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March 12, 2021

**VIA ELECTRONIC FILING**
Adam Teitzman, Commission Clerk
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20210015-EI
Petition by FPL for Base Rate Increase and Rate Unification

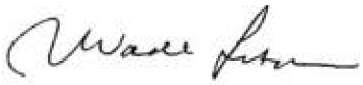
Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket are the Direct Testimony and Exhibits of FPL witness Robert E. Barrett.

Please let me know if you should have any questions regarding this submission.

(Document 3 of 69)

Sincerely,



R. Wade Litchfield
Vice President & General Counsel
Florida Power & Light Company

RWL:ec

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**DIRECT TESTIMONY OF ROBERT E. BARRETT**

**DOCKET NO. 20210015-EI**

**MARCH 12, 2021**

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## I. INTRODUCTION AND SUMMARY

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

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

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

A. I am employed by Florida Power & Light Company ("FPL" or "the Company") as Vice President of Finance.

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

A. In my role, I am responsible for the major financial areas of FPL, including oversight of the Company's financial forecast and results, corporate budgeting, resource assessment and planning, and load forecasting activities. Additionally, through these responsibilities and with the collaboration of other senior finance executives of FPL and FPL's parent, NextEra Energy, Inc. ("NextEra"), I support the establishment and maintenance of effective working relations with the investment and banking communities, and the presentation and communication of FPL's operational results, financial performance, and overall financial profile to investors and the credit rating agencies.

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

A. I have a Bachelor of Business Administration degree from the University of Miami, 1982, with a major in Finance. I received a Master of Business Administration from Florida International University in 1985. I have been employed by FPL, or its affiliate NextEra Energy Resources, since 1982 and

have held a variety of positions of increasing responsibility including: Financial Analyst; Manager of Financial Forecasting; Director of Quality, Planning and Analysis; Director of Corporate Planning; Director of Investor Relations; Vice President of Business Development for NextEra Energy Resources; and my current position as Vice President of Finance for FPL.

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

A. Yes. I am sponsoring the following exhibits:

- REB-1 Consolidated MFRs Sponsored or Co-sponsored by Robert E. Barrett
- REB-2 Supplemental FPL and Gulf Standalone Information in MFR Format Sponsored or Co-Sponsored by Robert E. Barrett
- REB-3 FPL's Virtuous Circle
- REB-4 Average Annual Capital Expenditures by Industry
- REB-5 PP&E Replenishment Profile
- REB-6 Historical Hurricane Probabilities by State
- REB-7 Annual Average Number of Storms by Decade
- REB-8 Regional Comparison: Key Performance Metrics
- REB-9 Non-Fuel O&M per Retail MWh
- REB-10 Storm Cost Recovery Mechanism

I am co-sponsoring the following exhibits:

- REB-11 Reserve Surplus Amortization Mechanism
- REB-12 Solar Base Rate Adjustment Mechanism

- TCC-9 Rates for FPL and Gulf as Separate Ratemaking Entities, filed with the direct testimony of FPL witness Cohen

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

A. Yes. Exhibit REB-1 lists the consolidated MFRs that I am sponsoring and co-sponsoring.

**Q. Are you sponsoring or co-sponsoring any schedules in "Supplement 1 – FPL Standalone Information in MFR Format" and "Supplement 2 – Gulf Standalone Information in MFR Format"?**

A. Yes. Exhibit REB-2 lists the supplemental FPL and Gulf standalone information in MFR format that I am sponsoring and co-sponsoring.

**Q. Please describe the relationship of Gulf Power to FPL in connection with this filing.**

A. Gulf Power was acquired by FPL's parent company, NextEra Energy, Inc. on January 1, 2019. Gulf was subsequently merged into FPL on January 1, 2021. Following the acquisition, and even prior to the legal combination of FPL and Gulf Power, the two companies began to consolidate their operations. That process will be essentially complete prior to the 2022 test year and, as discussed at length by FPL witnesses Bores, Cohen and DuBose, among others, is reflected in the consolidated cost of service and proposed retail rates submitted in this base rate case filing on behalf of FPL.

**Q. How will you refer to FPL and Gulf when discussing them in testimony?**

A. FPL's witnesses will use the terms "FPL" and "Gulf" throughout. Unless otherwise specifically stated or dictated by context, those references will mean the following:

- In discussing operations or time periods prior to January 1, 2019 (when NextEra acquired Gulf), "FPL" and "Gulf" will refer to their pre-acquisition status, when they were legally and operationally separate companies.
- In discussing operations or time periods between January 1, 2019 and January 1, 2022 (when operational and bookkeeping consolidation will be complete), "FPL" and "Gulf" will refer to their status as separate ratemaking entities, recognizing that they were merged legally on January 1, 2021 and consolidation proceeded throughout this period.
- In discussing operations and time periods after January 1, 2022, most references will be only to "FPL" because Gulf will be consolidated into FPL and FPL is proposing unified rates for the consolidated company. References to "Gulf" thereafter primarily will be to address any rate differentiation between customers in the former FPL and Gulf service areas.

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

A. The purpose of my testimony is to explain why FPL's strategy to deliver superior customer value, including outstanding reliability, low emissions, and affordable bills, depends upon maintaining FPL's strong financial position and

the continuation of its capital investment plan. FPL's ability to continue delivering superior performance will be facilitated and enhanced by approval of the FPL's four-year rate plan. I recommend the continued use of FPL's current capital structure as reflected in the 2022 and 2023 MFRs and support the 11.0 percent return on equity ("ROE") recommended by FPL witness Coyne for use by the Florida Public Service Commission ("FPSC" or "the Commission"). Additionally, my testimony supports as appropriate the adoption of an ROE performance incentive of one-half percent and the continued use of the Storm Cost Recovery Mechanism ("SCRM") in the 2016 Settlement Agreement approved by the Commission in its Order No. PSC-16-0560-AS-EI, issued December 15, 2016 ("2016 Settlement" or "Settlement Agreement"). I also describe the core elements of FPL's four-year rate plan including the continued use of the Reserve Surplus Amortization Mechanism ("RSAM") as effectively used by FPL for more than ten years, and other components described later in my testimony. The Commission's support of each of these recommendations will enable the Company to continue delivering superior value to customers.

**Q. Please summarize your testimony.**

A. FPL, also sometimes referred to as "the Company," has achieved successful outcomes for customers over many years by executing on its strategy of continuously improving the service and value it delivers. At the same time, the Company has provided its investors with a fair return on their investment. A guiding principle of FPL's strategy has been a focus on a core set of financial

policies characterized by a strong balance sheet and financial discipline in its operations and investment decisions. Specifically, these principal financial policies consist of:

- Maintaining a strong overall financial position;
- Maintaining an appropriate and consistent capital structure;
- Ensuring ready access to sufficient liquidity to support fluctuations in cash flow;
- Providing competitive returns to investors to compensate them for the use of their capital, consistent with the Company's risk profile and market factors;
- Consistently making prudent capital investments to improve the customer value proposition; and
- Having access to a mechanism for managing the financial impacts of storm restoration efforts.

Over the last fifteen years, enabled by several successive multi-year rate agreements, FPL has pursued a strategy of continuous improvement leading to significant value creation for its customers. To describe just a few of these achievements:

- FPL's typical 1,000-kilowatt-hour ("kWh") residential customer bill is about 30 percent lower than the national average[1] and nearly 10 percent

[1] U.S. average ($136.95) is 2020 annual average number (Summer and Winter) from 175 utilities published by the Edison Electric Institute.

lower than it was fifteen years ago. As FPL witness Cohen mentions, today FPL has the lowest residential bill among the 20 largest investor-owned utilities in the country, ranked by number of customers.

- FPL's non-fuel operating and maintenance ("O&M") cost performance is the best in the industry by a wide margin. As demonstrated by FPL witness Reed, if FPL was an average cost performer, all else equal, its 2019 O&M costs would have been $2.6 billion higher and residential customer bills would be roughly $24 per month, or nearly $300 per year, higher.
- For the period 2016-2020, FPL's service reliability improved by more than 16 percent and for 2019, the latest date for which national comparisons are available, FPL's reliability is 58 percent better than the national average. This improvement, like the performance resulting in the awards listed below, underscores the value of a multi-year rate plan which allows for maximum focus on gaining operational efficiencies and improvements.
- For the fifth time in six years, PA Consulting recognized FPL in 2020 with its ReliabilityOne® National Reliability Excellence Award, which is awarded to the company that has demonstrated sustained leadership, innovation and achievement in the area of electric reliability.
- FPL also received the Regional ReliabilityOne® Award for the Southeast Region (Metropolitan), and Gulf received the Regional ReliabilityOne® Award for the Southeast Region (Suburban and Rural).

- FPL also earned the ReliabilityOne® Award for Technology and Innovation in 2019.
- FPL and Gulf earned awards from Edison Electric Institute ("EEI") for their efforts during the 2016, 2017, 2018 and 2020 hurricane seasons. Gulf received EEI's "Emergency Recovery Award" for its outstanding power restoration efforts after Hurricane Sally in 2020.
- FPL's emissions profile is among the cleanest in the electric utility industry, and FPL leads the nation as the utility owner and operator having the most large-scale solar in the United States.
- FPL has been transforming its fossil/solar generating fleet continuously and has substantially improved its operating performance across key indicators integral to generating electricity for its customers. Since 2017 FPL's improvements include: an 8 percent reduction in heat rate; a 64 percent reduction in equivalent forced outage rate; significant reductions in emissions rates (carbon dioxide ("$CO_2$") - 13 percent, nitrogen oxides ("$NO_x$") - 54 percent, sulfur dioxide ("$SO_2$") - 80 percent); and a 16 percent reduction in non-fuel O&M.

With the support of the Commission through constructive regulation, FPL has simultaneously delivered strong financial results and stable earnings, establishing a willingness among investors to invest their capital, which in turn has allowed FPL to maintain ready access to the financial resources needed to execute its strategy.

A strong financial position, specifically the Company's longstanding capital structure and an appropriate ROE range relative to market conditions, is always important and has been shown to be particularly crucial as the Company has navigated through two periods of significant economic and capital market uncertainty in the short span of just a single decade. Both the Great Recession of 2007-2009 ("Great Recession") and the pandemic-driven recession following the global outbreak of the coronavirus disease 2019 ("COVID-19") in early 2020 have underscored the importance for FPL, as an essential service provider critical to virtually all aspects of daily life, commerce and government in the communities we serve, to have uncompromised financial capabilities to be able to meet our customers' needs in good times and bad.

Certainly, the soundness of the Company's resource planning and operational performance, supported by the regulatory framework in Florida and the constructive policies and oversight of this Commission over the years, resonates clearly as we have watched yet again elsewhere in the country what can happen in the absence of one or more of these fundamentals.

FPL's filed case follows the same core policies that have underpinned the Company's success in delivering superior value to customers and fair returns for investors; there is no sound reason to change those policies now. Specifically, FPL's financial recommendations in this filing include three major

elements that will enable FPL to continue to deliver and even improve upon its already excellent customer value proposition:

- The continued use of FPL's historical capital structure consisting of an equity ratio of 59.6 percent from investor sources (48.04 percent based on all sources in the 2022 Test Year);
- The provision of an allowed ROE of 11.0 percent consistent with current capital market conditions and the Company's risk profile; and
- The provision of a suitable mechanism for the prompt recovery of prudently incurred storm restoration costs.

Additionally, FPL is seeking provision for a one-half percent ROE performance incentive, for a total allowed ROE of 11.5 percent, to reflect FPL's current superior performance and to act as an incentive for continued superior performance. Approval of this performance incentive and the ROE proposed by FPL witness Coyne would produce an approved ROE midpoint of 11.5 percent for use in establishing new base rates.

FPL's filed case also reflects current tax law. The Biden administration has discussed tax reform, which based on current proposals, could adversely affect FPL's revenue requirements. As discussed by FPL witness Bores, FPL is proposing to reflect any prospective changes in revenue requirements to address what would be a substantial change in the cost of service.

These financial elements are essential under any scenario or outcome of this proceeding. But the importance of multi-year rate plans over the last 22 years cannot be overstated. The series of multi-year agreements, approved by the Commission, have been key to FPL's ability to drive its performance to exceptional levels of service and customer value. Accordingly, FPL is proposing a four-year rate plan consistent with prior plans for the purpose of promoting extended rate stability and allowing us to maintain the core financial policies that have been the bedrock of our success in delivering the best customer value in the nation. The four-year plan includes three additional components, each of which is essential to the Company's ability to commit to its proposed four-year rate plan:

- The continued availability and use of the RSAM, including the RSAM-adjusted depreciation rates discussed later in my testimony;
- Approval of the Solar Base Rate Adjustment ("SoBRA") mechanism described by FPL witness Valle, such that FPL will be permitted to petition to adjust base rates to recover the cost of up to approximately 1,788 $MW_{AC}$ of new cost-effective solar facilities that enter commercial operation in 2024 and 2025; and
- Approval of the accelerated amortization of the unprotected excess deferred income taxes as described in greater detail by FPL witness Bores.

These are foundational elements of the Company's proposed four-year rate plan that will better position FPL to continue to drive performance and value for the benefit of customers and which also includes lower annual revenue requirements by approximately $200 million, or a total of approximately $800 million over the term of FPL's four-year rate plan.

## II. STATUS OF THE FINANCIAL MARKETS

**Q. How are financial markets relevant to the Commission in setting rates?**

A. FPL's track record of superior performance in delivering to safe, reliable and affordable electricity depends on access to financial markets. FPL's internal financial resources cannot sustain the level of capital expenditures necessary to meet the needs and value expectations of customers. Thus, access to capital on competitive terms is vital. FPL, through its disciplined financial strategy and strong financial position, is well positioned to have access to financial markets on favorable terms for the benefit of customers. However, these financial markets can and do change and often are subject to periods of significant uncertainty and volatility. In setting rates in connection with the Company's four-year rate plan, it is both important and appropriate for the Commission to consider the current status of, expectations for, and dynamic nature of financial markets.

**Q. Please describe the status of the financial markets.**

A. The onset of the COVID-19 pandemic, beginning in the first quarter of 2020, precipitated both a liquidity crisis and overall financial market volatility not seen since the financial crisis of 2008. In fact, the downturn in the national economy in terms of both increases to unemployment and gross domestic product ("GDP") declines were historic in nature. According to Rob Berger, writing in Forbes:

> The 32.9% decline in GDP has no historic precedence in the U.S. As the WSJ noted, it's the steepest quarterly decline in records dating back to 1947 and more than three times the 10% decline in the first quarter of 1958. The GDP contraction in 1921 was not this steep. To put the current numbers into perspective, one definition of a depression is a decline in GDP of 10%.[2]

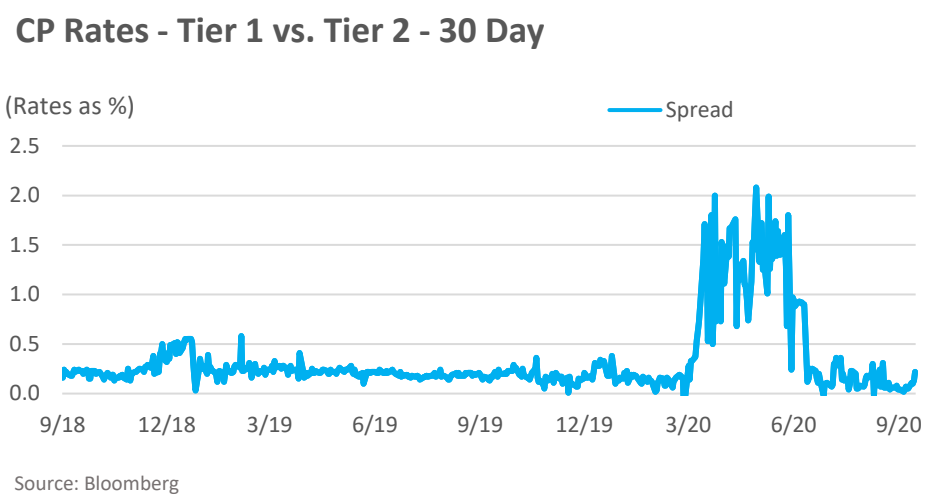
While the economy took several months to deteriorate, the financial markets reacted swiftly. The S&P 500 Index, a broad measure of the U.S. equity market, had reached an all-time high on February 19, 2020. Within about one month, on March 23, 2020, it had fallen nearly 34 percent. On March 9, the Dow Jones Industrial Average ("Dow") suffered its largest point decline ever in a single day, falling 2,013.76 points or nearly eight percent, followed by two more record-setting days on March 12 (a drop of 2,352.60) and March 16 (a drop of 2,997.10). Similarly, the Philadelphia Utility Index ("UTY"), comprised of twenty of the largest utilities in the U.S. including NextEra, hit an all-time high on February 18, 2020 and by March 23 had fallen by more than 36 percent,

[2] https://www.forbes.com/sites/robertberger/2020/07/30/gdp-plunged-329-heres-why-it-matters/#4d229c005943

erasing more than four years of gains. Clearly, during this turbulent time in the financial markets, utility stocks were not viewed as a "safe haven."

Likewise, the expansive uncertainty surrounding the impacts related to COVID-19 caused the short- and long-term debt capital markets to seize, debt yields to spike and investor demand for new issuances to contract.

In particular, investment-grade rated issuers across various industries witnessed the commercial paper ("CP") markets freeze up. CP is a short-term, unsecured debt instrument issued in the form of a promissory note with a duration of nine months or less, or up to 270 days, although most issuances typically mature in 30 days or less. In normal market conditions, CP is one of the least cost sources of short-term liquidity and working capital funding that is generally available only to large corporations with high investment grade credit ratings. The three leading credit rating agencies, S&P Global Ratings ("S&P"), Moody's Investors Service ("Moody's"), and Fitch Ratings ("Fitch"), each issue short-term CP ratings. Those CP ratings, in order of credit quality from high to low are tier-1, tier-2 and tier-3. During periods of extreme volatility and market uncertainty, generally only the tier-1 rated CP issuers such as FPL are able to maintain access, and when lower rated issuers are able to issue CP, those issuances are at significantly elevated rates as illustrated below.




However, even for strong tier-1 issuers like FPL, liquidity was extremely limited. While FPL typically issues CP to meet liquidity for a minimum of thirty days, during this extremely constrained period FPL often was only able to issue CP overnight, meaning each day brought concerns about liquidity for the next day. Only FPL's strong financial position, particularly its strong capital structure and credit ratings, enabled it to have continued access to CP markets while other lesser credits were completely essentially shut out of the market.

As another example, FPL's tax-exempt bond portfolio is variable rate and re-marketed every day (essentially daily maturities). That feature has provided significant cost savings for customers but is dependent upon investors being willing to purchase and hold the debt overnight. During this extremely volatile period, the peak annualized interest rate FPL had to pay to attract investors for one day of exposure to FPL's strong credit profile was roughly 10.5 percent. This was unprecedented and indicative of the impact uncertainty can cause in

the capital markets, even for extremely strong issuers. Despite these dramatically high rates in select instances, FPL was able to maintain access to the capital necessary to meet its daily cash requirements because of its strong financial position.

Conditions in financial markets only began to improve as the Federal Reserve took bold and unprecedented actions to provide liquidity to the markets and Congress began to signal its intent to provide fiscal stimulus to the overall economy. Only FPL's financial strength enabled the Company to continue to have access to capital during these extraordinarily turbulent times.

Since the second quarter of 2020, financial markets have improved, and the economy has begun to grow again. In the equity markets, the S&P 500 surpassed its February high in August and continued to expand into the first quarter of 2021, buoyed by the election results and encouraging COVID-19 vaccine announcements. The UTY remained nearly 7.5 percent off its February high by December 31, and as noted by FPL witness Coyne, "the utilities sector was one of the worst performing market sectors in 2020." Volatility is a measure of risk, and the CBOE Volatility Index ("VIX") averaged higher in 2020 than at any other time since 2009. In addition, as FPL witness Coyne points out, utilities' betas (the correlation of the volatility in a stock relative to the overall market) have noticeably increased at the same time that overall

market volatility increased, meaning that utility stock volatility is much closer to market volatility as a whole than it has been in the past.

**Q. How has FPL weathered the liquidity crisis and overall market volatility?**

A. FPL, with its strong financial position, enabled by its strong capital structure and liquidity, was able to access both CP markets and debt capital markets during this volatile period. As a tier-1 issuer, FPL maintained access to CP and simultaneously bolstered its liquidity position through a mix of increases to its revolving credit facilities and new bank term loans. FPL also successfully issued $1.1 billion in 5-year First Mortgage Bonds ("FMB") on March 24, 2020, an issuance in the 2020 financing plan needed to support FPL's working capital and investment plans. As discussed previously, amid the significant volatility in the capital markets and the uncertainty surrounding how long these stressed market conditions might persist, FPL and its financial advisors actively monitored the debt market for a window of stability and relatively stronger investor demand. FPL's successful financing contrasts with other, lower credit issuers, who attempted to raise debt but ultimately had to pull their issuances from the market or saw significantly wider spreads. FPL's customers benefitted from the Company's financial policies including its strong capital structure and significant liquidity. This type of long-term financial planning, capability and flexibility, although usually minimized by most intervenors, is critical to FPL customers and thus has been repeatedly supported by this Commission.

**Q. Can this recent financial crisis be considered a one-time event?**

A. No. As noted earlier, this recent turbulence in the financial markets followed a similar market upheaval in late 2008 that peaked with the bankruptcy of Lehman Brothers on September 15, 2008, precipitating a 4.5 percent one-day drop in the Dow the next day, marking the worst one-day decline since the first trading day after the 9/11 terrorist attacks against the U.S. in 2001 (September 17, 2001). At the same time, for the debt capital markets, the Lehman Brothers collapse, which involved $619 billion of debt, meant the default and resultant investor panic further engulfed the debt markets, and in particular, the short-term credit markets that provide liquidity and working capital funding for most investment-grade rated issuers. The ensuing banking crisis led to the Great Recession. Financial markets and the economy are subject to business cycles, and though each such time period may be characterized as unique, they cannot be viewed as "one-time" or even infrequent.

**Q. Can this financial crisis be considered a short-lived event?**

A. Hopefully, the answer to that question is yes; however, it isn't necessarily the length of this or any particular event that is problematic in this context. The larger issue is being prepared for the inherent uncertainty and volatility of markets generally, including events such as the ones we have experienced and events we have yet to experience, of whatever length or severity. As discussed previously, this crisis was unprecedented and was followed by similarly unprecedented accommodative actions by the Federal Reserve and Congress – actions that cannot be considered as ordinary "tools in the toolbox." Absent

these actions, this crisis might have been much deeper and longer than it appears it might be. FPL must have the financial strength to successfully address unforeseen financial market disruptions and stress.

## III. THE ROLE AND IMPORTANCE OF A STRONG FINANCIAL POSITION

**Q. Why is financial strength a key part of FPL's overall strategy?**

A. As a regulated electric utility, FPL has a responsibility to serve all customers, current and future, within its area. This is a responsibility that remains in place no matter the state of the financial markets and regardless of unexpected external events, such as major storms, economic cycles, and even such unprecedented events as the recent global pandemic. In times of depressed market conditions and constrained capital supply, generally only financially strong utilities can attract capital under reasonable terms, providing those utilities with significant and potentially critical flexibility. Operating without the flexibility afforded through a strong financial position, (i.e., a strong capital structure, sufficient return expectations for investors, and sound regulatory recovery mechanisms such as storm cost recovery), would expose the Company and our customers to unwarranted and unnecessary financial risk and uncertainty.

Credit rating agencies are important sources of information for investors. They have developed their own analytical frameworks useful in evaluating global, industry-specific and company-specific quantitative and qualitative risk characteristics, and they provide meaningful research reports targeted specifically for debt investors. Credit rating agencies recognize access to capital is a critical component of executing on a utility's key strategies. For example, S&P noted in its publication "The Looming California Wildfire Season Prompts an Examination of Investor-Owned Utilities' Risks" from June 2019:

> Utilities make ongoing capital investments within their electric operations to improve and maintain service levels. As a result, they typically have negative discretionary cash flow and depend on reliable access to the capital markets to operate their businesses. In our view, if a utility's creditworthiness weakens, investor confidence could wane and a utility's access to the capital markets may be limited, potentially increasing its cost of capital, and adding considerable strain to the utility's business model.

FPL's strong financial position and access to sufficient liquidity have historically enabled it to react to adverse or unforeseen events in ways that minimize negative consequences for customers. FPL's uninterrupted access to capital during periods of market turbulence is a product of the Company's financial strength that it has consistently maintained over an extended period.

**Q. Please describe FPL's financial policies and the results of those policies.**

A. For more than fifteen years, FPL has employed a set of core financial policies that have emphasized financial strength and discipline for the benefit of customers. Recognizing the Company's specific challenges, FPL has

maintained ample liquidity, employed an appropriate and consistent capital structure, sought authorization for and delivered a competitive return for its equity investors consistent with its risk profile and market factors, and supported regulatory mechanisms that allow for the prompt recovery of prudently incurred costs following major storms and other severe weather events. These specific policies have been designed to support FPL's ability to make strategic investments to improve customer value, both directly through affording the Company access to capital and liquidity on attractive terms, and indirectly by enabling the Company to earn competitive financial returns that provide an incentive for investors to continue to provide the capital needed to further improve the customer value proposition.

These financial policies have underpinned FPL's ability to support one of the largest capital expenditure programs in the industry as the Company has modernized its generation fleet and made significant reliability investments in its power grid, all benefitting customers through the delivery of highly reliable, low-cost power, with one of the cleanest emissions profiles in the industry.

**Q. How do these financial policies relate to FPL's overall strategy?**

A. For many years, FPL's business strategy has been grounded in the conceptual and practical framework of the "Virtuous Circle" (see Exhibit REB-3) representing customer-centric areas of focus that form the foundation of FPL's culture. The Virtuous Circle is a simple expression of the expectation that the delivery of consistently superior customer value will lead to greater customer

satisfaction, which will support a constructive regulatory environment, which in turn should enable FPL to earn competitive financial returns, thus maintaining the Company's ability to continue to invest and operate at levels that allow us to continue to deliver an exceptional value proposition for our customers. FPL's financial policies are focused on that strategic value equation. The strength and success of this strategy has been demonstrated over many years.

**Q. Have these financial policies been supported by the Commission?**

A. Yes. Over the last decade the Commission has approved three separate FPL base rate settlement agreements that included provisions supportive of the Company's financial policies. The three Commission orders are: PSC-16-0560-AS-EI, PSC-13-0023-S-EI, and PSC-11-0089-S-EI. Notably, each of these agreements allowed for a capital structure reflective of the Company's actual capital structure and an authorized ROE midpoint and range that was reasonable. We also have consistently sought mechanisms to ensure that investors can recover the prudently incurred costs associated with restoring power following storms, which is a risk factor to which FPL is exposed to a greater degree than any other utility in the nation. Finally, each of these settlement agreements has included a flexible reserve surplus amortization mechanism (previously defined as RSAM) enabling the Company to agree in each case to a multi-year period of rate stability for customers. These settlement agreements contained other beneficial features; however, these four key

elements reflect core support for the Company's financial policies that I have noted as foundational to our success as a service provider.

**Q. Have there been any exceptions to this support and, if so, were there any consequences?**

A. Yes, there has been one exception over roughly the last decade. In 2010, on the heels of the highly politicized 2009 Rate Case and its outcome, and the subsequent 2010 Rate Order (Order No. PSC-10-0153-FOF), all three credit rating agencies – S&P, Moody's and Fitch – placed FPL's credit ratings on negative watch or review for downgrade. Ultimately, S&P and Moody's downgraded FPL's credit ratings. In its January 19, 2010 Rating Action press release, "Moody's Places FPL Group and Subsidiaries on Review for Downgrade," Moody's characterized the 2009 Rate Case as having been "plagued by delays and controversy caused by political intervention in the regulatory process, which was unprecedented in the state of Florida, with the Governor vocally opposing the utility's request for rate relief and interfering in [the] independence of the regulatory process," further noting that "the appointment of two new commissioners in the late stages of the rate case, after testimony had been completed, significantly increased the level of uncertainty regarding the rate case outcome, an outcome that was ultimately detrimental to the credit quality of the Florida Power & Light Company." These developments resulted in Moody's "view[ing] the Florida utility regulatory environment as substantially less constructive and predictable than it has been historically, increasing the level of risk to investors going forward."

This situation was alleviated by the settlement approved later in 2010 (the "2010 Rate Settlement"). The 2010 Rate Settlement provided sufficient, temporary assurance to investors that enabled FPL to continue with major capital investments. While it was a useful stop-gap measure, it did not completely address the fundamental financial issues created by the 2010 Rate Order.

A subsequent settlement agreement, reached in 2012 ("2012 Rate Settlement"), returned FPL to a position much more consistent with that prior to 2009, although FPL's credit ratings were not restored for several years. As part of favorable rating methodology changes, Moody's and S&P upgraded FPL's ratings to its pre-downgrade levels in January 2014 and December 2019, respectively. In fact, it was just a few months before the liquidity crunch in early 2020 that FPL was restored to a tier-1 CP issuer. Absent S&P's upgrade in December 2019, the COVID-19 pandemic volatility could have been the first time that FPL was not a tier-1 CP issuer during a financial crisis or a protracted period of heightened financial market volatility.

By design, the credit rating agencies are quick to respond to negative developments or emerging risks through credit rating downgrades of the impacted issuers. Conversely, the rating agencies have historically shown a greater reluctance to restore or upgrade the credit ratings of issuers experiencing favorable developments and will instead wait for an extended period of time to

be confident that the positive implications for issuers is a permanent improvement rather than a temporary phenomenon along the course of an issuer's ongoing evolution. Customers bear the consequence of a downgrade for an extended period of time.

Inherent in all credit ratings is this risk-centric analysis that underpins the rating agencies' frameworks for negative bias. In fact, S&P's credit ratings for non-financial corporates have generally shown a negative bias with downgrades outpacing upgrades in 13 of the past 20 years. The weighted ratio of downgrades to upgrades by S&P over that same 20-year period equates to 1.66x. Even the normally stable utility industry credit profile in 2020 exhibited weakening as "downgrades outpaced upgrades for the first time in a decade by about 7 to 1," according to a January 20, 2021 report by S&P.

**Q. How has FPL's financial strength supported its access to capital on reasonable terms, when needed, to serve its customers?**

A. By design, financial strength is intended not only for normal conditions but also for periods of market uncertainty and turmoil, so that a company is able to properly and timely fulfill its responsibility to serve its customers during even the worst market conditions. There are multiple examples in recent history of significant external events during which FPL has been able to expeditiously restore service or continue its investment program without impairment to its ability to raise the necessary capital. Some of these examples include:

- Back-to-back hurricane seasons (2004 and 2005) during which FPL's customers were impacted by seven hurricanes, and the damage to FPL's system totaled approximately $1.9 billion, or nearly $2.5 billion in today's dollars;
- The "Great Recession" of 2007-2009 and ensuing financial crisis;
- Hurricanes/Storms during 2016-2020 (Matthew, Irma, Dorian, Isaias, and Eta), which inflicted a total of more than $2.0 billion of damage to FPL's system; and
- COVID-19 pandemic and the ensuing credit and capital markets volatility as well as increases in customer accounts receivables.

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

A. Yes. Having a high degree of confidence in capital availability affects how capital projects are planned and constructed, which in turn influences negotiation with suppliers and contractors, resulting in more efficient capital projects overall. For example, FPL's Engineering and Construction team can plan and execute capital projects through optimizing engineering, procurement and construction, and the contract negotiations around each of those activities, without being hampered by uncertainty regarding the availability of financial resources. This, in part, is why FPL has been able to deliver major capital projects on time and at total capital costs that are highly competitive.

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

A. No. As discussed, FPL's financial policies are a core component of the Company's strategy to maintain financial strength which benefits our customers. The Commission has been supportive of these policies, and its continued support is critical to the Company's ability to continue providing clean, reliable and affordable electric service to customers.

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

A. Each of my recommendations is consistent with the financial policies FPL has followed for many years. They have proven to be effective and are key to the Company's strategy of maintaining financial strength. FPL's requested equity ratio in this case is the same as its actual equity ratio for more than two decades. FPL's requested ROE, including the performance incentive, is consistent with the Company's actual earned return on equity for the last several years, consistent with market conditions, and within a range considered reasonable by investors. The SCRM has been in place since 2010, and although arguably not structured to have a sufficient storm reserve in place for major storms, in general it has served customers well when combined with a strong financial position. The RSAM also has been in place since 2010 and has provided rate stability over three separate multi-year rate periods, while at the same time enabling the Company to provide additional benefits to customers that otherwise would not have been available. Each of these recommendations is well-aligned with FPL's financial policies.

## IV. RISK PROFILE

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

A. A company's risk profile is what investors consider in making their investment decisions and what management should consider in establishing an appropriate capital structure. Other things being equal, a more challenging risk profile implies that a higher ROE is required and that it is wise to employ a stronger capital structure. As I indicated earlier, consistent with its risk profile, FPL has maintained a strong capital structure for more than two decades. FPL is recommending no changes to that approach. Additionally, FPL is requesting an authorized earnings range that is likewise appropriate given its risk profile and investor expectations.

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

A. FPL's risk factors can be grouped into six broad categories:

- Significant capital investment program;
- Physical infrastructure, including transmission system, generation mix and fuel supply;
- Weather, such as tropical storms and climate change;
- Environmental;
- Regulatory and political; and
- Competition, including the threat of deregulation.

**Q. Please describe the risks surrounding FPL's significant capital investment program.**

A. The utility industry is one of the most capital-intensive industries in the country. FPL, of course, is one of the larger utilities, continues to experience above average customer growth, and is working hard to make its delivery system more storm resilient in the face of increased storm activity. Not surprisingly, therefore, within the utility industry, and specifically within the proxy group of FPL witness Coyne, FPL's capital expenditure profile is significant (see Exhibit REB-4). From the end of 2018 through 2022, FPL estimates it will have invested $29 billion in our infrastructure, or more than $7 billion annually, well in excess of FPL's operating cash flow. When compared to other industrial companies, FPL's property, plant and equipment ("PP&E") replenishment needs, i.e., capital expenditures in excess of depreciation, are substantial (see Exhibit REB-5). Additionally, FPL's capital is invested in assets with very long lives that will provide customer value well into the future. Investors likewise require an appropriate return to compensate them for that long-term investment horizon.

While FPL's extensive capital investment program, which includes investments to support customer growth, has served to reduce expenses and improve the reliability and overall value FPL provides its customers, it also exposes the Company to higher risk than the typical utility. According to the U.S. Census Bureau's "State Population Totals and Components of Change: 2010-2019"

report, over 220,000 people moved to Florida in the twelve months ended July 2019, which represents an average of almost 610 people per day. This trend is expected to continue, as population in Florida, the second fastest growing state, is predicted to grow at a higher rate than the overall U.S. While there are benefits from customer growth, FPL's responsibility to serve all customers in a fast-growing service area requires significant ongoing capital investments that are inherently risky, as explained by the Brattle Group:

> It is common to think of regulated companies as having low risk. However, the investments such companies must make to provide service have high, not low, intrinsic risk. Sinking a liquid asset such as cash into an illiquid, immobile, long-lived asset such as a gas pipeline or electric transmission line is inherently a very risky move. … If voluntary investment is to be forthcoming from a regulated company, the laws and rules governing the prices it will be able to charge must address the high intrinsic risk of such investments. This must be done either by reliably shifting risk to customers or by providing compensation – in the form of higher expected profits – to investors who bear it. (Villadsen, et al., The Brattle Group, "Risk and Return for Regulated Industries," (2017)).

Investments of the magnitude needed to address load growth, though valuable from a customer perspective, add to FPL's risk profile as seen through investors' eyes.

Additionally, as described by FPL witness Bores, FPL has made significant cost-effective capital investments for the benefit of customers as the Company has modernized its generation fleet and invested in reliability initiatives, storm resiliency and smart technology. While all these initiatives provide benefits to

customers, they increase the level of FPL's investment program and its overall risk profile.

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

A. FPL's infrastructure exposes investors to risks not seen in most other utilities. These risks largely relate to Florida's unique geographical position and the location of FPL's service area within Florida. Florida's geographical position as a peninsula limits connectivity and places constraints on FPL's transmission system, generation mix and fuel supply, which translate into increased risk from an investor perspective. Further, one of the largest metropolitan areas in the U.S., Miami-Dade and Broward counties, representing nearly 40 percent of FPL's roughly 5.6 million customer accounts, is located at the tip of the Florida peninsula and, therefore, highly susceptible to the impact of potential interruptions in transmission and fuel supply occurring in isolation or combination, which can impact the reliability of service in the region. Beyond these and other types of physical threats, a smarter energy infrastructure, for all its benefits, also means growing exposure to potential cyberattacks on a utility's operational and information technology infrastructure systems. Lastly, FPL's energy mix is comprised of roughly 22 percent nuclear generation which is much higher than the typical utility. While FPL's customers benefit from this lower cost source of generation, there are inherent risks to nuclear generation from an investor's perspective, largely related to increased risks of costly regulations, whether due to an actual or perceived threat or issue, even with respect to a unit owned and operated by another utility. Though FPL mitigates

its own specific nuclear risk through safe and efficient operations, it nonetheless is exposed to risk potentially originating from any nuclear plant anywhere in the country or the world. Such was the case following the Fukushima Daiichi nuclear incident in Japan in 2011, which spurred a host of new regulations for plants in this country.

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

A. Florida's geographic peninsular location within the subtropical latitudes and its topography expose its electrical infrastructure to a higher likelihood of adverse weather events and overall climate risks than most other parts of the country. The additional risk specific to FPL among Florida utilities is due to FPL's service area including much of both the east and west coastlines of the Florida peninsula as well as the northwest "panhandle" portion of the state. Because these coastlines are highly exposed to damage from tropical storm activity and generally are at low elevations, FPL faces greater risk of major storm damage, including coastal flooding, as well as longer term implications of sea level rise. These risks for FPL are higher than any other utility and most other entire states. FPL has a 47 percent probability of a landfalling hurricane and a 23 percent probability of a landfalling major hurricane in any year. The next highest probabilities for the entire state of Texas are 33 percent and 12 percent for a landfalling hurricane and major hurricane respectively (see Exhibit REB-6). As shown on Exhibit REB-7, the frequency of tropical storm activity has been growing over time. The rating agencies also have noted that this risk is likely to grow over time as climate change is forecasted to increase the likelihood of

these extreme weather events. Moody's states in its report "Evaluating the impact of climate change on US state and local issuers," published in November 2017:

> Long-term climate changes, including rising global temperatures and sea levels, are forecast to drive increased extreme weather patterns and other vulnerabilities like flooding that might put negative credit pressure on US issuers. Extreme weather patterns exacerbated by changing climate trends include higher rates of coastal storm damage and more frequent and severe droughts, wildfires and heat waves. In addition to loss of life and threats to public health and safety, these events present a multitude of challenges in the form of compromised crop yields, economic disruption, damage to physical infrastructure, increased energy demand, recovery and restoration costs, and the cost of adaptive strategies for prevention or impact mitigation. These challenges can result in lower revenue, increased expense, impaired assets, higher liabilities and increased debt, among other effects.

Similarly, in commenting about FPL operating in a region prone to frequent hurricanes, S&P noted this "could increase the Company's risk exposure because climate change is intensifying the severity and frequency of these natural disasters globally." (S&P Global Ratings, "ESG Industry Report Card: Power Generation" (February 11, 2020)). These risks have the potential to directly impact FPL's credit profile and therefore, financial strength, if the Company is unable to deploy the necessary capital to continue to mitigate these risks and respond quickly and efficiently when these events occur. Moody's also states:

> Climate shocks or extreme weather events have sharp, immediate and observable impacts on an issuer's infrastructure, economy and revenue base, and environment. As such, we factor these impacts into our analysis of an issuer's economy, fiscal position and capital infrastructure, as well as management's

> ability to marshal resources and implement strategies to drive recovery. The interplay between an issuer's exposure to climate shocks and its resilience to this vulnerability is an increasingly important part of our credit analysis, and one that will take on even greater significance as climate change continues. ("Evaluating the impact of climate change on US state and local issuers" (November 2017))

Additionally, with limited electrical interconnection capacity serving Florida due to its unique peninsular geography, FPL's ability to supply power purchased from outside of Florida in the event that there is a significant need or disruption due to extreme weather events, for example, and to maintain reliable service is more constrained than utilities with broader connectivity. To attract capital over the long-term, FPL must continue to offset these greater qualitative business risks with a stronger financial position, balancing its overall credit profile.

**Q. Do weather-related risks have an impact on investors' evaluation of FPL's financial risk and therefore impact FPL's required financial position?**

A. Yes. In addition to increasing the qualitative aspects of FPL's overall business risk profile (which in turn has a direct impact on requirements for financial strength or the quantitative aspects of FPL's financial risk profile), the exposure of FPL's service area to adverse weather impacts has a direct impact on FPL's need for financial strength. FPL must maintain ready access to larger reserves of credit and liquidity than most other utilities. Given the high value that FPL and its customers place on service availability and reliability, rapid and safe restoration of service after a weather-induced outage is our highest priority. FPL must be able to marshal both internal and external resources on a massive

scale very quickly, and this leads to large needs for credit and liquidity. Restoration efforts must be funded long before the cash recovery of prudently incurred costs can be expected.

Although FPL's settlement agreements, as approved by the Commission, have included a provision to maintain a funded storm reserve to pay for costs associated with damage to its system from hurricanes and storms, as part of the give and take in negotiations, FPL has agreed to a lower reserve than FPL believes is appropriate. Unquestionably, the size of this reserve currently is insufficient to fund the storm restoration costs FPL routinely has experienced. The balance in the Company's storm reserve (account 228.100) was approximately $115 million as of December 31, 2020. Putting this balance in perspective, $115 million only covers a fraction of the costs of most single storm events, representing only approximately 48 percent of the incremental cost of Hurricane Dorian, 39 percent of the incremental cost of Hurricane Matthew, and less than 10 percent of the incremental cost of Hurricane Irma. While the recovery of prudently incurred storm restoration costs helps to mitigate this risk in the long term, and the SCRM expedites a portion of the actual cash recovery, investors are still exposed to potential disallowances of costs after the fact. This risk is not mitigated by any mechanism for storm cost recovery.

FPL's investment profile is meaningfully impacted by these unique storm-, geographic- and climate-related risks. Although FPL has taken prudent steps to protect its system through many smart investments that have made it one of the most storm resilient systems in the nation, these risks to FPL's system are ongoing, and maintaining resilience, particularly in the face of an apparent increase in storm activity, necessitates continued investments. The funding for such investments requires access to ample, ready capital on reasonable terms, so maintenance of a strong financial profile is critical. These distinctive risks facing FPL are considerations investors incorporate in their overall risk versus return evaluation of the attractiveness of FPL as an investment. Absent an authorized ROE and capital structure that properly reflect this and FPL's other risks, investors will redirect their capital to other utilities or companies in different sectors and industries. The effect will be that FPL will only be able to raise capital on less attractive terms, leading to higher costs for customers over the long run, and may not even be able to raise all the capital desirable to fund improvement initiatives. Moody's states in their report "Cross-Sector – US: FAQ on the credit impact of hurricanes on US-based issuers" issued in June 2019:

> Four out of the five costliest hurricanes have struck over the past decade, reflecting the increasing frequency and intensity of severe weather events, as well as significant population growth in coastal areas exposed to hurricanes…Issuers that have defaulted or been downgraded as a result of hurricanes have typically had an outsized exposure to the event or did not have sufficient buffers to remain in their rating category, or both. For example, faced with repair costs that far exceeded its financial resources, Entergy New Orleans (Ba1 stable), a gas and

electricity provider serving New Orleans, declared bankruptcy in the weeks following Hurricane Katrina.

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

A. FPL has for many years imposed more stringent standards for its transmission and distribution facilities than is normal for the industry in recognition of its greater vulnerability. In the wake of the 2004 and 2005 hurricane seasons, FPL went further and began a comprehensive, long-term investment program aimed at strengthening its core infrastructure. These initiatives were augmented by the Commission's adoption of its storm hardening rule which was more recently replaced by its storm protection rule (Rule 25-6.030, F.A.C.), adopted pursuant to the 2019 storm protection legislation (F.S. 366.96). FPL has continued to harden its infrastructure, even as annual storm activity on average over the last two decades has increased to levels Florida has never seen over the last hundred plus years (see Exhibit REB-7).

In 2017, Hurricane Irma became the largest hurricane event in FPL's history. The powerful storm impacted all 35 counties and 27,000 square miles of FPL's service area, causing more than 4.4 million customers to lose power, representing 91 percent of FPL's total customer base. Total storm costs as a result of Hurricane Irma reached roughly $1.4 billion. FPL was able to restore service to over 2 million customers in one day and to complete the restoration of all 4.4 million customers in 10 days. This represents the fastest restoration

of the largest amount of people by any one utility in U.S. history. With the GDP generated daily in FPL's service area averaging more than $1 billion per year, Florida's economy benefits from prompt restoration facilitated by FPL's strong financial position, as reflected in its strong capital structure and credit ratings.

This record-setting restoration was the result of FPL's preparation and ensuing coordinated response, in addition to our storm hardening capital investments over the last decade, which were made possible by a combination of FPL's strong financial position, the FPSC's support and vision, and strong employee commitment. But FPL's storm hardening effort is far from complete. Over the next ten years, for instance, FPL forecasts that it will invest an additional approximately $10 billion on continued storm hardening efforts. These efforts will continue well beyond that and will require ongoing maintenance to best withstand the effects of severe weather. Even with these significant and necessary investments, it is important to note that FPL's financial risk continues to be above average as the value of FPL's investments exposed to storms continues to increase as more people move to our service area, and customers' expectations for restoration response continue to increase.

Finally, and arguably most importantly, FPL consistently has maintained adequate financial strength, which has proven critical to FPL's ability to access the ready, sufficient capital required to continue to make these vital capital

investments on reasonable terms. The recent adoption of Commission Rule 25-6.031 creating the Storm Protection Plan Cost Recovery Clause is helpful in addressing investors' concerns regarding recovery of prudently incurred investments; however, the need for ready access to capital to fund those investments on reasonable terms remains, particularly in light of the significant increase in storm activity that we've experienced over the last twenty years.

**Q. What conclusions should the Commission draw from your discussion of FPL's risk of weather exposure?**

A. The Commission should conclude that it is in customers' interests for a utility to maintain adequate financial strength to deal with the kind of extreme weather events that may affect its service area. FPL's overall risk profile is increased by the nature of its service area and this risk is unlikely to diminish, because the exposure to storm damage (measured in dollars) is likely to increase even as FPL continues to upgrade its resilience to storm impacts. Accordingly, its requirements for financial strength, as well as the appropriate authorized ROE level and equity ratio are greater than that of most other utilities for the same reason. Although FPL already has made significant investments in its system to mitigate these risks through storm hardening, additional ongoing investments are required to continue to improve its system, as well as maintain the system improvements that have already been implemented. These investments can mitigate, but not eliminate, these increasing risks, highlighting the need for FPL to maintain the adequate financial strength that is critical to FPL's ability to

access the capital necessary to continue to make capital investments to quickly respond to severe weather events when they do occur.

**Q. Please describe FPL's environmental risks and exposure.**

A. Environmental risks are substantial within the electric utility industry which is subject to a wide range of local, state and federal environmental laws and regulations. Such laws and regulations require FPL to incorporate environmental protections into the design, construction, operation and maintenance of its facilities. All utilities are subject to varying environmental risks based on their location, jurisdiction and generation mix. FPL's environmental risk is generally lower for achieving air emission requirements but higher in relation to meeting certain water-related requirements. FPL has taken steps over the last several years to modernize its generation fleet and substantially reduce its rate of emissions of $CO_2$, $SO_2$, $NO_x$, and particulates. With respect to water regulations and restrictions, FPL's dependence on water sources for cooling and steam generation adds risk associated with meeting Florida's stringent water quality, quantity, and cooling water intake requirements. Facilities routinely are required to evaluate and pursue alternative water sources (such as reclaimed water) to reduce impacts to aquifer sources, as well as evaluate and potentially modify cooling water intake structures to reduce impacts to wildlife (such as manatees and marine turtles). These risks, however, are ameliorated by the implementation of Florida's Environmental Cost Recovery Clause ("ECRC"), which provides utilities a

means of recovering costs associated with compliance with environmental regulations imposed by government agencies.

**Q. Please describe the regulatory and political risks faced by FPL and its investors that affect financial strength.**

A. The regulatory environment sets the framework within which a utility operates and directly affects its ability to invest to provide a level of service that meets the utility's obligation to serve. It also provides the framework investors rely upon in evaluating whether to make capital available for the Company to operate effectively. The regulatory environment within which a utility operates has a direct impact on its financial strength and its ability to access the capital markets. For example, S&P notes:

> Under our rating methodology for utilities, we view a utility's regulatory framework as critically important to its credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance. We view investment-grade utilities as requiring a regulatory framework that is stable, transparent, predictable, and allows for timely recovery of all operating and capital costs--the lack of these basic elements signifies higher business risk. ("The Looming California Wildfire Season Prompts an Examination of Investor-Owned Utilities' Risks" (June 2019)).

FPL's customers currently benefit from the Company's strong credit profile which relies upon the generally constructive regulatory policies of the Commission. However, this has not always been the case and should not be minimized. As mentioned earlier, FPL's highly politicized 2009 rate proceeding resulted in several credit downgrades, with at least one key rating not restored until almost a decade later. There is no doubt that investors closely

monitor the posture of a utility's regulators and the general political environment in which the utility operates. Any deterioration in the constructiveness of regulation, or indication of a change in credit supportiveness, may signal to investors the risk of a fundamental financial issue emerging.

FPL also faces increased risk with respect to changes in tax law that may be enacted by the Biden administration. While this risk is not unique to FPL, it nonetheless is potentially significant unless mitigated through regulatory recovery. FPL witness Bores discusses in more detail the Company's proposal for addressing tax reform.

**Q. Please describe the risks related to competition, including the threats of deregulation.**

A. FPL operates as a vertically integrated, regulated electric utility under exclusive franchise agreements or under territorial agreements where franchises do not exist. Though currently not competing directly with other service providers for retail customers in its service area, there have been recent efforts to dismantle that regulatory construct. An initiative to amend the Florida Constitution in 2019-2020, to force the deregulation of the investor-owned electric utility industry in Florida, including the forced divestiture of all utility-owned generation, was pursued by a group called Citizens for Energy Choice. This initiative endeavored to take state-critical policy decisions out of the hands of legislators and regulators and place them in a 73-word ballot summary, the

adoption of which would have massively disrupted a well-regulated, well-understood and well-performing system delivering reliable electric service to Floridians at a reasonable (and regulated) price and with important consumer protections. Although the flawed amendment was unanimously rejected by the Florida Supreme Court, the effort created some level of uncertainty with respect to the current Florida regulatory model.

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

A. FPL faces a unique mix of risk factors that in aggregate imply that FPL's risk profile is somewhat greater than most utilities in the country. Accordingly, FPL should maintain a stronger financial position than the typical utility, which historically has been the case. FPL's riskier investment profile should also be properly reflected in FPL's authorized ROE.

## V. CAPITAL STRUCTURE AND COST OF DEBT

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

A. I recommend the Commission approve the continuation of FPL's regulatory capital structure that includes a 59.6 percent equity ratio based on investor sources (48.04 percent based on all sources in the 2022 Test Year). FPL has maintained its equity ratio generally around the 59-60 percent level for more

than two decades, and this has been an important underpinning of the overall financial strength that has served customers well.

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

A. Yes. The Commission has stated that "[t]he capital structure used for ratemaking purposes for a particular company should bear an appropriate relationship to the actual sources of capital to the Company." (see Order No. 850246-EI, *Petition of Tampa Electric Company for Authority to Increase its Rates and Charges*.) FPL is requesting a capital structure consistent with its actual capital for many years and as reflected in the corresponding test period MFRs.

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

A. Yes. As mentioned previously, investors expect FPL's capital structure to be relatively stable over time and to reflect the unique risk profile and underlying financial policies of the company. FPL has maintained the current equity ratio for more than twenty years, and it is foundational to FPL's current credit rating, financial strength and flexibility to raise capital when needed and to provide customers with long-term benefits.

**Q. How did FPL project its long-term debt cost for purposes of this rate filing?**

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

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

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

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

A. FPL's 59.6 percent equity ratio is based on investor sources of capital which includes only equity and debt components. However, FPL's regulatory capital structure includes other sources such as customer deposits, deferred income taxes, and unamortized investment tax credits which in fact lower the amount of equity upon which rates are actually set. Those components are found in MFR D-1a.

**Q. What Weighted Average Cost of Capital ("WACC") would result from FPL's requests in this proceeding?**

A. FPL's regulatory capital structure would produce a total WACC of 6.84 percent in the 2022 Test Year. This overall WACC is reasonable and reflects the benefit to customers of FPL's financial strength. FPL's WACC is consistent with the average WACC of 6.90 percent for U.S. electric utilities for ratemaking purposes over the last three years as reported by Regulatory Research Associates. It is the WACC, not simply the ROE, that represents the actual cost of financing FPL's rate base and is the cost of capital reflected in the calculation of revenue requirements for the projected test years and FPL's proposed rates.

FPL is delivering superior value at rates well below the national average at a cost of capital slightly below the average for all utilities.

## VI. RETURN ON EQUITY

**Q. Please comment on FPL witness Coyne's proposed ROE of 11.0 percent.**

A. FPL witness Coyne's recommended ROE of 11.0 percent is appropriate considering FPL's unique risk profile and the Company's commitment to a strong financial position as reflected in its requested capital structure and SCRM. This ROE would fairly compensate equity investors for the use of their capital over the 2022-2025 period and is consistent with the continuation of FPL's financial policies as observed over many years and that have served customers so well.

FPL witness Coyne evaluated a peer group of similarly situated companies, using a portfolio of cost of equity models/approaches, and relied upon relevant capital markets data.

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

A. Yes. FPL witness Coyne's recommended ROE of 11.0 percent will meet the criteria discussed above and is consistent with maintaining FPL's strong financial position.

## VII. ROE PERFORMANCE INCENTIVE

**Q. Please describe the ROE performance incentive proposed by the Company.**

A. FPL is asking the Commission to increase the authorized ROE established in this case by one-half percent, to reflect FPL's superior value proposition for its customers and as an incentive to promote further efforts to improve the customer value proposition.

**Q. Has the Commission previously approved an ROE incentive?**

A. Yes. In 2002, the Commission added 25 bps to Gulf's ROE midpoint in recognition of Gulf's high level past performance and with the expectation that a similar level of performance would continue into the future. (Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI, p. 32 (issued June 10, 2002)).

**Q. What factors should the Commission consider when evaluating FPL's performance for purposes of determining whether to authorize an ROE performance incentive?**

A. Across almost every metric, FPL stands among the best in the industry in delivering value for its customers and has continued to improve over the course of this most recent settlement agreement. While all utilities have access to the same technology and the same financial capital (dependent upon their financial strength), human capital differentiates superior performance from merely average performance. Exhibit REB-8 shows FPL's performance versus a Southeastern US proxy group across five performance metrics for 2019, the most recent year available for comparative industry data. FPL's overall

performance is the best across that basket of metrics and significantly better than the next best utility. In fact, UtilityDive recently recognized NextEra as the 2020 Utility of the Year. In the article announcing this award, Stephen Byrd, an analyst at Morgan Stanley is quoted as saying, "FPL is really best in class.... They've kept bills low and their reliability is high."[3] Financial analyst Angie Storozynski, writing for Seaport Global Securities, LLC in September 2020 stated, "Even more importantly, we keep hearing that practically all electric utilities in the US benchmark their operational and financial performance to that of FPL. FPL's operational gold standard is increasingly hard to reach if only because the utility keeps cutting its operating costs and boosting its electric service reliability by reducing the duration of an average system outage."

From a cost perspective, FPL's non-fuel O&M expense per customer and per MWh in 2019 were best in the nation by a wide margin. Exhibit REB-9 shows Non-Fuel O&M per MWh for FPL in 2019 was $11.16 and best-in-class in the industry, even accounting for scale benefits attributable to the Company. FPL witness Reed demonstrates that FPL's 2019 base revenue requirements were about $2.6 billion, or nearly 30 percent lower than they would have been if FPL had been an average cost performer based on Non-Fuel O&M per customer, and FPL's non-fuel O&M performance was approximately 15 percent better in 2019 than 2016. This industry-leading cost performance is due to FPL's strategic focus on continuous improvement and cost management. That $2.6

[3] https://www.utilitydive.com/news/utility-of-year-nextera-energy-2020/588147/

billion in annual revenue requirement savings is equivalent to more than 700 basis points (7.0 percent) of ROE, to give perspective to the one-half percent requested performance incentive.

FPL's fossil fleet efficiency (i.e., heat rate) is more than 30 percent better than the industry. FPL's cost of fuel to customers in 2019 was about $595 million lower than if FPL's performance had been equivalent to the industry average heat rate.

One example of the value to customers of FPL's focus on cost efficiency is the Okeechobee Clean Energy Center ("OCEC"). FPL placed in service OCEC in March 2019. OCEC is a 1,720 MW, natural gas-fired, advanced combined cycle facility. It was constructed in 38 months from the Commission's approval of the Determination of Need at a total installed cost of $1.22 billion, or about $700/kW with a heat rate of 6,195 Btu/kWh. By comparison, another large natural gas-fired combined cycle facility was built in the state by another utility at around the same time at a cost of approximately $1.5 billion, or about $900/kW, a construction period of 53 months from the Determination of Need, and a heat rate of 6,515 Btu/kWh, or about 5 percent worse fuel efficiency than OCEC. If OCEC had been constructed at a comparable cost of $900/kW and had a comparable heat rate of 6,515 Btu/kWh, FPL's customers would have paid more than an additional $600 million in cumulative present value revenue

requirements of capital and fuel costs over the life of the facility. FPL's focus on cost efficiency provides significant value to customers.

Similarly, FPL's system reliability is outstanding, reflecting an average outage time that is roughly half that of the industry average performance over the last five years, and continuing to improve. FPL has been awarded for five of the last six years with the ReliabilityOne® National Reliability Excellence Award.

In 2019, FPL was designated a "Customer Champion" for the sixth consecutive year. This honor is given to gas, electric and combination utilities that exhibit exceptional performance in brand trust, service satisfaction and product expertise and was based on a survey of utility customers conducted by Escalent, a leading nationwide research firm.

FPL's emissions profile is among the cleanest in the nation. Through smart investments in technology and the cost-effective modernization of its generation fleet, FPL has strategically driven down its emissions rate by 39 percent since 2001 and is now 24 percent cleaner than the national U.S. utility average. Over that time frame, FPL avoided $11.3 billion in fuel costs and 166 million tons of $CO_2$. FPL has followed a strategy that has focused on cost while aggressively reducing emissions.

Likewise, since its acquisition in 2019, Gulf has made significant improvements in its cost and reliability performance. As discussed by FPL witness Bores, Gulf's O&M cost in 2022 is projected to be $86 million, or more than 30 percent lower than 2018. Since acquisition, service reliability System Average Interruption Duration Index ("SAIDI") metric has improved by 50 percent; the generation reliability Equivalent Forced Outage Rate metric has improved by approximately 90 percent; and has significantly reduced Gulf's carbon emission rate.

In consideration of the extraordinary value being created for customers through superior performance and a culture of continuous improvement and innovation, and to encourage a continuation of this performance, it is entirely appropriate for the Commission to authorize an incentive of one-half percent, added to the authorized ROE midpoint and range.

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

A. The obligation to serve should not be confused with an obligation to be the best. FPL's pursuit of superior performance is a customer-centric focus that accrues to the benefit of FPL customers. In fact, a defining part of our culture is this pursuit of excellence. To suggest that this superior level of performance should be expected in fulfillment of the obligation to serve would mean that all companies falling short of this performance are not satisfying their basic regulatory duty. That has never been determined by this Commission to be the

case. It is the equivalent of a pass/fail grading system where to pass, one needs an A+ level of performance.

Perversely, utilities that make poor decisions or, alternatively, forgo making decisions that would reduce costs or risks or increase service quality or reliability, any of which may result in a higher risk profile, could in fact be granted the same or higher ROE compared to an otherwise similarly situated company that had made better planning and operating decisions.

In fact, without some distinction for superior performance, one would expect a clustering of performance around minimally acceptable levels consistent only with a company's perception as to the basic standard required to meet its obligation to serve its customers and avoid determinations of imprudence.

The ROE determined as reasonable and appropriate by FPL witness Coyne was based on an evaluation of a peer group of companies whose selection as peers did not include any performance criteria; rather, the criteria were based on qualitative and quantitative financial metrics reflecting a purely cost-based approach to ROE. Thus, adoption of the ROE generated through that analysis, while appropriate to reflect the cost of equity for an average utility, is not intended to reflect and does not reflect differences in performance among utilities.

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

A. Yes, and appropriately so. Sending proper market signals and incentives is an accepted policy objective under cost-of-service based ratemaking no different than prudence disallowances serve as a disincentive. The Commission's decision to explicitly acknowledge FPL's superior performance and grant an ROE enhancement will encourage FPL to maintain that superior performance and, at the same time, provide an incentive to other companies under the Commission's jurisdiction to strive for superior performance to the benefit of their customers. The Commission has for many years adopted innovative, forward-thinking practices and policies that have served customers well. As noted earlier, the Commission used this performance incentive tool in the past for Gulf, but it has not been used in recent years.

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

A. While the Commission certainly can penalize poor performance, and has done so in several cases, that alone introduces an asymmetrical risk profile that is difficult for investors to properly evaluate. Additionally, an unintended outcome of such a position could be to completely dissuade a company from pursuing innovation and prudent risk-taking on behalf of customers to avoid even the possibility of a penalty.

**Q. In your opinion, how would the investment community react to the Commission's acknowledgement of superior performance and authorization of an ROE performance incentive?**

A. Provided it is truly perceived as an incentive, and not merely a component of the market-based ROE, I believe it would be acknowledged as a strong merit-based decision in favor of supporting investment in Florida and another example of constructive regulation that actively aligns performance for the benefit of customers with the interests of shareholders.

## VIII. STORM COST RECOVERY MECHANISM

**Q. Is FPL requesting a storm cost recovery mechanism in this proceeding?**

A. Yes. FPL proposes to continue to have access to the storm cost recovery framework prescribed by the 2010 Rate Settlement and continued by the 2012 and 2016 Rate Settlements.

**Q. Please describe FPL's proposed SCRM.**

A. FPL proposes to continue to recover prudently incurred storm costs under the framework prescribed by the 2010 Rate Settlement and continued in both the 2012 and 2016 Rate Settlements. Specifically, if FPL incurs storm costs related to a named tropical storm, the Company may begin collecting a charge based on an amount up to $4 per 1,000 kWh on monthly residential bills (roughly $430 million annually) beginning 60 days after filing a petition for recovery with the FPSC. This interim recovery period will last up to 12 months. If costs

related to named storms exceed $800 million in any one year, the Company also can request that the Commission increase the $4 per 1,000 kWh accordingly. This SCRM also would be used to replenish the Company's storm reserve in the event it was fully depleted by storm costs. The Company's storm reserve replenishment amount in this proposal is $150 million, representing approximately the amount of reserves reflected in the former FPL settlement agreement ($112.3 million) and the Gulf settlement agreement ($40.8 million). Any cost not recovered under this mechanism would be deferred on the balance sheet and recovered beyond the initial 12 months as determined by the Commission. If the Commission approves the Company's petition to combine rates, the current Gulf surcharge for Hurricane Sally will cease when all approved deferred storm costs have been recovered exclusive of any replenishment of Gulf's storm reserve. If the Commission does not approve the Company's petition to combine rates, the Hurricane Sally surcharge will continue until Gulf's reserve is replenished in accordance with its current settlement agreement. The terms of FPL's proposal are detailed on Exhibit REB-10.

**Q. Is this proposal a departure from prior FPL positions on this issue?**

A. No. This framework is exactly as proposed in FPL's 2016 rate petition. Fundamentally, FPL believes that customers are best served by a three-pronged approach to storm cost mitigation. First, because the Company's customers are essentially self-insured for most windstorm casualty losses, it is entirely appropriate to recognize in rates the annual expected losses due to this risk.

Commercial insurance is not available for windstorm damage to transmission and distribution facilities, and the cost to insure other property losses has increased significantly in recent years; but, if it were available, those insurance premiums would be properly recognized as a cost of service and included in the base rates paid by customers. Such commercial insurance, if available, likely would be substantial. Second, a funded storm reserve provides for instant liquidity to assist in the immediate funding of storm restoration activities. FPL has a funded storm reserve today; however, with a balance on December 31, 2020 of $115 million for FPL and $0 for Gulf, it is significantly underfunded. A properly funded storm reserve for FPL would likely be multiples of that amount. Last, access to a customer surcharge mechanism to provide funds once the storm reserve is depleted is appropriate to enable the Company to fund restoration activities beyond what is available in the storm reserve, and to restore the depleted reserve. These three components form the core of a robust storm cost financial plan.

Similar to our position in the 2016 petition, FPL believes the SCRM as proposed has worked well for customers and the Company, and the Commission should approve the continuation of this mechanism.

**Q. Does the proposed storm cost recovery framework eliminate storm recovery risk?**

A. No. This framework does not eliminate the risks borne by investors related to storm losses. The Company continues to bear the risk of cost disallowances for

decisions made in real-time, but later reviewed by opposing parties, often many months after the restoration has been completed. Although the SCRM proposed by the Company has worked well for all parties, it is a compromise that is dependent on the financial strength of the Company and its ability to have the necessary liquidity and access to capital markets even when financial markets are not favorable. While the proposed SCRM facilitates timely recovery of storm costs, it does not reduce the review of and opposition to cost recovery, and to be effective, it must be underpinned by financial strength as discussed earlier in my testimony.

## IX. RESERVE SURPLUS AMORTIZATION MECHANISM

**Q. What is FPL proposing with respect to the use of a Reserve Surplus Amortization Mechanism like that contained in the 2016 Stipulation and Settlement Agreement (2016 Settlement), approved in FPSC Order No. PSC-16-0560-AS-EI?**

A. As an essential component of FPL's four-year rate plan, we are proposing that an RSAM be approved by the Commission. An RSAM framework similarly was approved by the Commission as a core element in each of the last three FPL settlement agreements, i.e., 2010, 2012, and 2016, and has been a constructive part of FPL's ability to continue to deliver value for customers over the last decade.

**Q. Could you please describe the RSAM as currently implemented by the Company?**

A. Yes. The RSAM is an accounting mechanism used by the Company to respond to changes in its underlying revenues and expenses in order to maintain an FPSC Adjusted Return on Equity (ROE) within the ROE range authorized by the Commission. In each earnings surveillance reporting (ESR) period, the Company records increases to expense (debits) or decreases to expense (credits) such that the overall resulting ROE for that rolling period equals a pre-established ROE within the authorized range.

**Q. Does the use of the RSAM result in cash or non-cash earnings?**

A. The RSAM results only in non-cash earnings. In other words, the RSAM allows FPL to absorb changes primarily in cash revenues and expenses while maintaining a pre-established ROE within its authorized range without an increase in customer rates.

**Q. Are there any limitations on the use of this mechanism?**

A. Yes. First, and foremost, as prescribed in the 2016 Settlement Agreement, the RSAM cannot be used to cause the Company's earned ROE on an FPSC Adjusted Basis to exceed the top of the authorized ROE range. Similarly, the RSAM must be used, to the extent any amount is available, to keep the Company's ROE at least at the minimum authorized ROE before the Company can seek an increase in base rates during the Settlement Period.

The 2016 Settlement Agreement defines a Reserve Amount representing a total balance of surplus depreciation of $1 billion, plus the approximately $250 million that remained on December 31, 2016 from the 2012 settlement agreement, as the balance available for use in the RSAM. The Company may record debits (increases to expense) or credits (decreases to expense) in any accounting period, at its sole discretion, to achieve the pre-established ROE for that period. However, the Company cannot credit (i.e., decrease) depreciation expense (and correspondingly debit/decrease the depreciation reserve) at any time during the Settlement Period that would cause the Reserve Amount to be reduced below $0. Similarly, FPL may not debit (i.e., increase) depreciation expense (and correspondingly credit/increase the depreciation reserve) at any time during the Settlement Period that would cause the Reserve Amount to exceed $1.25 billion.

**Q. Does the Company propose the establishment of an RSAM as described above as part of its four-year rate plan in this proceeding?**

A. Yes. FPL proposes the same basic structure and framework as described above and contained in the 2016 Settlement Agreement, updated for the assumptions and projections reflected in the current filing.

**Q. Is the Company proposing to alter this framework in any way for purposes of the four-year rate plan reflected in its filing?**

A. The Company is proposing that the continued application of this mechanism follow precisely the same framework as described above with one additional component. As described above, the RSAM in the 2016 settlement provides

that the Company may not debit (i.e., increase) depreciation expense (and correspondingly credit/increase the depreciation reserve) at any time during the Settlement Period that would cause the Reserve Amount to exceed $1.25 billion. In this filing, the Company requests that if the debit (i.e., increase) to depreciation expense required to achieve the Company's pre-established ROE within the authorized range would cause the credit (i.e., increase) to the cost of removal component of the depreciation reserve to exceed the Reserve Amount approved by the Commission, the Company would be allowed to record those debits (i.e., increase) to amortization expense and corresponding credits (i.e., decreases) to the regulatory assets identified by FPL witness Ferguson as capital recovery schedules.

In subsequent annual periods, the Company would adjust the prospective amortization of the capital recovery schedules noted above, such that the total amortization over the four-year period ended December 31, 2025 would equal the sum of the amortization expense for 2022-2025 as shown on Exhibit KF-4. This enhancement to the RSAM allows the Company to continue its aggressive cost management efforts or absorb favorable revenue events in ways that are beneficial to customers.

**Q. What is the Reserve Amount that the Company is proposing in this proceeding to be available for use in an RSAM over the 2022-2025 period?**

A. The Company is proposing a Reserve Amount of $1.48 billion to be available for use in the RSAM as described above for the 2022-2025 period. For ease of

reference, I've included the terms that we are asking the Commission to approve, and which would govern the RSAM, in one document, Exhibit REB-11.

**Q. How is the proposed Reserve Amount to be established in order to implement the RSAM?**

A. For purposes of the RSAM, the Company requests approval of the RSAM adjusted depreciation parameters and resulting depreciation rates discussed by FPL witness Ferguson. As explained in his testimony, approval of these parameters will support a Reserve Amount of $1.48 billion.

**Q. What accounts comprise the Reserve Amount?**

A. The accounts comprising the Reserve Amount represent the cost of removal component of FPL's depreciation reserve in its various plant accounts. The theoretical surplus amounts reflected as part of FPL's depreciation reserve are the result of applying RSAM adjusted depreciation parameters shown on Exhibit KF-3(B).

**Q. Should the Commission consider adopting the RSAM adjusted depreciation parameters even if it chooses not to approve the RSAM as proposed by the Company?**

A. No. The RSAM, and the set of RSAM adjusted depreciation parameters that enable it, are essential elements of FPL's four-year rate plan, just as a flexible reserve surplus mechanism and corresponding reserve amounts have provided the foundation for the multi-year plans approved by the Commission in each of the last three FPL base rate proceedings and have provided rate stability for

customers over the last 10 years. Without the RSAM proposed in this proceeding, including the proposed Reserve Amount, the Company likely would need to refile for new rates much sooner. The RSAM, with the RSAM adjusted depreciation parameters, should only be considered together as a comprehensive four-year rate plan mechanism.

**Q. Why should the Commission approve a mechanism that to date has only been included as part of broader, comprehensive settlement agreements?**

A. Simply stated, the Commission should approve RSAM because it has proven to be an extremely effective and key element of FPL's ability to provide remarkable rate stability and ever-improving levels of service and reliability. At the same time, it has provided the Company with an important measure of flexibility that has allowed us to handle unanticipated events in ways beneficial to customers.

**Q. Please provide examples of how the RSAM has been effectively used during the period of the most recent settlement period.**

A. In the 2017-2020 settlement period, the availability of the RSAM enabled the Company to absorb significant fluctuations in revenues and expenses without increasing base rates, resulting in our ability to extend the current settlement period beyond its Minimum Term by an additional year. Thus, new base rates are being requested for January 1, 2022 instead of January 1, 2021. The fluctuations in the business during the settlement period have, as expected, both increased and decreased operating revenues, operating expenses, and the Company's cost of capital. Some specific examples include the impacts of the

2017 Tax Reform and Jobs Act, the significant restoration expenses related to Hurricanes/Storms Irma, Dorian, Isaias, and Eta, and most recently, the extraordinary circumstances related to the COVID-19 pandemic and the subsequent unprecedented level of assistance offered to customers by the Company, including delaying disconnections, offering payment extensions/forgiveness, bill credits, return of customer deposits, and other assistance.

As is apparent from these examples, and more generally, the RSAM has been an innovative, effective mechanism that has been a key element of the highly successful multi-year regulatory construct, providing rate stability and other benefits for FPL's customers for the last three settlement agreements over the last 10 years. For these reasons, FPL is requesting that this mechanism be approved by the Commission in connection with setting FPL's base rates as part of FPL's proposed four-year rate plan rather than relying on the uncertainties inherent in potential settlement discussions and any settlement process.

## X. FOUR-YEAR RATE PLAN

**Q. In addition to the RSAM, what are the other key elements of FPL's four-year rate plan?**

A. FPL's four-year rate plan includes the commitment not to request any additional general base rate increase effective prior to January 1, 2026, other than those

requested in this proceeding. Consistent with the way in which prior multi-year rate plans have been configured and recognizing that there are certain essential elements that allow the Company to commit to such a plan, FPL's proposal contains the following core elements:

- Provision of the necessary financial support, consistent with FPL's requested revenue increases for 2022 and 2023 set forth in FPL witness Fuentes's Exhibit LF-3, to include maintaining its current capital structure and authorizing a return on equity of 11.5 percent, which includes the one-half percent performance incentive requested by the Company.
- Approval of the Reserve Surplus Amortization Mechanism detailed in Exhibit REB-11, with a Reserve Amount of $1.48 billion to be available for use through the RSAM for the 2022-2025 period or until the next general change in base rates;
- Approval of the RSAM-adjusted depreciation rates set forth in Exhibit KF-3(B), enabling the Reserve Amount and lowering the revenue requirements for 2022 and 2023 relative to the revenue requirements that otherwise would result from the unadjusted 2021 depreciation study, as reflected in FPL witness Fuentes's Exhibit LF-4;
- Approval of the SoBRA mechanism as set forth in Exhibit REB-12 and further described by FPL witness Valle, such that FPL will be permitted to petition to adjust base rates to recover the cost of up to

approximately 1,788 $MW_{AC}$ of new cost-effective solar facilities that enter commercial operation in 2024 and 2025; and

- Approval of the accelerated amortization of the unprotected excess deferred income taxes as described in greater detail by FPL witness Bores.

**Q. Please describe the role of the SoBRA mechanism in FPL's four-year rate plan.**

A. The SoBRA mechanism proposed by FPL and discussed in the testimony of FPL witness Valle is necessary to allow recovery of the incremental base revenue requirements for new cost-effective solar generation in the later years of the four-year plan, i.e., 2024 and 2025. These adjustments would be made following Commission approval in the proceeding described by FPL witness Valle and computed as detailed by FPL witnesses Fuentes and Cohen, consistent with the way in which prior FPL SoBRAs have been calculated. Importantly, as with all SoBRA adjustments, the impact on FPL's earnings is "midpoint seeking" because they are calculated using the approved midpoint ROE. What I mean by midpoint seeking is that if, at the time of the adjustment, FPL is earning below the midpoint of its authorized ROE range, the adjustment will tend to push earnings toward (but not over) the midpoint. Likewise, if FPL is earning within its authorized ROE range but above the midpoint, the adjustment will drive earnings down toward (but not under) the midpoint. Inclusion of this mechanism for 2024 and 2025 in the four-year plan will provide the Company with the ability to defer a general base rate increase in

one or both of those years by covering the base revenue requirement of new, cost-effective solar additions, while moving FPL's earnings toward, but not above, the midpoint of its authorized range. Importantly, as these solar units enter service, customers will immediately begin to receive benefits through the fuel adjustment clause, as well as emissions benefits, so the SoBRA is an important mechanism to match costs with benefits. I've included in Exhibit REB-11, the terms that we are asking the Commission to approve and which would govern the SoBRA for 2024 and 2025.

**Q. Please describe the Commission's role and continued oversight to ensure that rates approved under FPL's four-year rate plan remain just and reasonable.**

A. If the Commission approves FPL's proposed four-year plan, no different than in the case of a Commission-approved settlement agreement covering a multi-year period, the Commission retains full regulatory oversight with respect to FPL's rates and charges, and in that regard, FPL will continue to submit earnings surveillance reports consistent with current regulatory requirements.

**Q. You have made several recommendations for rate adjustments germane to FPL's request to unify the rates applicable to the former FPL and former Gulf service area. If the Commission declines to unify FPL's and Gulf's rates, would the separate ratemaking entities also require rate adjustments?**

A. Yes. If the Commission directs FPL to maintain separate ratemaking entities for service provided in the former FPL and former Gulf service areas, each

entity still requires rate adjustments as reflected in FPL witness Fuentes's Exhibit LF-5 and therefore requests revenue increases in 2022 and 2023 only, i.e., not as part of a four-year rate plan, in the amounts reflected in FPL's witness Fuentes's Exhibits LF-8 and LF-9, respectively.

**Q. Please describe your recommendations on ROE, capital structure and storm cost recovery for FPL and Gulf as separate ratemaking entities.**

A. In addition to the annual revenue increases in 2022 and 2023 for each of the separate rate making entities, my recommendations for ROE, capital structure and storm cost recovery for separate FPL and Gulf are substantially the same as the ones I have described for FPL under unified rates. The reason is simple. The companies will be legally merged, and the capital markets will view them as one for purposes of making investment decisions. Therefore, the appropriate rate of return for FPL and Gulf as separate ratemaking entities is 11.5 percent on common equity capital as the midpoint between 10.5 and 12.5, which includes a one-half percent performance incentive to reflect current superior performance and to act as an incentive for continued superior performance. The appropriate capital structure includes an equity ratio of 59.6 percent from investor sources. In addition, FPL and Gulf should continue to operate under the SCRM described in each company's existing rate settlements.

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

A. Yes.

## Florida Power & Light Company

## CONSOLIDATED MFRs SPONSORED OR CO-SPONSORED BY ROBERT E. BARRETT

| MFR | Period | Title |
|---|---|---|
| **SOLE SPONSOR:** | | |
| D-02 | Test<br>Subsequent | COST OF CAPITAL - 5 YEAR HISTORY |
| D-03 | Historic<br>Prior<br>Test<br>Subsequent | SHORT-TERM DEBT |
| D-04a | Historic<br>Prior<br>Test<br>Subsequent | LONG-TERM DEBT OUTSTANDING |
| D-04b | Test<br>Subsequent | REACQUIRED BONDS |
| D-05 | Historic<br>Prior<br>Test<br>Subsequent | PREFERRED STOCK OUTSTANDING |
| D-07 | Historic<br>Subsequent | COMMON STOCK DATA |
| D-08 | Test<br>Subsequent | FINANCIAL PLANS - STOCKS AND BOND ISSUES |
| D-09 | Test<br>Subsequent | FINANCIAL INDICATORS - SUMMARY |
| **CO-SPONSOR:** | | |
| D-01a | Prior<br>Test<br>Subsequent | COST OF CAPITAL - 13-MONTH AVERAGE |

## Florida Power & Light Company

## SUPPLEMENT 1 - FPL STANDALONE INFORMATION IN MFR FORMAT SPONSORED OR CO-SPONSORED BY ROBERT E. BARRETT

| Schedule | Period | Title |
|---|---|---|
| **SOLE SPONSOR:** | | |
| D-02 | Test<br>Subsequent | COST OF CAPITAL - 5 YEAR HISTORY |
| D-03 | Test<br>Subsequent | SHORT-TERM DEBT |
| D-04a | Test<br>Subsequent | LONG-TERM DEBT OUTSTANDING |
| D-04b | Test<br>Subsequent | REACQUIRED BONDS |
| D-05 | Test<br>Subsequent | PREFERRED STOCK OUTSTANDING |
| D-07 | Subsequent | COMMON STOCK DATA |
| D-08 | Test<br>Subsequent | FINANCIAL PLANS - STOCKS AND BOND ISSUES |
| D-09 | Test<br>Subsequent | FINANCIAL INDICATORS - SUMMARY |
| **CO-SPONSOR:** | | |
| D-01a | Test<br>Subsequent | COST OF CAPITAL - 13-MONTH AVERAGE |

## Florida Power & Light Company

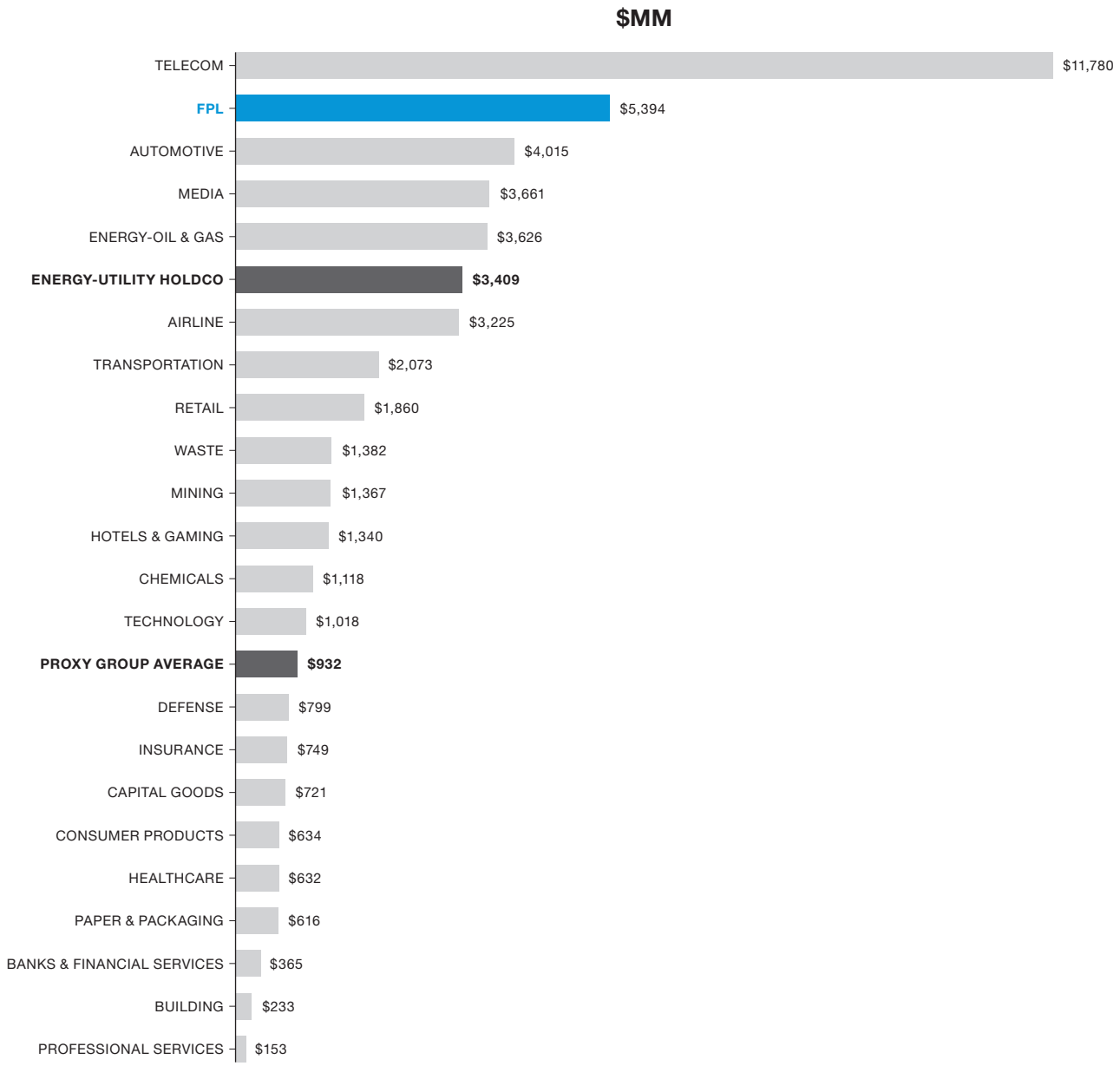
## SUPPLEMENT 2 - GULF STANDALONE INFORMATION IN MFR FORMAT SPONSORED OR CO-SPONSORED BY ROBERT E. BARRETT

| Schedule | Period | Title |
|---|---|---|
| **SOLE SPONSOR:** | | |
| D-02 | Test<br>Subsequent | COST OF CAPITAL - 5 YEAR HISTORY |
| D-03 | Test<br>Subsequent | SHORT-TERM DEBT |
| D-04a | Test<br>Subsequent | LONG-TERM DEBT OUTSTANDING |
| D-04b | Test<br>Subsequent | REACQUIRED BONDS |
| D-05 | Test<br>Subsequent | PREFERRED STOCK OUTSTANDING |
| D-07 | Subsequent | COMMON STOCK DATA |
| D-08 | Test<br>Subsequent | FINANCIAL PLANS - STOCKS AND BOND ISSUES |
| D-09 | Test<br>Subsequent | FINANCIAL INDICATORS - SUMMARY |
| **CO-SPONSOR:** | | |
| D-01a | Test<br>Subsequent | COST OF CAPITAL - 13-MONTH AVERAGE |

# FPL's Virtuous Circle

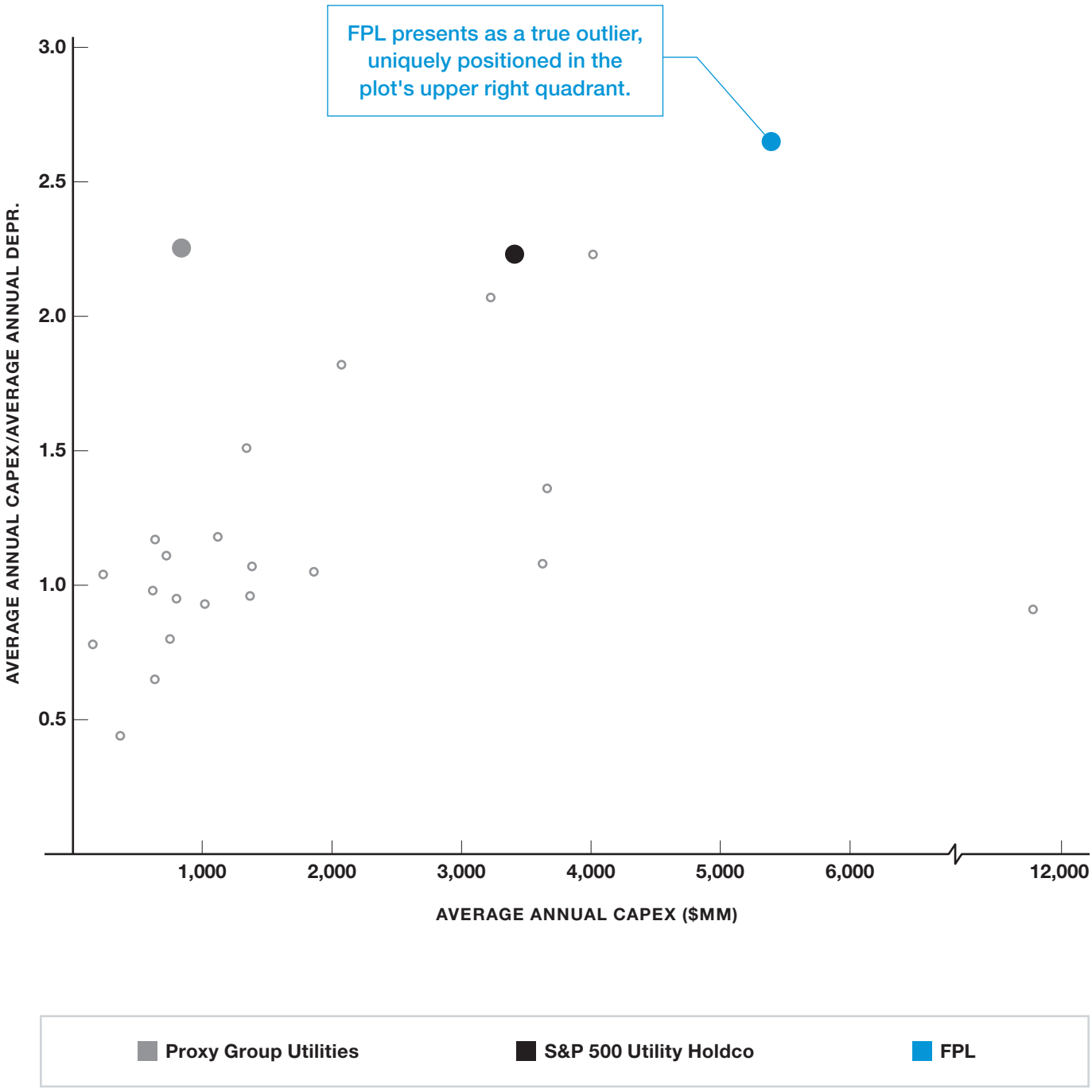
# Average Annual Capital Expenditures by Industry

**S&P 500 Industries vs FPL and Proxy Group Utilities, 2017–2019**



# Property Plant & Equipment ("PP&E") Replenishment

**S&P 500 Industries vs FPL and Proxy Group Utilities, 2017–2019**



# Historical Hurricane Probabilities by State

**Historical Annual Landfall Probability**[1]

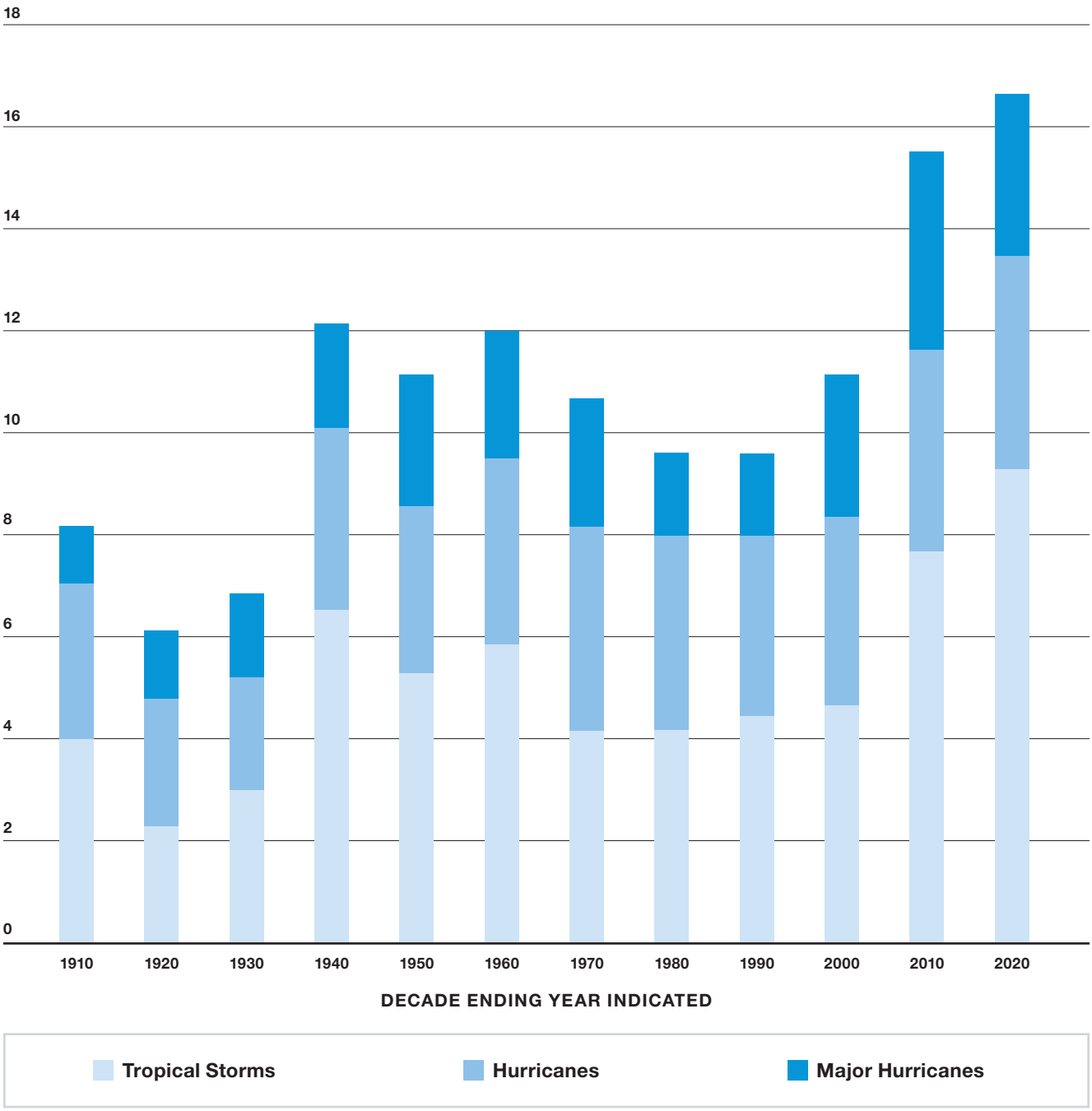
| STATE/REGION | HURRICANE | MAJOR HURRICANE |
|---|---|---|
| **FPL & Gulf Power** | **47%** | **23%** |
| Texas | 33% | 12% |
| Louisiana | 30% | 10% |
| North Carolina | 29% | 5% |
| South Carolina | 18% | 4% |
| Alabama | 11% | 3% |
| Mississippi | 11% | 4% |
| Georgia | 10% | 1% |
| Virginia | 7% | 1% |

[1] *Long-term look which would not be representative of more recent storm activity. Non-landfalling hurricanes are also impactful and are not reflected in these numbers.*

*Source Data: Colorado State University.*

# Annual Average Number of Storms by Decade

**North Atlantic Ocean**



# Regional Comparison: Key Performance Metrics

## Rank Among Fifteen Companies

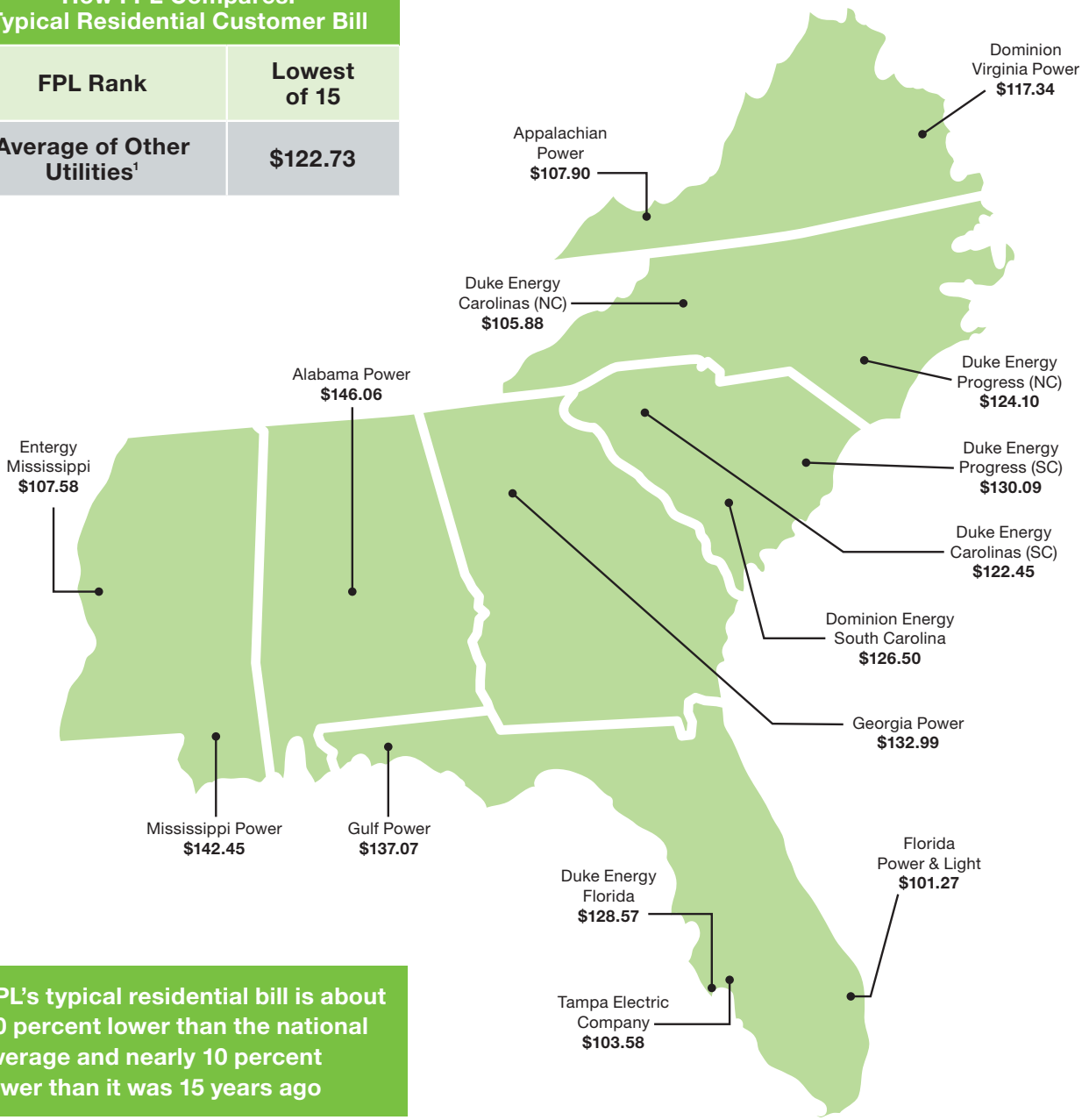
| COMPANY | TYPICAL SUMMER EEI BILL 2019 | 2019 BILL RANK | 2019 NON-FUEL O&M ($/MWH) | 2019 O&M RANK | SAIDI 2019 | 2019 SAIDI RANK | 2019 $CO_2$ RATE (LBS/MWH) | 2019 $CO_2$ RANK | CUSTOMER SATISFACTION 2020 | CUSTOMER SATISFACTION 2020 RANK |
|---|---|---|---|---|---|---|---|---|---|---|
| **Florida Power & Light Co.** | **$101.27** | **1** | **$11.16** | **1** | **51.5** | **1** | **665** | **4** | **819** | **1** |
| Tampa Electric Co. | $103.58 | 2 | $19.19 | 5 | 85.7 | 5 | 1,735 | 14 | 802 | 3 |
| Duke Energy Carolinas (NC) | $105.88 | 3 | $19.12 | 3 | 174.0 | 13 | 671 | 5 | 789 | 7 |
| Entergy Mississippi Inc. | $107.58 | 4 | $18.82 | 2 | 269.6 | 14 | 1,035 | 9 | 794 | 5 |
| Appalachian Power Co. | $107.90 | 5 | $28.53 | 14 | 382.9 | 15 | 1,771 | 15 | 736 | 15 |
| Dominion Virginia Power | $117.34 | 6 | $22.93 | 8 | 149.9 | 11 | 605 | 3 | 776 | 12 |
| Duke Energy Carolinas (SC) | $122.45 | 7 | $19.12 | 3 | 160.0 | 12 | 671 | 5 | 789 | 7 |
| Duke Energy Progress (NC) | $124.10 | 8 | $27.97 | 12 | 149.0 | 10 | 556 | 1 | 787 | 9 |
| Dominion Energy South Carolina | $126.50 | 9 | $19.53 | 6 | 77.9 | 4 | 782 | 7 | 776 | 12 |
| Duke Energy Florida Inc. | $128.57 | 10 | $25.57 | 10 | 98.0 | 6 | 1,223 | 11 | 793 | 6 |
| Duke Energy Progress (SC) | $130.09 | 11 | $27.97 | 12 | 147.0 | 9 | 556 | 1 | 787 | 9 |
| Georgia Power Co. | $132.99 | 12 | $19.57 | 7 | 141.8 | 8 | 886 | 8 | 815 | 2 |
| Gulf Power Co. | $137.07 | 13 | $25.39 | 9 | 72.5 | 2 | 1,718 | 13 | 757 | 14 |
| Mississippi Power | $142.45 | 14 | $26.49 | 11 | 76.4 | 3 | 1,037 | 10 | 777 | 11 |
| Alabama Power | $146.06 | 15 | $29.73 | 15 | 127.1 | 7 | 1,327 | 12 | 798 | 4 |
| **Average** | **$122.26** | | **$22.74** | | **144.2** | | **1,016** | | **786** | |
| **Average Excluding FPL/Gulf** | **$122.73** | | **$23.43** | | **156.9** | | **989** | | **786** | |

1. *Bill Source: EEI Typical 1,000 kWh Residential Customer Bills (Summer 2019)*
2. *O&M Source: FERC Form 1; Total Non-Fuel O&M excludes injuries and damages, pensions and benefits and other power supply expenses Retail MWh's only includes Residential, Commercial, Industrial; FERC Form 1 Accts: 440 & 442; For FPL only, one-time storm costs are excluded; Dominion Virginia Power excludes $1.1 billion one-time costs related to early coal plant retirements*
3. *SAIDI Source: Based on PA Consulting most recent reliability benchmarking analysis (2019 SAIDI Distribution values), which are calculated using the IEEE 2.5 beta methodology*
4. *$CO_2$ Source: EPA and DOE data from Hitachi ABB Velocity Suite query on 5/4/20*
5. *Satisfaction Source: Average of residential and commercial scores; https://www.jdpower.com/business/press-releases/2020-electric-utility-residential-customer-satisfaction-study https://www.jdpower.com/business/press-releases/2020-electric-utility-business-customer-satisfaction-study; Mississippi Power only as residential scores*
6. *Duke Energy Progress and Duke Energy Carolinas O&M, Customer Satisfaction and $CO_2$ figures are reported on a consolidated basis*
7. *Dominion Virginia Power and Dominion Energy South Carolina Customer Satisfaction figures are reported on a consolidated basis*

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

**Edison Electric Institute data for Summer 2019**

| How FPL Compares: Typical Residential Customer Bill | |
|---|---|
| **FPL Rank** | **Lowest of 15** |
| **Average of Other Utilities[1]** | **$122.73** |



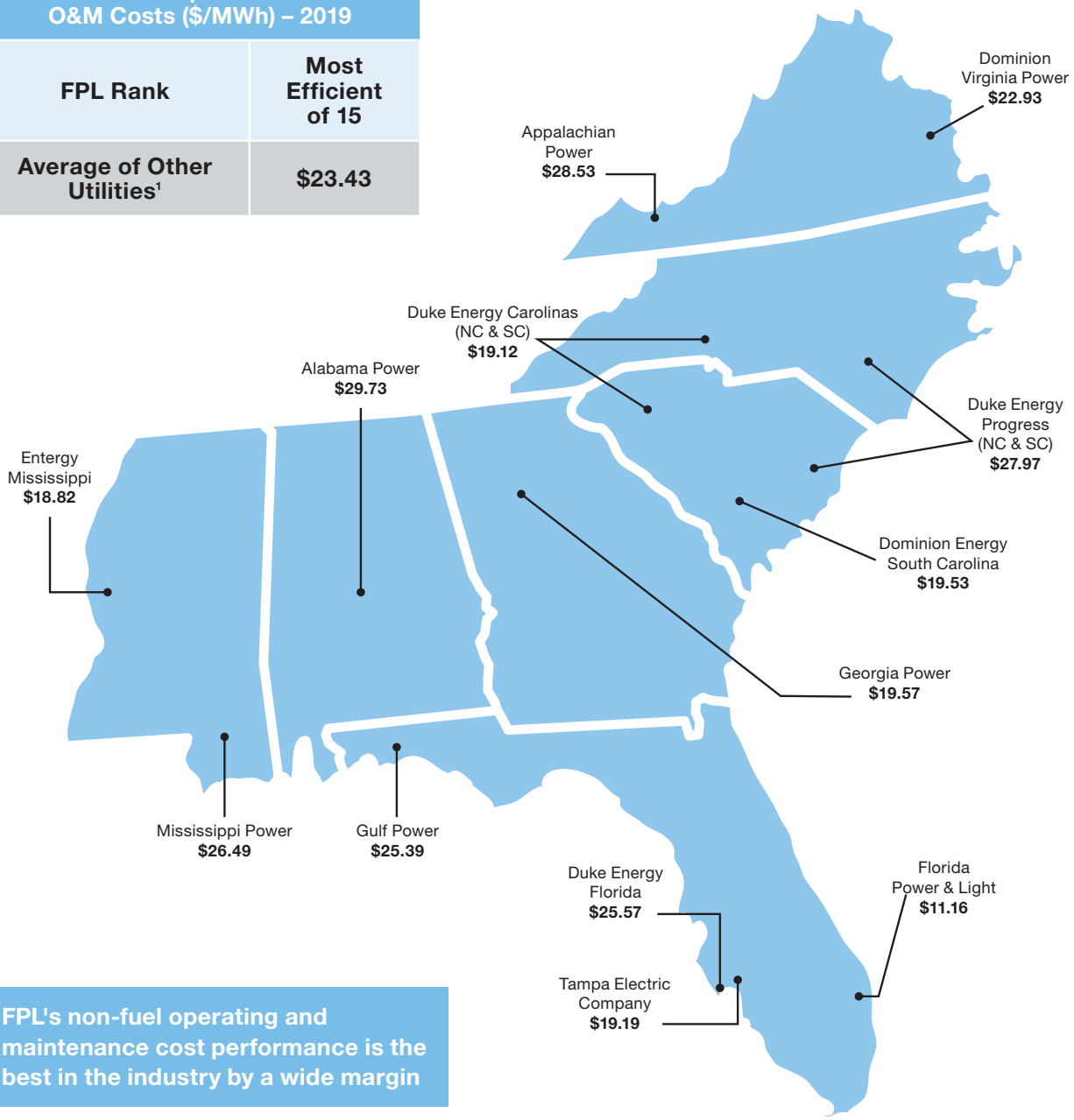

**FPL's typical residential bill is about 30 percent lower than the national average and nearly 10 percent lower than it was 15 years ago**

[1] *Average excludes FPL and Gulf Power*

# Regional Comparison: Operational Efficiency

## Non-Fuel Operations & Maintenance Costs – 2019

| How FPL Compares: Non-Fuel O&M Costs ($/MWh) – 2019 | |
|---|---|
| **FPL Rank** | **Most Efficient of 15** |
| **Average of Other Utilities[1]** | **$23.43** |



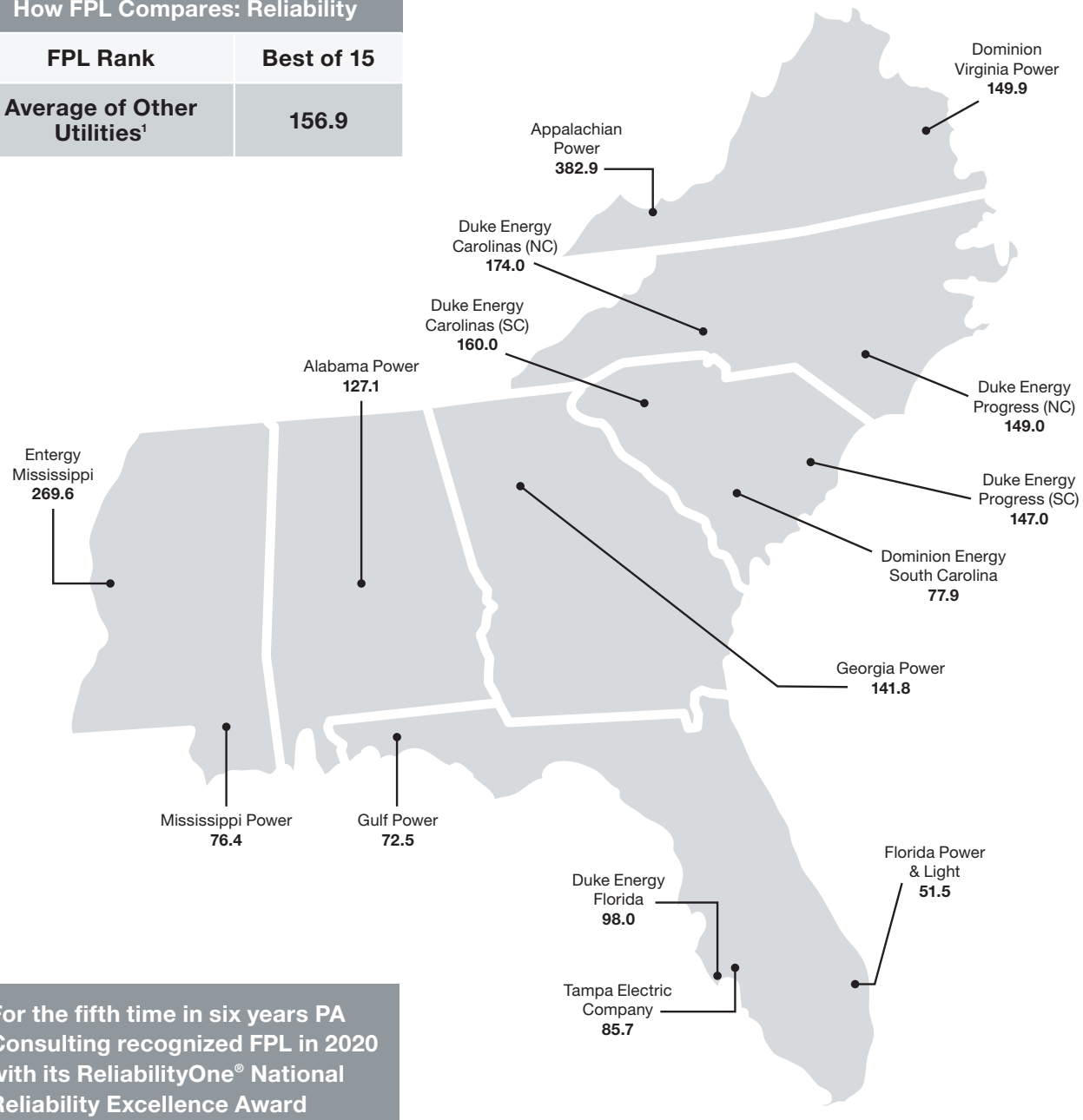

**FPL's non-fuel operating and maintenance cost performance is the best in the industry by a wide margin**

[1] *Average excludes FPL and Gulf Power*

# Regional Comparison: Reliability

**PA Consulting Group SAIDI data for 2019**

| How FPL Compares: Reliability | |
|---|---|
| **FPL Rank** | **Best of 15** |
| **Average of Other Utilities[1]** | **156.9** |



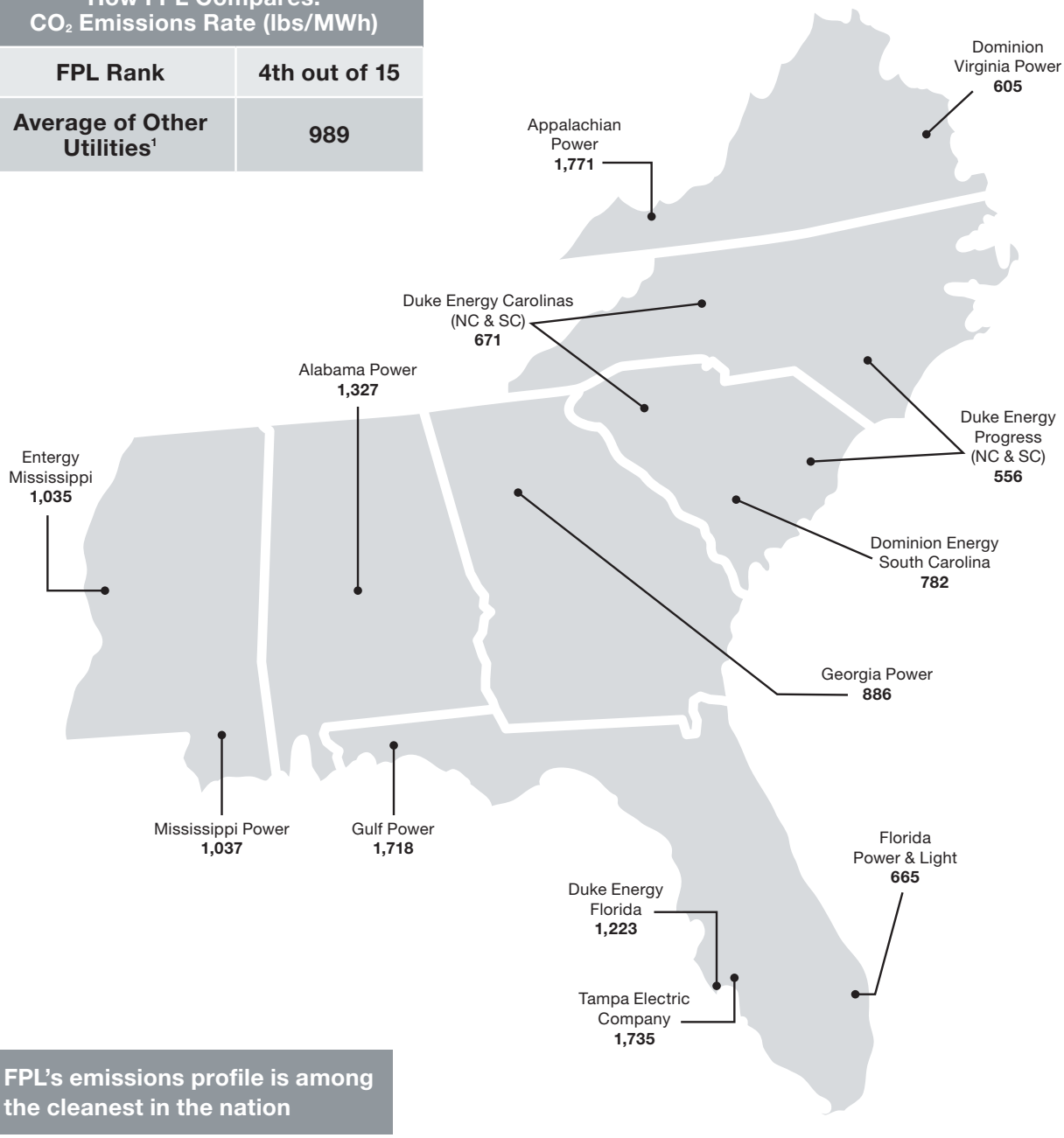

**For the fifth time in six years PA Consulting recognized FPL in 2020 with its ReliabilityOne® National Reliability Excellence Award**

[1] *Average excludes FPL and Gulf Power*

# Regional Comparison: Carbon Emissions Rate

**$CO_2$ Emissions Rate – 2019**

| How FPL Compares: $CO_2$ Emissions Rate (lbs/MWh) | |
|---|---|
| **FPL Rank** | **4th out of 15** |
| **Average of Other Utilities[1]** | **989** |



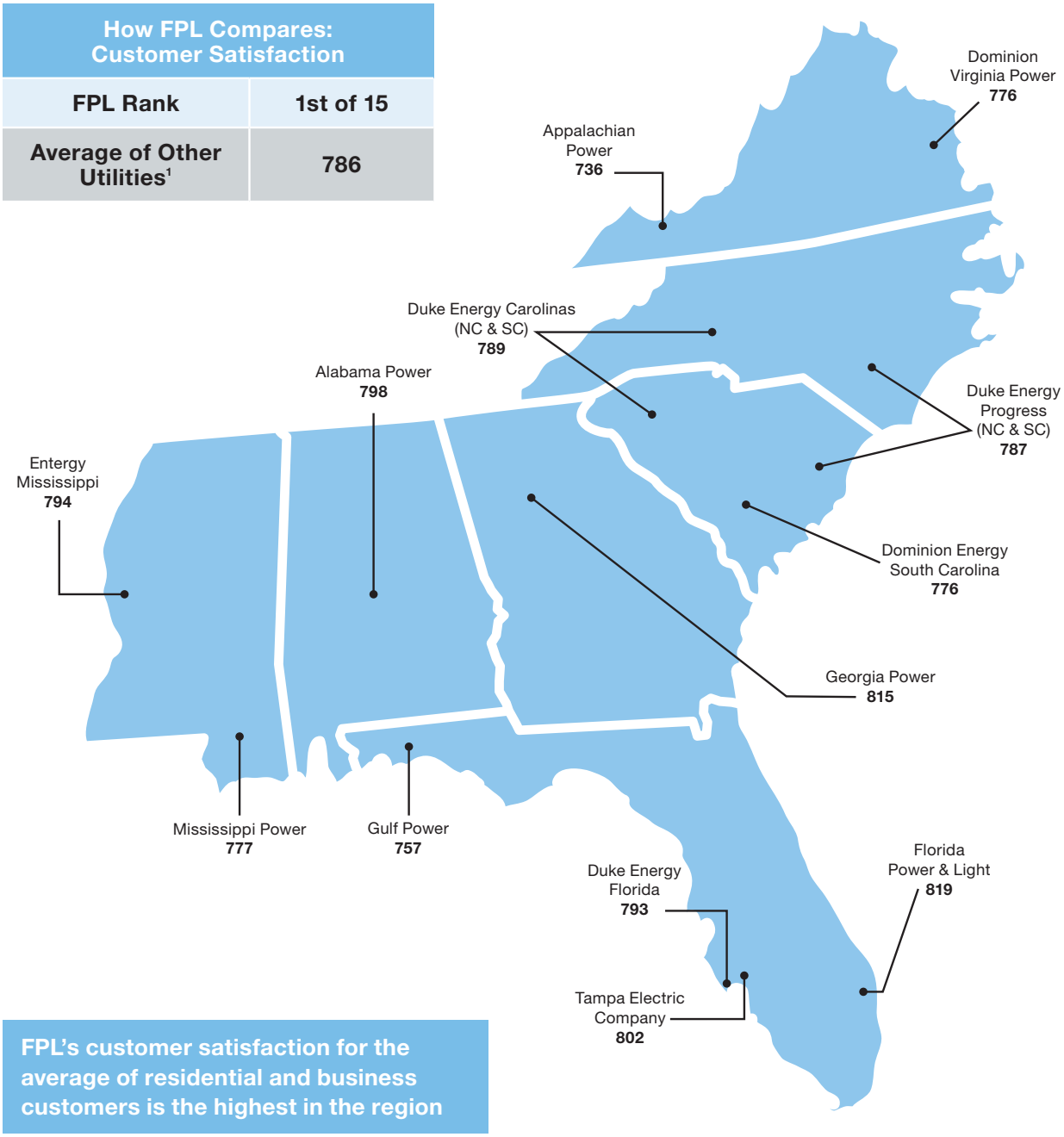

**FPL's emissions profile is among the cleanest in the nation**

[1] *Average excludes FPL and Gulf Power*

# Regional Comparison: Customer Satisfaction

**Customer Satisfaction is an average of residential and commercial scores**

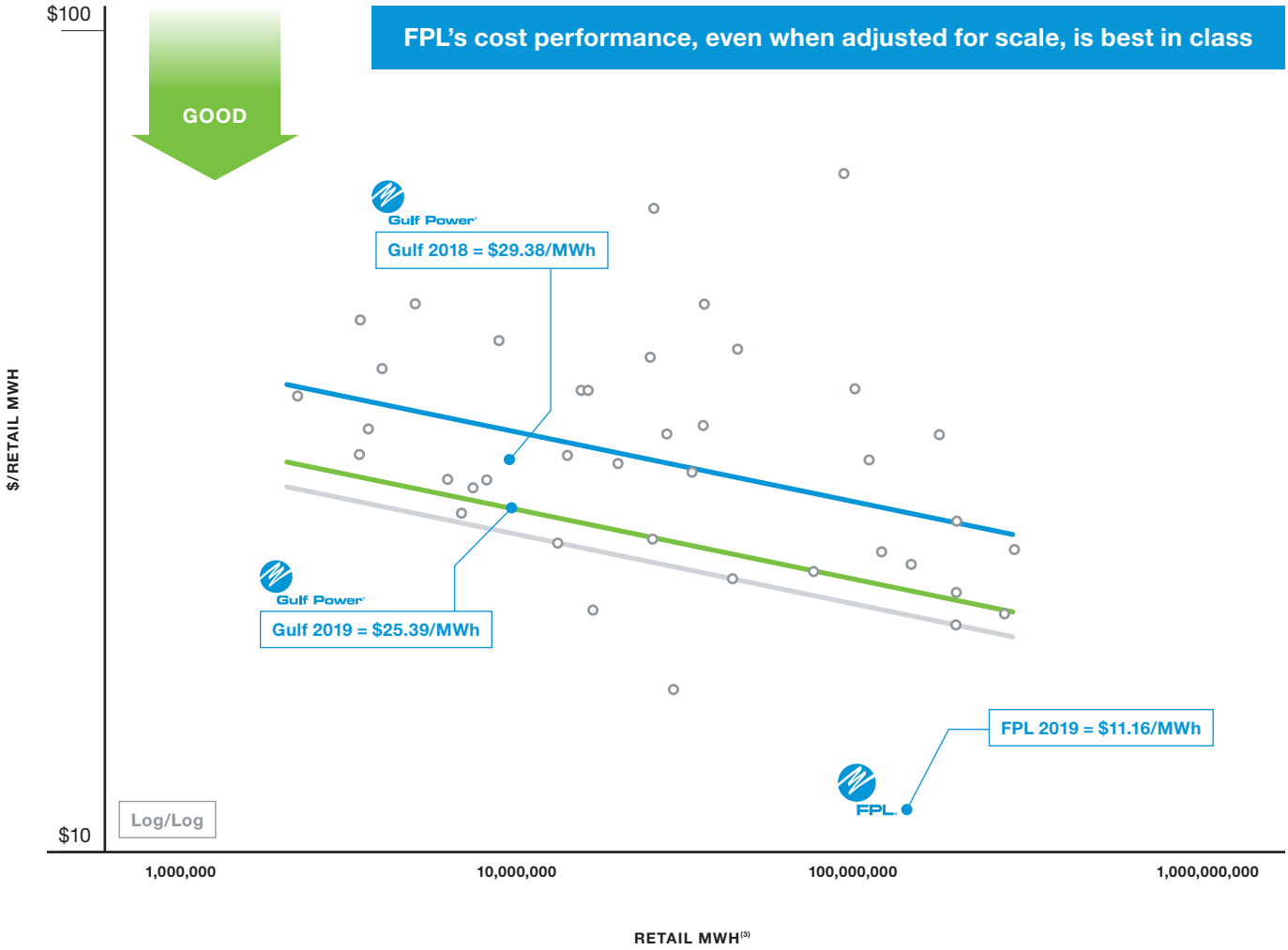
| How FPL Compares: Customer Satisfaction | |
|---|---|
| **FPL Rank** | **1st of 15** |
| **Average of Other Utilities[1]** | **786** |




**FPL's customer satisfaction for the average of residential and business customers is the highest in the region**

[1] *Average excludes FPL and Gulf Power*

# 2019 Total Non-Fuel O&M per Retail MWh[1,2]




1. *Source: FERC Form 1, 2019. Total Non-Fuel O&M excludes injuries and damages, pensions and benefits and other power supply expenses. For FPL only, one-time storm costs are excluded. Dominion Virginia Power excludes $1.1 billion one-time costs related to early coal plant retirements.*

2. *Peer Group includes holding companies with over 10% generation MWh's and over 100,000 customers. Reference utility list in appendix*

3. *Retail MWh's only includes Residential, Commercial, Industrial. FERC Form 1 Accts: 440 & 442*

# Storm Cost Recovery Mechanism ("SCRM")

**Until the effective date of new base rates established through a general base rate proceeding, FPL will be permitted to recover prudently incurred storm costs through the SCRM described below:**

1. Recovery of storm costs from customers will begin, on an interim basis, sixty days following the filing of a cost recovery petition and tariff with the Commission.
2. Consistent with the rate design method approved in this base rate petition, the storm cost recovery ("Storm Surcharge") will be based on a 12-month recovery period if the estimated storm costs do not exceed $4.00/1,000 kWh on monthly residential customer bills.
3. In the event the storm costs exceed that level, any additional costs in excess of $4.00/1,000 kWh may be recovered in a subsequent year or years as determined by the Commission.
4. All storm related costs subject to interim recovery under the SCRM will be calculated and disposed of pursuant to Commission Rule 25-6.0143, F.A.C., and will be limited to costs resulting from a tropical system named by the National Hurricane Center or its successor, to the estimate of incremental costs above the level of storm reserve prior to the storm and to the replenishment of the storm reserve to $150 million.
    a. *If the Commission does not approve the unification of rates for FPL and Gulf, FPL proposes a replenishment amount of $114 million consistent with its 2016 Settlement Agreement, Commission Order No. PSC-16-0560-AS-EJ.*
    b. *If the Commission does not approve the unification of rates for FPL and Gulf, Gulf proposes a replenishment of $40 million consistent with its 2016 Settlement Agreement, Commission Order No. PSC-17-0178-5-EI.*
5. The $4.00/1,000 kWh cap in (2) above will apply in aggregate for a calendar year for the purpose of the interim recovery; provided, however, that FPL may petition the Commission to allow FPL to increase the initial 12 month recovery beyond $4.00/1,000 kWh in the event FPL incurs in excess of $800 million of storm recovery costs that qualify for recovery in a given calendar year, inclusive of the amount needed to replenish the storm reserve to the level in (4) above.
6. Any proceeding to recover costs associated with any storm shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of the Company and shall not apply any form of earnings test or measure or consider previous or current base rate earnings or the remaining unamortized Reserve Amount defined in the Reserve Surplus Amortization Mechanism contained in Exhibit REB-11.

# Reserve Surplus Amortization Mechanism

1. The 2016 Settlement Agreement, approved in FPSC Order No. PSC-16-0560-AS-EI, established a Reserve Amount of up to $1.0 billion plus the reserve amount remaining at December 31, 2016 from the 2012 Settlement Agreement. The final amount remaining was $250 million resulting in a total Reserve Amount of $1.25 billion.
2. The Reserve Amount requested in this petition is approximately $1.48 billion including the approximately $340 million reserve amount estimated to be remaining at December 31, 2021 from the 2016 Settlement Agreement.
3. The Reserve Amount is reflective of depreciation reserve surplus shown on Exhibit KF-3(B) sponsored by FPL witness Ferguson.
4. During January 1, 2022 to December 31, 2025, ("Term"), FPL may amortize any of the Reserve Amount, at its sole discretion, subject to the following:
    a. The amount to be amortized during the Term will be not less than the amount remaining at December 31, 2021.
    b. For any ESR submitted by FPL during the Term for which its Return on Equity on an FPSC Adjusted Basis ("Regulatory ROE") would otherwise fall below 10.5 percent, FPL must amortize at least the amount of the Reserve Amount, if available, required to achieve a Regulatory ROE of 10.5 percent.
    c. FPL may not amortize any Reserve Amount during any twelve-month period that would cause its Regulatory ROE in an ESR to exceed 12.5 percent.
    d. FPL must debit depreciation expense and credit the depreciation reserve[1] in an amount to cause FPL not to exceed a Regulatory ROE of 12.5 percent in any ESR unless such credit to the depreciation reserve would result in FPL exceeding the Reserve Amount of $1.48 billion. If such credit would result in FPL exceeding the Reserve Amount of $1.48 billion, the provisions of paragraph 5 apply.
    e. FPL may record credits to depreciation expense and debits to depreciation reserve, or debits to depreciation expense and credits to depreciation reserve in any period at its sole discretion subject to the conditions set forth in 4(a), 4(b), 4(c), and 4(d).
5. If, in any period during the Term, a debit to depreciation expense is required to keep FPL from exceeding a Regulatory ROE of 12.5 percent, and such debit would result in the Reserve Amount exceeding $1.48 billion, FPL will do the following:
    a. FPL will first record a debit to depreciation expense and a credit to depreciation reserve such that the Reserve Amount is $1.48 billion.
    b. Whatever debit remains to comply with paragraph 4(d) will be recorded to amortize the regulatory assets identified in the Capital Recovery Schedules ("Capital Recovery Assets") shown on Exhibit KF-4 sponsored by FPL witness Ferguson.
    c. In December of each year during the Term, FPL will adjust the prospective amortization expense for the Capital Recovery Assets for the remainder of the Term such that the total amortization expense for the Term equals $512 million which is the sum of the 2022-2025 amortization expense shown on Exhibit KF-4 sponsored by FPL witness Ferguson.
6. FPL cannot petition for a general increase to base rates during the Term unless the Regulatory ROE falls below 10.5 percent and the Company has recorded a cumulative amount of credits to amortization expense equaling the Reserve Amount.
7. The RSAM will remain available for use by the Company until the effective date of new base rates established in a general base rate proceeding.

[1] *For purposes of the RSAM, the Reserve Amount would be adjusted through the cost of removal component of the depreciation reserve*

# Solar Base Rate Adjustment ("SoBRA") Mechanism

1. For purposes of cost recovery set forth herein and referred to as a Solar Base Rate Adjustment ("SoBRA"), FPL may build solar generation projects in 2024 and 2025, at a $1,250/kWac recovery cost cap (the "SoBRA Recovery Cost Cap") and a "not to exceed" SoBRA nameplate capacity limit of 1,788 $MW_{AC}$ for installations in 2024 and 2025 combined, with no more than 894 $MW_{AC}$ for 2024, including the ability to carryover to 2025 any megawatts that do not come into service in 2024. FPL may add battery storage to any of the SoBRA projects provided that the combined solar plus storage will be subject to the SoBRA Recovery Cost Cap and the cost-effectiveness condition in paragraph (2), assuming that solar plus storage was cost effective against solar alone.

2. FPL will present its revenue requirement calculations at the time it makes its projection filing in the Fuel and Purchased Power Cost Recovery Clause Docket the year prior to the solar project's expected in-service date. In that proceeding, the Commission will determine whether the solar project lowers FPL's projected system Cumulative Present Value Revenue Requirement ("CPVRR") compared to the projected system CPVRR without the project, consistent with the methodology used in FPL's 2016 Settlement Agreement and FPL's previous SoBRA filings approved in Commission Orders No. PSC-2018-0028-FOF-EI, PSC-2018-0610-FOF-EI and PSC-2019-0484-FOF-EI. The Commission also will approve the revenue requirements and the appropriate percentage increase in base rates needed to collect the estimated revenue requirements ("SoBRA Factor").

3. The SoBRA revenue requirement is intended to recover the incremental jurisdictional revenue requirement based on the first 12 months of solar facility operations beginning on the date the project is placed in-service, and the revenue requirement computations for the 2024 and 2025 SoBRAs will be based on the following: (1) estimated capital expenditures for each solar project, (2) estimated depreciation expense and related accumulated depreciation calculated using FPL's most recently approved depreciation rates for solar generation and transmission plant, and (3) estimated operating expenses.

4. The revenue requirements will be calculated using FPL's approved midpoint ROE, an incremental capital structure based on investor sources that is adjusted to reflect the inclusion of investment tax credits on a normalized basis and the depreciation-related accumulated deferred income tax proration adjustment that is required by Treasury Regulation §1.167(1)-1(h)(6).

5. The SoBRA Factor is based on the ratio of projected jurisdictional annual revenue requirements of the SoBRA project and the projected retail base revenues from the sales of electricity during the first 12 months of operation. The corresponding fuel savings associated with the SoBRA project will be reflected in the fuel factors effective upon the in-service date. The SoBRAs, once approved by the Commission, will be implemented on the first billing cycle day following commercial operation, by adjusting Base Charges (base charge, energy charge, demand charge) by an equal percentage.

# Solar Base Rate Adjustment ("SoBRA") Mechanism

6. In the event that actual capital costs are lower than the estimated capital costs reflected in the initial SoBRA revenue requirement filing, FPL will calculate a final SoBRA revenue requirement based on the same inputs and methodology used for the initial SoBRA revenue requirement, except the calculation will be updated with actual capital expenditures. The difference between the cumulative base revenues since the implementation of the initial adjustment and the cumulative base revenues that would have resulted if the revised adjustment had been in place during the same time period will be credited to customers through the Capacity Cost Recovery Clause CRC with interest at the 30-day commercial paper rate as specified in Rule 25-6.109. In addition, on a going forward basis, base rates will be adjusted to reflect the revised SoBRA factor.

7. In the event that actual capital costs for the 2024 and 2025 solar generation projects are higher than the projection on which the revenue requirements are based or the SoBRA Recovery Cost Cap, FPL would include the incremental costs in its monthly earnings surveillance report and reflect these costs in its next base rate proceeding.