BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY & EXHIBITS OF:

ARMANDO PIMENTEL

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AUGUST 6, 2009

Q. Please state your name and business address.

A. My name is Armando Pimentel. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

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

A. Yes. I am sponsoring the following rebuttal exhibits:

- AP-8, Unique FPL Risks
- AP-9, FPL / Tampa Electric Risk Comparison
- AP-10, FPL Test Year Capitalization
- AP-11, Historical and Projected Capital Structure
- AP-12, Projected Book Capital Structure
- AP-13, Impact of 2010 Commission Specific Adjustments
- AP-14, Impact of Witness Baudino's Proposed Equity Adjustment
- AP-15, Imputed Debt Calculation
- AP-16, Short-Term Debt Costs – 30-Day LIBOR Curve

- AP-17, Long-Term Debt Cost

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to claims made in this case included in testimony of Office of Public Counsel's (OPC) witnesses Woolridge, Lawton, and Brown, Florida Industrial Power Users Group's (FIPUG) witness Pollock and the South Florida Hospital and Healthcare Association's (SFHHA) witnesses Baudino and Kollen. Specifically, my rebuttal testimony will focus on the fundamental need to maintain FPL's financial strength in order to serve and protect FPL's customers, and urge the Commission not to weaken FPL's ability to provide service as proposed by intervenor witnesses. My rebuttal testimony discusses the appropriateness of Florida Power & Light's (FPL or Company) requested return on equity (ROE), capital structure, levels and costs of short and long-term debt, as well as the Company's request to protect customers through reestablishing an annual accrual for the storm reserve.

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony explains why it is critical that FPL's strong financial position be maintained through this regulatory proceeding and why it is in the best interest of customers. There is substantial value to customers in maintaining a financially strong utility with the capability to meet its obligation to provide safe and reliable service, even in the face of potential uncertainties. The investment community and rating agencies have recognized this value. The Moody's Report dated January 2009 titled "Industry Outlook: U.S. Investor-Owned Electric Utilities" states:

> "We continue to incorporate a view that individual state regulatory authorities will provide reasonably timely recovery of prudently incurred costs and investments. Moreover, we continue to believe that regulators prefer to otherwise regulate financially healthy companies. This relationship often creates a virtuous cycle, where financially healthy utilities have the balance sheet strength and liquidity to assure investment, maintain high levels of reliability and attract economic development. In turn, this tends to facilitate contentment among consumers, legislators and regulators."

As I indicated in my direct testimony, FPL needs to issue nearly $6 billion of new debt securities over the next five years to help finance capital expenditures of approximately $16 billion as well as refinance maturing debt. We need access to capital on reasonable terms. This is similar to a consumer seeking credit - the stronger the financial health of an applicant, the better and more cost effective access to credit one has.

The recommendations set forth by the intervenors in this proceeding would severely diminish the Company's ability to maintain its financial strength and, therefore, its ability to access capital at reasonable terms for customers. For example, if the Commission were to adopt OPC's recommendations, FPL's already significant financing requirements would increase by over $4 billion through 2013. Additionally, the flow back of depreciation over the recommended four years would significantly increase rate base with no offsetting fuel or efficiency benefit, and would result in a significant rate spike for customers over the long run.

The recommendations set forth by the intervenors in this proceeding represent a significant deviation from the strategy of maintaining financial strength and, if accepted would be negatively received by the financial community as a change in the regulatory policy. This change would occur after years of constructive regulation - which has resulted in low rates by both Florida and national standards, highly reliable service, and some of the cleanest generation in the U.S. electric utility landscape - that has spanned generations of Commissions. There would be significant financial consequences, which I describe later in my testimony, which would be detrimental to customers. It is critical that a strong financial position be maintained through the provision of an adequate allowed return on equity and an appropriate equity ratio.

A final consideration when evaluating the reasonableness of FPL's requested return on equity, recommended capital structure and their impact on customer rates should be the overall rate of return (ROR), since it fully reflects the costs from all sources of capital and the overall ROR is what is utilized for the purpose of setting rates. FPL's requested 2010 ROR of 8.0% is reasonable, and in fact below the overall ROR recently approved for Tampa Electric Company in its base rate proceeding. Furthermore, it is anticipated that the ROR that we are requesting will be even lower after factoring in the impact of bonus depreciation from the American Recovery and Reinvestment Act of 2009 and other adjustments outlined in FPL witness Ousdahl's Exhibit KO-16.

RETURN ON EQUITY

Q. Do you agree with the return on equity recommendations made by Dr. Woolridge or Mr. Baudino?

A. No. I will defer discussion of the analytical flaws in their respective approaches to FPL witness Avera. My rebuttal testimony discusses the reasonableness of the overall level of return on equity recommended by these witnesses and the general impact on the Company's financial strength, were the Commission to adopt any of their recommendations.

Q. Have intervenors addressed the risk factors that are specific to FPL which should be considered by the Commission in determining FPL's ROE?

A. No, they have not. As I indicated in my direct testimony, FPL is not exempt from risk as a regulated utility. FPL operates under a regulatory compact that mitigates some risks, but at the same time augments others. For example, unlike an unregulated business, FPL has a statutory obligation to invest in expanding its system to serve new load not withstanding economic and financial market conditions. Unregulated businesses have more flexibility in deciding when and how they expand and contract their business. It is also important to maintain the proper perspective regarding FPL's proposed 12.5% ROE in relationship to the ROE for some other major Florida businesses. For example, Publix' ROE for 2008 was 19.3%, Wal-Mart's ROE was 20.6% for the fiscal year ended January 31, 2009, Tenet Health's ROE for 2008 was 31.8% and PraxAir's ROE was 26.5% for 2008.

There are several factors that increase risk in an investor's viewpoint that are unique to FPL that should be considered by the Commission in determining FPL's ROE. They are: geographic position, capital expenditure requirements, fuel supply and mix, nuclear generation and the Florida economy. The specific details of these factors can be found in my direct testimony and are illustrated on Exhibit AP-8. Amazingly, each of these critical FPL-specific risk factors is completely overlooked in the intervenors' testimony. These FPL-specific risk factors pose clear and present dangers that influence investors' decisions on what matters most to the investment community – which is whether in light of its risks FPL can offer an adequate return for the investments so vitally needed for FPL to provide service to millions of Floridians.

Q. Are the intervenor's return on equity recommendations consistent with what has recently been granted to other electric utilities in the state?

A. No, they are not. Tampa Electric was recently awarded a return on equity of 11.25%. The intervenors have failed to acknowledge this recently awarded return on equity or that each of them presented substantially lower recommendations in that case which were rejected by the Commission. The intervenors have also failed to recognize the additional risk factors FPL faces when compared to Tampa Electric. As Exhibit AP-9 illustrates, FPL has significantly higher risk in a number of areas that warrants a strong financial position and higher return on equity to meet our obligation to serve our customers. It is critical for the Commission to evaluate each company uniquely and award a return on equity that is consistent with the risks of operating that business. If a lower return on equity was awarded to a higher risk company, it would send a negative message to the financial community.

Q. What do you think the Commission's objectives should be in establishing the Company's authorized return on equity?

A. The return on equity should be set at a level that, if achieved by the Company, will induce the level of investment needed to provide reliable electric service and fund necessary capital expenditure plans at the lowest reasonable cost while fairly compensating equity holders for the utilization of their capital. As I noted in my direct testimony, the United States Supreme Court has discussed the factors a Commission must consider in reaching a determination on a particular utility's rate of return. Specifically, an appropriate return on equity is one that is commensurate with the returns being earned on investments in businesses with similar risks and uncertainties.

Q. In your opinion, if the Commission were to adopt the return on equity recommendations presented by Dr. Woolridge or Mr. Baudino, would those objectives be met?

A. No. The Company must compete for investor capital by offering a reasonable return that is competitive with the returns available on investments with similar risk profiles. The proposed allowed returns on equity suggested by Dr. Woolridge or Mr. Baudino would be substantially below the returns available to investors on comparable investments and insufficient to maintain access to capital markets at reasonable prices. Furthermore, their testimonies fail to recognize the current financial environment that requires investors to seek additional compensation for the added risk that now exists in the capital markets.

It is quite clear that the intervenors' ROE recommendations would not represent a fair and reasonable return opportunity for investors and would not allow FPL to maintain access to capital markets at reasonable prices.

Q. One witness in the proceeding indicated FPL's ROE should be in the 4% to 6% range and further suggests that FPL's ROE should be compared to the interest rates that banks offer on checking accounts. Please comment on this recommendation.

A. This recommendation would result in an authorized ROE that is less than most utilities' cost of debt issuances. This non-market based allowed return is so low relative to the cost of competitive alternatives that it fails to meet the standards set out in the U.S. Supreme Court's Hope and Bluefield cases. It therefore should carry no relevance in this proceeding.

Q. What would be the likely consequences for FPL's financial position if the intervenors' ROE recommendations were adopted?

A. There would be several significant and adverse consequences to FPL's financial position, which would severely hurt customers' interests. The most immediate effect would be a significant reduction in operating cash flow. This would increase the dependence of the business on access to external funding and would obviously exacerbate the challenge of meeting capital expenditure requirements that will provide customers significant benefits.

A second effect would be dramatically reduced investor confidence in the Florida regulatory environment. Such a dramatic shift from a regulatory framework that provides an environment for a utility to have a balanced, but strong financial position to one where the utility would be in a weakened capital position would seriously undermine investor confidence in the Florida regulatory environment. This would likewise have the effect of increasing investor perceptions of regulatory risk with respect to other issues. Clearly, this would serve to *increase* the future cost of capital which ultimately would increase customer's rates.

Third, FPL's credit standing would certainly be weakened and credit ratings would likely be lowered. Credit spreads would widen, resulting in immediate losses to debtholders and decreased access to new capital, as well as increases in interest costs. Short-term credit capacity would be substantially curtailed and would be at risk during periods of market instability, as we saw during the Fall of 2008. This would also significantly limit the Company's ability to support the fuel hedging program and fund potential future storm expenditures, reducing flexibility in the event of unexpected shocks, which would lead to more volatility in customer bills.

Fourth, there would be an immediate loss in equity value as well as confidence, a related consequence of which would likely be pressure for an increase in dividends, because the shareholder trade-off between current return (dividend) and future return (capital gain) necessarily would be shifted towards the former. Of course, any increase in dividends needed to maintain equity investor confidence would obviously further exacerbate the cash flow shortfall.

All these effects would be taking place during a period of time when access to capital has been limited and more costly. Therefore, it would be very detrimental to long-run operating performance, undermining FPL's efforts to support its extensive capital building program while maintaining reliability and customer service. The result would not be in customers' long-run interests.

Q. Intervenors, as part of ROE testimony, have cited FPL's strong financial position as reason why FPL has lower risk and should have a lower ROE. Do you agree with this characterization?

A. No. These assertions are circular in that a lower ROE would weaken the Company's financial position, thus undermining the very basis of such contentions. A strong financial position should be viewed as an asset, which pays dividends to customers, rather than a liability. A strong financial position allows the Company to maintain the flexibility to raise capital when needed to meet our service obligations. This position also provides security that provides the ability to absorb unexpected financial shocks. While FPL's current financial position is strong, it is important to note that FPL must continue to invest to serve its customers and therefore requires a continuing strong financial position. Adequate allowed return on equity and an appropriate equity ratio underpin our financial strength.

Weakening in any of these areas would clearly be perceived by investors as a decline in our overall financial strength. A decline in financial strength introduces greater risk. In turn, investors will require a greater return on their invested dollar which ultimately will result in increased customer rates.

Q. Both Dr. Woolridge and Mr. Baudino indicate that public utilities are exposed to a lesser degree of business risk than other, non-regulated businesses. Therefore, the overall investment risk of public utilities is below most other industries." Do you agree?

A. No, I do not agree. FPL must compete for capital, not just against other utilities, but against other investment opportunities of comparable risk. FPL's risks are different than non-utility companies, but not necessarily less. Regulation provides risk reduction, but the obligation to serve compels utilities to access capital even under inopportune scenarios. Dr. Avera has established a non-utility proxy group of companies with similar risk profiles in his direct testimony. These companies are outside the utility industry but serve as a proxy group representative of those that FPL must compete with to obtain capital. It is important to approach consideration of FPL's return on equity with the understanding that investment dollars are fungible and more scarce than they have been in many years. Investor funds can be deployed in any company or industry, here or abroad. Thus there is a need to expand the comparable grouping to reflect how the financial community looks to invest.

Q. Dr. Woolridge has indicated "that the market for bonds of utilities came back significantly in 2009." Please comment on this statement.

A. Although the spread to Treasuries has declined since the peak of the financial crisis in 2008, they still remain high. Unfortunately, Dr. Woolridge fails to recognize the importance to customers of maintaining financial strength to weather future economic and credit challenges similar to what we saw late last year. In fact, his own testimony recognizes the uncertainties that the utility industry experienced over the last six months. The Wall Street Journal article presented in Exhibit JRW-3 of his testimony states:

> "Utilities are the third-largest debt issuers after government and finance, requiring a steady supply of cash to build power plants, pipelines and transmission lines and to meet tightening environmental requirements. When credit markets tanked last autumn, many utilities were hurt as market valuations tumbled amid investor fears that demand for their services would decline and that they would have difficulty raising the large sums of money they require, at least at affordable rates."

Other state regulators are beginning to comment on the increased cost of equity. For example, the staff of the Kansas Corporation Commission, filed testimony earlier this year in a Kansas City Power & Light Company docket recommending a higher cost of equity than the company's filed position citing today's current environment:

> "There have been dramatic changes in the financial markets since KCPL filed this case on September 5, 2008. The primary change that directly affects the estimated cost of equity for KCPL is the decline in stock prices, including the prices of electric utility stocks. The decline in prices is indicative of an increase in the cost of equity capital."

Lowering a utility's return on equity is short-sighted and may limit its ability to attract sufficient capital to adequately serve its customers. Therefore, it is <u>more important</u> for a utility to maintain its financial strength to attract capital to meet its obligation to serve during this economic downturn. Kansas Corporation Commission's staff witness Gatewood recognized this importance and stated:

> "If the Commission chooses not to pass along increases of the costs of any of these inputs, it would likely jeopardize the utilities' ability to obtain new capital and could push capital costs even higher."

Q. Do you believe in this time of economic uncertainty, that FPL should lower its position of financial strength?

A. No, I do not. I believe it is actually more important during this time of economic uncertainty for FPL to maintain its position of financial strength to attract the capital necessary to serve our customers on reasonable terms. The investor behavior during this financial crisis has shown that investors' first instinct is to rush to the safety of U.S. Treasury securities during times of uncertainty. Therefore, it is <u>more important</u> for a utility to maintain its financial strength to attract capital to meet its obligation to serve during this economic downturn. In a Fitch Ratings' Report dated December 22, 2008 titled "U.S. Utilities, Power and Gas 2009 Outlook," the rating agency states:

> "In Fitch's view, the business climate for the electric utility sector is negative in both 2009 and the longer term. A deepening global recession, ongoing financial crisis and a meaningful increase in the cost of capital compound an already difficult operating environment characterized by large projected capital expenditures and commodity cost volatility."

Q. Does FPL's recommended return on equity request take into account risk mitigation effects of existing clause recovery mechanisms for fuel, capacity, nuclear, conservation costs and environmental costs?

A. Yes, it does. FPL is exposed to significant risks associated with energy price volatility, particularly given FPL's high concentration of natural gas in its generation mix. The Commission's fuel and capacity cost adjustment mechanisms, like similar mechanisms around the country, mitigate but do not eliminate these risks. Likewise, there is significant risk associated with FPL's nuclear uprate and new nuclear projects, which the nuclear cost recovery clause mitigates but by no means eliminates. The conservation and environmental clauses similarly mitigate but do not eliminate risks associated with those activities. Finally, clause underrecoveries, which can be significant, are reimbursed at FPL's commercial paper rate, not at FPL's weighted average cost of capital increasing the risk that investors will not earn a return at the level authorized by the Commission.

Adjustment mechanisms that enable utilities to implement rate changes to pass through fluctuations in costs are widely prevalent in the industry and well understood by investors. Absent these cost recovery mechanisms, investors required return on equity would be significantly higher.

Q. Does FPL's recommended return on equity take into account the risk mitigation benefits of the Generation Base Rate Adjustment?

A. Yes it does. While the Generation Base Rate Adjustment does not reduce the significant execution risk associated with constructing and operating complex generation facilities, it does help to facilitate minimization of the regulatory lag typically associated with large construction projects. As FPL witness Reed discusses in his rebuttal testimony, this type of pre-approval process has become more prevalent throughout the industry as a means to partially mitigate increased levels of regulatory risk associated with the significant construction cycle the industry is undergoing.

Investors currently view Florida as having a constructive regulatory environment, and their overall expectations are for that environment to continue. A decision to eliminate the Generation Base Rate Adjustment mechanism would be contrary to those expectations and likely result in higher required rates of return by investors.

Q. Does FPL's recommended return on equity take into account the risk mitigation benefits afforded by the Nuclear Cost Recovery Rule?

A. Yes it does. Without the rule, I don't believe FPL would have ready and sufficient access to the capital markets at a reasonable cost if we were to attempt to construct new nuclear facilities. Having said that, investors and the rating agencies are cognizant of the increased risks associated with construction of new nuclear facilities, even with mechanism like the Nuclear Cost Recovery Rule. A Moody's Report dated June 2009 titled "New Nuclear Generation: Ratings Pressure Increasing" states:

> "Because companies that build new nuclear generation will increase their overall business and operating risk profiles, we believe they will need to compensate with near-term financial policies that produce strong financial credit ratios. While a constructive regulatory relationship will help mitigate near-term credit pressures, we will remain on guard for potential construction delays and cost overruns that could lead to future rate shocks and/or disallowances of cost recovery. Given the lengthy construction time

> needed for nuclear projects, there is no guarantee that tomorrow's regulatory, political, or fuel environments will be as supportive to nuclear power as today's."

In fact, although South Carolina's Base Load Review Act is strikingly similar to FPL's nuclear cost recovery provisions, South Carolina Electric & Gas recently suffered downgrades from all three major rating agencies. Each cited the increased business risk associated with the Company's plans to build new nuclear as a driver of the ratings downgrade. Each acknowledged that the risk mitigation benefits provided by the Base Load Review Act were not sufficient to prevent a downgrade.

CAPITAL STRUCTURE

Q. Before addressing the specific capital structure recommendations made by Dr. Woolridge, Mr. Baudino and Mr. Pollock, do you have any general comments regarding the recommendations by intervenors to increase debt leverage at FPL?

A. The capital structure that is currently in place at FPL is appropriate: it is well received by the capital markets, as evidenced by FPL's current credit ratings and overall credit profile, as well as the trading spreads of FPL bonds relative to others; and it provides the financial flexibility and resilience needed in order to fulfill our obligations to our customers. It would be unwise to weaken the Company's financial strength especially in a period where liquidity and capital access are more important than ever. Any attempt to do so will translate into uncertainty in the minds of investors and rating agencies and will lead to higher customer costs.

Q. What is the financial community's and rating agency expectations for strengthening a utility's balance sheet?

A. They are supportive of strengthening a utility's balance sheet. In a Moody's Report dated January 2009 titled "Industry Outlook: U.S. Investor-Owned Electric Utilities," Moody's states:

> "Our concerns are clearly growing, but we believe utilities have adequate time to adjust and revise their corporate finance policies and strengthen balance sheets, thereby improving their ability to manage volatility and address uncertainty."

Q. Is FPL proposing to strengthen its balance sheet at this time?

A. No. We have consistently maintained a strong financial position at FPL. While the rating agencies have voiced their expectation that the industry will need to strengthen balance sheets going forward in order to maintain credit quality in the face of increased capital expenditure requirements and stricter environmental controls, FPL feels that its current financial position is appropriate. Exhibit AP-10 is an overview of FPL's test year capitalization ratios from both a book basis prepared in accordance with Generally Accepted Accounting Principles (GAAP) and a regulatory basis. Exhibit AP-11 provides a summary of FPL's historical and projected capital structure as viewed by investors and as included in FPL's regulatory filings. This exhibit demonstrates that whether an investor looks at our capital structure from a year end book basis prepared in accordance with GAAP or a regulatory 13-month average point of view, they will see that our capital structure is steady and well balanced. Our proposed capital structure is consistent with the ratios that we have maintained over time that has made us the financially strong company that we are today.

Q. What would be the impact if the recommendations of Dr. Woolridge, Mr. Baudino or Mr. Pollock were accepted by the Commission?

A. Each of these witnesses recommends a significant decrease to FPL's equity ratio. While I disagree with the methodology used to compute their recommended adjustments, the end result of these proposals would be the distribution of significant funds (ranging from approximately $700 million to $1.3 billion depending on the proposal) from FPL to FPL Group and the issuance of a like amount of debt securities at FPL. In addition to sending strong negative signals to the financial community as discussed earlier, a regulatory decision weakening FPL's capital structure by increasing the debt ratio would increase dependence of the business on access to external debt financing at a time when FPL already has significant funding requirements for generation and infrastructure development.

If the Commission would accept any of these recommendations, it would be negatively viewed by the rating agencies and the investment community. It would also represent an unexpected change in the historically supportive regulatory climate in Florida. In a Standard & Poor's Report dated January 22, 2009 titled "Credit FAQ: Top 10 Investor Questions For The U.S. Electric Utilities Sector In 2009," Standard & Poor's clearly recognizes the importance of maintaining balance sheet strength:

> "The electric utility industry is asset-intensive and relies heavily on debt. Balance-sheet strength is a distinguishing factor when Standard & Poor's assesses financial risk and determines credit quality. Our analysis attempts to portray the economic reality of the financial conditions and considers several items, including purchase power obligations, capital leases, hybrid equity instruments, pension liabilities, and regulatory assets."

Q. Please summarize Dr. Woolridge's recommendation for FPL's capital structure.

A. Dr. Woolridge recommends that rates be set by utilizing what he calls FPL's "real" equity ratio of 54.43%. He argues that this capital structure (based on year-end book amounts for FPL and Subsidiaries as found on MFR D-2) better reflects the Company's capital structure as viewed by investors. As discussed below, his position is incorrect in several important respects, and should be rejected.

Q. What are the differences between the capital structure recommended by Dr. Woolridge and the capital structure proposed by FPL in its MFR filing?

A. There are two differences between the capital structure proposed by Dr. Woolridge and the capital structure proposed by FPL and reflected in FPL's MFR filing. First, as required by the Commission, FPL utilizes a 13-month average capital structure consistent with surveillance reporting, versus Dr. Woolridge's two-point average capital structure. Second, FPL makes several Commission required specific adjustments to its capital structure for regulatory purposes that Dr. Woolridge fails to recognize. The two most significant specific adjustments are for FPL's nuclear fuel lease and the storm recovery bonds issued by FPL Recovery Funding in 2007.

Q. Is Dr. Woolridge's claim that FPL's proposed capitalization does not reflect the actual capitalization of FPL and that it is not based on the company book figures accurate?

A. No it is not. In fact, FPL's proposed capital structure utilized to produce the "Company Total per Books" column on MFR D-1A is completely consistent with the capital structure proposed by Dr. Woolridge. If Dr. Woolridge had started with a thirteen month average consistent with regulatory reporting, and made the same reclassifications made by FPL to reflect FPL's nuclear fuel lease as a capital lease obligation and to reclassify debt issuance costs from rate base to capital structure, then the calculations result in a capital structure strikingly similar to our results. Exhibit AP-12 provides a reconciliation of the consolidated book capital structure provided in MFR D-2 to the "Company Total per Book" included in column 2 of MFR D-1A.

Q. What are the Commission specific adjustments that Dr. Woolridge has ignored in his analysis?

A. FPL makes several specific capital structure adjustments (as required by the Commission) that are included on MFR D-1B. The two primary adjustments that impact investor sources of capital are made to remove from rate base items that are currently recovered outside of base rates. The first adjustment removes the balance of FPL's nuclear fuel lease, the cost of which is recovered through the fuel clause. The second adjustment removes the storm recovery bonds issued in 2007 to finance storm restoration costs. The amounts required for principal and interest payments on these bonds are collected through a charge that is separate from base rates.

Q. What impact do these adjustments have on FPL's capital structure?

A. Because these specific adjustments reduce long-term debt in FPL's capital structure, the result is an increase in FPL's equity ratio applied to a lower rate base. The impact of these adjustments can be seen in Exhibit AP-13.

Q. If these same Commission specific adjustments were made to Dr. Woolridge's recommended "real" book capital structure, what would be the resulting equity ratio?

A. As shown on Exhibit AP-13 if the same adjustments were made to Dr. Woolridge's recommended capital structure, the resulting equity ratio would be 57.5%. The difference between this equity ratio, and the 59.1% included in FPL's filing results from the use of a two-point average rather than a thirteen-month average as is required by the Commission for FPL's filing.

Q. Given Dr. Woolridge's failure to properly consider Commission specific adjustments, do you agree with the resulting recommended reduction in revenue requirements of $508 million suggested by Ms. Brown?

A. No, I do not.

Q. Do you agree with Mr. Baudino's proposed adjustment to FPL's Capital Structure?

A. No, I do not. While Mr. Baudino recognizes that the rating agencies make adjustments to FPL's capital structure for items such as purchase power obligations, and that these adjustments should be taken into account when evaluating the reasonableness of FPL's capital structure, I disagree with his conclusion that his recommended capital structure ratios would be sufficient to maintain FPL's ratings.

Q. Does Mr. Baudino point to any documents to support this claim?

A. Mr. Baudino points to a now-superseded November 2007 article from S&P titled "U.S. Utilities Ratings Analysis Now Portrayed in the S&P Corporate Ratings Matrix". In that publication, S&P provided the following general guidelines for debt leverage (total debt/total capital) by financial risk category. I have added the corresponding equity ratio range.

Financial Risk Category	Debt Ratio	Equity Ratio
Minimal	none provided	
Modest	25% - 40%	60% - 75%
Intermediate	35% - 50%	50% - 65%
Aggressive	45% - 60%	40% - 55%
Highly leveraged	> 50%	< 50%

From this chart alone, Mr. Baudino concludes that 50% equity is the appropriate capital structure for the purposes of setting rates for FPL because it is at the bottom of the range of the "intermediate" financial risk category. He goes further and states that his proposed equity ratio is consistent with an "A" rating and supports FPL's credit quality.

Q. Do you agree with this conclusion?

A. No. I disagree for several reasons. Even if the document Mr. Baudino relied on was current, which it is not, Mr. Baudino's claim that FPL should target the absolute minimum capital structure provided in S&P's matrix would leave absolutely no room to absorb unexpected financial shocks, such as a substantial hurricane or a credit liquidity crisis as was experienced during the fourth quarter of 2008, just to name two. Second, the matrix was meant only as a guide. In an article issued in May 2009 entitled "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded" S&P cautions that the indicative outcomes "are not meant to be precise indications or guarantees of future rating opinions" and goes on to state:

> "Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:
>
> - a view of accounting and disclosure practices;
> - a view of corporate governance, financial policies, and risk tolerance;
> - the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
> - various aspects of liquidity – including the risk of refinancing near-term maturities."

Third, as I mentioned before, the matrix utilized by Mr. Baudino is not even current. In May 2009 S&P expanded the business/financial risk matrix by expanding the financial risk profile categories as follows:

Financial Risk Category	Debt Ratio	Equity Ratio
Minimal	< 25%	>75%
Modest	25% - 35%	65% - 75%

Intermediate	35% - 45%	55% to 65%
Significant	45% - 50%	50% - 55%
Aggressive	50% - 60%	40% - 50%
Highly leveraged	> 60%	< 50%

While these ratios are not precise indicators of rating outcomes, they suggest that a 50% equity ratio might not be sufficient to be considered in the "intermediate" category. I am not aware of any utility with FPL's credit ratings that has a financial risk category that is below "intermediate."

Finally, the idea that leveraging FPL's balance sheet by issuing $845 million additional debt and distributing those funds to FPL Group as Mr. Baudino's Exhibit RAB – 8 suggests "is consistent with an "A" rating and supports FPL's credit quality" does not make sense. Practically and based on the S&P metrics provided, it is difficult to believe that leveraging the company another 6.2% would allow for the company to maintain its current debt ratings.

Q. Finally, on Pages 40-41, Mr. Baudino concludes that "the Company's proposed equity ratio of 59.6% greatly exceeds all of the equity ratios contained in its Schedule D-2" and that his recommended 53.5% regulatory capital structure "compares quite closely to the equity ratios contained in the Company's Schedule D-2, which includes

historical and forecasted capital structures through the end of the projected test year." Is this a valid comparison?

A. No, Mr. Baudino is not making an apples to apples comparison. As shown on Exhibit AP-14, Mr. Baudino's recommended capital structure results in a projected book equity ratio of 50.5%, much lower than historical and projected ratios. Mr. Baudino, like Dr. Woolridge, erroneously compares FPL's regulatory capital structure (with the required Commission specific adjustments) to the capital structure projected for FPL for financial reporting.

	Equity Ratio per Schedule D-2	Mr. Baudino's Recommendation
2007	54.6%	-
2008	56.0%	-
2009	55.2%	-
2010	53.8%	50.5%
2011	54.8%	-

Q. Do you agree with Mr. Pollock's statement that FPL has proposed an equity ratio that is 940 basis points higher than comparably rated electric utilities?

A. No, Mr. Pollock's conclusion is not meaningful. Similar to Dr. Woolridge, Mr. Pollock is comparing book capital structures for A-rated regulated utility operating companies not to FPL's book capital structure, but to FPL's capital structure after several Commission required adjustments totaling over $900 million have been made. A comparison of FPL's actual book ratios to the A-rated regulated utilities from Mr. Pollock's Exhibit JP-2 shows that FPL's actual and projected book equity ratios are well within the range of comparable companies identified by Mr. Pollock.

A-Rated Electric Utilities Book Equity Ratio

Year	Range	FPL
2006	42.1%-61.9%	60.9%
2007	42.6%-65.3%	54.6%
2008	37.7%-61.6%	56.0%
2009(Q1)	40.9%-56.1%	55.2%
2009 (Projected)		55.2%
2010 (Projected)		53.8%
2011 (Projected)		54.8%

Q. What would be the impact on FPL's book equity ratio if Mr. Pollock's recommended capital structure were accepted by the Commission?

A. Mr. Pollock's recommended equity ratio would result in a distribution of approximately $1.3 billion from FPL to FPL Group and a like amount of additional debt issuance by FPL. An adjustment of this magnitude would lower FPL's book equity ratio shown above to 46.5% in 2010. However, as previously indicated, Mr. Pollock's ratio is inappropriate for comparison purposes because it was derived from sources that are not consistent with the manner in which FPL and the Commission view regulatory capital structure.

Q. Given the ranges for A-rated companies above, would it be reasonable to assume that this would not impact FPL's ratings?

A. No. Mr. Pollock's simple approach fails to evaluate or take into consideration the company specific risks unique to FPL described in my direct testimony. In addition, many of the companies included in Mr. Pollock's group are already rated below FPL.

Q. Do you agree with the financial metrics presented by Mr. Lawton in his Exhibit DJL Supp.-6?

A. No, I do not agree. I have several concerns with this schedule. First, S&P no longer issues guidelines for a "Medium A Rating". S&P does provide indicative ratios for various financial risk categories. These categories were recently expanded by S&P as I previously discussed. Second, Mr. Lawton attempts to compare pre-tax ratio calculations with after-tax indicative ratios provided by S&P. Third, Mr. Lawton ignores the fact that Dr. Woolridge's recommended capital structure assumes that FPL will dividend approximately $700 million to FPL Group and issue a like amount of debt. This debt will have annual interest requirements in excess of $48 million. Finally, Mr. Lawton fails to recognize that when S&P imputes debt associated with purchase power obligations to FPL's capital structure, they also impute interest expense for purposes of calculating adjusted ratios. This amounts to approximately $56 million in additional interest. The May 7, 2007 report titled "Standard & Poor's Methodology For Imputing Debt For U.S. Utilities' Power Purchase Agreements" clearly illustrated that:

> "We calculate an implied interest expense for the imputed debt by multiplying the same utility average cost of debt used as the discount rate in the NPV calculation by the amount of imputed debt. The adjusted FFO-to-interest expense ratio is calculated by adding the implied interest expense to both the numerator and denominator of the equation."

Q. Can you please comment on Dr. Woolridge's and Mr. Baudino's comparisons of FPL and FPL Group's capital structure?

A. Dr. Woolridge and Mr. Baudino appear to be drawing their conclusions using GAAP capitalization ratios, which is not appropriate for FPL Group and FPL Group Capital. Let me explain in more detail. GAAP capitalization ratios fail to take into account FPL Group Capital's specific circumstances and fail to take into account several adjustments made by the rating agencies and investment community to FPL Group Capital's capital structure when evaluating credit strength. Similar to the purchase power obligation and storm bond adjustment made to FPL's capital structure, the investment community and the rating agencies make certain adjustments to FPL Group Capital financial statements when evaluating balance sheet strength. The two largest adjustments are for nonrecourse debt and hybrid capital instruments. Nonrecourse debt is project debt whose repayment is secured solely by the particular asset financed and the cash flows generated by the project, with no obligation to repay in whole or in part from corporate funds. Consequently, the rating agencies and investment community distinguish and exclude nonrecourse project debt from FPL Group Capital's capital structure in their credit evaluation. Hybrid capital instruments afford equity benefit to issuers, in part, by having ongoing payment requirements that are more flexible than interest payments associated with nondeferrable senior debt, and by being contractually subordinated to such debt. Therefore, the rating agencies assign equity credit for these types of instruments which equates to an adjustment to capital structure. These adjustments have a material effect on FPL Group Capital and FPL Group's capitalization. For example, Standard and Poor's in 2007 deducted approximately $2.4 billion of project debt and approximately $1.1 billion of hybrid capital instruments when evaluating FPL Group's credit strength.

IMPUTED DEBT

Q. Please summarize the positions taken by the intervenors related to imputed debt for off-balance sheet obligations.

A. While all three witnesses readily accept S&P's adjustment to remove debt from FPL's balance sheet associated with storm recovery bonds, only Mr.

Baudino recognizes the adjustment S&P makes for purchase power obligations in his recommended capital structure. Dr. Woolridge claims that S&P does not provide adequate guidance to calculate the amount of imputed debt. Mr. Pollock similarly claims that "S&P does not provide an objective standard for determining the risk factor" and implies that FPL has misunderstood S&P's criteria and has inappropriately estimated the imputed debt adjustment.

Q. **Do you agree with Dr. Woolridge's claims that S&P does not indicate how the risk factor applied to the net present value of capacity payments is determined, that the risk factor is impossible to determine and that given the lack of guidance from S&P, it is impossible to properly assess the risk factor in this situation?**

A. No I do not. S&P has issued guidance on the methodology utilized to compute the amount of imputed debt they will include in a company's capital structure for purposes of analyzing credit quality. That guidance is quite specific as to how S&P assigns risk factors to the net present value of the stream of minimum capacity payments stating that "In cases where a regulator has established a power cost adjustment mechanism that recovers all prudent PPA costs, **we employ a risk factor of 25%** because the recovery hurdle is lower than it is for a utility that must litigate time and again its right to recover costs."

Q. Is there other evidence that S&P applies a 25% risk factor to the net present value of the minimum capacity payments under FPL's purchase power agreements?

A. Yes. S&P included $1,165.8 million as an adjustment to debt and added $71.5 million in associated interest expense in its calculation of FPL's credit metrics for 2007 in their research report dated July 29, 2008. FPL has recalculated this amount assuming a 25% risk factor adjustment. FPL's calculation totals $1,169.7 million, or within 0.33%. This calculation is attached as Exhibit AP-15.

Q. Do you agree with Mr. Pollock's statement that "In Tampa Electric's (TECO's) most recent rate case, TECO made the same argument that FPL puts forth here and it was rejected by the Commission"?

A. No, I do not. TECO proposed to impute equity that was not in their capital structure to offset the impact of imputed debt for purchase power obligations. FPL is not requesting any adjustment to the actual amount of equity invested in FPL. FPL simply states that purchase power obligations create a debt-like obligation that must be considered in evaluating the reasonableness of the actual capital structure maintained by FPL. Order No. PSC-09-0283-FOF-EI clearly recognizes this distinction and states "The pro forma adjustment to equity proposed by TECO is not an actual equity investment in the utility. If this adjustment is approved for purposes of setting rates in this proceeding, the Company would essentially be allowed to earn a risk-adjusted equity return without having actually made the equity investment." The Order goes further to state "The capital structure and resulting rate of return authorized in FPL's 2005 settlement do not include an imputed equity adjustment."

SHORT TERM DEBT

Q. Do you agree with the recommendations made by Dr. Woolridge and Mr. Baudino as to the amount of short-term debt to be included in FPL's capital structure?

A. No I do not. Both Dr. Woolridge and Mr. Baudino recommend significant increases to the jurisdictional amount of short-term debt proposed by FPL. Both base their recommendation on a review of historical short-term debt balances provided by FPL on MFR D-2.

Q. Are Dr. Woolridge and Mr. Baudino making an appropriate comparison?

A. No, they are not. First, both Dr. Woolridge and Mr. Baudino are failing to recognize the Commission required specific adjustment of $375 million to remove FPL Fuels commercial paper from short-term debt included on MFR D-1B. Second, the jurisdictional balance of short-term debt in the test year is reduced by any prorata adjustments to capital structure. Third, MFR D-2 provides year-end balances that do not recognize the cyclical nature of FPL's cash flows and the resulting impact on short-term debt balances.

Q. What would be a more appropriate comparison to determine the reasonableness of FPL's forecast?

A. It would be more appropriate to compare the 13-month per book average short-term debt balance with historical 13-month per book balances from FPL's historical surveillance reports. These amounts would take into account seasonal fluctuations in FPL's short-term debt balances.

Year	13-Month Avg. Company Total Per Books
2006 Actual	$617,283
2007 Actual	$323,458
2008 Actual	$304,711
2009 Projected	$242,016
2010 Projected	$181,615

Q. Why are the historical 13-month average company per book amounts for short-term debt higher than FPL's projected test year?

A. Average short-term debt balances were up significantly in 2006 and early 2007 due to the funding of storm restoration activities and clause underrecoveries. Average balances in 2008 were higher due to clause underrecoveries and significant issuances of short-term debt during the height of the financial crisis. None of these are projected to occur in the test year.

Q. Mr. Baudino's testimony states that during the peak of the financial turmoil, FPL issued over $1 billion of commercial paper. Why did FPL have such high commercial paper balances in October 2008?

A. The meltdown in the financial market occurred during the height of hurricane season in 2008. The ability to issue commercial paper fluctuated on a daily basis, even for a highly rated issuer such as FPL. Many companies with otherwise good financial strength, but not top tier ratings (e.g. A-2/P-2 short-term ratings from rating agencies) found they were closed out of the market completely. To avoid the very real possibility that the commercial paper markets would completely shut down, we issued debt beyond the daily cash requirements and invested the excess funds in treasury securities with almost no yield at all. The negative arbitrage in interest rates during the peak period of volatility from September to December 2008 resulted in losses of $2.9 million, with those costs borne solely by the shareholders.

Q. Given the size of FPL's credit facility, why doesn't FPL maintain higher commercial paper balances to lower costs to customers?

A. FPL's credit facility of approximately $2.7 billion is primarily available to support FPL's commercial paper program. However, the credit facility also must support a guarantee for FPL Fuels' commercial paper program, FPL's $633 million tax exempt debt portfolio, letters of credit required for the fuel hedging program, and additional liquidity for storm restoration. So practically, the amount of commercial paper that FPL can issue is much lower than the amount of the credit facility.

FPL's and FPL Fuels' commercial paper balances outstanding peaked last year at $1.9 billion. Adding the tax exempt portfolio of $633 million and letters of credit outstanding, the credit facility was very close to capacity. To incorporate additional short-term debt to our forecast would be irresponsible. It could potentially tie up liquidity that would be needed for storm restoration or other unexpected cash requirements that are needed to serve our customers.

Since FPL can't always pick exactly when to go to the market, commercial paper is issued to bridge between long-term financings for the approximately $6 billion of debt that will need to be issued during the next five years. It is in the best interest of our customers that we manage our cash flows efficiently by being able to issue commercial paper as needed without carrying excess commercial paper or cash balances unnecessarily. To do so requires enough capacity and flexibility in the Company's sources of liquidity to handle those daily fluctuations.

Q. What is the appropriate amount of short-term debt for FPL to maintain?

A. FPL proposes to maintain average short-term debt balances as indicated in MFR D-3 to ensure that we will have adequate liquidity available to issue commercial paper throughout seasonal and cyclical fluctuations, periods of market volatility, and periods of storm restoration.

COST OF DEBT

Q. What is the most appropriate method of estimating the cost of short-term debt?

A. I believe that a forward looking rate is most appropriate. Forward London Interbank Offered Rate (LIBOR) curves best represent the market's expectation for these rates in the future. Therefore, FPL has used the 30-day LIBOR forward curve in estimating short-term rates.

Q. Have rates changed since you prepared the forecast supporting the rate request?

A. Yes, but let me explain further. We are currently in a period of historic lows not seen in the last 40 years. LIBOR rates have declined in the short-term since the filing of this case, but the forward curve has actually gotten steeper indicating that rates are forecasted to be well over 3.0% in the near future. Please see Exhibit AP-16. We view these low rates as a market anomaly, and do not expect this trend to continue.

Q. Do you agree with Mr. Baudino's recommendation of 0.60% as the appropriate short-term debt cost?

A. No. I do not agree. Although the short-term debt market is experiencing a period of historic lows, this is primarily a result of interest rates having been artificially driven down by the billions of dollars of liquidity pumped into the market by the federal government. In fact, there has only been one other time in the last 20 years that commercial paper rates have fallen below 2%. LIBOR forecasts indicate that rates will increase and in fact far exceed Mr. Baudino's recommended rate in the next few months. To rely on a specific rate on a specific day would not fairly capture market and investor expectations. It is much more appropriate to use the market's forward looking view when calculating a future cost rather than a rate from a specific point in time to determine the cost of debt.

Q. Is it appropriate to use historical rates to determine the cost of debt?

A. No. It is also not appropriate to use historical rates. The average A1/P-1 thirty day commercial paper rate over the last 20 years is 4.54%. Historical rates do not necessarily reflect current or future rates. Again, I conclude that using forward looking LIBOR rates for the purposes of rate setting is a more appropriate methodology.

Q. Should commitment fees for the credit facility be included in the cost of short-term debt?

A. Yes. Commitment fees on the credit facility are a true cost of issuing short-term debt and should be included in the cost of debt. Without this facility, the Company would be unable to issue commercial paper and furthermore, there is recent precedent for the Commission to approve recovery for commitment fees. In fact, Order No. PSC-09-0283-FOF-EI included 175 basis points for costs associated with Tampa Electric Company's credit facility

Q. Do you agree with Dr. Woolridge's recommendation to use 5.14% as the weighted average cost of long-term debt?

A. No, I do not agree. FPL's actual weighted average cost of long-term debt for 2008 is 5.43% (excluding storm recovery bonds). As can be seen in Exhibit AP-17, in order to have a weighted average cost of long-term debt of 5.14% in 2010, FPL would need to issue long-term debt in 2009 and 2010 at an average rate of 3.70% or below the rate for treasury securities.

ACCRUAL FOR THE ACCOUNT 228.1 RESERVE

Q. Is it possible for the intervenors to have different recommendations regarding the annual storm accrual amount and a target reserve?

A. Yes. It is likely that if five or more witnesses had offered testimony, we would have received five additional recommendations that differed. As indicated in my direct testimony, there is no single correct level either for the annual accrual or the reserve. However, FPL believes the appropriate annual accrual amount and target reserve level should be set so that they are consistent with the Commission's long-standing policies. For reasons explained in the direct testimony, FPL's proposal is consistent with the Commission's past approach to storm cost recovery.

Q. Please summarize your understanding of the Commission's policy on the appropriate reserve balance and annual accrual.

A. The Commission's policy, as articulated in Order No. 95-0264-FOF-EI, is to determine a target reserve balance that is sufficient to protect against most years' storm restoration costs but not the most extreme years. Such a level should reduce FPL's dependence on a relief mechanism such as a special customer assessment. The annual accrual should be set large enough to allow the reserve to build modestly in year's of "normal" hurricane activity, yet low enough to prevent unbounded storm fund growth.

Q. Do you agree with Ms. Brown and Mr. Kollen who suggest FPL's annual storm damage accrual request of $150 million should be denied, as the ratepayers should fund restoration costs on a "pay as you go" approach, potentially layering surcharges on the customer bill as the costs are incurred during these tough economic times?

A. No. The requested storm accrual of $150 million is to cover expected annual windstorm losses and to reestablish the reserve to a level adequate to fund most but not all windstorm losses.

FPL gave consideration to the following factors in making the annual storm damage accrual request: 1) Commission policy from past orders; 2) Actual storm damage incurred over the past 15 years; 3) Range of expected annual cost for windstorm losses $146.6 million to $153.3 million, inclusive of hardening benefits; 4) Impact of recent severe and unprecedented storm seasons on customer bills; and 5) Florida may be in a more active hurricane period.

The accrual and reserve approach is the most cost-effective means by which FPL can ensure critical funds are available when needed while at the same time providing stability of customer bills and thereby minimizing the overall impact of hurricanes in our service territory.

Emergency relief mechanisms, such as a special customer assessment, create volatility in customer bills. FPL, with Commission approval, exercised both surcharges and securitization relief mechanisms after the unprecedented storm seasons experienced in 2004 and 2005. The Commission recognizes emergency relief mechanisms are one of the principal components to storm cost recovery. The other two principal components are an annual storm accrual, adjusted over time as circumstances change, and a reserve adequate to accommodate most but not all storm years. The regulatory framework is designed to provide the flexibility to prevent unbounded growth of the storm fund during extended periods of extremely low storm activity as well as provide for supplemental recovery of deficits in the reserve during periods of high storm activity.

These three parts act together to allow FPL over time to recover the costs of storm restoration, while at the same time balancing competing customer interests, namely: holding the ongoing impact to reasonable levels; reducing volatility in customer bills which occurs when the reserve is insufficient; and promoting intergenerational equity. Unfortunately, tropical storms and hurricanes are a regular hazard of life in Florida.

Not providing for a reasonable annual storm accrual increases the risk to customers of FPL by not having adequate cash on hand or access to cash required for timely storm repairs and service restoration. FPL had exactly this concern during the peak of the 2008 hurricane season when it had a comparatively small reserve fund balance and financial markets were in an acute crisis stage. While it was able to access capital markets at the time due to its position of financial strength, there is no assurance that this will always be the case in the future. A bad hurricane at that time would have greatly stressed FPL's ability to obtain cash to fund service restoration – a problem that would have been further compounded when one considers all of the other affected private and governmental entities that would have been competing for storm recovery cash at the same time. FPL's customers are clearly better off when their electric utility has on hand a substantial dedicated cash reserve to deal with unexpected exigent circumstances.

Q. Ms. Brown and Mr. Kollen propose that storm securitization or a surcharge should be used exclusively to recover any negative balances in the storm reserve. Do you agree with this recommendation?

A. No. With an annual accrual of $150 million, as proposed by FPL, and assuming a few years of below average storm losses, the reserve may be sufficient to avoid an additional surcharge or securitization during that period of time. However, FPL witness Harris' analysis concludes that the expected value of the reserve under the Company's recommendation would be approximately $382 million after five years and that there would be a 33% chance that the reserve would be insufficient at some point over the next five years to fund required storm restoration costs.

Consistent with prior Commission orders, FPL believes that a reserve balance is appropriate, as it would not be good public policy to continually recover negative balances through special customer assessments, since they create volatility in customer bills. While FPL utilized the storm securitization bonds in the past to recover the excessively large restoration costs from 2004 and 2005, and the approach provides the Commission with another alternative to fund storm restoration costs, the storm securitization bonds cannot be relied upon as an economically viable option under all financial market conditions, especially in light of the economic downturn.

Q. Why do you feel the securitization bonds cannot always be relied upon as a viable option?

A. First, the funding of securitization bonds is a lengthy and costly process. The Company needs a plan in place now to alleviate future storm costs. At a minimum, the securitization process takes approximately a year which does not make it a replacement for the liquidity needed to fund restoration activities.

Second, due to the economic downturn and financial market crisis, the current financial environment would be limited, if not completely unsupportive of securitization. FPL and the Commission must implement rates that allow FPL to begin to replenish the reserve, while moving toward a reasonable target given current expected annual losses.

Q. What are the factors of the securitization process that should be taken into consideration in light of the economic downturn?

A. First, the charge to the customer bill is irrevocable and non-bypassable, which is in order to ensure repayment of the issued storm bonds. Therefore, additional surcharges or assessments would need to be layered on top of the current assessment for securitization causing volatility in customer bills over time and potentially creating a negative credit impact for FPL.

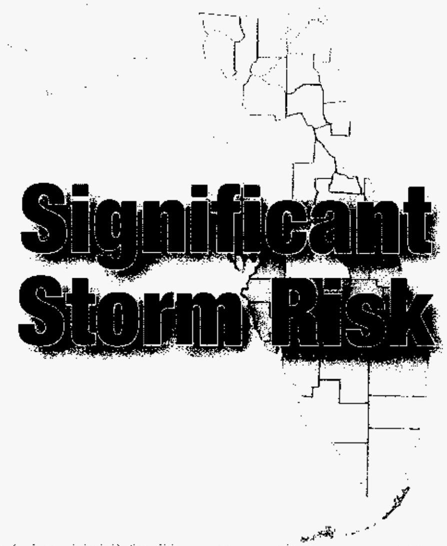
Second, factors contributing to an economical securitization which are subject to prevailing market conditions are; pricing, interest rates, terms, and structuring characteristics. There are also ongoing costs related to servicing the bonds, such as servicing fees, legal and accounting costs, trustee fees, rating agency fees, and administrative costs.

The issuance of storm recovery bonds provides the Commission with an additional option for recovery of storm restoration costs that have exceeded the reserve and for replenishment of the reserve. Special customer assessments are not intended to serve as a replacement for long-standing Commission storm cost recovery policy.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Strong Financial Position Required to Address Inherent Regulated Business Risks and Specific Company Risks



Unique FPL Risks That Are Material to Investors

FPL Risk	Addressed By Investor Rating Agency?	Addressed By Intervenor Witnesses?		
		Woolridge	Baudino	Pollock
Hurricane/Geographic Position	YES (Moody's, Fitch)	NO	NO	NO
Large Capital Expenditures	YES (Moody's, Fitch, S&P)	NO	NO	NO
Gas Price Volatility/Fuel Mix	YES (Moody's, Fitch, S&P)	NO	NO	NO
Dependence on Natural Gas	YES (Moody's, Fitch)	NO	NO	NO
Existing Nuclear Generation	YES (Fitch)	NO	NO	NO
Developing Nuclear Generation	YES (Moody's, Fitch)	NO	NO	NO
Florida Economy/ Customer Growth	YES (Moody's, Fitch, S&P)	NO	NO	NO

Intervenors Ignore Every FPL Company Specific Risk

FPL's Risks Are Greater Than Tampa Electric Co.'s

GREATER BUSINESS RISK

Business Risk	FPL	Tampa Electric
Hurricane/Geographic Position	✓	
Large Capital Expenditures	✓	
Gas Price Volatility/Fuel Mix	✓	
Dependence on Natural Gas	✓	
Existing Nuclear Generation	✓	
Developing Nuclear Generation	✓	
Florida Economy/ Customer Growth	=	=
Environmental Compliance Costs		✓

Docket No. 080677-EI
FPL /Tampa Electric Risk Comparison
Exhibit AP-9, Page 1 of 1

FPL Test Year Capitalization

	GAAP*	Regulatory: All Sources	Regulatory: Investor Sources	Test Year Capitalization
Short-Term Debt	3.5%	1.0%	1.2%	1.1%
Long-Term Debt	40.9%	31.5%	39.2%	43.1%
Common Equity	55.6%	47.9%	59.6%	55.8%
Customer Deposits		3.3%		
Deferred Income Taxes		16.0%		
Investment Tax Credits		0.3%		

- Include all regulatory sources of capital
- Remove storm bonds
- Remove items recovered outside base rates

- Exclude non-investor sources

- Add significant obligations considered by investors

** Book capital structure prepared in accordance with Generally Accepted Accounting Principles (GAAP)*

Docket No. 080677-EI
FPL Test Year Capitalization
Exhibit AP-10, Page 1 of 1

Florida Power & Light Company Capital Structure from Investor Sources
($000's)

	Investor View (Year-End)						Regulatory View (13-Month Average)			
			S&P Adjustments							
			Storm Recovery	Imputed Debt	Adjusted Capital Structure		Jurisdictional	Imputed Debt	Adjusted Capital Structure	
	Amount	Ratio	Bonds	for PPAs	Amount	Ratio	Adjusted[1]	for PPAs	Amount	Ratio
Projected 12/31/2010										
Short-term Debt	549,207	3.09%			549,207	3.02%	161,857		161,857	1.10%
Long-term Debt	7,670,689	43.14%	(530,958)	949,260	8,088,991	44.45%	5,377,787	949,260	6,327,047	43.14%
Equity	9,559,882	53.77%			9,559,882	52.53%	8,178,980		8,178,980	55.76%
Total	17,779,778	100.00%	(530,958)	949,260	18,198,080	100.00%	13,718,624	949,260	14,667,884	100.00%
Projected 12/31/2009										
Short-term Debt	710,087	4.53%			710,087	4.40%	217,274		217,274	1.62%
Long-term Debt	6,312,418	40.28%	(572,743)	1,046,766	6,786,441	42.04%	4,668,864	1,046,766	5,715,630	42.67%
Equity	8,648,116	55.19%			8,648,116	53.57%	7,461,658		7,461,658	55.71%
Total	15,670,621	100.00%	(572,743)	1,046,766	16,144,644	100.00%	12,347,796	1,046,766	13,394,562	100.00%
Actual 12/31/2008										
Short-term Debt	772,934	5.35%			772,934	5.17%	323,363		323,363	2.52%
Long-term Debt	5,574,297	38.61%	(611,218)	1,111,353	6,074,432	40.67%	4,407,093	1,111,353	5,518,446	43.08%
Equity	8,089,654	56.03%			8,089,654	54.16%	6,968,462		6,968,462	54.40%
Total	14,436,885	100.00%	(611,218)	1,111,353	14,937,020	100.00%	11,698,918	1,111,353	12,810,271	100.00%
Actual 12/31/2007										
Short-term Debt	842,300	6.32%			842,300	6.08%	361,850		361,850	2.96%
Long-term Debt	5,216,622	39.12%	(652,000)	1,169,728	5,734,350	41.40%	3,941,416	1,169,728	5,111,144	41.81%
Equity	7,275,308	54.56%			7,275,308	52.52%	6,752,431		6,752,431	55.23%
Total	13,334,230	100.00%	(652,000)	1,169,728	13,851,958	100.00%	11,055,697	1,169,728	12,225,425	100.00%
Actual 12/31/2006										
Short-term Debt	630,100	5.09%			630,100	4.63%	643,567		643,567	5.51%
Long-term Debt	4,213,715	34.03%	-	1,223,915	5,437,630	39.96%	3,486,292	1,223,915	4,710,207	40.31%
Equity	7,539,303	60.88%			7,539,303	55.41%	6,331,843		6,331,843	54.18%
Total	12,383,118	100.00%	-	1,223,915	13,607,033	100.00%	10,461,702	1,223,915	11,685,617	100.00%

[1] Note, FPL's Storm Recovery Bonds have already been excluded from Jurisdictional adjusted amounts.

Florida Power & Light Company and Subsidiaries
Projected Book Capital Structure

	MFR D-2 12/31/2009	1/31/2010	2/28/2010	3/31/2010	4/30/2010	5/31/2010	6/30/2010	7/31/2010	8/31/2010	9/30/2010	10/31/2010	11/30/2010	MFR D-2 12/31/2010	13-Month Avg.
Short-term Debt	710,087	476,969	406,881	701,218	736,777	858,182	517,849	499,051	491,505	486,130	497,352	517,632	549,207	572,988
Long-term Debt	6,312,417	6,312,549	6,290,549	6,290,681	6,290,812	6,290,943	7,091,074	7,091,205	7,071,684	7,071,815	7,070,427	7,070,558	7,670,688	6,763,492
Equity	8,648,116	8,947,747	8,957,119	8,987,575	9,025,892	9,083,882	9,166,322	9,253,463	9,350,713	9,435,500	9,497,235	9,533,994	9,559,882	9,188,265
Total	15,670,621	15,737,264	15,654,550	15,979,474	16,053,480	16,233,007	16,775,245	16,843,718	16,913,902	16,993,445	17,065,014	17,122,184	17,779,777	16,524,745
Short-term Debt	4.5%	3.0%	2.6%	4.4%	4.6%	5.3%	3.1%	3.0%	2.9%	2.9%	2.9%	3.0%	3.1%	3.5%
Long-term Debt	40.3%	40.1%	40.2%	39.4%	39.2%	38.8%	42.3%	42.1%	41.8%	41.6%	41.4%	41.3%	43.1%	40.9%
Equity	55.2%	56.9%	57.2%	56.2%	56.2%	56.0%	54.6%	54.9%	55.3%	55.5%	55.7%	55.7%	53.8%	55.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Reconciliation of Thirteen-month Average to Company Total Per Books (Column 2 on Schedule D-1A)

	13-Month Avg per GAAP Books	Nuclear Fuel Lease[1]	Unamort. Debt Issue Costs[2]	Company per Books on Sched. D-1A
Short-term Debt	572,988	(391,373)		181,615
Long-term Debt	6,763,492	374,898	(66,014)	7,072,376
Equity	9,188,265			9,188,265
Total	16,524,745	(16,475)	(66,014)	16,442,256

[1] Removes FPL Fuels Company and reclassifies as a capital lease obligation.
[2] Reclassifies unamortized debt issuance costs from rate base to capital structure (amount from D-4a).

Florida Power & Light Company
Impact of 2010 Commission Specific Adjustments
($ 000's)

	Company per Books on Schedule D-1A		Commission Specific Adjustments per Schedule D-1B				Company per Books after Commission Specific Adj.	
	Amount	Ratio	Nuclear Fuel Lease	Storm Recovery Bonds	Prepaid Interest on Comm. Paper	Non-Utility Property	Amount	Ratio
Short-term Debt	181,615	1.1%					181,615	1.2%
Long-term Debt	7,072,376	43.0%	(374,898)	(531,855)	(1,110)		6,164,513	39.7%
Equity	9,188,265	55.9%				(9,519)	9,178,746	59.1%
Total	16,442,256	100.0%	(374,898)	(531,855)	(1,110)	(9,519)	15,524,874	100.0%

	Dr. Woolridge's Recommended Book Capital Structure		Commission Specific Adjustments per Schedule D-1B				Company per Books after Commission Specific Adj.	
	Amount	Ratio	Nuclear Fuel Lease	Storm Recovery Bonds	Prepaid Interest on Comm. Paper	Non-Utility Property	Amount	Ratio
Short-term Debt	629,647	3.8%					629,647	4.0%
Long-term Debt	6,991,553	41.8%	(374,898)	(531,855)	(1,110)		6,083,690	38.5%
Equity	9,103,999	54.4%				(9,519)	9,094,480	57.5%
Total	16,725,199	100.0%	(374,898)	(531,855)	(1,110)	(9,519)	15,807,817	100.0%

Florida Power & Light Company
Impact of Witness Baudino's Proposed Equity Adjustment
(000's)

	FPL's 2010 Projected GAAP Book Capital Structure (Thirteen-Month Average)		Mr. Baudino's Recommended	Mr. Baudino's Recommended Book Capital Structure	
	Amount	Ratio	Equity Adjustment	Amount	Ratio
Short-term Debt	572,988	3.5%		572,988	3.5%
Long-term Debt	6,763,492	40.9%	845,038	7,608,530	46.0%
Equity	9,188,265	55.6%	(845,038)	8,343,227	$\boxed{50.5\%}$
Total	16,524,745	100.0%	-	16,524,745	100.0%

Florida Power & Light Company
PROJECTED CAPACITY PAYMENTS THROUGH END OF CONTRACT

YEAR	$ SoCo	MW	$ SJRPP	MW	$ QF's	MW	$ Other electricity suppliers	$ TOTAL
2007	123,531,703	930	71,653,975	381	316,149,792	738		511,335,469
2008	131,648,871	931	69,431,282	375	323,621,134	738	11,515,380	536,216,667
2009	143,586,622	931	77,100,048	375	322,150,477	740	47,841,168	590,678,315
2010	138,073,947	945	86,590,720	375	291,970,539	690	8,342,400	524,977,606
2011	119,493,980	955	86,786,338	375	264,468,545	595	8,342,400	479,091,263
2012	119,493,980	955	86,233,473	375	269,659,845	595	2,127,312	477,514,609
2013	119,493,980	955	83,582,306	375	248,470,252	595		451,546,537
2014	119,493,980	955	63,046,694	375	250,655,749	595		433,196,422
2015	119,493,980	955	39,773,108	375	255,327,098	595		414,594,186
2016			39,756,243	375	214,443,805	595		254,200,048
2017			37,700,388	375	218,238,931	595		255,939,319
2018			34,864,003	375	222,217,419	595		257,081,422
2019			28,151,068	375	226,428,814	595		254,579,881
2020			18,606,060	375	230,811,757	595		249,417,818
2021			14,943,190	375	235,384,813	595		250,328,004
2022					240,129,425	595		240,129,425
2023					245,225,816	595		245,225,816
2024					250,480,209	595		250,480,209
2025					77,240,707	345		77,240,707
2026					6,993,060	15		6,993,060
TOTAL	$1,010,779,337		$766,564,920		$4,393,918,396		$78,168,660	$6,249,431,313

Interest Rate	6%
Risk Factor	25%
2007	$1,169,728,109
2008	$1,111,353,062
2009	$1,046,766,160
2010	$949,259,875

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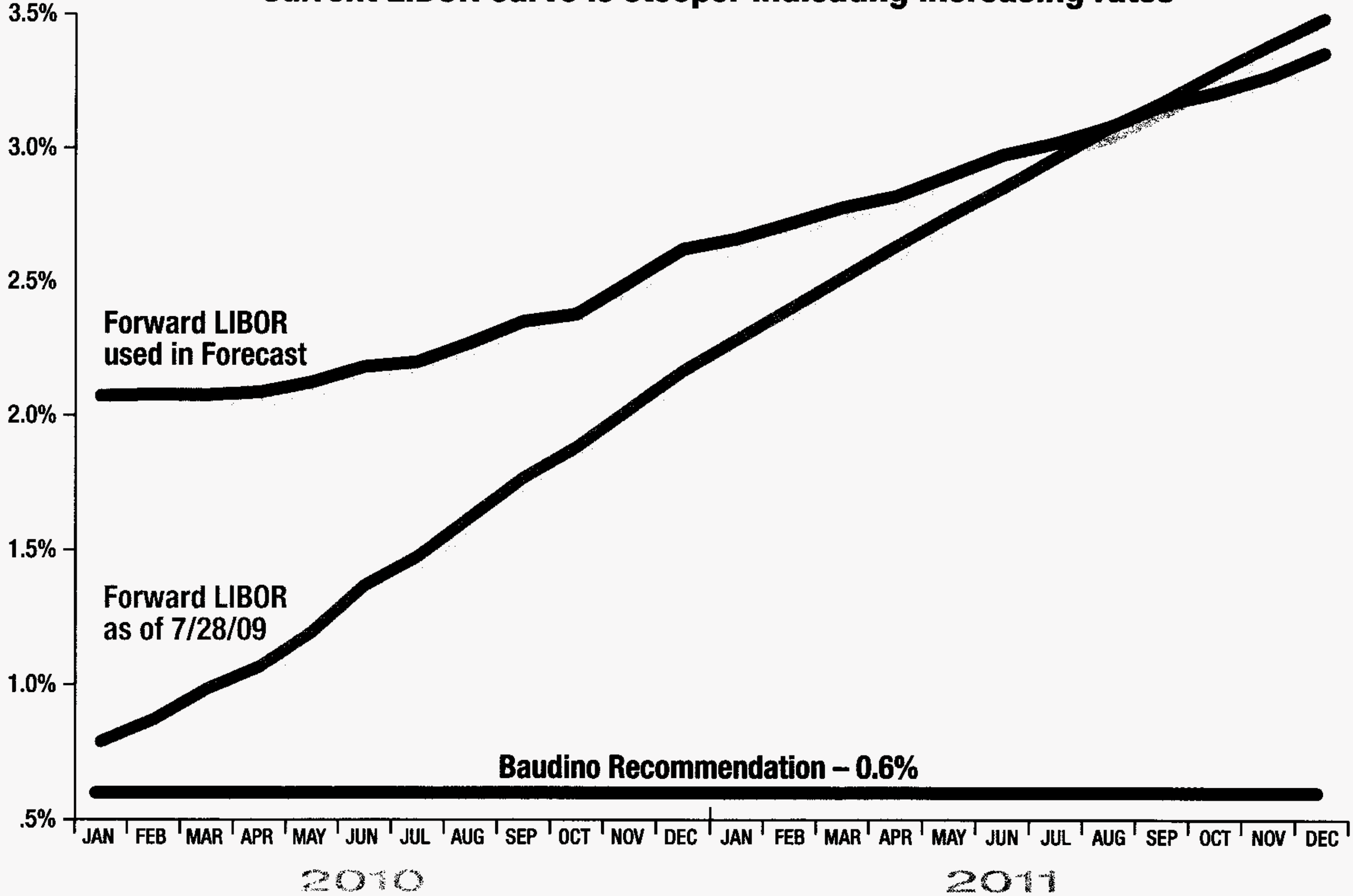
Imputed Debt Calculation
Exhibit AP-15, Page 1 of 1

Short-Term Debt Cost – 30-Day LIBOR Curve

Current LIBOR curve is steeper indicating increasing rates



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Short-Term Debt Costs -
30-Day LIBOR Curve
Exhibit AP-16, Page 1 of 1

Florida Power & Light Company
Weighted Average Cost of Long-Term Debt
($000s)

	Long-Term Debt 13-Month Average	Long-Term Debt Cost Rate	Total Annual Cost
		As Proposed by Woolridge	
Long-Term Debt Per D1A for Test Year 2010	7,072,377	5.14%	363,520
		Per D1-A	
Long-Term Debt Per D1A for Historical Year 2008	5,883,670	5.43%	319,483
Difference in Long-Term Debt Requirements	1,188,707	3.70%	44,037

Lower than the rate for 30-year US Treasury securities