

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 160021-EI
FLORIDA POWER & LIGHT COMPANY
AND SUBSIDIARIES**

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

DIRECT TESTIMONY & EXHIBITS OF:

MORAY P. DEWHURST

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FLORIDA POWER & LIGHT COMPANY
DIRECT TESTIMONY OF MORAY P. DEWHURST
DOCKET NO. 160021-EI
MARCH 15, 2016

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1 **I. INTRODUCTION AND SUMMARY**

2

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

4 A. My name is Moray P. Dewhurst. My business address is Florida Power &
5 Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

6 **Q. By whom are you employed and what is your position?**

7 A. Effective March 4, 2016, I retired as Vice Chairman and Chief Financial
8 Officer of NextEra Energy, Inc. I also served as Executive Vice President of
9 Finance and Chief Financial Officer of Florida Power & Light Company
10 (“FPL” or “the Company”).

11 **Q. Please describe your duties and responsibilities in that position.**

12 A. In my role with the Company, I was responsible for the major financial areas
13 of FPL and its parent, including the accounting and control functions, tax,
14 treasury, and risk management. I oversaw the establishment and maintenance
15 of the financial plans, controls and policies for FPL. I also was responsible
16 for establishing and maintaining effective working relations with the
17 investment and banking communities, and for communicating the results of
18 our operations to investors and rating agencies. Throughout my tenure at
19 NextEra and FPL, I was a member of the senior executive team, which has
20 responsibility, under the leadership of the CEO, for all aspects of the
21 management of the enterprise, including strategy development and overall
22 resource allocation.

1 **Q. Please describe your educational background and professional**
2 **experience.**

3 A. I have a Bachelor's degree in Naval Architecture from MIT and a Master's
4 degree in Management, with a concentration in finance, from MIT's Sloan
5 School of Management. I have approximately twenty years of experience
6 consulting to Fortune 500 and equivalent companies in many different
7 industries on matters of corporate and business strategy. Much of my work
8 has involved financial strategy and financial restructuring. I was appointed to
9 my prior position in October 2011 but also served as the Company's Chief
10 Financial Officer ("CFO") from 2001 through 2008. From 2009 through
11 2015, I served as Vice Chairman of NextEra Energy, Inc.

12 **Q. In your prior role as CFO, how often would you meet with the investment**
13 **community?**

14 A. In the CFO role, I met frequently with equity and debt investors as well as
15 securities analysts, holding two to three hundred individual and small group
16 meetings in a typical year. I also participated in several conferences at which
17 other utility companies also communicate with investors, and I also met at
18 least twice annually with each of our three rating agencies. These meetings
19 allowed me to understand both equity and debt investor and credit rating
20 agency perceptions and concerns.

21 **Q. Are you sponsoring any exhibits in this case?**

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

- 1 • MD-1 MFRs and Schedules Sponsored and Co-sponsored by Moray P.
2 Dewhurst
- 3 • MD-2 FPL's Virtuous Circle
- 4 • MD-3 Regional Comparison: ROE and Key Performance Metrics

5 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**
6 **("MFRs") filed in this case?**

7 A. Yes. Exhibit MD-1 shows my sponsorship and co-sponsorship of MFRs.

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

9 A. The purpose of my testimony is to support key financial elements of FPL's
10 base rate case filing. Specifically, my testimony supports the continued use of
11 FPL's current capital structure as appropriate to meet future requirements and
12 the 11 percent Return on Equity ("ROE") recommended by FPL witness
13 Hevert, as an appropriate ROE. In addition, my testimony supports the
14 adoption of an ROE performance adder of 50 basis points ("bps") for setting
15 rates and the continued use of the Company's current storm cost recovery
16 mechanism.

17 **Q. Please summarize your testimony.**

18 A. FPL has been successful over a sustained period of time in executing its
19 strategy of seeking continuous, incremental improvement in its customer
20 value proposition. This strategy is discussed by FPL witness Silagy, and
21 many of the operational improvements that have resulted from it are discussed
22 by other FPL witnesses. As a result, today FPL's customers enjoy what is
23 surely the best value proposition in the state, combining relatively low bills

1 with high reliability, excellent customer service, and the lowest emissions rate
2 in the state. At the same time, FPL has delivered good financial results for its
3 investors, which in turn has ensured that FPL has ready access to the financial
4 resources to execute its strategy. All of these efforts are consistent with the
5 “Virtuous Circle” methodology depicted on Exhibit MD-2, which has guided
6 FPL’s strategy for many years and about which I have testified in the past.

7
8 One important aspect of FPL’s strategy has been the consistent maintenance
9 of a core set of financial policies, which have ensured that the Company has
10 access to the financial resources it needs at very competitive prices to execute
11 its capital programs, to manage its liquidity needs, and to maintain the
12 flexibility to respond rapidly to unexpected changes in the external
13 environment – all of which are necessary to deliver superior customer value.
14 FPL’s principal financial policies have focused on maintaining:

- 15 • A strong overall financial position;
- 16 • A balanced capital structure;
- 17 • Ready access to sufficient liquidity to support fluctuations in cash
18 flow;
- 19 • Competitive returns to investors to compensate them for the use of
20 their capital; and
- 21 • A mechanism for managing the financial impacts of storm
22 restoration efforts.

23

1 These financial policies have served FPL and its customers extremely well.
2 Among the 15 major investor-owned utilities (“IOUs”) providing service in
3 the Southeast United States, FPL ranks number one in three important
4 categories: (i) FPL’s typical residential bill is the lowest; (ii) FPL’s non-fuel
5 O&M cost per MWh is the lowest; and (iii) FPL’s carbon dioxide emissions
6 rate is the lowest. Additionally, FPL received the ReliabilityOne™ Award for
7 Outstanding Reliability Performance among large utilities in the Southeast
8 region, and FPL’s customer satisfaction score in the JD Power analysis is the
9 second highest in the region. These comparisons are shown on Exhibit MD-
10 3. At the same time, FPL has represented for investors a high-quality and
11 attractive investment opportunity, thus ensuring ready and consistent access to
12 the capital needed to execute FPL’s strategy.

13
14 Given the demonstrated success of both FPL’s overall strategy and the
15 financial policies that have underpinned it, there is no reason to make major
16 changes at this time. FPL’s filing proposes a continuation of the successful
17 policies of the past, updated to reflect today’s market conditions, to support a
18 continued strategy of improving the customer value proposition. Specifically,
19 (i) the continued use of FPL’s historical capital structure, (ii) the provision of
20 an allowed ROE consistent with current capital market conditions, and (iii) the
21 provision of a suitable mechanism for the prompt recovery of prudently
22 incurred storm restoration costs are three major elements that will continue to

1 support FPL's ability to improve its already excellent customer value
2 proposition.

3

4 In addition, the provision of a 50 bps ROE adder is appropriate for important
5 policy reasons. Such an incentive would send a strong signal, not just to FPL
6 but also to investors and other stakeholders, of the importance of consistently
7 seeking to improve value delivery for customers and of being willing to
8 innovate and take risks in pursuit of superior outcomes for customers.

9

10 **II. THE ROLE AND IMPORTANCE OF A**
11 **STRONG FINANCIAL POSITION**

12

13 **Q. What have been FPL's financial policies?**

14 A. In broad terms, the financial policies FPL has employed for well over a
15 decade have emphasized the importance of a strong financial position and the
16 benefits it provides customers. To that end, and recognizing the Company's
17 specific challenges, FPL has maintained ample liquidity, employed a balanced
18 capital structure consistent with other financially strong utilities, sought
19 authorization for and delivered a competitive ROE consistent with its risk
20 profile and market factors, and sought authorization for and utilized storm cost
21 recovery mechanisms that support quick service restoration for customers.

22 **Q. What have been the results of these financial policies?**

1 A. FPL and its customers have enjoyed a low total cost of capital, the ability to
2 support a large capital expenditure program, and the ability to maintain strong
3 liquidity reserves providing necessary financial flexibility – particularly in
4 response to unplanned needs. FPL’s financial policies have contributed to the
5 success of the Company’s overall strategy to continuously improve its value
6 proposition by continuing to improve the service it provides *and* drive down
7 the cost customers pay, to the point where a typical residential customer’s bill
8 is 30 percent below the national average.

9 **Q. How are these financial policies related to FPL’s overall strategy?**

10 A. FPL’s financial policies directly support and follow from the broader
11 Company business strategy, the foundation of which is the “Virtuous Circle”
12 (depicted in Exhibit MD-2). The concept of the Virtuous Circle is customer-
13 centric, and the strategy starts with seeking to deliver superior customer value
14 and to improve the delivery of value over time. While not guaranteed,
15 superior customer value delivery is likely to lead to greater customer
16 satisfaction, which in turn is likely to support a constructive regulatory
17 environment, which in turn is likely to enable the Company to earn
18 competitive financial returns, which provides the basis for the ability to access
19 the capital needed to reinvest in the business in order to further improve the
20 customer value proposition.

21

22 Within this high-level framework, FPL’s financial policies are designed to
23 support the ability to invest to improve customer value, both directly through

1 access to capital and liquidity on attractive terms, and indirectly through
2 upholding the other side of the bargain by providing investors a competitive
3 return.

4 **Q. Have these financial policies been supported by the Florida Public Service
5 Commission (“FPSC” or “the Commission”)?**

6 A. With one exception, the FPSC has consistently supported FPL’s focus on
7 financial strength and recognized the long-term benefits it brings to
8 customers. FPL was provided the tools needed to continue its financial
9 policies and remain financially strong as a result of the base rate settlements
10 the Commission approved in 1999, 2002, 2005, and 2012. The approval of
11 this Commission and support of key stakeholders who participated in these
12 agreements has been a very important part of our ability to realize the
13 achievements that represent such strong value for our customers today.

14 **Q. Have there been any exceptions to this support?**

15 A. There was one. The 2009 Rate Case was highly politicized and its outcome,
16 the 2010 Rate Order, was followed by credit rating downgrades. This
17 situation was later alleviated by the settlement approved later in 2010 (the
18 “2010 Rate Settlement”). The 2010 Rate Settlement provided sufficient,
19 temporary assurance to investors that enabled FPL to continue with major
20 capital investments, albeit reliant in part on the amortization of surplus
21 depreciation, a non-cash item, to sustain adequate returns. While it was a
22 useful stop-gap measure, it did not completely address the fundamental

1 financial issues created by the 2010 Rate Order. The 2012 Rate Settlement
2 returned FPL to a position much more consistent with that prior to 2009.

3 **Q. What lessons should we draw from the last three rate cases and the**
4 **Company's performance over that time frame?**

5 A. For well over a decade, FPL has improved its operational efficiency,
6 generation fleet performance, power delivery reliability, customer satisfaction,
7 and emissions rates – all while keeping customer bills low and providing
8 generally adequate returns to investors. As discussed by FPL witness Cohen,
9 FPL's typical residential bill is lower now than it was 10 years ago, about 30
10 percent lower than the national average, and about 20 percent lower than the
11 state average. While a persistent focus on efficiency and productivity has
12 been very important, these results would not have been realized without FPL's
13 focus on deploying capital in a "smart" fashion – either to reduce expenses in
14 other elements of the cost chain or to enhance reliability and customer service
15 directly. And key to that focus has been a consistent set of financial policies,
16 enabled and supported by a series of constructive base rate settlements. The
17 lessons to be drawn are that: (i) financial strength is an important foundation
18 to the ability to invest capital in ways that improve the customer value
19 proposition; and (ii) long-term customer interests are well served through the
20 consistent application of sound financial policies.

21 **Q. Why is financial strength important to a utility and its customers?**

22 A. A regulated electric utility, which is an extremely capital intensive business,
23 has an obligation to provide electric utility service to all customers in its

1 defined service area at rates that the Commission determines to be fair and
2 reasonable. To fulfill this obligation to serve, regulated electric utilities need
3 to make both planned and unplanned significant investments in property,
4 plant, and equipment.

5
6 The responsibility of an electric utility to serve everyone in its territory and to
7 supply timely and efficient service is not contingent upon the health or the
8 state of the financial markets. In times of constrained access to capital and
9 depressed market conditions, only those utilities exhibiting financial strength
10 are able to attract capital under reasonable terms, providing those utilities with
11 significant and potentially critical flexibility. The requirement to access the
12 capital markets in all market conditions can be contrasted with the financial
13 needs of other entities without a legal obligation to serve. In my consulting
14 experience, I repeatedly observed non-regulated companies adjust the timing
15 and amount of their major capital expenditures to align with economic cycles,
16 and to wait out market disruptions or even contract their operations to better
17 match temporary market conditions. If faced with major storm damage, for
18 example, FPL would not have that option.

19 **Q. Has FPL's financial strength supported its access to capital on reasonable**
20 **terms, whenever needed, to serve its customers?**

21 A. Yes. By design, financial strength is intended not only for normal conditions
22 but also for periods of market uncertainty and turmoil, so that a company is
23 able to maintain continued ready access to capital on reasonable terms during

1 even the worst market conditions. FPL weathered the effects of the “Great
2 Recession” of 2008-2009 without significant degradation of its access to
3 capital and, following the 2010 Rate Settlement, was able to continue the
4 investment program that is in large measure responsible for the strong
5 customer value proposition it delivers today. It has been my experience from
6 working closely with investors that FPL’s uninterrupted access to capital
7 during the most recent market turbulence is a product of the Company’s
8 financial strength that it has consistently maintained over an extended period
9 of time.

10

11 Additionally, FPL was able to withstand two consecutive years (2004 and
12 2005) in which its service territory was directly hit by seven hurricanes, five
13 of which being classified as major hurricanes. Combined, these storms
14 inflicted almost \$1.9 billion of casualty losses on FPL’s system. Were it not
15 for FPL’s financial strength, FPL and its customers would have been
16 materially disadvantaged.

17 **Q. In addition to allowing FPL to navigate market turmoil and unexpected**
18 **events, has FPL’s financial strength benefited customers in other ways?**

19 A. Yes. The benefits of FPL’s strong financial position extend much beyond
20 simply raising capital on favorable terms in good times and bad. The ability
21 to place high reliance on capital availability affects how capital projects are
22 planned and constructed, and that in turn influences negotiation with
23 suppliers, resulting in more efficient capital projects overall. For example,

1 FPL's Engineering and Construction ("E&C") team is able to plan major
2 capital projects for the optimum sequence and timing of activities from an
3 E&C perspective, not based on the availability of financial resources. This in
4 turn helps them in contractual negotiations with suppliers and is part of why
5 FPL has been able to deliver major capital projects, such as power plants, at
6 total capital costs that are highly competitive. Financially weaker competitors
7 often have to make compromises in project sequencing and scheduling to
8 accommodate financial resource availability, resulting in higher ultimate cost.
9 In general, FPL's financial strength enables it to negotiate better terms with a
10 wide variety of suppliers.

11 **Q. Please compare the level of capital investment by the utility industry with**
12 **that of other industries, and compare FPL's level of capital investment to**
13 **that of other electric utilities.**

14 A. As a sector, the electric utility industry is among the most, if not the most,
15 capital intensive – meaning capital employed expressed relative to the value
16 of output (i.e., total revenue). Equivalently, it has among the lowest asset
17 turnover ratios (revenue divided by total assets). Based on data from the S&P
18 Capital IQ database in January 2015, for every dollar of revenue in 2014, the
19 average industrial firm required only \$0.96 of invested capital, whereas the
20 average utility required \$2.16. FPL's capital intensity is more than double
21 that of the average industrial firm, with total invested capital per dollar of
22 revenue of \$1.98. This, however, is lower than the average electric utility,

1 which reflects both FPL's efficient use of capital relative to its electric utility
2 peers as well as the Company's overall more efficient cost structure.

3
4 It seems unlikely that these relative capital intensities will change significantly
5 in the future. If anything, we are likely to see a continued incremental
6 increase in capital intensity within the industry generally and at FPL
7 specifically. According to Edison Electric Institute ("EEI") data, total
8 industry capital investment is likely to be nearly \$100 billion per year in 2015-
9 2016, up substantially from \$74 billion in 2010. As detailed elsewhere in
10 FPL's filings, FPL's plans call for continued capital investment at rates well
11 in excess of depreciation.

12
13 The high and continuing capital intensity of FPL and the industry strongly
14 suggests that confirmation of FPL's successful financial policies is
15 appropriate for the planning period.

16 **Q. How does a utility's regulatory environment affect its financial strength?**

17 A. In my experience, investors routinely judge a regulatory environment by at
18 least four attributes: predictability, stability, the availability of mechanisms for
19 prompt recovery of prudently incurred costs, and a lack of politicization. The
20 deterioration in one or more of these attributes can result in credit rating
21 downgrades, as was seen after FPL's 2009 Rate Case. While investors differ
22 in their exact assessments, these principles can be seen by reference to
23 published statements by rating agencies. For example, S&P weights

1 regulatory environment most heavily when analyzing a regulated utility's
2 business risk profile. The four categories that shape S&P's view in this regard
3 are "regulatory stability, tariff-setting procedures and design, financial
4 stability, and regulatory independence and insulation." (Standard & Poor's
5 Ratings Services, "Assessing U.S. Investor-Owned Utility Regulatory
6 Environments" (18 May 2015).)

7 **Q. Have FPL's financial policies supported its financial strength?**

8 A. Yes. FPL's financial policies, largely supported by the Commission over the
9 years, have resulted in an excellent credit rating, a strong liquidity profile, a
10 long history of success with FPL's banking partners, and a carefully managed
11 capital structure. FPL has also been able to raise capital at very competitive
12 rates. FPL's balance sheet, versus that of its peers, is better able to maintain
13 strong financial ratios that preserve its cost of borrowing and provide a buffer
14 against future unforeseen events. FPL currently has access to approximately
15 \$3 billion in available liquidity from external sources. Qualitatively, FPL
16 maintains strong relationships with banks and investment institutions, and
17 supports strong investor confidence. FPL currently is rated 'A-' by S&P, 'A1'
18 by Moody's, and 'A' by Fitch.

19 **Q. Do you expect FPL's financial policies to change?**

20 A. No. The current approach has worked well both for customers and for
21 investors, and the Commission should support its continuation. Indeed, long-
22 term financial policy consistency is important to its success for both

1 customers and investors. Looking forward, FPL will continue to need ready
2 access to capital at reasonable terms and ample liquidity.

3 **Q. How do your recommendations in this case align with the continuation of**
4 **FPL's financial policies?**

5 A. My recommendations align well with FPL's financial policies. Specifically, I
6 recommend that FPL's base rates beginning in 2017 continue to reflect FPL's
7 actual equity ratio that has been in place for many years, and that the
8 Commission approve an ROE that fairly compensates equity investors in light
9 of FPL's unique risk profile. In that regard, an ROE of 11 percent is
10 supported by FPL witness Hevert's market-based model analyses, as well as
11 by my own pragmatic view based on frequent interactions with equity and
12 fixed income investors and credit rating agencies. I also recommend an ROE
13 adder of 50 basis points and the continuation of FPL's currently-approved
14 storm cost recovery mechanism. My recommendations are entirely consistent
15 with the continuation of the financial policies that have served customers so
16 well.

17

18 **III. RISK PROFILE**

19

20 **Q. What is a company's risk profile and why is it important?**

21 A. A company's risk profile is the unique collection of risks that it faces both in
22 normal operations and in unusual circumstances. It is important because it
23 heavily influences the degree of financial strength and flexibility that the

1 company requires and is therefore an important determinant of the appropriate
2 capital structure to employ and the level of ROE required to provide adequate
3 financial strength and a fair return to investors.

4 **Q. What are the key risk factors that the FPSC should consider in assessing**
5 **FPL?**

6 A. FPL's risk factors can be grouped into five broad categories: (i) basic financial
7 measures such as revenues, costs and capital expenditures; (ii) infrastructure,
8 including transmission system, generation mix and fuel supply; (iii) climate
9 and weather such as tropical storms; (iv) environmental; and (v) regulatory
10 and political.

11 **Q. Please describe the risks surrounding future revenues, costs and capital**
12 **expenditures.**

13 A. FPL's risk profile with respect to these measures is slightly greater than the
14 typical utility's primarily because of FPL's extensive capital expansion
15 program, as the Company continues to make investments to reduce expenses
16 and to improve the service FPL provides its customers.. Investments of this
17 magnitude, though valuable from a customer perspective, add modestly to
18 FPL's risk profile as seen through investors' eyes.

19 **Q. Please describe the risks related to infrastructure.**

20 A. FPL's infrastructure exposes investors to risks not seen in most other utilities.
21 These risks largely relate to Florida's unique geographical position and the
22 location of FPL's service area within Florida. Florida's geographical position
23 as a peninsula, with limited connectivity in transmission and fuel supply,

1 place constraints on FPL's transmission system, generation mix and fuel
2 supply which translate into increased risk from an investor perspective. The
3 additional risk specific to FPL among Florida utilities, which is due to the fact
4 that it serves *both* coasts of the peninsula and therefore faces greater certainty
5 of major storm damage, is discussed below.

6
7 FPL's generation mix exposes FPL and its investors to greater risk than the
8 typical utility, primarily through its extensive utilization of nuclear power and
9 natural gas. Nuclear power plants are continuously subject to potential new,
10 costly, federal regulatory requirements. While nuclear power and natural gas
11 are on balance overwhelmingly beneficial for customers, the incremental risk
12 must be properly reflected when considering financial strength and authorized
13 ROE.

14 **Q. Does the fuel clause affect the risk associated with price volatility?**

15 A. Yes. The fuel clause moderates but does not eliminate the risk to investors.
16 Like similar mechanisms that apply to many other utilities around the country,
17 the fuel clause provides a degree of reassurance that prudently incurred fuel
18 costs will be recovered on a relatively timely basis. However, FPL must still
19 bear the risks associated with timing and liquidity, and from the investor
20 perspective there remains risk of disallowance, notwithstanding FPL's strong
21 track record of prudent management. The substantial exposure related to
22 managing a fuel program as large as that managed by FPL requires sizeable

1 and significant liquidity; this call on liquidity further emphasizes the need for
2 the Company to maintain financial strength.

3 **Q. Please explain the risks associated with climate and weather.**

4 A. FPL's service territory includes much of the east *and* west coastlines of
5 Florida and these coastlines are highly exposed to damage from tropical storm
6 activity. As discussed previously, FPL's service territory experienced an
7 unusually high level of storm activity in 2004 and 2005 and incurred almost
8 \$1.9 billion in costs to restore the electric transmission and distribution
9 system. While the recovery of prudently incurred storm costs helps to
10 mitigate this risk, FPL must maintain adequate liquidity for immediate
11 response, and investors are still exposed to loss of revenues and other impacts
12 during adverse weather conditions and restoration periods, such as
13 unrecovered revenue requirements from the interruption in sales and other
14 incremental costs that go unrecovered. These risks are unmitigated by any
15 mechanism for storm cost recovery. Additionally, the limited electrical
16 interconnection capacity serving Florida due to our peninsular geographic
17 location means that the ability to supply purchased power from outside of
18 Florida in the event that there is a significant need or disruption is severely
19 constrained.

20 **Q. What action has FPL taken to reduce the impact of its above average
21 exposure to extreme weather events?**

22 A. FPL has for many years imposed more stringent standards for its transmission
23 and distribution facilities than is normal for the industry in recognition of its

1 greater vulnerability. In the wake of the 2004 and 2005 hurricane seasons,
2 and in conjunction with the Commission's 2007 rule requiring the submission
3 of detailed storm hardening plans every three years, FPL went further and
4 began a comprehensive, long-term investment program aimed at strengthening
5 its core infrastructure. But the storm hardening effort is far from complete,
6 and even upon completion, will not completely eliminate FPL's heightened
7 exposure and risk. In fact, much of the benefit of these efforts is realized in
8 the form of improved recovery time after a storm, which has a limited impact
9 on FPL's financial risk profile. FPL witness Miranda discusses FPL's storm
10 hardening efforts in more detail.

11 **Q. Please describe the risk category relating to environmental risks and**
12 **exposure.**

13 A. All utilities are subject to risks associated with environmental regulations.
14 From an investor perspective, regulations are unpredictable, outside a utility's
15 control, and can have a material impact on capital requirements and liquidity.
16 The Environmental Cost Recovery Clause ("ECRC"), coupled with FPL's
17 proactive approach to environmental issues (such as its investments to reduce
18 emissions rates), help to ameliorate the impact of environmental regulation on
19 FPL's risk profile. Nonetheless, uncertainty remains. For example, it remains
20 to be seen specifically how the U.S. Environmental Protection Agency's
21 Clean Power Plan will be implemented in Florida and what impact, if any, it
22 will have on FPL.

1 **Q. Please summarize the political and regulatory risks facing FPL and its**
2 **investors.**

3 A. As discussed above, investors evaluate regulatory jurisdictions on the
4 predictability and stability, and lack of politicization, in regulatory outcomes.
5 Investors are acutely aware of regulatory factors in different jurisdictions they
6 evaluate, compare these factors across jurisdictions, and are extremely
7 reluctant to commit capital to utilities operating in jurisdictions with uncertain
8 or negative regulatory environments. This affects both the cost and
9 availability of capital.

10 **Q. What conclusions should the Commission draw from your analysis of**
11 **FPL's risk profile?**

12 A. FPL faces a unique mix of risk factors. Taken in aggregate, they imply that
13 FPL's risk profile is somewhat greater than most utilities in the country,
14 including those in FPL witness Hevert's proxy group. Accordingly, FPL
15 should maintain a stronger financial position than the typical utility, which
16 historically has been the case. FPL's somewhat riskier investment profile also
17 should be properly reflected in FPL's authorized ROE.

18

19 **IV. CAPITAL STRUCTURE**

20

21 **Q. What is your recommendation for an equity ratio for FPL for regulatory**
22 **purposes?**

1 A. I recommend the confirmation of an approved regulatory capital structure that
2 includes a 59.6 percent equity ratio based on investor sources (45.13 percent
3 based on all sources).

4
5 FPL has maintained its equity ratio generally around the 59-60 percent level
6 for well over a decade, and this has been an important underpinning of the
7 overall financial strength that has served customers well. While the future
8 will of course never be exactly like the past, there is no reason to believe that
9 the value of financial strength to FPL and its customers is any less now – or
10 will be any less in the near future – than it has been in the past. Accordingly,
11 continuation of the successful policies that have supported FPL and its
12 customers to date is appropriate. If coupled with an adequate ROE and base
13 rates that properly reflect the true cost of service, which includes taking into
14 account the cessation of Reserve Amortization, the current equity ratio will
15 continue to support FPL's strong financial position and the benefits it provides
16 to customers.

17 **Q. Is FPL's request consistent with Commission guidance on this topic?**

18 A. Yes. The Commission has stated that the capital structure used for ratemaking
19 purposes should bear an appropriate relationship to the utility's actual sources
20 of capital. (*See e.g., Order No. 850246-EI, Petition of Tampa Electric*
21 *Company for Authority to Increase its Rates and Charges.*) FPL has for many
22 years consistently maintained the capital structure it is requesting the
23 Commission to use for ratemaking purposes.

1 **Q. Does the investment community view FPL's current equity ratio as**
2 **adequate?**

3 A. Yes. Investors recognize FPL's particular risk profile and its particular need
4 for financial strength and accordingly expect it to maintain a strong capital
5 structure. Because FPL has maintained essentially the same actual capital
6 structure for many years, any change from this would likely raise questions in
7 investors' minds and would be viewed as a negative departure from past
8 practice.

9 **Q. How did FPL project its long-term debt cost?**

10 A. FPL relies on the Blue Chip Financial Forecast which represents the
11 consensus estimates of more than 40 economists. Cost projections for new
12 issuances are shown in MFR D-8. FPL's blended cost rates for the test and
13 subsequent years are shown in MFR D-4a.

14 **Q. How did FPL project its short-term debt cost?**

15 A. FPL relies on the forward Intercontinental Exchange London Interbank
16 Offered Rate ("LIBOR") curve for its short-term debt cost projections. These
17 projections are shown in MFR D-3.

18 **Q. What are the other components of FPL's capital structure, and where can**
19 **support for those components be found in FPL's filing?**

20 A. FPL's 59.6 percent equity ratio is based on investor sources which includes
21 only equity and debt components. However, FPL's regulatory capital
22 structure includes other sources such as customer deposits, deferred income

1 taxes, and investment tax credits. Those components are found in MFR D-
2 1A.

3 **Q. What Weighted Average Cost of Capital (“WACC”) would result from**
4 **FPL’s requests in this proceeding?**

5 A. FPL’s regulatory capital structure would produce a total WACC of 6.61
6 percent. This is a very reasonable WACC, reflecting one of the ways in which
7 FPL’s financial strength directly benefits customers. In fact, FPL’s requested
8 WACC would be substantially below the average WACC of 7.57 percent
9 approved for U.S. electric utilities for ratemaking purposes over the last three
10 years, as reported by Regulatory Research Associates. It is the WACC that
11 represents the actual cost of financing FPL’s infrastructure and is the cost of
12 capital reflected in rates.

13

14 **V. RETURN ON EQUITY**

15

16 **Q. Please comment on FPL witness Hevert’s proposed ROE of 11 percent.**

17 A. Based on my experience and familiarity with FPL’s financial position, as well
18 as my direct knowledge of investor perceptions, an ROE of 11 percent will
19 meet all the criteria identified earlier and is consistent with maintaining FPL’s
20 strong financial position.

21

22 The reasonableness of FPL’s requested ROE is further supported when
23 considered against the current allowed ROEs for other regulated utilities,

1 particularly within the state of Florida and in the Southeastern U.S. A
2 comparison of key performance metrics and authorized ROEs in the Southeast
3 is presented in Exhibit MD-3.

4 **Q. Is the effect of FPL's risk profile reflected in FPL's requested ROE?**

5 A. Yes. It is my judgment that an ROE of 11 percent would adequately reflect
6 FPL's risk profile, including the attendant risk of the Company's proposed
7 multi-year rate case stay-out, as discussed by FPL witness Hevert in his
8 assessment of FPL's risk profile and the appropriateness of his recommended
9 ROE. During this extended period of time, FPL and its investors will have
10 significant exposure to the forecasted rising interest rate environment, and
11 terms of access to capital could change unexpectedly, with more likelihood of
12 unfavorable than favorable change. The Federal Reserve's December 2015
13 decision to increase short-term interest rates from near-zero levels for the first
14 time in seven years is a signal of the central bank's shifting stance on
15 monetary policy; however, there is substantial uncertainty around possible
16 future actions. From an investor's perspective, FPL is foregoing the
17 possibility of seeking rate relief over this four-year period in the face of
18 substantial uncertainty. This risk is appropriately reflected in the
19 recommended 11 percent ROE.

20 **Q. Is FPL's requested ROE consistent with maintaining financial strength?**

21 A. Yes. An adequate ROE is important to fairly compensate equity investors for
22 the use of their capital and enable the Company to offer a return sufficient to
23 compete with other firms and attract new capital on reasonable terms, which

1 in turn helps to ensure that FPL can achieve and maintain the necessary
2 financial strength to meet its obligations to its customers.

3

4

VI. ROE PERFORMANCE ADDER

5

6 **Q. Please describe the ROE performance adder proposed by the Company.**

7 A. FPL is asking the Commission to increase the authorized ROE established in
8 this case by 50 bps, both to reflect what FPL has already accomplished in its
9 efforts to deliver superior value to its customers and as an incentive to
10 promote further efforts to improve the customer value proposition.

11

12 As further explained by a number of other FPL witnesses providing testimony,
13 FPL's superior service is exemplified by the following:

- 14 • Low bills: Customer bills are 30 percent below the national average, 20
15 percent below the Florida state average, and lower now than they were 10
16 years ago (see FPL witness Cohen's testimony);
- 17 • High reliability: FPL has the lowest SAIDI among Florida IOUs and a
18 SAIDI that is 44 percent better than the national average. In addition, FPL
19 was awarded the ReliabilityOne™ National Reliability Excellence Award,
20 PA Consulting's top annual honor (see FPL witness Miranda's testimony);
- 21 • Low emissions: FPL already complies with the U.S. EPA's proposed CPP
22 targets for the state of Florida for 2030 (see FPL witness Silagy's
23 testimony);

- 1 • Award-winning customer service: FPL has high customer satisfaction
2 rates and is continuously recognized for its outstanding customer service
3 (see FPL witness Santos’s testimony);
- 4 • High fossil fleet reliability: FPL’s fossil fleet EFOR has regularly been
5 “top decile” or “best in class” (see FPL witness Kennedy’s testimony);
- 6 • Highly efficient generating plants: Since 2001, the industry average net
7 heat rate for all fossil units has improved only six percent, while FPL’s
8 fossil fleet net heat rate improved more than 21 percent and continues to
9 be “best-in-class” (see FPL witness Kennedy’s testimony);
- 10 • Low non-fuel O&M: FPL’s customers are saving approximately \$1.9
11 billion a year in non-fuel O&M, as compared to an “average” company’s
12 performance (see FPL witness Reed’s testimony).

13 **Q. Is FPL’s request for an ROE adder consistent with previous requests**
14 **made to, and approved by, the Commission?**

15 A. Yes. In 2002, the Commission added 25 bps to Gulf Power Company’s
16 (“Gulf’s”) ROE mid-point in recognition of Gulf’s superior past performance,
17 and with the expectation that a similar level of performance would continue
18 into the future. (Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI, p.
19 32 (issued June 10, 2002).)

20 **Q. What factors should the Commission consider when evaluating FPL’s**
21 **performance for purposes of determining whether or not to authorize an**
22 **ROE performance adder?**

1 A. The factors the Commission should consider are the same as those presented
2 in support of FPL's request for a performance-based ROE adder in the 2012
3 Rate Case. In sum, the Commission should consider a broad array of
4 performance measures that contribute to FPL's delivery of superior value.
5 Chief among these are cost or affordability, reliability of service, and
6 customer service quality. In addition, given the likely increasing pressure on
7 emissions from the electric utility industry in coming years, the Commission
8 should also consider FPL's comparative emissions rates, particularly of CO₂,
9 the principal long-term driver of climate change. The Commission should
10 also assess the sustainability of performance, in order to avoid providing an
11 incentive for temporary but unsustainable performance.

12 **Q. Why is a performance adder appropriate if utilities have an obligation to**
13 **serve their customers?**

14 A. While all utilities with an obligation to serve will naturally strive to deliver
15 good value, there is in practice a wide range of activities that can be pursued
16 to deliver customer value, all of which would be considered prudent, yet some
17 of which may be more innovative and riskier but with a greater potential for
18 improving customer value. Moreover, as a pragmatic matter, my experience
19 suggests that there can be substantial degrees of difference in how intensively
20 different companies pursue opportunities to improve. A performance adder
21 would provide positive, economic encouragement to induce a higher degree of
22 innovation and a higher degree of 'stretch' in pursuit of superior outcomes,

1 encouraging utilities to develop initiatives and programs that have the
2 potential to generate savings and improve productivity.

3

4 Currently, there is very little difference among the authorized ROE midpoints
5 for investor-owned electric utilities in Florida. The narrow range of 10.25 to
6 10.50 reflects relative risk profiles and other factors as well as settled
7 outcomes – not recognition of performance. Accordingly, presently there is
8 no financial incentive for sustained improvement to customer value.

9 **Q. Are there broader policy objectives associated with awarding a**
10 **performance-based ROE adder?**

11 A. Yes. From a policy perspective it is important that some general relationship
12 exist between a utility's allowed ROE and its relative performance in
13 delivering value to its customers. It is in customers' long-term interests that
14 utilities have a strong incentive to deliver superior value and to improve their
15 value delivery over time. It is inconsistent with sound regulatory policy for a
16 company with a superior record of delivering value to its customers to emerge
17 from a key regulatory proceeding without any reflection of that performance
18 in its allowed ROE.

19

20 Moreover, a meaningful performance-based reward such as that recommended
21 by FPL would surely focus investor attention more directly on a company's
22 customer value proposition, and in my experience a company's management
23 responds to feedback and questioning that it receives from investors, just as it

1 does with feedback and questioning that it receives from regulatory bodies.
2 Over time this is likely to increase the pressure to improve the customer value
3 proposition. Although not the direct purpose of FPL's proposed adder, it
4 could also work to encourage other electric utilities to strive for continuously
5 improving performance and customer value in innovative ways as well, in
6 hopes of achieving a similar reward.

7 **Q. Couldn't the Commission simply penalize poor performance instead of**
8 **rewarding good performance?**

9 A. While penalties for deliberately or negligently poor performance may be
10 appropriate in some circumstances, in the vast majority of cases regulated
11 utilities are seeking to provide good value to customers. The practical issue is
12 how to encourage new and different approaches in order to advance the "state
13 of the art" in providing service to customers. Negative incentives will tend to
14 promote risk avoidance: utilities will work hard to avoid being penalized, but
15 they will be much less likely to take the risks needed to seek out new
16 possibilities. In contrast, a positive incentive such as FPL's proposed
17 performance adder will actively encourage the difficult challenge of seeking
18 new and different approaches in order to improve customer value.

19 **Q. In your opinion, how would the investment community react to the**
20 **Commission's acknowledgment of superior performance and**
21 **authorization of a performance-based ROE adder?**

22 A. Meaningful recognition of performance would be perceived by investors and
23 rating agencies as good for Florida IOUs as a whole. As noted above, it

1 would likely have the effect of increasing investor focus on customer value,
2 and result in investors urging utility management to improve customer value
3 in hopes of earning a higher authorized return. This effect would tighten the
4 linkage between the long-term interests of investors and customers.

5

6

VII. STORM COST RECOVERY

7

8 **Q. Is FPL requesting a storm accrual in this proceeding?**

9 A. No. FPL is not requesting a storm accrual in this proceeding.

10 **Q. How does FPL propose to address storm recovery in this proceeding?**

11 A. FPL proposes to continue to recover prudently incurred storm costs under the
12 framework prescribed by the 2010 Rate Settlement, and continued by the 2012
13 Rate Settlement. Specifically, if FPL incurs storm costs related to a named
14 tropical storm, the Company may begin collecting up to \$4 per 1,000 kWh
15 (roughly \$400 million annually) beginning 60 days after filing a petition for
16 recovery with the FPSC. This interim recovery period will last up to 12
17 months. If costs related to named storms exceed \$800 million in any one year,
18 the Company can also request that the Commission increase the \$4 per 1,000
19 kWh accordingly. This cost recovery mechanism also would be used to
20 replenish the Company's storm reserve in the event that it was fully depleted
21 by storm costs. Any cost not recovered under this mechanism is deferred on
22 the balance sheet and recovered beyond the initial 12 months as determined by
23 the Commission.

- 1 **Q. Is this proposal a departure from prior FPL positions on this issue?**
- 2 A. Yes. Prior to the 2010 Rate Settlement, the Commission employed a
3 regulatory framework for storm cost recovery consisting of three main parts:
4 (1) an annual storm accrual, adjusted over time as circumstances change; (2) a
5 storm damage reserve adequate to accommodate most but not all storm years;
6 and (3) a provision for utilities to seek recovery of costs that went beyond the
7 storm reserve. These three parts acting together allowed FPL over time to
8 recover the full costs of storm restoration, while at the same time balancing
9 competing customer interests: that is, minimizing and mitigating the ongoing
10 impact as much as possible, softening the impact to customer bills because the
11 reserve may have been insufficient, and intergenerational equity.
- 12 **Q. Why is FPL not proposing in this proceeding to use a framework that has
13 proven successful in the past?**
- 14 A. As a former CFO with direct experience of the impact on FPL's financial
15 position of multiple major tropical systems, I still believe the approach taken
16 prior to 2009 is the best compromise that balances multiple and sometimes
17 conflicting objectives. However, I understand that not everyone agrees and
18 that several intervenors have indicated that they prefer not to contribute to a
19 regular accrual. Thus, FPL has essentially taken this issue off the table and
20 proposes to continue, for the four-year term of FPL's rate proposal, the
21 alternative cost recovery framework that was approved in the 2010 Rate
22 Settlement and continued by the 2012 Rate Settlement.
- 23 **Q. Does the alternative cost recovery framework eliminate all risk?**

1 A. No. In the event of significant storm damage FPL will have access to a storm
2 reserve smaller than it otherwise would have been, and the resulting
3 supplemental charge will be larger and/or will last longer than it otherwise
4 might have. The lack of an adequate storm reserve underscores the need for a
5 strong balance sheet to quickly access capital. FPL continues to believe that
6 the best long term policy is to revert to the traditional proven framework and
7 reinstitute an annual accrual, recovered through rates, to the storm reserve.
8 From a financial or actuarial standpoint, over a period of years, storm
9 restoration costs are an entirely foreseeable and legitimate exposure associated
10 with operating in a geography like Florida and are properly recoverable
11 through base rates.

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

13 A. Yes.

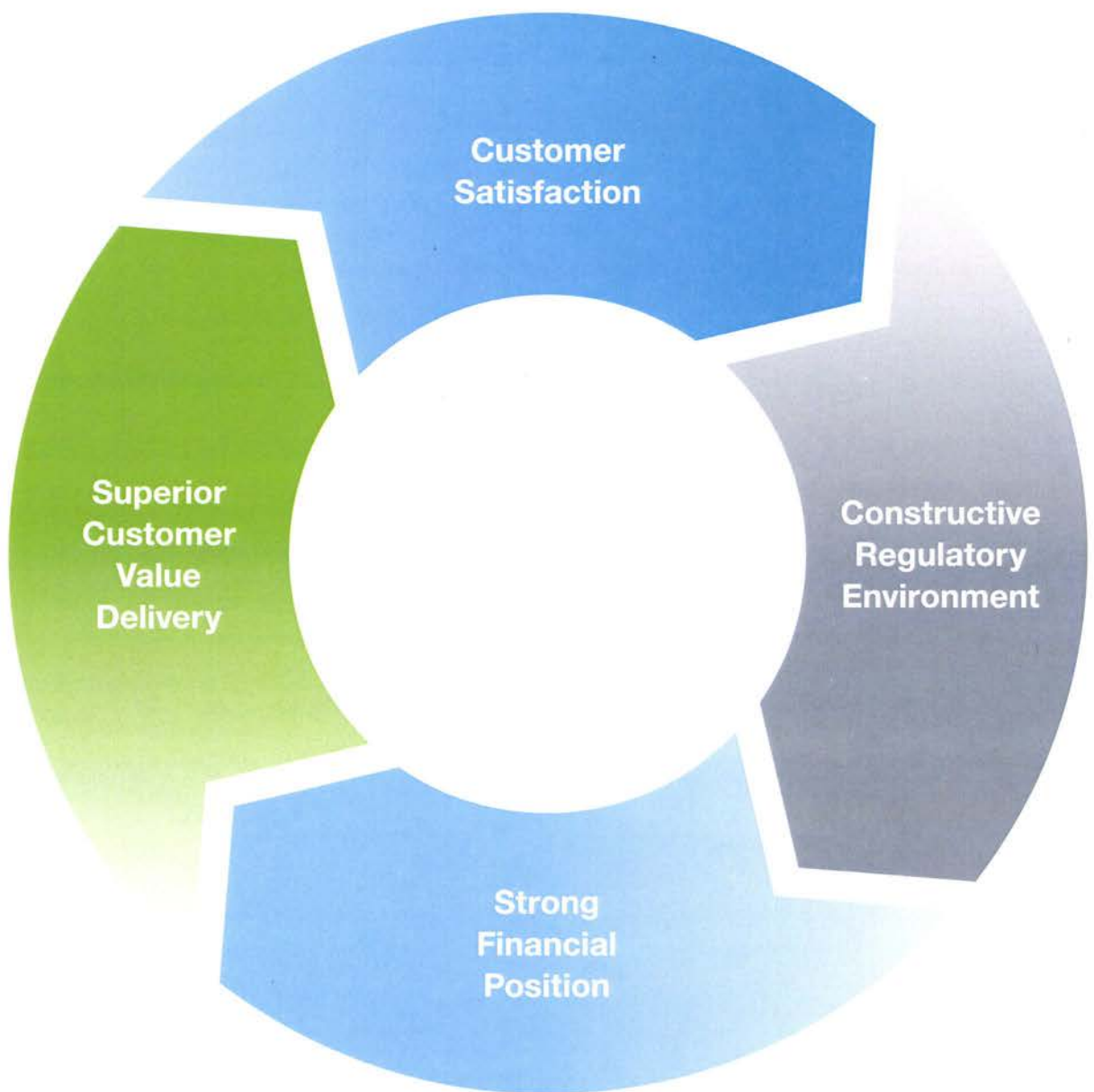
Florida Power and Light Company

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SOLE SPONSOR:		
D-02	Historic Prior Test Subsequent Year Adjustment	COST OF CAPITAL
D-03	Historic Prior Test Subsequent Year Adjustment	SHORT-TERM DEBT
D-04A	Prior Test Subsequent Year Adjustment	LONG TERM DEBT OUTSTANDING
D-05	Historic Prior Test Subsequent Year Adjustment	PREFERRED STOCK OUTSTANDING
D-07	Historic Subsequent Year Adjustment	COMMON STOCK DATA
D-08	Test Subsequent Year Adjustment	FINANCING PLANS - STOCK AND BOND ISSUES
D-09	Historic Prior Test Subsequent Year Adjustment	FINANCIAL INDICATORS SUMMARY
CO-SPONSOR:		
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FPL's Virtuous Circle





Regional Comparison: ROE and Key Performance Metrics

Major Southeastern Investor-Owned Utilities	Authorized Return on Equity Midpoint	Typical Residential Customer Bill, July 2015 ⁶	Operational Efficiency (Non-Fuel O&M \$/MWh) ⁴	Reliability (SAIDI)		JD Power Customer Satisfaction ¹¹	CO ₂ Emissions Rate (lbs/MWh) ¹²
				FPSC 2015 ⁹	PA Consulting Group 2014 ¹⁰		
Florida Power & Light (FL)	10.50%	\$97.21¹	\$15.59	61.4	72.1	722	733.6
Duke Energy Progress ¹ (SC)	12.75%	\$102.53	\$31.46	N/A	128.0	679	843.2
Entergy Mississippi (MS)	10.07%	\$108.25	\$19.36	N/A	184.4	704	1,394.0
Tampa Electric (FL)	10.25% ²	\$108.47	\$22.25	94.0	99.5	675	2,018.7
Duke Energy Carolinas ¹ (NC)	10.20%	\$108.90	\$23.32	N/A	138.0	696	843.2
Dominion Virginia Power (VA)	10.66% ³	\$113.20	\$23.95	N/A	113.0	696	997.4
Appalachian Power (VA)	9.70%	\$113.40	\$22.72	N/A	334.2	652	1,818.2
Duke Energy Carolinas ¹ (SC)	10.20%	\$117.05	\$23.32	N/A	126.0	696	843.2
Duke Energy Progress ¹ (NC)	10.20%	\$118.18	\$31.46	N/A	124.0	679	843.2
Duke Energy Florida (FL)	10.50%	\$121.59	\$22.35	87.9	101.2	656	1,634.5
Alabama Power (AL)	13.29% ⁴	\$130.77	\$25.68	N/A	N/A	727	1,387.3
Mississippi Power (MS)	9.813% ⁵	\$136.18	\$29.33	N/A	N/A	662	1,725.4
Georgia Power (GA)	10.95%	\$136.76	\$22.66	N/A	102.8	712	1,192.3
Gulf Power (FL)	10.25% ²	\$139.29	\$30.76	94.9	N/A	703	1,808.0
South Carolina Electric & Gas (SC)	10.25%	\$148.41	\$21.89	N/A	97.3	689	1,254.8
AVERAGE	10.64%	\$120.01	\$24.41	84.6	135.0	690	1,289.1
AVERAGE EXCLUDING FPL	10.65%	\$121.64	\$25.04	92.3	140.8	687	1,328.8

1. Duke Energy Progress and Duke Energy Carolinas O&M figures, CO₂ rates and JD Power Customer Satisfaction scores reported on a consolidated basis.
 2. Gulf Power and Tampa Electric have the opportunity to increase ROE to 10.50% if Treasury yields increase.
 3. Weighted average ROE for various limited-issue generation riders authorized on Feb. 29, 2016, ranging from 10.60% to 11.60% using a base ROE of 9.60%

4. Alabama Power has a weighted ROE range of 5.75% to 6.21% (ROE times equity ratio), which equates to a 12.78% to 13.80% ROE using an estimated equity ratio of 45%.
 5. Mississippi Power operates under formula-based alternative rate plans (ARPs). Most recent performance-adjusted cost of common equity under the ARP for test-year 2013 is 9.813%. In its last base rate case, 2001, the company was authorized a 12.88% ROE. Excludes impact of a plant-specific awarded ROE of 9.225%.

6. Typical 1,000 kWh Residential Customer Bill (EEI July 2015)
 7. FPL's typical 1,000-kWh residential customer bill for Jan. 2016 is \$93.38 and will be \$91.73 in April 2016.
 8. Data source is FERC Form 1 (2014).
 9. Source is reliability data reported to the Florida Public Service Commission.

10. Data source is PA Consulting Group. Companies with a result of N/A did not use IEEE 2.5 beta method for calculation or use not confirmed.
 11. Average of each utility's score for JD Power's 2015 Electric Utility Residential Customer Satisfaction StudySM (July 2015) & 2016 Electric Utility Business Customer Satisfaction StudySM (Jan. 2016)
 12. 2014 data from EPA and DOE via Ventyx database query on March 10, 2015

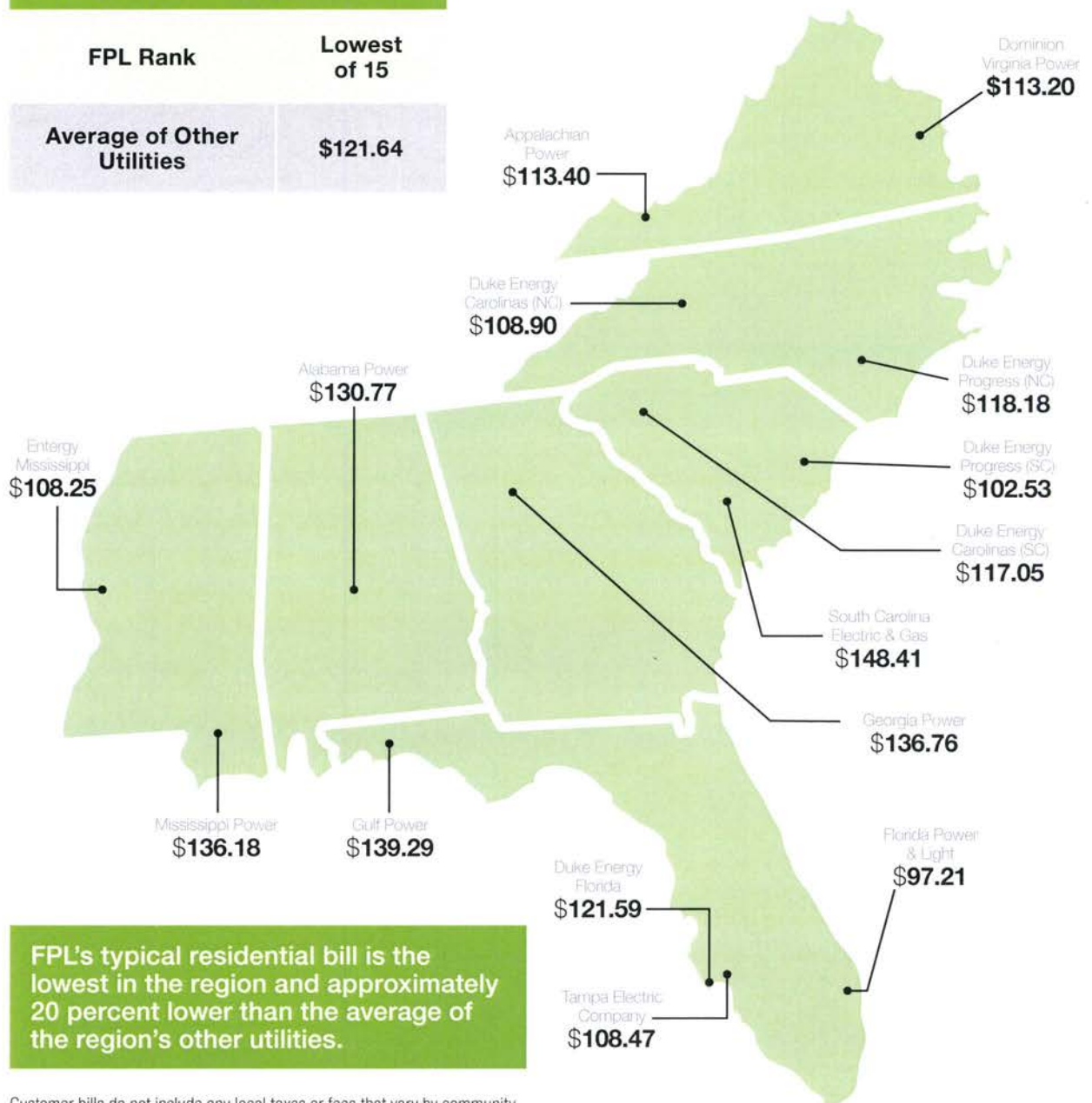


Regional Comparison: Typical 1,000-kWh Residential Customer Bill

Edison Electric Institute data for Summer 2015, rates effective July 2015

How FPL Compares: Typical Residential Customer Bill

FPL Rank	Lowest of 15
Average of Other Utilities	\$121.64



FPL's typical residential bill is the lowest in the region and approximately 20 percent lower than the average of the region's other utilities.

Customer bills do not include any local taxes or fees that vary by community.

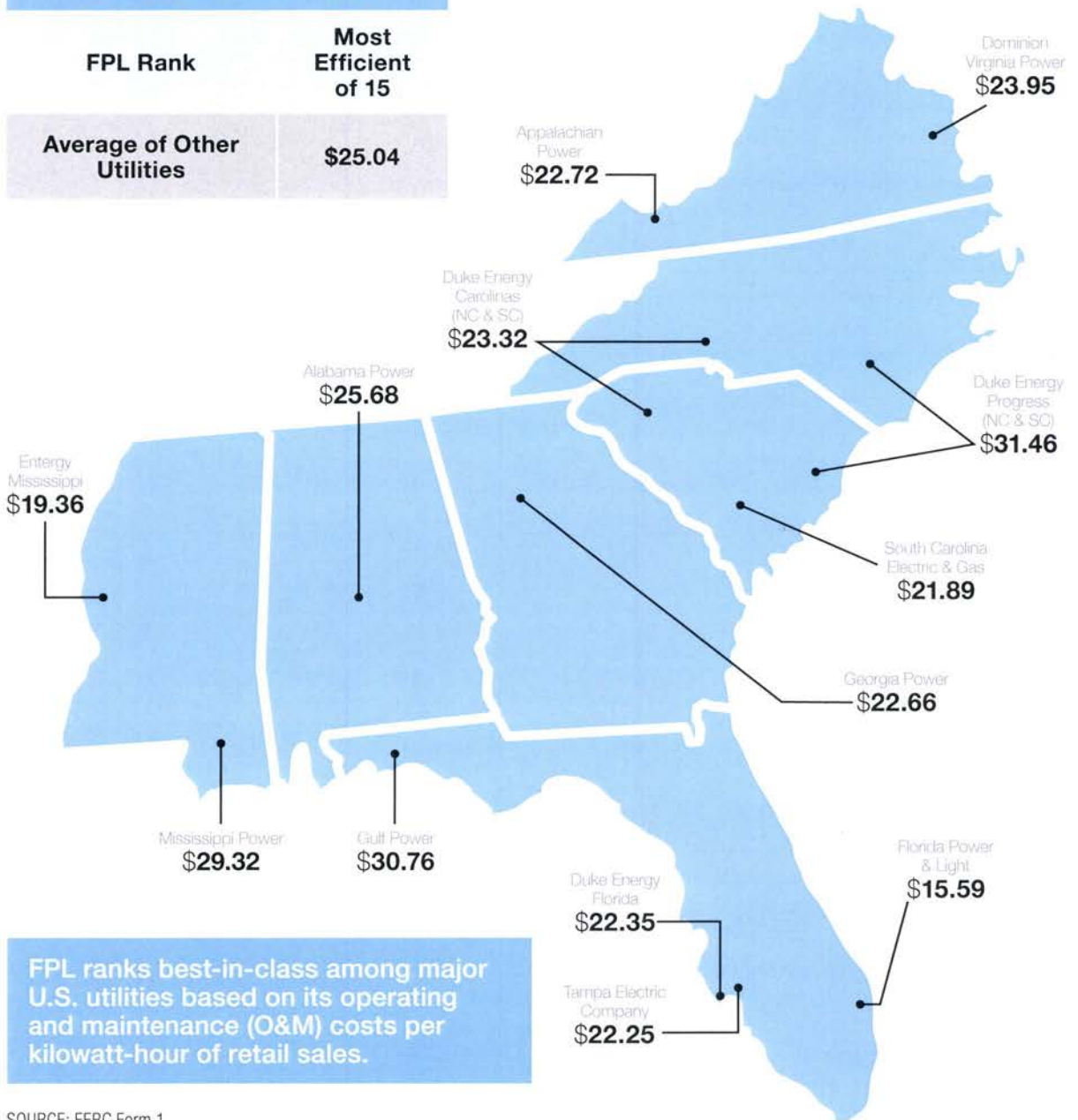


Regional Comparison: Operational Efficiency

Non-Fuel Operations & Maintenance Costs – 2014

How FPL Compares: Non-Fuel O&M Costs (\$/MWh) – 2014

FPL Rank	Most Efficient of 15
Average of Other Utilities	\$25.04



SOURCE: FERC Form 1

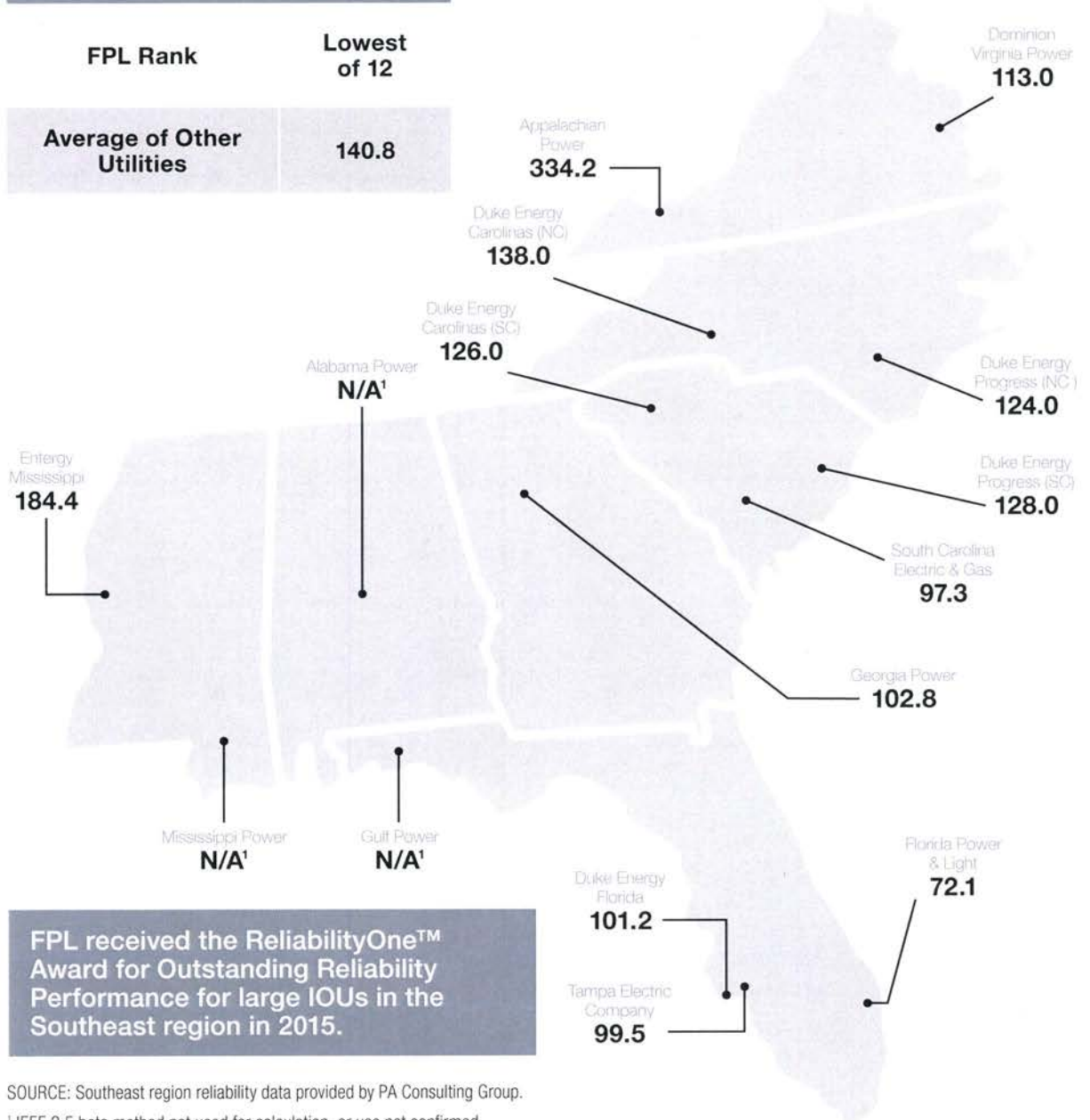


Regional Comparison: Reliability

PA Consulting Group SAIDI data for 2014

How FPL Compares: Reliability

FPL Rank	Lowest of 12
Average of Other Utilities	140.8



FPL received the ReliabilityOne™ Award for Outstanding Reliability Performance for large IOUs in the Southeast region in 2015.

SOURCE: Southeast region reliability data provided by PA Consulting Group.

¹ IEEE 2.5 beta method not used for calculation, or use not confirmed

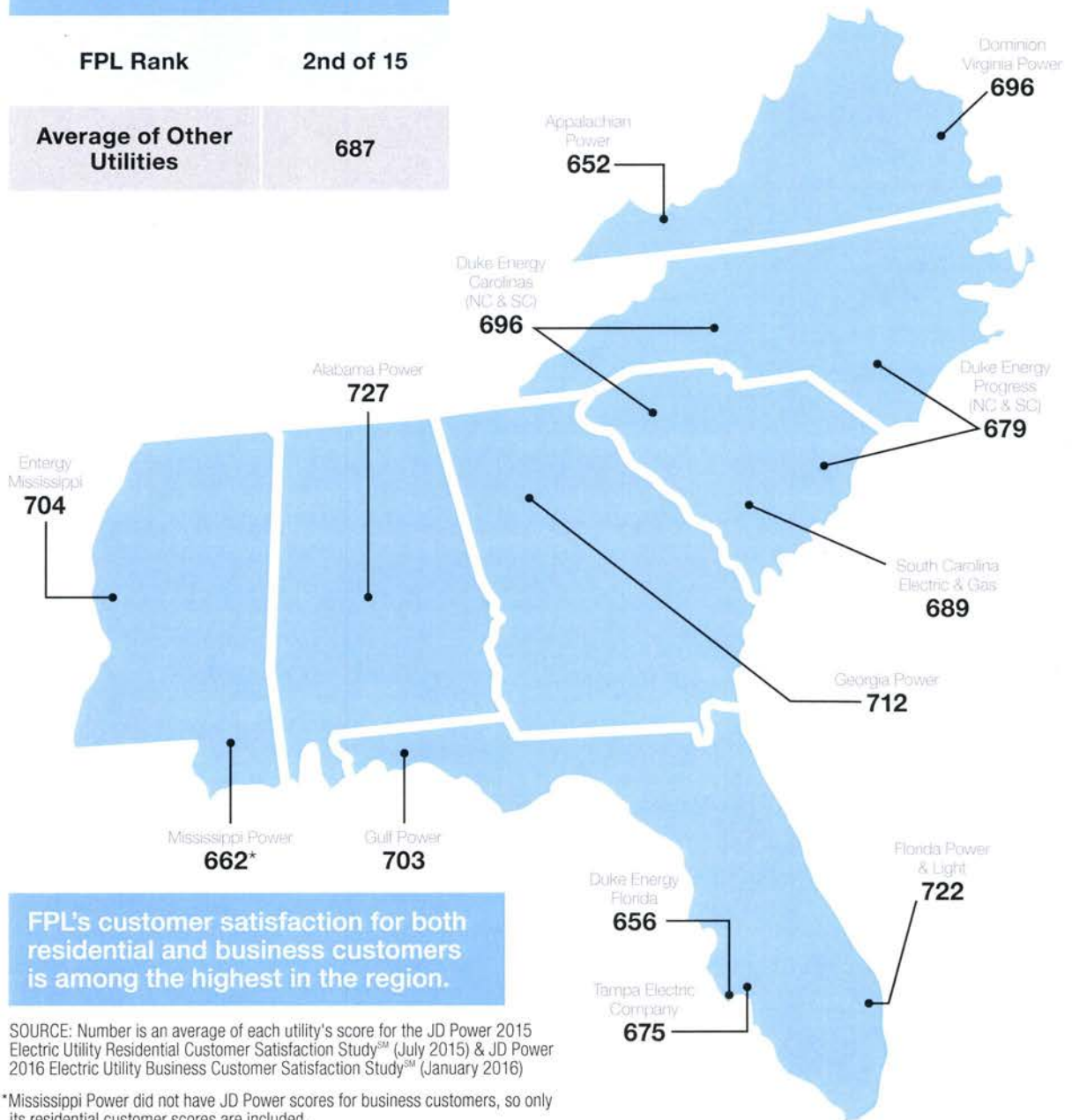


Regional Comparison: Customer Satisfaction

JD Power customer satisfaction studies, residential (July 2015) and business (January 2016)

How FPL Compares: Customer Satisfaction

FPL Rank	2nd of 15
Average of Other Utilities	687



SOURCE: Number is an average of each utility's score for the JD Power 2015 Electric Utility Residential Customer Satisfaction StudySM (July 2015) & JD Power 2016 Electric Utility Business Customer Satisfaction StudySM (January 2016)

*Mississippi Power did not have JD Power scores for business customers, so only its residential customer scores are included.

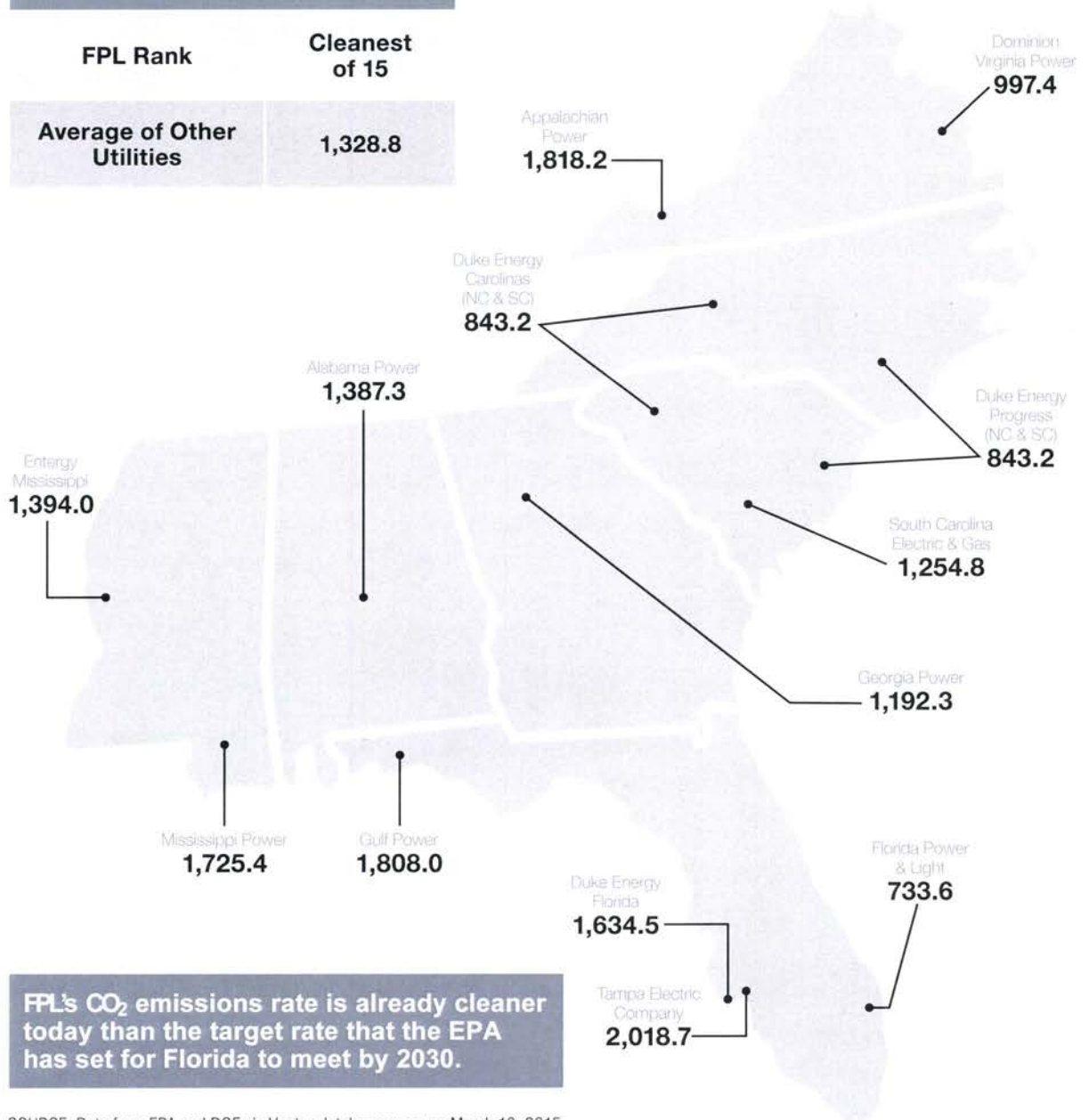


Regional Comparison: Carbon Emissions Rate

CO₂ Emissions Rate – 2014

**How FPL Compares:
 CO₂ Emissions Rate (lbs/MWh)**

FPL Rank	Cleanest of 15
Average of Other Utilities	1,328.8



FPL's CO₂ emissions rate is already cleaner today than the target rate that the EPA has set for Florida to meet by 2030.

SOURCE: Data from EPA and DOE via Ventyx database query on March 10, 2015