 capital, and that could be one of the unintended  
25 consequences, is not having the sufficient capital to

1 make the necessary investments to maintain our service  
2 at the level it is today.

3 **Q Okay. And looking at page 13, table 1, you**  
4 **are attempting to make a high level correlation between**  
5 **the ten-year treasury and FPL's awarded ROEs, correct?**

6 **A Yes.** I am simply stating a fact that when our  
7 ten-year -- when the ten-year treasury has been above  
8 four percent, we have had an ROE in the 11 percent  
9 range.

10 **Q And can I ask to have you look at Mr. Coyne's**  
11 **JMC-21? I think that's D5-350?**

12 **Okay. And this exhibit from Mr. Coyne, this**  
13 **has a column that shows, I believe, the 30-year**  
14 **treasuries since 1986 through, I believe, 2025. One**  
15 **second. Yes, 2025. Do you see that?**

16 **A I do.**

17 **Q Okay. And if you look at line 14 of this**  
18 **analysis, for the year 1999, do you see the authorized**  
19 **awarded ROE for electric utilities is 10.77 percent, and**  
20 **the 30-year treasury bond is 5.87 percent?**

21 **A I do, but I also see in the next year, it's**  
22 **11.43 percent with a 5.94 percent treasury.**

23 **Q And if you go down to line point -- or line**  
24 **15, for the year 2000, do you see the authorized awarded**  
25 **for electric utilities, I think you just mentioned, was**

1 11.43 percent with the U.S. Treasury Bond at 5.94  
2 percent?

3 A Yes.

4 Q Okay. And then if you go down further to line  
5 20, for the year 2005, do you see the awarded -- the  
6 authorized awarded ROE for electric utilities is 10.54  
7 percent with a U.S. Treasury Bond is 4.65 percent?

8 A Yes.

9 Q And if you go do you a little bit further at  
10 line 23 for the year 20 -- 2008, do you see an  
11 authorized awarded ROE for electric utilities of 10.37,  
12 and a 30-year treasury bond is 4.28 percent?

13 A Yes.

14 Q And again, you can see that in line 27 for the  
15 year 2012, the authorized ROE for electric utilities was  
16 10.02 percent, and the 30-year treasury bond was 2.92  
17 percent?

18 A Is that a question? Sorry.

19 Q Do you see that information there?

20 A I do.

21 Q And if you go -- well, let me take you to the  
22 latest year that you had a rate case. If you look at  
23 line 36 for the year 2021, do you see the authorized ROE  
24 for electric utility was 9.39 percent, and the 30-year  
25 treasury bond was 3.12 percent, do you see that?



1           A       Yes. I think my takeaway from this exercise  
2 is that utility commissioners are quick to react as  
3 rates go down, or as the 30-year declines, but as it  
4 starts to come back up, they are slow to react and  
5 increase the ROEs to match the 30-year treasury.

6           **Q       I am not sure I could agree with that. It**  
7 **looks like they were slow to bring down the ROEs over**  
8 **that 20-year period when U.S. Treasury dropped by more**  
9 **than 200 percent, the ROE only declined by 150 basis**  
10 **points. So let me take you to --**

11           MS. MONCADA: I'm sorry, I am going to move to  
12 strike that. That was not a question for the  
13 witness. That was just Ms. Christensen's  
14 commentary.

15           CHAIRMAN LA ROSA: Before you --

16           MS. CHRISTENSEN: Well, let me ask you this --

17           CHAIRMAN LA ROSA: Hold on, before you  
18 proceed. I want to go to my Advisor.

19           MS. CIBULA: I agree, she was testifying.

20           MS. CHRISTENSEN: Well, then I will ask it as  
21 a question.

22 BY MS. CHRISTENSEN:

23           **Q       Did do you see over the last 20 years that the**  
24 **ROE awarded by the commissions appear to come down by a**  
25 **150 basis points, whereas, the U.S. Treasury over that**

1 **20-year period came down by approximately 200 basis**  
2 **points?**

3 A Yes. I don't think you can make that type of  
4 correlation that the 30-year treasury moves in sync or  
5 one-to-one ratio with the ROE. Making that same  
6 argument today would say, from our last rate case with  
7 the 30-year treasury was 1.6 to it being close to, let's  
8 call it 4.6 today, our ROE should be 300 basis points  
9 higher than with what it was back in the 2021 rate case.  
10 It's not a logical argument that holds water.

11 **Q Okay. So you would agree that ROEs and US**  
12 **treasuries do not have a one-to-one correlation, nor to**  
13 **they move with the same volatility, correct?**

14 A I don't know if I would say same volatility or  
15 relative percentage, but I think, yes, there is some  
16 correlation. If the 30-year treasury is moving higher,  
17 you would expect ROEs to move higher. As we talked  
18 about with the risk-free rate, which the 30-year  
19 treasury represents, if that moves higher, and investors  
20 can get a risk-free return at a higher rate, they are  
21 going to expect the return on the equity to be higher  
22 for the risk they are undertaking in that investment.

23 **Q I thought we had agreed that the -- that there**  
24 **wasn't a one-to-one correlation between ROE and U.S.**  
25 **Treasuries, and that ROEs are less volatile than the**

1 **U.S. Treasuries?**

2 A So that's probably a better question for Mr.  
3 Coyne on the volatility. There is a correlation, just  
4 not a, I would say, one-to-one correlation.

5 Q Okay. And you would agree that FPL has been  
6 awarded ROEs that are well above the national average  
7 even when the U.S. Treasury yields have come down  
8 significantly?

9 A Again, I defer to Mr. Coyne on kind of that  
10 benchmarking. I have not done any of that.

11 Q Currently, the ten-year treasury and the  
12 30-year treasury are about the same, correct?

13 A Currently, no, I do not agree with that. I  
14 think as of this morning, the ten-year was about 4.05  
15 percent, and the 30-year was above 4.6 percent.

16 Q Okay. On line 40, do you see that JMC --  
17 well, on that exhibit for Mr. Coyne, do you see the 2025  
18 authorized electric ROEs are 9.72 percent with a 30-year  
19 treasury at 4.71 percent?

20 A I do.

21 Q Would you agree that mathematically,  
22 intervenors' ROEs are significantly closer to the  
23 authorized electric average for 2025?

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

1           **Q**     Okay. Let's turn to page 14 of your rebuttal  
2 testimony, line 16.

3                   Now, when you say the core -- when you say the  
4 core approach is maintaining a stronger an average  
5 financial position to account for the company's above  
6 average risk position, when you say that stronger an  
7 average, do you mean you want the Commission to grant  
8 you a financial advantage over the other electric  
9 utilities by giving you one of the highest awarded ROEs  
10 in the country based on your 59.6 percent equity ratio?

11           **A**     No, that's not what we are asking for. As we  
12 talked about last week, we have had a 59.6 equity ratio  
13 for roughly 25 years. That is a direct result of our  
14 stronger than average risk profile. Whether you look at  
15 our capital -- significant capital investment plan, our  
16 physical infrastructure, the miles and miles of storm  
17 coastline, the nuclear fleet we operate, the regulatory  
18 and political risk environment we operate in, and even  
19 the concentration risk, with being a single state  
20 utility on a peninsula, that's what dictates our  
21 stronger than average equity ratio to allow is to manage  
22 those risks, whether it's higher natural gas prices,  
23 hurricanes, all the things we did over the last four  
24 careers to mitigate those impacts for our customers.

25           **Q**     Do you see on page 15, lines five through 15,

1 the list of horrors you claim would happen if FPL does  
2 not get everything it asked for, including immediate  
3 negative reaction from investors, rating agencies and  
4 equity investors as regulatory risk would be radically  
5 increased?

6 A I am sorry, what was that last piece?

7 Q Excuse me. Did you -- can you see on page 15,  
8 lines five through 15, there is a list of horrible  
9 consequences that would -- you claim will happen if FPL  
10 does not get everything it asks for, including immediate  
11 negative reaction from investors, rating agencies and  
12 equity investors, as regulatory risk would be radically  
13 increased, is that a correct summation of the intentions  
14 of lines five through 15?

15 A Yes, it's to lay out what we think could  
16 happen if the intervenors recommendations were adopted.

17 Q Other than after the 2008 case, FPL has not  
18 received a downgrade when it's not gotten everything it  
19 requested in a rate case, correct?

20 A Yes, I agree with that, but I don't want to  
21 dismiss the 2008 case, given the ramifications of  
22 happened with that order and that decision. I think,  
23 ultimately, after 2008, all of those decision have been  
24 through settlement agreements, which there is a give and  
25 take and a compromise that results in a balanced outcome

1 for all parties.

2 **Q And since 2000, to your knowledge, FPL has**  
3 **been able to attract capital even when it did not get**  
4 **everything it requested in a rate case, correct?**

5 A I am sorry, you said --

6 MS. MONCADA: I am going to object. She's  
7 characterized it this way a few times. I am going  
8 to say, the language in his testimony speaks for  
9 itself. It doesn't say this is what's going to  
10 happen if FPL doesn't it get everything it asked  
11 for. It says, this is -- these are the  
12 consequences of implementing the intervenors'  
13 recommendations. So if she phrases it that way, I  
14 think we can continue.

15 CHAIRMAN LA ROSA: Is it possible to rephrase  
16 the question that way?

17 MS. CHRISTENSEN: I could, but that would not  
18 be my question. I mean, my question is asking him  
19 whether or not FPL, to his knowledge, since 2000,  
20 has been unable to attract capital even if it did  
21 not get everything it requested in a rate case,  
22 which I think is a fair question given his  
23 characterization that they won't be able it attract  
24 capital if they don't get everything they have  
25 requested.

1           CHAIRMAN LA ROSA: Before the question is  
2 answered, would that objection be renewed if that  
3 was the question asked?

4           MS. MONCADA: Yes. The testimony says, these  
5 are the consequences of implementing the  
6 intervenors' recommendations. I think --

7           MS. CHRISTENSEN: And I am allowed to test the  
8 validity of the statements he makes in his  
9 testimony. I don't have to just ask him is  
10 everything you said here what you said here,  
11 otherwise it's not cross.

12           CHAIRMAN LA ROSA: I am going to go to my  
13 Advisors on this.

14           MS. CIBULA: I guess the witness can say  
15 whether he knows or not, so that's what I would  
16 suggest.

17           CHAIRMAN LA ROSA: Okay. If the witness can  
18 answer the question.

19           THE WITNESS: So I think as I mentioned  
20 previously, I have been at the company since 2011,  
21 so I will opine, since that point in time, we have  
22 been under multiyear settlement agreements from  
23 2012 all the way through 2025. We have been able  
24 to attract capital, but I think that's because of  
25 the benefit of the multiyear settlement agreements

1 and our investors understanding the benefits that  
2 it brings to customers and to the investors at the  
3 end of day.

4 BY MS. CHRISTENSEN:

5 **Q Okay. In discussing the last several**  
6 **settlements, FPL has agreed to less than what it**  
7 **requested in the as-filed cases, did they not?**

8 A Yes. Again, that was a compromise between the  
9 parties, not just simply adopting the intervenors'  
10 positions that were much more dire than where we  
11 ultimately settled and compromised in that process.

12 **Q And as a result of these settlements, FPL has**  
13 **not had problems getting financing, correct?**

14 A No, I think I said we did not have problem  
15 attracting capital.

16 **Q Okay. And on page 17 of your testimony,**  
17 **looking at line 11, you talk about Mr. Lawton's**  
18 **questioning of how much credit quality can customers**  
19 **afford and have reasonable rates, correct?**

20 A Yes.

21 **Q And instead of meaningfully attempting to**  
22 **answer this he request, you claim that calculating Mr.**  
23 **Lawton's elusive theoretical figure not only presumes a**  
24 **company can pinpoint how close it can approach financial**  
25 **distress without crossing the wire, but it also**



1 **improperly assumes there would be no consequences to**  
2 **operating on the brink. Do you see your testimony**  
3 **there?**

4 A I don't think it says those exact words, but,  
5 yes, generally.

6 Q So from this response, can we infer that FPL  
7 did not even try to make such a determination of the  
8 lowest cost capital FPL could have without placing its  
9 service to customers at risk?

10 A I think if there were a simple mathematical  
11 equation, FPL would have already found that. And we  
12 strive every day to provide our customers the best  
13 possible service at the lowest possible cost.

14 There are a lot of unknowns. If we go back in  
15 time, whether it's the Great Recession, the COVID  
16 pandemic, or even this last settlement period, there was  
17 no forecast that predicted fuel prices were going to  
18 increase to the level they did and cause a \$2 billion  
19 under-recovery. We did not recognize or forecast that  
20 we were going to have significant hurricanes over \$1  
21 billion to restore. That is why we asked for the strong  
22 financial position and the financial strength to be able  
23 to absorb those and continue subsume normal operations,  
24 pay our vendors, pay our fuel bill, pay our storm  
25 restoration specialists who come to help us and maintain

1 this whole value proposition for customers.

2 **Q Yeah, and I think you would agree that the**  
3 **customers of FPL also have to face those similar**  
4 **challenges during those trying economic times, correct?**

5 **A Absolutely. And we are very sympathetic to**  
6 **that. And again, that is why we crafted this plan, this**  
7 **four-year plan, very carefully, taking into account the**  
8 **bill impacts over that period of time to ensure they are**  
9 **below the rate of inflation.**

10 **Q And on page 18, you talk about Mr. Lawton's**  
11 **reference to water and wastewater leverage formula**  
12 **order, do you see that?**

13 **A I do.**

14 **Q And you would agree that the water and**  
15 **wastewater utilities generally have greater business and**  
16 **financial risk than a larger electric utility, correct?**

17 **A I think, as we talked about in the**  
18 **depositions, I don't follow that industry and know next**  
19 **to nothing about it.**

20 **Q On page 20, line 14, when you talk about**  
21 **satisfying instant liquidity needs caused by unexpected**  
22 **events search as a major storm due to capital structure,**  
23 **did you -- you did not have to change any of your**  
24 **planned spending on future projects other than to make**  
25 **timing adjustments to meet those needs, correct?**

1           A       Correct, because of the strong financial  
2 position that allowed us to immediately go to the banks  
3 and the markets and raise the capital to be able to pay  
4 those vendors who came out to support our restoration  
5 effort before we could collect all the costs back from  
6 customers.

7           **Q       And on page 21, lines 20 through 22, you talk**  
8 **about the potential market volatility surrounding tariff**  
9 **policies, deficit tax bills, geopolitical risk. You are**  
10 **not expecting to make any changes to your planned**  
11 **spending due to these market conditions, are you?**

12          A       As sit here today, no. It's simply pointing  
13 out we are going into a period -- or we are proposing a  
14 period of four years where we are going to have to  
15 absorb and manage all these risks if our commitment is  
16 provided for. And so it's simply saying, taking a  
17 four-year period in isolation and looking at it, there  
18 is a lot the company is going to have to do to manage  
19 these risks and be able to provide for customers over  
20 that period of time.

21          **Q       And on page 22 of your testimony, lines 10**  
22 **through 16, you talk about SRB-9 and the differences in**  
23 **investment grade bond spreads, correct?**

24          A       Yes.

25          **Q       You say this shows the spread differential**

1 between stronger issuers of credit rating of A and  
2 weaker issuers with credit ratings of BBB, is that  
3 correct?

4 A That is correct.

5 Q And would you agree that your exhibit shows  
6 that these are short-term spikes?

7 A Yes, I agree with that.

8 Q Okay. Starting on page 23, you start your  
9 discussion of the various ROE proposals, correct?

10 A Yes.

11 Q And looking at table 2, you show the ROE  
12 proposals for the various participants, is that correct?

13 A Yes, I do.

14 Q Of the parties listed, only Mr. Coyne for FPL,  
15 Mr. Lawton for OPC and Mr. Waters for FEA provided  
16 modeling for their ROE recommendations, correct?

17 A I believe that is correct.

18 Q And the modeling is done to reflect the  
19 current economic data, right?

20 A Yes, as Mr. Coyne discussed. Yes.

21 Q And two of the results are 9.5 for FEA and 9.2  
22 for OPC, right?

23 A Yes.

24 Q And the highest intervenor recommended ROEs  
25 are 10.5 by FAIR and FIPUG, correct?

1 A Yes.

2 Q And you would agree that FAIR recommended 10.5  
3 ROE as a no higher than number from page 24 of his  
4 testimony?

5 A I don't know on the specific page reference,  
6 but, yes, I believe he was pointing to TECO's ROE.

7 Q Okay. And then FIPUG's recommendation is also  
8 for an ROE more in line with DEF's 10.3 and TECO's 10.5,  
9 correct?

10 A I believe that is correct.

11 Q And you would agree that you, yourself, did  
12 not do any DCF or CAPM modeling, right?

13 A No, that was all done by FPL Witness Coyne.

14 Q And you would agree that 100-basis-point  
15 increase this ROE is about \$500 million for FPL?

16 A Yes, roughly \$500 million in revenue  
17 requirements.

18 Q And on page 25, line three, you say: The  
19 relationship between a low ROE and a low bill is  
20 spurious. Do you see that?

21 A I do.

22 Q Would you agree that the larger the customer  
23 base over which to spread costs, the lower the  
24 individual bill impacts of that cost?

25 A I think it depends, but generally, yes, in a

1 vacuum. But I think also the larger customer base you  
2 serve, the greater cost you potentially have on a  
3 nominal basis. I think that's why we try to always  
4 benchmark on a bill or dollar per megawatt hour basis,  
5 to show the scale.

6 Q Okay. And if we look at table 3 on page 25,  
7 of the electric -- the individual electric companies  
8 listed on the table, FPL has largest customer base of  
9 around six million on a standalone basis, correct?

10 A We do.

11 Q And this chart uses 1,000 kWh for comparison,  
12 is that correct?

13 A Correct.

14 Q And if we flip over to page 27, line one, you  
15 say: None of the witnesses -- referring to the  
16 intervenor witnesses -- provided evidence of FPL's  
17 specific situation. But you would agree, Mr. Lawton did  
18 do modeling like FPL's ROE witness did, correct?

19 A Yes, I agree with that. But as Mr. Coyne  
20 talked about, they arrived at vastly different  
21 conclusions, even though they use similar models.

22 Q Okay. And on page 28, you talk about the  
23 intervenor assessment that FPL has low risk, as you put  
24 it, is that right?

25 A Yes.

1           **Q**     **Would you agree that there are two types of**  
2 **risk, financial and business risk?**

3           **A**     **Yes, I do agree with that.**

4           **Q**     **And FPL's high equity ratio compared to -- FPL**  
5 **has a high equity ratio compared to the comparable proxy**  
6 **group, correct?**

7           **A**     **I did not look at all the equity ratios in Mr.**  
8 **Coyne's proxy group.**

9           **Q**     **I just want to say -- and you're -- but you**  
10 **are the one that's making the equity recommendation in**  
11 **this case?**

12          **A**     **I am supporting that.**

13          **Q**     **Okay. And on lines six through eight, you**  
14 **talk about owning nuclear, and Florida being a**  
15 **peninsula, storm exposure and a large CAPEX program,**  
16 **those are generally considered business risks, correct?**

17          **A**     **Yes.**

18          **Q**     **And none of the business risk you identify are**  
19 **unique to FPL only, correct?**

20          **A**     **Generally, I would agree not unique to FPL,**  
21 **but I think, from an exposure standpoint, I think we**  
22 **have greater exposure than other utilities.**

23          **Q**     **Isn't it true that rating agencies are now**  
24 **starting to consider there is a risk to the utilities if**  
25 **rate become unaffordable?**

1           A     Absolutely, and that is why we very carefully  
2 considered affordability as part of designing this  
3 four-year plan.

4           **Q     In other words, rating agencies now consider**  
5 **the affordability in assessing the company's overall**  
6 **risk factors, correct?**

7           A     Yes, and it is something the rating agencies  
8 considered, and we are very happy to see that our bills  
9 are growing at roughly two-and-a-half percent over the  
10 period below the rate of inflation.

11          **Q     On page 29, line eight, you claim clauses are**  
12 **not unique to Florida, but you would agree that the**  
13 **storm hardening clause is, if not unique, it's rare**  
14 **among the states?**

15          A     Yeah. I don't think it's unique to Florida  
16 anymore. I think other jurisdictions are moving there,  
17 but I guess I could accept kind of one of a handful of  
18 states.

19          **Q     Okay. And you analog on line 16 that the**  
20 **clauses mitigate risk, but you claim there is still risk**  
21 **for non-recovery of all of its costs, correct?**

22          A     Yes. The clause is just a mechanism. We  
23 still need to ensure that we make prudent investments  
24 and operating decisions to ensure complete recovery  
25 through the clauses. There is always the risk of



1 disallowance.

2 **Q Right. But would you agree that the company**  
3 **has little to no risk that all reasonable and prudent**  
4 **costs will be recoverable?**

5 A Yes, because of the way we operate the company  
6 and ensure we make prudent investments, and have the  
7 processes and controls in place to account for those  
8 properly to demonstrate to the Commission.

9 **Q And you are not suggesting that investors be**  
10 **compensated through a higher ROE or equity ratio to**  
11 **protect them from imprudently incurred costs, are you?**

12 A No, not at all.

13 **Q On page 30 of your testimony, lines seven**  
14 **through 10, you claim the tax law change provision you**  
15 **are requesting is to put you on the same footing as DEF**  
16 **and TECO, both of which have authority to initiate**  
17 **similar processes. Do you see what?**

18 A I do.

19 **Q Would you agree that DEF has a tax law change**  
20 **provision as the give and take part of its investment?**

21 A I know it is part of the settlement. I don't  
22 know if it's necessarily part of the give and take of  
23 the settlement.

24 **Q And would you agree that TECO's final order,**  
25 **the Commission denied granting a similar tax law**

1 provision, saying TECO or other intervenors could file a  
2 petition for a limited proceeding under 366.076, Florida  
3 Statutes, to address any to bees law changes?

4 A Generally, I am familiar with that, yes.

5 Q All right. And also on page 30, line 13, you  
6 claim that the TAM is risk neutral. Do you see that?

7 A I do.

8 Q You would agree that the TAM, as proposed, is  
9 developed to give FPL flexibility to manage its earnings  
10 by making noncash credits or debits to or from the TAM,  
11 correct?

12 A No. I don't agree with that characterization.  
13 The TAM is there and designed to ensure we can  
14 continue making investments in 2028 and 2029, and use  
15 the TAM to offset the revenue requirement of those  
16 investments and earn a return at the midpoint.

17 Q Okay. And you would agree, though, that you  
18 have flexibility to either credit or debit this  
19 regulatory asset as needed, correct? That's what you  
20 have done in the past for the RSAM, and you intend to do  
21 a similar treatment for the TAM, correct?

22 A Yes, we have the same flexibility as we've had  
23 in the past with the RSAM.

24 Q And on page 31, you talk about the reserve  
25 surplus adjustment member, the RSAM, correct?

1           A       Just point me to where you are looking so I am  
2 in the same spot, please.

3           **Q       It's on page 31, and you if look at, I would**  
4 **say lines five through seven, that's where you start**  
5 **your discussion regarding the RSAM.**

6           A       Yes.

7           **Q       Would you agree, the RSAM was part of a**  
8 **negotiated outcome of a settlement?**

9           A       Yes, it was, in the last three, but I think  
10 ultimately, it was awarded by the Commission in 2010.

11          **Q       And the RSAM was created by a surplus from an**  
12 **over-collection of customer monies when depreciations**  
13 **were reset every four years, correct?**

14          A       Again, I don't agree with over-collection. We  
15 collected at the appropriate depreciation rates at that  
16 point in time. It's through extending the lives of  
17 those assets or some other changes in a subsequent  
18 depreciation study that resulted in a theoretical  
19 surplus that we flowed back to customers.

20          **Q       Because if had collected them based on the**  
21 **extended service lives, you would have over collected**  
22 **the depreciation for those assets, correct?**

23          A       Theoretically, yes, but it's a chicken or an  
24 egg question. We depreciated what would be the lives in  
25 effect based on the information known at that point in

1 time.

2 Q Okay. And I would ask to show OPC 103, and  
3 that's F2-1169.

4 And I believe that you are familiar with this  
5 response?

6 A Yes.

7 Q And you were asked to provide specific  
8 evidence that shows that each of the 12-month period  
9 covered by this statement over the last four rate  
10 settlements, that FPL's revenue requirement has been met  
11 through a combination of cash increases and the use of  
12 the RSAM to reach to the midpoint, resorting to the RSAM  
13 was necessary to enable you to reach the midpoint of  
14 your authorized range, is that essentially a correct  
15 summation of your response?

16 A I am sorry, can you pair that down and maybe  
17 rephrase it to make it simple so I can follow?

18 Q Well, you were asked to provide specific  
19 evidence that showed that for each of the 12-month  
20 period covered by the request, that resorting to the  
21 RSAM was necessary to enable FPL to reach the midpoint  
22 of the authorized range. I think that's what the  
23 request was for, correct? And that's what you said, it  
24 was necessary to meet the midpoint, correct?

25 A Yes, but I am not sure that that's what the

1 request was and this is what that's showing.

2 Q All right. Well, let's -- let me ask you, did  
3 you provide an attachment for this -- to this response,  
4 or was an attachment provided by FPL?

5 A Yes, I believe Ms. Laney did.

6 Q Okay. And if you look at this exhibit, it  
7 shows the -- it has a number of columns across the top,  
8 and it attempts to account for how the RSAM has been  
9 used since 2011 through 2024, correct?

10 A Yes.

11 Q And column B is the approved midpoint ROE,  
12 right?

13 A Yes.

14 Q And column A is the achieved FPSC adjusted  
15 ROE, is that right?

16 A Column -- I am sorry, which one?

17 Q Column A.

18 A Yes, that is the actual earned ROE.

19 Q Okay. And then if you go over to column C, it  
20 gives you the percentage out of 100 percent between the  
21 midpoint and the achieved ROE?

22 A Yes.

23 Q And then if I am figuring out the percentage  
24 of the difference that was attributable to weather  
25 that's column I, and O&M is in column J, do you see

1 that?

2 A I do.

3 Q Okay. And if column K is a negative, that  
4 shows that adding weather and O&M savings made up more  
5 than -- made up more money than the percentage  
6 difference between the midpoint and the achieved ROE,  
7 usually 100 basis points, do you see that?

8 A I do.

9 Q And looking at column A shows that since 2011,  
10 FPL, using the RSAM, has achieved above the midpoint and  
11 usually at the top of the range, correct?

12 A Not in all periods, but generally, yes.

13 Q Okay. The TAM is being created from money  
14 collected from customers for current taxes that are  
15 deferred into future periods do you remember to the  
16 accelerated depreciation, correct?

17 A I am sorry, can you rephrase that question?

18 Q The TAM, is that being created from money  
19 collected from customers for current taxes that are  
20 being deferred into a future period due to accelerated  
21 depreciation?

22 A I think about it a little differently. It's  
23 not necessarily current taxes. It is money we collected  
24 from customers based on the statutory rate, but because  
25 of differences between book or GAAP accounting and tax

1 accounting, that money is not yet owed to the IRS. So,  
2 yes, it sits as a deferred tax liability in our capital  
3 structure at zero cost, essentially providing customers  
4 a benefit for what they have paid us.

5 **Q Okay. So it's the current statutory tax rate,**  
6 **and then it gets deferred, due to the accelerated**  
7 **depreciation into the future?**

8 A The accelerated depreciation is what's  
9 throwing me off. It's a difference between a book  
10 depreciation and tax depreciation.

11 **Q Okay. And you would agree that the tax money**  
12 **collected from customers, while deferred for current**  
13 **taxes, will become due to the IRS in the future?**

14 A Yes, at some point that obligation will come  
15 due to the IRS.

16 **Q And isn't it true that if FPL uses the 1.7**  
17 **billion in deferred tax monies over the four-year plan,**  
18 **FPL plans on recollecting the 1.7 billion in tax money**  
19 **from customers in the future when these taxes come due**  
20 **to the IRS?**

21 A Yes, but I want to be clear, we collected a  
22 dollar, we are making investments in 2028 and 2029, and  
23 instead of increasing bills and charging customers, we  
24 are essentially giving them that dollar back, or a  
25 credit back, so we are back to zero. At some point in

1 the future, Ms. Christensen is correct, we are going to  
2 have to recollect those dollars to pay the IRS, but it  
3 is an entirely different dollar than what I collected  
4 and already gave back to customers.

5 **Q It's an entirely different dollar because you**  
6 **collected it at different time periods?**

7 A Because I gave customers that credit back, so  
8 they are back at zero.

9 **Q And when you talk about giving them the credit**  
10 **back, that's because they are theoretically paying for**  
11 **an increase that has yet to happen in the future, right?**

12 A I struggle with theoretically paying for an  
13 increase that has yet to happen. I am not sure what you  
14 mean by that. We are making investments in 2028 and  
15 2029.

16 **Q But you have not come to the Commission in '28**  
17 **and '29 yet and asked for the Commission to approve a**  
18 **rate increase for whatever additional revenue you are**  
19 **seeking, right?**

20 A No, we are asking the Commission to approve  
21 the TAM so we don't have to increase rates and increase  
22 customer bills. I think this is a great thing for  
23 customers to provide that rate stability, and to look at  
24 the affordability and provide affordable bills over an  
25 extended period of time.



1           **Q**     Okay.  And so essentially what you are saying  
2     is -- you are basically saying the benefit that the  
3     customers get is that they don't have to pay you for a  
4     potential rate increase in two years from now that you  
5     have yet to prove that you are entitled to in front of  
6     this commission, correct?

7           **A**     I think we have done a very good job showing,  
8     and Witness Laney testified on her Exhibit IL-13, the  
9     investments that we are going to make and the revenue  
10    requirements associated with those investments.  It's  
11    quite simple, and I think Mr. Pimentel testified to  
12    this.

13                   Those revenue requirements, we can increase  
14    rates or we can use the TAM to offset those and keep  
15    customer bills stable for two more years and stay out  
16    for a four-year period.

17           **Q**     On page 32 of your testimony, lines 14 through  
18    17, you say that without the TAM, you would need  
19    approximately seven point -- \$7.66 per thousand kilowatt  
20    hours for the residential bills in 2028 and an  
21    additional \$6.75 per thousand kilowatt hours to support  
22    '28 and '29 projected revenue requirements, is that  
23    correct?

24           **A**     Yes, that is what the math shows.

25           **Q**     These amounts are money that would be taken

1 from the TAM and need to be -- or these are the amounts  
2 that you are claiming that would need to be taken from  
3 the TAM and needed to be collected from future  
4 customers, correct?

5 A I think I view it as these are the revenue  
6 requirements of the investments we will make in '28 and  
7 '29, and we are asking the Commission's approval to  
8 utilize the TAM to offset those revenue requirements as  
9 part of our four-year plan.

10 Q And on page 32, starting at line seven, you  
11 talk about the consequences of not getting the TAM and  
12 the SoBRAs, correct?

13 A Yes.

14 Q And you are not claiming that FPL can't  
15 manage its business without using a TAM, are you?

16 A No, that's not what I am committing. What I  
17 am saying here is that the TAM is an essential component  
18 of the four-year plan. Without the TAM, we will be back  
19 if a rate case in 2027, because we are going to continue  
20 to make investments that will increase our revenue  
21 requirements and push us outside of our range by the  
22 dime we get to that point in time.

23 Q Isn't it true that none of the items listed on  
24 page 33, line 20 through the top of page 34, line six,  
25 are solely attributable to using the RSAM the last four

1 **years to stay at the top of the range?**

2 A I am sorry, did you say to stay at the top of  
3 the range?

4 **Q Correct.**

5 A I don't think that has anything to do with our  
6 ability to drive these things. No, these are simply  
7 pointing out that the RSAM has enabled us to make  
8 discretionary investments and say out. And as a result  
9 of all of the great things with the RSAM, we have been  
10 able to continue to improve our business, and here are  
11 some of the benefits that customers have realized as a  
12 result of that.

13 **Q Okay. But none of these bullet points are**  
14 **directly attributable to use of the RSAM, are they?**

15 A I don't parse -- I don't think you can parse  
16 it that way. I think the RSAM has enabled us to  
17 continue to make investments over an extended period of  
18 time and keep our bills low. The fact that we have  
19 invested in reliability and used the RSAM to offset  
20 that, that has helped our saving. It has helped us make  
21 discretionary investments in our natural gas fleet, and  
22 to bring solar in before we have the SoBRA mechanism,  
23 and that has allowed us to reduce our fuel bill.

24 **Q On page 34, lines 18 and 19, you state that**  
25 **the TAM is sized to earn at the midpoint of the ROE, yet**

1 **over the past 12 years, with a similar program, the**  
2 **RSAM, would you agree that FPL has consistently earned**  
3 **at or near the top of the range?**

4 A Yes, but I think if you look at the exhibit  
5 that we just had on the screen, a lot of that is  
6 attributable to the O&M efficiencies, and as a result,  
7 some favorable weather that we have had over that period  
8 of time.

9 The RSAM column itself, the last column on  
10 that exhibit, has had very little to do with our ability  
11 to earn above the top end or above the midpoint, I  
12 should say, of the range.

13 **Q And on page 35, line one, regarding Mr.**  
14 **Devlin's recommended 50-basis-point reduction due to the**  
15 **lower risk with the TAM, isn't it true that the TAM**  
16 **effectively guarantees FPL will earn ROEs within its**  
17 **range over the next four years?**

18 A I don't want to say it necessarily guarantees.  
19 I think it's incumbent on FPL to manage that, but we are  
20 also wearing all of the risk over that four-year period  
21 of time in having to appropriately manage the TAM with  
22 all the factors like global uncertainty, tariffs, and  
23 everything going on. I think that the less risky  
24 proposition would be to come back for a base rate  
25 increase in 2027 for new rates in 2028, and be able to

1 catch everything up and have at that certainty of a cash  
2 rate increase.

3 So I don't want to give the notion that having  
4 a TAM derisks the business and makes it less risky than  
5 potentially having a rate case in '28.

6 Q Okay. So then -- never mind.

7 On page 36, line 10, you state that the 75  
8 percent of the RSAM reserve was necessary for FPL to get  
9 back to the midpoint, yet FPL earned ROEs significantly  
10 higher than the midpoint, correct?

11 A Yes.

12 Q And on page 40 -- page 40, lines eight through  
13 nine, you claim that the TAM provides base rate  
14 stability, do you see that?

15 A Yes.

16 Q And regarding the RSAM, you would agree, the  
17 company has not submitted any analysis in the instant  
18 case demonstrating what FPL's achieved ROEs would have  
19 been if all RSAM debits and credits made by FPL were  
20 removed for the period of time from 2022 through 2024?

21 A I am sorry, can you rephrase that, please?

22 Q Correct.

23 Has FPL provided any documentation to show  
24 what FPL's achieved ROEs would have been if the effects  
25 of the RSAM, through its debits and credits, had been

1 removed for 2022 through 2024?

2 A Not to my knowledge.

3 Q Under the four-year plan, you would agree,  
4 base rates will increase every year, correct?

5 A Yes.

6 Q So even with the TAM, base rates will not stay  
7 at the same level over the four-year period, correct?

8 A I agree with that. And as I said earlier,  
9 that has always all been accounted for in the bill  
10 projections we have provided as part of this four-year  
11 plan.

12 Q And FPL never asked its customers if they  
13 would prefer to pay a tax expense twice or if they  
14 prefer another rate case in 2028, did they?

15 MS. MONCADA: I object to the characterization  
16 about the taxes.

17 CHAIRMAN LA ROSA: Sustained.

18 BY MS. CHRISTENSEN:

19 Q FPL never asked of its customers if it would  
20 prefer to collect one dollar for tax expense now and  
21 have another dollar for tax expense collected in the  
22 future, or if they would have rather had a rate case in  
23 2028, did they?

24 A I am going to say, no, we did not specifically  
25 ask our customers that question. But I think we heard

1 from a lot of customers throughout the quality of  
2 service hearing process that supported the rate plan  
3 over the four-year period.

4 **Q And were a lot of those customers members of**  
5 **Chamber of Commerce or other charitable organizations**  
6 **that receive funding from FPL?**

7 A Take exception to that, but I don't know.  
8 There was, I will say, a good proxy of customers that,  
9 Commissioners, you saw them at those hearings.

10 **Q And even if the TAM is approved, FPL's plan**  
11 **for filing another rate case -- is FPL planning on**  
12 **filing another rate case in 2029 with rates effective**  
13 **January 1st, 2030?**

14 A I can't say that with certain at this today.

15 **Q And would you agree that given the last 14**  
16 **years, that it's reasonable to assume that FPL wants a**  
17 **mechanism like the RSAM or the TAM indefinitely?**

18 A I think it has worked very well for customers.  
19 It's a matter of do we have enough regulatory  
20 liabilities to continue these mechanisms indefinitely?  
21 I think the answer is no.

22 RSAM was there for a number of years, but we  
23 have ultimately had to collect the depreciation expense  
24 associated with those assets. The TAM is here and  
25 available now, and I think it's a great thing to provide

1 customers that rate stability over our four-year plan.

2 **Q And since these are being collected from taxes**  
3 **that are deferred due to depreciation, would those funds**  
4 **be more readily available continuing on into the future?**

5 A I'm sorry, I don't understand the question.

6 **Q The question is, because these are taxes, and**  
7 **taxes presumably will continue on into the future, is**  
8 **this source of funding more likely to remain available**  
9 **into the future?**

10 A I think the question you are asking is are we  
11 going to continue to create deferred tax liabilities  
12 because of the book versus tax timing difference? The  
13 answer to that would be, yes, as long as we continue  
14 making investments that have shorter lives than the book  
15 life, we will continue to create deferred tax  
16 liabilities.

17 **Q I guess my question is: As long as there is**  
18 **unprotected deferred taxes, will you continue to use**  
19 **those unprotected deferred taxes to create or request**  
20 **the Commission approve TAM-like mechanisms into the**  
21 **future?**

22 A I don't know. I think the answer is we  
23 haven't used this mechanism in the past, and as we sit  
24 here today, we are asking for 1.7 billion out of  
25 roughly, I think, \$2 billion of deferred tax



1 liabilities. Chances are, there is not enough when we  
2 get to the next rate case to make the mechanism worth  
3 while or allow for a four-year plan, so we will need to  
4 assess at that point in time what is the appropriate  
5 mechanism, if there is one, to enable these types of  
6 four-year plans.

7 **Q On page 41 of your rebuttal testimony, you**  
8 **talk about your SoBRA mechanisms, correct?**

9 A Yes.

10 **Q And FPL is asking for a level of pre-approval**  
11 **of certain level of megawatts of solar and batteries for**  
12 **'28 and '29?**

13 A I believe that's what Witness Whitley  
14 supported.

15 **Q Okay. And on page 42, lines four through**  
16 **five, you say: FPL would do an updated economic**  
17 **analysis required under the SoBRA mechanism, which would**  
18 **incorporate the tax laws that would be in effect at that**  
19 **time, correct?**

20 A That is correct.

21 **Q Isn't your proposal that even if the payback**  
22 **to customers on a CPVRR is not until year 34 of a solar**  
23 **35-year life, that it would be sufficient to justify the**  
24 **solar economically and to build the facility?**

25 A So I think ultimately, that's going to depend

1 on the facts and circumstances. But if we do have a  
2 CPVRR benefit, and this commission assesses the  
3 appropriate sensitivities around that, if it is  
4 cost-effective at that point in time, that will be a  
5 decision the Commission will have to make.

6 **Q And so is your answer, yes, as long as it**  
7 **shows some sort of economic benefit even one year it**  
8 **takes to the year before the end of the service life,**  
9 **that you would consider that an economic benefit and**  
10 **that it should be approved?**

11 A I can't say that sitting here with certainty  
12 today. I would need to see the analysis, and ultimately  
13 what is driving that 34th year benefit associated with  
14 that, and is that ultimately the right assumption, and  
15 what are the sensitivities and that.

16 **Q Okay. Would you agree if there are no ITCs or**  
17 **PTCs available for the '28 and '29 solar and battery**  
18 **projects, then the CPVRR would likely no longer show**  
19 **that they are economically beneficial?**

20 A Again, I think it's going to depend. If we  
21 lose tax credits, what happens to the natural gas curve?  
22 What happens to fuel transportation costs? We are going  
23 to have a one run on gas across this country, and there  
24 is limited pipelines and supply, and so where does that  
25 go is going to ultimately turn the economics. So I

1 can't sit here today with certainly and say yes to that  
2 question.

3 **Q But you would agree the ITCs and the PTCs**  
4 **support a significant portion of the economic benefit of**  
5 **the future solar and battery projects?**

6 A Yes. And as we talked about last week, I  
7 don't think that is anything we need to worry about for  
8 FPL as we sit here today as we have qualified for all  
9 the tax credits through that period of time.

10 **Q On page 43 of your rebuttal testimony, you**  
11 **say: No intervenor opposes the storm cost recovery**  
12 **mechanism you are proposing, correct?**

13 A Yes.

14 **Q And then on line seven, you quote OPC Witness**  
15 **Schultz that the SCRM can work well and should be**  
16 **continued, correct?**

17 A Yes.

18 **Q However, you would degree that Mr. Schultz's**  
19 **full comment in response to the question, should the**  
20 **company be allowed to increase the storm reserve from**  
21 **\$220 million to 300 million, the first sentences are,**  
22 **no, I don't agree that if it is otherwise legal to**  
23 **implement the storm cost recovery mechanism in absence**  
24 **of a settlement agreement, the current framework can**  
25 **work well and should be continued, but I do not believe**

1 that there is a necessity to increase the reserve, would  
2 you agree that that's his full statement on this issue?

3 A Subject to check.

4 Q And would you agree that the SCRM has only  
5 been approved as part of the settlement for FPL?

6 A I believe that is correct.

7 Q And would you also agree that settlement --  
8 that in settlements, customers can give up rights that  
9 they have under the statute in exchange for concessions  
10 from the company?

11 A I am sorry, give up rights they have under  
12 what statute?

13 Q Under the Florida Statutes in exchange for  
14 concessions from the company, specifically 366?

15 A I don't know the answer to that.

16 Q Okay. Your proposition to have the Commission  
17 circumvent the statute and give you preapproved recovery  
18 for amount for any year without allowing customers their  
19 statutory right to challenge if any of the costs of the  
20 storm are recovered by current earnings, correct?

21 MS. MONCADA: Object to the extent that it's  
22 asking him to interpret the statutes.

23 CHAIRMAN LA ROSA: Can you rephrase the  
24 question without an interpretation?

25 MS. CHRISTENSEN: I can point -- let me ask it

1           this way.

2       BY MS. CHRISTENSEN:

3           **Q     Mr. Bores, in your proposal for a storm cost**  
4 **recovery mechanism, do you recall asking to adopt a**  
5 **prohibition against any type of earnings inquiry?**

6           A     Yes. I believe we have asked for a limited  
7 proceeding like we have had in the past through this  
8 mechanism, where all incremental costs will go before  
9 this commission and be subject to, ultimately, a storm  
10 surcharge. Those incremental costs need to be reviewed  
11 by this commission for prudence at the end of the day.

12          **Q     Okay. And do you know whether or not, under**  
13 **Florida Statutes, other intervenors have the right to**  
14 **inquire whether or not FPL is entitled to the full**  
15 **amount of any costs that they are requesting for**  
16 **recovery before this commission?**

17          A     I do not.

18          **Q     In regard to the request to increase the storm**  
19 **reserve, you would agree FPL has not filed testimony**  
20 **from an expert to model the need to increase the storm**  
21 **reserve, have they?**

22          A     No. The increase is really based on our  
23 recent experience and seeing storms well, well north of  
24 220 million, even well north of 300 million that we are  
25 asking for.

1           Q     And isn't it true, prior to the SCRM's being  
2 introduced through settlements, that if FPL wanted to  
3 increase the annual accrual for storm cost, the company  
4 with have to provide expert testimony and evidence  
5 through Monte Carlo modeling to support the requested  
6 increase?

7           A     I don't know, but I believe that's my  
8 understanding of what the storm study was for.

9           Q     And as you, as the witness supporting the  
10 request for the increase of the storm reserve, you did  
11 not conduct any Monte Carlo simulations for future forms  
12 storms and potential costs to demonstrate the need for  
13 the accrual increase, did you?

14          A     No. I have looked at our recent storm  
15 experience and the cost of restoration associated with  
16 those events.

17          Q     And I think what you are saying now is you  
18 only supported this with an assertion that over the last  
19 four years, FPL has experienced two hurricane seasons  
20 that each cost greater than \$1 billion in storm  
21 restoration costs, correct?

22          A     That is correct.

23          Q     But -- and on page 44, line four -- or, I am  
24 sorry, line five, you say: Mr. Schultz's statements  
25 that other jurisdictions don't have similar SCRM's to

1 cover their storm cost is unhelpful and vague, do you  
2 see that?

3 A I do.

4 Q You are not disputing that electric utilities  
5 in other jurisdictions experience their own costly  
6 weather events, like wildfires in California, that have  
7 to be recovered, are you?

8 A I am sorry, rephrase that he request, please.

9 Q You are not disputing that electric utilities  
10 in other jurisdictions experience their own costly  
11 weather events, like wildfires in California, which they  
12 would have to recover, are you?

13 A No, I am not disputing that.

14 Q Okay. On page 45, and going over to the top  
15 of page 46, this is where you talk about customer  
16 impacts, correct?

17 A Yes.

18 Q And when you are talking about customer  
19 impacts, you mean affordability of customers of FPL's  
20 rate increase request?

21 A Yes, customer bills.

22 Q In this part of your testimony, you cite the  
23 fact that you have had a four-year settlement, so  
24 customers didn't have increases in '24 and '25, correct?

25 A I am sorry, just point me to the lines,

1 please.

2 Q Line 13 through 15.

3 A Yes. Thank you.

4 Q But isn't the staying out in '24 and '25 part  
5 of the exchange that was agreed to in the 2021  
6 settlement?

7 A I agree with that.

8 Q And then you go on to say that your proposed  
9 four-year plan will provide rate stability, but you  
10 would agree that FPL's plan base rate increases will  
11 increase every year during the four-year period,  
12 correct?

13 A Yes. But as I have talked about, it still  
14 results in customer bills that are going to grow roughly  
15 two-and-a-half percent a year over the term well below  
16 the rate of inflation.

17 Q One moment, please. I have no further  
18 questions.

19 CHAIRMAN LA ROSA: Great. Thank you.

20 Before we move on to FEL, I am going to go to  
21 my Advisor. At about 4:10, there was an objection  
22 by -- 4:10 p.m. there was an objection by FPL to  
23 strike the previous statement by OPC. The order --  
24 or the objection was given, there was a quick  
25 deliberation, but there was no ruling by me. Can I



1 **rule on that objection?**

2 MS. CIBULA: Yes, it should -- yes.

3 CHAIRMAN LA ROSA: Okay. So I sustain the  
4 objection and remove the previous statement.

5 And I am going to ask this, right, when there  
6 is an objection on the table and I understand that  
7 you may not necessarily agree with it, but my  
8 expectation is that you at least give me the  
9 opportunity to respond. Many times I do look in  
10 your direction, I do try to give you the  
11 opportunity to respond to what may be given, but  
12 many times we start to roll right through.

13 And I am not sure what the typical proceeding  
14 is, or what the typical proceeding has been, but I  
15 would like to say, moving forward, that we take our  
16 time, review what may be given, and not just  
17 continue on with questioning.

18 I know it does get laid late in the day, so  
19 it's five o'clock now. I know we are getting  
20 towards the end of this hearing. It's day seven or  
21 day eight, I am not even sure, but at the end of  
22 the day, I want to make sure that we continue our  
23 professionalism.

24 So let's do this, it's 5:02 now. Before we go  
25 to FEL, let's go ahead and take a 10-minute break.

1 I will see you guys back at a 5:12. Thanks.

2 (Brief recess.)

3 CHAIRMAN LA ROSA: Let's go ahead and grab our  
4 sets. The witness, obviously, still in the witness  
5 box, and we were turning to FEL for questioning of  
6 Mr. Bores.

7 FEL, you are recognized.

8 MR. LUEBKEMANN: Thank you, Mr. Chairman.

9 EXAMINATION

10 BY MR. LUEBKEMANN:

11 **Q Good evening, Mr. Bores.**

12 A Good evening, Mr. Luebkemann.

13 **Q It's your testimony that FPL is wearing all**  
14 **the risk in proposing these four-year deals, right?**

15 A Yes.

16 **Q And that was the tenor of the conversation you**  
17 **had with Ms. Christensen recently this afternoon?**

18 A Yes. Staying out for four years, with all the  
19 changes that could happen over an extended period of  
20 time, and just stepping back and looking at the prior  
21 four years with interest rates, inflation,  
22 Ukraine-Russian invasion, all of that was risk FPL had  
23 to wear over that period of time and manage with no  
24 additional changes to customers' base rates.

25 **Q I am sorry, I appreciate it's your testimony**

1 that you have to stay out for that time period. You  
2 would, as the company, would have to manage all of those  
3 risks. I think what I am interested in here is that  
4 last four-year period that we are finishing right now  
5 was the result of a binding settlement agreement, right?

6 A I agree with that.

7 Q And so the idea that FPL would be wearing the  
8 risk for the next four years based on its as-filed case  
9 being approved, doesn't that require that that  
10 commitment to stay out is binding on the company?

11 A Yes, it's a unilateral commitment. But I  
12 think as I talked about when I was here last week. We  
13 understand that if the Commission gives us everything,  
14 we are signing up for that commitment. It is going to  
15 be incumbent on us to manage those risks and manage the  
16 TAM to stay out for that four-year period.

17 If we can't do that, or we abuse the TAM to  
18 just go earn at the top of the range rather than manage  
19 those risks and stay within the range, I can guarantee  
20 the Commission is never going to give us a TAM or let us  
21 honor a commitment in the future. We are going to lose  
22 that trust and the good will that we have built with the  
23 Commission. So we understand that, and that's why we  
24 will have to be good stewards and honor that commitment  
25 over the four-year period of time no matter what

1 happens.

2 Q But all that notwithstanding, you don't  
3 dispute that there is nothing that could prevent the  
4 company from coming back in if it determined that  
5 circumstances had changed such that they -- for  
6 instance, let me put it that way: Say that you are able  
7 to earn within the range that is established in this  
8 proceeding by using the TAM over the next four years,  
9 and you are able to maintain even the midpoint or above,  
10 and say that it's the company's determination that  
11 actually the ROE that it needs to be making is 15  
12 percent in two years. Even if you were able to earn  
13 within the band that established in this proceeding,  
14 there is nothing that would prevent the company from  
15 coming back in and filing a new rate case based on its  
16 perceived need of a higher ROE?

17 A Technically, no. But we understand, in your  
18 example, that is one of the risks we are signs up for.  
19 If interest rates suddenly rise to 10 percent and the  
20 ROE should be much higher than whatever the Commission  
21 awards as its midpoint, we are going to have to live  
22 with that as part of this four-year commitment we are  
23 making and manage the TAM to stay within the appropriate  
24 range.

25 I think that is the great thing about having

1 appropriate range that is plus or minus 100 basis  
2 points. If interest rates rise, like they did in  
3 Alaska, we may need to use some TAM to go above the  
4 midpoint, but we are still going to have to ensure we  
5 have enough to stay within the range over that four-year  
6 period of time.

7 **Q And speaking of the range, this has come up, I**  
8 **think, indirectly a few times, but I just wanted to nail**  
9 **it down.**

10 **It is your testimony that the reasonable range**  
11 **of return for the company would be any 100 -- or any of**  
12 **200 basis points flanking whatever the midpoint is set**  
13 **by the Commission, is that right?**

14 **A Yeah. Plus or minus 100 basis points off of**  
15 **the midpoint, yes.**

16 **Q And that that would include the 100 basis**  
17 **points below the midpoint as well?**

18 **A Agree. That is a reasonable rate of return.**

19 **Q In your rebuttal testimony, you speak about**  
20 **the savings and the efficiencies that are attributable**  
21 **to the use of the RSAM, is that right?**

22 **A Can you just point me to where you are so I**  
23 **can follow along, please?**

24 **Q Yeah, it might actually be easier to go to a**  
25 **discovery response. Could we go to echo 61743? This is**

1 **from Exhibit 382.**

2 **And do you recognize this discovery response?**

3 A I do.

4 **Q You sponsored it?**

5 A I did.

6 **Q Would it be fair to say that what this**  
7 **response is providing is all of the claimed benefits and**  
8 **support for those benefits of the company's use of the**  
9 **RSAM?**

10 A I want to be careful with all of the claimed  
11 benefits. I think this is trying to demonstrate, as I  
12 described earlier with Ms. Christensen, the RSAM enables  
13 us to make investments and do things we may not have  
14 been able to have done had we had annual rate increases  
15 or, you know, biannual rate cases. It allows us to make  
16 investments. Those investments don't pay off on day  
17 one. They pay off over the long-term. We have driven a  
18 lot of operating costs out of the business. We have  
19 driven a lot of fuel cost out of the business by making  
20 smart investments over a period of time. A lot of that  
21 has been enabled by the RSAM and our ability to focus  
22 and manage the business over an extended period of time.

23 **Q If we go to the first paragraph on this**  
24 **response, this is talking about nonfuel operating costs**  
25 **being roughly \$2.9 billion lower than industry average,**

1    **which was facilitated by the use of the RSAM, that's**  
2    **your testimony?**

3           A     Yes.  Again, finding that amount of  
4    significant efficiencies and allowing yourselves to be  
5    70 percent better than the industry average, 50 percent  
6    parties than number two, is a result of our ability to  
7    focus on the business over an extended period of time.  
8    That is only enabled by having an RSAM and being able to  
9    stay out and do that for a four-year period.

10           Q     **And so you do testify that it is enabled by**  
11    **the use of the RSAM, but I don't see anything in this**  
12    **paragraph that quantifies that.  Has that analysis been**  
13    **done?**

14           A     Specifically what regard?

15           Q     **So we can go through each one of these**  
16    **individually, but I can also just ask as a blanket**  
17    **question.**

18                   **Has the company done any quantitative analysis**  
19    **that attributes the specific savings due to RSAM, or is**  
20    **it just that you look at these, you know, great**  
21    **performance metrics and you say, we wouldn't have been**  
22    **able to do that if we had to come in for a rate case**  
23    **more often?**

24           A     Well, I think we have provided -- if we focus  
25    on O&M first.  We have talked about all the savings we

1 found from Project Momentum, Project Accelerate, Project  
2 Velocity over this last four-year period, I think, was  
3 close to \$534 million of savings. I attribute a lot of  
4 that value to the RSAM and being able to do these  
5 programs and not have to come in for a rate case and  
6 focus.

7 So whether it's directly or indirectly tied to  
8 RSAM, there is a benefit that the RSAM provides to the  
9 business to be able to go find these efficiencies.

10 **Q But my question was: You have not done any**  
11 **analysis that shows -- put it this way, the**  
12 **counterfactual, if you didn't have the RSAM, what the**  
13 **costs would have been instead, that analysis has not**  
14 **been done?**

15 A I don't know how you would do that analysis.

16 **Q I don't either, but it does leave us in a**  
17 **place where you say these are the savings that are**  
18 **associated with having an RSAM, and it makes it very**  
19 **difficult, would you say for anyone to question that?**

20 A I don't personally find it difficult. I think  
21 the proof is in the pudding, as they say. And when we  
22 are able to lay out this cost savings that Project  
23 Momentum, Accelerate, Velocity have provided, and that  
24 is now translating into lower O&M cost that Witness Reed  
25 has benchmarked, and that translates into lower customer



1 bills, I come back to there is a shining example right  
2 there of what that has enabled.

3 **Q But you do ask -- the company does ask us to**  
4 **take at face value that these things would not have**  
5 **occurred but for the use of the RSAM?**

6 A Again, I don't know how to answer that, other  
7 than, yes, it is our statement and our position that the  
8 RSAM has enabled a lot of efficiencies that have been  
9 generated in our business.

10 **Q You had a conversation with Ms. Christensen, a**  
11 **hypothetical about a CPVRR analysis that would show in a**  
12 **35-year service life asset a breakeven point at 34**  
13 **years. Do you remember that example?**

14 A I do.

15 **Q Would it be fair to say that the customers**  
16 **that are paying for that asset any time between years**  
17 **one and 33 will not see that benefit break even from**  
18 **their perspective if they don't stay for all 35 years?**

19 A Again, it's hard for me to see that, or say  
20 that without seeing the actual analysis and what it  
21 shows, right. On a present value basis, breaking even  
22 in 34, or year 34, may mean that there is actual savings  
23 translated earlier than 34, just not on a discounted  
24 basis. So I really need to look at this hypothetical  
25 example that you guys are putting in front of me.

1           **Q**     **At a high level, would it be safe to say that**  
2     **if you have not broken even on the cost-effectiveness**  
3     **analysis, then you have experienced more costs than**  
4     **benefits at that point?**

5           A     Yes, but I would argue that, we would not move  
6     forward with the investment if it were not  
7     cost-effective for customers.

8           **Q**     **If we could go back to your Exhibit SRB-9?**  
9     **And I know that this was referred to in your**  
10    **conversation with Ms. Christensen, but I would just like**  
11    **to follow up here.**

12                   **Could you describe what this is showing for**  
13    **us?**

14           A     Yes. This is basically showing the credit  
15    spread, so the differential between ultimately the  
16    risk-free rate and what a borrower pays to borrow debt  
17    at that period of time. And it is showing during times  
18    of economic uncertainty, that the credit spread changes.  
19    Obviously, a global pandemic, COVID, Great Recession,  
20    banks are going to get a lot more tight in how they are  
21    lending money as usually there is a run on capital.

22           **Q**     **And so when you look at these peaks, these are**  
23    **basis points above the risk-free rate?**

24           A     Correct.

25           **Q**     **Fair to say that the higher they are, the**

1 peakier and the finer that point is?

2 A I am sorry, I don't understand the question.

3 Q Yeah, let me ask it this way: If we look over  
4 this time period, when you see a spike that goes very  
5 high or very low, they are very pointy, right? They --  
6 these are not long duration spikes?

7 A It can be close to a year time period.

8 Q Well, if we look at the bottom, there is a --  
9 we have got, what, 2000 to 2025 here?

10 A Yes.

11 Q Do you know -- you made this chart, right, or  
12 it was prepared under your direction?

13 A Yes.

14 Q What was the frequency input for each point  
15 that's graphed on this chart?

16 A I don't remember offhand.

17 Q Okay.

18 A I would have to go back to the spreadsheet.

19 Q We do have that in your workpaper, right?

20 A I would assume so. I don't know.

21 Q I won't drag us through it.

22 There has been a lot of discussion about the  
23 SoBRAs that are proposed in this cases for 2028 and  
24 2029.

25 A Is there a question there?

1           **Q**     **There is a question coming, I am just --**

2           A     Okay.

3           **Q**     **Is it fair to say that we have talked about it**  
4 **here and there?**

5           A     We have.

6           **Q**     **And those planned investments, no MFRs have**  
7 **been filed in support of those?**

8           A     No, but I think as we have talked about a few  
9 times, that the Commission will have the right to review  
10 those through a limited scope proceeding before,  
11 ultimately, base rates are changed.

12          **Q**     **And that will take place after the company has**  
13 **already built the generation in question?**

14          A     Or while it's in process of building.

15          **Q**     **It's your testimony that at least some of**  
16 **those solar plants are already in process in order to**  
17 **make sure they qualify for PTCs through the end of this**  
18 **four-year period?**

19          A     That is correct.

20          **Q**     **So fair to say, at least for the solar**  
21 **projects, these will all have been at least in**  
22 **construction, if not completed, by the time you would**  
23 **file a SoBRA proceeding?**

24          A     They will all be in construction. I don't  
25 know if they will necessarily be completed by the time

1 we do the SoBRA filing, but in construction.

2 **Q And that's -- that point at which would you**  
3 **file that limited proceeding would be the first**  
4 **opportunity for this commission to review the prudence**  
5 **of those investments?**

6 A Yes, I agree. But again, I don't think we  
7 would put them before this commission as part of this  
8 four-year plan if they ultimately were not needed per  
9 Mr. Whitley's analysis, or cost-effective at this point  
10 in time.

11 So I think they meet cost-effectiveness today,  
12 or they are a needed resource today, and ultimately it  
13 will be how those assumptions move between now and then.  
14 But our expectation, based on the analysis we see today,  
15 is they will continue to be cost-effective.

16 **Q And -- I will leave that one.**

17 I think that's all my questions. Oh, sorry,  
18 one moment.

19 I apologize. I had muddled my own notes. The  
20 company is proposing SoBRAs in 2028 and 2029, as we have  
21 discussed. The company is also proposing to use the TAM  
22 for other capital investments, is that right?

23 A That is correct.

24 **Q And so for those, will the Commission ever see**  
25 **any limited proceeding or MFRs for those before the**

1 **utility's next rate case?**

2 A No, but I think, like prior multiyear  
3 settlement agreements, where FPL has made investments in  
4 those last two years and used the RSAM to offset those,  
5 the Commission reviews those investments, or has the  
6 right to review those investments for prudence as part  
7 of the next rate case. So I fully expected, as part of  
8 this proceeding, that the Commission will be reviewing  
9 the investments we made in 2024 and 2025, which are now  
10 included in the revenue requirements we are seeking in  
11 this case as part of their prudence review.

12 **Q Just one last follow-up on the RSAM.**

13 **Would it be fair to say that one of the**  
14 **benefits of the RSAM from the company's perspective is**  
15 **that it allows FPL to understate the amount of money**  
16 **it's actually seeking over the next four years?**

17 A Understate? I don't think we are understating  
18 the amount of money, right. The RSAM is used to offset  
19 a revenue requirement, and it allows us to keep bill  
20 impacts lower than they otherwise would be over a  
21 four-year period, if that's what you mean.

22 **Q I will put it this way: In the company's**  
23 **petition, FPL seeks to recover \$9.819 billion in**  
24 **incremental revenues over the next four years?**

25 A Roughly, yes, I believe that's correct.

1           **Q**     And if you were to add the intended \$1.717  
2 billion of spending that would be facilitated by the  
3 TAM, wouldn't that actually mean about 11-and-a-half  
4 billion dollars of spending over the next four years?

5           **A**     Yes. But again, I think we are conflating  
6 cash rate increases, which will hit the customer bills,  
7 and the noncash TAM, which will not impact the customer  
8 bills. What we are trying to tell customers is  
9 ultimately what their bill impact is this four-year  
10 period.

11          **Q**     Thank you. That's actually all my questions.

12                   **CHAIRMAN LA ROSA:** Thank you.

13                   **FAIR?**

14                   **MR. SCHEF WRIGHT:** Thank you, Mr. Chairman.

15                                   EXAMINATION

16 BY MR. SCHEF WRIGHT:

17          **Q**     Mr. Bores, nice to see you.

18          **A**     Same to you, Mr. Wright.

19          **Q**     Star billing for both of us. Thanks. I think  
20 we will get out of here pretty quick, I believe.

21                   I want to follow up on a couple of statements  
22 you made in response to questions by Ms. Christensen  
23 before I move on to my own prepared cross.

24                   My notes indicated that at around 4:19 p.m.  
25 you, in speaking with Ms. Christensen, you stated that

1 the RSAM enabled FPL to handle a number of different  
2 extra expenses, unexpected expenses that occurred during  
3 the last four years, do you recall that line?

4 A Yes. I don't remember the time, but, yes, I  
5 recall the line.

6 Q Thanks.

7 My question is really simple. You will agree,  
8 will you not, that throughout that time period, FPL  
9 earned a rate of return well above its approved  
10 midpoint, typically the range of 11.6 to 11.8 percent,  
11 correct?

12 A Yes, other than 2024, where it was an 11.4.

13 Q Thank you.

14 You also -- I think you said -- my notes  
15 indicate that you said that the relationship between  
16 bills and ROE is spurious. Do you recall making that  
17 statement?

18 A Spurious is not a word that is normally in my  
19 vocabulary, so I don't know if I made that.

20 Q Okay. Good, because what I -- it doesn't  
21 work. You would agree that whatever it is, the impact  
22 of \$500 million a year, 100 basis points on 120,000 GWh,  
23 120 million megawatt hours a year is around \$4, right?

24 A Subject to check, generally, yes. I think the  
25 point I was trying to make is that necessarily having a



1 higher ROE does not translate into higher bills. We  
2 have probably the highest ROE of all the Florida IOUs,  
3 and I think the lowest average 1,000-kilowatt-hour bill,  
4 and so there is not this one-to-one linear relationship  
5 that I think some intervening parties have tried to  
6 point out.

7 **Q My point is the different factual point, and**  
8 **that is that if your rates -- if your revenue**  
9 **requirements are \$500 million more than on an average**  
10 **dollars per megawatt hour basis, it's an extra \$4, a**  
11 **little over, right?**

12 **A In isolation, yes, but if you are not able to**  
13 **attract capital with an attractive ROE, there are**  
14 **probably long-term consequences that will more than**  
15 **offset that in the bill over a longer period of time.**

16 **Q Thank you.**

17 **I want to talk to you not too long about RSAM.**  
18 **You spent a lot of time with Ms. Christensen, and a**  
19 **little bit with will Mr. Luebke on that.**

20 **Basically, you -- your testimony in rebuttal**  
21 **says that FPL has been able to use RSAM successfully to**  
22 **achieve a whole lot of benefits, right?**

23 **A Benefits for customers, yes.**

24 **Q Okay. And what I want to ask you about is the**  
25 **revenue impacts that FPL's having used RSAM funds over**

1 the last four years. The RSAM started out with an  
2 approved balance of \$1.45 billion, correct?

3 A Yes.

4 Q And isn't it true that was based on an  
5 estimated accumulated depreciation reserve balance, a  
6 surplus in that case in 2021, of \$1.45 billion?

7 A Yes.

8 Q And isn't it also true that as we sit here  
9 today, Mr. Allis now represents -- now has provided a  
10 study that shows that the accumulated reserve for  
11 depreciation account balance is a deficit of \$1.9  
12 billion?

13 A That I do not know offhand.

14 Q Isn't it true that the accumulated  
15 depreciation reserve will be less by whatever amount of  
16 RSAM FPL has used when we get to setting rates for going  
17 forward?

18 A I am sorry, can you rephrase that for me,  
19 please?

20 Q Sure. Isn't it true that whatever FPL used in  
21 terms of using up the prior surplus will reduce the  
22 balance in the accumulated depreciation reserve account?

23 A I agree with that.

24 Q Thank you.

25 I am going to move over and ask a few

1 questions about the TAM. The TAM we are speaking of  
2 here is the \$1.717 billion, correct?

3 A Yes, sir.

4 Q Isn't it true that that amount would be  
5 amortized over a 30-year period at the rate of  
6 approximately \$57 million per year?

7 A I believe that is covered in Witness Laney's  
8 testimony, yes.

9 Q Thank you.

10 Do you -- if you in know, does that start in  
11 2026 or does it start in 2030?

12 A That is probably a much better question for  
13 Witness Laney, as they don't let me do the accounting  
14 anymore, so I don't know.

15 Q Okay. Thank you.

16 On page 34, you testify that -- this is at  
17 lines 11 through 13, you testify that compared to the  
18 cost of recovering the \$1.7 billion TAM amount over 30  
19 years, FPL's customers will lose the opportunity to have  
20 FPL create incremental benefits on top of those that  
21 already amount to \$3.7 billion annually in fuel and  
22 nonfuel O&M, correct?

23 A Yes.

24 Q You are not testifying that the \$1.7 billion  
25 of TAM is going to create that order of magnitude of

1 **savings going forward, are you?**

2 A I am not. All I am saying is that the TAM,  
3 just like the RSAM, will enable us to stay out for four  
4 years, and hopefully find greater efficiencies that will  
5 enure to the benefit of customers when we next come back  
6 it reset rates. What that amount will be, I honestly  
7 have no idea sitting here today. But I am confident  
8 that we will be able to hopefully find some greater  
9 efficiencies that will provide customer benefits over  
10 the long-term.

11 **Q With respect to the \$3.7 billion a year of**  
12 **savings, congratulations, and isn't it true that the**  
13 **investments that enabled FPL to realize those savings**  
14 **have been paid for, and are being paid for currently in**  
15 **FPL's rates?**

16 A Absolutely. Just like the savings help reduce  
17 the cost of those investments will bring down our  
18 overall customer bills.

19 **Q I am going to ask you several questions that**  
20 **relate to your rebuttal of witnesses Devlin and Bryant,**  
21 **where they have testified that they would recommend that**  
22 **if a TAM is allowed, its use be capped at a specified**  
23 **midpoint. That's a predicate statement as to where I am**  
24 **going.**

25 A Thank you.

1           Q     You are welcome.

2                     And I am going to ask you to assume in each of  
3 the following questions that whatever the ROE at issue  
4 is, is a -- an ROE, a rate of return on equity, approved  
5 by the Commission as being compliant with the Bluefield  
6 standard. Are you okay making that assumption?

7           A     I am.

8           Q     Thanks. I mean, it can be 11.9, it can be  
9 10.6, it could be 11.0, whatever it is, but the  
10 assumption is that it will be a Bluefield compliant ROE  
11 approved by this commission.

12                     So first question: Would you agree that FPL  
13 could maintain its current level of service going  
14 forward through its four-year rate plan if its ROE were  
15 capped at a Bluefield compliant ROE?

16          A     I am sorry, and that assumes I have no TAM  
17 over the four-year period?

18          Q     No, excuse me, that assumes you have -- that  
19 does assume that you have a TAM, and that the use of the  
20 TAM is capped to limit your revenue requirements to the  
21 approved Bluefield compliant ROE.

22          A     So, yes, in a vacuum. But I think, as we  
23 talked about last week, things in the real world can  
24 change outside of the forecast or vacuum, as I sit here  
25 today, right, as we talked about in a hypothetical.

1 Interest rates could go up to eight, nine, 10  
2 percent. As a result, I may need to increase the ROE  
3 above the midpoint and use TAM to do that to continue to  
4 be able to attract capital from investors as they can  
5 now go get a much higher risk-free rate for their money  
6 compared with the riskiness of our investment. So I  
7 can't sit here and take that as a factual statement here  
8 today.

9 **Q With a Bluefield compliant ROE, couldn't FPL**  
10 **go forward with its SoBRAs just with the ROE as**  
11 **specified?**

12 A Yes, I think the SoBRAs are designed to be  
13 midpoint seeking, and the base rates will ultimately be  
14 set at the midpoint.

15 **Q And if you had a Bluefield compliant ROE,**  
16 **wouldn't you be able to avoid future rate cases through**  
17 **the 2029 period?**

18 A Yes, with the TAM mechanism and the other  
19 elements of the four-year proposal, that is what we are  
20 asking this commission.

21 **Q Similar question. Isn't it true that with a**  
22 **Bluefield compliant ROE, again, whatever that is, FPL**  
23 **could provide long-term bill stability to its customers**  
24 **through 2029 with the revenue requirements and rates set**  
25 **cap -- based on a TAM capped at the midpoint ROE?**

1           A       So I am going to say no, and that's based on  
2 the answer I provided previously on changing market  
3 conditions.

4           **Q       Would it be more fair to say not necessarily?**

5           A       That's fine.

6           **Q       Thanks.**

7                   **This is back to RSAM. Isn't it true that if**  
8 **FPL had not had good luck with weather, it could have**  
9 **realized -- it could have realized -- it could have**  
10 **covered -- it could have achieved a midpoint ROE had the**  
11 **RSAM been capped at whatever ROE the Commission**  
12 **approved?**

13          A       I am sorry, can we unpack that a little bit  
14 and slow down?

15          **Q       Yeah. Well, I will just ask it back with**  
16 **respect to the TAM.**

17                   **If weather turned out to be less favorable in**  
18 **terms of sales to FPL, couldn't FPL use a TAM going**  
19 **forward to achieve the a Bluefield compliant midpoint**  
20 **ROE?**

21          A       Well, that's the whole point the TAM and RSAM,  
22 is to help us manage the variability in sales and other  
23 operating expenses in the business and ensure we can a  
24 try a chief a midpoint ROE.

25                   I think the whole point of having an

1 authorized range around the ROE is to provide the  
2 incentive. The incentive for us to go try and have the  
3 opportunity to earn above that by creating efficiencies  
4 that benefit customers over the long-term.

5 **Q Are there any investments that FPL could not**  
6 **make if it were limited to a -- if its use of a TAM were**  
7 **limited to a Bluefield compliant ROE?**

8 A I don't know if I can answer that sitting  
9 today. Based on the vacuum and the current forecast?  
10 Yes. But, again, market conditions may change, and if I  
11 am not able to attract capital by providing a  
12 competitive return, there is a good chance there may be  
13 discretionary investments or reliability investments  
14 that we cannot make because we can't attract the  
15 capital.

16 **Q The same question with respect to future O&M**  
17 **expenses?**

18 A Can you give me the full question so I  
19 understand the context?

20 **Q Sure.**

21 **Are there any O&M expenses that you think FPL**  
22 **could not make if its use of the TAM were capped at a**  
23 **Bluefield compliant ROE?**

24 A Again, as I sit here today, I don't know.  
25 Right, whether it's an O&M investment or a capital



1 investment, if I don't have the dollar, I need to go  
2 fund it. Chances are we would fund all the necessary  
3 operating costs in the business. It's really the  
4 discretionary investments, I think, that would be at  
5 risk if we couldn't attract capital through a  
6 competitive ROE.

7 **Q Would FPL commit to its four-year rate plan if**  
8 **the revenue requirements and rates were set at a**  
9 **Bluefield compliant ROE with the TAM capped at the**  
10 **Bluefield compliant ROE?**

11 A No, I do not think we would agree to that, but  
12 ultimately that is not my decision.

13 MR. SCHEF WRIGHT: Just a minute, Mr.  
14 Chairman. Thank you.

15 CHAIRMAN LA ROSA: Sure.

16 MR. SCHEF WRIGHT: That's all the questions I  
17 have. Good evening.

18 THE WITNESS: Thank you.

19 CHAIRMAN LA ROSA: Thank you.

20 FEIA?

21 MR. MAY: No questions.

22 CHAIRMAN LA ROSA: Walmart?

23 MS. EATON: No questions.

24 CHAIRMAN LA ROSA: FEA?

25 CAPTAIN RIVERA: No questions.

1 CHAIRMAN LA ROSA: FRF?

2 MR. BREW: No questions.

3 CHAIRMAN LA ROSA: FIPUG?

4 MR. MOYLE: No questions.

5 CHAIRMAN LA ROSA: Staff?

6 MR. SPARKS: Just a few questions, Mr.

7 Chairman.

8 CHAIRMAN LA ROSA: Sure.

9 EXAMINATION

10 BY MR. SPARKS:

11 **Q Good evening, Mr. Bores.**

12 A Mr. Sparks, nice to see you.

13 **Q Good to see you.**

14 **Under the proposal TAM, a little over \$1.7**  
15 **billion of unprotected deferred income taxes will be**  
16 **used to avoid a rate case in 2028 and 2029, is that**  
17 **correct?**

18 A Yes, that is what we are asking for.

19 **Q And under the proposed TAM, and based on the**  
20 **Commission's approval, a regulatory asset in the amount**  
21 **of \$1.717 billion will be created, is that correct?**

22 A That is my understanding per Witness Laney's  
23 testimony.

24 **Q That regulatory asset in the amount of 1.717**  
25 **billion to pay income taxes -- is to pay income taxes**

1 **that would have been paid using the unprotected deferred**  
2 **income taxes, is that correct?**

3 A Yes, but as we talked about earlier through  
4 Ms. Christensen's question, we are essentially giving  
5 customers back that deferred income tax for the form of  
6 not charging them for increasing revenue requirements in  
7 '28 and '29 on continued investments, so they are back  
8 to zero by the end of 2029.

9 **Q And over the next 30 years, the regulatory**  
10 **asset will be collected from customers through the**  
11 **amortization of that asset, is that correct?**

12 A Yes. Very similar to how RSAM dollars are  
13 being collected through depreciation today.

14 **Q So isn't it true that, under the TAM,**  
15 **customers are not really avoiding a rate increase in**  
16 **2028 and 2029, they are just paying for it over the next**  
17 **30 years through the amortization of the regulatory**  
18 **asset?**

19 A Again, yes, I agree with that, but that is no  
20 different than how the RSAM works. I think I used the  
21 words kind of pay me now or pay me later the other day.  
22 That is exactly what this is. Customers can pay that  
23 now, and we can leave the deferred tax liability sitting  
24 where it is, but we are conscious of the affordability  
25 aspect of this, and ultimately what our customers are

1 going through. So that is why we came up with this new  
2 mechanism, to try and provide that stability and ensure  
3 that our bills grow below the rate of inflation over  
4 this period of time.

5 **Q And isn't it true that FPL can make noncash**  
6 **accounting entries using the RSAM and the TAM because**  
7 **customers have already provided cash?**

8 A Again, you are going into debits and credits  
9 here on me. I believe that's correct.

10 **Q Thank you very much, Mr. Bores.**

11 MR. SPARKS: Thank you, Mr. Chair. Those are  
12 all the questions we have.

13 CHAIRMAN LA ROSA: Great. Thank you.

14 Commissioners, any questions of Mr. Bores?

15 Seeing no questions, back to FPL for redirect.

16 MS. MONCADA: Very, very brief.

17 CHAIRMAN LA ROSA: Sure.

18 MS. MONCADA: Thank you.

19 FURTHER EXAMINATION

20 BY MS. MONCADA:

21 **Q Mr. Bores, you had a discussion with Ms.**  
22 **Christensen earlier this afternoon regarding large load**  
23 **tariffs, and there was a discussion specifically about**  
24 **the incremental generation charge, do you remember that?**

25 A I do.

1           **Q**     Okay.  And during that discussion, did you say  
2     that the incremental generation charge, or IGC, is  
3     **levelized?**

4           A     I did.

5           **Q**     Okay.  Would you agree that Ms. Cohen, FPL  
6     **Witness Cohen, would have more information about that**  
7     **topic?**

8           A     Yes.  I believe she would be the best witness  
9     to talk about that.

10          **Q**     Great.  That's all I have.

11                   **CHAIRMAN LA ROSA:  Great.  Thank you.**

12                   **Anything that needs to be moved into the**  
13                   **record?**

14                   MS. MONCADA:  Yes.  We need to move in SRB-9,  
15     which is Exhibit No. 334.

16                   CHAIRMAN LA ROSA:  Okay.  No objection?  
17     Seeing no objection, so moved.

18                   (Whereupon, Exhibit No. 334 was received into  
19     evidence.)

20                   CHAIRMAN LA ROSA:  OPC?

21                   MS. CHRISTENSEN:  OPC would move in 588 if it  
22     has not already been moved into the record.

23                   CHAIRMAN LA ROSA:  Has 588 been moved in?  Is  
24     there an objection to it if it's not?  Seeing no  
25     objection, so moved.

1           (Whereupon, Exhibit No. 388 was received into  
2 evidence.)

3           CHAIRMAN LA ROSA:   FEL?  Nothing?

4           FAIR, anything?

5           MR. SCHEF WRIGHT:  No exhibits.  Thank you.

6           CHAIRMAN LA ROSA:  No other parties -- thank  
7 you.  No other parties?

8           Okay.  We can excuse Mr. Bores?

9           MS. MONCADA:  Yes.  And now, for real, the  
10 rebuttal case is done.

11          CHAIRMAN LA ROSA:  Okay.  For real, it's done,  
12 at least for now.

13          THE WITNESS:  Thank you.

14          CHAIRMAN LA ROSA:  So you are excused.  Thank  
15 you very much.

16          (Witness excused.)

17          CHAIRMAN LA ROSA:  Okay.  Staff, are there any  
18 additional matters that need to be addressed at  
19 this time?

20          MR. STILLER:  There are none.

21          My notes show that all of the exhibits listed  
22 for the direct and rebuttal part of this case,  
23 Exhibits 1 through 485, have been admitted, with  
24 the exceptions of Exhibits 232 through 236.  And  
25 those were associated with Dr. Ahmed, whose

1 exhibits and testimony was withdrawn. So I think  
2 on the record, we are -- as far as exhibits, we are  
3 good on the as-filed case.

4 CHAIRMAN LA ROSA: Okay. All right. Any of  
5 the parties have anything -- any matters to discuss  
6 as it relates to Phase I?

7 Seeing none, then this is the -- this is the  
8 end portion of the Phase I proceedings regarding  
9 the February 24th, 2025, petition and MFRs filed by  
10 FPL. So tomorrow morning, we will now move to  
11 Phase II, regarding the August 20th, 2025, Joint  
12 Motion for Approval on the 2025 Stipulation and  
13 Settlement Agreement.

14 So tomorrow, we will call the meeting to -- we  
15 will call the hearing to order. We will take  
16 appearances just to make sure that the record is  
17 straight, and then we will jump into anything that  
18 may have popped up, any preliminary matters, and  
19 then we will take opening statements.

20 I will give further instructions if anything  
21 needs to be clarified tomorrow morning. It's,  
22 obviously, almost six o'clock. I appreciate  
23 everyone's time today, and I know, obviously, it  
24 was a long day. Yes, FRF.

25 MR. BREW: Yes, just confirming we are

1 starting at 9:00?

2 CHAIRMAN LA ROSA: Yes, starting at nine  
3 o'clock tomorrow morning.

4 Was there a question or --

5 MR. SCHEF WRIGHT: Mr. Brew asked my question.

6 CHAIRMAN LA ROSA: Okay, excellent.

7 All right. Well, awesome, it's important,  
8 yes, to make sure we all know what time we are  
9 starting, so nine o'clock tomorrow morning, I will  
10 see you guys then.

11 Thank you.

12 Done for the day at.

13 (Transcript continues in sequence in Volume  
14 20.)

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## 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 31st day of October, 2025.



DEBRA R. KRICK  
NOTARY PUBLIC  
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EXPIRES AUGUST 13, 2028