BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20210015-EI

Petition for rate increase by Florida Power & Light Company.
____________________________/

VOLUME 10
PAGES 2165 - 2375

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN GARY F. CLARK
COMMISSIONER ART GRAHAM
COMMISSIONER ANDREW GILES FAY
COMMISSIONER MIKE LA ROSA
COMMISSIONER GABRIELLA PASSIDOMO

DATE: Monday, September 20, 2021

TIME: Commenced: 9:30 a.m.
Concluded: 12:00 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
112 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

I N D E X

EXHIBITS

NUMBER:		ID	ADMITTED
616	FPL EARNINGS SURVEILLANCE REPORTS, JANUARY-DECEMBER 2010, COVER LETTERS & SCHEDULE 1s	2370	2372
617	FPL EARNINGS SURVEILLANCE REPORTS, DECEMBER 2017, DECEMBER 2018, DECEMBER 2019, DECEMBER 2020, AND JUNE 2021, COVER LETTERS & SCHEDULE 1S	2370	2372
90-101	As identified in the CEL		2235
373-379	As identified in the CEL		2235
58-69	As identified on the CEL		2371
363-364	As identified on the CEL		2371
618	TRANSCRIPTS, EXHIBITS, AND ERRATA OF FAIR WITNESS WATKINS	2372	2373
619	TRANSCRIPTS, EXHIBITS, AND ERRATA OF FAIR WITNESS HERNDON	2372	2373

P R O C E E D I N G S

(Transcript follows in sequence from Volume 9.)

EXAMINATION CONTINUED

BY MS. MONCADA:

Q Mr. Coyne, you had exhibits that were identified as JMC-1 through JMC-11 attached to your prepared direct testimony, is that right?

A Yes.

MS. MONCADA: Mr. Chairman, these have been identified in Staff's comprehensive exhibit list as Exhibits 90 through 101.

BY MS. MONCADA:

Q Mr. Coyne, were these exhibits prepared under your direction, supervision or control?

A They were.

Q Thank you.

And you also prepared 63 pages of rebuttal testimony in this proceeding, is that right?

A Yes.

Q Do you have any changes to make to your rebuttal testimony?

A I do not.

Q If I asked you the same questions today, would your answers be the same?

A They would.

MS. MONCADA: Mr. Chairman, I would ask that Mr. Coyne's prefiled rebuttal testimony also be entered into the record as though read.

CHAIRMAN CLARK: So ordered.

(Whereupon, prefiled rebuttal testimony of James M. Coyne was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF JAMES M. COYNE

DOCKET NO. 20210015-EI

JULY 14, 2021

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James M. Coyne, and I am employed by Concentric Energy Advisors, Inc. ("Concentric") as a Senior Vice President. My business address is 293 Boston Post Road West, Suite 500, Marlborough, MA 01752.

Q. Did you previously file testimony in this proceeding?

A. Yes. I submitted direct testimony to the Florida Public Service Commission (the "Commission") on behalf of Florida Power & Light Company ("FPL" or the "Company"), which is a wholly-owned subsidiary of NextEra Energy, Inc., on March 12, 2021.

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

A. Yes. My analyses and recommendations are supported by the data presented in Exhibits JMC-12 through JMC-17, which have been prepared by me or under my direction. I am sponsoring the following exhibits:

- JMC-12 – Comprehensive Summary of ROE Results
- JMC-13 – Constant Growth DCF Analysis
- JMC-14.1 – Market Risk Premium
- JMC-14.2 – CAPM Analysis
- JMC-15 – Risk Premium Analysis
- JMC-16 – Expected Earnings Analysis
- JMC-17 –Woolridge Constant Growth DCF Analysis

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Dr. J. Randall Woolridge and certain portions of the direct testimony of Kevin W. O'Donnell on behalf of the Florida Office of Public Counsel ("OPC"), the direct testimony of Michael P. Gorman on behalf of the Federal Executive Agencies ("FEA"), the direct testimony of Breandan T. Mac Mathuna and certain portions of the direct testimony of John Thomas Herndon on behalf of Floridians Against Increased Rates, Inc. ("FAIR"), the direct testimony of Billie LaConte on behalf of the Florida Industrial Power Users Group ("FIPUG"), the direct testimony of Karl R. Rábago on behalf of Florida Rising, League of United Latin American Citizens of Florida, and Environmental Confederation of Southwest Florida, Inc. ("FR, LULAC, ECSF"), and the direct testimony of Steve W. Chriss on behalf of Walmart Inc. ("Walmart") as it relates to the appropriate return on equity ("ROE") and capital structure for FPL for the 2022-2025 rate period. I collectively refer to these witnesses as "Intervenor Witnesses."

Q. How is the remainder of your rebuttal testimony organized?

A. My rebuttal testimony is organized by topic/issue, starting in Section II with an overview and summary of the results and recommendations presented by the various ROE witnesses in this proceeding. Section III discusses the importance of using multiple methodologies to estimate the cost of equity for FPL rather than relying on the results of a single financial model. Section IV explains the importance of maintaining financial strength so that FPL has access to capital on reasonable terms and conditions under a variety of economic and financial market conditions. Section V discusses the flaws associated with using authorized returns for electric utilities in other jurisdictions as a benchmark for establishing the return for FPL in this proceeding, and the importance of placing those authorized returns in the proper context. Section VI presents the results of my updated ROE analyses based on market data through June 30, 2021. Section VII discusses economic and capital market conditions and how those conditions are affecting the various models used to estimate the cost of equity for FPL. In Section VIII, I respond to certain intervenor witnesses with respect to the composition of a risk-comparable proxy group for FPL in this proceeding. In Section IX, I address the proper application of the Discounted Cash Flow ("DCF") model, and I discuss areas of disagreement in the application of the DCF model and the relevance of its results under current market conditions. In Section X, I discuss areas of disagreement in the application of the Capital Asset Pricing Model ("CAPM"), and in particular the appropriate inputs to that model. In Section XI, I respond to comments and concerns with regard to my application of the Bond Yield Plus Risk Premium ("Risk Premium") model, as well as provide a critique of their Risk Premium models. In Section XII, I address concerns regarding the use of an Expected Earnings model to estimate the cost of equity for FPL. In Section XIII, I discuss the unique business risk of FPL and how those risks differentiate the Company from the proxy group, and I respond to comments concerning the credit ratings of FPL relative to those for the proxy group companies. In Section XIV, I address comments related to the inclusion of flotation costs in the authorized ROE for FPL. In Section XV, I respond to concerns raised by certain witnesses with respect to FPL's proposed capital structure, and I explain why that capital structure is reasonable by comparison to the proxy group and given the business risks of FPL. Lastly, in Section XVI, I summarize my key conclusions and recommendations.

II. COMPARISON OF COST OF CAPITAL RECOMMENDATIONS

Q. Please summarize the cost of capital recommendations presented by the various witnesses in this proceeding.

A. The Intervenor Witnesses who perform an ROE analysis (Mr. Gorman, Mr. Mac Mathuna, and Dr. Woolridge) recommend an authorized ROE for FPL between 8.56 percent and 9.40 percent. Other Intervenor Witnesses (Mr. Chriss, Ms. LaConte, Mr. Herndon and Mr. Rábago) do not perform their own ROE analysis, but reference authorized returns for electric utilities in other jurisdictions and argue that FPL's authorized ROE should be set at or below those national levels, and, in the case of Mr. Rábago, at less than 10.0 percent. As it relates to capital structure, several of the Intervenor Witnesses recommend a reduction in FPL's proposed equity ratio from 59.60 percent to somewhere within a range from 52.0 percent to 55.4 percent.

As is evident, there are a broad array of recommendations from multiple witnesses. Some are supported by analytical approaches while others are more judgmental or based on decisions from other jurisdictions. At the outset, I submit that the only reliable method for determining the cost of capital is through the application of rigorous analysis using financial models and market data from reliable sources, coupled with a comprehensive risk assessment of the regulated utility.

III. IMPORTANCE OF MULTIPLE METHODOLOGIES

Q. Certain Intervenor Witnesses (Woolridge, Mac Mathuna) recommend that the Commission rely primarily on the results of the DCF model in order to establish the authorized ROE for FPL.[1] Do you agree?

A. No, I do not agree. While the DCF model is widely recognized for purposes of estimating the cost of equity for regulated public utilities, as explained in my direct testimony, it is important to consider the results of multiple methodologies.[2] This is especially true under current market conditions when, as also discussed in my direct testimony, the low interest rate environment has suppressed the dividend yield component of the DCF model due to the high valuations of regulated utility companies.[3] Dr. Woolridge and Mr. Gorman both comment on the high valuations of utilities, and yet neither witness expresses any concerns with how these high valuations affect the results of the DCF model.

---

[1] See, for example, direct testimony of J. Randall Woolridge, at 40, and direct testimony of Breandan T. Mac Mathuna, at 34-35.

[2] Direct testimony of James M. Coyne, at 50-52.

[3] Ibid, at 26-29.

Many industry analysts do not consider these high valuations sustainable, and therefore it is not appropriate to establish the forward-looking cost of equity on historical stock prices and dividend yields that are not expected to be sustainable. As explained in my direct testimony, a fundamental assumption of the DCF model is that current price-to-earnings ("P/E") ratios will remain constant.[4] If that assumption is violated, then the results of the DCF model will tend to understate the forward-looking cost of equity because the current dividend yield component is not reflective of what investors are expecting in the future based on the anticipated decline in share prices and valuations.

The cost of equity cannot be directly observed in the same way as the cost of debt or preferred stock. Therefore, various financial models have been developed in order to estimate the cost of equity, including the DCF model, CAPM, Risk Premium model, and Expected Earnings model. Each model has strengths and shortcomings, depending on market conditions, and no one model always produces reliable or "accurate" results. The Federal Energy Regulatory Commission ("FERC") recognized that market conditions were distorting the results of the DCF model on which FERC had traditionally relied to set the authorized ROE for electric transmission companies. For that reason, FERC moved away from sole reliance on the DCF model and now considers an equal weighting of the results of the DCF, CAPM and Risk Premium models, while

[4] Ibid, at 47.

also considering evidence on the Expected Earnings model on a case-by-case basis.[5] The important conclusion to be drawn is that these various financial models provide estimates of the cost of equity. They cannot be mechanically applied to produce a precise or "correct" authorized ROE for a regulated utility such as FPL. It is incumbent upon the analyst and the regulatory commission to interpret relevant market data and use informed judgment in setting a just and reasonable ROE.

IV. IMPORTANCE OF FINANCIAL STRENGTH

Q. Several of the Intervenor Witnesses (Gorman, Woolridge, O'Donnell) contend that utilities have been able to consistently access capital markets (both equity and debt) to finance investments, even during the recent market dislocation caused by the COVID-19 pandemic.[6] What is your response?

A. While I agree with Mr. Gorman and Dr. Woolridge that certain utilities were able to access debt and equity markets in the past year, even during the distressed market conditions of March and April 2020, this highlights the importance of maintaining financial strength for regulated utility companies. Mr. O'Donnell, in particular, cites examples of NextEra Energy and Xcel Energy being able to issue debt and raise common equity during the COVID-

---

[5] Federal Energy Regulatory Commission, Opinion No. 569-A, Order on Rehearing, May 21, 2020, at para. 140-141 and 132.

[6] See, for example, direct testimony of Michael P. Gorman, at 21-23, direct testimony of Dr. J. Randall Woolridge, at 13-14, and direct testimony of Kevin W. O'Donnell, at 8-9.

19 pandemic.[7] However, this would not have been possible without financial strength, which supports access to capital on reasonable terms and conditions under a variety of economic and financial market conditions. These companies enjoy the benefits of A- credit ratings, and diversification across several jurisdictions and business lines. Financial strength is especially critical during periods of market dislocation, such as those experienced in 2020 and during the financial crisis and Great Recession of 2008-2009. As discussed in the rebuttal testimony of FPL witness Barrett, several companies were unable to access debt markets in 2020, while several other companies were able to access debt markets but at very elevated spreads against Treasury bonds. The depth and duration of the pandemic could have been more severe, and utilities must be prepared for these events with a margin of safety.

Mr. Gorman observes that more utilities have been downgraded than upgraded by credit rating agencies in the past year.[8] Many of these utilities had credit metrics that did not provide sufficient financial cushion for these companies to maintain and support their current credit rating once economic and credit market conditions became more adverse. Another important consideration is that, as discussed in my direct testimony, FPL has a higher ratio of projected capital expenditures to net plant than any company in the proxy group. FPL will require continued access to capital on reasonable terms and conditions in order to finance the investment necessary to continue providing safe and

[7] Direct testimony of Kevin W. O'Donnell, at 10.
[8] Direct testimony of Michael P. Gorman, at 33-34.

reliable electric utility service to its customers.[9] In summary, the authorized ROE and capital structure for FPL should be set at levels that enable the Company to maintain access to capital under a variety of economic and financial market conditions. Never was this more important than in 2020 when financial markets were under extreme stress due to an external shock to the economy that no one could have predicted. In retrospect, it is easy to say that NextEra Energy and FPL weathered that storm, but they could not have done so without having such financial strength.

V. COMPARABLE RETURNS FOR ELECTRIC UTILITIES

Q. Several of the Intervenor Witnesses (Chriss, LaConte, Rábago, Gorman, Herndon) reference authorized ROEs for electric utilities in other jurisdictions.[10] Do you agree that these returns are relevant in establishing the ROE for FPL in this proceeding?

A. National average returns must be placed in the proper context in order to be useful. While I agree that investors consider authorized returns in other states in assessing the reasonableness of the authorized ROE for FPL, I have several concerns with the nationwide average ROE information presented by the Intervenor Witnesses. First, several witnesses present average return data for all electric utilities instead of excluding companies that do not own regulated

---

9 Direct Testimony of James M. Coyne, at 69-70.

10 See, for example, direct testimony of Steve W. Chriss, at 12-14, direct testimony of Billie LaConte, at 5-6, direct testimony of Karl R. Rabago, at 11, and direct testimony of Michael P. Gorman, at 82-83.

electric generation assets. Vertically-integrated electric utilities have a different, higher level of business risk than Transmission and Distribution ("T&D") utility companies that do not own regulated generation.[11] This higher risk profile differentiates integrated electric utilities from T&D utilities and supports a higher authorized ROE and equity ratio in the capital structure.

Second, market conditions at the time the authorized returns were established may be very different than conditions going forward. For example, equity returns set when interest rates were very low in 2020 are not a reasonable basis of comparison for evaluating the authorized ROE when bond yields have increased and are projected to continue increasing as the economy recovers and the Federal Reserve moves to a more neutral monetary policy. Interest rates are forecast to increase by approximately 120 basis points above current average yields on long-term government bonds over the next few years. The use of prior decisions which set ROEs under previously lower levels understates the forward-looking cost of equity.

Third, FPL has a different risk profile than other electric utility companies for which returns were set in other jurisdictions. This means that FPL's cost of equity is higher than the average for other integrated electric utilities.

[11] Moody's Investors Service, Rating Methodology for Electric and Gas Utilities, June 23, 2017, at 21.

Lastly, the average authorized ROE for vertically-integrated electric utilities since 2019 has been 9.63 percent, within a range from 8.75 percent to 10.50 percent.[12] Further, slightly more than 71 percent (40 out of 56 decisions) of authorized ROEs for integrated electric utilities have been between 9.50 percent and 10.50 percent over this period. Notably, the Georgia Public Service Commission approved a settlement agreement in December 2019 that included an authorized ROE for Georgia Power Company of 10.50 percent on 56.00 percent common equity as part of a three year rate plan.

Q. Several Intervenor Witnesses (Chriss, Rábago, Mac Mathuna, Gorman) refer to the June 2021 decision for Duke Energy Florida in which the Commission approved a settlement agreement that included an ROE of 9.85 percent and a common equity ratio of 53.0 percent.[13] Do you agree that this decision is an appropriate reference point?

A. No, this is not a good reference point. It involves a settlement agreement that was reached by Duke Energy Florida ("DEF") without the filing of a traditional rate case. The 2021 Settlement Agreement includes several components including general base rate increases, clarifies cost allocation and rate design matters pertaining to DEF's Storm Protection Plan Cost Recovery Clause, multiple rate design and tariff modifications, and authorizes a new Electric

---

[12] It is reasonable to exclude the August 2020 (8.20%) decision for Green Mountain Power because it was the result of an automatic adjustment formula in Vermont that adjusts the authorized ROE based on changes in the 10-year Treasury bond yield. That decision was not based on a full analysis using current cost of capital market data. The 8.75% authorized return for Otter Tail Power Company was set in South Dakota in May 2019. ROE was the only contested issue, with all other rate case issues resolved as part of a settlement agreement.

[13] See, for example, direct testimony of Michael P. Gorman, at 82, direct testimony of Steve Chriss, at 11, direct testimony of Breandan T. Mac Mathuna, at 102-103, and direct testimony of Karl R. Rabago, at 12.

Vehicle (EV) Program. The cost of capital is just one element of a comprehensive settlement that should not be viewed in isolation. In addition, the Intervenor Witnesses fail to mention that the authorized ROE under terms of the settlement agreement is initially set at 9.85 percent with a range of 8.85 percent to 10.85 percent, and will automatically increase to 10.10 percent if Treasury bond yields rise above 2.264 percent on average over a six month period at any time during the first three years of the four-year rate plan.[14] In addition, DEF's parent holding company, Duke Energy Corporation, is included in my proxy group for FPL, so the ROE results already reflect the risk of this company.

VI. UPDATED ROE RESULTS

Q. Have you updated your ROE analyses?

A. Yes, I have updated the results of the financial models used to estimate the cost of equity for FPL in my direct testimony (data as of February 26) to include market data through June 30, 2021. I have used the same proxy group of 14 electric utility companies. The results of those updated analyses are shown in Figure 1. In response to Mr. Mac Mathuna's use of A-rated utilities in his main proxy group, I have also shown the average results for those companies in my proxy group with S&P ratings of A- or higher. I also have excluded the total market return from Standard and Poor's Earnings and Estimate report of 18.59

[14] Florida Public Service Commission, Duke Energy Florida, LLC, Order No. PSC-2021-0202-AS-EI, June 4, 2021, at 3, as further described in the Settlement Agreement, at Section 2.b.

percent in the calculation of the market risk premium used in my CAPM analysis as it is substantially higher than other estimates.

Figure 1: Updated ROE Results

	Feb 26 data	**June 30 data**
DCF	9.29%	9.05%
CAPM	14.17%	14.41%
Risk Premium	9.88%	10.17%
Expected Earnings	10.22%	10.60%
Range	9.29 – 14.17%	9.05 – 14.41%
Average ROE	10.89%	11.06%
A-rated utilities	10.89%	11.04%

Q. How do these updated results compare with those presented in your direct testimony?

A. The updated results are generally in line with those presented in my direct testimony. In particular, the average of the four models is 11.06 percent, which is slightly higher as compared with 10.89 percent as of February 26, 2021. The mean DCF results have decreased by 24 basis points, the CAPM results have increased by 24 basis points, the Risk Premium results have increased by 29 basis points due to the higher projected Treasury bond yield, and the mean Expected Earnings results have increased by 38 basis points. Moreover, there is no evidence that Beta coefficients for the proxy group of electric utilities have declined since February 2021. Betas from both Value Line and Bloomberg remain near 0.88, which is substantially higher than at any time in the last 20 years, except during the financial crisis of 2008/2009. This suggests an upward shift in the market's perception of the risks for electric utilities.

VII. CAPITAL MARKET CONDITIONS

Q. Some Intervenor Witnesses (Woolridge, Gorman, Mac Mathuna) suggest that your ROE recommendation for FPL depends on higher interest rates.[15] What is your response?

A. I have relied on forecast interest rates in my CAPM model and a combination of current and forecast interest rates in the Risk Premium model. Both Dr. Woolridge and Mr. Gorman likewise rely on projected interest rates in their respective CAPM analyses that are higher than the current level of Treasury bond yields. Dr. Woolridge, for example, relies on a "normalized" risk-free rate of 2.50 percent,[16] while Mr. Gorman relies on the near-term forecast from Blue Chip Financial Forecasts of 2.80 percent as his risk-free rate.[17] While both Dr. Woolridge and Mr. Gorman testify that they expect capital costs to remain low for an extended period of time, both witnesses also recognize that the current level of Treasury bond yields are not representative of what investors are expecting over the near to intermediate term. On that basis, both Dr. Woolridge and Mr. Gorman have used a projected risk-free rate that is higher than current Treasury bond yields. Furthermore, based on its monthly survey

---

[15] See, for example, direct testimony of Dr. J. Randall Woolridge, at 5, direct testimony of Michael P. Gorman, at 92-93 and 105-106, direct testimony of Brendan T. Mac Mathuna at 64.

[16] Direct testimony of Dr. J. Randall Woolridge, at 58-59.

[17] Direct testimony of Michael P. Gorman, at 70.

of leading economists, Blue Chip recently increased its forecast for longer-term projected 30-year Treasury bond yields from 2.80 percent in December 2020 for the period from 2022-2026 to 3.50 percent in June 2021 for the period from 2023-2027.

Further, as explained in my direct testimony, I have made adjustments to the CAPM and Risk Premium models to take into consideration the market's expectation that interest rates will increase over the next several years as the economy recovers and monetary and fiscal stimulus is gradually withdrawn. The DCF model, however, cannot be adjusted to reflect these higher interest rates. Under these market circumstances it is especially important to rely on the results from multiple methods, as I have, placing equal weight on the results of the DCF, CAPM, Risk Premium and Expected Earnings analysis. This approach mitigates the weakness of any one approach, such as the inability to directly incorporate expectations for higher interest rates into the DCF model.

Q. Some Intervenor Witnesses (Woolridge, Gorman, Mac Mathuna, O'Donnell) appear to downplay the inflation risk in financial markets.[18] What is your response?

A. The inflation risk that was discussed in my direct testimony in February 2021(citing articles from Morgan Stanley and Barron's published in January and February earlier this year) has quickly come to fruition, as evidenced by the U.S. Bureau of Labor Statistics ("BLS") announcement on June 10, 2021 that

[18] See, for example, direct testimony of Dr. J. Randall Woolridge, at 14-18, and direct testimony of Michael P. Gorman, at 31-32.

the Consumer Price Index for All Urban Consumers ("CPI-U") increased at a 5.0 percent annual rate over the last 12 months, which was the highest percentage increase in inflation since the 5.4 percent increase for the 12-month period ending August 2008.

While the U.S. Federal Reserve has commented that it views inflation risk as likely being short-term and transitory, six days after the BLS inflation report, the Federal Reserve indicated at its June 16, 2021 FOMC meeting that it would likely need to raise short-term interest rates twice in 2023 (the Fed typically moves in 25 basis point increments) to balance the dual mandate of employment and inflation. This was a sudden departure from the Federal Reserve's March 2021 statement, where they indicated that the federal funds rate was likely to remain near zero through 2023, and contrary to Mr. Gorman's and Mr. O'Donnell's direct testimony, both which cite the Federal Reserve's earlier position.[19]

With regard to whether inflation is short-term or transitory in nature, several investment advisory firms and economists have expressed the view that inflation will last longer than expected. For example, a June 25, 2021 Reuters article indicated that Bank of America expects U.S. inflation to remain elevated for an extended period:

> BofA expects U.S. inflation to remain elevated for two to four years, against a rising perception of it being transitory,

---

[19] Direct testimony of Michael P. Gorman, at 31-32 and direct testimony of Kevin W. O'Donnell, at 12-13.

> and said that only a financial market crash would prevent central banks from tightening policy in the next six months. It was "fascinating so many deem inflation as transitory when stimulus, economic growth, asset/housing/commodity inflation are deemed permanent," the investment bank's top strategist Michael Hartnett said in a note on Friday. Hartnett thinks inflation will remain in the 2%-4% range over the next 2- 4 years. U.S. inflation has averaged 3% in the last 100 years, 2% in the 2010s, and 1% in 2020, but it has been annualizing at 8% so far in 2021, BofA said in the note.[20]

New York University economics professor Nouriel Roubini also commented recently that he expects inflation to be more than transitory, stating:

> "I'm on the side of those who believe that the rise in inflation is not going to be transitory, is going to be more persistent. We have a massive monetary and fiscal stimulus, much bigger and more protracted than we had after the global financial crisis (in 2008/09)."
>
> "Inflation expectations are rising, the dollar is weakening, and that implies imported inflation and higher dollar price of commodities. The Fed wants to overshoot 2% with the risk of the ongoing inflation expectation."
>
> "So we're going to end up with high inflation and a wage-price spiral over time. And the Fed cannot tighten because there is too much debt in the system, if they're going to try to tighten too soon, the system is going to crash. So they're in a debt trap. They are in a fiscal dominance."[21]

Q. Have any of the Intervenor Witnesses addressed or responded to your analysis regarding the steepening yield curve?

A. No, not directly. In my direct testimony, I explained that the yield curve, as measured by the spread between 2-year and 10-year Treasury bonds, had

---

[20] Reuters, U.S. Inflation likely to remain elevated for up to four years – BofA, June 25, 2021.

[21] Yahoo! Finance, "Roubini warns on inflation, sees 'crash' if Fed moves too soon on rates," June 24, 2021.

widened substantially in recent months and was at the widest level since before January 2018.[22] A steepening of the yield curve indicates that investors are anticipating an economic recovery. The utility sector is not typically in favor with investors during periods of strong economic growth, as evidenced by Charles Schwab's sector analysis, which shows that Schwab has rated the Utility sector as Underperform since June 2020. In the June 2021 report, while noting several positives for the sector (i.e., generally stable revenues, the fact that investors often turn to utilities for dividend income when interest rates are low, and that low yields provide low-cost funding for this capital intensive sector), Schwab also commented on the negative factors and risks of the Utilities sector as follows:[23]

Negatives for the sector:

- Interest rates have begun to move higher.
- Economic recovery makes the sector less attractive, relative to other sectors.

Risks for the sector:

- Uncertainty regarding potential clean-energy legislative funding.
- Much higher interest rates due to unexpected rise in inflation.

The Schwab report confirms that investors see utilities as relatively less attractive during periods of stronger economic growth, and that there is a risk

[22] Direct Testimony of James M. Coyne, at 35-38.
[23] David Kastner, "Schwab Sector Insights: A View on 11 Equity Sectors," June 6, 2021.

of much higher interest rates due to stronger than expected inflation. Both of these factors support an authorized ROE well above the levels proposed by the Intervenor Witnesses.

VIII. PROXY GROUP COMPOSITION

Q. Certain Intervenor Witnesses have developed their own proxy group of companies. Please summarize those proxy groups.

A. Mr. Gorman adopts my proxy group of 14 electric utilities. Dr. Woolridge develops his own proxy group consisting of 26 electric utilities based on a different set of screening criteria, while also presenting the results of his various ROE analyses for the companies in my proxy group. Mr. Mac Mathuna has developed two proxy groups, the first with five electric utilities and the second with 11 electric utilities. The other Intervenor Witnesses do not develop their own ROE analyses, but rely primarily on authorized returns in other jurisdictions as a benchmark of reasonableness for the ROE requested by FPL in this proceeding.

Q. Do you have any concerns with Dr. Woolridge's proxy group?

A. Yes. Dr. Woolridge uses somewhat different screening criteria to develop his proxy group, which results in a much larger group consisting of 26 electric utility companies, including NextEra Energy, the parent holding company of FPL.[24] I disagree with Dr. Woolridge's inclusion of electric utility companies

[24] Direct testimony of Dr. J. Randall Woolridge, at 24-26.

that do not own regulated generation assets because, as discussed previously, those companies have a different risk profile than vertically integrated electric utilities such as FPL. In particular, I disagree with the inclusion in the proxy group of Consolidated Edison, Inc. and Eversource Energy, both of which are T&D utilities that do not own significant generation assets. In spite of this disagreement, my conclusion is that differences in our respective proxy groups do not account for the differences in our respective analyses or ROE recommendations.[25]

Q. Please comment on the two proxy groups that Mr. Mac Mathuna developed.

A. Mr. Mac Mathuna's first proxy group, which he considers to be the most risk comparable group to FPL, consists of only five electric utilities.[26] In developing this proxy group, Mr. Mac Mathuna has applied a credit rating screen that is overly restrictive, and he has provided no evidence that investment grade companies with credit ratings more than one or two notches below the subject company (in this case, FPL has a long-term issuer rating of A from S&P and A1 from Moody's) have a higher cost of equity. Rather than relying solely on an overly restrictive credit rating screen as Mr. Mac Mathuna has done to exclude the vast majority of electric utility companies from his proxy group, Mr. Mac Mathuna might also have considered another reasonable indicator of risk for an equity investor, which is Beta. From that perspective, the Beta

[25] If we look at Dr. Woolridge's DCF model using only projected EPS growth, the result increases from 9.32% to 9.37% with the exclusion of ED and ES.

[26] Direct testimony of Breandan T. Mac Mathuna, at 14-20.

coefficients for higher rated electric utilities are similar to those for lower rated investment grade companies in the current market environment.

Not only does Mr. Mac Mathuna's first proxy consist of only five electric utility companies, but it also includes two companies (NextEra Energy, the parent of FPL, and Eversource Energy, which has no generation ownership) that should be excluded. This would result in a proxy group of only three companies that would not pass a reasonable standard of validity. FERC, for example, has established a standard of four and preferably five companies at a minimum.[27] Mr. Mac Mathuna also develops a second proxy group consisting of 11 electric utilities based on a somewhat relaxed credit rating screen. However, he claims that this second group is more risky than FPL, and therefore he argues that the results for this second group are higher than the cost of equity for FPL. Once again, this second proxy group includes NextEra Energy and Eversource Energy, both of which should be excluded from the comparator group for FPL. Using this second proxy group would bring Mr. Mac Mathuna's DCF results more in line with those I have estimated, as there is substantial overlap in our companies. But, because he relies exclusively on the Two-Stage DCF model, he misses the important information conveyed by the CAPM, Risk Premium and Expected Earnings models which do not corroborate his results.

[27] 171 FERC ¶ 61,155, Inquiry Regarding the Commission's Policy for Determining Return on Equity, May 21, 2020, at para 59.

IX. DCF MODEL

Q. A few Intervenor Witnesses (Woolridge, Mac Mathuna) base their ROE recommendations primarily on the results of their DCF analysis,[28] while Mr. Gorman sets the lower boundary of his range of results based on his DCF model.[29] Do you agree that it is appropriate to place this degree of reliance on the DCF model?

A. No, I do not. As discussed in my direct testimony, while many U.S. utility regulators have used the DCF model to establish the authorized ROE, several regulators, including FERC, have recognized the challenges associated with relying solely on the DCF to establish the authorized ROE for regulated utilities in the low interest rate environment of recent years.[30] For that reason, other federal and state regulators have relied on the results of multiple methodologies both to test the reasonableness of the DCF results and to establish a cost of equity that reflects investors' required return on a going- forward basis. This is particularly logical and applicable when rates are set based on projected test years.

Q. Please elaborate on your concerns with the DCF model under current market conditions.

A. Although I have provided the results of a Constant Growth DCF model, I have concerns with the ability of the DCF model to produce reliable results under

[28] See, for example, direct testimony of Dr. J. Randall Woolridge, at 40, Breandan T. Mac Mathuna, at 34-35.

[29] Direct testimony of Michael P. Gorman, at 76.

[30] Direct testimony of James M. Coyne, at 50-52.

current market conditions. This concern is amplified with an ROE analysis or recommendation relying exclusively on the DCF model. As explained in my direct testimony, dividend yields for utilities are suppressed by the low interest rate environment. As interest rates increase, however, the dividend yields for utilities will need to increase to compete with the higher bond yields, meaning that utility share prices and valuations are not sustainable at current levels. Basing the authorized ROE on historical average stock prices and dividend yields that are not considered sustainable causes the DCF model to understate the forward-looking cost of equity.[31]

Both Dr. Woolridge and Mr. Gorman observe the high valuations of electric utilities, with Dr. Woolridge citing the higher than average market-to-book ratios and Mr. Gorman referencing the higher than average P/E ratios. Both witnesses contend that those high valuations are an indication that utilities have access to capital at very low cost. They disregard the effect of those high valuations on the results of the DCF model, in particular the dividend yield component. In my experience, growth rates for electric utilities have generally remained in the 5.0 percent to 6.0 percent range over the past decade, even as utility share prices have increased while government bond yields have been pressed to near record low levels. This indicates that investors are paying more for a dollar of earnings from electric utilities than they did 10 years ago. As the economy recovers and monetary policy moves toward a more neutral stance,

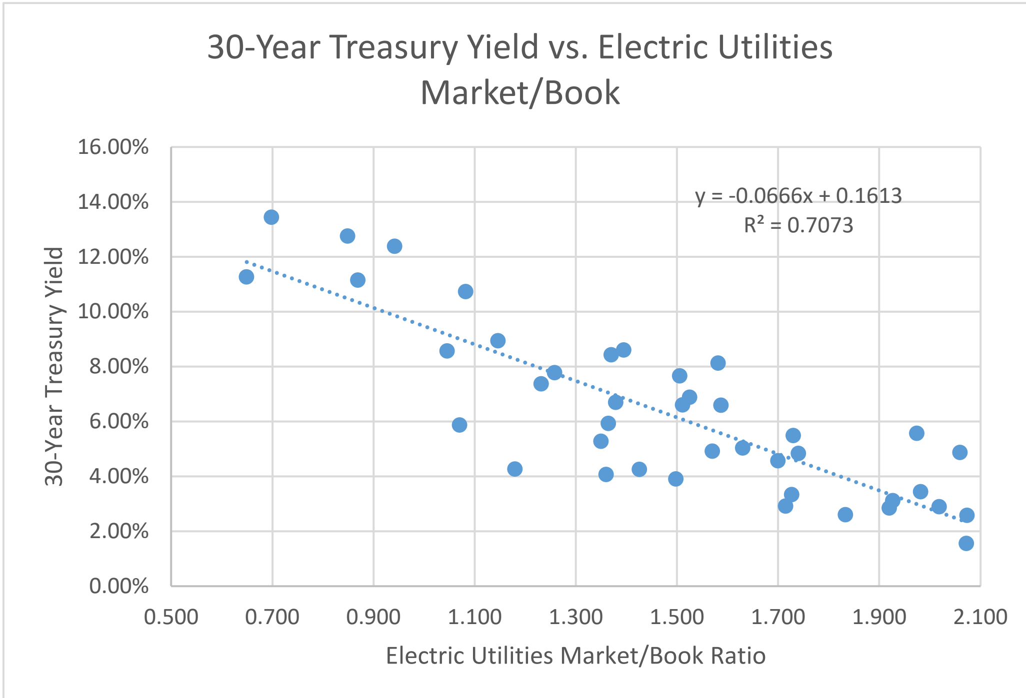
[31] Ibid, at 26-29.

interest rates are expected to increase from current levels. This is expected to place pressure on these high valuations, as shown in Figure 7 of my direct testimony. As a result, my conclusion is that the DCF model is understating the forward-looking cost of equity for regulated utilities such as FPL because the model is based on average historical stock prices that are not sustainable.

In response to comments from Dr. Woolridge[32] and Mr. Mac Mathuna regarding high market-to-book ("M/B") ratios being a sign that authorized ROEs for regulated utilities are higher than the investor required cost of equity, I performed an analysis that examines the correlation between government bond yields and the market-to-book ratios for electric utilities since 1980, using data provided in Exhibit MPG-17 to Mr. Gorman's direct testimony. The R^2 for this analysis is approximately 0.71, indicating a strong linear relationship between M/B ratios and interest rates. This relationship indicates that utility M/B ratios have increased not because authorized returns were higher than the true cost of equity, but because interest rates on government bonds have steadily declined for the past four decades. Low interest rates are favorable for capital-intensive industries such as utilities, while increasing interest rates are not.

[32] Direct testimony of Dr. J. Randall Woolridge, at 36-37.

Figure 2: Market-to-Book Ratios and Interest Rates



Q. Do you agree with the use of growth rates in the DCF model other than forecast earnings per share growth rates from equity analysts?

A. No, I do not. Dr. Woolridge considers a variety of growth rates including both historical and projected earnings per share, dividends per share, and book value per share. Dr. Woolridge and Mr. Gorman also present a DCF model using sustainable growth rates. In response to Dr. Woolridge's use of historical growth rates and forecast growth rates other than EPS, I agree with Mr. Gorman's statement that "[a]s predictors of future returns, securities analysts' growth estimates have been shown to be more accurate than growth rates derived from historical data."[33] As explained in my direct testimony, over the

33 Direct testimony of Michael P. Gorman, at 50.

long term, dividend growth can only be sustained by earnings growth,[34] while dividend growth can depend on management decisions regarding the dividend payout ratio over the near-term which do not reflect the long-term growth prospects of the company. As shown in Exhibit JMC-17, if Dr. Woolridge had relied only on analysts' projected EPS growth rates in his Constant Growth DCF analysis, the mean results for his proxy group of 26 electric utilities would be 9.32 percent. Although these results are well below a reasonable cost of equity for FPL, they are 57-82 basis points higher than Dr. Woolridge's ROE recommendation of 8.75 percent (or 8.50 percent with 59.60 percent common equity).

I also agree with Mr. Gorman's decision to essentially discard the results of his Constant Growth DCF analysis that uses sustainable growth rates. I also note that both Dr. Woolridge's and Mr. Gorman's sustainable growth rate calculation rely on Value Line's projected ROE data for the proxy group companies. Those projected ROEs are substantially higher than the results of the DCF model using sustainable growth rates presented by either Dr. Woolridge or Mr. Gorman, and demonstrate the fact that investors are expecting to earn higher returns on equity from the proxy group companies than what is shown by the DCF model using sustainable growth rates.

---

[34] Direct testimony of James M. Coyne, at 48-49.

Q. Dr. Woolridge expresses concern that analysts' projected EPS growth rates are "overly-optimistic and upwardly biased,"[35] while Mr. Gorman claims that long-term GDP growth serves as a cap on long-term EPS growth rates and suggests that short-term EPS growth rates are too high.[36] Do you share those concerns about analysts' projected EPS growth rates?

A. No, I do not. The 2003 Global Analysts Research Settlement (the "Global Settlement") served to significantly reduce the bias referred to by Dr. Woolridge. In fact, the Global Settlement required financial institutions to insulate investment banking from analysis, prohibited analysts from participating in "road shows," and required the settling financial institutions to fund independent third-party research.

A 2010 article in Financial Analysts Journal found that analyst forecast bias declined significantly or disappeared entirely after the Global Settlement:

> Introduced in 2002, the Global Settlement and related regulations had an even bigger impact than Reg FD on analyst behavior. After the Global Settlement, the mean forecast bias declined significantly, whereas the median forecast bias essentially disappeared. Although disentangling the impact of the Global Settlement from that or related rules and regulations aimed at mitigating analysts' conflicts of interest is impossible, forecast bias clearly declined around the time the Global Settlement was announced. These results suggest that the recent

[35] Direct testimony of Dr. J. Randall Woolridge, at 50-52.

[36] Direct testimony of Michael P. Gorman, at 56-57.

> efforts of regulators have helped neutralize analysts' conflicts of interest.[37]

In addition, analysts covering the common stock of the proxy companies certify that their analyses and recommendations are not related, either directly or indirectly, to their compensation. Thus, it is unclear why investors would assume that the proxy companies are susceptible to a continuing upward bias in earnings projections, especially given the fact that electric utilities operate in the mature stage of a stable industry with a very high degree of financial transparency due to their regulation. Further, to the extent Dr. Woolridge believes that investors are well aware of these optimistic or biased growth rates, that suggests that utility stock prices already reflect that information.

Likewise, actual earnings data belie Mr. Gorman's position that projected GDP growth represents a cap on long-term EPS growth. The suggestion that equity earnings are limited by future growth in GDP may hold for aggregate corporate earnings in a closed economy but these are not realistic assumptions for an individual firm nor for utilities in general.[38] To illustrate this point, I have compared the actual historical EPS and DPS growth rates (to the extent data was available through Value Line) of all U.S. electric utilities and the companies in my proxy group from 2011-2021 to historical and projected GDP

---

[37] Armen Hovakimian and Ekkachai Saenyasiri, *Conflicts of Interest and Analyst Behavior: Evidence from Recent Changes in Regulation*, Financial Analysts Journal, Volume 66, Number 4, July/August 2010 at 195.

[38] See MSCI Barra Research Bulletin, Is There a Link Between GDP Growth and Equity Returns? (May 2010).

growth rates from Blue Chip, the Energy Information Administration, and the Social Security Administration. The results are shown in Figure 3.

Figure 3: Analysis of EPS, DPS and GDP Growth Rates

		[1] Historical 2011 - 2021		[2] Historical 2011 - 2021	[3] Projected	% Historical Difference		% Historical Multiple	
	No. of Companies	**EPS Growth**	**DPS Growth**	**GDP Growth**	**GDP Growth**	**EPS vs GDP**	**DPS vs GDP**	**EPS vs GDP**	**DPS vs GDP**
U.S. All Electric Companies [4]	36	4.39%	5.24%	3.74%	4.18%	0.66%	1.50%	1.2	1.4
FPL Proxy Group	14	4.85%	5.15%	3.74%	4.18%	1.11%	1.41%	1.3	1.4
AVERAGE		4.62%	5.19%	3.74%	4.18%	0.88%	1.46%	1.2	1.4

Notes
[1] TTM EPS/DPS % CAGR over the time period 2011 Q1 - 2021 Q1 (latest reported quarter). Companies with negative or zero EPS or DPS in 2021, or negative values in the starting year as reported by Bloomberg Professional, were excluded from this calculation.
[2] Source: Bureau of Economic Analysis, June 24, 2021, nominal GDP % CAGR over the time period 2011 Q1 - 2021 Q1.
[3] Source: Blue Chip Financial Forecasts, Energy Information Administration, and Social Security Administration, as of 2021 Q1.
[4] As covered by Value Line at 2021 Q1. FirstEnergy was excluded from the analysis due to declines as a result of anomalous events.

As shown above, the EPS and DPS growth rates of utilities can, and do, exceed GDP growth for sustained periods. Specifically, for the FPL proxy group, historical EPS has exceeded historical GDP growth by 1.1 percent from 2011-2021 and historical DPS has exceeded historical GDP growth by 1.4 percent over the same period. This rate of growth is 30-40% greater than GDP over this same period. My conclusion is that it is not unreasonable to rely on analyst EPS growth projections, as I and other experts commonly do, just because they exceed GDP growth.

No company, or investor, would be satisfied with growth that simply tracks the broader economy. Investors would shift capital to more attractive investments. Companies are constantly searching for new avenues of growth and have levers such as capital resource allocation to achieve growth greater than GDP. There is no reason to expect that an individual corporation competing for capital as a going concern will limit earnings or dividend growth to GDP. In my opinion, limiting growth in the DCF model to long-term GDP is an unfounded constraint. Therefore, I do not share Mr. Gorman's concern that analysts' projected EPS growth rates are too high. The average EPS growth rate that Mr. Gorman uses in his Constant Growth DCF model (i.e., 5.38 percent) are almost exactly the same as those used in my updated Constant Growth DCF analysis (i.e., 5.40 percent).

Furthermore, I note that Mr. Gorman relies on analyst's projected EPS growth rates in his Constant Growth DCF model, which forms the lower boundary of his range of results, while discarding the results of his Multi-Stage DCF model results that include projected GDP growth in the terminal stage.

Q. Intervenor Witnesses have also presented the results of a Multi-Stage DCF model.[39] Do you agree that the results and weight placed on those analyses are reasonable?

A. No, I do not. Mr. Gorman presents the results of a Multi-Stage DCF analysis but then once again elects not to rely on those results in setting his range or recommendation for FPL, presumably because he views the results as being too low.[40] Mr. Mac Mathuna also presents the results of a two-stage DCF model, but unlike Mr. Gorman, he relies on those results for his ROE recommendation of 8.56 percent, even though an authorized return at this level is approximately 200 basis points lower than FPL's current authorized ROE and more than 100

---

[39] See, for example, direct testimony of Michael P. Gorman, at 61, and direct testimony of Breandan T. Mac Mathuna, at 35-37.

[40] Direct testimony of Michael P. Gorman, at 61-62.

basis points lower than the average authorized ROE for integrated electric utilities nationwide since January 2019. Dr. Woolridge does not present a Multi-Stage DCF analysis.

The Multi-Stage DCF model suffers from the same concerns I have with the Constant Growth DCF model (i.e., unsustainably high utility valuations and low dividend yields) and produces even lower ROE estimates when a projected GDP growth rate of 4.20 percent or 4.35 percent is used in the terminal stage (in the case of Mr. Gorman) or the second stage (in the case of Mr. Mac Mathuna). The GDP growth rates themselves are not unreasonable; it's their use as a limit on the earnings growth of utilities that exhibit stronger growth historically. Furthermore, although Mr. Mac Mathuna refers to FERC's reliance on the Multi-Stage DCF model, he fails to mention that FERC has moved away from exclusive reliance on the Multi-Stage DCF model due to concerns with the effect of market conditions on the dividend yield component of that model, and instead has placed equal weight on the results of the DCF model, the CAPM, and the Risk Premium model in Opinion No. 569-A.

Mr. Mac Mathuna also applies the growth rate component differently than FERC's methodology in recent decisions for electric transmission companies. In particular, Mr. Mac Mathuna assigns 2/3 weight to short-term projected EPS growth and 1/3 weight to projected GDP growth in his Multi-Stage DCF model, whereas FERC has more recently assigned 80 percent weight to short-term EPS growth and 20 percent weight to projected GDP growth. Even using FERC's weights on short-term and long-term growth, however, would not cause the Multi-Stage DCF model to produce reasonable results. My conclusion is that Mr. Mac Mathuna's sole reliance on the results of the Multi-Stage DCF model to the exclusion of other models is not reasonable, especially under current market conditions.

Q. According to Ms. LaConte, "Mr. Coyne has rejected his DCF analysis." In particular, she points to the fact that your range excludes the mean low results of your DCF model.[41] Do you agree?

A. No. I have given the results of the DCF model equal weight with the other three models, as discussed in my direct testimony. Ms. LaConte agrees that it is reasonable to use the DCF model "in conjunction with other models to determine FPL estimated return on equity."[42] There would be no basis to rely on the mean low results of my DCF model because those results are substantially below a reasonable estimate of the cost of equity for an integrated electric utility under current market conditions. Further, Ms. LaConte does not justify why the mean low results would be any more relevant than the mean high results.

---

[41] Direct testimony of Billie S. LaConte, at 13-14.
[42] Ibid, at 14.

X. CAPITAL ASSET PRICING MODEL

Q. Some Intervenor Witnesses either suggest using the six month average Treasury bond yields of 1.93 percent as the risk-free rate in the CAPM analysis (Mac Mathuna),[43] or question the accuracy of interest rate forecasts (Woolridge, Gorman, Mac Mathuna) and object to your use of a projected 30-year Treasury bond yield as the risk-free rate.[44] How do you respond?

A. As explained earlier in my Rebuttal Testimony and in my Direct Testimony, I believe the use of projected 30-year Treasury bond yields as the risk-free rate in the CAPM analysis is appropriate because interest rates are expected to increase from current levels as the economy recovers and as inflation remains a concern for investors. It is not reasonable to use the current average 30-year Treasury bond yield of 2.32 percent as the risk-free rate when investors are expecting that Treasury bonds will yield 3.50 percent over the period from 2023-2027, according to Blue Chip's June 2021 long-term outlook. In addition, I do not share Mr. Gorman's concern with the accuracy of projected bond yields over a five year period, and I observe that he uses near-term projected bond yields from Blue Chip which cover only the next five or six quarters. Moreover, Mr. Gorman's projected GDP growth rate of 4.35 percent in his Multi-Stage DCF model is also taken from Blue Chip and covers the same five year period

---

43 Direct testimony of Breandan T. Mac Mathuna, at 66.

44 See, for example, direct testimony of Dr. J. Randall Woolridge, at 87-89, direct testimony of Michael P. Gorman, at 106, and direct testimony of Breandan T. Mac Mathuna, at 64-66.

as the projected Treasury bond yields I have relied on in my CAPM analysis. It is unclear why Mr. Gorman finds the projected GDP growth rate from Blue Chip to be reasonable, but has concerns with the projected Treasury bond yields from the same source and over the same time period.

Further, even though I do not agree with the use of the current average Treasury bond yield as the risk-free rate, I note using current bond yields in the CAPM model produces results (shown in Exhibit JMC-17) well above the DCF model results and much higher than the CAPM results put forth by Dr. Woolridge, Mr. Gorman, and Mr. Mac Mathuna. My conclusion is that it is reasonable and appropriate to use the projected 30-year Treasury bond yield as the risk-free rate under current market conditions when interest rates are forecast to increase by approximately 120 basis points above current average yields on long-term government bonds. The use of a current risk-free rate understates the forward-looking cost of equity estimate from the CAPM analysis.

Q. Certain Intervenor Witnesses (Woolridge, Gorman) observe that current Beta coefficients from Value Line are higher than the historical average for the electric utility industry.[45] Do you view this as a reason to adjust or question the current Beta coefficients?

A. No, I do not. Beta is the measure of relative risk in the CAPM analysis. The utility industry has typically had lower than average Beta coefficients because electric utilities generally tend to be less volatile than the broad market.

[45] See, for example, direct testimony of J. Randall Woolridge, at 60-63, and direct testimony of Michael P. Gorman, at 71-72.

However, as discussed in my direct testimony, that was not the case during the market dislocation that occurred in response to the COVID-19 pandemic. Five year Beta coefficients from both Value Line and Bloomberg increased substantially in February and March 2020 to levels not seen since the financial crisis of 2008/2009 and have remained at those elevated levels ever since.[46] In my view, there is no reason to use the longer-term average Beta coefficients, as suggested by Dr. Woolridge and Mr. Gorman, because both Value Line and Bloomberg Beta coefficients are calculated using five years of weekly return data against a broad market index (either the S&P 500 or the NYSE Composite). This five year period pre-dates the COVID-19 period by 3.5 years, which suggests that the proxy group Beta coefficients are being affected by factors other than the pandemic.

As discussed in my direct testimony, electric utilities have not served as a safe haven for investors during the recent economic downturn. This was due, in part, to the fact that demand for electric utility service was negatively impacted for commercial and industrial customers to a much greater extent than normally happens during a typical recession due to government imposed lockdowns and business closures to combat the spread of the coronavirus.[47] Even though residential electricity demand increased over this same period, and even as restrictions have been loosened and much of the economy has re-opened in

[46] Direct testimony of James M. Coyne, at 33-34 and 58-59.
[47] Ibid, at 31-33.

recent months, the Beta coefficients for electric utilities remain at elevated levels.

I do not agree with Dr. Woolridge that it is reasonable to question the methodology that Value Line uses to calculate its reported Beta coefficients, including the time period over which Betas are calculated, the market index that is used to compute weekly returns for the broader market, and the Blume adjustment that is intended to take into account the tendency of Beta to regress to the market mean of 1.0 over time. I note that Beta is a measure of relative risk in the CAPM analysis. Utilities have traded in line with the broad market since February 2020, suggesting that they currently are not perceived by investors as a low-risk, defensive sector. Dr. Woolridge has consistently relied on Value Line Beta coefficients for many years without questioning Value Line's methodology. It is not appropriate to change his position simply because the current Beta coefficients for electric utilities are higher than historical levels. To my knowledge, he has always accepted and relied on Value Line betas when they were in the range of 0.60 and 0.70.

Similarly, in addition to relying on the current Value Line Beta coefficients for his proxy group, Mr. Gorman also computes average Value Line Betas over a ten year period and establishes a range of 0.60 to 0.80. From within that range, he selects the midpoint of 0.72 as a reasonable Beta coefficient for electric utilities and presents a version of his CAPM analysis using that historical average Beta rather than the current Betas for his proxy group companies.[48] Again, I do not agree with Mr. Gorman that it is necessary to question the current Value Line Betas in the CAPM analysis because the other inputs to that model (i.e., risk-free rate and market risk premium) are also being affected by the same factors that are affecting utility betas.

Q. Some Intervenor Witnesses challenge the forward-looking market risk premium you have used in your CAPM analysis.[49] Can you please respond to their concerns?

A. The use of a forward-looking or projected market risk premium ("MRP") is appropriate because the use of historical market return data does not reflect the inverse relationship between interest rates and the equity risk premium. The Ibbotson data that is commonly used to calculate the historical MRP of 7.25 percent indicates that the long-term average return on large company stocks from 1926-2020 has been 12.16 percent, while the average income-only return on government bonds has been 4.91 percent over the same period. It is not reasonable to use the historical MRP when the current average yield on the 30-year Treasury bond is 2.32 percent, or approximately 260 basis points lower than the bond yield used to calculate the historical MRP. With interest rates at these levels, the forward-looking MRP should be higher than 7.25 percent.

---

[48] Direct testimony of Michael P. Gorman, at 71-72.

[49] See, for example, direct testimony of Dr. J. Randall Woolridge, at 89-103, direct testimony of Michael P. Gorman, at 90-92, and direct testimony of Breandan T. Mac Mathuna, at 67-74.

Second, the method I have used to calculate the forward-looking MRP is consistent with the methodology used by FERC in Opinion No. 531-B. Specifically, the forward-looking MRP in my CAPM analysis is derived by calculating the expected total return for the companies in the S&P 500 Index less the projected risk-free rate. It is appropriate to include growth rates for non-dividend paying companies because when investors purchase the Index or a mutual fund or exchange traded fund that mirrors the Index, their total return is based on the returns for all 500 companies in the Index, not only those companies that pay dividends, or those with positive EPS growth rates or growth rates less than 20 percent. Further, my MRP calculation is internally consistent because the Betas used in my CAPM analysis are calculated against all companies in the S&P 500 Index or the NYSE Composite Index, not just against those companies that pay dividends or have positive growth rates or growth rates less than 20 percent.

Third, the current low interest rate environment is due to economic weakness caused by the COVID-19 pandemic. The U.S. Congress has supported the economy by providing fiscal stimulus, and the Federal Reserve has reduced short-term interest rates and engaged in Quantitative Easing (i.e., bond-buying, asset purchases, etc.), which has caused long-term interest rates to decline. Under these conditions, it is perfectly reasonable that projected growth rates for the S&P 500 companies would be higher than the historical average assuming that financial markets have confidence that the actions taken to stimulate the economy will be successful and lead to economic recovery.

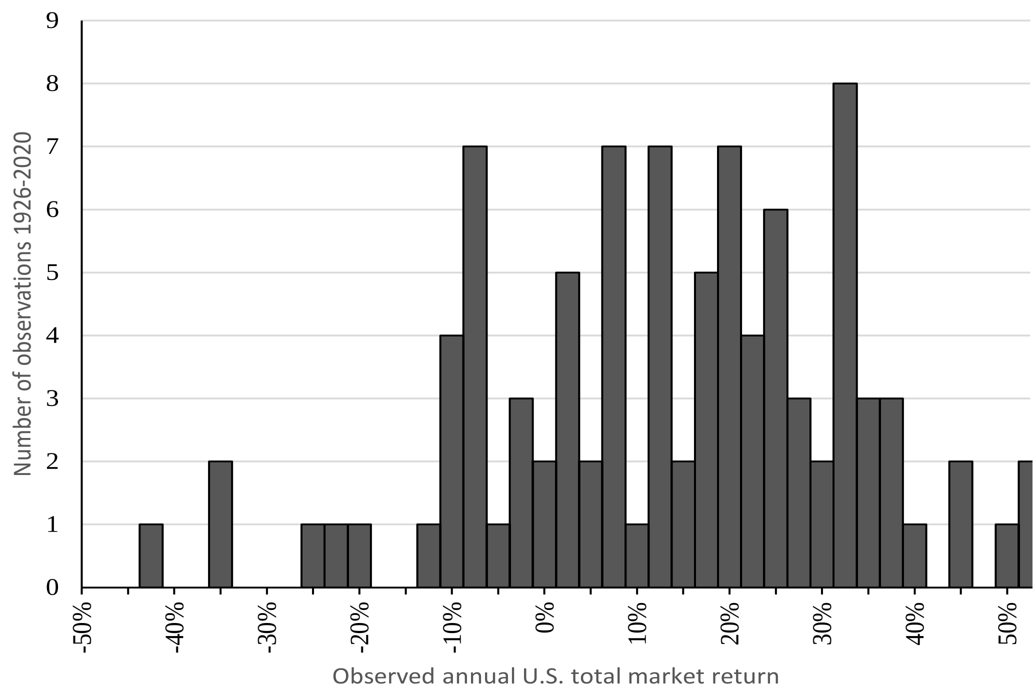
Dr. Woolridge refers to the compounded annual return for the broad market as being about 10.0 percent,[50] while Mr. Gorman states that historical capital appreciation for the S&P 500 has been 6.2 percent to 8.0 percent.[51] Both witnesses argue that the total market return used in my forward-looking MRP calculation is not reasonable on that basis. However, these averages obscure the wide distribution in realized equity returns from year to year. I have analyzed the annual performance of the S&P 500 from 1926-2020. As shown in Figure 4 below, the actual return on the S&P 500 Index has exceeded 15 percent in 49 percent (47 out of 95) of the years from 1926-2020. These data demonstrate that actual total returns for the broad market greater than 15 percent are not uncommon, as alleged by Dr. Woolridge and Mr. Gorman.

---

50 Direct testimony of Dr. J. Randall Woolridge, at 91.

51 Direct testimony of Michael P. Gorman, at 91. This does not include dividends.

Figure 4: Total Returns of S&P 500 Index – 1926-2020



In my updated results, I have excluded the total market return of 18.59 percent from the June 30, 2021 S&P Earnings and Estimates report in my calculation of the forward-looking MRP. This produces a reasonable, if not conservative, MRP of 11.98 percent based on EPS growth rates for the S&P 500 companies from Bloomberg and Value Line.

My conclusion is that using reasonable forward-looking inputs for the risk-free rate and MRP, along with current Betas from Value Line and Bloomberg, the CAPM is producing results that are much higher than the DCF model and well above authorized returns for integrated electric utilities in other states.

Q. Ms. LaConte contends that in addition to a forward-looking MRP you should also have used a long-term historical MRP, which she calculates as 7.15 percent.[52] How do you respond?

A. As indicated in an earlier response, the use of a historical market risk premium is not appropriate under current market conditions because it does not reflect the inverse relationship between interest rates and the equity risk premium. When the current average yield on U.S. Treasury bonds is well below the long-term historical average yield, it is reasonable to expect that the MRP would be well above the historical average of 7.15 percent.

XI. RISK PREMIUM MODEL

Q. Several of the Intervenor Witnesses challenge the use of a Risk Premium model such as the one you have presented, or they contend that your application of the Risk Premium model is not reasonable.[53] How do you respond to their concerns?

A. Dr. Woolridge has expressed three primary concerns regarding my Risk Premium analysis: (1) that I have used historical authorized ROEs and Treasury yields and applied the resulting risk premium to projected Treasury yields; (2) that the analysis is a gauge of regulatory commission behavior not investor behavior, and (3) that my methodology produces an inflated required rate of

---

[52] Direct testimony of Billie S. LaConte, at 15-16.

[53] See, for example, direct testimony of Dr. J. Randall Woolridge, at 104-106, direct testimony of Michael P. Gorman, at 94-96, direct testimony of Billie S. LaConte, at 16, and direct testimony of Breandan T. Mac Mathuna, at 76-78.

return because utilities have been selling at M/B ratios well in excess of 1.0 for many years.[54]

With regard to Dr. Woolridge's first concern, my Risk Premium analysis determines the appropriate risk premium based on the relationship between historic authorized ROEs for integrated electric utilities and Treasury bonds yields. FERC has adopted a similar approach in one of its approved methodologies for setting ROEs for electric transmission companies.[55] I disagree with Dr. Woolridge that it is incorrect to apply the historical risk premium from this analysis to current and projected Treasury yields in order to estimate the ROE at specified interest rates. As shown in Exhibit JMC-6, my Risk Premium analysis is supported by a regression equation that evaluates the relationship between Treasury bond yields and the equity risk premium over time. The regression equation has an R^2 of 0.83, meaning that it can be used to predict the equity risk premium at differing levels of interest rates. In other words, my Risk Premium analysis is designed to do exactly what Dr. Woolridge suggests it cannot – that is, use the historical relationship between bond yields and equity risk premia to predict how investors will react to changes in interest rates as a result of monetary policy and economic conditions.

54 Direct testimony of Dr. J. Randall Woolridge, at 105-106.
55 Federal Energy Regulatory Commission, Opinion No. 569-A, Order on Rehearing, issued May 21,2020, at para. 105-106 and 108-109.

In response to Dr. Woolridge's second concern, while my Risk Premium analysis is based on authorized ROEs and the corresponding Treasury yields at the time the regulatory decisions were issued, I believe that investors are informed by allowed ROEs from hundreds of rate case decisions to frame their return expectations. A fundamental principle in setting a just and reasonable return is that the return must be comparable to returns available to investors in companies with commensurate risk. In that regard, the returns that have been authorized for other electric utility companies is one relevant consideration for investors. This analysis must, however, reflect interest rates that prevailed when these ROEs were set and adjusted for current or projected rates to be valid. This analysis shows what those returns are in relation to the risk-free rate, so that it is possible to use historical returns to estimate future returns given current and projected Treasury yields.

In response to Dr. Woolridge's third concern, I have previously addressed this in the capital markets section of this Rebuttal testimony. As demonstrated there, utility M/B ratios have increased not because authorized returns were higher than the true cost of equity, but because interest rates on government bonds have steadily declined for the past four decades. Low interest rates are favorable for capital-intensive industries such as utilities, while increasing interest rates are not.

Mr. Gorman also expresses several concerns with my Risk Premium analysis, including: 1) he disputes the inverse relationship between interest rates and risk premia; 2) he claims that, while academic studies have shown that in the past there was such an inverse relationship, the relationship has changed over time, particularly since interest rate volatility is not as extreme as it was in the 1980s; and 3) he contends that I have ignored investment risk differentials in my regression analyses, and that my adjustment to the equity risk premium is based exclusively on changes in nominal interest rates.[56]

In response to Mr. Gorman's first concern, there is a large body of research in addition to my own statistical analyses that supports the inverse relationship between interest rates and equity risk premia, including the March 1998 article published by Dr. S. Keith Berry which came to similar conclusions regarding the inverse relationship between interest rates and the risk premia.[57] Several other studies were published after those that Mr. Gorman cites as evidence that this inverse relationship is a relic of the 1980s. As summarized in New Regulatory Finance, two of these studies were published in 2005, demonstrating that the inverse relationship between interest rates and the equity risk premium are contemporary concepts in finance:

> Published studies by Brigham, Shome, and Vinson (1985), Harris (1986), Harris and Marston (1992, 1993),

---

[56] Direct testimony of Michael P. Gorman, at 94-96.

[57] *See e.g.*, S. Keith Berry, *Interest Rate Risk and Utility Risk Premia during 1982-93*, <u>Managerial and Decision Economics</u>, Vol. 19, No. 2 (March, 1998), in which the author used a methodology similar to the regression approach described below, including using allowed ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates.

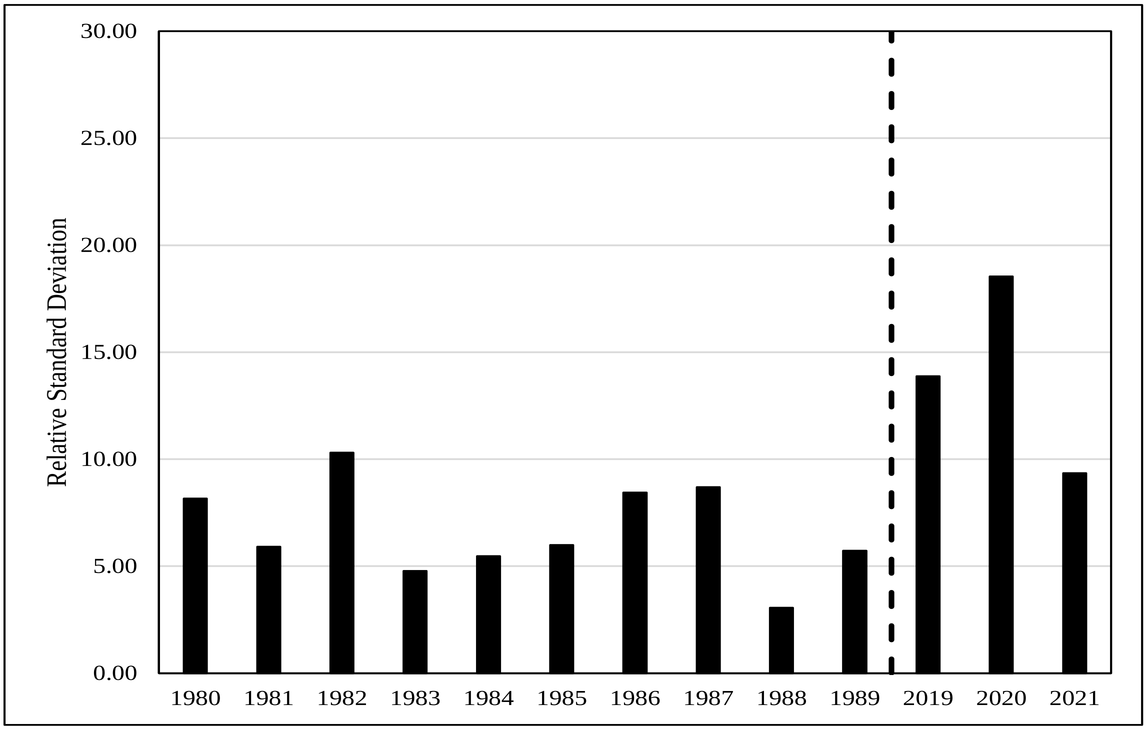
> Carleton, Chambers, and Lakonishok (1983), Morin (2005), and McShane (2005), and others demonstrate that, beginning in 1980, risk premiums varied inversely with the level of interest rates—rising when rates fell and declining when interest rates rose. The reason for this relationship is that when interest rates rise, bondholders suffer a capital loss. This is referred to as interest rate risk…. Conversely in low interest rate environments, when bondholders' interest rate fears subside and shareholders' fears of loss of earning power dominate, the risk differential will widen and hence the risk premium will increase.[58]

Furthermore, as discussed previously, my Risk Premium analysis has an R^2 of approximately 0.83, which indicates that there is a high degree of correlation between the equity risk premium and changes in interest rates.

With regard to Mr. Gorman's statement that interest rate volatility was more extreme in the 1980s than it is today, I conducted an analysis that compares the volatility in 30-year Treasury bond yields in each year during the 1980s to the volatility in 2019, 2020 and 2021 year to date. As shown in Figure 5, the relative standard deviation of Treasury bond yields was substantially higher in 2019 and 2020 than it was during any year in the 1980s, indicating that interest rate volatility has been higher in recent years than it was in the 1980s, and has remained higher in 2021 than all but one year during the 1980s (i.e., 1982).

58 Morin, Roger A., New Regulatory Finance, Public Utilities Reports, Inc. (2006), at 128.

Figure 5: Treasury Bond Yield Volatility



In response to Mr. Gorman's third concern, he contends that I have ignored investment risk differentials in my regression analyses, and that my adjustment to the equity risk premium is based exclusively on changes in nominal interest rates. I agree that my analysis is based solely on the relationship to interest rates, but with an R^2 of .83, the relationship to interest rates accounts for 83 percent of the change in awarded ROEs, which is quite strong. To the extent that shifts in industry risk are left out of this equation, the recent increases in utility betas would suggest that the Risk Premium results are biased downwards, and would likely understate the cost of equity. This relationship is picked up directly, however, in the CAPM model, and these results are meaningfully higher.

XII. EXPECTED EARNINGS ANALYSIS

Q. Some Intervenor Witnesses disagree with the use of an Expected Earnings analysis to estimate the cost of equity for FPL in this proceeding.[59] What is your response?

A. Dr. Woolridge contends that there are a number of issues with the Expected Earnings approach, claiming 1) it does not measure the market cost of equity capital; 2) changes in ROE ratios do not track capital market conditions; 3) the approach is circular; 4) the proxy companies' projected ROEs reflect earnings on business activities that are not representative of FPL's rate-regulated electric utility operations; and 5) the Value Line data used to develop the Expected Earnings analysis is biased upward and reflects the views of only one analyst. [60]

I do not agree with these contentions.

In response to Dr. Woolridge's concerns, the *Hope* and *Bluefield* standards establish that a utility should be granted the opportunity to earn a return that is commensurate with the return on other investments of similar risk. Therefore, it is reasonable to consider the returns that investors expect to earn on the common equity of the electric utility companies in the proxy group as a

[59] See, for example, direct testimony of Dr. J. Randall Woolridge, at 107-109, direct testimony of Billie S. LaConte, at 17-18, direct testimony of Michael P. Gorman, at 97-98, and direct testimony of Breandan T. Mac Mathuna, at 51-57.

[60] Direct testimony of Dr. J. Randall Woolridge, at 107-109.

benchmark for a just and reasonable return because that is the expected earned ROE that an investor will consider in determining whether to purchase shares in the company or to seek alternative investments with a better risk/reward profile. As Dr. Morin notes:

> The Comparable Earnings standard has a long and rich history in regulatory proceedings, and finds its origins in the fair return doctrine enunciated by the U.S. Supreme Court in the landmark Hope case. The governing principle for setting a fair return decreed in Hope is that the allowable return on equity should be commensurate with returns on investments in other firms having comparable risks, and that the allowed return should be sufficient to assure confidence in the financial integrity of the firm, in order to maintain creditworthiness and ability to attract capital on reasonable terms. Two distinct standards emerge from this basic premise: a standard of Capital Attraction and a standard of Comparable Earnings. The Capital Attraction standard focuses on investors' return requirements, and is applied through market value methods described in prior chapters, such as DCF, CAPM, or Risk Premium. The Comparable Earnings standard uses the return earned on book equity investment by enterprises of comparable risks as the measure of fair return.[61]

Dr. Woolridge fails to note in his critique of the Expected Earnings analysis that the authorized ROE that is established in this case will be applied to the net book value of the Company's rate base (subject to certain regulatory adjustments). In this regard, the Expected Earnings approach provides valuable insight into the opportunity cost of investing in FPL's electric utility operations. If investors devote capital to the Company (which would offer a return of only 8.75 percent on book value if Dr. Woolridge's recommendation were adopted), they forgo the opportunity for that same capital to earn a potentially greater

[61] New Regulatory Finance, Roger A. Morin Ph.D., Public Utility Reports, 2006, at 381.

return on book value through investment in the proxy companies. As a result, the Expected Earnings approach is informative because it provides a measure of the return on book value that is available to investors through other investments with comparable risk to FPL.

Q. Please comment on Dr. Woolridge's references to Dr. Morin's statements in *New Regulatory Finance* as it pertains to the Expected Earnings analysis.[62]

A. Dr. Woolridge references Dr. Morin, who does discuss some of the weaknesses of the Expected Earnings analysis. However, in *New Regulatory Finance*, Dr. Morin discusses the strengths and weaknesses of each of the methodologies used to compute the cost of equity including the DCF and CAPM analyses. Additionally, Dr. Woolridge fails to mention Dr. Morin's conclusion regarding the Expected Earnings analysis. Specifically, Dr. Morin stated:

> The Comparable Earnings approach is far more meaningful in the regulatory arena than in the sphere of competitive firms. Unlike industrial companies the earnings requirement of utilities is determined by applying a percentage rate of return to the book value of a utility's investment, and not on the market value of that investment. Therefore, it stands to reason that a different percentage rate of return than the market cost of capital be applied when the investment base is stated in book value terms rather than market value terms. In a competitive market, investment decisions are taken on the basis of market prices, market values, and market cost of capital. **If regulation's role was to duplicate the competitive result perfectly, then the market cost of capital would be applied to the current market value of rate base assets employed by utilities to provide service. But because the investment base for ratemaking purposes is expressed in book value terms, a**

[62] Direct testimony of Dr. J. Randall Woolridge, at 107.

> **rate of return on book value, as is the case with Comparable Earnings, is highly meaningful.**[63]

Therefore, contrary to Dr. Woolridge's views, Dr. Morin believes that the Expected Earnings approach is highly meaningful in a regulatory setting similar to the one being used to set the cost of equity for FPL.

Q. Please summarize Mr. Gorman's position regarding your Expected Earnings analysis.

A. Mr. Gorman argues that my Expected Earnings analysis "should be rejected because this approach does not measure the market required return appropriate for the investment risk of FPL. Rather, it measures the book accounting return."[64] In addition, Mr. Gorman contends that "the earned return on book equity is simply not an accurate or legitimate basis upon which to determine a fair and reasonable return on equity for both investors and customers."[65]

Q. What is your response to Mr. Gorman's concerns related to the Expected Earnings approach?

A. The Expected Earnings approach provides an expected return for like-risk companies, which is a core strength of the model and consistent with the basic tenets of *Hope*, which requires that "the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks." Arguably, an investor would consider both current

63 New Regulatory Finance, Roger A. Morin Ph.D., Public Utility Reports, 2006, at 394-395. (emphasis added)
64 Direct testimony of Michael P. Gorman, at 97.
65 *Id.*, at 98.

market valuations in deciding between companies of like risk and the value of the expected return on book value. Lastly, in developing his sustainable growth rates for the DCF model, Mr. Gorman assumes the reasonableness of the projected returns on equity from Value Line for the proxy group companies, which are the same returns that he dismisses as unreliable in the Expected Earnings analysis.

Although the FERC has not included the Expected Earnings analysis in its most recent ROE decision (i.e., Opinion No. 569-A) for electric transmission companies, FERC has left the door open for presentation of an Expected Earnings analysis on a case-by-case basis.[66] In my view, the Expected Earnings analysis provides a more stable picture of the returns that investors are expecting for companies in the Electric Utility sector based on Value Line data. This stability is due to Value Line's analysis and projections which change when updated, in contrast to the CAPM and DCF results which shift with more volatile market data. Moreover, as explained in this section, the use of accounting returns is appropriate because the authorized ROE is being applied to an accounting rate base in order to determine the net income a company is authorized to recover in rates. For all of these reasons, I continue to support the use of an Expected Earnings analysis as one model to estimate the cost of equity for FPL in this proceeding.

[66] Federal Energy Regulatory Commission, Opinion No. 569-A, Order on Rehearing, issued May 21, 2020, at para. 132.

XIII. FLOTATION COSTS

Q. Several of the Intervenor Witnesses (Woolridge, Gorman, Mac Mathuna, LaConte) reject the need for a flotation cost adjustment for FPL in this proceeding.[67] What is your response?

A. Dr. Woolridge and Mr. Gorman contend that it is not appropriate to consider flotation costs when determining the authorized ROE for FPL because I have not identified any actual flotation costs that have been paid by the Company. Ms. LaConte argues that my estimate of flotation costs is based on the companies in the proxy group, not on any actual flotation costs incurred by or expected to be incurred by FPL, and that FPL does not issue stock and does not incur flotation costs.

The proposed flotation cost adjustment of 11 basis points is based on an analysis of the two most recent equity issuances for the companies in the proxy group, as shown in Exhibit JMC-10-1. NextEra Energy, the parent company of FPL, also issues common equity and incurs costs that are passed on to its subsidiaries, including FPL. The fact that FPL itself does not issue equity does not mean that FPL (or its parent company on its behalf) does not incur flotation costs and should not be allowed to recover them. Flotation costs are a legitimate cost of issuing common stock. The great majority of a utility's flotation costs is

[67] See, for example, direct testimony of Dr. J. Randall Woolridge, at 110-112, direct testimony of Michael P. Gorman, at 101, direct testimony of Breandan T. Mac Mathuna, at 79, and direct testimony of Billie S. LaConte, at 18.

incurred prior to the test year but remains part of the cost structure that exists during the test year and beyond. For this reason, the Commission has previously approved an adjustment for flotation costs.[68] This cost is appropriate regardless of whether an equity issuance occurs during, or is planned for, the test year. To the extent FPL is denied the opportunity to recover prudently incurred flotation costs, the Company's actual returns will fall short of expected (or required) returns, thereby diminishing FPL's ability to attract adequate capital on reasonable terms.

XIV. BUSINESS RISK

Q. Do you agree with the Intervenor Witnesses (Woolridge, Mac Mathuna, Gorman) who contend that credit ratings take into account all business and financial risks that are relevant to investors?[69]

A. No, I do not agree. Credit ratings, while important, are not the only consideration in assessing business or financial risk, and the risks for equity investors are not the same as the risks for bondholders. Equity investors are more concerned with earnings and investment opportunities, regulatory support for recovery of prudently-incurred costs, the strength of the local economy and housing markets, changes in interest rates, changes in long-term weather

---

68 See, for example, Florida Public Utilities Company, Docket Nos. 070300-EI and 070304-EI, Order No. PSC-08-0327-FOF-EI, issued May 19, 2008, at 37.

69 See, for example, direct testimony of Dr. J, Randall Woolridge, at 26 and 78, direct testimony of Breandan T. Mac Mathuna, at 21-23, and direct testimony of Michael P. Gorman, at 101-102.

patterns, fleet specific risks such as nuclear generation, and more recently exposure related to decarbonization of the industry. Bondholders focus more on stability and predictability of cash flows and timeliness of cost recovery. As discussed in my direct testimony, FPL has unique business risks that differentiate it from the proxy group. These risks include elevated capital spending, ownership of nuclear generation assets, and severe weather risk.[70] Further, while I have considered these business risks, it is important to recognize that I did not make an adjustment to my ROE recommendation for business risk even though my testimony demonstrates that FPL has higher business risk than the proxy group on certain important factors. Instead, I relied on the mean results of the four financial models I used to estimate the cost of equity for FPL, plus 11 basis points for flotation costs.

In particular, as discussed in more detail in Section VIII of my rebuttal testimony on proxy group composition, I disagree with Mr. Mac Mathuna's overly-restrictive credit rating screen which limits his proxy group to only five companies, two of which should be excluded.

Q. Mr. Chriss observes that FPL uses a forecast test year, which reduces the risk of regulatory lag for the Company, and implies that this reduces FPL's business risk.[71] What is your response?

A. While I agree with Mr. Chriss that FPL uses a forecast test year to establish its rates, as explained in my direct testimony and as shown in Exhibit JMC-9, 58

70 Direct testimony of James M. Coyne, at 66.
71 Direct testimony of Steve W. Chriss, at 10-11.

percent of the operating utilities held by the proxy group companies provide service in jurisdictions that allow the use of a fully or partially forecast test year.[72] Risk analysis is performed on a relative or comparative basis to the proxy group. In that regard, FPL's test year convention is similar to more than half of the operating companies held by my proxy group and does not suggest that FPL has lower risk than the proxy group companies on this factor.

Q. Mr. Rábago challenges your conclusions that FPL has greater business risk than the proxy group companies on the factors discussed in your direct testimony.[73] What is your response?

A. First, as a point of clarification, my ROE recommendation does not depend on the Commission finding that FPL has greater business risk than the proxy group. While my research and analysis shows FPL has elevated capital spending risk relative to the proxy group, generates a higher percentage of electricity from nuclear plants than the average company in the proxy group, and has more exposure to severe weather and storms than other companies in the proxy group, my ROE recommendation is based on the mean results of the four financial models I have used to estimate the cost of equity. Contrary to Mr. Rábago's assertion, I have not made an adjustment to ROE for FPL's higher risk profile.

---

72 Direct testimony of James M. Coyne, at 79.

73 Direct testimony of Karl R. Rabago, at 12-13.

Q. According to Ms. Laconte, FPL has lower business and financial risk than your proxy group companies.[74] Do you agree?

A. No, I do not. Ms. LaConte acknowledges that FPL's capital expenditure program is significant. However, she contends that FPL is an above average nuclear operator, which she claims credit rating agencies view as favorable, and she contends that FPL has similar exposure to adverse weather events as the proxy group. Finally, she argues that FPL's proposed multi-year rate plan is supportive of the Company's financial health and reduces its risk relative to the proxy group. As discussed in my direct testimony, credit rating agencies view FPL's storm risk as significant due to the frequency and magnitude of severe weather in its service territory. Mr. Barrett provides more detailed information on those risks in his direct testimony. There is no evidence that credit rating agencies view FPL's ownership of nuclear generation assets as favorable to the Company's business risk profile. While the four-year rate plan does provide certain benefits to FPL, it also increases the risk associated with inflation and higher interest rates over the term of the rate plan. For all of these reasons, I do not agree with Ms. LaConte that FPL has lower business risk than the proxy group.

[74] Direct testimony of Billie S. LaConte, at 21-26.

XV. CAPITAL STRUCTURE

Q. Some Intervenor Witnesses (Woolridge, O'Donnell, Gorman, Mac Mathuna) contend that FPL's proposed equity ratio is unjustifiably higher than the proxy group average.[75] What is your response?

A. The Intervenor Witnesses have compared FPL's proposed common equity ratio of 59.60 percent to the equity ratios of the proxy group companies at the holding company level. However, the appropriate equity ratio should reflect the relative business and operating risks of the utility for which the authorized return is being set, in this case FPL; thus, any comparison to equity ratios at the holding company level is not meaningful. The Company's proposed equity ratio of 59.60 percent takes into consideration the Company's unique business and operating risks, including elevated capital spending, ownership of nuclear generation assets, and severe weather and storm cost risk. As explained in my direct testimony, FPL's proposed equity ratio is at the high end of the range for the operating companies held by the proxy group.[76] This capital structure also enables FPL to maintain its financial strength, as discussed in Section IV of my rebuttal testimony, under a variety of economic and financial market conditions. Without this higher than average equity ratio, FPL may not have the necessary financial cushion in the event one of these business risks (e.g., nuclear

[75] See, for example, direct testimony of Dr. J. Randall Woolridge, at 27, direct testimony of Kevin W. O'Donnell, at 28-31, direct testimony of Breandan T. Mac Mathuna, at 85-86, and direct testimony of Michael P. Gorman, at 39.

[76] Direct testimony of James M. Coyne, at 85-86.

ownership, storms, etc.) becomes a material factor in the Company's financial performance.

Q. **Several of the Intervenor Witnesses compare FPL's requested equity ratio with the national average for electric utilities.[77] Please comment on these comparisons.**

A. As explained previously, FPL has unique business and operating risks that distinguish the Company from the average electric utility and warrant a higher authorized equity ratio than the industry average. In addition, the range of authorized equity ratios since 2016 has been from 40.25 percent to 58.18 percent.[78] FPL's proposed equity ratio of 59.60 percent is only slightly above the top of this range.

Q. **Are there any other relevant considerations with regard to capital structure?**

A. None of the Intervenor Witnesses has argued that FPL has lower business risk now than when the Commission approved the settlement agreement in 2016 that implicitly reflected a common equity ratio of 59.60 percent. Moreover, ESG risk has become another risk factor for investors in more recent years, which was not a consideration in 2016. Companies' performance on environmental, social and corporate governance ("ESG") issues is now assessed by credit rating agencies, and certain institutional investors and pension funds

---

77 See, for example, direct testimony of Kevin W. O'Donnell, at 38-40, direct testimony of Billie S. LaConte, at 7-8, and direct testimony of John Thomas Herndon at 19-20.

78 I have excluded decisions in Arkansas, Florida, Indiana and Michigan, which include zero cost capital items that are not part of investor-provided capital.

have restrictions that prohibit them from owning companies that do not meet ESG standards.

Q. What is your conclusion with regard to FPL's proposed capital structure?

A. My conclusion is that FPL's proposed capital structure, which includes a common equity ratio of 59.60 percent, takes into account the unique business and operating risks of FPL, and is reasonable compared to the range of equity ratios for the operating companies held by the proxy group and compared to the authorized equity ratios for electric utilities in other jurisdictions. Further, FPL's proposed capital structure enables FPL to maintain its financial strength, which translates into favorable access for capital for the benefit of customers. For all of these reasons, I agree with Company witness Barrett that the proposed capital structure for FPL is appropriate and should be approved by the Commission.

XVI. CONCLUSIONS AND RECOMMENDATIONS

Q. Please summarize your key conclusions and recommendations.

A. My key conclusions and recommendations are as follows:

1) The Commission has been presented with a broad array of recommendations from multiple witnesses. Some include proposed analytical approaches, while others are more judgmental or based on decisions from other jurisdictions.

2) The only reliable method for determining the cost of capital is through the application of rigorous analysis using financial models and market

data from reliable sources, coupled with a comprehensive risk assessment of the regulated utility.

3) The Commission's cost of capital determination should consider the general economic and capital market environment and the influence capital market conditions exert over the results of the ROE estimation models.

4) Interest rates on government and corporate bonds have rebounded in the latter part of 2020 and the first two quarters of 2021. The level of interest rates does not suggest that the cost of equity for FPL has declined. On the contrary, other risk factors indicate that the uncertainty and volatility in financial markets have caused equity investors to require a higher rate of return to compensate them for the additional uncertainty and risk created by the COVID-19 pandemic and the corresponding economic fallout.

5) As discussed in my Direct testimony, longer term, the industry faces complex structural challenges associated with climate change, decarbonization, cyber security, grid modernization and shifting consumer preferences amid a flat overall consumption profile. FPL is higher than average risk in comparison to a proxy group of utility peers.[79]

6) The recommended base ROE of 11.0 percent and capital structure with a common equity ratio of 59.60 percent is fair and reasonable for FPL. This capital structure is consistent with the Company's actual equity ratio, and combined with the authorized ROE range will support continued financial

[79] Direct testimony of James M. Coyne, at 8.

strength and access to debt and equity capital to meet the Company’s operating requirements.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BY MS. MONCADA:

Q Mr. Coyne, do you remember also have exhibits to your rebuttal testimony identified as JMC-12 through JMC-17?

A Yes.

MS. MONCADA: Mr. Chairman, these have been pre-identified on Staff's list as Exhibits 373 through 379.

Mr. Chairman, we waive oral summary for Mr. Coyne.

CHAIRMAN CLARK: All right.

MS. MONCADA: And we tender him for cross-examination.

CHAIRMAN CLARK: All right. Thank you very much.

Summary has been waived. We will move directly into cross, beginning with OPC.

MS. CHRISTENSEN: We have no questions.

CHAIRMAN CLARK: CLEO?

MS. OTTENWELLER: No questions.

CHAIRMAN CLARK: FAIR?

MR. WRIGHT: No questions. Thank you.

CHAIRMAN CLARK: FEA.

MAJOR KIRK: No questions.

CHAIRMAN CLARK: FIPUG.

MR. MOYLE: No questions.

CHAIRMAN CLARK: FIT.

MR. SELF: No questions.

CHAIRMAN CLARK: FRF.

MR. WRIGHT: No questions.

CHAIRMAN CLARK: Florida Rising.

MR. MARSHALL: No questions.

CHAIRMAN CLARK: Larsons?

MR. SKOP: No questions.

CHAIRMAN CLARK: SACE.

MR. CAVROS: No questions.

CHAIRMAN CLARK: Vote Solar.

MS. OTTENWELLER: No questions.

CHAIRMAN CLARK: Walmart.

MS. EATON: No questions.

CHAIRMAN CLARK: Staff.

MS. BROWNLESS: No, sir. Thank you.

CHAIRMAN CLARK: Commissioners?

No questions.

All right. I guess there will be no redirect.

Exhibits, Ms. Moncada.

MS. MONCADA: We would ask that Exhibits 90 through 101 and 373 through 379 be moved into the record.

CHAIRMAN CLARK: All right. So moved.

(Whereupon, Exhibit Nos. 90-101 & 373-379 were received into evidence.)

CHAIRMAN CLARK: Very good. So ordered.

MS. MONCADA: Thank you, Mr. Chairman.

CHAIRMAN CLARK: All right. The witness --

MR. LITCHFIELD: May he be excused?

CHAIRMAN CLARK: Yes, the witness my be excused.

THE WITNESS: Thank you, Mr. Chairman.

MR. LITCHFIELD: We need to let him know that his seat is needed for Mr. Barrett.

CHAIRMAN CLARK: Got it.

(Witness excused.)

Whereupon,

ROBERT E. BARRETT

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows: under

MR. LITCHFIELD: Mr. Barrett is unmasked and ready to go.

EXAMINATION

BY MR. LITCHFIELD:

Q Good morning, Mr. Barrett.

A   Good morning.

Q   You have been sworn in?

A   Yes.

Q   Would you please state your name and business address for the record?

A   Robert Barrett. 700 Universe Boulevard, Juno Beach, Florida, 33408.

Q   And by whom are you employed and in what capacity?

A   Florida Power & Light, Vice-President of Finance.

Q   Have you prepared and caused to be filed 69 pages of prepared direct testimony in this proceeding?

A   Yes.

Q   And on August 5 and August 10, 2021, FPL filed errata sheets for your direct testimony and your Exhibits REB-9 through REB-12. You are familiar with that, correct?

A   Yes.

Q   Beyond those filed errata, do you have any further changes or revisions to your prepared direct testimony?

A   No, I don't.

Q   With the changes provided in the errata, if I asked you the questions contained in your direct

testimony today, would your answers be the same?

A Yes.

MR. LITCHFIELD: Mr. Chairman, I would ask that Mr. Barrett's prefiled direct testimony along with errata be inserted into the record as though read.

CHAIRMAN CLARK: So ordered.

(Whereupon, prefiled direct testimony of Robert E. Barrett was inserted.)

ERRATA SHEET

WITNESS: **ROBERT E. BARRETT – DIRECT TESTIMONY**

Page #	**Line #**	**CHANGE**
40	2-3	Remove "per year"

ERRATA SHEET

WITNESS: **ROBERT E. BARRETT – DIRECT TESTIMONY AND EXHIBITS**

PAGE #	LINE #	CHANGE
7	3	Remove “the” before “FPL’s”
14	10	Remove “to”
18	16	Remove “UTY” and insert “utility sector”
31	9	Remove “the end of 2018” and insert “2019”
60	5	Insert “Actual” between “FPSC” and “Adjusted”
62	5	Remove “pre-established” and insert “target”
Exhibit REB-9 Page 1 of 1	Footnote 2	Remove “Reference utility list in appendix.”
Exhibit REB-10 Page 1 of 1	Paragraph 4(a)	Remove “$114” and insert “$112.3”
Exhibit REB-10 Page 1 of 1	Paragraph 4(b)	Remove “$40” and insert “40.8”
Exhibit REB-11 Page 1 of 1	Paragraph 4(b)	Insert “Actual” between “FPSC” and “Adjusted”
Exhibit REB-12 Page 1 of 2	Paragraph 2	Insert “only (i)” between “determine” and “whether” Remove “. The Commission will also approve” and insert “, (ii)”; insert “appropriate” between “the” and “revenue” and insert “(iii)” between “and” and “the”
Exhibit REB-12 Page 2 of 2	Paragraph 6	Delete “CRC”
Exhibit REB-12 Page 2 of 2	Paragraph 7	Insert “appropriate” between “the” and “revenue”

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ROBERT E. BARRETT

DOCKET NO. 20210015-EI

MARCH 12, 2021

TABLE OF CONTENTS

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,

---

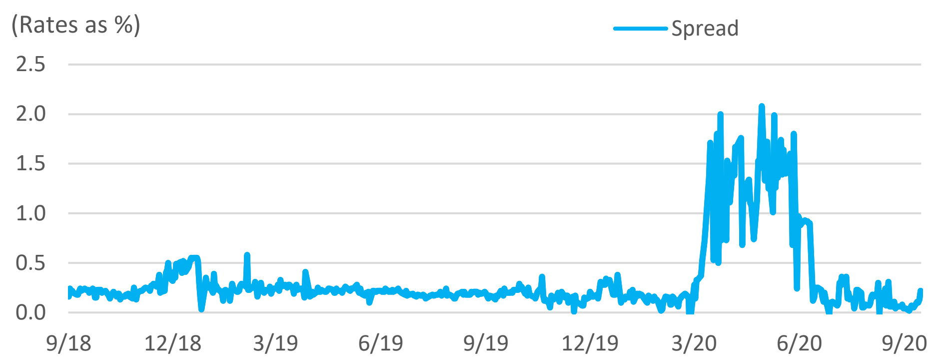
[2] https://www.forbes.com/sites/robertberger/2020/07/30/gdp-plunged-329-heres-why-it-matters/#4d229c005943

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.

CP Rates - Tier 1 vs. Tier 2 - 30 Day



Source: Bloomberg

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.

BY MR. LITCHFIELD:

Q Mr. Barrett, do you also have exhibits that were identified as REB-1 through REB-12 attached to your prepared direct testimony?

A Yes.

Q And were these exhibits prepared under your direction, supervision or control?

A Yes, they were.

MR. LITCHFIELD: Chairman Clark, I would note that those exhibits, REB-1 through 12, have been pre-identified in Staff's comprehensive exhibit list as Exhibits 58 through 69.

BY MR. LITCHFIELD:

Q Also, Mr. Barrett, are you a cosponsor of Exhibit TCC-9 identified as Exhibit 189 in Staff's comprehensive exhibit list?

A Yes.

Q Mr. Barrett, have you prepared a summary of your direct testimony?

A Yes, I have.

Q Would you please provide that now?

A Yes.

Mr. Chairman and Commissioners, good morning. Thank you for the opportunity to speak with you today.

FPL has been operating under a multiyear settlement agreement since 2017, one year beyond its minimum term, and without a general base rate increase since 2018, allowing the company to maintain low bills for customers. As that agreement comes to a conclusion, FPL has filed a four-year rate proposal that consists of a base revenue increase in 2022, a subsequent year base revenue increase in 2023, and a solar base rate adjustment mechanism, known as SoBRA, to provide for the base revenue requirements of 894 megawatts of cost-effective solar facilities in 2024, and 894 megawatts in 2025. At the same time, these facilities will lower the full costs for our customers.

This four-year rate proposal provides long-term rate stability and predictability for customers, regulatory efficiency, and provides the company adequate resources and tools to continue improving the value proposition for our customers.

My testimony primarily focuses on four areas: Successful application for customers of FPL's financial policies and the proposal to continue those policies, FPL's proposal for an ROE performance incentive, storm cost recovery mechanism and FPL's over all the four-year rate plan, including the Reserve Surplus Amortization Mechanism.

First, FPL is proposing a capital structure consistent with how the company is actually capitalized and has been managed for roughly two decades. FPL's proposed regulatory equity ratio in the '22 test year is roughly 48 percent, which reflects 59.6 percent based on investor supplied capital.

FPL's equity ration reflects our higher than average risk profile and the company's successful strategy of delivering exceptional customer value for a stronger an average balance sheet. This has benefited customers by allowing FPL to raise capital at very attractive rates during even very stressed financial market, as we saw last year.

In my direct testimony, I recommend the Commission approve the ROE proposed by FPL Witness Coyne, and the inclusion of a one-half percent performance incentive to recognize FPL's current superior performance, and to encourage the company to continue of that superior performance. As shown as Exhibit REB-8, FPL ranks at or year the top among southeast regional utilities across the key metrics that matter most to customers.

FPL also request approval of a Storm Cost Recovery Mechanism. It's the same mechanism that FPL has relied on for more than 10 years, adjusted for the combination of FPL and Gulf. This mechanism provides expedited liquidity and assures investor community of the company's ability to recover its prudently incurred storm restoration costs in the aftermath of a storm, which is particularly helpful given the low level of the company's storm reserve.

FPL is proposing a four-year rate plan that depends on adequate financial resources, including of capital structure and ROE as discussed, as well as several additional components. One such component is the Reserve Surplus Amortization Mechanism, which I refer to as RSAM. The RSAM is a mechanism that's been utilized by FPL for more than 10 years, and has been part of the last three settlement agreements.

As part of the RSAM, we are asking the Commission to authorize the use of a depreciation reserve surplus. Multiyear rate plans have afforded FPL the opportunity to do what no other utility in the country has been able to do, deliver the best customer value proposition in the business. Over just this most recent multiyear settlement period, FPL's non-fuel O&M improved 15 percent.

FPL's service reliability improved 16 percent. FPL has become the leader in utility owned and operated solar in the U.S. FPL has improved both the heat rate and equivalent forced outage rate of its fossil and solar generation fleet. These improvements now flow directly to customers.

FPL's culture is one of continuous improvement, and that culture, combined with adequate financial resources, innovative regulatory mechanisms and multiyear periods of regulatory stability have resulted in high reliability, one of the cleanest emission profiles that we are continuing to further improve, and strong customer satisfaction all while keeping bills low for customers.

I ask you to approve FPL's proposal to continue the superior value proposition for our customers.

Thank you.

Q Thank you, Mr. Barrett.

Have you also prepared and caused to be filed 48 pages of rebuttal testimony in this proceeding?

A I have.

Q And on August 5 and August 10 of this year, FPL filed errata sheets regarding your rebuttal testimony. Do you recall that?

A Yes.

Q Beyond those filed errata, do you have any further changes or revisions for your rebuttal testimony?

A No, I don't.

Q With the changes provided in the errata I referenced, if I asked you today the questions contained in your rebuttal testimony, would your answers be the same?

A Yes.

MR. LITCHFIELD: Chairman Clark, I would ask that Mr. Barrett's prefiled rebuttal testimony along with errata be inserted into the record as though read.

CHAIRMAN CLARK: So ordered.

(Whereupon, prefiled rebuttal testimony of Robert E. Barrett was inserted.)

ERRATA SHEET

WITNESS: **ROBERT E. BARRETT – REBUTTAL TESTIMONY**

Page #	**Line #**	**CHANGE**
42	12	Remove “such”

ERRATA SHEET

WITNESS: **ROBERT E. BARRETT – REBUTTAL TESTIMONY**

PAGE #	**LINE #**	**CHANGE**
3	17-18	Remove “-McCullar,”
3	22	Add “-” before “Smith”, “Herndon” and “Mac Mathuna”
4	11	Add “-” before “Herndon”
4	11-12	Replace “Florida Rising-Rábago” with “LULAC/ECOSWF/Florida Rising-Rábago”
4	14	Replace “Florida Rising-Rábago” with “LULAC/ECOSWF/Florida Rising-Rábago”
24	23	Replace “investors” with “intervenors”
44	11	Replace “Florida Rising witness Rábago” with “LULAC/ECOSWF/Florida Rising witness Rábago”
45	7	Replace “Florida Rising-Rábago” with “LULAC/ECOSWF/Florida Rising-Rábago”
45	23	Replace “Florida Rising witness Rábago” with “LULAC/ECOSWF/Florida Rising witness Rábago”

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF ROBERT E. BARRETT

DOCKET NO. 20210015-EI

JULY 14, 2021

TABLE OF CONTENTS

I. INTRODUCTION

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. Have you previously submitted direct testimony in this proceeding?

A. Yes.

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

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

- REB-13 Business Risk Comparison
- REB-14 Effect of Intervenors' Recommendations on Moody's Credit Rating Triggers

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to intervenors' positions on the following Florida Power & Light Company ("FPL" or the "Company") issues:

- FPL's Four-Year Rate Plan [Office of Public Counsel ("OPC")-Smith -McCullar, -Lawton; Florida Industrial Power Users Group ("FIPUG")-Pollock, -LaConte; Floridians Against Increased Rates ("FAIR")-Devlin, Herndon; Florida Retail Federation ("FRF")-Georgis]
- Reserve Surplus Amortization Mechanism ("RSAM") [OPC-Lawton, Smith; FIPUG-Pollock; FRF-Georgis; FAIR-Devlin, Herndon, Mac Mathuna]

- Solar Base Rate Adjustment ("SoBRA") [Walmart Inc. ("Walmart") – Chriss, League of United Latin American Citizens of Florida ("LULAC")/Environmental Confederation of Southwest Florida ("ECOSWF")/Florida Rising – Rábago]
- Financial strength [OPC-O'Donnell; FAIR-Mac Mathuna; Federal Executive Agency ("FEA")-Gorman]
- FPL's risk profile [FIPUG-LaConte; FAIR-Mac Mathuna]
- Capital structure and cost of debt [OPC-O'Donnell, -Lawton; FEA-Gorman]
- Return on equity ("ROE") [OPC - Woolridge, Walmart - Chriss, FEA - Gorman, FIPUG - LaConte, FAIR - Mac Mathuna, Herndon, Florida Rising – Rábago]
- ROE performance incentive [OPC-Lawton, -O'Donnell; FAIR-Herndon; Walmart-Chriss, Florida Rising-Rábago, Vote Solar/CLEO Institute -Whited]
- Storm Cost Recovery Mechanism ("SCRM") [OPC-Smith, FAIR-Mac Mathuna]

Q. Please summarize your rebuttal testimony.

A. FPL has for many years, across several multi-year rate periods, delivered the best customer value proposition in the industry. FPL proposes in this petition to again deliver a multi-year period of rate certainty and stability for customers. This proposed Four-Year Rate Plan is predicated on several core elements. Several intervenor witnesses not only oppose each of these core elements, but they also openly oppose FPL's Four-Year Rate Plan itself. The primary point of contention seems to be that the Florida Public Service Commission ("Commission") should look ahead just one year at a time. As described in both my and other FPL witnesses' direct testimony, the Commission's support of several prior multi-year rate settlements, underpinned by the same core elements presented in this case, has produced the regulatory stability necessary for FPL to execute its strategy that creates FPL's industry-leading customer value proposition. This would not have been possible if the Company, the Commission, and the intervenors who have been parties to those settlements, had been constrained to one-year-at-a-time rate making. By the nature of this business, substantial improvements require strategic execution across extended periods of regulatory and rate certainty, for which a single year or even a few years typically is not sufficient, especially with the inefficiencies introduced by more frequent rate proceedings. The evidence of the superiority of FPL's strategy is overwhelming. The Commission should find that FPL's Four-Year Rate Plan, and each individual component, are in the public interest, will produce rates that are fair, just and reasonable, and will position the Company to continue its strategy of continuous improvement.

Intervenor witnesses are most vociferous in their opposition to the RSAM, one of the core elements of the Four-Year Plan. RSAM has been a primary enabler of multi-year agreements that FPL has used to defer the need for cash revenue increases and thereby saved customers from those rate increases. Moreover, the multi-year agreements have been used by FPL to drastically improve the cost position of the Company and make capital investments to the benefit of customers – benefits they realize through lower customer bills, high reliability, low emissions and high customer satisfaction. And yet now, surprisingly, intervenors are challenging the very mechanism that has enabled these strong customer results. Opposition to the RSAM is opposition to the Four-Year Rate Plan and to FPL's strategy that has delivered such strong value for customers.

Intervenors also oppose FPL's proposed SoBRA mechanism – another core component of FPL's Four-Year Rate Plan. The SoBRA mechanism allows for a limited base rate increase for solar facilities added in 2024 and 2025 that are demonstrated to be cost-effective for customers. The principal opposition to SoBRA is that 2024 and 2025 are too far into the future to be considered in this rate case. Yet, just like the past SoBRA mechanism approved as part of the prior multi-year plan, the solar installations will only be constructed if they provide demonstrable CPVRR benefits for customers. This is another example of the myopic view of the intervenors who fail to recognize or acknowledge the value to customers of a multi-year period of rate certainty and stability.

FPL's superior customer value proposition is built upon a foundation of financial strength. For many years, FPL's strategy has been to deploy a stronger than average capital structure that has time and again proven to provide tangible benefits to customers as the Company has maintained access to capital at reasonable rates and been able to deliver strong results for customers. Similarly, FPL has provided appropriate returns for investors that have caused them to continue to commit capital to the Company to pursue its value-creation strategy. The intervenors, taking largely the same positions they have taken in past cases, completely miss the comprehensive nature of FPL's strategy and ignore the results that approach has produced for customers. The intervenors are missing the point that the successful strategy depends on each of the elements working together to provide superior value for customers.

Intervenor witnesses have engaged in a speculative exercise of cost of capital minimization through arbitrary reductions in equity ratio and ROE, in contrast to FPL's focus on delivering industry leading value for customers across all the metrics that matter. Intervenors implicitly deny, or explicitly minimize the real-world consequences of the implementation of their recommendations. The reality is rating agencies would react swiftly and investors would recoil at the implications of intervenors' recommendations if the Commission were to follow through on those actions.

The intervenor witnesses also propose denial of FPL's ROE Performance Incentive as inappropriate on the basis of an unsupported and non-sensical contention that superior performance should be the required or expected regulatory standard. Others argue that FPL is asking for an incentive for past performance or that no standards of performance have been identified. Both of these assertions are unfounded. FPL is asking the Commission to recognize its current level of performance and the value that affords customers, and to recognize the expectation of the continuation of that superior level of performance. As to performance standards, across the many metrics that are important to customers (outlined on Exhibit REB-8) FPL stands among the best.

Intervenors also suggest that if accepted, FPL's SCRM should be modified to place restrictions on the Company. FPL is proposing to implement the SCRM, as it has for more than ten years, to the benefit of customers. The intervenors' proposed modifications are unnecessary.

II. FOUR-YEAR RATE PLAN

Q. Are intervenor witness recommendations consistent with FPL being able to provide rate stability and other benefits of the Four-Year Rate Plan?

A. No. Intervenor witness testimony ranges from direct attacks on the concept of a four-year plan – apparently preferring instead a series of annual base rate proceedings – to indirect and perhaps even inadvertent attacks on FPL's Four-Year Plan by proposing to eliminate or substantially modify key elements of that plan.

Q. As a matter of regulatory policy, should the Commission consider FPL's Four-Year Rate Plan to be good for customers and in the public interest?

A. Yes. FPL has operated under six multi-year plans for more than two decades and the results for customers have been nothing short of remarkable. The fact that these plans have resulted from settlement agreements does not invalidate their substantial benefits or, as some would appear to contend, the elements of those plans that produced the benefits. Despite the preference of OPC witness Smith for one-year "conventional rate cases," multi-year plans offer rate certainty and stability for customers, and importantly they allow the company the opportunity to continue to improve the value delivered to customers during a period of regulatory stability. Over these many multi-year periods, FPL has driven its performance to the top of the industry across the metrics that matter most to customers – low bills, high reliability, low emissions, and good customer service.

Over the long term, *all* the benefits that FPL manages to create through its productivity improvement efforts flow to customers. The implicit assumption underpinning intervenor witnesses' arguments - that FPL would be delivering the exact same performance today if it had been required to submit annual rate cases is unsupported by any evidence and is in fact flat wrong. The Commission has all the information in this proceeding that it has had when deciding that multi-year plans make sense for customers and the Company. I believe the

Commission should affirm FPL's Four-Year Rate Plan as resulting in fair, just and reasonable rates and in the public interest.

Q. Does the approval of FPL's Four-Year Rate Plan in any way diminish the Commission's jurisdictional authority to regulate FPL's rates, earnings levels, or quality of service?

A. Absolutely not. While FPL's proposal represents a commitment by the Company it in no way diminishes the oversight and regulatory authority of the Commission. As a primary example of this, FPL will continue to file the required earnings surveillance reports ("ESR") on a monthly basis. Through these reports the Commission will ensure that FPL is operating within the terms of the approved plan and can initiate an earnings investigation when appropriate. This process has efficiently and effectively served to protect customers and the Company during multi-year rate plans and "stay outs," and it will serve the same function during the term of the four-year rate plan being proposed in this proceeding.

III. RESERVE SURPLUS AMORTIZATION MECHANISM

Q. Regarding opposition to the RSAM among intervenor witnesses (OPC-Lawton, Smith; FIPUG-Pollock; FRF-Georgis; FAIR-Devlin), please summarize your reaction.

A. In general, intervenor witnesses dismiss the significant value to customers of FPL's Four-Year Rate Plan enabled by FPL's proposed RSAM and other core components. They seem most offended that FPL has been able to earn near the top of its ROE range despite the value provided to customers and they mischaracterize FPL's earnings as having been primarily, even solely, due to its RSAM utilization over the past several agreements. What they have mischaracterized or simply failed to acknowledge is that the multi-year rate plans, enabled by an RSAM, have allowed FPL to focus on being the best performer among its peers delivering significant value to customers in the form of low bills, high reliability, low emissions and strong customer satisfaction.

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

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

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

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

- Cash rates would be approximately $200 million higher each of the four years due to the non-RSAM depreciation rates, cumulatively about $800 million;
- A cash base rate increase of approximately $552 million is estimated to be required in 2024 ($412 million general increase in addition to the $140 million for solar facilities placed in service in 2024), cumulatively approximately $824 million additional cash revenues for 2024 and 2025; and
- A cash base rate increase of approximately $572 million is estimated to be required in 2025 ($432 million incremental general increase in addition to the $140 million for solar facilities placed in service in 2025).

Overall, the net cumulative increase in cash paid by customers over the four years 2022-2025 would be more than $2 billion.

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

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

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

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

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

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

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

A. As discussed more fully by FPL witness Bores in his rebuttal testimony, FPL has been able to earn at or near the top of its authorized ROE range over the course of the last three multi-year rate plans largely due to the Company's focus on continually driving productivity improvements in its cost structure. Having multi-year periods during which the Company can focus its efforts on cost and service quality improvement, rather than filing and defending rate cases, has been pivotal in improving all aspects of the business for the benefit of customers as well as profitability for the Company.

As shown in Table 1 below, from Exhibit SRB-13, over the 2017-2021 settlement period FPL's superior cost management performance produced more than $1.1 billion in non-fuel O&M savings. That level of cost performance delivered about 90 basis points of the 95-basis points improvement to FPL's ROE above its midpoint on average. Those savings were the driving reason

FPL was able to earn at the top of its range, not the RSAM as contended by several intervenor witnesses.

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%

Q. What are your conclusions regarding the intervenors' arguments against FPL's proposed RSAM?

A. The intervenors' opposition to FPL's proposed RSAM seems to range from technical accounting arguments, among which even they do not all agree, and a general proposition that FPL has benefitted at the expense of customers. This zero-sum thinking completely ignores that RSAM has enabled multi-year rate agreements that have allowed FPL to deliver superior performance and the best customer value proposition in the industry – truly a win-win situation.

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 demonstration of cost effectiveness. Simultaneous to these facilities entering service customers will begin to see fuel savings in the fuel portion of their bills and FPL will begin to bear the cost of operating these facilities. The SoBRA mechanism offers a matching of costs and benefits and ensures that the increases will move FPL toward its midpoint ROE regardless of where its ROE was just prior to the increase. While other revenues and expenses currently maybe less certain than the 2022 Test Year and 2023 Subsequent Year, the SoBRA mathematically cannot cause an over earnings situation.

V. IMPLICATIONS OF INTERVENOR RECOMMENDATIONS REGARDING CAPITAL STRUCTURE AND ROE

Q. What is your overall conclusion and response to the intervenor witnesses' arguments against FPL's continuation of a stronger than average financial position, particularly in in terms of their capital structure and ROE recommendations?

A. The intervenor witnesses have taken a piecemeal approach to these issues and consequently have missed entirely that the tangible and significant value customers have realized is the result of FPL's comprehensive strategy, which includes a foundation of financial strength. FPL's strategy consistently has delivered superior performance for customers through low bills, high service reliability, low cost of operations, low emissions profile, and high customer satisfaction. In their recommendations, intervenor witnesses seemingly ignore several practical considerations in their presumption that one can isolate capital structure and/or ROE without any detriment to FPL's overall delivery of customer value. A strategy that is focused on being low cost does *not* mean trying to be low cost in each individual element. It is the total package that counts, and intervenors want to focus on one piece of the cost structure, arguing that it could be lower - but conveniently ignoring the interactions with other parts of the cost structure noted in more detail in my direct testimony and, most importantly, ignoring the actual industry leading value that customers receive in the form of low bills, strong customer service and reliability, and low emissions. The intervenor witnesses have taken a piecemeal approach to these issues and consequently have missed entirely that the tangible and significant value customers have realized is the result of FPL's comprehensive strategy

The approach employed by some intervenor witnesses is to formulaically attempt to solve for an arithmetic lowest cost of capital in isolation of all other factors, an illusory concept and task at best. While this hypothetical simplicity is commonly theorized and debated in academia, it is neither appropriate nor directly applicable to how a real business sets its financial policies. And it is not how FPL approaches or assesses a comprehensive view of customer value. Consistent with the limited considerations and simplistic presentation generally found in corporate finance texts regarding this point, intervenor witnesses ignore both known and unknown risks, including the financial and operational dependencies, that academia intentionally sets aside for the purpose of teaching students individual corporate finance theories one at a time. In the controlled environment of a classroom, instruction of each theory individually is by design simplified so that it may be more easily understood and learned. However, applying these theories beyond the walls of the classroom, ignoring the vast intricacies and considerations unique to each company, as well as that company's specific circumstances and risks in concert with the strategy management has formulated in response to those considerations and risks, can have unintended and severe consequences.

In the case of FPL, if the intervenor witnesses' recommendations are adopted, FPL's financial strength would be meaningfully undermined and over time, FPL's ability to continue delivering superior customer value would erode. Investors that have long supported the Company would direct their capital elsewhere as they assess the opportunity to earn a fair return and surmise that FPL's winning strategy is no longer supported. What intervenors fail to consider is that their demand for industry average equity ratios and industry average ROE's may lead to industry average levels of performance. They also fail to consider that FPL has become the premier utility in the country in the metrics that matter to customers by following a superior strategy.

Q. Is there other evidence the Commission can look to in considering the implications of FPL's request versus the intervenors' recommendations?

A. Ultimately, the litmus test for the Commission is whether the overall value proposition delivered by FPL results in customer rates that are fair, just and reasonable and service quality that is adequate. Unequivocally, FPL's filing reflects fair, just and reasonable rates and service quality that is superior in the industry. The intervenors' positions on capital structure tend to the industry average, while their recommendations on ROE are absurdly low. Further, they give no credible consideration to the consequences of their recommendations on service quality other than their uninformed conjecture on FPL's ability to run the business with diminished financial resources.

VI. FINANCIAL STRENGTH

Q. Please respond generally to the intervenor witnesses' discussion of financial strength.

A. Intervenor witnesses fail to rationalize the impacts of their recommendations to FPL's financial position, as well as the Company's long- standing strategy of maintaining a stronger than average financial position and instead dismiss the successes FPL has achieved and that have accrued for the benefit of customers through FPL's drive for continuous improvement. Additionally, rather than acknowledge or credit FPL for the industry-leading customer value proposition it has built over time, intervenor witnesses haphazardly offer alternative reasons for FPL's performance based solely on speculation or wildly assert that FPL has an obligation to perform at industry leading levels. Contrary to intervenors' claims that this level of customer value is routine and not dependent on financial strength, in just two years Gulf has achieved significant improvements in reliability, generation performance and O&M cost performance while financial strength has improved. Financial strength led to Gulf continuing to have ready access to the capital markets during the pandemic, in the midst of significant tropical storms and the substantial increase in its capital expenditure program which enabled these customer value improvements.

As I explained at length in my direct testimony, at the core of FPL's strategy is the intentional maintenance of a higher degree of financial strength than is typical in the industry to reflect its unique operating characteristics. For more than fifteen years, FPL has strategically emphasized financial strength as an important underpinning in enabling the Company to deliver the exceptional customer value proposition that our customers enjoy. That strategy is intended not only for normal conditions but also for periods of market uncertainty and turmoil, which is critical for a utility to be able to properly and timely fulfill its responsibility to serve its customers during even the worst economic and capital market conditions. Additionally, intervenors do not understand the many varied complexities and strategic roles of financial strength, or how the degree of financial strength a company seeks to maintain is the product of strategic decisions driven in part by the Company's specific risks and circumstances.

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

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

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

Table 2. Failed IG-Rated Utility, Power Company and Non-Financial Corporate 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

Table 3 includes those issuances that priced, albeit at very expensive terms to attract the needed investor interest.

Table 3. Expensive IG-Rated Utility, Power Company, and Non-Financial Corporate Debt Issuances due to Limited Investor Demand During the 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

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

Conversely, FPL was able to successfully raise debt capital during this same time. Indicative of its financial strength and solid reputational awareness among investors, the order book for this FPL issuance reached roughly $8 billion, with investor orders of more than seven times the $1.1 billion targeted capital raise. Despite this pandemic driven heightening of investor concerns, FPL's banking advisors were able to negotiate an approximate 50 basis point-reduction to the original offering spread at launch, for an attractive relative interest rate at a treasury spread of 237.5 basis points for a five-year term because of the Company's long-term financial strength and strong support of the investor community.

Also, as mentioned in my direct testimony, liquidity, specifically the Commercial Paper ("CP") markets were extremely tight and generally only tier 1 issuers like FPL were able to maintain access. CP markets recovered quickly in the midst of the pandemic because of the unprecedented government response to the pandemic – there can be no assurances that future market disruptions will be as brief.

FPL's consistent strong financial position has provided investors with the confidence to allocate their investment capital to the Company because of their belief that FPL, with the Commission's support, would be able to maintain its financial strength in spite of the draconian scenarios routinely and repeatedly proposed by investors. This support among investors was also based on the expectation that the Company would continue to employ its same prudent long-term financial policies and that even as the pandemic's unknown economic and financial implications developed for what was an unknown duration at that time, investors believed that FPL's financial strength would not compromise its ability to meet all of its fixed obligations during the broad and wide reaching economic strain and financial uncertainty as the emerging pandemic continued to unfold.

VII. FPL'S RISK PROFILE

Q. Please summarize your response to intervenor witnesses' treatment of risk, notably OPC-Woolridge and O'Donnell; FIPUG-Pollock and LaConte; FEA-Gorman; and, FAIR-Mac Mathuna.

A. The intervenor witnesses' characterization of risk is over-simplified and lacks an appropriate differentiation of risk from risk mitigation. As explained in my direct testimony and the testimony of FPL witness Coyne, FPL faces greater exposure to risks than its peers due to higher-than-average capital expenditures, storm exposure, nuclear exposure, geographic location, among others. Most intervenor witnesses simply refer to credit rating agencies' assessments of FPL risk. However, intervenors' use of those assessments is misleading as the rating agencies are focused on a debt investor's perspective, not an equity investor's perspective, and most importantly those assessments assume as a foundation a continuation of the same level of financial strength that FPL has maintained for more than 15 years, in addition to many of the other pillars of risk mitigation that intervenors' recommendations would undermine.

Q. OPC witness Lawson cites a January 2021 S&P Global Ratings ("S&P") credit report which characterizes FPL as 'low-risk' and alludes more generally to the fact that the agencies view FPL favorably. Please explain this characterization as it relates to your testimony that FPL's risk profile is more challenging and 'somewhat greater' than most utilities?

A. There is a key distinction between (i) the risks faced by a utility given its unique environment and assets, and (ii) the results produced by that utility which are determined largely by management's ability to mitigate those risks. The lack of volatility in results does not imply the absence of risk. As documented at length in direct testimony, relative to proxy group utilities, FPL faces heightened risk through its ownership of nuclear generating assets, peninsula location, increased storm exposure, and a larger than average capital expenditures program (the latter two explicitly acknowledged by the credit rating agencies). Compared to the other Florida IOUs, FPL faces the highest composite risk profile as depicted in Exhibit REB-13.

Through strategic execution and vigilance, FPL's management team has sustained solid performance with little variance. In fact, the rating agencies recognize FPL's "above-average management of regulatory risk compared with peers" and its "prudent risk management" practices. It is important to note that management has been well-positioned to execute on its risk mitigation strategy due to FPL's stronger than average financial position, driven in large part by its strong equity ratio. Using FPL's effective management of risk and the Company's current financial strength as a predicate to support the notion that FPL is "low risk" and thereby support the intervenors' recommendations would unequivocally and counterproductively increase FPL's riskiness and weaken the Company.

Moreover, the credit rating agencies' favorable view of FPL hinges, in part, on its stable, highly supportive regulatory environment, and any substantive change to that environment, including a reduction in equity ratio, could very easily disrupt this view. Finally, one must interpret S&P's characterization of FPL in the context of its broader commentary on NextEra Energy, Inc. ("NEE") and the industry at large: S&P cites as a key credit strength the fact that FPL is a 'lower-risk regulated electric utility' simply because it views regulated utilities generally as comparatively low-risk (i.e., better positioned than non-regulated entities to deliver stable, predictable outcomes), not because FPL is uniquely low-risk relative to peers.

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

A. Credit rating agencies (S&P, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), collectively, the credit rating agencies) are independent entities responsible for assigning credit ratings which reflect overall financial strength and a debtor's ability to fulfill its financial obligations. Their ratings are grounded in methodologies that provide consistency across time, industries, and issuers. In addition to providing a pivotal role in capital markets, ratings enhance the liquidity of secondary markets for securities.

While credit ratings are a material driver of fixed income security pricing, they only represent a partial view of investor perceptions. Rating agencies often view investment horizons, risks and exposure differently than equity investors.

Q. OPC witnesses O'Donnell and Woolridge categorize risk as either "business risk" or "financial risk." Do you agree with that approach?

A. No. The notion that risks can be classified as either 'financial' or 'business' is vastly over-simplified. Risk is assessed as a collection of factors comprising the entirety of the environment within which an enterprise operates. Assuming that higher business risk can be negated with lower financial risk and vice versa, while directionally correct can lead to incorrect conclusions and a perceived level of confidence in trade-offs that may not be warranted.

Q. Do you agree with witness LaConte's view that FPL's storm risk is comparable to the companies in FPL witness Coyne's proxy group?

A. No. Witness LaConte over-generalizes storm risk. While all Florida investor-owned utilities are exposed to weather risks, FPL's exposure is distinctly and demonstrably higher. FPL customers are situated along a much longer coastline stretching along the Atlantic coast just south of Jacksonville to the end of the peninsula and wrapping up the west coast north of Fort Myers and separately spanning Panama City Beach to Pensacola. Aside from exposure to more severe weather, these coastlines are at generally low elevations which increases risk of flooding and sea-level rise. Because FPL customers have a higher probability of being impacted by a storm, they place greater importance on service reliability and restoration performance.

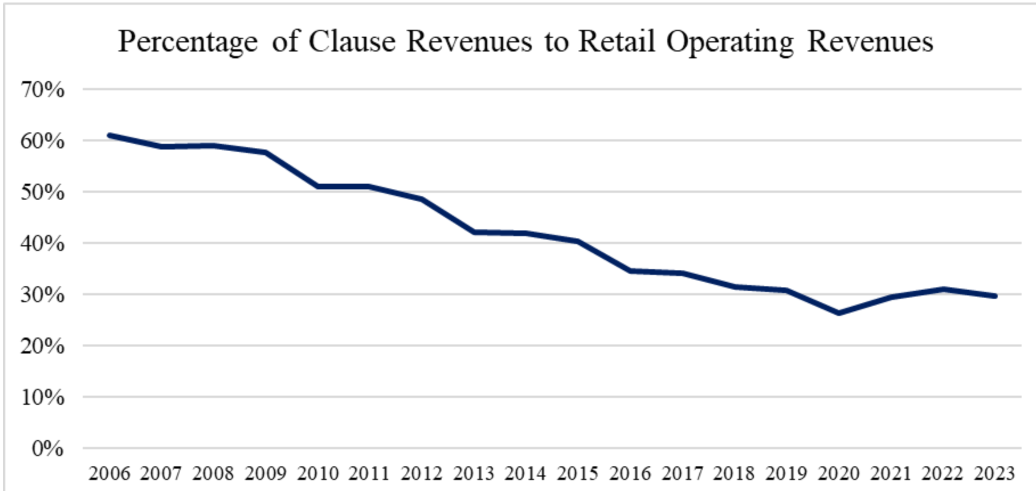
Q. Do you agree with the implication by FAIR witness Mac Mathuna that FPL's access to clause recovery mechanisms mitigates FPL's regulatory risk?

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

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

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

Table 4. Percent of Clause Revenues to Retail Operating Revenues



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

VIII. CAPITAL STRUCTURE AND COST OF DEBT

Q. Please respond generally to intervenor witnesses' contentions regarding FPL's proposed capital structure.

A. All intervenor witness testimony on capital structure is built upon a common premise - that debt is 'less expensive' than equity and should be incorporated in increasing proportions in a capital structure to reduce the overall cost of capital. According to intervenors' positions, a utility is obliged to continue adding debt to its capital structure until the greater risk associated with higher levels of debt causes borrowing costs and required equity returns to rise such that, on the margin, the overall cost of capital begins to increase; it is at this breakpoint that the overall cost of capital is minimized, and capital structure should be set. The unspoken predicate to this position is that *a priori* a company can calculate and know that precise balance and execute that strategy with no consequences of getting it wrong.

This approach is deeply flawed, both conceptually and practically. Regarding the former, as the proportion of debt in the capital structure approaches the supposed breakpoint level, the factors that begin to drive increased capital costs (including bankruptcy costs, costs of financial distress, and agency costs, among others) are exceedingly difficult to estimate, and their impact is therefore quite often undersold. As a consequence, the approach tends to dictate increasing proportions of debt in an attempt to mathematically drive down costs. Those resulting debt levels are excessive and not at all consistent with the way in which corporations actually capitalize. Practically, the model ignores the link between capital structure and operational performance and is therefore not suitable for application in the real-world.

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

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

A. No. Based upon the forecast that informed FPL's filing, Gorman's contention is demonstrably false. Note first that credit ratings are determined based upon assessments of (i) financial risk/strength (as informed by credit metrics) and (ii) relevant non-financial risk factors. FPL's equity ratio, through its impact on credit metrics, can therefore meaningfully impact FPL's credit ratings. Given that FPL is rated by three different ratings agencies (S&P, Moody's and Fitch), and each has its own ratings criteria, at any given time one of the agencies' ratings criteria will be more constraining on FPL's rating, i.e., FPL would be closer to a downgrade trigger with that agency than the other agencies.

FPL is Moody's-constrained and could be subject to downgrade by Moody's if, on a sustained basis, its ratio of cash flow from operations before working capital changes divided by total debt ("CFO pre-WC to debt") falls below 25 percent or its ratio of total debt divided by total capitalization ("debt capitalization") rises above 40 percent. Unsurprisingly, in their analyses of the impact on FPL's financial integrity of a reduction in equity ratio, OPC witness Lawton and FEA witness Gorman consider only S&P and/or Fitch metrics and conveniently ignore Moody's entirely. Analysis of pro forma Moody's metrics indicates that, even if awarded its full requested ROE (11.50 percent), FPL would still, at the equity ratios proposed by a number of intervenors, breach its CFO pre-WC to debt downgrade threshold during the forthcoming rate period (2025 for FEA's proposal, 2024 and 2025 for FIPUG's, and 2025 for FL Rising's). Moreover, as shown in Table 5 below and featured in Exhibit REB-14, at the equity ratios and ROEs proposed by intervenors, FPL would, in all cases, breach its CFO pre-WC to debt downgrade threshold by 2024 (and earlier under proposals by FIPUG (2022 and 2023) and FL Rising (2023)). Note also that, under the proposals set forth by OPC, FAIR, and FEA, FPL's buffer over its CFO pre-WC to debt downgrade threshold would be quite thin (only ~15-60 bps) in 2023; importantly, as Moody's assessment of regulatory constructiveness would surely be impacted negatively with the approval of a significantly reduced equity ratio and ROE, history indicates that Moody's would be less tolerant of metric values straddling the threshold level, particularly if accompanied by downward trending (as would be the case in the OPC, FAIR, and FEA scenarios). Moody's may even require higher metric levels to maintain FPL's current ratings (levels which, as we have shown, FPL would be extremely hard-pressed to achieve under intervenor capital parameters). Thus, while CFO pre-WC to debt in 2023 may be slightly above FPL's downgrade threshold in the OPC, FAIR, and FEA scenarios, downgrade may very well still be indicated.

Finally, if FPL were to recapitalize to the equity ratios proposed by FEA, FIPUG, and FL Rising, it would immediately breach its debt capitalization threshold in all periods. Furthermore, the same dynamic as described above for CFO pre-WC to debt applies to debt capitalization, as well; with deteriorating regulatory constructiveness and unfavorable trending in metric levels, Moody's may very well penalize metrics which hug the threshold level. Thus, despite levels of debt capitalization at or slightly below 40%, FPL could still be subject to downgrade, on the basis of debt capitalization, in all periods under the equity 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, remain slightly in excess of 25% while accompanied by downward trending and/or deteriorating regulatory constructiveness), Moody's likely would downgrade FPL to 'A2' from 'A1', and the cascade of negative effects described in subsequent Q&A would follow.

Q. Do you agree with OPC witness O'Donnell's assertion that FPL's level of customer service would not be meaningfully impaired if FPL were capitalized at a lower equity ratio?

A. No. Witness O'Donnell offers no basis for his assumption, and he offers no explanation for why other utilities who are capitalized at lower equity ratios aren't performing at FPL's levels. Rather, he incorrectly assumes that there is not a strong linkage between the way in which FPL is capitalized and the level of customer service it provides. In fact, FPL's proposed equity ratio is set to facilitate continued execution of its operational strategy and delivery of the strong customer value proposition.

As explained in direct testimony, FPL's financial strength and credit worthiness allow it to readily attract debt capital at reasonable rates, even amid challenging economic conditions. This is essential to the ongoing execution of the key aspects of FPL's strategy meant to benefit its customers, including (i) funding, in a timely, cost-effective manner, ongoing capital expenditures and (ii) allowing for swift, beneficial response in the event of severe weather or economic shock.

As outlined above, at a lower equity ratio, FPL may very well be subject to downgrade at Moody's and thus faced with diminished availability of capital and increased borrowing costs. Such conditions would necessarily result in more costly financing for capital projects (not to mention potential delays and/or abandonment) and reduced flexibility in stress scenarios, thereby jeopardizing the ongoing provision of customer service to FPL's historical standard.

Note finally that, in an attempt to dispute that FPL's financial strength was essential in affording it access to capital markets during the recent downturn, O'Donnell cites an S&P publication noting that utilities were more resilient than other sectors and able to raise capital during the pandemic. However, FPL is one of the examples cited prominently in the piece, illustrative of what has worked for FPL and its customers. If, during the pandemic, FPL had been financially weaker as proposed by the intervenors, the Company likely would not have had the same access to capital or possibly only at high costs and FPL's customers would have been unequivocally worse off. Another problem with Mr. O'Donnell's perspective is that it assumes the recent pandemic is the worst situation the Company might face in terms of capital market constraints. That is not the way in which FPL has planned or operated successfully over the years and not the way we want to position ourselves for the future.

Q. Do you agree with OPC witness O'Donnell's contention that FPL in fact should position itself financially for a downgrade in its debt rating?

A. No, I do not. The view espoused by witness O'Donnell is short-sighted and considers only the immediate, first-order impact of a shift in capitalization. He fails to consider the importance of FPL's higher-than-average equity ratio (as a key pillar of financial strength) to execution of FPL's operational strategy. Any reduction in financing costs postulated by Mr. O'Donnell's proposed recapitalization would (a) undermine the financial foundation that has been crucial to the industry leading customer value FPL provides (b) pale in comparison to cumulative bill savings (roughly $300 per year relative to the national average) due to FPL's operational excellence; and (c) place FPL in a very different (weaker) posture in the face of future capital market disruptions. Neither the recent pandemic nor the liquidity crisis of 2008 was anticipated. While we cannot pretend to know what new or more severe crises we might face going forward, we can continue to maintain a position of financial strength, as we have over the last twenty years.

Accepting Mr. O'Donnell's recommendation would hinder FPL's ability to carry out its strategy and thus impair long-term service quality. Simply put, recapitalizing FPL to an industry average, and failing to recognize FPL's superior performance likely will yield the average results in terms of customer bills, reliability, and other key metrics – perhaps not overnight, but certainly over time. In this regard, the data in the industry that reflect comparative performance are incontrovertible.

Q. What is your response to the observation of intervenor witnesses, most notably OPC witness O'Donnell, that FPL's proposed equity ratio exceeds averages among certain groupings of investor-owned utilities and exceeds the equity ratio of FPL's parent, NextEra Energy ("NEE")?

A. Note first that, a simple comparison of capital structures without regard for specific differences in situation and strategy are not instructive with respect to the proper capitalization for FPL. FPL is different from peer utilities in risk profile and value proposition, and such differences logically will drive divergence as to what constitutes appropriate financial policy and capital structure. By proposing that the Commission alter FPL's capital structure on the basis of these comparisons, intervenors are adopting the highly impractical view that all utilities are alike or interchangeable in every other respect as to make no practical difference.

Next, while investors absolutely do value stability (and FPL has maintained its current equity ratio for more than two decades), FPL's recommended capital structure is based upon the relevant qualitative and quantitative evidence. Witness O'Donnell's assertion that the investment community should not be alarmed by this drastic change in capitalization is without foundation and constitutes a "roll the dice" approach with what today is the best value delivery in the industry. In short, FPL's unique risk profile and the importance of financial strength to its provision of exceptional customer service warrant a stronger-than-average equity ratio. It is deeply flawed reasoning to assume that FPL may arbitrarily change its capital structure without also affecting its operational performance. As stated previously, FPL's financial strength is core to its strategy that has delivered superior, not industry average, results.

Finally, OPC witness O'Donnell's comparison of the U.S. GAAP equity ratios for NEE and FPL's non-regulated sister company, NextEra Energy Resources ("NEER") and its parent NextEra Energy Capital Holdings ("NEECH") to the proposed ratio for FPL offers negligible analytical value. First it should be noted that FPL's parent company, NEE, has no debt in its capital structure. Second, FPL and NEER have fundamentally different businesses and therefore are financed in very different manners. NEER's and NEECH's capital structure utilize a wide variety of instruments (including non-recourse project debt, tax equity, junior subordinated debentures, and equity units), which carefully balance return and credit considerations and yield U.S. GAAP debt ratio levels well in excess of effective economic leverage. In fact, NEE's consolidated total adjusted debt ratio consistent with S&P's view is well below 50 percent.

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

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

<u>Table 6.</u> 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

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

IX. RETURN ON EQUITY

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

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

Q. How would the rating agencies view a decrease in the allowed ROE to the levels recommended by intervenor witnesses?

A. If the Commission were to approve an ROE at the levels recommended by intervenor witnesses, the rating agencies likely would react swiftly as they did following the adverse decision in PSC Order No. PSC-10-0153-FOF-EI which resulted in FPL having the lowest ROE among Florida utilities among other non-constructive decisions contained in that order. In addition to financial implications, rating agencies also would perceive a deterioration in the regulatory environment leading to increased regulatory risk and their assessment of business risk would be significantly higher. A downgrade could happen either immediately or over time as a result of the compounded effect of FPL's eroded financial position, liquidity position and cost position to customers. Predictability of regulatory decisions is an important consideration of regulatory environment. An ROE approved anywhere near the levels proposed by intervenor witnesses would be considered shocking especially given FPL's low rates, O&M savings and high reliability.

X. ROE PERFORMANCE INCENTIVE

Q. Please summarize your reaction to intervenor witness testimony as it relates to the ROE performance incentive.

A. The intervenors' arguments regarding the ROE performance incentive are short sighted, betray a fundamental misunderstanding of the regulatory compact vis-a-vis the expected level of company performance, and grossly undervalue the benefit to customers of FPL's superior level of performance. Their claim that superior performance should be the required or expected regulatory standard is without support and facially incorrect. The intervenors' positions on the ROE Performance Incentive are inconsistent with broader objectives of low bills and exceptional performance. The Commission historically has recognized the importance of this broader view and the results are readily apparent for FPL's customers.

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

A. No, not in the sense postulated by these witnesses. This narrative is key to their opposition, but it is patently incorrect. While it is true that FPL has been a superior performer for many years, an accomplishment noted as "laudable" by witness Chriss (Page 17, Line 11), and customers currently enjoy all the benefits of that performance, it is not true that FPL is seeking retrospective compensation for past superior performance. As stated in my direct testimony, FPL requests the Commission allow the one-half percent ROE performance incentive to recognize superior current performance and "as an incentive to promote further efforts to improve the customer value proposition." In short, while many of FPL's accomplishments have occurred over years of effort, the results of those efforts are providing significant benefits and value for customers today and, with continued good management and project execution, will continue to do so in the future. In fact, this is what the Commission did in 2002 in Gulf's Order No. PSC-02-0787-FOF-EI, even acknowledging Gulf's past performance, with an expectation that a similar level of good performance would continue into the future.

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

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

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

A. Yes, the Company has done so extensively in this case contrary to the assertion of Florida Rising witness Rábago. As just one example cited by witness Reed, in 2019 alone the non-fuel O&M costs and annual fuel costs charged to customers would have been higher than FPL's actual costs by about $2.6 billion and $595 million, respectively. That is more than seventeen times the value of the one-half percent performance incentive being requested. Ultimately the financial cost/benefit proof is in our customers' bills and ours are the lowest among the regional peer companies compared on Exhibit REB-8 from my direct testimony and 30 percent below the national average. Additionally, there are non-financial metrics (SAIDI, Emission, Customer Satisfaction) that directly bear on our customers' value experience. When compared to others in the industry it is clear FPL's level of performance is not merely serendipitous; rather, it is the result of a thoughtful strategy and consistent execution.

Q. In summary, do you believe the Commission should award the one-half percent ROE performance incentive?

A. Yes. Every argument put forward by the intervenors against FPL's proposed ROE performance incentive fails to address two fundamental principles: superior performance matters to customers, and incentives drive results. The Commission has employed incentives in the past and has the opportunity to underscore this regulatory mechanism by approving this request.

XI. STORM COST RECOVERY MECHANISM

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

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

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

A. FPL has greater risk exposure to tropical storms and hurricanes than any other company in the country (Exhibits REB-6 and REB-7). The SCRM does provide interim cash flow to the Company; however, FPL retains greater relative risk than other utilities despite this temporary liquidity measure. To be clear, the SCRM provides interim cash flow for the Company following a restoration event that is capped as to amount and duration of recovery. The Company still must finance the total restoration effort, assisted by the cash provided by the SCRM, and still bears all the prudence risk when the restoration costs are reviewed many months after the restoration is complete. Further, neither the SCRM nor the Commission's Storm Rule 25-6.0143, F.A.C., provide any recovery of revenues lost during the restoration event.

Q. Does this conclude your testimony?

A. Yes.

BY MR. LITCHFIELD:

Q Mr. Barrett, do you also have exhibits that were identified as REB-13 through 14 attached to your rebuttal testimony?

A Yes.

MR. LITCHFIELD: Chairman Clark, I would note that those Exhibits 13 and 14 have been pre-identified in Staff's comprehensive exhibit list as Exhibits 363 and 364.

BY MR. LITCHFIELD:

Q Mr. Barrett, have you prepared a summary of your rebuttal testimony?

A I have.

Q Would you please provide that at this time?

A Yes.

Mr. Chairman and Commissioners, good morning again.

Over more than two decades across six separate multiyear rate agreements, FPL has developed what I believe is the best customer value proposition in the entire industry. In this case, FPL seeks to continue that strategy of creating value for customers through a thoughtful comprehensive approach.

Certain intervenors oppose each component of FPL's proposal and the four-year rate plan in its entirety, preferring a return to one-year-at-a-time rate cases despite the objectively superior results produced for customers by FPL under prior multiyear plans. Low costs, high reliability, high customer satisfaction, clean emissions, and among the lowest bills in the nation. These opposing intervenors would prefer be in regulatory proceedings each year, while we would propose to be improving the value we provide to customers.

Opposition to FPL's proposed reserve surplus amortization mechanism, the RSAM, is a primary example of this type of shortsightedness. RSAM is an essential feature of the four-year rate plan. Over three multiyear rate periods spanning more than 10 years, it has been instrumental in providing the rate certainty and regulatory stability to enable FPL to significantly improve the value that we deliver to our customers. In essence, opposition to RSAM is opposition to the four-year plan.

Contrary to the assertions of intervenor witnesses, RSAM does two things. Allows FPL to not seek general base rate increases in 2024 and 2025, and allows FPL to manage volatility and uncertainty throughout the entire four-year period.

RSAM is based on reasonable assumptions, provides significant value to customers, and I believe it represents a continuation of forward-thinking regulatory policy.

Opposition to FPL's proposed solar base rate adjustment, SoBRA, likewise is misguided. SoBRA allows for a limited base rate increase for new, cost-effective solar facilities in 2024 and 2025 that otherwise would require a full base rate proceeding.

Like RSAM, SoBRA is a necessary component of FPL's four-year rate plan. SoBRA can not cause FPL to overearn, and it matches the increase in base revenue requirements to the decrease customers will see in their fuel bills.

As for capital structure and ROE, these same intervenors fundamentally do not understand the integral link between FPL's financial strength and our strategy of value delivery for customers. Despite empirical evidence of the superiority of FPL's approach, they prefer to reuse the arguments that we've heard for decades. Industry average equity ratio and industry average ROE are sufficient, while either not acknowledging or outright denying that there would be any ramifications to service quality or cost.

Having never had the responsibility of serving a customer or making a utility investment decision, some intervenor witnesses boldly assert that FPL could continue to deliver superior results with the significantly reduced financial resources indicated by their recommendation. They are asking to you roll the dice with their capital structure and award an absurdly low ROE. FPL's requested equity ration and ROE are appropriate and will enable the company to continue its successful strategy.

FPL has proposed a performance incentive of one-half percent be added to our market based ROE of 11 percent. Certain intervenor witnesses oppose this too, yet the questions here are pretty straightforward. Is FPL's performance superior? And should superior performance be incented as proposed by FPL?

FPL has demonstrated that across the metrics that matter most to customers, we are a top performer and have been for many years.

Gulf also, since its acquisition by NextEra, has demonstrated significant operational and cost improvement, proving that superior performance is a matter of culture and financial strength.

What intervenors choose to argue is that superior performance should be expected due to our obligation to serve. This is patently absurd, or else every other company not achieving our level of performance is failing in their basic obligation to their customers.

FPL's proposed incentive provides a strong message from of this commission to us that will be noticed by all companies, superior performance will be rewarded.

There are other intervene positions opposed to FPL that are addressed in my rebuttal testimony, but time doesn't really allow me to address them all in my summary. I ask you to reject the intervenor positions and approve FPL's proposal to continue this superior value proposition to our customers.

Thank you.

Q All right. Thank you, Mr. Barrett.

MR. LITCHFIELD: Commissioners, Mr. Barrett is available for cross-examination.

CHAIRMAN CLARK: All right. OPC.

MS. CHRISTENSEN: No questions.

CHAIRMAN CLARK: CLEO.

MS. OTTENWELLER: No questions.

CHAIRMAN CLARK: FAIR.

MR. WRIGHT: Mr. Chairman, I have no questions. We have agreed that in lieu of cross-examination, FPL is agreeable to admitting two exhibits that have been distributed. There are two separate sets of excerpts from FPL's earnings surveillance reports. We need numbers for them.

CHAIRMAN CLARK: Yes, sir.

MR. WRIGHT: Let's have the first one be the earnings surveillance reports for January through December 2010. I think that's 616.

CHAIRMAN CLARK: Ms. Brownless, is that right, 616.

MS. BROWNLESS: Yes.

MR. WRIGHT: And that would make the next exhibit 617, and that's earnings surveillance reports excerpts from December of 2017, December of 2018, December 2019, December 2020 and June 2021.

CHAIRMAN CLARK: All right. These are given the numbers 616 and 617.

(Whereupon, Exhibit Nos. 616 & 617 were marked for identification.)

MR. WRIGHT: Thank you, Mr. Chairman. And when it's time, I will move those in. Thanks.

CHAIRMAN CLARK: All right. FEA.

MAJOR KIRK: Nothing, sir.

CHAIRMAN CLARK: FIPUG.

MR. MOYLE: No questions.

CHAIRMAN CLARK: FIT.

MR. SELF: No questions.

CHAIRMAN CLARK: FRF.

MR. BREW: No questions.

CHAIRMAN CLARK: Florida Rising.

MR. MARSHALL: No questions.

CHAIRMAN CLARK: Larsons.

MR. SKOP: No questions.

CHAIRMAN CLARK: SACE.

MR. CAVROS: No questions.

CHAIRMAN CLARK: Vote Solar.

MS. OTTENWELLER: No questions.

CHAIRMAN CLARK: Walmart.

MS. EATON: No questions.

CHAIRMAN CLARK: Staff.

MS. BROWNLESS: No, sir. Thank you.

CHAIRMAN CLARK: Commissioners? Nothing.

All right. Mr. Litchfield.

MR. LITCHFIELD: Thank you, Mr. Chairman. At this time, then, we would ask that Mr. Barrett's Exhibits 58 through 69 and 363 and 364 be entered into the record.

CHAIRMAN CLARK: So ordered.

(Whereupon, Exhibit Nos. 58-69 & 363-364 were received into evidence.)

MR. WRIGHT: And I would respectfully ask that 616 and 617 be entered also, Mr. Chairman. Thank you.

CHAIRMAN CLARK: So ordered.

(Whereupon, Exhibit Nos. 616 & 617 were received into evidence.)

MR. LITCHFIELD: Now, Mr. Chairman, may I also maybe ask Suzanne at this time, is this the appropriate time to also take care of the two deposition transcripts?

MS. BROWNLESS: Yes.

MR. LITCHFIELD: Okay. So, Mr. Chairman, I think Ms. Brownless indicated earlier that the parties had reached agreement in lieu of cross-examining Ms. Watkins and Mr. Herndon with respect to standing issues, that we would enter in the deposition transcripts, including the errata, and so we are looking for exhibit numbers at that time -- at this time.

CHAIRMAN CLARK: All right. We need to assign those 618 and 619, that is Watkins and Herndon, right?

MR. LITCHFIELD: 618 Watkins, 619 Herndon. Thank you.

CHAIRMAN CLARK: 618 Watkins, 619 Herndon.

(Whereupon, Exhibit Nos. 618 & 619 were marked for identification.)

MR. LITCHFIELD: And we would ask that those be moved into the record.

CHAIRMAN CLARK: All right. Those are entered into the record.

(Whereupon, Exhibit Nos. 618 & 619 were received into evidence.)

MR. LITCHFIELD: Thank you.

CHAIRMAN CLARK: All right. Does that take care of all of our exhibits, everyone? No objections.

All right. The witness -- Ms. Brownless.

MS. BROWNLESS: I just want to make sure that Exhibit 189 got listed as well.

CHAIRMAN CLARK: It's not on my list. That's the joint -- is that the joint exhibit?

MS. BROWNLESS: That's Mr. Barrett's, one of Mr. Barrett's exhibits.

MS. MONCADA: Ms. Brownless, that was also -- that was sponsored and attached to the direct testimony of Tiffany Cohen, so it would have gone in with her exhibits.

MS. BROWNLESS: Okay. It was a joint -- a joint cosponsored exhibit, ma'am?

MS. MONCADA: Correct.

MS. BROWNLESS: Thank you.

CHAIRMAN CLARK: All right. I believe we took care of everyone, Mr. Litchfield. Your witness?

MR. LITCHFIELD: Yeah, I think we've asked Mr. Barrett to be excused, and I think he is the last of our witnesses with respect to this segment of the proceeding.

CHAIRMAN CLARK: All right. Mr. Barrett, you are excused.

(Witness excused.)

(Transcript continues in sequence in Volume 11.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 22nd day of September, 2021.

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024