BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No: 120015-EI
Filed: July 2, 2012

DIRECT

TESTIMONY AND EXHIBITS

OF

DANIEL J. LAWTON

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

04418 JUL-2 ≌

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

EXHIBITS

DIRECT TESTIMONY

Of

Daniel J. Lawton

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 120015-EI

I. INTRODUCTION/BACKGROUND/SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel J. Lawton. My business address is 701 Brazos, Suite 500, Austin, Texas 78701.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have been working in the utility consulting business as an economist since 1983. Consulting engagements have included electric utility load and revenue forecasting, cost of capital analyses, revenue requirements/cost of service reviews, and rate design analyses in litigated rate proceedings before federal, state and local regulatory authorities. I have worked with municipal utilities developing electric rate cost of service studies for reviewing and setting rates. In addition, I have a law practice based in Austin, Texas. My main areas of legal practice include administrative law representing municipalities in electric and gas rate proceedings and other litigation and contract matters. I have included a brief description of my relevant educational background and professional work experience in Schedule (DJL-1).

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE PROCEEDINGS?

A. Yes. A list of cases where I have previously filed testimony is included in Schedule (DJL-1).

Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. I am testifying on behalf of the Florida Office of Public Counsel (OPC).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address two issues in this case. First, I address the Company's requested 25 basis point return on equity performance bonus. In this case, Florida Power & Light ("FPL" or "Company") requests an equity return of 11.25% and then further requests an additional performance bonus adjustment of .25% or 11.50% total equity return. OPC witness Woolridge addresses the 11.25% return on equity request, while I address the incremental 25 basis point performance bonus request.

The second issue I address is FPL's financial integrity. Specifically, I address the impact of the OPC recommended revenue requirement on FPL's financial metrics and financial integrity.

II. BONUS EQUITY RETURN REQUEST

Q. WHAT ISSUE DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony I address the Company's proposed return on equity performance adder. As discussed below, the Company has requested that its estimated equity return or shareholder profit be increased from the requested 11.25% to 11.50%. Under FPL's proposal the 25 basis point bump up is added to shareholder profit, to be paid by customers so long as FPL maintains the lowest typical or average residential rate in Florida measured on an annual basis.

The customer cost of this proposed performance adder to customers is estimated to be $41.6 million per year of increased customer payments to bottom line shareholder profits.

Q. HOW DOES FPL PROPOSE TO IMPLEMENT THE ROE PERFORMANCE ADDER?

A. If approved by the Commission, the ROE performance adder (about $41.6 million in tariff revenue rates) would be charged to customers. Then, in September of each year, as part of FPL's annual fuel filing, FPL would submit a typical residential bill comparison of FPL compared to the other Florida utilities for the prior 12 months.

If the bill comparison shows FPL with the lowest typical bill in the prior twelve months then FPL would charge and collect the $41.6 million ROE performance adder for the next year starting January 1 of the following year. If the bill comparison shows that FPL does not have the lowest typical residential bill, then FPL would lower rates by $41.6 million beginning January 1 of the following year.

Thus, under FPL's ROE performance adder proposal, the $41.6 million of revenue requirement is subject to proof each September and annual change each January 1, much like a fuel charge or other temporary rate. The proof or standard proposed by FPL is discussed in witness Deaton's testimony where the following stated:

Each September, in conjunction with FPL's annual fuel filing, FPL will prepare and submit to the Commission a comparison of its typical residential bill to the other Florida utilities for the prior 12 months. The comparison will be based on publicly available data from the Commission web site, the FEMA bill survey, the JEA bill survey, and the Reedy Creek Improvement district web site.[1]

Q. HAS FPL PROVIDED AN EXAMPLE OF HOW SUCH A RATE COMPARISON HAS LOOKED HISTORICALLY?

A. Yes. Such a rate comparison of FPL versus other Florida utility companies for a typical 1,000kwh residential customer can be found in witness Deaton's Exhibit RBD-3 for the years 2009-2011.

Q. WHAT IS THE ESTIMATED COST OF IMPLEMENTING A 25 BASIS POINT RETURN ON EQUITY PERFORMANCE ADDER?

[1] FPL witness Renae Deaton Direct Testimony at 23:14-19.

A. The equity return performance adder increases revenue requirements by $41,551,085 per year.[2] The added revenue requirement would be collected as an added energy/Kwh charge to rates.

The calculation of the $41,551,085 is based on increasing the equity portion of return from 11.25% to 11.50% for the proposed January 2013 Base Rate Increase and the proposed June 2013 Canaveral step increase.[3] The equity return performance request impacts both these increases in the amounts of $39,508,164 and $2,042,922 respectively. I have included in Schedule (DJL-2) FPL's calculation of those amounts.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE COMPANY'S EQUITY PERFORMANCE ADDER?

A. In my opinion, the requested equity performance adder should be denied. The Company's requested $41.6 million is unnecessary for the efficient provision of electrical service to customers. To begin with, differences in rate levels are to some extent attributable to factors other than management performance. More fundamentally, the notion of an ROE adder is antithetical to the concept of a protected monopoly, which accepts and enjoys many advantages over competitive enterprises. Moreover, the Company's request, if granted, leads to unjust rates.

[2] Direct Testimony Deaton, Exhibit RBD-8
[3] Direct Testimony Ousdahl at Exhibit KO-8

Q. PLEASE EXPLAIN YOUR STATEMENT THAT DIFFERENCES IN RATE LEVELS ARE ATTRIBUTABLE TO FACTORS OTHER THAN MANAGEMENT PERFORMANCE.

A. For example, the costs that a utility incurs to provide service are influenced by the geographical characteristics of its service area and the density of development in that service area, as well as customer mix, vintage of equipment, etc. A utility that has a service area in which there are twice as many customers per square mile as an adjacent utility will incur lower unit costs than its neighbor, and its rates will reflect its lower cost structure, but the reason for lower costs and lower rates has little to do with management performance.

Another example that is pertinent to FPL's request relates to regulatory actions. In the Company's last base rate case, FPL sought a base rate increase in excess of $1.0 billion per year. The Commission denied such an increase and as a result FPL's rates remained lower than they otherwise would have been. Moreover, under the settlement of the last case, FPL has earned 11% on equity. Now, the Company believes it should be rewarded with a $41.6 million bonus for superior performance. But the only performance was this Commission's denying the last rate case increase request which led to the lower rates enjoyed by FPL customers.

Q. IN YOUR OPINION, DOES FPL REQUIRE A REWARD MECHANSIM?

A. No. The proposal FPL has made in this case is more akin to an excess profit mechanism than a performance reward mechanism. In my opinion, this proposal should be simply denied as it has no merit and was not well thought out.

Q. PLEASE ADDRESS THE ISSUE OF WHETHER A PERFORMANCE FACTOR IS APPROPRIATE GIVEN THAT UTILITIES HAVE AN OBLIGATION TO SERVE.

A. The Company takes the position that positive economic incentives to induce "pursuit of superior outcomes" and mimic economic incentives of freely competitive markets are positive actions.[4] In my opinion, monopolies such as FPL, when granted the monopoly franchise, have a duty to provide superior performance in exchange for cost recovery plus an opportunity to earn a return or profit commensurate with profits earned from similar risk ventures. "Superior performance" includes providing service at the lowest rates consistent with good service. In other words, efforts to keep rates as low as possible are part and parcel of FPL's obligation to serve. It is basic that an *obligation* does not require an incentive or a bonus to fulfill.

Further, FPL enjoys advantages that competitive enterprises must envy—absence of competition for market share; cost recovery clauses that greatly reduce the risk that costs will not be recovered; the ability to seek changes in prices when necessary to have an opportunity to earn a fair return, just to name a few. In short, FPL enjoys a privileged position. No additional bonus or reward should be necessary. FPL is proposing to change the regulatory structure that has existed for many years in an effort to extract added profits. This is unfair and unnecessary.

Q. IS THE REQUESTED 25 BASIS POINT ROE PERFORMANCE ADDER NECESSARY FOR THE COMPANY TO HAVE AN OPPORTUNITY TO

[4] Direct Testimony, Dewhurst at 50:15-23

EARN A REASONABLE RETURN OR MAINTAIN FINANCIAL INTEGRITY?

A. No. The Company's own evidence and request for an 11.25% equity return establishes that the additional 25 basis point adder is not necessary for shareholders' return or necessary for financial integrity of the Company.[5] I should note that OPC witness, Dr Woolridge, addresses the Company's 11.25% equity return request and is proposing a lower return on equity for this case. Implicit in the Commission's establishment of an authorized return on equity is the concept that the authorized return will provide the utility with the opportunity to earn a fair return. Given that the Company's claimed required return on equity does not include the added $41.6 million associated with the proposed Return on Equity Performance Adder, FPL's financial integrity and associated financial metrics are not dependent on these funds.

III. <u>FINANCIAL INTEGRITY</u>

Q. WHAT ISSUE DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony I address FPL's financial integrity and the impact of the OPC revenue requirement recommendation on FPL's financial metrics.

Q. HAVE YOU REVIEWED CREDIT RESEARCH REPORTS FOR THE COMPANY REGARDING CREDIT QUALITY AND CORPORATE FINANCIAL METRICS?

---

[5] Direct Testimony, William Avera at 4:11.

A. Yes. The Company's credit quality is strong. It is not threatened or under significant pressure of downgrade. Current bonus depreciation impacts on cash flow will cause rating agencies to focus more on earnings such as earnings before interest, taxes, depreciation and amortization ("EBITDA") metrics, rather than pure cash flow measures which are temporarily influenced by current tax law impacts.

Q. HAVE YOU REVIEWED RECENT CREDIT REPORTS OF FPL?

A. Yes, a Standard & Poor's April 24, 2012 credit research report identifies the Company's strengths and weaknesses as follows:

Strengths:

- High-quality electric utility that generates steady earnings and cash flows;
- Active efforts by the parent to sustainably reduce commodity price risk exposure in highly diversified unregulated activities at the parent;
- Low regulatory risk in Florida and relatively strong service territory with good customer growth prospects and a predominantly residential and commercial base.

Weaknesses:

- Aggressive capital spending plans that stress financial metrics;
- Dependence on natural gas to generate electricity in Florida; and
- Higher-risk operations and less dependable cash flows from merchant generation, energy trading and other unregulated activities.[6]

Standard & Poor's bases it ratings and evaluation of FPL "...on the consolidated credit profile of its parent, diversified energy holdings company NextEra Energy, Inc."[7] Thus, no matter how well FPL utility operations perform – the ultimate credit rating is dependent on the consolidated parent including often times underperforming non-utility operations. For example, Standard & Poor's states; "...credit

[6] Standard & Poor's RatingsXpress Credit Research, April 24, 2012 at 1.
[7] *Id*

fundamentals on the regulated utility side have been among the strongest in the U.S., due primarily to low regulatory risk and an attractive service territory with healthy economic growth and a sound business environment."[8] While S&P points to recent economic turmoil and unfavorable (its term) regulatory decisions for FPL that have impacted risk profiles, a more fundamental risk is NextEra's unregulated businesses potential to "...erode its consolidated business risk profile."[9]

Q. IS IT IMPORTANT TO RECOGNIZE THE DIFFERENCES BETWEEN UTILITY OPERATIONS AND NON UTILITY OPERATIONS WHEN EVALUATING CREDIT METRICS?

A. Yes. The regulated operations should support quality credit or financial integrity, but should not be bolstered through higher rates to compensate for higher risks associated with non-utility operations.

Q. DOES S&P VIEW FPL'S UTILITY OPERATIONS AS AN OVERALL CREDIT POSITIVE?

A. Yes. For example, S&P states; "FPL represents about half of the consolidated [NextEra] credit profile and has better business fundamentals than most of its integrated electric peers, with a better-than-average service territory, sound operations, and a credit-supportive regulatory environment in which the company has

[8] *Id*
[9] *Id*

been able to manage its regulatory risk very well."[10] S&P also views FPL's significant exposure to natural gas as detracting from credit quality.[11]

On the other hand, S&P views NER, the main subsidiary under unregulated NextEra, as facing "...an inherent level of commodity price risk"..."extensive project financing"...and..."diminishe[d]...cash flow quality."[12] S&P concludes by stating "NER's risks permanently hinder NextEra's credit quality, especially in light of the influence that marketing and high-risk proprietary trading results have on NER's earnings and cash flow."[13]

The bottom line is that FPL's credit rating is based on the consolidated credit profile of its parent. While FPL's credit metrics, cash flows, and business fundamentals are better than most of its electric peers, the unregulated NextEra operations and the associated risks permanently hinder NextEra's consolidated credit quality.

Q. HAVE YOU REVIEWED ANY CREDIT EVALUTIONS BY MOODY'S?

A. Yes. I have reviewed a recent June 6, 2012 credit opinion of Moody's for NextEra Energy, Inc. Moody's rates the parent NextEra at Baa1 and FPL's issuer rating is A2. Both the parent and FPL's ratings are viewed as stable by Moody's, that is, there are no indicators -- positive or negative -- at this time.

---

[10] *Id*
[11] *Id*
[12] *Id*
[13] *Id*

Moody's assessment of the FPL operations is that "FPL continues to exhibit some of the stronger financial performance measures and cash flow coverage ratios in the industry…"[14] But, similar to S&P's overall assessment, Moody's notes higher risks associated with the non-regulated operations of the parent.[15]

Q. WHAT FINANCIAL RATIOS OR FINANCIAL METRICS SHOULD THE COMMISSION CONSIDER WHEN EVALUATING COST OF EQUITY?

A. In my opinion, the Commission should consider the financial metrics that bond rating agencies consider in evaluating credit risk to a Company. Three key financial metrics involve cash flow coverage of interest, cash flow as a percentage of debt, and debt leverage ratio.

Q. HOW ARE THESE FINANCIAL RATIOS CONSIDERED AND CALCULATED?

A. Ratings agencies such as Moody's and Standard & Poor's develop rating guidelines that make explicit general ratings outcomes that are typical or expected given various financial and business risk combinations. A rating matrix or guideline is just that, a guideline, not a rule written in stone that guarantees a particular rating for a particular achieved financial metric level.

Funds from a company's operations, in other words cash flow, are very critical to any rating/risk consideration. Interest and principal obligations of a company cannot be

[14] Moody's Global Credit Research, Credit Opinion: NextEra Energy, Inc. (June 6, 2012) at 4.
[15] *Id*

paid out of earnings if earnings are not cash. Thus, analyses of cash flow reveal debt servicing ability.

Debt and capital structure considerations are indicative of leverage and flexibility to address financial changes. The liquidity crisis that hit all markets and industries is an example of the importance of financial flexibility. Stable and continuous cash flows provide financial flexibility.

Each of these financial ratios is calculated in my Schedule (DJL-3), employing all of OPC's recommendations in this proceeding. The results of my analyses indicate strong financial metrics, supporting the current A- FPL bond rating.

Q. PLEASE DEFINE THE TERM FINANCIAL INTEGRITY AS YOU USE IT IN YOUR ANALYSIS.

A. The term financial integrity is a term or concept that addresses a firm's ability to access capital at reasonable rates and on reasonable terms. Financial integrity should also be sufficient to attract capital under a variety of market and economic conditions. The Company, the shareholders, the regulatory authority and the customers have a stake in the Company maintaining financial integrity and access to capital markets.

Q. WHAT ARE KEY CREDIT METRICS THAT ARE INDICATORS OF CREDIT QUALITY?

A. As discussed earlier, the two primary rating agencies that provide credit ratings for FPL and its parent NextEra are Moody's and Standard & Poors ("S&P") and both emphasize similar credit metrics. For example, among the key financial metrics considered by Moody's are: (i) cash from operations as a percentage of debt (CFO/Debt), (ii) cash from operations plus interest divided by interest (CFO/Interest), and (iii) Debt/Capitalization. Financial metrics such as CFO/Debt and CFO/Interest are measures of cash flow, while Debt/Capitalization measures the degree to which debt leverage is used to fund operations.

S&P employs three similar financial metrics in evaluating financial integrity and ratings of a company. For example, S&P employs Funds From Operations as a percentage of Debt (FFO/Debt). This financial measure evaluates cash flow support of debt, which is similar to Moody's CFO/Debt measure. Another S&P metric is the size of debt compared to earnings before income tax, depreciation and amortization (Debt/EBITDA). This metric (Debt/EBITDA) is a measure of a company's ability to pay off debt and is similar to Moody's (CFO/Interest) metric. A third S&P financial metric is Debt to Capital (Debt/Capital) and is the same indicator of financial leverage employed by Moody's as discussed earlier.

Q. PLEASE DESCRIBE AND ADDRESS THE ASPECTS OF S&P'S RATING METHODOLOGY THAT ARE HELPFUL IN UNDERSTANDING FPL'S CREDIT RATING AND FINANCIAL INTEGRITY.

A. One aspect of the S&P evaluation is the employment of a ratings matrix to facilitate the development of credit ratings that combines the consideration of financial risk and business risk. The following table summarizes the S&P ratings matrix matching credit ratings to financial and business risk as shown:

Table 1
S&P Ratings Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
1. Excellent	AAA	AA	A	A-	BBB	--
2. Strong	AA	A	A-	BBB	BB	BB-
3. Satisfactory	A	BBB	BBB	BB+	BB-	B+
4. Fair	--	BBB-	--	BB	BB-	B
5. Weak	--	--	--	BB-	B+	B-
6. Vulnerable	--	--	--	B+	B	CCC+

S&P ranks FPL as having a Business Risk Profile of "Excellent" category.[16] S&P ranks FPL's Financial Risk Profile as "Intermediate."[17] FPL's current S&P senior issuer and corporate credit rating is A-, which is within one notch of the rating indicated by the matrix. As can be seen from the above matrix, an "Excellent" business risk profile, which FPL enjoys, when combined with an "Intermediate" or even a "Significant" financial risk profile, is consistent with single "A" ratings by S&P. Thus, to be conservative, I have included in my benchmark analysis, shown in Schedule (DJL-3), both "intermediate" and "significant" financial risk profile benchmarks.

Q. **DOES S&P PROVIDE A LIST OF BENCHMARKS OR EXPECTATIONS FOR VARIOUS FINANCIAL METRICS FOR VARIOUS FINANCIAL RISK LEVELS?**

A. Yes. Below is a summary of Financial Benchmarks from S&P by each of the six financial risk measures:

[16] Standard & Poor's Ratings Xpress Credit Research, Florida Power & Light Co., April 24, 2012 at 6.
[17] *Id*

Table 2[18]

S&P Financial Risk Indicative Ratios

Financial Risk Level	(FFO/Debt %)	(Debt/EBITDA x)	(Debt/Capital %)
1. Minimal	>60	<1.5	<25
2. Modest	45-60	1.5-2	25-35
3. Intermediate	30-45	2.0-3.0	35-45
4. Significant	20-30	3.0-4.0	45-50
5. Aggressive	12-20	4.0-5.0	50-60
6. Highly Leveraged	<12	>5.0	>60

It should be noted, S&P views these benchmark levels as typical outcomes for the various ratings levels. However, these benchmark levels are not precise guarantees of future rating outcomes – as many factors go into the financial integrity and ultimate ratings analyses.

Q. DOES MOODY'S PROVIDE A LIST OF BENCHMARKS OR EXPECTATIONS FOR VARIOUS FINANCIAL METRICS FOR THE DIFFERENT RISK LEVELS?

A. Yes. Like the S&P benchmarks outlined above, Moody's also provides similar financial metric expectations for the various risk levels.

[18] Standard & Poor's Ratings Direct Criteria Methodology: Business Risk/Financial Risk Matrix Expanded (May 27, 2009)

Table3[19] Moody's Financial Risk Benchmarks			
Moody's Bond Rating	CFO/Debt	CFO/Interest	Debt/Capital
Aaa	>40%	>8.0x	<25%
Aa	30% - 50%	6.0x - 8.0x	25% - 35%
A	22% - 30%	4.5x - 6.0x	35% - 45%
Baa	13% - 22%	2.7x - 4.5x	45% - 55%
Ba	5% - 13%	1.5x - 2.7x	55% -65%
B	<5%	<1.5x	>65%

Like S&P, Moody's views these benchmarks as typical expectations for the various risk ratings levels. Again, these benchmarks are not precise guarantees of future ratings outcomes – as many factors both qualitative and quantitative go into financial ratings analyses.

Q. BEFORE ADDRESSING YOUR EVALUATION OF THE CREDIT METRICS – WHAT IS OPC'S RECOMMENDATION IN THIS CASE THAT YOU WILL BE ASSESSING?

A. OPC's primary recommendation includes a 9.0% recommended return on equity and a 50% debt, 50% equity capital structure, as well as adjustments to FPL's proposed test year rate base and expense levels. All of OPC's adjustments are detailed in the exhibits to OPC witness Donna Ramas' testimony, which form the basis for my analysis. Dr. Woolridge sponsors and supports the 9.0% equity return and OPC witness Kevin O'Donnell supports the 50%/50% capital structure. The resulting overall return is 5.56%, as is shown in my Schedule (DJL-3) page 1 of 2.

[19] Moody's Infrastructure Finance; Regulated Electric and Gas Utilities/Ratings Methodology at 13 (August 2009).

OPC's alternative recommendation includes an 8.5% return on equity supported by Dr. Woolridge, utilizing the Company's proposed capital structure of 59.7% equity. This analysis is contained in my Schedule (DJL-3), page 2 of 2, and the overall recommended return is 5.62% under this alternative recommendation.

Thus, under either scenario the OPC overall return is relatively close to 5.56% or 5.62%, but the impact on revenue requirement will be different due to capital structure and related tax impacts. These differences can be viewed by comparing line 22 results on Schedule (DJL-3) at pages 1 and 2.

Q. PLEASE EXPLAIN WHY THE CAPITAL STRUCTURE IN YOUR SCHEDULE (DJL-3) INCLUDES MORE THAN DEBT AND EQUITY.

A. Mr. O'Donnell will address capital structure in his testimony, but the overall return to be applied to rate base investment is based on FPL's proposal contained in Schedules MFR-D. For ratemaking, items such as customer deposits, deferred taxes and investment tax credits are also included in capitalization.

Q. PLEASE EXPLAIN HOW YOU EVALUTED THE IMPACT OF OPC'S RECOMMENDATION ON FINANCIAL METRICS.

A. I examined three key financial metrics that are considered by S&P and Moody's that I described earlier. These financial metrics are as follows:

Moody's	S&P
1 CFO/Debt	FFO/Debt
2 CFO/Interest	Debt/EBITDA
3 Debt/Capital	Debt/Capital

All of these metrics can be found on my Schedule DJL-3, page 1 and 2, for the primary and alternative OPC recommendations in this case. The financial metrics for each scenario are compared to the S&P and Moody's benchmarks to determine if these results are consistent with maintaining financial integrity.

Q. PLEASE EXPLAIN HOW YOU CALCULATED FUNDS FROM OPERATIONS (FFO) FOR THE S&P METRIC EVALUATION.

A. FFO is operating profit after tax plus depreciation, amortization and current deferred taxes. This is after tax return plus depreciation, amortization and current deferred taxes. These values are included in my Schedule (DJL-3) at lines 25-37.

Q. HOW DID YOU CALCULATE CASH FLOW FROM OPERATIONS (CFO) FOR THE MOODY'S METRIC EVALUATION?

A. I employed earnings (return on investment) after taxes plus depreciation for this calculation. These values are presented in my Schedule (DJL-3).

Q. HOW DO THE FINANCIAL METRICS COMPARE TO THE BENCHMARKS?

A. Under OPC's primary recommendation of 9.0% equity return with a 50% debt/50% equity capital structure and a 5.56% overall rate of return (See Schedule DJL-3, p.1), the financials all fall within the benchmarks except for the 50% debt ratio compared to the Moody's benchmark and the S&P "intermediate" financial risk benchmark.. However, Moody's recent (June 6, 2012) Credit Report discussed earlier projects (12-18 month forward view) FPL's debt ratio in the 50% - 53% range. Thus, a 50% debt ratio is not out of line with credit rating assessments.

Q. HOW DOES THE OPC ALTERNATIVE CASE AND 5.62% RATE OF RETURN IMPACT FINANCIAL METRICS?

A. The financial metrics in the alternative case, including debt ratio, all meet or exceed the S&P and Moody's benchmarks.

Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS?

A. In my opinion, FPL's financial integrity will remain strong and viable under OPC's primary and alternative recommendations, based on an evaluation of the pertinent quantitative financial metrics.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Daniel J. Lawton has been furnished by electronic mail and/or U.S. Mail on this 2nd day of July, 2012, to the following:

Caroline Klancke
Keino Young
Florida Public Service Commission
Division of Legal Service
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

John T. Butler
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-0420

Linda S. Quick, President
South Florida Hospital and Healthcare Association
6030 Hollywood Blvd., Suite 140
Hollywood, FL 33024

Ken Hoffman
R. Wade Litchfield
Florida Power & Light Company
215 S. Monroe Street, Suite 810
Tallahassee, FL 32301-1858

Kenneth L. Wiseman
Mark F. Sundback
J. Peter Ripley
Andrew Kurth LLP
1350 I Street, NW, Suite 1100
Washington, DC 20005

Paul Woods, Quang Ha,
Patrick Ahlm
Algenol Biofuels, Inc.
28100 Bonita Grande Dr., Suite 2000
Bonita Springs, FL 24135

Daniel R. and Alexandria Larson
06933 W. Harlena Dr.
Loxahatchee, FL 33470

Charles Milsted
Associate State Director
200 West College Avenue
Tallahassee, FL 32301

Vickie Gordon Kaufman
Jon C. Moyle
c/o Moyle Law Firm
118 North Gadsden Street
Tallahassee, Fl 32301

Robert Scheffel Wright
John T. LaVia
Gardner Law Firm
1300 Thomaswood Drive
Tallahassee, FL 32308

Karen White
Federal Executive Agencies
c/o AFLOA/JACL-ULFSC
139 Barnes Drive, Suite 1
Tyndall Air Force Base, FL 32403

Thomas Saporito
177 US Hwy 1N, Unit 212
Tequesta, FL 33469

John W. Hendricks
367 S Shore Drive
Sarasota, FL 34234

William C. Garner, Esq.
Brian P. Armstrong, Esq.
Nabors, Giblin & Nickerson, P.A.
1500 Mahan Drive, Suite 200
Tallahassee, FL 32308

Joseph A. McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

DANIEL J. LAWTON
LAWTON CONSULTING
B.A. ECONOMICS, MERRIMACK COLLEGE
M.A. ECONOMICS, TUFTS UNIVERSITY

Prior to beginning his own consulting practice Diversified Utility Consultants, Inc., in 1986 where he practiced as a firm principal through December 31, 2005, Mr. Lawton had been in the utility consulting business with a national engineering and consulting firm. In addition, Mr. Lawton has been employed as a senior analyst and statistical analyst with the Department of Public Service in Minnesota. Prior to Mr. Lawton's involvement in utility regulation and consulting he taught economics, econometrics, statistics and computer science at Doane College.

Mr. Lawton has conducted numerous financial and cost of capital studies on electric, gas and telephone utilities for various interveners before local, state and federal regulatory bodies. In addition, Mr. Lawton has provided studies, analyses, and expert testimony on statistics, econometrics, accounting, forecasting, and cost of service issues. Other projects in which Mr. Lawton has been involved include rate design and analyses, prudence analyses, fuel cost reviews and regulatory policy issues for electric, gas and telephone utilities. Mr. Lawton has developed software systems, databases and management systems for cost of service analyses.

In addition, Mr. Lawton has developed and reviewed numerous forecasts of energy and demand used for utility generation expansion studies as well as municipal financing. Mr. Lawton has represented numerous municipalities as a negotiator in utility related matters. Such negotiations ranges from the settlement of electric rate cases to the negotiation of provisions in purchase power contracts.

A list of cases in which Mr. Lawton has provided testimony is attached.

UTILITY RATE PROCEEDINGS IN WHICH TESTIMONY HAS BEEN PRESENTED BY DANIEL J. LAWTON

ALASKA REGULATORY COMMISSION		
Beluga Pipe Line Company	P-04-81	Cost of Capital

JURISDICTION/COMPANY	DOCKET NO.	TESTIMONY TOPIC

GEORGIA PUBLIC SERVICE COMMISSION		
Georgia Power Co.	25060-U	Cost of Capital

FEDERAL ENERGY REGULATORY COMMISSION		
Alabama Power Company	ER83-369-000	Cost of Capital
Arizona Public Service Company	ER84-450-000	Cost of Capital
Florida Power & Light	EL83-24-000	Cost Allocation, Rate Design
Florida Power & Light	ER84-379-000	Cost of Capital, Rate Design, Cost of Service
Southern California Edison	ER82-427-000	Forecasting

LOUISIANA PUBLIC SERVICE COMMISSION		
Louisiana Power & Light	U-15684	Cost of Capital, Depreciation
Louisiana Power & Light	U-16518	Interim Rate Relief
Louisiana Power & Light	U-16945	Nuclear Prudence, Cost of Service

MARYLAND PUBLIC SERVICE COMMISSION		
Baltimore Gas and Electric Company	9173	Financial

MINNESOTA PUBLIC UTILITIES COMMISSION		
Continental Telephone	P407/GR-81-700	Cost of Capital
Interstate Power Co.	E001/GR-81-345	Financial
Montana Dakota Utilities	G009/GR-81-448	Financial, Cost of Capital
New ULM Telephone Company	P419/GR81767	Financial
Norman County Telephone	P420/GR-81-230	Rate Design, Cost of Capital
Northern States Power	G002/GR80556	Statistical Forecasting, Cost of Capital
Northwestern Bell	P421/GR80911	Rate Design, Forecasting

MISSUORI PUBLIC SERVICE COMMISSION		
Missouri Gas Energy	GR-2009-0355	Financial
Ameren UE	ER-2010-0036	Financial

FLORIDA PUBLIC SERVICE COMMISSION		
Progress Energy	070052-EI	Cost Recovery
Florida Power and Light	080677-EI	Financial
Florida Power and Light	090130-EI	Depreciation

Progress Energy	090079-EI	Depreciation

NORTH CAROLINA UTILITIES COMMISSION		
North Carolina Natural Gas	G-21, Sub 235	Forecasting, Cost of Capital, Cost of Service

OKLAHOMA PUBLIC SERVICE COMMISSION		
Arkansas Oklahoma Gas Corporation	200300088	Cost of Capital
Public Service Company of Oklahoma	200600285	Cost of Capital
Public Service Company of Oklahoma	200800144	Cost of Capital

PUBLIC SERVICE COMMISSION OF INDIANA		
Kokomo Gas & Fuel Company	38096	Cost of Capital

PUBLIC UTILITY COMMISSION OF NEVADA		
Nevada Bell	99-9017	Cost of Capital
Nevada Power Company	99-4005	Cost of Capital
Sierra Pacific Power Company	99-4002	Cost of Capital
Nevada Power Company	08-12002	Cost of Capital
Southwest Gas Corporation	09-04003	Cost of Capital

Sierra Pacific Power Company	10-06001 & 10-06002	Cost of Capital & Financial
Nevada Power Co. and Sierra Pacific Power Co.	11-06006 11-06007 11-06008	Cost of Capital

PUBLIC SERVICE COMMISSION OF UTAH		
PacifiCorp	04-035-42	Cost of Capital
Rocky Mountain Power	08-035-38	Cost of Capital
Rocky Mountain Power	09-035-23	Cost of Capital
Rocky Mountain Power	10-035-124	Cost of Capital

SOUTH CAROLINA PUBLIC SERVICE COMMISSION		
Piedmont Municipal Power	82-352-E	Forecasting

PUBLIC UTILITY COMMISSION OF TEXAS		
Central Power & Light Company	6375	Cost of Capital, Financial Integrity
Central Power & Light Company	9561	Cost of Capital, Revenue Requirements
Central Power & Light Company	7560	Deferred Accounting
Central Power & Light Company	8646	Rate Design, Excess Capacity
Central Power & Light Company	12820	STP Adj. Cost of Capital, Post Test-year adjustments, Rate Case Expenses
Central Power & Light Company	14965	Salary & Wage Exp., Self-Ins. Reserve, Plant Held for Future use, Post Test Year Adjustments, Demand Side Management, Rate Case Exp.
Central Power & Light Company	21528	Securitization of Regulatory Assets

El Paso Electric Company	9945	Cost of Capital, Revenue Requirements, Decommissioning Funding
El Paso Electric Company	12700	Cost of Capital, Rate Moderation Plan, CWIP, Rate Case Expenses
Entergy Gulf States Incorporated	16705	Cost of Service, Rate Base, Revenues, Cost of Capital, Quality of Service
Entergy Gulf States Incorporated	21111	Cost Allocation
Entergy Gulf States Incorporated	21984	Unbundling
Entergy Gulf States Incorporated	22344	Capital Structure
Entergy Gulf States Incorporated	22356	Unbundling
Entergy Gulf States Incorporated	24336	Price to Beat
Gulf States Utilities Company	5560	Cost of Service
Gulf States Utilities Company	6525	Cost of Capital, Financial Integrity
Gulf States Utilities Company	6755/7195	Cost of Service, Cost of Capital, Excess Capacity
Gulf States Utilities Company	8702	Deferred Accounting, Cost of Capital, Cost of Service
Gulf States Utilities Company	10894	Affiliate Transaction
Gulf States Utilities Company	11793	Section 63, Affiliate Transaction
Gulf States Utilities Company	12852	Deferred acctng., self-Ins. reserve, contra AFUDC adj., River Bend Plant specifically assignable to Louisiana, River Bend Decomm., Cost of Capital, Financial Integrity, Cost of Service, Rate

		Case Expenses
GTE Southwest, Inc.	15332	Rate Case Expenses
Houston Lighting & Power	6765	Forecasting
Houston Lighting & Power	18465	Stranded costs
Lower Colorado River Authority	8400	Debt Service Coverage, Rate Design
Southwestern Electric Power Company	5301	Cost of Service
Southwestern Electric Power Company	4628	Rate Design, Financial Forecasting
Southwestern Electric Power Company	24449	Price to Beat Fuel Factor
Southwestern Bell Telephone Company	8585	Yellow Pages
Southwestern Bell Telephone Company	18509	Rate Group Re-Classification
Southwestern Public Service Company	13456	Interruptible Rates
Southwestern Public Service Company	11520	Cost of Capital
Southwestern Public Service Company	14174	Fuel Reconciliation
Southwestern Public Service Company	14499	TUCO Acquisition
Southwestern Public Service Company	19512	Fuel Reconciliation
Texas-New Mexico Power Company	9491	Cost of Capital, Revenue Requirements, Prudence
Texas-New Mexico Power Company	10200	Prudence
Texas-New Mexico Power Company	17751	Rate Case Expenses
Texas-New Mexico Power	21112	Acquisition risks/merger benefits

Company		
Texas Utilities Electric Company	9300	Cost of Service, Cost of Capital
Texas Utilities Electric Company	11735	Revenue Requirements
TXU Electric Company	21527	Securitization of Regulatory Assets
West Texas Utilities Company	7510	Cost of Capital, Cost of Service
West Texas Utilities Company	13369	Rate Design

RAILROAD COMMISSION OF TEXAS		
Energas Company	5793	Cost of Capital
Energas Company	8205	Cost of Capital
Energas Company	9002-9135	Cost of Capital, Revenues, Allocation
Lone Star Gas Company	8664	Rate Design, Cost of Capital, Accumulated Depr. & DFIT, Rate Case Exp.
Lone Star Gas Company-Transmission	8935	Implementation of Billing Cycle Adjustment
Southern Union Gas Company	6968	Rate Relief
Southern Union Gas Company	8878	Test Year Revenues, Joint and Common Costs
Texas Gas Service Company	9465	Cost of Capital, Cost of Service, Allocation
TXU Lone Star Pipeline	8976	Cost of Capital, Capital Structure
TXU-Gas Distribution	9145-9151	Cost of Capital, Transport Fee, Cost Allocation, Adjustment Clause
TXU-Gas Distribution	9400	Cost of Service, Allocation, Rate Base, Cost of Capital, Rate Design
Westar Transmission Company	4892/5168	Cost of Capital, Cost of Service
Westar Transmission Company	5787	Cost of Capital, Revenue Requirement

TEXAS WATER COMMISSION		
Southern Utilities Company	7371-R	Cost of Capital, Cost of Service

SCOTSBLUFF, NEBRASKA CITY COUNCIL		
K. N. Energy, Inc.		Cost of Capital

HOUSTON CITY COUNCIL		
Houston Lighting & Power Company		Forecasting

PUBLIC UTILITY REGULATION BOARD OF EL PASO, TEXAS		
Southern Union Gas Company		Cost of Capital

DISTRICT COURT CAMERON COUNTY, TEXAS		
City of San Benito, et. al. vs. PGE Gas Transmission et. al.	96-12-7404	Fairness Hearing

DISTRICT COURT HARRIS COUNTY, TEXAS		
City of Wharton, et al vs.	96-016613	Franchise fees

Houston Lighting & Power		

DISTRICT COURT TRAVIS COUNTY, TEXAS		
City of Round Rock, et al vs. Railroad Commission of Texas et al	GV 304,700	Mandamus

SOUTH DAYTONA, FLORIDA		
City of South Daytona v. Florida Power and Light	2008-30441-CICI	Stranded Costs

Docket No. 120015-EI
Revenue Requirement Impact of ROE Performance Adder
Exhibit KO-8, Page 1 of 2

FLORIDA POWER & LIGHT COMPANY
REVENUE REQUIREMENT IMPACT OF ROE PERFORMANCE ADDER

Line No.	(1) January 2013 Base Rate Increase	MFR Reference	(2) Without ROE Performance Adder [a]	(3) With ROE Performance Adder [b]	(4) Revenue Requirement Impact
1	Jurisdictional Adjusted Rate Base	A-1	$21,036,823	$21,036,823	$21,036,823
2	Rate of Return on Rate Base	D-1A	6.89%	7.00%	0.115%
3	Required Jurisdictional Net Operating Income		$ 1,448,668	$ 1,472,878	$ 24,210
4	Jurisdictional Adjusted Net Operating Income	A-1	1,156,359	1,156,359	-
5	Net Operating Income Deficiency (Excess)		(292,309)	(316,520)	(24,210)
6	Net Operating Income Multiplier	C-44	1.63188	1.63188	1.63188
7	Revenue Requirement		$ (477,013)	$ (516,521)	$ (39,508)
8					
9					
10					
Line No.	Canaveral Step Increase		Without ROE Performance Adder [c]	With ROE Performance Adder [d]	Revenue Requirement Impact
11	Jurisdictional Adjusted Rate Base	A-1	$ 821,325	$ 821,325	$821,325
12	Rate of Return on Rate Base	D-1A	8.911%	9.064%	0.152%
13	Required Jurisdictional Net Operating Income		$ 73,190	$ 74,442	$ 1,252
14	Jurisdictional Adjusted Net Operating Income	A-1	(32,092)	(32,092)	-
15	Net Operating Income Deficiency (Excess)		(105,282)	(106,534)	(1,252)
16	Net Operating Income Multiplier	C-44	1.63188	1.63188	1.63188
17	Revenue Requirement		$ (171,809)	$ (173,851)	$ (2,043)
18					
19					
20					
21					
22					
23					

24 **Notes:**
25 [a] Amounts, except for rate of return, are as reflected on FPL MFR A-1 for the 2013 Test Year.
26 Rate of return assumes an ROE of 11.25%.
27 [b] Amounts are as reflected on FPL MFR A-1 for the 2013 Test Year.
28 [c] Amounts, except for rate of return, are as reflected on FPL MFR A-1 for the Canaveral Step
29 Increase. Rate of return assumes an ROE of 11.25%.
30 [d] Amounts are as reflected on FPL MFR A-1 for the Canaveral Step Increase.

Florida Power & Light Company
Cost of Capital - 13 Month Average
With and Without ROE Performance Adder

Line No.	(1) January 2013 Base Rate Increase	(2) Ratio	(3) Cost Rate	(4) Weighted Cost Rate
1	WITHOUT ROE PERFORMANCE ADDER			
3	Long Term Debt	29.47%	5.26%	1.55%
4	Preferred Stock	0.00%	0.00%	0.00%
5	Customer Deposits	2.03%	5.99%	0.12%
6	Common Equity	46.03%	11.25%	5.18%
7	Short Term Debt	1.71%	2.11%	0.04%
8	Deferred Income Tax	20.75%	0.00%	0.00%
9	Investment Tax Credits	0.00%	9.06%	0.00%
10	TOTAL	100.00%		6.89%
11				
12				
13	WITH ROE PERFORMANCE ADDER [a]			
15	Long Term Debt	29.47%	5.26%	1.55%
16	Preferred Stock	0.00%	0.00%	0.00%
17	Customer Deposits	2.03%	5.99%	0.12%
18	Common Equity	46.03%	11.50%	5.29%
19	Short Term Debt	1.71%	2.11%	0.04%
20	Deferred Income Tax	20.75%	0.00%	0.00%
21	Investment Tax Credits	0.00%	9.06%	0.00%
22	TOTAL	100.00%		7.00%

Line No.	Canaveral Step Increase	Ratio	Cost Rate	Weighted Cost Rate
23	WITHOUT ROE PERFORMANCE ADDER			
24	Long Term Debt	39.03%	5.26%	2.05%
25	Common Equity	60.97%	11.25%	6.86%
26	TOTAL	100.00%		8.91%
27				
28				
29	WITH ROE PERFORMANCE ADDER [b]			
30	Long Term Debt	39.03%	5.26%	2.05%
31	Common Equity	60.97%	11.50%	7.01%
32	TOTAL	100.00%		9.06%
33				
34				
35				
36				
37				

38 Notes:
39 [a] Amounts are as reflected on FPL MFR D-1a for the 2013 Test Year.
40 [b] Amounts are as reflected on FPL MFR D-1a for the Canaveral Step Increase.

FINANCIAL METRICS ANALYSIS OPC PRIMARY RECOMMENDATION

LINE NO	DESCRIPTION	A	B	C	D	E
		COMPANY REQUSTED RATE OF RETURN				
		CAPITAL AMOUNT ($000)	RATIO	COST RATE	WEIGHTED COST RATE	RETURN REQUESTED
1	LONG TERM DEBT	$6,199,550	29.4700%	5.26%	1.5501%	$326,096,330
2	CUSTOMER DEPOSITS	$426,531	2.0275%	5.99%	0.1214%	$25,549,207
3	COMMON EQUITY	$9,684,101	46.0340%	11.50%	5.2939%	$1,113,671,615
4	SHORT TERM DEBT	$360.542	1.7139%	2.11%	0.0362%	$7,607,436
5	DEFERRED INCOME TAX	$4,365,176	20.7502%	0.00%	0.0000%	$0
6	INVESTMENT TAX CREDITS	$923	0.0044%	9.06%	0.0004%	$83,624
7	TOTAL	**$21,036,823**	**100.0000%**		**7.0020%**	**$1,473,008,212**
8	FPL REQUESTED RATE BASE	**$21,036,823,000**				
9	ROR W/35% FIT GROSS UP (1/1-FIT RATE) TIMES WTD EQUITY COST				**9.85%**	
10	OPC PROPOSED RATE OF RETURN AND CAPITAL STRUCTURE PRIMARY RECOMMENDATION					
11						
12	DESCRIPTION	CAPITAL AMOUNT ($000)	RATIO	COST RATE	WEIGHTED COST RATE	RETURN REQUESTED
13	LONG TERM DEBT	$7,675,707	36.4870%	5.26%	1.92%	$394,122,308
14	CUSTOMER DEPOSITS	$426,531	2.0275%	5.99%	0.12%	$24,940,451
15	COMMON EQUITY	$8,122,097	38.6090%	9.00%	3.47%	$713,571.615
16	SHORT TERM DEBT	$446,390	2.1219%	2.11%	0.04%	$9,194,409
17	DEFERRED INCOME TAX	$4,365,176	20.7502%	0.00%	0.00%	$0
18	INVESTMENT TAX CREDITS	$923	0.0044%	7.18%	0.00%	$64,692
19	TOTAL	**$21,036,824**	**100.0000%**		**5.56%**	**$1,141,893,474**
20	OPC PROPOSED RATE BASE	**$20,535,584,000**				
21	ROR W/35% FIT GROSS UP (1/1-FIT RATE) TIMES WTD EQUITY COST				**7.43%**	
22	OPC ADJUSTMENT IMPACT					**($331,114,737)**
23						

LINE	DESCRIPTION	COMPANY FILED CASE	OPC RECOMMENDED	DIFFERENCE	SOURCES
24	DESCRIPTION	COMPANY FILED CASE	OPC RECOMMENDED	DIFFERENCE	SOURCES
25	RATE BASE INVESTMENT	$21,036,823,000	$20,535,584,000	-$501,239,000	OPC EX DR-2 PAGE 2 OF 11
26	RATE OF RETURN	7.00%	5.56%	-1.44%	
27	RATE OF RETURN WITH GROSS-UP	9.85%	7.43%	-2.42%	
28	RETURN	$1,473,008,212	$1,141,893,474	-$331,114,737	LINE 26*25
29	RETURN & TAXES	$2,072,677,543	$1,526,124,344	-$546,553,199	LINE 27*25
30	DEPRECIATION /AMORTIZATION	$802,761,000	$762,211,000	-$40,550,000	OPC EX DR-2 PAGE 5 OF 11
31	FEDERAL INCOME TAXES	$599,669,331	$384,230,869	-$215,438,462	LINE 29-28
32	EBITDA CASH FLOW	$2,875,438,543	$2,288,335,344	-$587,103,199	LINES 29+30
33	EBIDA CASH FLOW	$2,275,769,212	$1,904,104,474	-$371,664,737	LINE 32-31
34	TOTAL DEBT	$6,199,550,000	$7,675,707,000	$1,476,157,000	LINES 1 AND 13
35	TOTAL INTEREST	$326,096,330	$394,122,308	$68,025,978	COL H LINES 1 AND 13

LINE	FINANCIAL METRICS PER STANDARD & POOR'S	FPL FILED CASE	OPC RECOMMENDED	S&P BENCHMARKS INTERMEDIATE FINANCIAL RISK	
37	FFO/DEBT (%)	36.71%	24.81%	20% TO 45%	LINE 33/LINE 34
38	DEBT/EBITDA (x)	2.16	2.71	2x TO 4x	LINE 34/LINE 32
39	DEBT TO CAPITAL PERCENTAGE	40.30%	50.00%	35% TO 50%	PER OPC WITNESS O'DONNELL
40					

LINE	FINANCIAL METRICS PER MOODY'S	FPL FILED CASE	OPC RECOMMENDED	MOODY'S SINGLE "A" BENCHMARKS	
42	CFO/DEBT	36.71%	24.81%	22% TO 30%	LINE 33/LINE 34
43	CFO/INTEREST	6.98	4.83	4.5x TO 6.0x	LINE 33/LINE 35
44	DEBT/CAPITAL	40.30%	50.00%	35% TO 45%	PER OPC WITNESS O'DONNELL

SOURCES
LINES 1-7, COLUMNS A-D: OPC EXHIBIT KO-1; COL E IS COL. D TIMES RATE BASE
LINES 13-19 COLUMNS A-D: OPC EXHIBIT KO 8; COL. E IS COL. D TIMES RATE BASE PER OPC EXHIBIT DR-2 PAGE 2 OF 11
LINES 12-22. COLUMNS A-D & F-I PER OPC WITNESS O'DONNELL FOR CAPITAL STRUCTURE AND DR. WOOLRIDGE FOR ROE
S&P BENCHMAR METRICS PER S&P RATINGS DIRECT BUSINESS RISK/ FINANCIAL RISK MATRIX EXPANDED (MAY 27. 2009) AT 4
S&P BENCHMAR METRICS ARE THE CRITERIA FOR FIRMS WITH INERMEDIATE AND SIGNIFICANT FINANCIAL RISK INDICATIVE RATIOS
MOODY'S BENCHMARKS: MOODY'S GLOBAL INFASTRUCTURE FINANCE: REGULATED ELECTRIC AND GAS UTILITIES (AUGUST 2009)

FINANCIAL METRICS ANALYSIS OPC ALTERNATIVE CASE

		A	B	C	D	E
			COMPANY REQUSTED RATE OF RETURN			
LINE NO	DESCRIPTION	CAPITAL AMOUNT ($000)	RATIO	COST RATE	WEIGHTED COST RATE	RETURN
1	LONG TERM DEBT	$6,199,550	29.47%	5 26%	1.5501%	$326,096,330
2	CUSTOMER DEPOSITS	$426,531	2.03%	5 99%	0.1214%	$25,549,207
3	COMMON EQUITY	$9,684,101	46.03%	11 50%	5.2939%	$1.113,671.615
4	SHORT TERM DEBT	$360,542	1 71%	2.11%	0.0362%	$7.607.436
5	DEFERRED INCOME TAX	$4,365,176	20 75%	0.00%	0.0000%	$0
6	INVESTMENT TAX CREDITS	$923	0.00%	9.06%	0.0004%	$83,624
7	TOTAL	$21,036,823	100.00%		7.0020%	$1,473,008,212
8	FPL REQUESTED RATE BASE	$21,036,823,000				
9	ROR W/35% FIT GROSS UP (1/1-FIT RATE) TIMES WTD EQUITY COST				9.85%	
10		OPC PROPOSED RATE OF RETURN AND CAPITAL STRUCTURE ALTERNATIVE RECOMMENDATION				
11						
12	DESCRIPTION	CAPITAL AMOUNT ($000)	RATIO	COST RATE	WEIGHTED COST RATE	RETURN
13	LONG TERM DEBT	$6,199,550	29.47%	5 26%	1.5501%	$318,326,516
14	CUSTOMER DEPOSITS	$426,531	2.03%	5 99%	0.1214%	$24,940.452
15	COMMON EQUITY	$9,684,101	46.03%	8 50%	3 9129%	$803,535,634
16	SHORT TERM DEBT	$360,542	1 71%	2 11%	0.0362%	$7,426,176
17	DEFERRED INCOME TAX	$4,365,176	20 75%	0.00%	0.0000%	$0
18	INVESTMENT TAX CREDITS	$923	0.00%	9 06%	0.0004%	$81,631
19	TOTAL	$21,036,823	100.00%		5.6210%	$1,154,310,410
20	OPC PROPOSED RATE BASE	$20,535,584,000				
21	ROR W/35% FIT GROSS UP (1/1-FIT RATE) TIMES WTD EQUITY COST				7.73%	
22	OPC ADJUSTMENT IMPACT					($318,697,802)
23						

LINE NO	DESCRIPTION	COMPANY FILED CASE	OPC RECOMMENDED ALTERNATIVE RECOMMENDATION	DIFFERENCE	SOURCES
24	DESCRIPTION	COMPANY FILED CASE	OPC RECOMMENDED ALTERNATIVE RECOMMENDATION	DIFFERENCE	SOURCES
25	RATE BASE INVESTMENT	$21,036,823,000	$20,535,584,000	-$501,239,000	OPC EX DR-2 PAGE 2 OF 11
26	RATE OF RETURN	7 00%	5 62%	-1.38%	
27	RATE OF RETURN WITH GROSS-UP	9.85%	7.73%	-2.12%	
28	RETURN	$1,473,008,212	$1,154,310,410	-$318,697.802	LINE 26*25
29	RETURN & TAXES	$2,072,677,543	$1,586,983,444	-$485,694,099	LINE 27*25
30	DEPRECIATION /AMORTIZATION	$802,761,000	$762,211.000	-$40,550,000	OPC EX DR-2 PAGE 5 OF 11
31	FEDERAL INCOME TAXES	$599,669,331	$432,673,034	-$166,996,297	LINE 29-28
32	EBITDA CASH FLOW	$2,875,438,543	$2,349,194,444	-$526,244,099	LINES 29+30
33	EBIDA CASH FLOW	$2,275,769,212	$1,916,521,410	-$359,247,802	LINE 32-31
34	TOTAL DEBT	$6,199,550,000	$6,199,550,000	$0	LINES 1 COLUMN A AND 13 COLUMN A
35	TOTAL INTEREST	$326,096,330	$318,326,516	-$7,769,814	COL H LINES 1 AND 13
36					
37					

LINE NO	FINANCIAL METRICS PER STANDARD & POOR'S	FPL FILED CASE	OPC RECOMMENDED ALTERNATIVE	S&P BENCHMARKS INTERMEDIATE FINANCIAL RISK	
38	FINANCIAL METRICS PER STANDARD & POOR'S	FPL FILED CASE	OPC RECOMMENDED ALTERNATIVE	S&P BENCHMARKS INTERMEDIATE FINANCIAL RISK	
39	FFO/DEBT (%)	36.71%	30.91%	20% TO 45%	LINE 33/LINE 34
40	DEBT/EBITDA (x)	2.16	2 64	2x TO 4x	LINE 34/LINE 32
41	DEBT TO CAPITAL PERCENTAGE	40.30%	40.30%	35% TO 50%	PER OPC WITNESS O'DONNELL
42					
43	FINANCIAL METRICS PER MOODY'S	FPL FILED CASE	OPC RECOMMENDED ALTERNATIVE	MOODY'S SINGLE "A" BENCHMARKS	
44	CFO/DEBT	36.71%	30.91%	22% TO 30%	LINE 33/LINE 34
45	CFO/INTEREST	6.98	6.02	4.5x TO 6.0x	LINE 33/LINE 35
46	DEBT/CAPITAL	40.30%	40.30%	35% TO 45%	PER OPC WITNESS O'DONNELL

SOURCES

LINES 1-7. COLUMNS A-D: OPC EXHIBIT KO-1; COL E IS COL. D TIMES RATE BASE

LINES 13-19 COLUMNS A-D: OPC EXHIBIT KO 9; COL. E IS COL. D TIMES RATE BASE PER OPC EXHIBIT DR-2 PAGE 2 OF 11

LINES 12-22, COLUMNS A-D & F-I PER OPC WITNESS O'DONNELL FOR CAPITAL STRUCTURE AND DR. WOOLRIDGE FOR ROE

S&P BENCHMAR METRICS PER S&P RATINGS DIRECT BUSINESS RISK/ FINANCIAL RISK MATRIX EXPANDED (MAY 27. 2009) AT 4

S&P BENCHMAR METRICS ARE THE CRITERIA FOR FIRMS WITH INERMEDIATE AND SIGNIFICANT FINANCIAL RISK INDICATIVE RATIOS

MOODY'S BENCHMARKS: MOODY'S GLOBAL INFASTRUCTURE FINANCE: REGULATED ELECTRIC AND GAS UTILITIES (AUGUST 2009)