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DEAN CANNON
Speaker of the
House of Representatives



November 2, 2012

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COMMISSION
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Ms. Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 1200015-EI

Dear Ms. Cole:

The Office of Public Counsel's PFT/EX's of Kevin W. O'Donnell, CFA, Jacob Pous, Donna Ramas, and James W. Daniel, are being filed pursuant to the October 26, 2011 Memorandum of Understanding.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Joseph A. McGlothlin
Associate Public Counsel

cc: All parties of record

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DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for increase in rates)
by Florida Power & Light Company)
_____)

Docket No. 120015-EI

FILED: November 2, 2012

DIRECT TESTIMONY

OF

KEVIN W. O'DONNELL, CFA

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

IN RESPONSE TO PUBLIC SERVICE COMMISSION

ORDER NO. PSC-12-0529-PCO-EI

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DOCUMENT NUMBER-DATE

07452 NOV-2 2012

FPSC-COMMISSION CLERK

1 **DIRECT TESTIMONY**

2 **OF**

3 **Kevin W. O'Donnell, CFA**

4 On Behalf of the Office of Public Counsel

5 In Response To

6 Order No. PSC-12-0529-PCO-EI

7 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
8 **FOR THE RECORD.**

9 **A.** My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,
10 Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina
11 27511.

12
13 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
14 **PROCEEDING?**

15 **A.** I am testifying on behalf of the Florida Office of Public Counsel ("OPC"), which
16 represents the interests of consumers in utility rate proceedings before the Florida
17 Public Service Commission ("FPSC" or "Commission").

18
19 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
20 **PROCEEDING?**

21 **A.** Yes. I presented prefiled direct testimony on July 2, 2012, and testified during the
22 hearing that the Commission conducted in August 2012. My earlier testimony

1 includes my educational background and professional experience. Briefly, I am a
2 consultant and subject matter expert in the areas of cost of equity capital, capital
3 structure, cost of service, and rate design of regulated utilities. In my prefiled
4 July testimony, I addressed the issue of the proper capital structure to use in this
5 proceeding. My July, 2012 testimony dovetails with that of OPC witness Dr.
6 Randall Woolridge, who performed and sponsored a detailed analysis of Florida
7 Power & Light's ("FPL") cost of equity capital. In the testimony that I presented
8 during the August hearing, I recommended that the Commission employ an
9 imputed capital structure containing 50% equity and 50% debt for ratemaking
10 purposes in this case. Dr. Woolridge developed a discounted cash flow-based
11 cost of equity for FPL corresponding to the risk profile that includes a 50% equity
12 ratio. He recommended that the Commission establish a return on equity for FPL
13 of 9%. Dr. Woolridge also quantified the difference in risk between the 50%
14 equity ratio that I recommend and the 59.62% equity ratio that FPL proposes. Dr.
15 Woolridge testified that in the event that the Commission adopts FPL's proposed
16 59.62% equity ratio, it should reduce the authorized ROE by 50 basis points to
17 8.5%.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL TESTIMONY?**

20 A. The purpose of my testimony in this additional phase of the proceeding is to
21 respond to the testimonies of FPL witness Moray Dewhurst and Florida Industrial
22 Power Users Group ("FIPUG") witness Jeff Pollock, which were filed in support

1 of the "Stipulation Settlement" document executed by FPL, FIPUG, the South
2 Florida Hospital and Healthcare Association ("SFHHA"), and the Federal
3 Executive Agencies ("FEA") on August 15, 2012 (referred to herein as the
4 "August 15 document"). Mr. Dewhurst and Mr. Pollock address the cost of
5 capital aspects of the August 15 document. I have been informed by OPC counsel
6 that OPC opposes the August 15 document on legal and substantive grounds.
7 Because the legal issues have not been resolved to date, I am addressing the
8 technical aspects of these testimonies as they relate to the cost of capital
9 components of the August 15 document.

10

11 **Q. PLEASE RESPOND TO MR. DEWHURST'S TESTIMONY.**

12 A. Mr. Dewhurst testifies that he has spoken to a number of investors, and they told
13 him that the August 15 document, which includes a return on equity ("ROE") of
14 10.7%, is acceptable to them. Such an acceptance is hardly surprising, because
15 10.7% ROE is higher than would be warranted by any credible analysis of capital
16 market conditions — as Dr. Woolridge demonstrated in detail during the August
17 2012 hearing. In today's economic environment, coupling a 10.7% ROE with a
18 59.62% equity ratio for FPL, as the signatories propose to do, would produce
19 what I would consider to be a windfall for investors. Unfortunately, this windfall
20 to investors would come at the expense of captive ratepayers in Florida.

1 Mr. Dewhurst also attempts to link the settlement involving Progress Energy
2 Florida (PEF) that the Commission approved in Docket No. 120022-EI and the
3 current proceeding. As Mr. Dewhurst surely knows, each settlement is based on
4 factors that are unique to the circumstances of that case. The situation with PEF
5 simply does not “translate” to that of FPL. Therefore, any comparison between
6 these cases is inappropriate.

7
8 **Q. WHAT IS THE BASIS FOR YOUR OBSERVATION THAT THE PEF**
9 **SETTLEMENT DIFFERS FROM FPL’S CIRCUMSTANCES?**

10 A. First, it is my understanding that PEF was actually granted a base ROE of 10.5%,
11 and that the 10.7% to which Mr. Dewhurst tries to lay claim is expressly
12 conditioned on PEF’s ability to get its crippled Crystal River Nuclear Plant back
13 online prior to 2016. In addition, the base 10.5% ROE is one term of a multi-
14 faceted settlement under which PEF agreed to refund approximately \$288 million
15 to its customers, among other things. In the instant case, FPL has not offered a
16 refund, and does not face a situation that is in any way analogous to PEF’s broken
17 nuclear unit. In other words, the circumstances surrounding the PEF settlement
18 are totally different than FPL’s current situation, in which FPL seeks approval of
19 a series of substantial rate hikes and other advantages. In addition, PEF’s equity
20 ratio (as used in the AFUDC calculation) for investor supplied funds was 50.05%,
21 while FPL wants to maintain its extravagant 59.62% equity ratio for ratemaking
22 purposes. The Commission referred to FPL’s high equity ratio when it set FPL’s

1 it set FPL's return on equity at 10% in Docket No. 080677-EI in 2010 (See Order
2 No. PSC-10-0153-FOF-EI, issued on March 17, 2010, at page 132). At
3 approximately the same time, the Commission established PEF's return on equity
4 at 10.5% (Order No. PSC-10-0131-FOF-EI, issued March 5, 2010). In other
5 words, through its past actions, the Commission has refuted the notion that FPL
6 and PEF should receive the same authorized ROE.

7
8 In addition to the above statement regarding the PEF settlement, it is important to
9 contrast the financial conditions that were present at the time of that settlement
10 and the current conditions. The settlement involving PEF, OPC, and others was
11 reached on Friday, January 20, 2012. On that date, the yield on 30-year U.S.
12 Treasury bonds was 2.99%. Today, the yield on 30-year U.S. Treasury bonds has
13 fallen to 2.92% and utility prices have risen since the beginning of the year. In
14 terms of opportunities with fixed income investments and common equities, the
15 cost of capital has fallen since PEF and OPC entered into the PEF settlement.

16
17 **Q. PLEASE ELABORATE ON HOW UTILITY STOCKS HAVE REACTED**
18 **TO THE LOW INTEREST RATE LEVELS FOUND IN TODAY'S**
19 **MARKETPLACE.**

20 A. Utility stocks are often desired by investors that seek current income. Since
21 interest rates have fallen, many investors have turned to utility stocks to replace
22 income that they would otherwise have seen through a purchase of fixed income

1 securities (bonds). Exhibit KWO-11 is a chart showing the movement of the Dow
2 Jones Utility Index from January 1, 2010, through present day.

3 Dividend yields are calculated by dividing a company's dividend by the current
4 stock price. Since utility stocks, as defined by the Dow Jones Utility Index, have
5 increased nearly 25% since the beginning of 2010, dividend yields have
6 correspondingly moved downward. These lower dividend yields again reflect the
7 fact that the cost of capital available in the marketplace has fallen.

8

9 **Q. MR. DEWHURST ALSO ALLUDES TO THE COMMISSION'S**
10 **DECISION IN GULF POWER'S RATE CASE. WHAT HAVE CAPITAL**
11 **MARKETS DONE SINCE THE COMMISSION ISSUED ITS FINAL**
12 **ORDER IN THE GULF POWER CASE ON APRIL 3, 2012?**

13 A. On April 3, 2012, the Commission issued Order No. PSC-12-0179-FOF-EI, in
14 which it allowed Gulf Power a ROE of 10.25%. On that date, the 30-year U.S.
15 Treasury bond yield was 3.41%, whereas today 30-year U.S. Treasury bonds are
16 yielding 2.92%. Similarly, the Dow Jones Utility Index on February 27, 2012
17 was 453.75 and as of October 22, 2012 it was at 475.49, which equates to a price
18 increase of approximately 4.8%. So this is yet another example illustrating that
19 the cost of capital has fallen during 2012.

20

21 **Q. IS GULF POWER'S EQUITY RATIO SIMILAR TO THAT WHICH FPL**
22 **PROPOSES?**

1 A. No. Based upon information that I obtained from the Gulf Power docket, the
2 equity ratio that the Commission approved (when limited to investor provided
3 capital, to correspond to FPL's request) is 46.26%. An equity ratio of 46.26% is
4 far lower than the 59.62% equity ratio requested in the August 15 document in
5 this proceeding.

6

7 **Q. DO YOU AGREE WITH COMPANY WITNESS DEWHURST THAT**
8 **INFLATION AND INTEREST RATES ARE ANTICIPATED TO RISE**
9 **OVER THE NEXT FOUR YEARS, THEREBY CREATING RISK TO**
10 **FPL?**

11 A. No. I disagree with Mr. Dewhurst's premise.

12

13 **Q. ON WHAT DO YOU BASE YOUR ANSWER?**

14 A. On September 13, 2012, the Federal Reserve announced additional quantitative
15 easing, which has been labeled "QE3." "Quantitative easing" means that the
16 Federal Reserve plans to take measures designed to keep interest rates low. I
17 have attached an article to my testimony (Exhibit KWO-12) in which ABC News
18 reports that the Federal Reserve intends to keep interest rates low through mid-
19 2015. Mr. Dewhurst ignored this notable development in his testimony.

20

21 **Q. PLEASE TURN TO MR. POLLOCK'S TESTIMONY.**

1 A. Mr. Pollock offers some comparisons with other utilities' authorized returns in
2 support of his contention that the settlement would provide FPL with a
3 "competitive" rate of return. To the limited extent that comparisons with other
4 utilities' rates of return are useful without the in-depth type of analysis that Dr.
5 Woolridge (and others) sponsored during the August hearing, I believe that these
6 comparisons must:

- 7 (1) be based on decisions made contemporaneously or near in time; and
8 (2) take into account, given the extreme nature of FPL's equity ratio request,
9 the differences in risk associated with varying capital structures.

10

11 **Q. DO YOU AGREE WITH MR. POLLOCK'S STATEMENT THAT THE**
12 **10.7% ROE PROPOSAL IS COMPARABLE TO THE AUTHORIZED**
13 **ROE'S IN OTHER SOUTHEASTERN STATES?**

14 A. Mr. Pollock did not provide the work papers to show how he calculated the
15 authorized ROE for all other southeastern U.S. electric utilities. Hence, I cannot
16 comment at this time on the accuracy of his calculation. Based on his description,
17 it appears that Mr. Pollock's basis for comparison depends more on geographical
18 proximity than proximity in time. If Mr. Pollock's authorized ROE average
19 value of 10.8% includes returns authorized prior to 2012, his comparison suffers
20 from the problem of differences in time frames to which I alluded earlier. Given
21 that capital costs have fallen significantly in the past 3 years, I believe that it is
22 simply inaccurate to compare authorized returns for any period prior to 2012.

1

2 **Q. DO YOU AGREE WITH MR. POLLOCK'S EXHIBIT JP-2, WHICH**
3 **STATES THAT THE AVERAGE AUTHORIZED RETURN FOR**
4 **ELECTRIC UTILITIES IS 10.38%?**

5 A. No. Again, at this point I do not know which period Mr. Pollock uses in his
6 calculation of the average authorized ROE. However, in Exhibit KWO-13 I have
7 provided the ROEs from across the United States that have been authorized in
8 2012 and compared them to the 10.7% ROE proposed by the signatories to the
9 August 15 document.

10

11 As can be seen in this exhibit, the 2012 average authorized ROE from other states
12 is 9.99%, with the highest ROE being 10.5% and the lowest ROE being 9.25%. If
13 approved, the 10.7% ROE proposed by FPL and the other signatories would be
14 the highest authorized ROE I have found that has been allowed in the U.S. to date
15 in 2012. I believe that this exhibit provides clear evidence that the 10.7%
16 proposed ROE is simply out of line with how utility regulators across the country
17 view the current capital markets.

18

19 **Q. HAS THIS COMMISSION PREVIOUSLY STATED THAT IT REVIEWS**
20 **AUTHORIZED ROEs FROM OTHER STATES WHEN GAUGING THE**
21 **REASONABLENESS OF ITS DECISIONS IN FLORIDA?**

1 A. Yes. In the Gulf Power Order, which was Docket No. 110138-EI, the
2 Commission stated the following on page 52:

3
4 Finally, the record indicated that the authorized ROEs set during 2011
5 for integrated electric utilities as reported by SNL Financial ranged
6 from a low of 9.8 percent to a high of 11.35 percent and averaged
7 10.1 percent. While a 10.25 ROE for Gulf is based upon an
8 independent assessment of the testimony and evidence in the record,
9 the authorized ROEs from Commissions in other jurisdictions serve
10 as a gauge to test the reasonableness of this ROE for Gulf.
11

12 The data found in Exhibit KWO-13 provides the Commission the same type of
13 comparison it made in the Gulf Power order entered earlier this year.
14

15 **Q. HOW DOES THE CAPITAL STRUCTURE USED IN THE AUGUST 15**
16 **DOCUMENT COMPARE TO THE CAPITAL STRUCTURES USED FOR**
17 **RATEMAKING PURPOSES IN 2012?**

18 A. The signatories make no adjustment to FPL's proposed 59.62% equity ratio.
19 However, since the Commission does test the reasonableness of its decisions by
20 looking at decisions made in other states, I examined all of the cases heard to date
21 in 2012 to prepare Exhibit KWO-14. This exhibit compares the equity ratios
22 authorized by regulators throughout the country during 2012 to the August 15
23 document's 59.62% equity ratio. This exhibit shows that, of the cases in which a
24 specific equity ratio was found by a state regulatory body, the average equity ratio
25 through 2012 was 51.35%, ranging from a high of 56.86% to a low of 46.17%.
26

27 **Q. WHY IS THIS COMPARISON OF EQUITY RATIOS RELEVANT?**

1 A. As has been developed in the earlier phase of the case: when the amount of
2 equity a company has in its capital structure increases, the amount of financial
3 risk it bears decreases, and so the required ROE also decreases. Given that the
4 terms of the August 15 document would provide FPL with the highest authorized
5 equity ratio in any rate case decision in 2012, logic dictates that the authorized
6 ROE should be at the low end of the range in rate case decisions this year.
7 Significantly, despite their inverse relationship, FPL wants the highest ROE *and*
8 the highest common equity ratio granted in the United States in the past year.
9 OPC witnesses Donna Ramas, Jacob Pous, and James Daniel observe that other
10 major provisions of the August 15 document are similarly one-sidedly
11 advantageous to FPL. The Commission should not require Florida ratepayers to
12 pay such excessive returns to FPL, especially in the absence of any other
13 provisions that would warrant such major concessions in the area of cost of
14 capital.

15
16 **Q. PLEASE RESPOND TO MR. POLLOCK'S ASSERTION THAT A 10.7%**
17 **ROE SHOULD ALLOW FPL TO MAINTAIN ITS "A" CREDIT RATING.**

18 A. The impact of OPC's recommendations, including OPC's recommendations on
19 capital structure and ROE, has been addressed thoroughly by OPC witness Dan
20 Lawton in response to the March 19, 2012 petition. Mr. Lawton has demonstrated
21 that FPL would continue to exhibit cash flow characteristics of an "A" rated
22 utility if all of OPC's positions were adopted. Since that is true of a 50% equity

1 ratio and an ROE of 9%, Mr. Pollock's claim that it is true with a 59.62% equity
2 ratio and a 10.7% ROE does not surprise me. The pertinent question is whether
3 an ROE of 10.7% is *necessary* to maintain FPL's current credit rating. The
4 evidence indicates that the combination of the 59.62% equity ratio and the 10.7%
5 ROE exceeds FPL's legitimate needs.

6
7 Further, as I noted in my direct testimony filed in this proceeding in July 2012,
8 credit rating agencies look through the regulated utility subsidiary to the
9 consolidated group. In a March 11, 2010 publication entitled "Methodology:
10 Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And
11 Its Parent," **Standard & Poors** made the following statement:

12
13 Utility subsidiaries' ratings are linked to the consolidated group's
14 credit quality because of the financial linkage of the parent to the
15 subsidiary and the likelihood that, in times of stress or bankruptcy,
16 the parent will consider the utility subsidiary as a resource to be
17 used. Accordingly, our base-case financial analysis primarily
18 focuses on the performance, cash flow, and balance sheet of the
19 consolidated group.
20

21 As can be seen from the above quote, the overall performance of NextEra Energy,
22 Inc. represents the basis of FPL's credit rating, not the ROE authorized in this rate
23 case.

24
25 **Q. PLEASE EXPLAIN BRIEFLY WHY YOU BELIEVE THAT THE 10.7%**
26 **ROE IN THE AUGUST 15 DOCUMENT IS INCONSISTENT WITH THE**

1 **RETURN JUSTIFIED BY CURRENT CONDITIONS IN CAPITAL**
2 **MARKETS.**

3 A. This point has already been made in the record of the August hearing, but I will
4 briefly add to what has been stated earlier. As this Commission is aware, interest
5 rates are at historically low levels, and dividend yields have dropped as well. In
6 Exhibit KWO-15, I have provided a chart that shows the offered yield on 30-year
7 U.S. Treasury bonds since January 1, 2010.

8
9 As can be seen in this exhibit, interest rates have plummeted over the past 3 years.
10 The downward movement in interest rates is due to the poor United States
11 economy and efforts of the Federal Reserve to stabilize the economy through an
12 easing of U.S. monetary policy. The level of interest rates drives other capital
13 costs, including the return that investors require of equity investments.

14
15 **Q. ARE THERE ANY ASPECTS OF THE TERMS OF THE AUGUST 15**
16 **DOCUMENT THAT BEAR ON THE REASONABLENESS OF THE**
17 **PROPOSED 10.7% RETURN ON EQUITY?**

18 A. Yes. During the August 2012 hearing, Dr. Woolridge and other experts
19 demonstrated that, based on conditions of capital markets and FPL's risk profile,
20 FPL's current cost of equity is less than 10%. The August 15 document contains
21 provisions (such as the base rate increases that would occur in 2014 and 2016, and
22 \$400 million of reserve amortization designated for earnings flexibility and

1 maintenance), which would reduce FPL's risk profile below that which was
2 considered by cost of capital witnesses when they formed their opinions of FPL's
3 required ROE. For this reason, too, the 10.7% is excessive and unreasonable.
4

5 **Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PHASE OF THE**
6 **PROCEEDING.**

7 A. The 59.62% equity ratio implicit in the August 15 document is excessive,
8 unreasonable, and would unduly burden customers. Particularly in view of the
9 extreme equity ratio, which would lower FPL's risk in an environment in which
10 interest rates are already at historic lows, and the risk-reducing features of the
11 package of which it is a part, the 10.7% ROE in the August 15 document is
12 excessive, unreasonable, and would unduly burden customers. Based on my
13 research, in this proposed disposition of the rate case, FPL is asking the
14 Commission to approve an ROE higher than any granted in 2012 to date, and pair
15 it with an equity ratio higher than any approved in 2012 to date. In my view, in
16 light of the clear evidence showing that capital costs have fallen since the
17 Commission set FPL's ROE at 10% in 2010, and the analyses by Dr. Woolridge
18 and others, the cost of capital terms of the August 15 document are skewed
19 heavily toward FPL's interests, and would not produce fair, just, and reasonable
20 rates. Finally, in light of the testimony of other OPC witnesses, who demonstrate
21 that other provisions of the signatories' document are similarly skewed in FPL's
22 favor, I do not see how the Commission could possibly conclude that the

1 disposition of FPL's petition proposed by the signatories would be in the public
2 interest.

3

4 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

5 **A. Yes, it does.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and foregoing Direct Testimony of Kevin W. O'Donnell, CFA has been furnished by electronic mail on this 2nd day of November, 2012, to the following:

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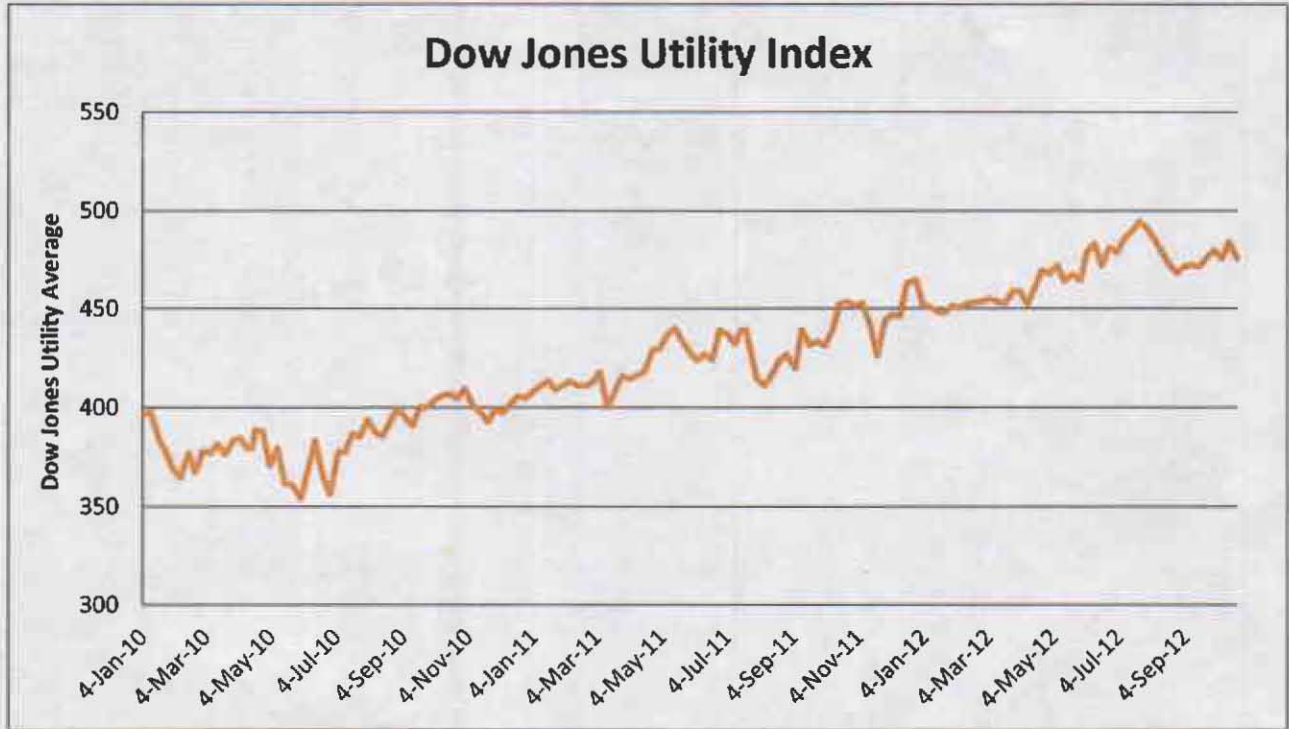
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Docket No. 120015-EI
Federal Reserve Article
Exhibit No. __ (KWO-12)
Page 1 of 4



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Federal Reserve Expects to Keep Interest Rates Low Through Mid-2015



Fed OKs New Stimulus: Dow Up 200 Points

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By SUSANNA KIM (@skimm)
Sept 13, 2012

The Federal Reserve announced its highly-anticipated quantitative easing, or its so-called QE3, purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month in another effort to stimulate the struggling economy.

The Fed wants to lower near-zero interest rates, citing an "elevated" unemployment rate and "strains in global financial markets."

The Fed said it was "concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions."

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Scott Brown, chief economist with Raymond James, said the Fed's open-ended securities purchases will depend critically on the jobs market. On Friday, the Labor Department announced the U.S. added a meager 96,000 jobs in August though the unemployment rate fell to 8.1 percent on account of the unemployed leaving the labor force.

The Federal Reserve said it expects the unemployment rate to remain around 8 to 8.2 percent through 2012, 7.6 to 7.9 percent in 2013, 6.7 to 7.3 percent in 2014 and 6 to 6.8 percent in 2015.

"The idea is that you want to encourage more economic activity," Brown said. "Having low interest rates, consumers are more likely to be able to borrow, take risks and to make car and home purchases."

The Fed's policies will help keep mortgage rates down, though monetary policy affects the economy with a lag.

"People shouldn't expect this to light a fire under the economy right away," he said.

The Federal Reserve released its post-meeting policy statement at 12:30 P.M. eastern time after the Federal Open Market Committee (FOMC) completed its two-day meeting.

The committee also said it will extend the average maturity of its holdings of securities it announced in June through the end of the year.

In its statement, the Federal Reserve said it would keep the federal funds rate at zero to 1/4 percent at least through mid-2015.

The U.S. financial markets spiked after the statement was released. The Dow Jones Industrial average rose 0.81 percent to 13,441 while the S&P 500 was up 0.78 percent to 1,447 minutes after the announcement.



Federal Reserve Chairman Ben Bernanke speaks... [View Full Size](#)



Federal Reserve Extends Low Interest Rates, Will It Help Jobs? [Watch Video](#)

This is the fourth of five economic projections the committee makes a year. The next two-day meeting and projections will take place Dec. 11 and 12.

In previous announcements, the Federal Reserve had said it expected to keep short-term interest rates near zero until 2014.

Brown said Thursday's announcement could be perceived as countering further economic and political headwinds next year.

The so-called fiscal cliff is expected in 2013, which includes the expiration of Bush-era tax cuts and the two percentage point reduction in the payroll tax, plus the start of automatic spending cuts.

"We may see most of that kicked down the road if they extend a portion of Bush tax cuts," Brown said. "But we don't know that. There's a lot of uncertainty which is also a negative."

Docket No. 120015-EI
Federal Reserve Article
Exhibit No. __ (KWO-12)
Page 2 of 4

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Ahead of the Federal Reserve's announcement, government-sponsored Freddie Mac announced fixed mortgage rates held steady as the financial markets speculated there would be further stimulus.

The 30-year fixed-rate mortgage averaged 3.65 percent for the week ending Sept. 13, the same as the previous week. Last year at the same time, the 30-year rate averaged 4.09 percent.

The 15-year rate averaged 2.85 percent this week, down from 2.86 percent last week and 3.3 percent a year ago.

"If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability," the central bank said in its statement.

Francisco Torralba, economist in Morningstar's Investment Management division, said he was "skeptical" that the Fed's actions will have a strong effect on the economy.

He said three issues will have a stronger impact on hiring and business spending: the fiscal cliff, the banking crisis in Europe, and the global economy at large, including how China will address its slowdown.

He called the Fed's communication strategy regarding near-zero interest rates a "double-edged sword."

He said a policy of "unconditional, semi-permanent zero interest rates can be self-defeating" if it negatively shapes the economic expectations of the public.

"Is the Fed announcing zero short-term rates 'forever' because they want to stimulate the economy, or because they expect a weak economy until 2014?" he asked. "If the Fed was expecting policy to improve things within the next couple of years, why would they commit to low rates? Does that mean that they don't expect low interest rates to work?"

The economic "hawks" within the FOMC have feared that large purchases of Treasuries and a commitment to low rates, would lead to higher inflation in the future, or to an unmooring of inflation expectations, he said.

"I do not agree with this position, but their opinion has not changed," he said.

As Torralba expected, the Federal reserve did not announce a new program of Treasury purchases, and instead expanded its mortgage-

hacked securities purchase program.

"Employment and growth have deteriorated, but not to alarming levels, and inflation is not dangerously low—at least not yet," Torralba said. "Besides, in spite of Bernanke's defense of Treasury purchases at Jackson Hole, the level of confidence on this particular policy action within the FOMC has decreased."

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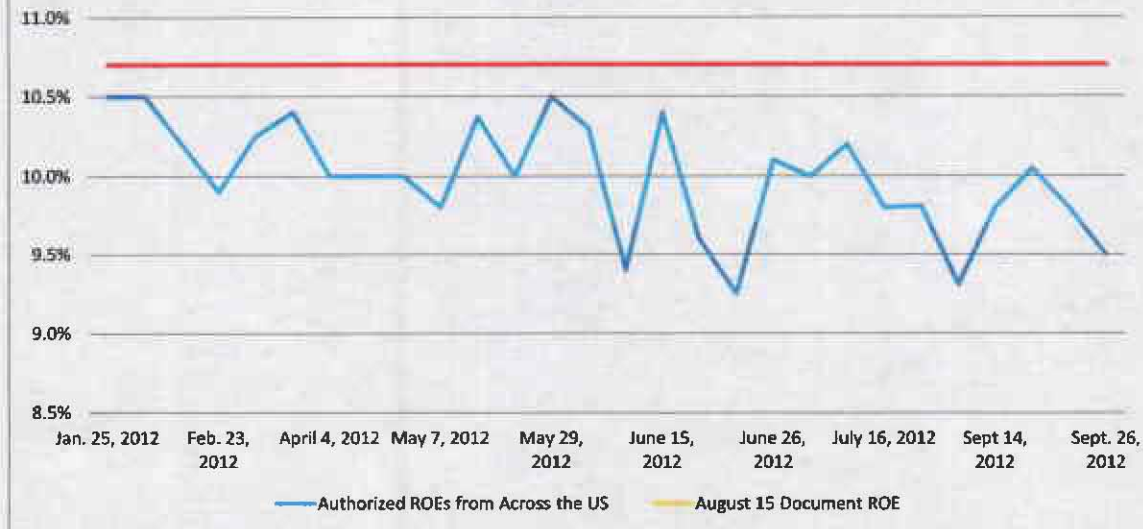
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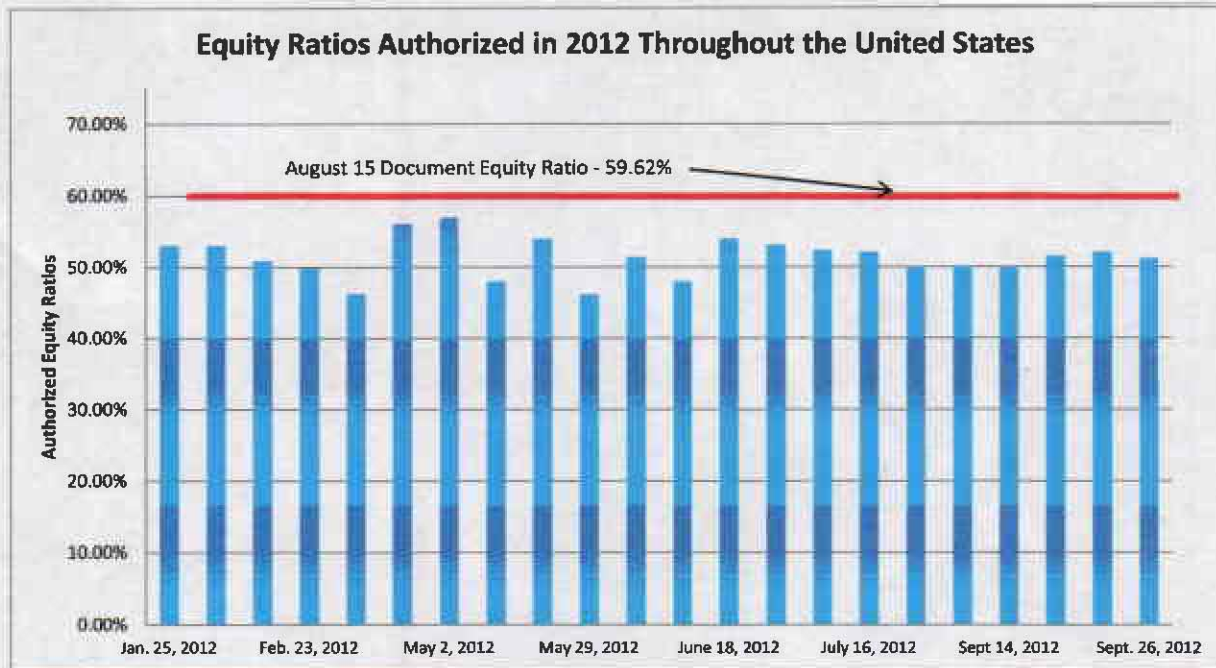
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ROEs Authorized in 2012 Throughout the United States versus August 15 Document ROE



Date of Final Order	Utility	Jurisdiction	Docket No.	Authorized ROE	Specific Cite
Jan. 25, 2012	Duke Energy Carolinas	SC	2011-271-E	10.50%	p. 8 of settlement
Jan. 27, 2012	Duke Energy Carolinas	NC	E-7, Sub 989	10.50%	p. 9 of final order
Feb. 15, 2012	Indiana-Michigan Power	MI	16801	10.20%	p. 7 of final order
Feb. 23, 2012	Idaho Power	OR	UE233	9.90%	p. 4 and 5 of stipulation
Feb. 27, 2012	Gulf Power	FL	110138	10.25%	p. 52 of final order
Feb. 29, 2012	Northern States Power	ND	PU-10-657	10.40%	p. 4 of final order
April 4, 2012	Hawaii Electric Light Co.	HI	2009-0164	10.00%	p. 85 of final order
April 26, 2012	Public Service of Colorado	CO	11AL-947E	10.00%	p. 16 of final order
May 2, 2012	Maui Electric Company	HI	2009-0163	10.00%	p. 86 of final order
May 7, 2012	Puget Sound Energy	WA	UE-0111048	9.80%	p. 33 of final order
May 14, 2012	Northern States Power	MN	10-971	10.37%	p. 18 of brief
May 15, 2012	Arizona Public Service	AZ	E-01345A-11-0224	10.00%	p. 33 of final order
May 29, 2012	Commonwealth Edison	IL	11-0721	10.50%	p. 138 of final order
June 7, 2012	Consumers Energy	MI	16794	10.30%	p. 65 of final order
June 14, 2012	Orange & Rockland Utilities	NY	11-E-0408	9.40%	p. 11 of final order
June 15, 2012	Wisconsin Power and Light	WI	6680-UR-118	10.40%	p. 2 of final order
June 18, 2012	Cheyenne Light Fuel Power	WY	20003-114-ER-11	9.60%	press release
June 19, 2012	Northern States Power	SD	EL11-019	9.25%	p. 2 of final order
June 26, 2012	Wisconsin Power and Light	MI	16830	10.10%	p. 18 of final order
June 29, 2012	Hawaii Electric	HI	2010-0080	10.00%	p. 127 of final order
July 9, 2012	Oklahoma Gas & Electric	OK	PUD201100087	10.20%	p. 2 of final order
July 16, 2012	Rocky Mountain Power	WY	20000-405-ER-11	9.80%	p. 6 of stipulation
July 20, 2012	Delmarva Power & Light	MD	9285	9.81%	p. 79 of final order
July 20, 2012	Potomac Edison	MD	9286	9.31%	p. 109 of final order
Sept 14, 2012	Entergy Texas	TX	39896	9.80%	p. 6 of final order
Sept. 19, 2012	Ameren Illinois	IL	12-0001	10.05%	p. 106 of final order
Sept. 19, 2012	Rocky Mountain Power	UT	11-035-200	9.80%	p. 2 of final order
Sept. 26, 2012	Potomac Edison	DC	1087	9.50%	p. 61 of final order
			Average	9.99%	
			High	10.50%	
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Date of Final Order	Utility	Jurisdiction	Docket No.	Authorized Equity Ratio	Specific Cite
Jan. 25, 2012	Duke Energy Carolinas	SC	2011-271-E	53.00%	p. 15 of settlement
Jan. 27, 2012	Duke Energy Carolinas	NC	E-7, Sub 989	53.00%	p. 9 of final order
Feb. 15, 2012	Indiana-Michigan Power	MI	16801	50.92%	p. 7 of final order
Feb. 23, 2012	Idaho Power	OR	UE233	49.90%	p. 2 of stipulation
Feb. 27, 2012	Gulf Power	FL	110138	46.26%	p. 139 of final order
April 26, 2012	Public Service of Colorado	CO	11AL-947E	56.00%	p. 16 of final order
May 2, 2012	Maui Electric Company	HI	2009-0163	56.86%	p. 86 of final order
May 7, 2012	Puget Sound Energy	WA	UE-0111048	48.00%	p. 21 of final order
May 15, 2012	Arizona Public Service	AZ	E-01345A-11-0224	53.94%	p. 11 of final order
May 29, 2012	Commonwealth Edison	IL	11-0721	46.17%	p. 117 of final order
June 7, 2012	Consumers Energy	MI	16794	51.38%	p. 42 of final order
June 14, 2012	Orange & Rockland Utilities	NY	11-E-0408	48.00%	p. 12 and 13 of final order
June 18, 2012	Cheyenne Light Fuel Power	WY	20003-114-ER-11	54.00%	p. 1 of press release
June 19, 2012	Northern States Power	SD	EL11-019	53.04%	p. 2 of final order
June 26, 2012	Wisconsin Power and Light	MI	16830	52.28%	p. 18 of final order
July 16, 2012	Rocky Mountain Power	WY	20000-405-ER-11	52.10%	p. 6 of stipulation
July 20, 2012	Delmarva Power & Light	MD	9285	50.06%	p. 86 of final order
July 20, 2012	Potomac Edison	MD	9286	50.13%	p. 109 of final order
Sept 14, 2012	Entergy Texas	TX	39896	49.92%	p. 18 of final order
Sept. 19, 2012	Ameren Illinois	IL	12-0001	51.49%	p. 128 of final order
Sept. 19, 2012	Rocky Mountain Power	UT	11-035-200	52.10%	p. 10 of final order
Sept. 26, 2012	Potomac Edison	DC	1087	51.21%	p. 63 of final order
			Average	51.35%	
			High	56.86%	
			Low	46.17%	

