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**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 Rebuttal Testimony and Exhibits of FPL witness Robert E. Barrett.

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

(Document 15 of 15)

Sincerely,

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

RWL:ec
Attachment
cc: Counsel of Record

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF ROBERT E. BARRETT**

4 **DOCKET NO. 20210015-EI**

5 **JULY 14, 2021**

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1 **I. INTRODUCTION**

2

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

4 A. My name is Robert E. Barrett. My business address is Florida Power & Light

5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

6 **Q. Have you previously submitted direct testimony in this proceeding?**

7 A. Yes.

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

9 A. Yes. I am sponsoring the following rebuttal exhibits:

10 • REB-13 Business Risk Comparison

11 • REB-14 Effect of Intervenors' Recommendations on Moody's Credit

12 Rating Triggers

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

14 A. The purpose of my rebuttal testimony is to respond to intervenors' positions on

15 the following Florida Power & Light Company ("FPL" or the "Company")

16 issues:

17 • FPL's Four-Year Rate Plan [Office of Public Counsel ("OPC")-Smith -

18 McCullar, -Lawton; Florida Industrial Power Users Group ("FIPUG")-

19 Pollock, -LaConte; Floridians Against Increased Rates ("FAIR")-

20 Devlin, Herndon; Florida Retail Federation ("FRF")-Georgis]

21 • Reserve Surplus Amortization Mechanism ("RSAM") [OPC-Lawton,

22 Smith; FIPUG-Pollock; FRF-Georgis; FAIR-Devlin, Herndon, Mac

23 Mathuna]

1 • Solar Base Rate Adjustment ("SoBRA") [Walmart Inc. ("Walmart") –
2 Chriss, League of United Latin American Citizens of Florida
3 ("LULAC")/Environmental Confederation of Southwest Florida
4 ("ECOSWF")/Florida Rising – Rábago]
5 • Financial strength [OPC-O'Donnell; FAIR-Mac Mathuna; Federal
6 Executive Agency ("FEA")-Gorman]
7 • FPL's risk profile [FIPUG-LaConte; FAIR-Mac Mathuna]
8 • Capital structure and cost of debt [OPC-O'Donnell, -Lawton; FEA-
9 Gorman]
10 • Return on equity ("ROE") [OPC - Woolridge, Walmart - Chriss, FEA -
11 Gorman, FIPUG - LaConte, FAIR - Mac Mathuna, Herndon, Florida
12 Rising – Rábago]
13 • ROE performance incentive [OPC-Lawton, -O'Donnell; FAIR-
14 Herndon; Walmart-Chriss, Florida Rising-Rábago, Vote Solar/CLEO
15 Institute -Whited]
16 • Storm Cost Recovery Mechanism ("SCRM") [OPC-Smith, FAIR-Mac
17 Mathuna]
18 **Q. Please summarize your rebuttal testimony.**
19 A. FPL has for many years, across several multi-year rate periods, delivered the
20 best customer value proposition in the industry. FPL proposes in this petition
21 to again deliver a multi-year period of rate certainty and stability for customers.
22 This proposed Four-Year Rate Plan is predicated on several core elements.
23 Several intervenor witnesses not only oppose each of these core elements, but

1 they also openly oppose FPL's Four-Year Rate Plan itself. The primary point
2 of contention seems to be that the Florida Public Service Commission
3 ("Commission") should look ahead just one year at a time. As described in both
4 my and other FPL witnesses' direct testimony, the Commission's support of
5 several prior multi-year rate settlements, underpinned by the same core
6 elements presented in this case, has produced the regulatory stability necessary
7 for FPL to execute its strategy that creates FPL's industry-leading customer
8 value proposition. This would not have been possible if the Company, the
9 Commission, and the intervenors who have been parties to those settlements,
10 had been constrained to one-year-at-a-time rate making. By the nature of this
11 business, substantial improvements require strategic execution across extended
12 periods of regulatory and rate certainty, for which a single year or even a few
13 years typically is not sufficient, especially with the inefficiencies introduced by
14 more frequent rate proceedings. The evidence of the superiority of FPL's
15 strategy is overwhelming. The Commission should find that FPL's Four-Year
16 Rate Plan, and each individual component, are in the public interest, will
17 produce rates that are fair, just and reasonable, and will position the Company
18 to continue its strategy of continuous improvement.
19
20 Intervenor witnesses are most vociferous in their opposition to the RSAM, one
21 of the core elements of the Four-Year Plan. RSAM has been a primary enabler
22 of multi-year agreements that FPL has used to defer the need for cash revenue
23 increases and thereby saved customers from those rate increases. Moreover,

1 the multi-year agreements have been used by FPL to drastically improve the
2 cost position of the Company and make capital investments to the benefit of
3 customers – benefits they realize through lower customer bills, high reliability,
4 low emissions and high customer satisfaction. And yet now, surprisingly,
5 intervenors are challenging the very mechanism that has enabled these strong
6 customer results. Opposition to the RSAM is opposition to the Four-Year Rate
7 Plan and to FPL's strategy that has delivered such strong value for customers.
8
9 Intervenors also oppose FPL's proposed SoBRA mechanism – another core
10 component of FPL's Four-Year Rate Plan. The SoBRA mechanism allows for
11 a limited base rate increase for solar facilities added in 2024 and 2025 that are
12 demonstrated to be cost-effective for customers. The principal opposition to
13 SoBRA is that 2024 and 2025 are too far into the future to be considered in this
14 rate case. Yet, just like the past SoBRA mechanism approved as part of the
15 prior multi-year plan, the solar installations will only be constructed if they
16 provide demonstrable CPVRR benefits for customers. This is another example
17 of the myopic view of the intervenors who fail to recognize or acknowledge the
18 value to customers of a multi-year period of rate certainty and stability.
19
20 FPL's superior customer value proposition is built upon a foundation of
21 financial strength. For many years, FPL's strategy has been to deploy a stronger
22 than average capital structure that has time and again proven to provide tangible
23 benefits to customers as the Company has maintained access to capital at

1 reasonable rates and been able to deliver strong results for customers.
2 Similarly, FPL has provided appropriate returns for investors that have caused
3 them to continue to commit capital to the Company to pursue its value-creation
4 strategy. The intervenors, taking largely the same positions they have taken in
5 past cases, completely miss the comprehensive nature of FPL's strategy and
6 ignore the results that approach has produced for customers. The intervenors
7 are missing the point that the successful strategy depends on each of the
8 elements working together to provide superior value for customers.
9
10 Intervenor witnesses have engaged in a speculative exercise of cost of capital
11 minimization through arbitrary reductions in equity ratio and ROE, in contrast
12 to FPL's focus on delivering industry leading value for customers across all the
13 metrics that matter. Intervenors implicitly deny, or explicitly minimize the real-
14 world consequences of the implementation of their recommendations. The
15 reality is rating agencies would react swiftly and investors would recoil at the
16 implications of intervenors' recommendations if the Commission were to
17 follow through on those actions.
18
19 The intervenor witnesses also propose denial of FPL's ROE Performance
20 Incentive as inappropriate on the basis of an unsupported and non-sensical
21 contention that superior performance should be the required or expected
22 regulatory standard. Others argue that FPL is asking for an incentive for past
23 performance or that no standards of performance have been identified. Both of

1 these assertions are unfounded. FPL is asking the Commission to recognize its
2 current level of performance and the value that affords customers, and to
3 recognize the expectation of the continuation of that superior level of
4 performance. As to performance standards, across the many metrics that are
5 important to customers (outlined on Exhibit REB-8) FPL stands among the best.
6
7 Intervenors also suggest that if accepted, FPL's SCRM should be modified to
8 place restrictions on the Company. FPL is proposing to implement the SCRM,
9 as it has for more than ten years, to the benefit of customers. The intervenors'
10 proposed modifications are unnecessary.
11
12 **II. FOUR-YEAR RATE PLAN**
13
14 **Q. Are intervenor witness recommendations consistent with FPL being able**
15 **to provide rate stability and other benefits of the Four-Year Rate Plan?**
16 A. No. Intervenor witness testimony ranges from direct attacks on the concept of
17 a four-year plan – apparently preferring instead a series of annual base rate
18 proceedings – to indirect and perhaps even inadvertent attacks on FPL's Four-
19 Year Plan by proposing to eliminate or substantially modify key elements of
20 that plan.
21
22

1 **Q. As a matter of regulatory policy, should the Commission consider FPL's**
2 **Four-Year Rate Plan to be good for customers and in the public interest?**
3 A. Yes. FPL has operated under six multi-year plans for more than two decades
4 and the results for customers have been nothing short of remarkable. The fact
5 that these plans have resulted from settlement agreements does not invalidate
6 their substantial benefits or, as some would appear to contend, the elements of
7 those plans that produced the benefits. Despite the preference of OPC witness
8 Smith for one-year "conventional rate cases," multi-year plans offer rate
9 certainty and stability for customers, and importantly they allow the company
10 the opportunity to continue to improve the value delivered to customers during
11 a period of regulatory stability. Over these many multi-year periods, FPL has
12 driven its performance to the top of the industry across the metrics that matter
13 most to customers – low bills, high reliability, low emissions, and good
14 customer service.
15
16 Over the long term, *all* the benefits that FPL manages to create through its
17 productivity improvement efforts flow to customers. The implicit assumption
18 underpinning intervenor witnesses' arguments - that FPL would be delivering
19 the exact same performance today if it had been required to submit annual rate
20 cases is unsupported by any evidence and is in fact flat wrong. The Commission
21 has all the information in this proceeding that it has had when deciding that
22 multi-year plans make sense for customers and the Company. I believe the

1 Commission should affirm FPL's Four-Year Rate Plan as resulting in fair, just
2 and reasonable rates and in the public interest.
3 **Q. Does the approval of FPL's Four-Year Rate Plan in any way diminish the**
4 **Commission's jurisdictional authority to regulate FPL's rates, earnings**
5 **levels, or quality of service?**
6 A. Absolutely not. While FPL's proposal represents a commitment by the
7 Company it in no way diminishes the oversight and regulatory authority of the
8 Commission. As a primary example of this, FPL will continue to file the
9 required earnings surveillance reports ("ESR") on a monthly basis. Through
10 these reports the Commission will ensure that FPL is operating within the terms
11 of the approved plan and can initiate an earnings investigation when
12 appropriate. This process has efficiently and effectively served to protect
13 customers and the Company during multi-year rate plans and "stay outs," and
14 it will serve the same function during the term of the four-year rate plan being
15 proposed in this proceeding.
16
17 **III. RESERVE SURPLUS AMORTIZATION MECHANISM**
18
19 **Q. Regarding opposition to the RSAM among intervenor witnesses (OPC-**
20 **Lawton, Smith; FIPUG-Pollock; FRF-Georgis; FAIR-Devlin), please**
21 **summarize your reaction.**
22 A. In general, intervenor witnesses dismiss the significant value to customers of
23 FPL's Four-Year Rate Plan enabled by FPL's proposed RSAM and other core

1 components. They seem most offended that FPL has been able to earn near the
2 top of its ROE range despite the value provided to customers and they
3 mischaracterize FPL's earnings as having been primarily, even solely, due to
4 its RSAM utilization over the past several agreements. What they have
5 mischaracterized or simply failed to acknowledge is that the multi-year rate
6 plans, enabled by an RSAM, have allowed FPL to focus on being the best
7 performer among its peers delivering significant value to customers in the form
8 of low bills, high reliability, low emissions and strong customer satisfaction.

9 **Q. If the Commission does not approve the proposed RSAM, including the**
10 **RSAM depreciation parameters and corresponding Reserve Amount,**
11 **what would occur?**

12 A. Very simply, FPL would not be able to commit to its Four-Year Rate Plan.
13 Presumably this outcome would mean the Commission would approve new
14 base rates for 2022 and 2023, which likely would require FPL to file another
15 base rate petition in 2023 for new cash-based rates effective in 2024. In
16 opposing the RSAM, intervenors essentially are opposing the Four-Year Rate
17 Plan; that may be intentional on the part of some and inadvertent on the part of
18 others, but that is the result.

19

20

21

22

1 **Q. Please provide a general illustration of the relative difference in revenue**
2 **requirements that customers are likely to experience as between the**
3 **Company's proposed Four-Year Rate Plan and an outcome where RSAM**
4 **is not approved resulting in additional rate proceedings during this four-**
5 **year period.**

6 A. Based on the revenue requirements of the Company's Four-Year Rate Plan
7 (2022 and 2023 as filed and an estimate of 2024 and 2025 as reflected on
8 Exhibit SRB-12) below represents an approximate view of the impact on
9 customers of not approving the Four-Year Rate Plan:

10 - Cash rates would be approximately $200 million higher each of the four
11 years due to the non-RSAM depreciation rates, cumulatively about $800
12 million;
13 - A cash base rate increase of approximately $552 million is estimated to be
14 required in 2024 ($412 million general increase in addition to the $140
15 million for solar facilities placed in service in 2024), cumulatively
16 approximately $824 million additional cash revenues for 2024 and 2025;
17 and
18 - A cash base rate increase of approximately $572 million is estimated to be
19 required in 2025 ($432 million incremental general increase in addition to
20 the $140 million for solar facilities placed in service in 2025).
21
22 Overall, the net cumulative increase in cash paid by customers over the four
23 years 2022-2025 would be more than $2 billion.

1 Additionally, customers would be accepting the risk of the impact of higher
2 inflation and interest rates when FPL files another rate case in 2023 for rates
3 effective in 2024. FPL's Four-Year Rate Proposal, enabled by the RSAM,
4 delivers bill certainty and significantly lower rates for customers over the 2022-
5 2025 period.

6 **Q. What intervenors have previously signed on, or have indicated a position**
7 **of non-opposition, to multi-year rate agreements that have included the**
8 **RSAM?**

9 A. The following intervenors have previously signed on to FPL's multi-year rate
10 agreements: OPC, Office of the Attorney General, FIPUG, FRF, FEA, the
11 South Florida Hospital and Healthcare Association ("SFHHA"), the Associated
12 Industries of Florida ("AIF"). Additionally, Walmart did not oppose the 2016
13 multi-year rate agreement.

14 **Q. Please identify a few of the more significant benefits that customers have**
15 **realized over the course of the last few multi-year plans that have included**
16 **the RSAM?**

17 A. In addition to the already mentioned deferral of cash rate increases enabled by
18 prior multi-year plans, the extended period of rate certainty has enabled FPL to
19 continue to improve its customer value proposition through lower operating
20 costs, improved service reliability, improved customer service experience, and
21 a cleaner emissions profile. Examples include:

1 • Non-fuel operating costs that are roughly $2.6 billion lower than industry-
2 average performance would have produced (equivalent to about $300
3 annual savings on a residential customer's bill);
4 • Customer interruptions as measured by SAIDI are 58 percent better than the
5 national average; and
6 • Emissions profile among the best in the nation.

7 **Q. Why has FPL been able to earn at or near the top of its authorized range**
8 **over the course of the last three multi-year rate plans?**

9 A. As discussed more fully by FPL witness Bores in his rebuttal testimony, FPL
10 has been able to earn at or near the top of its authorized ROE range over the
11 course of the last three multi-year rate plans largely due to the Company's focus
12 on continually driving productivity improvements in its cost structure. Having
13 multi-year periods during which the Company can focus its efforts on cost and
14 service quality improvement, rather than filing and defending rate cases, has
15 been pivotal in improving all aspects of the business for the benefit of customers
16 as well as profitability for the Company.
17
18 As shown in Table 1 below, from Exhibit SRB-13, over the 2017-2021
19 settlement period FPL's superior cost management performance produced more
20 than $1.1 billion in non-fuel O&M savings. That level of cost performance
21 delivered about 90 basis points of the 95-basis points improvement to FPL's
22 ROE above its midpoint on average. Those savings were the driving reason

1 FPL was able to earn at the top of its range, not the RSAM as contended by

2 several intervenor witnesses.

3

4 **Table 1. O&M Management Contribution to Earned ROE**

| | ROE (%) | | | O&M ($ Millions) | | | ROE Improvement | |
|---|---|---|---|---|---|---|---|---|
| Year | Actual | Mid-Point | Diff | Estimated | Actual | Diff | O&M | Surplus & Other |
| 2017 | 11.08% | 10.55% | 0.53% | 1,420 | 1,325 | (95) | 0.48% | 0.04% |
| 2018 | 11.60% | 10.55% | 1.05% | 1,472 | 1,262 | (210) | 0.96% | 0.09% |
| 2019 | 11.60% | 10.55% | 1.05% | 1,501 | 1,216 | (285) | 1.17% | -0.12% |
| 2020 | 11.60% | 10.55% | 1.05% | 1,531 | 1,236 | (295) | 1.08% | -0.03% |
| 2021 | 11.60% | 10.55% | 1.05% | 1,562 | 1,311 | (250) | 0.83% | 0.22% |
| Average | 11.50% | | 0.95% | | | (1,136) | 0.90% | 0.04% |

5

6

7 **Q. What are your conclusions regarding the intervenors' arguments against**

8 **FPL's proposed RSAM?**

9 A. The intervenors' opposition to FPL's proposed RSAM seems to range from

10 technical accounting arguments, among which even they do not all agree, and

11 a general proposition that FPL has benefitted at the expense of customers. This

12 zero-sum thinking completely ignores that RSAM has enabled multi-year rate

13 agreements that have allowed FPL to deliver superior performance and the best

14 customer value proposition in the industry – truly a win-win situation.

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## IV. SOLAR BASE RATE ADJUSTMENT

**Q. Is FPL seeking Commission approval at this time for $140 million in each of 2024 and 2025 through the requested SoBRA mechanism for PV facilities expected to go into service in those years?**

A. No. FPL's Four-Year Rate Plan seeks Commission approval for the use of the SoBRA mechanism to calculate the base revenue requirements associated with 894 MW of PV facilities in each of 2024 and 2025. Those base revenue requirements currently are estimated to be approximately $140 million in each year; however, they will be updated as part of the approval process discussed by FPL witness Valle and subsequently trued up based on the actual construction costs subject to the proposed cap of $1,250/kWac of nameplate capacity installed.

**Q. Should the fact that the SoBRA mechanism relates to future rate periods marked by revenue and expense uncertainty be a cause for concern?**

A. No. It is correct that the requested SoBRA increases relate to the future periods 2024 and 2025; however, it does not follow that the requested increases, if shown to be cost-effective for customers, should not be granted as part of FPL's Four-Year Rate Plan. Integral to the Four-Year Rate Plan is FPL's commitment to not seek a general base rate increase in 2024 or 2025. The SoBRA limited scope adjustment mechanism is applicable only to the solar assets as identified by FPL witness Valle and seek revenue increases based on the actual capital cost of the facilities at the midpoint cost of capital and only after a

1 demonstration of cost effectiveness. Simultaneous to these facilities entering
2 service customers will begin to see fuel savings in the fuel portion of their bills
3 and FPL will begin to bear the cost of operating these facilities. The SoBRA
4 mechanism offers a matching of costs and benefits and ensures that the
5 increases will move FPL toward its midpoint ROE regardless of where its ROE
6 was just prior to the increase. While other revenues and expenses currently
7 maybe less certain than the 2022 Test Year and 2023 Subsequent Year, the
8 SoBRA mathematically cannot cause an over earnings situation.
9
10 **V. IMPLICATIONS OF INTERVENOR RECOMMENDATIONS**
11 **REGARDING CAPITAL STRUCTURE AND ROE**
12
13 **Q. What is your overall conclusion and response to the intervenor witnesses'**
14 **arguments against FPL's continuation of a stronger than average financial**
15 **position, particularly in in terms of their capital structure and ROE**
16 **recommendations?**
17 A. The intervenor witnesses have taken a piecemeal approach to these issues and
18 consequently have missed entirely that the tangible and significant value
19 customers have realized is the result of FPL's comprehensive strategy, which
20 includes a foundation of financial strength. FPL's strategy consistently has
21 delivered superior performance for customers through low bills, high service
22 reliability, low cost of operations, low emissions profile, and high customer
23 satisfaction. In their recommendations, intervenor witnesses seemingly ignore

1 several practical considerations in their presumption that one can isolate capital
2 structure and/or ROE without any detriment to FPL's overall delivery of
3 customer value. A strategy that is focused on being low cost does *not* mean
4 trying to be low cost in each individual element. It is the total package that
5 counts, and intervenors want to focus on one piece of the cost structure, arguing
6 that it could be lower - but conveniently ignoring the interactions with other
7 parts of the cost structure noted in more detail in my direct testimony and, most
8 importantly, ignoring the actual industry leading value that customers receive
9 in the form of low bills, strong customer service and reliability, and low
10 emissions. The intervenor witnesses have taken a piecemeal approach to
11 these issues and consequently have missed entirely that the tangible and
12 significant value customers have realized is the result of FPL's comprehensive
13 strategy
14
15 The approach employed by some intervenor witnesses is to formulaically
16 attempt to solve for an arithmetic lowest cost of capital in isolation of all other
17 factors, an illusory concept and task at best. While this hypothetical simplicity
18 is commonly theorized and debated in academia, it is neither appropriate nor
19 directly applicable to how a real business sets its financial policies. And it is
20 not how FPL approaches or assesses a comprehensive view of customer value.
21 Consistent with the limited considerations and simplistic presentation generally
22 found in corporate finance texts regarding this point, intervenor witnesses
23 ignore both known and unknown risks, including the financial and operational

1 dependencies, that academia intentionally sets aside for the purpose of teaching
2 students individual corporate finance theories one at a time. In the controlled
3 environment of a classroom, instruction of each theory individually is by design
4 simplified so that it may be more easily understood and learned. However,
5 applying these theories beyond the walls of the classroom, ignoring the vast
6 intricacies and considerations unique to each company, as well as that
7 company's specific circumstances and risks in concert with the strategy
8 management has formulated in response to those considerations and risks, can
9 have unintended and severe consequences.
10
11 In the case of FPL, if the intervenor witnesses' recommendations are adopted,
12 FPL's financial strength would be meaningfully undermined and over time,
13 FPL's ability to continue delivering superior customer value would erode.
14 Investors that have long supported the Company would direct their capital
15 elsewhere as they assess the opportunity to earn a fair return and surmise that
16 FPL's winning strategy is no longer supported. What intervenors fail to
17 consider is that their demand for industry average equity ratios and industry
18 average ROE's may lead to industry average levels of performance. They also
19 fail to consider that FPL has become the premier utility in the country in the
20 metrics that matter to customers by following a superior strategy.
21
22

1 **Q. Is there other evidence the Commission can look to in considering the**
2 **implications of FPL's request versus the intervenors' recommendations?**
3 A. Ultimately, the litmus test for the Commission is whether the overall value
4 proposition delivered by FPL results in customer rates that are fair, just and
5 reasonable and service quality that is adequate. Unequivocally, FPL's filing
6 reflects fair, just and reasonable rates and service quality that is superior in the
7 industry. The intervenors' positions on capital structure tend to the industry
8 average, while their recommendations on ROE are absurdly low. Further, they
9 give no credible consideration to the consequences of their recommendations
10 on service quality other than their uninformed conjecture on FPL's ability to
11 run the business with diminished financial resources.
12
13 **VI. FINANCIAL STRENGTH**
14
15 **Q. Please respond generally to the intervenor witnesses' discussion of**
16 **financial strength.**
17 A. Intervenor witnesses fail to rationalize the impacts of their recommendations to
18 FPL's financial position, as well as the Company's long- standing strategy of
19 maintaining a stronger than average financial position and instead dismiss the
20 successes FPL has achieved and that have accrued for the benefit of customers
21 through FPL's drive for continuous improvement. Additionally, rather than
22 acknowledge or credit FPL for the industry-leading customer value proposition
23 it has built over time, intervenor witnesses haphazardly offer alternative reasons

1 for FPL's performance based solely on speculation or wildly assert that FPL
2 has an obligation to perform at industry leading levels. Contrary to intervenors'
3 claims that this level of customer value is routine and not dependent on financial
4 strength, in just two years Gulf has achieved significant improvements in
5 reliability, generation performance and O&M cost performance while financial
6 strength has improved. Financial strength led to Gulf continuing to have ready
7 access to the capital markets during the pandemic, in the midst of significant
8 tropical storms and the substantial increase in its capital expenditure program
9 which enabled these customer value improvements.
10
11 As I explained at length in my direct testimony, at the core of FPL's strategy is
12 the intentional maintenance of a higher degree of financial strength than is
13 typical in the industry to reflect its unique operating characteristics. For more
14 than fifteen years, FPL has strategically emphasized financial strength as an
15 important underpinning in enabling the Company to deliver the exceptional
16 customer value proposition that our customers enjoy. That strategy is intended
17 not only for normal conditions but also for periods of market uncertainty and
18 turmoil, which is critical for a utility to be able to properly and timely fulfill its
19 responsibility to serve its customers during even the worst economic and capital
20 market conditions. Additionally, intervenors do not understand the many varied
21 complexities and strategic roles of financial strength, or how the degree of
22 financial strength a company seeks to maintain is the product of strategic
23 decisions driven in part by the Company's specific risks and circumstances.

1 Most apparent of the intervenors' flawed assumptions is that FPL's award-
2 winning reliability, low emissions profile, and high customer service scores, all
3 while maintaining one of the lowest bills in the state and nation has had nothing
4 to do with the ways in which FPL has financed its operations for a couple of
5 decades.

6 **Q. Witness Gorman claims that utilities have had consistent access to external**
7 **capital. Did all utilities have consistent access to capital during the**
8 **COVID-19 market disruption?**

9 A. No. During March through April 2020, the capital markets experienced its peak
10 disruption and volatility resulting from the COVID-19 uncertainty. Several
11 lower rated utilities and non-financial corporates attempted to raise debt
12 financing amid these challenging capital market dynamics and were ultimately
13 faced with the difficult decisions of either canceling their publicly announced
14 issuances shortly after launching the prospective transactions or accepting very
15 expensive pricing terms because of limited or insufficient investor interest or
16 demand. For example, during the peak market disruption of the COVID-19
17 pandemic, of the investment-grade ("IG") rated utility, power company and
18 non-financial corporate debt issuers that launched debt issuances in the capital
19 markets, Table 2 below presents a sample of publicly announced issuances that
20 were subsequently canceled following the launch of the transaction.
21 Importantly, this list of unsuccessful or failed prospective issuances is a subset
22 of what is likely a much larger population of unsuccessful issuances when

1 including those planned transactions that the issuer elected to cancel prior to

2 announcement because of the constrained capital markets.

3

4 **Table 2. Failed IG-Rated Utility, Power Company and Non-Financial Corporate**
5 **Debt Issuances During the COVID-19 Pandemic Market Disruption**[1]

| Date | Issuer | Type | Targeted Amount ($ MM) | Expected Ratings (Moody's/S&P) | Term | Initial Price Talks (bps) |
|---|---|---|---|---|---|---|
| 3/17/2020 | Entergy Corp | Unsecured | benchmark | Baa2/BBB | 5-year | +275.0 bps |
| 3/17/2020 | Entergy Corp | Unsecured | benchmark | Baa2/BBB | 10-year | +287.5 bps |
| 3/20/2020 | EOG Resources | Unsecured | benchmark | A3/A- | 7-year | +425.0 bps |
| 3/20/2020 | EOG Resources | Unsecured | benchmark | A3/A- | 10-year | +425.0 bps |
| 3/20/2020 | EOG Resources | Unsecured | benchmark | A3/A- | 20-year | +425.0 bps |
| 3/20/2020 | Appalachian Power | Unsecured | 350 | Baa1/ A- | 10-year | +337.5 bps |
| 4/6/2020 | Hewlett Packard | Unsecured | benchmark | Baa2/BBB | 7-year | +475.0 bps |
| 4/23/2020 | Marathon Petroleum | Unsecured | benchmark | Baa2/BBB | 10-year | +500.0 bps |

6

7 Table 3 includes those issuances that priced, albeit at very expensive terms to

8 attract the needed investor interest.

9 **Table 3. Expensive IG-Rated Utility, Power Company, and Non-Financial**
10 **Corporate Debt Issuances due to Limited Investor Demand During the**
11 **COVID-19 Pandemic's Peak Market Disruption**[2]

| Date | Issuer | Type | Size ($ MM) | Coupon | Issuance Ratings (Moody's/S&P) | Term | Spread | Order Book |
|---|---|---|---|---|---|---|---|---|
| 3/13/2020 | Zimmer Biomet Holdings | Unsecured | 900 | 3.550% | Ba3/BBB | 10-year | +262.5 bps | 1.78x |
| 3/17/2020 | Dominion Energy | Unsecured | 400 | 3.300% | Baa2/BBB | 5-year | +265.0 bps | 1.25x |
| 3/17/2020 | Dominion Energy | Unsecured | 350 | 3.600% | Baa2/BBB | 7-year | +275.0 bps | 1.14x |
| 3/17/2020 | Union Electric | Secured | 465 | 2.950% | A2/A | 10-year | +200.0 bps | 1.40x |
| 3/23/2020 | Humana Inc | Unsecured | 600 | 4.500% | Baa3/BBB+ | 5-year | +412.5 bps | 1.57x |
| 3/23/2020 | Humana Inc | Unsecured | 500 | 4.875% | Baa3/BBB+ | 10-year | +412.5 bps | 2.63x |
| 4/2/2020 | Hyundai Capital America | Unsecured | 550 | 5.750% | Baa1/BBB+ | 3-year | +550.0 bps | 1.27x |
| 4/2/2020 | Hyundai Capital America | Unsecured | 600 | 5.875% | Baa1/BBB+ | 5-year | +550.0 bps | 1.25x |
| 4/2/2020 | Hyundai Capital America | Unsecured | 650 | 6.375% | Baa1/BBB+ | 10-year | +575.0 bps | 1.38x |
| 4/2/2020 | Ross Stores | Unsecured | 700 | 4.600% | A2/BBB+ | 5-year | +425.0 bps | 1.43x |
| 4/2/2020 | Ross Stores | Unsecured | 400 | 4.700% | A2/BBB+ | 7-year | +425.0 bps | 1.75x |
| 4/2/2020 | Ross Stores | Unsecured | 400 | 4.800% | A2/BBB+ | 10-year | +425.0 bps | 2.00x |
| 4/2/2020 | Ross Stores | Unsecured | 500 | 5.450% | A2/BBB+ | 30-year | +425.0 bps | 1.90x |
| 4/2/2020 | Ryder System | Unsecured | 400 | 4.625% | Baa1/BBB | 5-year | +425.0 bps | 1.81x |

12

[1] Source: SMBC and JP Morgan.
[2] Source: SMBC and JP Morgan.

1 Conversely, FPL was able to successfully raise debt capital during this same
2 time. Indicative of its financial strength and solid reputational awareness
3 among investors, the order book for this FPL issuance reached roughly $8
4 billion, with investor orders of more than seven times the $1.1 billion targeted
5 capital raise. Despite this pandemic driven heightening of investor concerns,
6 FPL's banking advisors were able to negotiate an approximate 50 basis point-
7 reduction to the original offering spread at launch, for an attractive relative
8 interest rate at a treasury spread of 237.5 basis points for a five-year term
9 because of the Company's long-term financial strength and strong support of
10 the investor community.
11
12 Also, as mentioned in my direct testimony, liquidity, specifically the
13 Commercial Paper ("CP") markets were extremely tight and generally only tier
14 1 issuers like FPL were able to maintain access. CP markets recovered quickly
15 in the midst of the pandemic because of the unprecedented government
16 response to the pandemic – there can be no assurances that future market
17 disruptions will be as brief.
18
19 FPL's consistent strong financial position has provided investors with the
20 confidence to allocate their investment capital to the Company because of their
21 belief that FPL, with the Commission's support, would be able to maintain its
22 financial strength in spite of the draconian scenarios routinely and repeatedly
23 proposed by investors. This support among investors was also based on the

1 expectation that the Company would continue to employ its same prudent long-
2 term financial policies and that even as the pandemic's unknown economic and
3 financial implications developed for what was an unknown duration at that
4 time, investors believed that FPL's financial strength would not compromise its
5 ability to meet all of its fixed obligations during the broad and wide reaching
6 economic strain and financial uncertainty as the emerging pandemic continued
7 to unfold.
8
9 **VII. FPL'S RISK PROFILE**
10
11 **Q. Please summarize your response to intervenor witnesses' treatment of risk,**
12 **notably OPC-Woolridge and O'Donnell; FIPUG-Pollock and LaConte;**
13 **FEA-Gorman; and, FAIR-Mac Mathuna.**
14 A. The intervenor witnesses' characterization of risk is over-simplified and lacks
15 an appropriate differentiation of risk from risk mitigation. As explained in my
16 direct testimony and the testimony of FPL witness Coyne, FPL faces greater
17 exposure to risks than its peers due to higher-than-average capital expenditures,
18 storm exposure, nuclear exposure, geographic location, among others. Most
19 intervenor witnesses simply refer to credit rating agencies' assessments of FPL
20 risk. However, intervenors' use of those assessments is misleading as the rating
21 agencies are focused on a debt investor's perspective, not an equity investor's
22 perspective, and most importantly those assessments assume as a foundation a
23 continuation of the same level of financial strength that FPL has maintained for

1 more than 15 years, in addition to many of the other pillars of risk mitigation
2 that intervenors' recommendations would undermine.
3 **Q. OPC witness Lawson cites a January 2021 S&P Global Ratings ("S&P")**
4 **credit report which characterizes FPL as 'low-risk' and alludes more**
5 **generally to the fact that the agencies view FPL favorably. Please explain**
6 **this characterization as it relates to your testimony that FPL's risk profile**
7 **is more challenging and 'somewhat greater' than most utilities?**
8 A. There is a key distinction between (i) the risks faced by a utility given its unique
9 environment and assets, and (ii) the results produced by that utility which are
10 determined largely by management's ability to mitigate those risks. The lack
11 of volatility in results does not imply the absence of risk. As documented at
12 length in direct testimony, relative to proxy group utilities, FPL faces
13 heightened risk through its ownership of nuclear generating assets, peninsula
14 location, increased storm exposure, and a larger than average capital
15 expenditures program (the latter two explicitly acknowledged by the credit
16 rating agencies). Compared to the other Florida IOUs, FPL faces the highest
17 composite risk profile as depicted in Exhibit REB-13.
18
19 Through strategic execution and vigilance, FPL's management team has
20 sustained solid performance with little variance. In fact, the rating agencies
21 recognize FPL's "above-average management of regulatory risk compared with
22 peers" and its "prudent risk management" practices. It is important to note that
23 management has been well-positioned to execute on its risk mitigation strategy

1 due to FPL's stronger than average financial position, driven in large part by its
2 strong equity ratio. Using FPL's effective management of risk and the
3 Company's current financial strength as a predicate to support the notion that
4 FPL is "low risk" and thereby support the intervenors' recommendations would
5 unequivocally and counterproductively increase FPL's riskiness and weaken
6 the Company.
7
8 Moreover, the credit rating agencies' favorable view of FPL hinges, in part, on
9 its stable, highly supportive regulatory environment, and any substantive
10 change to that environment, including a reduction in equity ratio, could very
11 easily disrupt this view. Finally, one must interpret S&P's characterization of
12 FPL in the context of its broader commentary on NextEra Energy, Inc. ("NEE")
13 and the industry at large: S&P cites as a key credit strength the fact that FPL is
14 a 'lower-risk regulated electric utility' simply because it views regulated
15 utilities generally as comparatively low-risk (i.e., better positioned than non-
16 regulated entities to deliver stable, predictable outcomes), not because FPL is
17 uniquely low-risk relative to peers.

18 **Q. What is the role of credit rating agencies and how do their views of risk**
19 **differ from other investors?**

20 A. Credit rating agencies (S&P, Moody's Investors Service ("Moody's") and Fitch
21 Ratings ("Fitch"), collectively, the credit rating agencies) are independent
22 entities responsible for assigning credit ratings which reflect overall financial
23 strength and a debtor's ability to fulfill its financial obligations. Their ratings

1 are grounded in methodologies that provide consistency across time, industries,
2 and issuers. In addition to providing a pivotal role in capital markets, ratings
3 enhance the liquidity of secondary markets for securities.
4
5 While credit ratings are a material driver of fixed income security pricing, they
6 only represent a partial view of investor perceptions. Rating agencies often
7 view investment horizons, risks and exposure differently than equity investors.
8 **Q. OPC witnesses O'Donnell and Woolridge categorize risk as either**
9 **"business risk" or "financial risk." Do you agree with that approach?**
10 A. No. The notion that risks can be classified as either 'financial' or 'business' is
11 vastly over-simplified. Risk is assessed as a collection of factors comprising
12 the entirety of the environment within which an enterprise operates. Assuming
13 that higher business risk can be negated with lower financial risk and vice versa,
14 while directionally correct can lead to incorrect conclusions and a perceived
15 level of confidence in trade-offs that may not be warranted.
16 **Q. Do you agree with witness LaConte's view that FPL's storm risk is**
17 **comparable to the companies in FPL witness Coyne's proxy group?**
18 A. No. Witness LaConte over-generalizes storm risk. While all Florida investor-
19 owned utilities are exposed to weather risks, FPL's exposure is distinctly and
20 demonstrably higher. FPL customers are situated along a much longer coastline
21 stretching along the Atlantic coast just south of Jacksonville to the end of the
22 peninsula and wrapping up the west coast north of Fort Myers and separately
23 spanning Panama City Beach to Pensacola. Aside from exposure to more

1 severe weather, these coastlines are at generally low elevations which increases
2 risk of flooding and sea-level rise. Because FPL customers have a higher
3 probability of being impacted by a storm, they place greater importance on
4 service reliability and restoration performance.

5 **Q. Do you agree with the implication by FAIR witness Mac Mathuna that**
6 **FPL's access to clause recovery mechanisms mitigates FPL's regulatory**
7 **risk?**

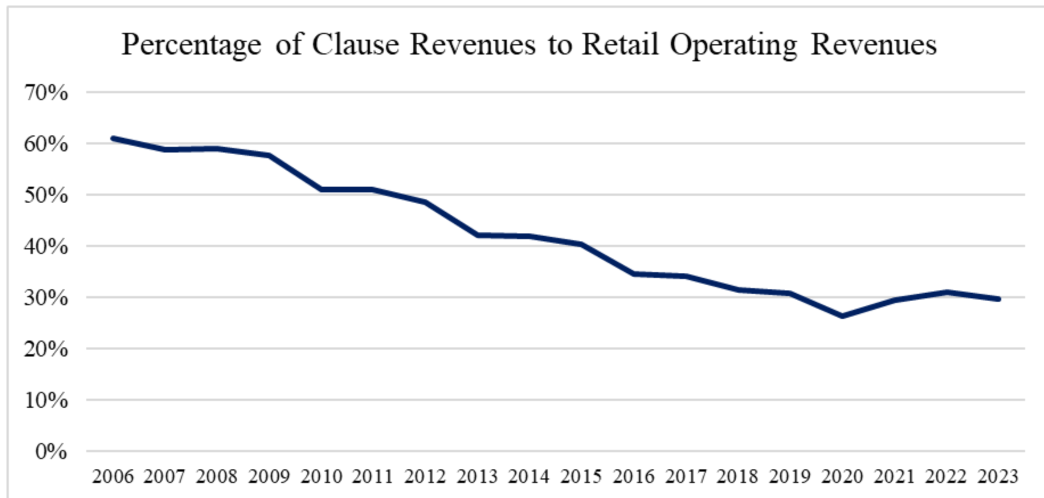
8 A. No. Cost recovery clauses are not unique to FPL. Mechanisms that allow
9 utilities to implement rate changes for pass through fluctuations in certain types
10 of costs are common within the industry. Specifically, the same cost recovery
11 mechanisms available to FPL also are available to the other investor-owned
12 electric utilities in Florida and similarly, variations of these clause recovery
13 mechanisms, unique to each state commission or regulatory jurisdiction, are
14 available to the other U.S. investor-owned electric utilities outside the state of
15 Florida.

16

17 Notably, the presence of theses clauses only helps to mitigate, not eliminate the
18 risk to the company and its investors that the utility will not recover all its costs.
19 Moreover, the extent to which the availability of clause recovery mechanisms
20 is perceived to mitigate FPL's regulatory risk also should consider that FPL's
21 percentage of revenues recovered through clauses is significantly lower than in
22 its recent past. While more than 60% of operating revenues were recovered
23 through clauses in 2006, that is projected to be below 30% in 2023 as shown in

1 Table 4. Clearly, any perceived risk mitigation value to FPL has been
2 significantly reduced.

3 **<u>Table 4</u>. Percent of Clause Revenues to Retail Operating Revenues**



4

5 Further, the mere existence of a clause recovery mechanism is not a guarantee
6 that a utility will be able to recover its costs. Nor does it eliminate the
7 underlying risks and varying exposures of the costs and cash flows the clauses
8 are designed to recover; FPL still bears the burden of demonstrating
9 recoverability. While Florida has proven to be a constructive regulatory
10 environment, the Company still bears the risk of future disallowances.

11

12 **VIII. CAPITAL STRUCTURE AND COST OF DEBT**

13

14 **Q. Please respond generally to intervenor witnesses' contentions regarding**
15 **FPL's proposed capital structure.**
16 A. All intervenor witness testimony on capital structure is built upon a common
17 premise - that debt is 'less expensive' than equity and should be incorporated

1 in increasing proportions in a capital structure to reduce the overall cost of
2 capital. According to intervenors' positions, a utility is obliged to continue
3 adding debt to its capital structure until the greater risk associated with higher
4 levels of debt causes borrowing costs and required equity returns to rise such
5 that, on the margin, the overall cost of capital begins to increase; it is at this
6 breakpoint that the overall cost of capital is minimized, and capital structure
7 should be set. The unspoken predicate to this position is that *a priori* a company
8 can calculate and know that precise balance and execute that strategy with no
9 consequences of getting it wrong.
10
11 This approach is deeply flawed, both conceptually and practically. Regarding
12 the former, as the proportion of debt in the capital structure approaches the
13 supposed breakpoint level, the factors that begin to drive increased capital costs
14 (including bankruptcy costs, costs of financial distress, and agency costs,
15 among others) are exceedingly difficult to estimate, and their impact is therefore
16 quite often undersold. As a consequence, the approach tends to dictate
17 increasing proportions of debt in an attempt to mathematically drive down
18 costs. Those resulting debt levels are excessive and not at all consistent with
19 the way in which corporations actually capitalize. Practically, the model
20 ignores the link between capital structure and operational performance and is
21 therefore not suitable for application in the real-world.
22

1 While OPC witness O'Donnell criticizes FPL for not having produced a study
2 determining what he terms "optimal" capital structure, predictably, given the
3 clear shortcomings in intervenors' theoretical framework, neither O'Donnell
4 nor other intervenors (most notably, FEA witness Gorman) attempt to calculate
5 precisely an optimal equity ratio. Rather, each ultimately reverts to
6 benchmarking and establishes a recommended level based upon respective
7 proxy group averages and/or what they contend to be relevant industry
8 benchmark levels. This, of course, ignores entirely any differences among
9 utilities in situation, strategy, and risk profile, factors which, in practice, are
10 very fundamental determinants of an appropriate capital structure. Their
11 approach is simply a "reversion to the mean" approach. What the intervenor
12 witnesses fail to realize, most notably Mr. O'Donnell, is that no real-world
13 company derives its capital structure from a theoretical model, and no real-
14 world company can be sure its capital structure is in fact "optimal." What we
15 do know is that FPL has maintained the same approach of maintaining a
16 stronger than average (for the industry) balance sheet for over two decades and
17 the results for customers have been outstanding.

18 **Q. Do you agree with FEA witness Gorman's contention that FPL could**
19 **maintain its credit rating and financial integrity at his suggested lower**
20 **common equity ratio?**

21 A. No. Based upon the forecast that informed FPL's filing, Gorman's contention
22 is demonstrably false. Note first that credit ratings are determined based upon
23 assessments of (i) financial risk/strength (as informed by credit metrics) and (ii)

1 relevant non-financial risk factors. FPL's equity ratio, through its impact on
2 credit metrics, can therefore meaningfully impact FPL's credit ratings. Given
3 that FPL is rated by three different ratings agencies (S&P, Moody's and Fitch),
4 and each has its own ratings criteria, at any given time one of the agencies'
5 ratings criteria will be more constraining on FPL's rating, i.e., FPL would be
6 closer to a downgrade trigger with that agency than the other agencies.
7
8 FPL is Moody's-constrained and could be subject to downgrade by Moody's if,
9 on a sustained basis, its ratio of cash flow from operations before working
10 capital changes divided by total debt ("CFO pre-WC to debt") falls below 25
11 percent or its ratio of total debt divided by total capitalization ("debt
12 capitalization") rises above 40 percent. Unsurprisingly, in their analyses of the
13 impact on FPL's financial integrity of a reduction in equity ratio, OPC witness
14 Lawton and FEA witness Gorman consider only S&P and/or Fitch metrics and
15 conveniently ignore Moody's entirely. Analysis of pro forma Moody's metrics
16 indicates that, even if awarded its full requested ROE (11.50 percent), FPL
17 would still, at the equity ratios proposed by a number of intervenors, breach its
18 CFO pre-WC to debt downgrade threshold during the forthcoming rate period
19 (2025 for FEA's proposal, 2024 and 2025 for FIPUG's, and 2025 for FL
20 Rising's). Moreover, as shown in Table 5 below and featured in Exhibit REB-
21 14, at the equity ratios and ROEs proposed by intervenors, FPL would, in all
22 cases, breach its CFO pre-WC to debt downgrade threshold by 2024 (and earlier
23 under proposals by FIPUG (2022 and 2023) and FL Rising (2023)). Note also

1 that, under the proposals set forth by OPC, FAIR, and FEA, FPL's buffer over
2 its CFO pre-WC to debt downgrade threshold would be quite thin (only ~15-60
3 bps) in 2023; importantly, as Moody's assessment of regulatory
4 constructiveness would surely be impacted negatively with the approval of a
5 significantly reduced equity ratio and ROE, history indicates that Moody's
6 would be less tolerant of metric values straddling the threshold level,
7 particularly if accompanied by downward trending (as would be the case in the
8 OPC, FAIR, and FEA scenarios). Moody's may even require higher metric
9 levels to maintain FPL's current ratings (levels which, as we have shown, FPL
10 would be extremely hard-pressed to achieve under intervenor capital
11 parameters). Thus, while CFO pre-WC to debt in 2023 may be slightly above
12 FPL's downgrade threshold in the OPC, FAIR, and FEA scenarios, downgrade
13 may very well still be indicated.
14
15 Finally, if FPL were to recapitalize to the equity ratios proposed by FEA,
16 FIPUG, and FL Rising, it would immediately breach its debt capitalization
17 threshold in all periods. Furthermore, the same dynamic as described above for
18 CFO pre-WC to debt applies to debt capitalization, as well; with deteriorating
19 regulatory constructiveness and unfavorable trending in metric levels, Moody's
20 may very well penalize metrics which hug the threshold level. Thus, despite
21 levels of debt capitalization at or slightly below 40%, FPL could still be subject
22 to downgrade, on the basis of debt capitalization, in all periods under the equity
23 ratios proposed by OPC and FAIR.

**<u>Table 5.</u> Forecasted Moody's Credit Metrics at Intervenor Capital Assumptions**

| Key Financial Metrics | Moody's Downgrade Threshold | | OPC | FAIR | FEA | FIPUG | FL Rising |
|---|---|---|---|---|---|---|---|
| CFO pre-working capital to debt | ≤ 25% | 2022 | 26.3% ↔ | 26.2% ↔ | 25.8% ↔ | 24.7% ▼ | 25.3% ▼ |
| | | 2023 | 25.6% ▼ | 25.6% ▼ | 25.2% ▼ | 24.1% ▼ | 24.7% ▼ |
| | | 2024 | 24.5% ▼ | 24.5% ▼ | 24.1% ▼ | 23.1% ▼ | 23.6% ▼ |
| | | 2025 | 23.3% ▼ | 23.3% ▼ | 23.0% ▼ | 22.0% ▼ | 22.5% ▼ |
| Debt to capitalization | ≥ 40% | 2022 | 39.9% ▼ | 39.6% ▼ | 41.2% ▼ | 42.8% ▼ | 41.7% ▼ |
| | | 2023 | 40.0% ▼ | 39.7% ▼ | 41.4% ▼ | 42.9% ▼ | 41.9% ▼ |
| | | 2024 | 39.8% ▼ | 39.5% ▼ | 41.2% ▼ | 42.7% ▼ | 41.7% ▼ |
| | | 2025 | 39.9% ▼ | 39.5% ▼ | 41.2% ▼ | 42.8% ▼ | 41.7% ▼ |

**Q. Please comment on FAIR witness Mac Mathuna's representation of Moody's likely credit assessment of a reduction in FPL's equity ratio and ROE to levels recommended by FAIR.**

A. First, Mr. Mac Mathuna considers in his metric analysis only 2022, likely because he anticipates material metric weakness in succeeding years. Next, while FPL's downgrade threshold is defined in terms of CFO pre-WC to debt and debt capitalization, Mr. Mac Mathuna disregards the latter in favor of CFO interest coverage, likely, once again, because of forecasted weakness in debt capitalization at FAIR's recommended equity ratio. Furthermore, while Mr. Mac Mathuna cites 25% CFO pre-WC to debt as a reference point, he fails to portray it as the bright-line threshold that is singularly relevant here. Rather, he references the metric range for 'A' rated issuers under Moody's Standard Grid (22%-30%) and implies that any credit rating 'within the general "A" category (e.g. A1, A2 and A3)' would be acceptable. This is a gross misrepresentation of the practical realities for FPL of Moody's credit assessment. If FPL's CFO pre-WC to debt metric was to fall below 25% (or even, as described above,

1 remain slightly in excess of 25% while accompanied by downward trending
2 and/or deteriorating regulatory constructiveness), Moody's likely would
3 downgrade FPL to 'A2' from 'A1', and the cascade of negative effects
4 described in subsequent Q&A would follow.
5 **Q. Do you agree with OPC witness O'Donnell's assertion that FPL's level of**
6 **customer service would not be meaningfully impaired if FPL were**
7 **capitalized at a lower equity ratio?**
8 A. No. Witness O'Donnell offers no basis for his assumption, and he offers no
9 explanation for why other utilities who are capitalized at lower equity ratios
10 aren't performing at FPL's levels. Rather, he incorrectly assumes that there is
11 not a strong linkage between the way in which FPL is capitalized and the level
12 of customer service it provides. In fact, FPL's proposed equity ratio is set to
13 facilitate continued execution of its operational strategy and delivery of the
14 strong customer value proposition.
15
16 As explained in direct testimony, FPL's financial strength and credit worthiness
17 allow it to readily attract debt capital at reasonable rates, even amid challenging
18 economic conditions. This is essential to the ongoing execution of the key
19 aspects of FPL's strategy meant to benefit its customers, including (i) funding,
20 in a timely, cost-effective manner, ongoing capital expenditures and (ii)
21 allowing for swift, beneficial response in the event of severe weather or
22 economic shock.
23

1 As outlined above, at a lower equity ratio, FPL may very well be subject to
2 downgrade at Moody's and thus faced with diminished availability of capital
3 and increased borrowing costs. Such conditions would necessarily result in
4 more costly financing for capital projects (not to mention potential delays
5 and/or abandonment) and reduced flexibility in stress scenarios, thereby
6 jeopardizing the ongoing provision of customer service to FPL's historical
7 standard.
8
9 Note finally that, in an attempt to dispute that FPL's financial strength was
10 essential in affording it access to capital markets during the recent downturn,
11 O'Donnell cites an S&P publication noting that utilities were more resilient
12 than other sectors and able to raise capital during the pandemic. However, FPL
13 is one of the examples cited prominently in the piece, illustrative of what has
14 worked for FPL and its customers. If, during the pandemic, FPL had been
15 financially weaker as proposed by the intervenors, the Company likely would
16 not have had the same access to capital or possibly only at high costs and FPL's
17 customers would have been unequivocally worse off. Another problem with
18 Mr. O'Donnell's perspective is that it assumes the recent pandemic is the worst
19 situation the Company might face in terms of capital market constraints. That
20 is not the way in which FPL has planned or operated successfully over the years
21 and not the way we want to position ourselves for the future.
22

1 **Q. Do you agree with OPC witness O'Donnell's contention that FPL in fact**
2 **should position itself financially for a downgrade in its debt rating?**
3 A. No, I do not. The view espoused by witness O'Donnell is short-sighted and
4 considers only the immediate, first-order impact of a shift in capitalization. He
5 fails to consider the importance of FPL's higher-than-average equity ratio (as a
6 key pillar of financial strength) to execution of FPL's operational strategy. Any
7 reduction in financing costs postulated by Mr. O'Donnell's proposed
8 recapitalization would (a) undermine the financial foundation that has been
9 crucial to the industry leading customer value FPL provides (b) pale in
10 comparison to cumulative bill savings (roughly $300 per year relative to the
11 national average) due to FPL's operational excellence; and (c) place FPL in a
12 very different (weaker) posture in the face of future capital market disruptions.
13 Neither the recent pandemic nor the liquidity crisis of 2008 was anticipated.
14 While we cannot pretend to know what new or more severe crises we might
15 face going forward, we can continue to maintain a position of financial strength,
16 as we have over the last twenty years.
17
18 Accepting Mr. O'Donnell's recommendation would hinder FPL's ability to
19 carry out its strategy and thus impair long-term service quality. Simply put,
20 recapitalizing FPL to an industry average, and failing to recognize FPL's
21 superior performance likely will yield the average results in terms of customer
22 bills, reliability, and other key metrics – perhaps not overnight, but certainly

1 over time. In this regard, the data in the industry that reflect comparative
2 performance are incontrovertible.
3 **Q. What is your response to the observation of intervenor witnesses, most**
4 **notably OPC witness O'Donnell, that FPL's proposed equity ratio exceeds**
5 **averages among certain groupings of investor-owned utilities and exceeds**
6 **the equity ratio of FPL's parent, NextEra Energy ("NEE")?**
7 A. Note first that, a simple comparison of capital structures without regard for
8 specific differences in situation and strategy are not instructive with respect to
9 the proper capitalization for FPL. FPL is different from peer utilities in risk
10 profile and value proposition, and such differences logically will drive
11 divergence as to what constitutes appropriate financial policy and capital
12 structure. By proposing that the Commission alter FPL's capital structure on
13 the basis of these comparisons, intervenors are adopting the highly impractical
14 view that all utilities are alike or interchangeable in every other respect as to
15 make no practical difference.
16
17 Next, while investors absolutely do value stability (and FPL has maintained its
18 current equity ratio for more than two decades), FPL's recommended capital
19 structure is based upon the relevant qualitative and quantitative evidence.
20 Witness O'Donnell's assertion that the investment community should not be
21 alarmed by this drastic change in capitalization is without foundation and
22 constitutes a "roll the dice" approach with what today is the best value delivery
23 in the industry. In short, FPL's unique risk profile and the importance of

1 financial strength to its provision of exceptional customer service warrant a
2 stronger-than-average equity ratio. It is deeply flawed reasoning to assume that
3 FPL may arbitrarily change its capital structure without also affecting its
4 operational performance. As stated previously, FPL's financial strength is core
5 to its strategy that has delivered superior, not industry average, results.
6
7 Finally, OPC witness O'Donnell's comparison of the U.S. GAAP equity ratios
8 for NEE and FPL's non-regulated sister company, NextEra Energy Resources
9 ("NEER") and its parent NextEra Energy Capital Holdings ("NEECH") to the
10 proposed ratio for FPL offers negligible analytical value. First it should be
11 noted that FPL's parent company, NEE, has no debt in its capital structure.
12 Second, FPL and NEER have fundamentally different businesses and therefore
13 are financed in very different manners. NEER's and NEECH's capital structure
14 utilize a wide variety of instruments (including non-recourse project debt, tax
15 equity, junior subordinated debentures, and equity units), which carefully
16 balance return and credit considerations and yield U.S. GAAP debt ratio levels
17 well in excess of effective economic leverage. In fact, NEE's consolidated total
18 adjusted debt ratio consistent with S&P's view is well below 50 percent.
19
20
21
22

1 **Q. Witness Gorman provides a detailed discussion of his expectations for a**
2 **continuation of the current low interest rate environment. How do his**
3 **forecasted interest rate assumptions differ from FPL's projected cost of**
4 **debt as filed in this case?**

5 A. Witness Gorman's assumptions already are proving to be misplaced. FPL's
6 filed cost of debt assumptions were based on the November 2020 and long-
7 range December 2019 Blue Chip forecasts. Updating these assumptions for the
8 July 2021 and long-range June 2021 Blue Chip Financial Forecast releases
9 would result in over $6 million of incremental revenue requirements to
10 customers as shown in Table 6 below. FPL's forecasted interest rates used in
11 this filing remain reasonable.

12 **Table 6. Blue Chip Financial Forecast U.S. Interest Rate Assumptions**

| Description | Issue Date | Principal Amount ($) | As Filed Coupon Rate [1,2] | Updated Coupon Rate [2,3] | Difference - Coupon Rate | Incremental Revenue Requirements (000s) |
|---|---|---|---|---|---|---|
| First Mortgage Bonds | Dec 2021 | 1,000,000 | 3.39% | 3.70% | 0.3% | $6,250 |
| First Mortgage Bonds | Apr 2022 | 1,000,000 | 3.49% | 3.80% | 0.3% | $5,469 |
| First Mortgage Bonds | Dec 2022 | 500,000 | 3.49% | 3.96% | 0.5% | $2,573 |
| First Mortgage Bonds | Mar 2023 | 800,000 | 4.86% | 4.33% | (0.5%) | ($3,583) |
| First Mortgage Bonds | Jul 2023 | 1,500,000 | 4.86% | 4.33% | (0.5%) | ($4,031) |
| First Mortgage Bonds | Dec 2023 | 1,000,000 | 4.86% | 4.33% | (0.5%) | ($448) |
| | | | | | | **$6,229** |

13 1) Interest rate assumptions are derived from the November 2020 Blue Chip Financial Forecast
14 issue for 2021 and 2022 rates. Interest rate assumptions for 2023 were derived from the
15 December 2019 long-range consensus survey Blue Chip issue
16 2) Interpolated rate derived from the consensus Corporate 'Aaa' Bond Yield and Corporate 'Baa'
17 Bond Yield
18 3) Interest rate assumptions are derived from the July 2021 Blue Chip Financial Forecast issue for
19 2021 and 2022 rates. Interest rate assumptions for 2023 were derived from the June 2021long-
20 range consensus survey Blue Chip issue
21

1 **IX. RETURN ON EQUITY**

2

3 **Q. Do you agree with the ROE recommendations made by intervenor**
4 **witnesses?**

5 A. No. Intervenors' recommended ROE would result in FPL having among the
6 lowest ROE of its peers. Intervenors incorrectly assume that it is possible to
7 significantly reduce FPL's ROE with no consequences at all to FPL's ability to
8 continue delivering superior levels of performance and low customer bills. As
9 with their capital structure recommendations, intervenor witnesses' misplaced
10 and myopic focus on one element of FPL's cost structure, i.e., attempting to
11 engineer a reduction in FPL's cost of capital without consequences, completely
12 ignores the real-world implications of their recommendations such and
13 completely ignores the significant value that has been created for customers
14 through application of FPL's long-term strategy. While it may be possible that
15 bills could be lowered immediately by slashing the Company's ROE, the
16 reactions to such an action would be swift and profound, including a
17 reassessment of the Company's financial strength and bond rating, a
18 recalibration of the view of the Florida regulatory environment, and a
19 reassessment of the willingness of investors to provide capital to the Company.
20 Ultimately, customers' bills will increase and access to financial resources that
21 enable the Company's strategy would be constrained. It would be extremely
22 short-sighted to view ROE as merely a "lever" to reduce the revenue increase
23 as seems to be the motivation behind the intervenor recommendations.

1 **Q. How would the rating agencies view a decrease in the allowed ROE to the**
2 **levels recommended by intervenor witnesses?**
3 A. If the Commission were to approve an ROE at the levels recommended by
4 intervenor witnesses, the rating agencies likely would react swiftly as they did
5 following the adverse decision in PSC Order No. PSC-10-0153-FOF-EI which
6 resulted in FPL having the lowest ROE among Florida utilities among other
7 non-constructive decisions contained in that order. In addition to financial
8 implications, rating agencies also would perceive a deterioration in the
9 regulatory environment leading to increased regulatory risk and their
10 assessment of business risk would be significantly higher. A downgrade could
11 happen either immediately or over time as a result of the compounded effect of
12 FPL's eroded financial position, liquidity position and cost position to
13 customers. Predictability of regulatory decisions is an important consideration
14 of regulatory environment. An ROE approved anywhere near the levels
15 proposed by intervenor witnesses would be considered shocking especially
16 given FPL's low rates, O&M savings and high reliability.
17
18 **X. ROE PERFORMANCE INCENTIVE**
19
20 **Q. Please summarize your reaction to intervenor witness testimony as it**
21 **relates to the ROE performance incentive.**
22 A. The intervenors' arguments regarding the ROE performance incentive are short
23 sighted, betray a fundamental misunderstanding of the regulatory compact vis-

1 a-vis the expected level of company performance, and grossly undervalue the
2 benefit to customers of FPL's superior level of performance. Their claim that
3 superior performance should be the required or expected regulatory standard is
4 without support and facially incorrect. The intervenors' positions on the ROE
5 Performance Incentive are inconsistent with broader objectives of low bills and
6 exceptional performance. The Commission historically has recognized the
7 importance of this broader view and the results are readily apparent for FPL's
8 customers.

9 **Q. Is FPL seeking an ROE performance incentive as recognition for past**
10 **performance as suggested by several intervenor witnesses (OPC witness**
11 **Lawton, Walmart witness Chriss, and Florida Rising witness Rábago)?**

12 A. No, not in the sense postulated by these witnesses. This narrative is key to their
13 opposition, but it is patently incorrect. While it is true that FPL has been a
14 superior performer for many years, an accomplishment noted as "laudable" by
15 witness Chriss (Page 17, Line 11), and customers currently enjoy all the benefits
16 of that performance, it is not true that FPL is seeking retrospective
17 compensation for past superior performance. As stated in my direct testimony,
18 FPL requests the Commission allow the one-half percent ROE performance
19 incentive to recognize superior current performance and "as an incentive to
20 promote further efforts to improve the customer value proposition." In short,
21 while many of FPL's accomplishments have occurred over years of effort, the
22 results of those efforts are providing significant benefits and value for
23 customers today and, with continued good management and project execution,

1 will continue to do so in the future. In fact, this is what the Commission did in
2 2002 in Gulf's Order No. PSC-02-0787-FOF-EI, even acknowledging Gulf's
3 past performance, with an expectation that a similar level of good performance
4 would continue into the future.

5 **Q. How do you respond to intervenor witness calls for the establishment of**
6 **performance criteria to be a condition of the ROE performance incentive**
7 **(Walmart-Chriss; Florida Rising-Rábago; and Vote Solar/CLEO-**
8 **Whited)?**

9 A. I view them as unnecessary given FPL's levels of superior performance across
10 a wide range of metrics and performance measures, which is the predicate for
11 the performance incentive requested by FPL. These are demonstrated in FPL
12 Exhibit REB-8 as a comparison of fifteen Southeastern electric operating
13 companies. The metrics evaluated are Typical Residential Bill, non-fuel O&M
14 ($/MWH), Service Reliability (SAIDI), $CO_2$ Emissions Rate, and Customer
15 Satisfaction Score (JD Power). Additionally, my direct testimony and the
16 testimony of other FPL witnesses demonstrate FPL's improvement across these
17 metrics over time despite already attaining an industry-leading position. FPL
18 has provided ample evidence of superior performance across customer value-
19 based criteria and would expect to continue that focus prospectively.

20 **Q. Has FPL demonstrated a net benefit to customers as a result of its superior**
21 **performance as justification for its requested ROE performance incentive?**

22 A. Yes, the Company has done so extensively in this case contrary to the assertion
23 of Florida Rising witness Rábago. As just one example cited by witness Reed,

1 in 2019 alone the non-fuel O&M costs and annual fuel costs charged to
2 customers would have been higher than FPL's actual costs by about $2.6 billion
3 and $595 million, respectively. That is more than seventeen times the value of
4 the one-half percent performance incentive being requested. Ultimately the
5 financial cost/benefit proof is in our customers' bills and ours are the lowest
6 among the regional peer companies compared on Exhibit REB-8 from my direct
7 testimony and 30 percent below the national average. Additionally, there are
8 non-financial metrics (SAIDI, Emission, Customer Satisfaction) that directly
9 bear on our customers' value experience. When compared to others in the
10 industry it is clear FPL's level of performance is not merely serendipitous;
11 rather, it is the result of a thoughtful strategy and consistent execution.
12 **Q. In summary, do you believe the Commission should award the one-half**
13 **percent ROE performance incentive?**
14 A. Yes. Every argument put forward by the intervenors against FPL's proposed
15 ROE performance incentive fails to address two fundamental principles:
16 superior performance matters to customers, and incentives drive results. The
17 Commission has employed incentives in the past and has the opportunity to
18 underscore this regulatory mechanism by approving this request.
19

1 **XI. STORM COST RECOVERY MECHANISM**

2

3 **Q. Should FPL's Storm Cost Recovery Mechanism ("SCRM") be approved**
4 **as proposed or should any modifications as suggested by intervenors be**
5 **considered?**

6 A. FPL's SCRM is modeled after the recovery mechanism contained in each of the
7 last three FPL settlement agreements and has worked well for customers. OPC
8 witness Smith agrees that "FPL should continue to have access to a customer
9 surcharge mechanism" (Smith, Page 81). However, witness Smith recommends
10 removing flexibility from the mechanism, specifically the discretion to not
11 charge restoration costs to customers through a surcharge. That flexibility has
12 worked well for customers and should not be constrained.

13 **Q. Does the SCRM proposed by FPL in this petition reduce the Company's**
14 **risk related to storm cost recovery as suggested by FAIR witness Mac**
15 **Mathuna?**

16 A. FPL has greater risk exposure to tropical storms and hurricanes than any other
17 company in the country (Exhibits REB-6 and REB-7). The SCRM does provide
18 interim cash flow to the Company; however, FPL retains greater relative risk
19 than other utilities despite this temporary liquidity measure. To be clear, the
20 SCRM provides interim cash flow for the Company following a restoration
21 event that is capped as to amount and duration of recovery. The Company still
22 must finance the total restoration effort, assisted by the cash provided by the
23 SCRM, and still bears all the prudence risk when the restoration costs are

1 reviewed many months after the restoration is complete. Further, neither the
2 SCRM nor the Commission's Storm Rule 25-6.0143, F.A.C., provide any
3 recovery of revenues lost during the restoration event.
4 **Q. Does this conclude your testimony?**
5 A. Yes.

# Business Risk Comparison

**Florida Investor-Owned Electric Utilities**

| Business Risk | Lowest Risk | Low-Medium Risk | Medium-High Risk | Highest Risk |
|---|---|---|---|---|
| Hurricanes | | | DEF/TECO | FPL |
| Large Capital Expenditures | | TECO | DEF | FPL |
| Dependence on Natural Gas | | TECO | DEF | FPL |
| Existing Nuclear Generation | TECO | DEF | | FPL |
| Regulatory Risk* | | All Florida IOUs | | |
| Environmental Compliance Costs | FPL | DEF/TECO | | |

**FPL - Florida Power & Light Company**
**TECO - Tampa Electric Company**
**DEF - Duke Energy Florida**

*SOURCE: S&P Global Market Intelligence: RRA Regulatory Focus: State Regulatory Evaluations, May 25, 2021

# Intervenors' Recommendations Trigger Key Moody's Downgrade Metrics

## Moody's

*"A downgrade could be considered if there are significant cost disallowances or other changes that would weaken Florida's credit supportive regulatory and cost recovery framework, if the political environment were to become less supportive or contentious, or if there is a sustained decline in key credit metrics, such that FPL's ratio of CFO pre-W/C to debt declines below 25%, or there is an increase in debt to capitalization above the 40% range, on a sustained basis."*

— **Moody's Investors Service**
Credit Opinion: Florida Power & Light Company; August 25, 2020

| Key Financial Metrics | Moody's Downgrade Threshold | | OPC | FAIR | FEA | FIPUG | FL Rising |
|---|---|---|---|---|---|---|---|
| CFO pre-working capital to debt | ≤ 25% | 2022 | 26.3% ⬌ | 26.2% ⬌ | 25.8% ⬌ | 24.7% ▼ | 25.3%* ▼ |
| | | 2023 | 25.6%* ▼ | 25.6%* ▼ | 25.2%* ▼ | 24.1% ▼ | 24.7% ▼ |
| | | 2024 | 24.5% ▼ | 24.5% ▼ | 24.1% ▼ | 23.1% ▼ | 23.6% ▼ |
| | | 2025 | 23.3% ▼ | 23.3% ▼ | 23.0% ▼ | 22.0% ▼ | 22.5% ▼ |
| Debt to capitalization | ≥ 40% | 2022 | 39.9%* ▼ | 39.6%* ▼ | 41.2% ▼ | 42.8% ▼ | 41.7% ▼ |
| | | 2023 | 40.0% ▼ | 39.7%* ▼ | 41.4% ▼ | 42.9% ▼ | 41.9% ▼ |
| | | 2024 | 39.8%* ▼ | 39.5%* ▼ | 41.2% ▼ | 42.7% ▼ | 41.7% ▼ |
| | | 2025 | 39.9%* ▼ | 39.5%* ▼ | 41.2% ▼ | 42.8% ▼ | 41.7% ▼ |

* Under the proposed capital parameters, FPL projects to achieve in the specified years very little margin over its CFO pre-working capital to debt downgrade threshold or under its debt to capitalization downgrade threshold. As Moody's assessment of regulatory constructiveness would be impacted negatively by the approval of intervenor capital parameters, Moody's would be less tolerant of such little margin (particularly if accompanied by negative trending) and may even require stronger metric levels for FPL to maintain its existing rating. Thus, despite metric projections which do not technically breach FPL's current downgrade thresholds, FPL may very well still be subject to downgrade in these years.