

**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:

ERIC SILAGY

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FLORIDA POWER & LIGHT COMPANY
DIRECT TESTIMONY OF ERIC SILAGY
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 Eric Silagy. My business address is Florida Power & Light
5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

7 A. I am employed by Florida Power & Light Company ("FPL" or the
8 "Company") as President and CEO.

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

10 A. I have overall responsibility for the management and operations of FPL.

11 **Q. Please describe your educational background and professional
12 experience.**

13 A. I have a Bachelor of Arts in Economics from the University of Texas at
14 Austin and a Juris Doctorate from the Georgetown University Law Center. I
15 was appointed to my current position in 2011. My professional background is
16 described in more detail in Exhibit ES-1.

17 **Q. Are you sponsoring or co-sponsoring any exhibits in this case?**

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

- 19
- ES-1 Eric Silagy Biography
 - 20 • ES-2 Typical Residential 1,000 kWh Bill – 2006 through 2020
 - 21 • ES-3 Value Provided to FPL Customers
- 22
- 23

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

2 A. The purpose of my testimony is to provide an overview of FPL's filing and an
3 introduction of the witnesses who are submitting direct testimony on FPL's
4 behalf in support of the filing.

5 **Q. Please summarize your testimony.**

6 A. FPL is a major part of Florida's economic platform: we provide electric
7 service to more than 4.8 million customer accounts, or about half of our
8 state's homes and businesses; and, to my knowledge, FPL is the largest
9 private investor in the state. We recognize the important role FPL plays in
10 Florida and have worked hard to continue to improve the value we provide
11 customers. Indeed, today we provide electric service that is cleaner and more
12 reliable – and even more affordable – at a time when the average U.S. utility
13 bills have increased by about 29 percent over the last decade. In fact, today
14 our typical residential 1,000 kilowatt hour (“kWh”) customer bill (“typical
15 residential bill”) is about 14 percent *lower* than it was 10 years ago.

16

17 Our ability to deliver outstanding customer value is the result of consistent
18 and cumulative action over an extended period of time, reflecting a
19 philosophy and approach to our business that we sometimes refer to as the
20 “virtuous circle.” The starting point for us on this “circle” is focusing on
21 delivering superior customer value. Customer value promotes customer
22 satisfaction, which in turn helps to support a constructive regulatory
23 environment; and a constructive regulatory environment is necessary to help

1 FPL maintain the strong financial position that has been, and remains, critical
2 to our ability to deliver a solid value proposition for our customers. It is
3 apparent that FPL's long-term strategy has worked extremely well. Of course,
4 many of the decisions we have made in support of this strategy have required
5 the approval and thorough oversight of the Florida Public Service
6 Commission (the "Commission"). This filing seeks to continue the track
7 record of success and the policies and strategies on which that success has
8 been built.

9
10 The core of our strategy over the last 15 years to deliver strong customer value
11 consists of four key elements: (1) a relentless focus on efficiency and
12 productivity; (2) smart investments that contribute to lower O&M, lower fuel
13 costs, lower emissions, better reliability, and otherwise improve customer
14 value; (3) sound financial policies including a strong balance sheet; and (4) a
15 willingness to innovate and embrace new ideas and technology. We feel very
16 good about the results that we have achieved through these efforts. Currently,
17 FPL's typical residential customer bill is about 30 percent lower than the latest
18 national average, helping keep Florida competitive economically. Within
19 Florida, FPL's typical residential bill is about 20 percent lower than the latest
20 statewide average of reporting utilities. At the same time, as FPL witnesses
21 describe, the Company delivers nationally recognized award-winning service,
22 outstanding reliability, and one of the cleanest generation emissions rates of
23 all large U.S. utilities.

1 Illustrative of our consistent, strong commitment to operating efficiently is the
2 fact that, over the last four years, FPL improved upon its already exceptional
3 non-fuel operating and maintenance (“O&M”) performance. As demonstrated
4 in witness Reed’s exhibit JJR-6, FPL has consistently been a best-in-class
5 performer and we continue to effectively manage non-fuel O&M. As FPL
6 witness Reed’s analysis shows, in 2014 alone, FPL’s *annual* non-fuel O&M
7 expense is \$1.9 billion *less* than an “average” utility. Put another way, if FPL
8 operated as an “average” company, our O&M would be more than double its
9 current level, adding about \$17 to the monthly typical residential bill or
10 costing customers more than \$200 per year.

11
12 To maintain and improve upon our combination of excellent service and low
13 bills for customers over the long term, we must continue to make smart, long-
14 term capital investments in our infrastructure. From the end of 2013 through
15 2017, on a total company basis, we will have invested \$15.8 billion in our
16 infrastructure, or nearly \$4 billion annually – far more than the Company
17 earns in any one year. In order to sustain such levels of investment cost-
18 effectively, obtaining an appropriate return on equity (“ROE”) and recovering
19 prudently incurred costs is crucial.

20
21 In an effort to promote long term stability for customers, the Company and
22 Florida’s economy, FPL’s request addresses rates over a multi-year period.
23 Specifically, we are proposing a base rate adjustment in 2017, a smaller,

1 subsequent-year adjustment in 2018, and an adjustment in mid-2019 that is
2 limited only to recovery of the cost of the FPL Okeechobee Clean Energy
3 Center. With the approval of these requests, there would be no general base
4 rate increases in 2019 and 2020. While not without risks to FPL, this
5 approach is itself a significant benefit for customers in terms of providing rate
6 certainty, and avoiding repetitive and costly rate proceedings.

7
8 In addition, this multi-year approach would allow the Company to continue
9 focusing on ways to improve its operations and performance, better meet
10 customer needs and expectations, and ultimately provide strong, smart
11 infrastructure that delivers reliable, clean, affordable electricity to the
12 Floridians and businesses we serve. As illustrated in Exhibit ES-2, today's
13 typical residential bill is significantly lower than both the state and national
14 averages and also is lower than it was ten years ago in 2006. In addition, we
15 currently project that through the remainder of this decade, even with these
16 requested base rate increases, our typical bill would continue to be lower in
17 2020 than it was in 2006, and would remain among the lowest in the state and
18 nation.

19
20 As a company, we know that when people choose to live in our service area
21 and businesses choose to expand or locate here, FPL's low bills, high
22 reliability, clean emissions and excellent customer service can play an
23 important role in their decision. The investments FPL has made with the

1 approval of the Commission will continue to help us meet the increasing
2 needs and expectations of our customers. We are proud to serve our fellow
3 Floridians with outstanding value, supporting the strength and stability of
4 Florida's economy while preparing responsibly today to ensure we can meet
5 the energy needs of the future. If approved, this four year rate proposal would
6 enable us to continue on this successful path.

7

8 II. HISTORY OF CONSTRUCTIVE SETTLEMENTS

9

10 **Q. Please summarize FPL's recent base rate case history.**

11 A. Over the last 17 years, FPL has entered into five multi-year settlement
12 agreements that in each instance were approved by the Commission. During
13 the relevant periods, those agreements provided customers with a degree of
14 rate stability and certainty while at the same time allowing the Company to
15 maintain a strong credit rating and balance sheet. This in turn has enabled
16 FPL to continue to meet customer needs through multiple major storms and
17 the worst financial crisis since the Great Depression – challenges that we hope
18 never recur, but which we must remain prepared to deal with in the future.

19

20 In approving our 2012 Rate Settlement, the Commission determined that the
21 agreement “provides FPL's customers with stability and predictability with
22 respect to their electricity rates, while allowing FPL to maintain the financial
23 strength to make investments necessary to provide customers with safe and

1 reliable power.” Order No. PSC-13-0023-S-EI, at 7-8. FPL’s Commission-
2 approved settlement agreements, including our most recent four-year
3 agreement, have worked very well in meeting those objectives. At the same
4 time, they avoided additional costly and resource-intensive base rate
5 proceedings and allowed the Company’s management team and employees to
6 focus on ways to continue to find efficiencies, develop and implement
7 innovative technologies and solutions, and improve the way in which services
8 are delivered. In my opinion, this constructive regulatory framework has been
9 a critical element of our success in becoming a top performer nationally in
10 delivering clean, reliable, low cost energy to our customers. Long-term rate
11 solutions have been a hallmark of Florida regulation over the last 17 years,
12 providing a significant degree of stability and certainty that otherwise would
13 not have been possible.

14
15 Of course, at the end of the term of any multi-year agreement the Company
16 and the Commission are able to review rate levels relative to the costs the
17 Company is incurring and expects to incur to provide service, including the
18 investments in infrastructure that the Company has made and is making. Such
19 a review also takes into account the typically rising costs of operations as well
20 as any efficiencies and cost reductions that the Company was able to realize
21 during the term of each settlement.

22 **Q. Has the current settlement agreement worked well for customers?**

23 **A.** Absolutely. As described by FPL witness Barrett and other FPL witnesses,

1 the 2012 Rate Settlement has proven to be of significant value for our
2 customers. During the term of this settlement agreement, FPL has been able
3 to continue to improve its already high level of service and operational
4 performance. As I stated earlier, this period of stability has been one of the
5 key benefits of a multi-year rate solution, allowing management and all
6 employees to focus on improving service delivery for customers and realizing
7 additional efficiencies in the Company's operations.

8
9 During the term of the agreement, FPL completed its modernization of the
10 Cape Canaveral and Riviera Beach plants on time and on or under budget.
11 The modernization of the Port Everglades plant also is nearing completion and
12 is expected to be operational ahead of schedule and under budget. FPL also
13 has continued to improve its performance in several key categories both
14 nationally and statewide. Specifically, FPL has: (1) lowered O&M costs; (2)
15 worked to reduce future costs, as demonstrated by the buy-out of the Cedar
16 Bay Power Purchase Agreement; (3) lowered emissions even further; (4)
17 continued to make improvements in system fuel efficiency; and (5) improved
18 reliability. This was accomplished while keeping typical customer bills
19 among the lowest in the state and nation. These achievements are discussed in
20 detail by FPL witnesses Barrett, Kennedy, Santos, Miranda, Reed, and others.
21 In short, we continued to look for ways to provide the highest level of overall
22 service to Florida customers at a reasonable cost, delivering significant
23 improvements in customer value.

1 **III. FPL'S OPERATING PHILOSOPHY AND VISION**

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Q. Please describe FPL's operating philosophy.

A. Central to our operating philosophy is a strong and steady focus on improving customer value both short and long term. We approach this as an ongoing process involving smart investments in our infrastructure and a sustained commitment to efficiency and productivity and, in general, improving all aspects of our service and reliability. Our ability to deliver outstanding customer value did not and does not happen overnight or by accident. Rather, it is, and must be, the result of consistent and cumulative action over an extended period of time.

The success we have had in delivering outstanding customer value reflects a longstanding philosophy and committed approach to the business that we sometimes refer to as the "virtuous circle" and is discussed by FPL witness Dewhurst. Not surprisingly, the starting point for us on this "circle" is focusing on delivering superior customer value. Fundamentally, and perhaps obviously, we believe that exceptional customer value results in strong customer satisfaction. The combination of customer value and customer satisfaction in turn helps to support a constructive regulatory environment. A constructive regulatory environment, in turn, is essential to our ability to deliver customer value, because to deliver that value FPL must maintain a strong credit rating, have ready access to sufficient debt and equity capital,

1 and rely on stable, constructive regulation to make the types of smart,
2 innovative, capital-intensive investments necessary to produce that customer
3 value. This virtuous circle model has worked exceptionally well for
4 customers over many years. The Company's request in this proceeding is a
5 proposal to continue this proven and very successful approach.

6
7 Under the framework I just described, we strive to do the right thing even
8 before we are ordered or asked to do so – and at times in the face of intervenor
9 opposition that is focused only on the short-term. When the Great Recession
10 was disrupting other Florida businesses, we maintained our long term
11 perspective, continuing to make smart investments in our infrastructure and
12 building a system that would provide long-term benefits to customers in terms
13 of both reliability and low bills. A key example is our ongoing investment in
14 highly efficient generating plants that have saved our customers billions of
15 dollars in fuel costs. In addition, these investments have positioned us to be in
16 compliance today with the 2030 carbon emission rate target that the U.S.
17 Environmental Protection Agency's Clean Power Plan ("CPP") has proposed
18 for Florida. Another example is the modernization of our grid, building one
19 of the strongest and smartest grids in America today. At a time when many
20 areas of our country are struggling to deal with daunting infrastructure
21 problems, we can be proud of the smart, modern infrastructure we have built
22 in Florida and the value that it brings to customers every day.

1 **Q. Please describe the benefits of FPL's forward-looking investment**
2 **strategy.**

3 A. Had we not started investing in clean generation years ago, we would not be
4 positioned as we are today – providing significant fuel savings to customers
5 and standing much better prepared than most companies to meet the CPP
6 standards. Had we not started years ago to build a smarter and stronger grid,
7 we would not be in the position today of providing outstanding reliability to
8 our customers. Had we not invested in FPL's and Florida's future, we would
9 probably be just an average performing utility today – meeting our basic
10 regulatory requirements, but not providing the billions in annual savings that
11 we currently provide. FPL's track record demonstrates that there are real,
12 tangible customer benefits, including comparatively low electric bills and high
13 reliability, from FPL's approach.

14
15 FPL has provided a number of substantial benefits for our customers by not
16 settling for being an "average utility." For example, if FPL were an average
17 performing utility:

- 18 • Our customers' reliability would be 50 percent higher (Florida average
19 of 92 minutes versus FPL average of 61 minutes);
- 20 • Annual fuel costs would be more than \$400 million higher;
- 21 • Annual non-fuel O&M expense would be nearly \$2 billion higher;
- 22 • The annual typical residential bill would be nearly \$500 higher overall;
- 23 and

- 1 • Emissions would be higher, adding the equivalent of more than six
2 million cars to our roads for an entire year and our risk of incurring
3 billions of future environmental compliance costs would be
4 substantially increased.

5

6 We believe that the ability to take a long term perspective is what has worked
7 for our customers and for Florida, and we must continue on that path. The
8 ability to deliver value to customers is a result of cumulative and consistent
9 actions taken over an extended period of time.

10

11 **IV. THE VALUE FPL CURRENTLY PROVIDES**

12

13 **Q. Please highlight FPL's performance and service to its customers.**

14 A. FPL is an industry leader in most of the core aspects of its operations and
15 service. Exhibit ES-3 provides a summary of the value that our customers
16 enjoy as a result of our strong overall performance. In addition, key elements
17 of the Company's performance and service are described by FPL witnesses in
18 more detail as follows:

19 • FPL witness Cohen explains that FPL's typical residential bill
20 currently is among the lowest in the state and has been the lowest, on
21 average, for the past seven years;

22 • FPL witnesses Morley and Cohen explain that, over the last decade,
23 inflation was nearly 20 percent, and the costs of many other goods and

1 services have increased even more. For example, food and
2 homeowners/renters insurance have both increased by 28 percent
3 while the cost of medical care has increased by 38 percent. Over that
4 same period, the national average typical residential electric bill has
5 increased by about 29 percent. However, over that same period, FPL's
6 typical residential bill has *gone down* 14 percent, and typical
7 commercial and industrial bills have *gone down* from 16 percent to 23
8 percent;

9 • FPL witness Kennedy explains that the transformation of FPL's
10 generating fossil fleet since 1990 has resulted in industry-leading "top
11 decile" or "best-in-class" performance across key indicators (e.g., heat
12 rate, forced outage rate) and avoided CO₂ emissions; in fact, our
13 efficiency improvements since 2001 have resulted in approximately \$8
14 billion in customer fuel savings strictly from lower fuel consumption
15 by more efficient generating units;

16 • FPL witness Santos explains that FPL's Customer Service continues to
17 be recognized nationally, as evidenced by numerous awards. This
18 superior customer service and high level of customer satisfaction is
19 achieved through continuous process improvement and state-of-the-art
20 technology deployment;

21 • FPL witness Miranda presents FPL's outstanding Power Delivery
22 reliability – FPL's System Average Interruption Duration Index
23 ("SAIDI") is best among the Florida investor-owned utilities over the

1 last decade. Additionally, FPL's 2014 SAIDI performance ranked 44
2 percent better than the national average, based on the most recent data
3 reflected in PA Consulting's annual reliability benchmarking study. As
4 FPL witness Miranda explains, FPL has one of the strongest and most
5 advanced grids in the nation and continues to incorporate enhanced
6 smart grid technology to improve reliability, and proactively anticipate
7 and respond to system disturbances. Additionally, FPL is an industry
8 leader in logistics, storm preparedness and storm response;

9 • FPL witness Goldstein addresses the availability, efficiency and safe
10 operations of FPL's nuclear units, which for decades have delivered
11 billions of low-cost kilowatt hours to customers with zero emissions;
12 and

13 • FPL witness Reed discusses the Company's outstanding non-fuel
14 O&M performance and operational efficiency.

15 **Q. What is the basis for FPL's strong performance?**

16 A. I discussed previously the constructive regulatory framework and stability of
17 multi-year rate solutions that have afforded FPL the opportunity to focus on
18 system and operational efficiencies and improvements. But within such a
19 framework, there is no doubt that two keys to our success have been and
20 continue to be our ability to attract and retain excellent employees and our
21 culture of innovation and continuous improvement. A few recent examples
22 include:

- 1 • FPL was an early mover toward a cleaner, lower cost generating fleet
2 in the 1990s when we began the modernization of our generation fleet;
- 3 • FPL has developed (both through its experience as well as extensive
4 planning and review efforts) one of the top storm preparation and
5 response organizations in the industry;
- 6 • FPL has redesigned its compensation and benefits programs to keep
7 costs low while at the same time providing more value for attracting,
8 retaining, and engaging employees;
- 9 • FPL has been a leader in Florida in the development and construction
10 of cost-effective solar generation, which benefits all customers;
- 11 • FPL has deployed an award-winning Advanced Metering
12 Infrastructure and enhanced smart grid system; and
- 13 • FPL has implemented an initiative, known internally as Project
14 Momentum, that is specifically focused on generating and evaluating
15 productivity and efficiency improvement ideas.

16

17 FPL is a top performer in major categories of operational performance and has
18 one of the cleanest, most efficient generation fleets in the country, and we
19 have achieved these results cost-efficiently, with bills that are well below the
20 national and state averages. In fact, most customers are paying less today than
21 they did 10 years ago. At the end of the day, we recognize the essential nature
22 of what we do. We take our responsibility seriously, and we are committed to
23 doing it right. We are honored to be recognized nationally as a leader in our

1 industry for the significant value we provide our customers, and we are
2 always looking for ways to improve.

3 **Q. How has the Company's overall strong performance been recognized by**
4 **the industry?**

5 A. FPL is an internationally-recognized company, having received a number of
6 prestigious and significant awards, as described by our operational witnesses.
7 In addition, there are three NextEra Energy awards that I believe underscore
8 FPL's high level of overall performance and contribution to our parent
9 company's success. NextEra Energy has been ranked No. 1 in the Electric
10 and Gas Utilities sector on Fortune's list of "World's Most Admired
11 Companies" nine out of the last 10 years. NextEra Energy has also been
12 named a World's Most Ethical Company® seven times by the Ethisphere
13 Institute, an independent center of research promoting best practices in
14 corporate ethics and governance. In addition, NextEra Energy in 2015 was
15 ranked by EI Energy Intelligence as the top green utility in the United States
16 and No. 4 in the world based on clean emissions and renewable energy
17 capacity.

18

19 **V. SUMMARY OF BASE RATE REQUEST**

20

21 **Q. Why is FPL seeking a base rate increase?**

22 A. FPL currently serves about 4.8 million customer accounts representing more
23 than 10 million people in 35 Florida counties, with approximately 68,000

1 miles of distribution lines and 6,900 miles of high voltage transmission lines,
2 and more than 26,000 MW of installed capacity. We have a responsibility to
3 maintain our existing infrastructure, and to plan and invest to meet customer
4 needs today and in the future, and we strive to do so affordably and reliably.
5 We also are aware of the significant responsibility and economic impact we
6 have as the largest electric utility in Florida, the state with the fourth-largest
7 gross domestic product in the U.S., and 18th largest economy in the world.

8

9 In order to fulfill that responsibility, we must first maintain the ability to
10 continue delivering value for customers so that Florida remains an attractive
11 place to live and a competitive environment for businesses to succeed.
12 Consistent with the prior rate adjustments that were necessary and have been
13 approved by the Commission, our current request will ensure that continued
14 viability. Again, as discussed by FPL witnesses Santos, Miranda and Cohen,
15 we expect to continue to improve service at rates that are projected to remain
16 among the lowest in the state and nation, even with these requested
17 adjustments. As discussed by FPL witness Morley, this can be contrasted
18 with the rising costs of most other consumer goods and services, such as food,
19 medical care, and homeowners/ renters insurance.

20 **Q. Please describe FPL's proposed four-year rate plan proposal.**

21 A. Prior multi-year rate settlements have allowed FPL to focus on improving its
22 performance and service delivery for customers and have provided the
23 Company with the financial capacity to make the necessary investments to

1 improve the infrastructure through which those services are delivered. FPL's
2 base rate proposal similarly lays out a multi-year approach. FPL's request
3 will allow it to continue to improve on the value FPL provides its customers
4 and enhance bill certainty and stability through 2020.

5
6 Specifically, we are proposing a comprehensive base rate adjustment for 2017,
7 a smaller, subsequent-year adjustment in 2018, and an adjustment in mid-2019
8 that is limited only to recovery of the cost of the FPL Okeechobee Clean
9 Energy Center once the unit begins generating power for our customers.
10 Approval of these requests would allow us to commit to no general base rate
11 increase until 2021, at the earliest.

12
13 As addressed by FPL witness Ousdahl, absent any rate relief in 2017, the
14 Company's ROE is projected to fall to 7.88 percent, which is well below the
15 bottom end of the current authorized ROE range. Absent any rate relief in
16 2017 and 2018, the Company's ROE is projected to be only 6.95 percent.
17 Rather than conduct separate base rate cases for both 2017 and 2018, and
18 create uncertainty around subsequent potential needs for 2019 and 2020,
19 approval of our proposed plan (general increases in 2017 and 2018, and a
20 limited increase in 2019) would enable the Company to continue investing in
21 operational and service-related improvements without additional base rate
22 proceedings for rates effective through 2020. We believe this is the most
23 efficient and effective approach to long-term rate and revenue certainty and,

1 as we have demonstrated over the past four years, is in the best interest of our
2 customers.

3

4 Importantly, I also would note that the Commission retains full surveillance
5 authority over the Company for all four years of the proposed plan. If at any
6 time the Company's earnings were to exceed the approved range, the
7 Commission could conduct an earnings review and reset rates, if necessary.

8 **Q. Please describe the Company's request for a base rate increase in 2017.**

9 A. The 2012 Rate Settlement provided for limited base rate increases and
10 deferred a general base rate proceeding for four years, but it did not avoid the
11 underlying need for a general base rate increase in 2017. As a result, and as
12 described by FPL witness Barrett and other witnesses, FPL's base rate request
13 for 2017 is driven in large part by the significant investment during 2014-
14 2017, for which there is no provision for recovery in the current settlement
15 agreement. This investment is necessary in order to address customer growth,
16 improve reliability and storm resiliency, expand clean energy generation
17 capabilities, meet regulatory compliance requirements and provide long-term
18 customer savings.

19

20 FPL does not operate as a short-term thinker and, indeed throughout the term
21 of the current settlement, we have continued to maintain a long-term,
22 customer-centric approach to our planning. The investments we have made,
23 financed primarily through capital markets and supported by base rates, are

1 designed to maintain the strong value that the Company delivers to customers
2 – high reliability, clean energy and low bills.

3

4 FPL witnesses Barrett, Goldstein, Kennedy and Miranda will address these
5 investments in their testimonies. But before they do, I would like to provide a
6 brief overview:

- 7 • Reliability: While our service reliability is excellent – better than
8 99.98 percent reliable – we must continue to invest in order to make
9 the grid stronger, smarter, more responsive and more resilient to
10 outage conditions. FPL’s initiatives and efforts to strengthen,
11 modernize and improve the reliability of its grid are consistent and
12 aligned with the Department of Energy’s “Grid Modernization
13 Initiative” issued March 2015, and its recently issued (November
14 2015) “Grid Modernization Multi-Year Program Plan.”
- 15 • Capital requirements for customer growth: For the period 2014
16 through 2017, we project nearly 220,000 new service accounts, and
17 over 450,000 new service accounts by the end of 2020. In the face of
18 such significant growth, FPL must build facilities in advance to meet
19 the needs of these additional customers. To put this in perspective,
20 only three of Florida’s 55 electric utilities have more than 450,000
21 customers – in effect, by the end of the decade, we will be adding what
22 would equate to the fourth largest electric utility in Florida.

1 • Generation advancements: FPL's high-efficiency fleet of power plants
2 has one of the cleanest emission profiles among comparable utilities
3 nationwide, and we continue to invest in cleaner, more fuel-efficient
4 generation, including the modernization of aging peaking units and the
5 addition of three new large-scale solar energy centers.

6

7 Finally, the 2012 Rate Settlement authorized an ROE midpoint of 10.5
8 percent. As FPL witnesses Dewhurst and Hevert discuss, a solid financial
9 platform is essential to FPL's ability to continue to invest capital strategically
10 and beneficially for customers in a variety of market conditions, and to
11 respond quickly to emergency situations. Indeed, FPL's need for financial
12 strength is particularly important because of the unique and significant
13 exposure that our predominantly coastal service area faces and the lack of a
14 fully-funded storm reserve.

15

16 Fundamentally, we believe that sound regulatory policy suggests that
17 companies with a proven record of delivering better value for their customers
18 should be encouraged to continue their best-in-class performance. Taken in
19 combination, FPL witnesses Dewhurst and Hevert recommend an appropriate
20 allowed retail regulatory ROE midpoint for FPL of 11.5 percent, which
21 includes a 50 basis point ROE adder that would recognize FPL's strong track
22 record of superior performance and provide an incentive for continued future
23 strong performance. This Commission has utilized ROE adders in the past to

1 encourage superior performance. As FPL witness Dewhurst addresses, the
2 ROE adder is an appropriate mechanism by which the Commission can
3 encourage utilities to strive to be exceptional – not just FPL, but all utilities.
4

5 One final note on what is *not* in the 2017 request. In most rate cases,
6 increases in non-fuel O&M costs are a significant driver of the base rate
7 request. However, a key factor in the ability of our Company to avoid the
8 need for a base rate increase since 2013 has been our aggressive focus on
9 controlling these O&M costs. As FPL witness Barrett describes, despite
10 general inflation-related increases and customer growth that are projected to
11 add nearly \$145 million to our non-fuel operating costs, we estimate that our
12 non-fuel base O&M expense will actually be *lower* in 2017 than it was in
13 2013. This is a remarkable achievement by our employees and, as a result,
14 FPL has moved from an already impressive top-decile cost position to being
15 the best-in-class utility in non-fuel O&M cost management. This
16 extraordinary efficiency provides real and substantial savings for our
17 customers every single day.

18 **Q. Please describe the Company's request for a base rate increase in 2018.**

19 A. As noted above and as described by FPL witness Ousdahl, even with the full
20 relief in 2017, the Company's ROE will fall below the approved range in
21 2018. Rather than file a separate case in 2017 for new rates in 2018, we are
22 requesting a Subsequent Year Adjustment for 2018. As addressed in the
23 testimony of FPL witness Barrett, the primary drivers of the increase in

1 revenue requirements in 2018 include continued investments in infrastructure
2 to support system growth and to provide long-term economic and/or reliability
3 benefits to customers.

4 **Q. Please describe the Company's request for a limited scope base rate**
5 **increase in 2019.**

6 A. As addressed by FPL witness Kennedy, the Company's investment in the
7 construction of a highly fuel-efficient, state-of-the-art combined cycle ("CC")
8 natural gas unit will be completed in mid-2019. FPL's Okeechobee Clean
9 Energy Center is projected to be the most fuel-efficient CC unit on FPL's
10 generation system, further enhancing customer savings produced by our
11 already highly efficient system. We also expect it to be the most fuel-efficient
12 and among the cleanest gas-fired units not only in the state of Florida, but in
13 the world. Beyond the fuel savings and system reliability improvements, the
14 Okeechobee Clean Energy Center is estimated to generate significant
15 economic benefits, including millions of dollars in tax revenues for local
16 governments and school districts and hundreds of good-paying temporary and
17 permanent jobs.

18
19 Given the \$1.2 billion capital cost associated with the addition of a new power
20 plant based on the Commission need determination in Order No. PSC-16-
21 0032-FOF-EI, FPL witnesses Barrett and Ousdahl explain our request to
22 include recovery of this investment in base rates in 2019 when the unit enters
23 commercial operation. This limited scope adjustment will not include any

1 other capital investments or O&M costs; rather, it will address only the cost of
2 the unit once it begins providing benefits to customers, including a
3 corresponding reduction in fuel costs.

4 **Q. Please describe the specific rate adjustments that the Company is**
5 **requesting.**

6 A. As FPL witnesses Barrett and Ousdahl describe, and as is presented in the
7 minimum filing requirements (“MFRs”), the Company is requesting approval
8 of the four-year rate plan summarized below:

- 9 • \$866 million increase effective in January 2017;
- 10 • \$262 million subsequent year adjustment effective in January 2018;
- 11 • \$209 million limited scope adjustment for the Okeechobee Clean
12 Energy Center in mid-2019 once the unit goes into service; and
- 13 • No increase in 2020.

14 This structured approach will ensure continuation of the industry-leading
15 value proposition that we deliver to customers – high reliability, clean energy
16 and low bills.

17

18 **VI. ACTIONS TAKEN TO MITIGATE THE REQUESTED INCREASE**

19

20 **Q. What actions has FPL taken to control costs and mitigate the requested**
21 **increase?**

22 A. As discussed in more detail below and also by several of FPL’s witnesses, the
23 Company has worked hard and has been innovative with respect to managing

1 and controlling costs. This is one reason that the typical residential bill for an
2 FPL customer has been the lowest bill on average in the state for the past
3 seven years among reporting electric utilities, approximately 20 percent lower
4 than the Florida average and approximately 30 percent lower than the national
5 average, as discussed by FPL witness Cohen.

6
7 The 2012 Rate Settlement benefitted customers by eliminating the need for
8 further general base rate increases for the years 2014-2016, providing stability
9 and certainty around the level of customer bills. Throughout the term of the
10 agreement, FPL has continued its diligence in working to hold costs down
11 while continuing to deliver outstanding reliability and superior performance in
12 all areas of operations.

13
14 FPL prides itself on operating efficiently. As previously stated and as
15 described by FPL witness Barrett, one key factor in the ability of our
16 Company to avoid the need for a base rate increase since 2013 has been
17 Project Momentum – an aggressive, internally generated approach to control
18 non-fuel O&M costs. FPL witness Reed addresses our overall O&M costs.
19 His benchmarking shows that FPL has out-performed similarly-sized
20 companies across an array of financial and operational metrics. Today our
21 non-fuel O&M performance is best in class. As explained by FPL witness
22 Barrett, despite inflation-related increases as well as other business cost

1 increases, FPL's actual non-fuel O&M expense is projected to be millions of
2 dollars lower in 2017 than it was in 2013.

3

4 As I previously stated, and as explained by FPL witness Reed, for 2014 alone
5 (the last year for which data is available), if FPL had been just an average
6 performer among benchmarked electric companies instead of having
7 exceptional performance, we would be spending \$1.9 billion more than we
8 currently do every year to deliver the same product to our customers. To put
9 it another way, if we were an average performing electric provider with an
10 additional O&M expense of \$1.9 billion annually, our typical residential
11 monthly bill would be higher by about \$17 – an increase of about 18 percent
12 over the current level. This relentless and aggressive focus on operational
13 efficiency is an extraordinary achievement that has and will continue to result
14 in over \$200 a year in savings for our customers.

15

16 FPL's fossil fleet generation performance, as addressed by FPL witness
17 Kennedy, also has resulted in significant savings to customers, reducing the
18 potential impact of a base rate increase. The transformation of our fossil fleet
19 over time has resulted in substantial improvements to operating performance,
20 resulting in industry leading reductions to system heat rate, carbon dioxide
21 and other air emissions, forced outage rate and total non-fuel O&M costs. As
22 discussed by FPL witness Kennedy, the improvements in fuel consumption
23 and O&M costs at our fossil plants resulted in \$1 billion of savings for

1 customers in 2015 alone. These savings are directly attributable to our
2 continuous investments in highly efficient generation, investments that some
3 opposed but which today clearly are benefiting all customers and Florida's
4 economy. It is important to note that these fuel-efficiency savings are *in*
5 *addition to* the savings from lower natural gas prices in recent years.

6
7 Further, our fleet's carbon emission rate places us in an excellent position to
8 exceed the U.S. Environmental Protection Agency's CPP goal ultimately
9 implemented in Florida, assuming the CPP legal challenges are unsuccessful.
10 Currently, FPL is the only utility in the state, and likely one of the few in the
11 nation, to be in such an advanced position today. The end result is cleaner air
12 for all Floridians today and a major cost advantage for FPL customers for
13 years to come by preventing billions of dollars in compliance costs that might
14 otherwise be necessary.

15
16 FPL's long-term steady approach, our culture of innovation, and our steadfast
17 commitment to excellence have created an ongoing progressive effort for
18 improvement within the Company. This culture, in turn, has benefitted our
19 customers with typical bills that are less now than they were 10 years ago and
20 higher reliability, lower emissions, and lower fuel costs – an uncommon
21 combination of value.

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VII. INTRODUCTION OF WITNESSES

Q. Who will be testifying on FPL’s behalf in this proceeding?

A. In addition to me, the following Company witnesses will testify as part of FPL’s direct case:

- Moray P. Dewhurst – Capital structure and financial policies, ROE performance adder, storm recovery mechanism;
- Robert E. Barrett, Jr. – Support for requested revenue requirements, FPL’s financial forecast;
- Kim Ousdahl – Calculation of the revenue requirements and requested revenue increases, accounting issues and Company adjustments;
- Robert B. Hevert, CFA, Sussex Economic Advisors, LLC – Cost of equity and capital structure;
- Manuel B. Miranda – Power Delivery costs and performance;
- Roxane R. Kennedy – Power Generation costs and performance;
- Marlene M. Santos – Customer Service costs and performance;
- Mitchell Goldstein – Nuclear costs and performance;
- John J. Reed, Concentric Energy Advisers – FPL’s operational and financial performance relative to industry benchmarks;
- Rosemary Morley – Sales and load forecast;
- Kathleen Slattery – Payroll and benefit expense;
- Tiffany C. Cohen – Rate design;
- Renae B. Deaton – Cost of service;

- 1 • Keith Ferguson – 2016 Depreciation and Dismantlement Studies,
2 Decommissioning Study; and
3 • Ned W. Allis, CDP, Gannett Fleming Valuation and Rate Consultants,
4 LLC – 2016 Depreciation Study.

5

6 Some of these individuals, as well as others, also may provide rebuttal
7 testimony on behalf of FPL.

8 **Q. What conclusion should the Commission draw from your testimony and**
9 **that of the other FPL witnesses?**

10 A. We at FPL are proud of the achievements that allow us to deliver exceptional
11 customer value – low bills combined with high reliability, excellent customer
12 service and low emissions rates. And consistent with our culture of
13 continuous improvement and innovation, we intend to continue to improve
14 even further. That objective underscores FPL’s request in this proceeding.
15 Our request will enable us to continue to invest in our system and deliver
16 exceptional customer value. With a constructive regulatory outcome, our
17 customers’ and the state’s interests in low cost, reliable, clean power will be
18 best served.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes.



Eric Silagy

President and CEO of Florida Power & Light Company

Eric Silagy is president and CEO of Florida Power & Light Company (FPL), a subsidiary of NextEra Energy, Inc. (NEE) and one of the largest investor-owned electric utilities in the nation. He was appointed to his current position in December 2011.

Previously, Mr. Silagy served as senior vice president of regulatory and state governmental affairs, where he was responsible for directing regulatory and legislative priorities. He has also served as FPL's chief development officer, where he managed all generation development at the utility, including renewable, fossil and nuclear projects. He also served as vice president / general manager for the Texas region at NextEra Energy Resources, where he managed all business activities related to the company's generation assets in the region. Prior to undertaking his duties in Texas, Mr. Silagy served as vice president, business development for NextEra Energy Resources with responsibility for managing and supporting all merger and acquisition activities, including all nuclear power plant acquisitions.

Mr. Silagy has also served as vice president, mergers, acquisitions & divestitures at Entergy Wholesale Operations, based in Houston, and as vice president / managing director, Southeast Asia for The Wing Group, a subsidiary of Western Resources.

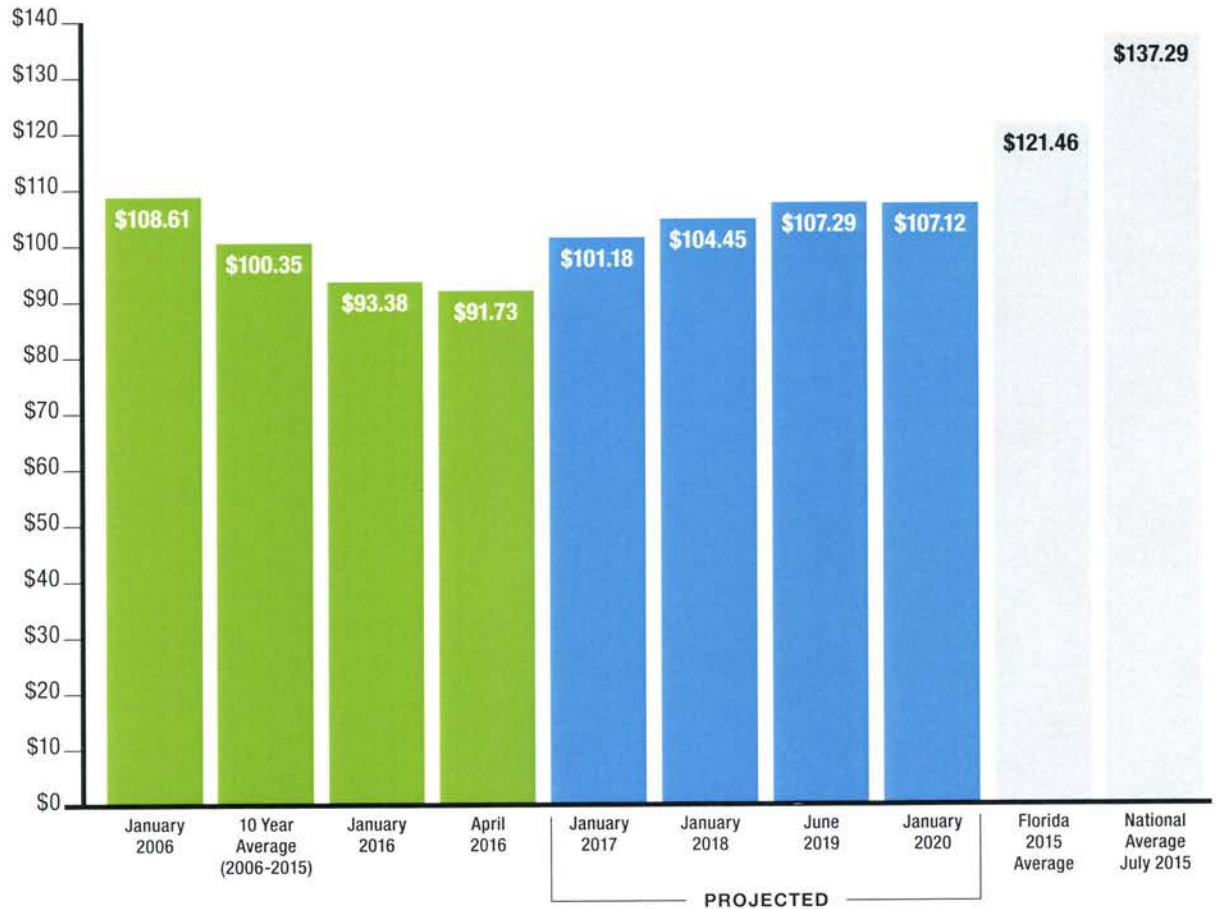
He held several positions of increasing responsibility on the staff of U. S. Senator J. Bennett Johnston of Louisiana, including chief of staff.

Mr. Silagy holds a bachelor of arts degree in economics from the University of Texas at Austin and a juris doctorate from the Georgetown University Law Center.



Typical Residential 1,000-kWh Bill¹

January 2006 - January 2020



¹ Summarized from Exhibits TCC-3 and TCC-4



The Value Provided to FPL Customers

CATEGORY	VALUE / PERFORMANCE ¹
<p>Low Typical Residential 1,000-kWh Bill</p>	<p>2016 bill lower than 10 years ago</p> <p>Lowest, on average, in Florida past seven years</p> <p>30 percent lower than national average</p> <p>20 percent lower than state average</p> <p>Typical residential bill decrease of 14 percent since 2006 versus inflation of 20 percent</p> <p>Typical residential bill decreased while other consumer goods (e.g., food, medical care and homeowners/renters insurance) increased between 28 percent and 38 percent</p> <p>SAIDI best among Florida IOUs for 10 years</p>
<p>Superior Reliability/Storm Resistant</p>	<p>SAIDI 44 percent better than national average (2014 PA Consulting)</p> <p>Best overall system-wide reliability in Southeast 2014 and 2015 Large IOUs (PA Consulting)</p> <p>National Excellence Award 2015 (PA Consulting)</p> <p>Technology and Innovation Award 2014 and 2015 (PA Consulting)</p>
<p>Industry-Leading Fossil Generation Performance</p>	<p>Best-in-Class Performance for the last 10 years among large electric utility fossil fleets (in heat rate and non-fuel O&M)</p> <p>Best-in-Class or Top Decile Performance for nine of the last 10 years in fossil fleet forced outage rate</p>
<p>Low Emissions Profiles</p>	<p>One of the lowest profiles among major U.S. utilities</p> <p>EPA Clean Power Plan 2030 compliant today</p>
<p>Outstanding Customer Service</p>	<p>Various 2015 Awards and Recognition Including:</p> <ul style="list-style-type: none"> » Named a <i>Utility Customer Champion</i> by Market Strategies International (2015) » Named one of top call centers (3 years in a row) by BenchmarkPortal » Received Top 10 ranking by E source for FPL.com website (2015) » Received National Key Accounts Executive Award for Outstanding Customer Service from Edison Electric Institute (2015)
<p>Productive Efficiency (Total non-fuel O&M per MWh)</p>	<p>Ten Years Best Performance Among the Florida Utility Group</p> <p>Eight Years Best Performance Among the Large Utility Group</p>
<p>Economic Development</p>	<p>One of the top 10 utilities in economic development for 2015 (three years in a row) by Site Selection magazine</p> <p>Named to Ethisphere Institute's World's Most Ethical Company List (seven times) – including being one of only five energy and electric utilities in 2016</p>
<p>Corporate Recognition</p>	<p>Named No. 1 in its sector to Fortune's World's Most Admired Companies list and among the top 10 companies in the world in both innovativeness and community responsibility</p> <p>Recognized by EI Energy Intelligence as Top U.S. "Green Utility" in 2015 and 4th worldwide</p>

¹ Summarized from FPL witnesses testimonies and exhibits; CPP 2030 based on current pending proposal