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February 28, 2025

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

Re: Docket No. 20250011-EI
Petition by Florida Power & Light Company for Base Rate Increase

Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above docket are the direct testimony and exhibits of FPL witness Scott R. Bores.

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

Sincerely,

s/ John T. Burnett
John T. Burnett
Vice President & General Counsel
Florida Power & Light Company

(Document 3 of 30)

CERTIFICATE OF SERVICE
Docket 20250011-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service this 28th day of February 2025 to the following:

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Attorneys for the Citizens of the State of Florida

By: *s/ John T. Burnett*
John T. Burnett

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250011-EI

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF SCOTT R. BORES

Filed: February 28, 2025

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Scott R. Bores. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

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. I am responsible for the financial management of FPL, including oversight of the Company's financial forecast and results, corporate budgeting, accounting, resource assessment and planning, load forecasting activities and rate design and strategy. Additionally, in collaboration with other senior finance executives of FPL's parent, NextEra Energy, Inc., I present and communicate FPL's operational results, financial performance, and overall financial profile to investors and credit rating agencies. I also monitor trends in the economy and investment markets and support the establishment and maintenance of effective working relations with the investment and banking communities. In addition, my team works with financial personnel on debt issuances, and preparation of financial information and communications for investors, credit rating agencies and investment analysts.

Q. Please describe your educational background and professional experience.

A. I graduated from the University of Connecticut in 2003 with a Bachelor of Science degree in Accounting. I received a Master of Business Administration from Emory University in 2011. I joined FPL in 2011 and have held several positions of increasing responsibility, including Manager of Property Accounting, Director of Property Accounting, Senior Director of Financial Planning & Analysis, and my current position as the Vice President of Finance. Prior to FPL, I held various accounting roles with Mirant Corporation, which was an independent power producer in Atlanta, Georgia, and PricewaterhouseCoopers, LLP. I am a Certified Public Accountant ("CPA") licensed in the State of Georgia and a member of the American Institute of CPAs.

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

A. Yes. I am sponsoring the following exhibits:

- Exhibit SRB-1 List of MFRs Sponsored or Co-sponsored by Scott R. Bores
- Exhibit SRB-2 Regional Comparison: Key Performance Metrics
- Exhibit SRB-3 Supply Chain Cost Increases
- Exhibit SRB-4 Annual Average Number of Storms by Decade
- Exhibit SRB-5 Storm Cost Recovery Mechanism
- Exhibit SRB-6 Non-Fuel O&M per Retail MWh
- Exhibit SRB-8 Mechanism To Address Potential Tax Law Changes

I am co-sponsoring the following exhibit:

- Exhibit SRB-7 Solar and Battery Base Rate Adjustment Mechanism

Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements in this case?

A. Yes. The minimum filing requirements ("MFR") that I sponsor and co-sponsor are listed in Exhibit SRB-1.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain how financial strength has been critical to FPL's ability to deliver excellent customer value and maintain the flexibility to execute its long-term investment plan for the benefit of customers. Moving forward, FPL's ability to continue supporting new customer growth and provide all customers excellent service, including high reliability and affordable bills, depends on the continuation of its capital investment plan. This requires the Company to maintain its strong financial position.

FPL's proposed four-year rate plan, 2026 through 2029, thoughtfully assembles components that allow FPL to execute its long-term strategy to continue to deliver superior customer value by building upon FPL's successful track record of innovation and efficiency and the Florida Public Service Commission's ("FPSC" or "the Commission") support for multi-year rate plans. I recommend the continued use of FPL's current equity ratio, which is reflected in the 2026 and 2027 MFRs, and supports the 11.90% return on equity ("ROE") recommended by FPL witness Coyne for use by the Commission. Additionally, my testimony supports as appropriate the fundamental elements of the four-year rate plan which include the continued use of the Storm Cost Recovery Mechanism, along with a non-cash mechanism that will allow FPL to avoid general base rate increases in 2028 and 2029 and to respond to dynamic economic changes, as well as a mechanism that will efficiently address any impacts as a result of changes to tax laws and regulations. The Commission's support for each of these recommendations will enable the Company to continue delivering superior value to customers.

Q. Please provide a summary of your testimony.

A. FPL has consistently demonstrated its ability to achieve successful outcomes for customers through Commission-approved multi-year settlement agreements so long as it has the financial strength necessary to execute its investment strategy on their behalf. Maintaining a strong financial profile has enabled FPL to make strategic investments to improve the reliability and quality of service and the overall value customers receive. At the same time, the Company has provided its investors with a fair rate of return. A guiding principle of FPL's strategy has been to focus on a core set of financial policies characterized by a strong balance sheet and financial discipline in its operations and investment decisions.

FPL has focused on continuous improvement and executed its strategy, which has resulted in the creation of significant value for its customers. FPL's achievements have been facilitated by the Commission's approval of numerous multi-year rate agreements, which have allowed FPL to not only focus on operations and efficiencies but to think long-term and make forward-looking investments. To describe just a few of FPL's achievements attained during the current settlement period as shown in Exhibit SRB-2:

- FPL's typical 1,000-kilowatt-hour ("kWh") residential customer bill is approximately 32% lower than the national average based on the Summer 2024 Edison Electric Institute Typical Bills and Average Rates Report.

- FPL's non-fuel operations and maintenance ("O&M") cost performance has been the best in the industry for more than 10 years, and its substantial lead compared to the industry has grown even wider in recent years. As described by FPL witness Coyne, from January 2021 through the end of December 2024, the Consumer Price Index ("CPI") cumulatively increased approximately 21%, hitting annual levels not seen since the 1980s. By contrast, from 2021 to 2023, FPL's non-fuel O&M per megawatt hour cost decreased by 20%. As demonstrated by FPL witness Reed, if FPL was an average cost performer, all else equal, its 2023 O&M costs would have been $2.9 billion higher and a typical 1,000-kWh residential customer bill would have been roughly $24 higher per month, or nearly $300 more per year.
- In J.D. Power's 2024 U.S. Electric Utility Residential Customer Satisfaction Study, FPL ranked among the best large utilities in the nation. In 2023, FPL received Escalent's Trusted Business Partner Award, which recognized that FPL's business customers had best-in-the-South positive experiences, and Business Customer Champion Award which acknowledged FPL's exceptional performance in customer service, trust to do the right thing for customers and ethics in dealing with customers. FPL also received the Edison Electric Institute's recognition for outstanding customer service in 2023, based on the Company's ability to provide innovative energy solutions for business customers.
- For seven of the last 10 years, PA Consulting has recognized FPL with its ReliabilityOne® National Reliability Award, which is awarded to the Company

that has demonstrated sustained leadership, innovation, and achievement in electric reliability. In 2023, FPL received PA Consulting's Outstanding System Resiliency Award, and the Outstanding Reliability Performance in the Southeast Region Metropolitan Service Area Award for the eleventh straight year.

- In 2024, FPL had its best-ever reliability rating: 43.80 minutes on the System Average Interruption Duration Index ("SAIDI"). Additionally, for the 17th time in the last 18 years, FPL's 2023 SAIDI was the best among the Florida investor-owned utilities.
- FPL has continuously transformed its generating fleet and has substantially improved its operating performance across key indicators that benefit customers. Between 2021 and 2024, FPL's improvements include: nearly a 6% reduction in heat rate and achievement of a 1.3% equivalent forced outage rate, all while maintaining the aforementioned best-in-class position in non-fuel O&M, even when it faced significant inflation.
- As a byproduct of FPL's investments to cost-effectively upgrade its fossil fleet and construct cost-effective solar facilities, FPL has reduced carbon emissions for the benefit of its customers and all Floridians.

The multi-year settlements approved by the Commission have enabled FPL to deliver strong financial results and fair returns for investors, establishing a willingness among investors to continue to invest their capital in FPL. These investments are necessary for FPL to support customer growth and execute on its strategy to improve the customer value proposition while keeping bills as low as possible. FPL's financial strength was especially important over the period since the Commission approved the 2021 Rate Settlement. Due to historic inflation levels, and the action by the Federal Reserve to increase interest rates to tame inflation, the cost of doing business has significantly exceeded the projections upon which the current settlement was based. Even in the face of these higher costs, FPL was able to continue to deliver value for its customers because the combination of the 2021 Settlement's equity ratio, ROE and associated trigger, incremental rate increases and non-cash mechanism allowed FPL to maintain access to capital on reasonable terms. This liquidity allowed FPL to continue to make necessary investments while keeping customer bills stable and continuing to deliver reliable power and excellent customer service.

FPL's proposal reflects a continuation of the financial policies previously approved by the Commission and under which FPL has operated successfully. There is no sound reason to change the regulatory framework that has benefitted FPL's customers for so long. The core elements that will enable FPL to continue to deliver superior customer value include:

- The continued use of FPL's historical capital structure consisting of an equity ratio of 59.6% from investor sources (50.07% based on all sources in the 2026 Projected Test Year);
- The provision of an allowed ROE of 11.90%, 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.

The four-year plan includes three additional components that also are modeled after elements underlying FPL's history of achievements. Each element described below is essential to the Company's ability to commit to avoid initiating another rate case over the proposed four-year period. Without these components, the four-year plan unravels because FPL's financial position would deteriorate, to the detriment of customers:

- Continued authorization for a non-cash flexible amortization mechanism that allows FPL to avoid general base rate increases in the final two-years of the four-year proposal and also allows FPL to absorb risks associated with making a long-term commitment, mainly dynamic changes in the economy and overall business operating conditions;
- Continued authorization of a Solar and Battery Base Rate Adjustment ("SoBRA") mechanism described by FPL witnesses Oliver, Laney, Cohen and Fuentes, such that FPL will be permitted to petition to adjust base rates to recover the cost of solar and battery infrastructure that will reliably satisfy FPL's capacity needs. The proposed SoBRA mechanism will address cost recovery for up to 3,278 MW_{AC} of cost-effective solar and 1,200 MW of cost-effective battery storage facilities and will address cost recovery associated with the one-time flow through of investment tax credits ("ITC") and the subsequent conclusion thereof in the following year; and
- The continued authority to address potential changes in tax laws and regulations that could have a substantial impact on cost of service. The current federal

administration and Congress have signaled that they will pursue federal tax legislation. They have highlighted the intent to modify the corporate income tax rate and potentially repeal all or portions of the Inflation Reduction Act, which could impair FPL's ability to obtain customer-benefitting tax credits or apply customer-benefitting accounting treatment for the tax credits.

These major elements build upon FPL's proven successes and will support FPL's ability to maintain the excellent value its customers have come to expect. Consistent with prior rate plans approved by the Commission, FPL's current proposal will promote extended rate stability and allow the Company to maintain the core financial policies that have been the bedrock of our success in delivering the best customer value in the nation.

II. THE IMPORTANCE OF FINANCIAL STRENGTH

Q. Please describe financial strength and why it is important to FPL and its customers.

A. A strong financial position is critical to FPL's ability to meet its obligations to customers and deliver excellent service. As a regulated electric utility, FPL has a responsibility to serve all customers, current and future, within its area. Like all utilities, FPL must make ongoing capital investments within its electric operations to establish new service and to maintain and improve existing service levels. Satisfying this responsibility requires FPL to invest capital that at times may exceed its operating cash flow, and that is especially true during periods of high inflation. As a result, the

Company has what is known as "negative discretionary cash flow" and must depend on reliable access to the capital markets to operate its businesses. FPL's financial profile must be strong enough to attract debt and equity investors. If a utility's creditworthiness weakens, investor confidence could wane and the Company's access to the capital markets may be limited or may come at a higher cost to customers.

Definitionally, financial strength means maintaining a condition of liquidity and profitability that allows a company to meet its obligations to investors while maintaining the ability to attract investor capital as needed on reasonable terms, conditions, and costs. A strong capital structure and an appropriate ROE create financial flexibility by providing more readily available access to capital markets on reasonable terms and lower financing costs. A weak capital structure and inadequate ROE lead to lower credit quality, higher borrowing costs for customers and limited financial flexibility. Operating without the flexibility afforded through a strong financial position would expose the Company and its customers to unwarranted and unnecessary financial risk and uncertainty.

Q. Please describe the role of credit rating agencies in assessing the financial strength of utilities.

A. Credit rating agencies play an important role both for investors and utilities, such as FPL. As sources of information for investors, the agencies have developed their own analytical frameworks useful in evaluating global, industry- and company-specific quantitative and qualitative risk characteristics, and they provide meaningful research reports targeted specifically for debt investors. For FPL as a borrower, credit rating agencies provide important objective analyses that inform the Company's investment plans. The agencies recognize access to capital is a critical component of executing on a utility's key strategies.

Q. What are credit ratings and how are they used?

A. Credit ratings are the outcome of the agencies' views of corporate borrowers pursuant to the risk evaluation I mentioned. For capital market participants such as FPL, credit ratings serve a similar function to credit scores for individual borrowers. Individuals with higher credit scores are more likely to find that financial institutions are willing to lend them money, and the loans they secure carry lower interest rates than loans provided to individuals with lower credit scores. This means the higher-credit individuals will need less money each month to make payments on the loan and are more likely to have funds available to pay for other expenditures or make other investments.

In the same vein, credit rating agencies independently assess the credit quality of debt issuers, such as FPL, by assigning a rating that grades the credit quality from strongest to weakest. As with an individual's credit score, a debt issuer's credit rating impacts the interest rate it must pay for the funds it accessed. Borrowers with better credit ratings pay a lower interest rate, known as the "credit spread," which is the charge added to the benchmark rate. The benchmark for long-term debt is the U.S. Treasury bond rate. For short-term debt the benchmark is the rate for overnight funds.

Strong credit ratings ensure that FPL has adequate credit quality to raise the capital necessary to meet its obligations to customers. Companies with lower credit ratings have greater difficulty raising funds in any market. Under unstable market conditions, only companies demonstrating financial strength can attract capital under reasonable terms. A strong financial profile also is especially important when large volumes of corporate debt from multiple issuers are being sold in the market.

Q. What factors do the rating agencies evaluate in developing a business's credit rating?

A. Rating agency credit ratings are the product of two major factors: the business's financial risk profile and its business risk profile. A financial risk assessment is based on financial ratios comparing the business's cash flow to its level of debt obligations. The Company's risk profile is determined based on industry risk as well as business specific risk and for regulated entities such as FPL, an assessment of the regulatory environment.

Q. Please elaborate on the importance of a utility's regulatory environment with respect to its credit ratings.

A. Among the various business risks assessed for regulated utilities, the rating agencies primarily focus on the regulatory environment in which the utility operates. FPL is no exception: the three rating agencies that rate FPL focus principally on the Florida regulatory construct, as well as specific outcomes rendered by the Florida Public Service Commission. The main consideration is whether the utility is subject to constructive regulation that supports its creditworthiness and ability to continue to invest for customers on reasonable terms. In making that determination, the agencies consider factors such as allowed rate of return, timely recovery of capital investments, stability and cash quality of earnings, and capital structure.

Q. How do the rating agencies perceive Florida utility regulation?

A. Florida's utility regulatory environment is generally viewed as constructive by the rating agencies. In particular, Moody's finds that "[t]he Florida regulatory framework has a strong track record of allowing the state's utilities to recover prudently incurred costs in a timely manner. The regulatory construct includes timely cost recovery mechanisms that enable FPL to generate predictable and stable cash flow and consistently maintain strong financial metrics." (Moody's Credit Opinion Update 8/23/2023). As of January 2024, S&P assessed all of North America's regulatory jurisdictions as credit supportive, with Florida being one of only six states that it deemed "*most* credit supportive." S&P has noted that FPL "benefits from forward-looking test years and various regulatory mechanisms that provide for the timely recovery of investments and fuel costs." (S&P Research Update 6/25/2024).

Q. Are credit ratings impacted by equity ratio and ROE?

A. Yes. Rating agencies pay particular attention to equity ratio and ROE as they are important factors in a utility's ability to attract equity capital.

Q. What factors do equity investors consider in deciding whether to newly invest or maintain investment in a business?

A. Equity investors are free to invest their capital in any industry and any market participant they choose. Absent an authorized ROE and capital structure that offer a competitive market return commensurate with both general industry and FPL specific risks, investors will redirect their capital to other utilities or companies in different sectors and industries. This is particularly true during inflationary periods, which increase market returns on competing investment choices. Investors are less likely to invest in capital intensive businesses such as utilities unless they feel they are being afforded an appropriate return on their investment given the existing market conditions.

III. FPL'S FINANCIAL POLICIES AND CREDIT QUALITY

Q. Please describe the financial policies that underlie FPL's strategy.

A. FPL's core financial policies emphasize financial strength and discipline for the benefit of customers. For some time, four principal policies have been foundational and, subject to the one exception I will explain, have been strongly consistent:

- Maintain ample liquidity
- Employ an appropriate and consistent capital structure
- Seek authorization for and deliver a competitive return for equity investors consistent with the Company's risk profile and market factors, and
- Seek authorization for a mechanism that allows the Company to promptly recover prudently incurred costs following major storms and other severe weather events, a risk factor to which FPL is exposed more than any other utility in the country.

These specific policies support FPL's ability to make necessary and strategic investments by affording the Company access to capital and liquidity on attractive terms. And, by enabling the Company to earn competitive financial returns, investors are incentivized to continue to provide capital that allows for investments that support growth and maintain our excellent reliability and customer service.

Q. Please describe how these policies benefit customers directly.

A. These financial policies underlie FPL's ability to support one of the largest capital expenditure programs in the industry. The Company continues to invest to support customer growth, build cost-effective generation and make significant reliability investments in its power grid, all benefitting customers through the delivery of highly reliable, low-cost electricity.

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

A. Yes. Over about 15 years, the Commission has approved four separate FPL base rate settlement agreements that included provisions supportive of the Company's financial policies. (Order Nos. PSC-2021-0446-S-EI, as amended by PSC-2021-0446A-S-EI and supplemented by PSC-2024-0078-FOF-EI; PSC-16-0560-AS-EI; PSC-13-0023-S-EI; and PSC-11-0089-S-EI). Each of these agreements allowed for a capital structure equal to the Company's actual capital structure and an authorized ROE midpoint and range that was reasonable to attract capital for that time period. Each agreement provided FPL a mechanism to recover prudently incurred costs associated with restoring power following storms. Each of the four agreements has included a flexible non-cash reserve surplus amortization mechanism that allowed FPL to agree in each case to a multi-year period of rate stability for customers.

Q. Has the Commission ever departed from its support for FPL's financial policies?

A. Yes, there was one exception to the Commission's otherwise long-standing approach supporting sound financial principles. In 2009, in what was a highly politicized rate case, the Commission entered an order that denied more than 90% of FPL's requested cash increase. The decision significantly diminished FPL's financial strength.

Q. How did credit rating agencies react to the Commission's departure?

A. All three rating agencies – S&P, Moody's and Fitch – placed FPL's credit ratings on negative watch or review for downgrade. S&P and Moody's downgraded FPL. Moody's observed that the outcome of that rate case was "detrimental to the credit quality of Florida Power & Light Company." And it viewed Florida's regulatory environment as "substantially less constructive and predictable than it ha[d] been historically, increasing the level of risk of investors going forward."

Q. Was FPL able to recover from that state of diminished credit quality?

A. Yes, FPL was able to recover eventually, but two aspects to FPL's recovery must be underscored. First, the recovery began with the 2010 Rate Settlement reached by FPL and several intervenors a few months after the Commission's original 2010 Rate Case Order. The 2010 Rate Settlement provided sufficient, temporary assurance to investors that enabled FPL to make necessary 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.

Second, even with the 2010 Settlement in place, restoring FPL's credit quality took several years. In fact, it was a subsequent settlement agreement reached in 2012 ("2012 Rate Settlement"), that eventually boosted FPL back to a position much more consistent with that prior to 2009. Moody's and S&P upgraded FPL's ratings to its pre-downgrade levels in January 2014 and December 2019, respectively. In fact, 10 years elapsed before FPL was restored to Tier-1 commercial paper ("CP") issuer status. 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.

This timeline of events reflects rating agencies' inherent negative bias. 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 demonstrated a greater reluctance to restore or upgrade the credit ratings of issuers experiencing favorable developments. The agencies will instead wait an extended period of time to be confident that any favorable developments are permanent improvements rather than temporary phenomena. Customers bear the consequence of a downgrade for an extended period of time.

Q. Do FPL's financial policies change under varying volatile or depressed market conditions?

A. No. The Company's obligations to its customers do not rise and fall alongside economic tides. Nor do its obligations recede during major storms or in the face of unprecedented events. As a provider of an essential service critical to virtually all aspects of daily life, commerce and government, FPL must continue to serve its customers under all financial market environments. A utility's obligations also endure when faced with unexpected external events, such as major storms, and even once-in-a-generation events such as the COVID-19 pandemic, geopolitical conflicts and record-breaking inflation.

Indeed, the importance of financial strength is underscored precisely during times of depressed market conditions. Basic economic principles dictate that when the supply of capital is constrained, only the strongest financial profiles will be in demand. And, only those utilities able to attract capital under reasonable terms will have the necessary and potentially critical flexibility. Operating with a weak financial profile would expose customers to unwarranted risk financially and operationally.

Q. Should the Commission view those external events as unusual one-offs?

A. Not at all. FPL must have the financial strength to successfully address unforeseen financial market disruptions and stress. Financial markets and the economy are subject to business cycles. Each cycle is the product of a distinct set of facts or a unique "crisis," but history tells us that the cycle will recur. As just one example, when FPL petitioned for a rate adjustment in 2021, the economic data that FPL relied on in its forecast assumed that the COVID-induced economic downturn and supply chain constraints were a thing of the past and that the economy was getting back on track. That turned out not to be the case, as the supply chain constraints stemming from the pandemic led to the highest levels of inflation in nearly 40 years. Historical events demonstrate that neither the expected nor actual duration of a particular event can be the driving consideration. Fundamentally, FPL must be positioned to withstand the inherent uncertainty and volatility of markets generally – including those events we cannot anticipate – to be able to continue to deliver excellent service.

Q. How has FPL weathered periods of economic and capital market uncertainty?

A. FPL's strong financial position and access to sufficient liquidity historically enabled it to react to adverse or unforeseen events in ways that minimize negative consequences for customers. 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. Later in my testimony I will describe how FPL's strong financial position benefitted customers over the period of the 2021 Rate Settlement. Below are some examples from historical periods when FPL operated under prior multi-year settlements that contained similar supportive provisions:

- 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 the equivalent of $3.1 billion in 2024;
- 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 $2.1 billion of damage to FPL's system, or the equivalent of more than $2.6 billion when adjusted for inflation; and
- COVID-19 pandemic and the ensuing credit and capital markets volatility as well as increases in customer accounts receivables.

FPL's uninterrupted access to capital during periods of market turbulence is a product of the financial strength the Company has consistently maintained over an extended period.

Q. How is this history relevant to the setting of rates?

A. FPL's ability to meet its obligation to serve, and to deliver superior reliability at affordable rates, depends on access to financial markets. Those financial markets are not static. They are subject to periods of certainty and volatility. Therefore, in setting rates in connection with a four-year plan, it is important for the Commission to consider not only the current status and expectation for the market, but also the risk being borne by the utility and the need to attract capital even when the market takes an unanticipated turn. Decades of history and experience underscore the importance of having uncompromised financial capabilities to be able to meet our customers' needs in good times and bad.

IV. MARKET CONDITIONS DURING CURRENT RATE SETTLEMENT

Q. Please describe the economic market conditions that have existed since FPL entered the 2021 Settlement.

A. As described by FPL witness Coyne, the economic environment during the current settlement period that began January 1, 2022 has been unsettled, due largely to inflationary pressures and the resulting U.S. Federal Reserve ("Fed") response of tightening monetary policy by raising the federal funds borrowing rate.

- Inflation levels reached 9.1% in 2022 and remained high through much of the settlement period. From January 2021 – when FPL notified the Commission of its intent to file its last rate case – through the end of December 2024, the CPI cumulatively increased approximately 21%, hitting annual levels not seen since the 1980s.
- Interest/borrowing rates – The underlying 30-day average Treasury bond yield has increased by more than 200 basis points ("bps") from January 11, 2021 – when FPL filed the test year letter for its 2021 rate case – to October 31, 2024. The 30-day average yield on 30-year Treasury bonds was 1.69% as of January 11, 2021 and

2.02% as of October 26, 2021 – when the Commission voted to approve the Settlement Agreement in the 2021 rate case. As of December 31, 2024, the 30-day average yield was 4.56%. According to the U.S. Department of Treasury, the 30-year Treasury bond yield increased 312 bps, or more than 180%, between January 2021 and December 2024. The upward pressure on long-term interest rates impacts all sources of market capitalization.

- In looking at the short-term borrowing rate, the Fed raised the federal funds rate from a range of 0.00% to 0.25% in January 2022 to a range of 5.25% to 5.50% by July 2023, a 2,100% increase that held constant for 14 months.

Q. How did interest rates perform during the settlement period as compared to where they were during the 2021 rate case proceedings?

A. Since 2021, the interest rate landscape has undergone a significant transformation, driven by a confluence of economic recovery, inflationary pressures, and decisive actions by the Fed.

During the 2021 rate case proceedings, the 10-year Treasury yield reflected the low-interest-rate environment that prevailed during the initial stages of the economic recovery from the COVID-19 pandemic, with 10-year Treasury yield averaging 1.44% throughout the year. However, as the economy began to recover, inflationary pressures emerged, prompting the Fed to adopt a more hawkish stance. By October 2022, the 10-year Treasury yield had risen sharply to 4.23%, and by October 2023, it peaked at 4.99%.

Q. Have you observed how the utility industry fared as a whole during the high interest and inflation rate environment?

A. Yes. Since 2021, the regulated electric utilities sector has faced a challenging landscape, marked by a predominance of negative credit rating actions. Both S&P and Moody's have issued significantly more downgrades than upgrades, reflecting the sector's increasing financial and operational pressures. S&P, in particular, has experienced four consecutive years (2020-2023) where downgrades have outpaced upgrades by a ratio of more than 3 to 1. This trend underscores the sector's vulnerability to multiple adverse factors that have negatively impacted its financial health and operational stability.

Several key drivers have contributed to these negative rating actions. One of the primary factors is the substantial capital expenditure needs, which are estimated to reach approximately $210 billion in 2024. These expenditures are driven by the necessity to meet additional baseload power demands and broader energy transition initiatives. Furthermore, utilities are investing heavily in proactive system hardening to upgrade equipment and mitigate potential vulnerabilities. Inclusive of these investments, the sector is projected to face around $85 billion in cash flow deficits, accelerating financial pressures.

The impact of weather events has also played a significant role in the sector's financial challenges. A November 2023 S&P report observed that recent extreme weather events, including wildfires and hurricanes, made 2021 and 2022 two of the top five most destructive years for extreme weather since 1980. These events have necessitated costly equipment replacements and repairs, further straining utilities' financial resources. Additionally, the sector has faced increased litigation risk, with civil lawsuits filed against nine utilities due to wildfires at the start of 2024. S&P also has noted that extreme weather events have led to ten times more downgrades of investor-owned utilities over the past six years (2018-2023) compared to the previous thirteen years (2005-2017).

Q. Please describe how the higher interest rate environment has impacted utility financial positions.

A. The higher interest rate environment has compounded utility challenges by decreasing cash flow metrics and making capital market access more expensive. Rising interest expenses from both existing and new debt have led to a significantly diminished cash flow profile compared to recent years. The rapid rate hiking cycle has also introduced regulatory lag, resulting in weaker financial performance as utilities struggle to adjust to the new economic realities.

Since 2022, rising interest rates have increased costs for investor-owned utilities, resulting in weakening financial performance and credit quality. Utilities have had to allocate more of their existing cash flow to service higher debt costs, limiting their ability to fund new investments. According to S&P, about 35% of the [utility] industry has been operating with limited ability to absorb unexpected events beyond their base case. And, in February of 2024, S&P revised its industry outlook to negative, "reflecting the industry's high percentage of companies with negative outlooks and that operate with only minimal financial cushion from their downgrade threshold."

Q. Please summarize the impacts experienced by utilities under these market conditions and how the Commission should consider that experience in setting rates.

A. Since FPL's last rate case, the regulated electric utilities sector has been beset by a series of financial and operational challenges that have led to a predominance of negative credit rating actions. Significant capital expenditure needs, the impact of extreme weather events, rising interest expenses and inflation, and regulatory lag have all contributed to a more precarious financial position for utilities. As the sector continues to navigate these challenges, it will be crucial for utilities to adopt robust financial strategies and for the regulator to recognize these challenges in addressing a comprehensive multi-year rate plan.

V. HOW FPL MANAGED ITS BUSINESS DURING THE CURRENT SETTLEMENT TERM

Q. How has the economic environment impacted FPL's business during the term of the 2021 Settlement?

A. During the current settlement period, FPL has operated under the same turbulent financial environment as all other North American utilities, many of which have suffered weakened credit quality and even downgrades in their credit rating as previously mentioned. Higher interest rates and soaring inflation characteristic of this period led to higher borrowing costs, and resulted in overall costs and expenses that significantly exceeded the financial forecast underlying FPL's 2021 Rate Settlement and its existing rates.

Q. How have inflation rates and supply chain market forces impacted FPL's cost of doing business?

A. In the simplest terms, running the business since 2020 has been substantially more expensive as the cost of goods and labor FPL needs to serve its customers has increased significantly because of supply chain constraints and inflation. In fact, inflation on the goods and labor necessary for FPL to provide electric service has increased more than the Consumer Price Index for All Urban Consumers (known as CPI-U), which tracks inflation based on a basket of goods and services purchased for consumption by urban households, and the broader cost of labor measured by the Bureau of Labor Statistics. To name just a few examples, from 2020 to 2024 the price of six-inch PVC conduit increased more than 220%, padmount switchgear increased 46%, transformers more than 100%, lateral underground cable increased more than 60%, and hourly labor rates for service meter operations increased 23%. Exhibit SRB-3 provides more details and additional examples of the cost increases experienced since our prior rate case forecast was developed in 2020.

Inflationary and supply chain impacts such as these were compounded by the pace of customer growth in FPL's service area throughout the period. In other words, FPL experienced both "volume and price" impacts: FPL added nearly 100,000 new service accounts per year, and the materials and costs associated with each new service account were significantly higher than anticipated and significantly higher than what was reflected in rates. This occurrence is illustrative of the principle that FPL must be positioned to react to the unexpected, even if the situation arises when capital markets are challenging. FPL does not have the option to ignore new customers or adjust the timing of capital expenditures to "wait out" market disruptions. It has a duty to serve and must turn on the lights for new customers.

Q. Was FPL positioned to access debt on reasonable terms during the settlement?

A. Yes, FPL was able to access debt markets and the terms were reasonable on a relative basis. As I alluded to previously, the cost to borrow was significantly higher than FPL had anticipated, but FPL's strong credit ratings allowed it to maintain a more favorable credit spread than borrowers with weaker credit quality. The strong credit ratings are a function of FPL's financial policies as well as the strength enabled by the Commission's approval of the 2021 Rate Settlement.

Q. Please characterize FPL's ability to access equity since its last rate case.

A. The credit-supportive nature of FPL's 2021 Rate Settlement allowed FPL to continue to attract investor capital at a time when many others in the industry were not. As interest rates began to rise, and other utilities were downgraded, investors began to pull back from utility stocks and seek other investment opportunities that presented less risk given the capital-intensive nature of the utility industry. FPL was a rare exception and continued to attract investor capital because of its strong financial position coupled with the investor perception that Florida remains a constructive regulatory environment.

While investors expected a higher return on their investment, FPL was partially able to mitigate that through a mechanism in the settlement agreement that allowed for an increase in the midpoint ROE if the 30-year treasury rate increased greater than 50 basis points over a consecutive six-month period. FPL reached that trigger threshold early in the four-year settlement period as the 30-year treasury surpassed the 1.99% threshold and kept increasing past 5.00%. This mechanism was helpful in the short-term as it continued to allow FPL to attract capital without increasing customer bills given the non-cash nature of the mechanism. However, investors continue to expect a higher return on their investment given that interest rates remain elevated as compared to prior levels. To ensure that FPL can continue to maintain its strong credit profile and attract investor capital, it needs to provide investors an appropriate cash return on their investment.

Q. Which aspect of the 2021 Rate Settlement supported FPL's strong credit?

A. No single component of the 2021 Rate Settlement would be sufficient on its own to allow FPL to maintain its credit position. The supportive components approved by the Commission included a capital structure reflective of the Company's actual capital structure and a reasonable ROE midpoint with an authorized range that was accompanied by a trigger mechanism that better aligned FPL's authorized ROE with market conditions. The Commission also authorized FPL to continue implementing a mechanism that allows it to recover the prudently incurred costs associated with restoring power following storms, a risk that investors weigh heavily given FPL's operational attributes. The importance of this mechanism has been reinforced by the multiple storm events FPL has already experienced during this settlement period, most notably Hurricanes Ian in 2022 and Debby, Helene and Milton in 2024. Investors also recognize that FPL's storm cost recovery mechanism served as a mitigant against the risk of delayed recovery of substantial restoration costs that could over-leverage FPL. Together, these elements enabled FPL to generate sufficient cash from operations during the settlement period to cover its current fixed obligations, which kept its credit metrics balanced through most of the period. In addition, the Reserve Surplus Amortization Mechanism ("RSAM") helped continue to attract investor capital in the short-term, which allowed FPL to avoid incremental fixed cost obligations associated with debt payments that would depress FPL credit metrics. Maintaining its top-tier credit rating through the settlement period allowed FPL to access the capital markets for its ongoing cash needs on more favorable terms than those afforded entities with lesser credit quality.

Q. How did customers benefit from FPL's ability to access capital markets?

A. Customers benefitted directly from FPL's ability to continue to access capital markets and leverage its strong balance sheet to make the necessary investments in the business despite significantly higher capital costs because of inflation. For example, as demonstrated earlier in my testimony, the cost of connecting new customers to the grid was significantly higher than FPL projected because of higher material and labor costs. This caused FPL to not only expend significantly more capital than it planned, but to finance that higher cost of construction. In addition to connecting customers to the grid, FPL had to invest in new generation assets and modifications to existing generation assets to support new load growth, which also provides the ancillary effect of reducing ongoing fuel costs. Additionally, FPL had to continue to invest in its transmission and distribution system to continue to maintain leading reliability for customers.

Aside from FPL's everyday infrastructure investments, customers benefitted from extraordinary measures enabled by the Company's financial position. In 2022, natural gas prices experienced sharp increases due to domestic and international factors, including Russia's invasion of Ukraine. Under typical practice, FPL would have collected the substantial fuel under-recovery associated with these increases during the balance of that year, which would have compressed the recovery period and resulted in a markedly higher fuel charge for customers. Instead, FPL was able to use its strong financial position to spread the approximately $2 billion fuel under-recovery through the end of 2024. This allowed customers to pay those fuel costs over 21 months, substantially mitigating bill impacts at time when inflation was impacting our customers.

Additionally, FPL has experienced significant costs from hurricanes during the term of the settlement, requiring a strong financial position to pay suppliers for the incremental costs until such time as it could collect a storm surcharge. During 2022, in addition to already volatile fuel prices described above, Hurricanes Ian and Nicole made landfall in FPL's service area, leading to roughly $1.3 billion in total costs that FPL recovered over a 12-month period. This was followed by the 2024 hurricane season, in which FPL again experienced total costs of approximately $1.2 billion from Hurricanes Debby, Helene and Milton, requiring an additional storm surcharge.

As illustrated by these examples, FPL's financial strength allowed it to continue to raise the necessary capital without impairing its ability to serve its customers. FPL could not have executed its financial plans and supported its customers in the same fashion with a weaker financial profile.

Q. Other utilities within and outside of Florida have continued to serve their customers over the past four years, which required access to capital. Doesn't that indicate that utilities with lower credit quality fared just as well as FPL?

A. No, for two reasons. As I have explained, market participants with lesser financial strength pay a premium compared to those with stronger profiles – in the form of higher credit ratings. This results in higher fixed obligations, requiring more cash from operations to satisfy the debt and leaving less cash available for other necessary expenditures.

The second reason follows logically. Investors and rating agencies are ever vigilant of an entity's credit metrics and the amount of capital the business needs to invest to deliver its end product. FPL's financial strength allowed it to continue to make the necessary investments as well as absorb the much higher costs of construction that I've just described without deteriorating its credit standing. Only utilities that have strong credit can undertake that unplanned incremental debt without having the resulting obligations sacrifice its debt-to-cash flow ratio.

Even a utility with a moderately strong credit rating would risk a downgrade if it put pressure on its balance sheet by stacking obligations such as incremental debt for everyday operations, i.e., customer growth, carrying a $2 billion obligation related to fuel for two years instead of seeking more immediate recovery, and responding to multiple severe storms. Because of FPL's strong financial profile, it was able to continue delivering reliable service, execute quick restoration, raise short-term and long-term debt at rates attractive for our customers and ameliorate customer bill impacts immediately without sacrificing its credit standing, which not only provided much needed short-term relief for customers, but also mitigated harm to customers over the long term.

Q. You have mentioned that the RSAM helped FPL manage its business throughout the period of high interest rates and significant inflation. Please remind the Commission what the RSAM is and how it works.

A. The RSAM was a necessary component of the 2021 Rate Settlement and was modeled after a similar component included in the three settlements that preceded the 2021 Rate Settlement, i.e., 2010, 2012, and 2016. These components have been a constructive part of FPL's ability to propose multi-year rate plans that allow for stable rates, low customer bills and deliver value for nearly 15 years.

The RSAM is an accounting mechanism used by the Company to respond to changes in its underlying revenues and expenses in order to maintain its FPSC-Adjusted ROE within the Commission-authorized range. Under the current four-year settlement agreement, FPL has the right to amortize a $1.45 billion reserve amount. Specifically, in each earnings surveillance reporting 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. The RSAM results only in non-cash earnings and has no impact on customer bills during the term of the settlement. 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 during the settlement period.

Q. What were the limitations on FPL's use of the mechanism?

A. The most fundamental limitation under the 2021 Rate Settlement and those that preceded it is the prohibition against using the RSAM in any manner that would cause FPL's earned ROE on an FPSC Adjusted Basis to exceed the top of the authorized ROE range. Similarly, the Settlement required FPL to use the RSAM, if any amount were available, to keep the Company's ROE at least at the minimum authorized ROE before the Company could seek a general base rate increase during the settlement period.

Q. Please explain how the RSAM helped FPL maintain financial strength during the 2021 Rate Settlement period.

A. The availability of the RSAM during the settlement period enabled the Company to absorb significant fluctuations in revenues and expenses. During most multi-year periods, fluctuations in the business both increase and decrease in terms of operating revenues and expenses as well as the Company's cost of capital. In this period, however, fluctuations in the Company's overall operating expenses and capital costs increased as compared to FPL's projections primarily because of unexpected and swift changes in the economy.

Changes in interest rates and inflation added significant costs to operate the business and maintain the same level of service compared to FPL's projections. Coupling these higher costs with a sharp increase in customer growth and a stretch of severe storms led to depressed cash earnings beginning as early as 2022. This became even more problematic in 2023. But, because of the RSAM and a strong focus on cost productivity, FPL was able to keep its book earnings from 2022 through the first half of 2024 at a level that demonstrated growth and continued to attract investors to supply capital necessary to keep running FPL's business. Ultimately, however, investors do not view these non-cash earnings as sustainable; they expect that the book returns will be replaced with cash returns to provide an appropriate return on investment.

Q. In light of high interest rates, high levels of inflation, and a limited RSAM Reserve amount, please describe how management reached its decisions regarding how and when to use the RSAM.

A. Given that costs were significantly higher than projected, FPL's use of the RSAM was vastly different than anticipated at the onset of the settlement, as it was needed to manage fluctuations in the business earlier in the settlement period given the impacts of inflation and interest rates. At the same time, investors continued to prioritize a fair return on their investment, and with an increasing risk-free rate, investors expected a higher return on equity.

Q. During the first two years of the current Settlement Term, FPL was able to earn near the top of its authorized ROE range. Was that due strictly to amortization of the RSAM Reserve amount?

A. No. While the RSAM helped FPL maintain adequate earnings during the first two years of the settlement period, FPL could not have earned near the top of the range without significant productivity improvements that lowered its annual expenses.

Q. What do you conclude regarding the inclusion of RSAM as part of a rate plan?

A. 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 prior multi-year rate settlement agreements. The RSAM has been a core element that enabled multi-year rate plans which avoided incremental rate cases and cash rate increases for customers. FPL has demonstrated that the driving force underlying its amortization decisions is whether the expense or investment is necessary to provide safe and reliable service or enhance the overall customer value proposition. This stewardship has produced lasting results for both customers and shareholders.

VI. 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, what management should consider in establishing an appropriate capital structure, and as explained by FPL witness Coyne, what courts and utility commissions have deemed a fundamental consideration when establishing an ROE and equity ratio. Other things being equal, when investors perceive a more challenging risk profile, a higher ROE and stronger capital structure is necessary to attract them. FPL has consistently maintained a strong capital structure commensurate with its risk profile. There is no reason to change that approach. Additionally, FPL is requesting an authorized earnings range that is likewise appropriate given its risk profile and investor expectations.

Q. Please identify FPL's key risk factors.

A. FPL's risk factors fall into four principal categories:

- Significant capital investment program;
- Physical infrastructure, including transmission system, generation mix, and fuel supply;
- Physical environment, including weather, such as tropical storms and emerging climate issues; and
- Regulatory and political environment.

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. Already one of the largest utilities, FPL has recently experienced significant customer growth at a time when the pace of growth has contracted for many other utilities. In addition, FPL is working hard to make its infrastructure more storm-resilient in the face of increased storm activity, an endeavor that is not only prudent but also now mandated by the State of Florida. Not surprisingly, therefore, within the utility industry, and specifically within the proxy group of FPL witness Coyne, FPL's capital expenditure profile is significant. From 2022 through 2025, FPL estimates it will have invested more than $36 billion in its infrastructure, or approximately $9 billion annually, well in excess of FPL's operating cash flow. When compared to other industrial companies, FPL's property, plant and equipment replenishment needs, i.e., capital expenditures in excess of depreciation, are substantial. Additionally, FPL's capital is invested in assets with very long useful lives, which provide customers value well into the future and spread costs over a long period. Investors, in turn, require an appropriate return to compensate them for that long-term investment horizon.

FPL's extensive capital investment program supports customer growth and has served to reduce operating expenses and improve reliability. It also exposes the Company to higher risk than the typical utility. According to the U.S. Census Bureau, "[a]fter decades of rapid population increase, Florida now is the nation's fastest-growing state for the first time since 1957. For the third most-populous state to also be the fastest growing is notable because it requires significant population gains." In 2022 alone, Florida experienced a net migration of 249,064 people, or about 682 people per day. 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. A higher volume of accounts does not necessarily have commensurate usage and base revenue impacts. Over the current settlement period, the capital required to deliver power to new service accounts far exceeded the revenue generated from those accounts and investments are required in advance of connecting those customers. The magnitude of necessary investments adds to FPL's risk profile as seen through investors' eyes.

Additionally, as described by FPL witness Laney, FPL has made significant cost-effective capital investments for the benefit of customers as the Company has continued to diversify and upgrade 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 FPL's 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 United States, Miami-Dade and Broward Counties, representing nearly 40% of FPL's more than 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. Additionally, given all of the growth in the territory, there is limited land available to build generation within the South Florida load pocket, requiring FPL to rely on "outside" generation and transmit that energy to Miami-Dade and Broward. FPL's smart energy infrastructure provides many benefits, but also requires guarding against growing exposure to potential and more sophisticated cyberattacks on its operational and information technology infrastructure systems.

Lastly, FPL's energy mix includes roughly 20% nuclear generation, which is much higher than the typical utility and stands in stark contrast to all other Florida utilities, none of which currently operate nuclear plants. While FPL's customers have benefitted from this low-cost and clean source of generation for decades, 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. While FPL mitigates its own nuclear risk through safe 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 and associated costs for nuclear plants in this country.

Q. How have the increased sanctions on Russia impacted FPL's nuclear operations?

A. The ongoing sanctions on Russia have significantly impacted the global supply chain for nuclear fuel, which presents a substantial business risk for the operation of our four nuclear units in Florida. As a key supplier of enriched uranium, Russia's restricted trade has led to increased uncertainty and volatility in the availability and cost of nuclear fuel. This supply chain disruption can jeopardize FPL's ability to procure the necessary materials to power our nuclear reactors, potentially leading to operational delays or interruptions. Additionally, the heightened geopolitical tensions may result in stricter regulations and increased scrutiny on imports, further complicating logistics and increasing costs. This increased business risk necessitates the need for financial flexibility to ensure we can opportunistically procure adequate fuel supply to maintain our commitment to safe, sustainable, and reliable nuclear energy production.

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

A. Florida's peninsular location within the subtropical latitudes and its topography exposes its electrical infrastructure to a higher likelihood of adverse weather events compared to most other parts of the country, as well as a perceived risk of wildfire-related events. Statistically, the state of Florida has the highest likelihood of experiencing a hurricane, and, within the State, FPL's risks are higher than other utilities. Based on historical probabilities from 1880 to 2020, Florida has a 56% average probability of experiencing a landfalling hurricane and a 29% probability of experiencing a landfalling major hurricane in any year. The next highest historical probability is for the state of Louisiana at 38% and 14%, respectively. In fact, the 2024 forecasted probabilities rose materially to 70% and 40% for landfalling hurricane and major hurricane, respectively. And, as shown on Exhibit SRB-4, the frequency of tropical storm activity remains high and, on average since 2011, is higher than all other periods since 1851.

Topographically, FPL's risk is elevated because its service area includes much of both the east and west coastlines of the 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. Historical data demonstrates that the Florida counties that comprise FPL's service area have a higher likelihood of experiencing a landfalling hurricane or major hurricane compared to the non-FPL counties.

Each year thus far during the current settlement period, FPL has experienced at least one major hurricane that has made landfall within Florida and impacted its service area

– Hurricane Ian in 2022, Hurricane Idalia in 2023 and Hurricanes Helene and Milton in 2024. An additional recent phenomenon is the unpredictability and rapid intensification of the storms. These risks have the potential to directly impact FPL's credit profile and, therefore, financial strength. Customers will be disadvantaged 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.

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 if there is a significant need or disruption due to extreme weather events is more constrained than utilities with more access to regional options. This is also the case for FPL's gas supply as there are limited pipelines and limited capacity into the state, posing a challenge during tropical weather events.

Aside from risks that reflect or extrapolate from historical environmental patterns, FPL's risk profile is impacted by third party perceptions of physical environmental risks that have a limited basis in FPL's history. Wildfire risk falls into this category. S&P, for example, has downgraded multiple utilities due to destructive wildfires and ensuing litigation. And, more recently, S&P has also begun to consider wildfire insurability as a credit risk: "The industry's wildfire insurance availability and rising costs have forced some California utilities to move to a self-insurance model. We assess this trend as negative for ***the industry's*** credit quality." (emphasis added). Some investors, too, have directed their money to other sectors, while those who remain invested in utilities expect increased return on their investment for this perceived risk.

While FPL has not experienced, and has a low risk of experiencing, significant losses by wildfire, it is nonetheless a perceived risk that others are weighing. FPL's grid hardening investments, smart grid technology and predictive tools further mitigate its wildfire risk. Yet, insurers have been reducing their wildfire insurance coverage and increasing their premiums to cover risk of such an occurrence due to losses experienced and their perception of what that could entail, thus increasing FPL's risk profile.

To attract capital over the long-term, FPL must continue to offset these greater qualitative business risks. A stronger financial position balances FPL's 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. FPL, its customers and the overall Florida economy place a high value on service availability and reliability, requiring rapid and safe restoration of service after storm-induced outages. Restoration efforts must be funded long before the cash recovery of prudently incurred costs can be expected. FPL must therefore maintain ready access to larger reserves of credit and liquidity than most other utilities. It 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.

The storm cost recovery mechanism included in FPL's settlement agreements and approved by the Commission mitigates some risk, but FPL's exposure remains significant. FPL agreed to a storm reserve in the amount of $150 million, which increased to as high as $220 million through the use of carry-over RSAM from the prior settlement and has been entirely depleted and restored multiple times to fund restoration during the current settlement term. Unquestionably, even at its peak level, the size of this reserve is insufficient to fund the storm restoration costs FPL routinely has experienced. Putting this in the proper context, $220 million is only about 22% of the incremental restoration cost of a single major hurricane such as Ian, which amounted to approximately $1 billion in incremental costs in 2022 or back-to-back hurricanes Debby, Helene and Milton, which also amounted to approximately $1.2 billion in incremental costs in 2024. This recovery mechanism helps to mitigate against a protracted cost recovery timeline, allowing FPL to collect sufficient cash flow to pay its vendors and helps to mitigate the risk of carrying incremental debt costs for an extended period, thereby straining credit metrics.

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 to companies in different sectors and industries. This would force FPL to raise capital on less attractive terms, leading to higher costs for customers over the long run, and possibly leaving FPL unable to raise sufficient capital to fund necessary initiatives.

Q. Please comment on how FPL's storm hardening efforts impact its risk of weather exposure.

A. 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 its storm hardening and Storm Protection Plan programs approved by the Commission, 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 help 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 investments to quickly respond to severe weather events when they occur. 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.

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.

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. Investors closely monitor the posture of a utility's regulators and the general political environment in which the utility operates. In fact, S&P scores each state's regulatory environment, monitors rate case filings and evaluates resulting rate case orders for their impact on credit quality. 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 law that may be enacted whenever administrations and legislatures change hands. While this risk is not unique to FPL, it nonetheless is potentially significant unless mitigated through regulatory recovery. Later in my testimony, I describe the Company's proposal for addressing potential changes in tax law and regulations that could significantly impact FPL's revenue requirements.

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 greater than most utilities in the country. Accordingly, FPL should maintain a stronger financial position than the typical utility, which has historically been the case and has served customers well. FPL's riskier investment profile should also be properly reflected in FPL's authorized ROE.

VII. 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% equity ratio based on investor sources (50.07% based on all sources in the 2026 Projected Test Year). FPL has maintained a consistent equity ratio level for the past quarter century, and it has been fundamental to the overall financial strength that has served customers well. As I previously mentioned, the capital structure has a direct impact on financial strength and credit quality. A greater equity component means safer returns for debt investors, which translates to stronger credit ratings and lower borrowing costs.

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 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 value consistency and 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 nearly 25 years, and it is foundational to FPL's current credit rating, financial strength and flexibility to raise capital when needed to make long-term investments for the benefit of customers.

Q. What is FPL's projected cost of long-term debt for the 2026 projected test year and 2027 projected test year, and why is its projection reasonable?

A. FPL's blended cost rates for the projected test years are shown in MFR D-4a. Cost projections for new issuances are shown in MFR D-8. FPL relies on the Blue Chip Financial Forecast which represents the consensus estimates of more than 50 economists and contributors.

Q. What is FPL's projected cost of short-term debt for the 2026 projected test year and 2027 projected test year, and why is its projection reasonable?

A. FPL's short-term debt costs are shown in MFR D-3. FPL relies on the forward Secured Overnight Financing Rate (commonly known as SOFR) curve for these projections.

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% 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 ITCs which in fact lower the amount of equity upon which rates are actually set. Those components are found in MFR D-1a.

VIII. RETURN ON EQUITY

Q. FPL witness Coyne proposes an ROE of 11.90%. Do you believe this level of return adequately compensates investors?

A. Yes, an 11.90% ROE would fairly compensate equity investors for the use of their capital over the 2026-2029 period. FPL witness Coyne's recommendation is appropriate considering FPL's unique risk profile and the Company's commitment to a strong financial position. Mr. 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.

FPL's requested capital structure and storm cost recovery mechanism, along with Mr. Coyne's recommended ROE, are consistent with the continuation of the financial policies that have served FPL customers so well.

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

A. Yes. FPL witness Coyne's recommended ROE of 11.90% will meet the criteria discussed above and is consistent with maintaining FPL's strong financial position.

Q. If the Commission approved the ROE recommended by FPL witness Coyne, would FPL's total cost of financing be 11.90%?

A. No. FPL's weighted average cost of capital, not the ROE, represents the actual cost of financing. FPL's regulatory capital structure would produce a total Weighted Average Cost of Capital ("WACC") of 7.63% in the 2026 projected test year and 7.64% in the 2027 projected test year. This overall WACC is reasonable and reflects the benefit to customers of FPL's financial strength. FPL's projected cost of capital is reflected in the calculation of revenue requirements and proposed rates for 2026 and 2027. With the approval of FPL's proposed overall WACC, the Company would be in a position to continue delivering superior value at rates well below the national average at an overall cost of capital slightly below the average for all utilities.

IX. STORM COST RECOVERY MECHANISM

Q. Please describe the storm cost recovery mechanism FPL is proposing.

A. FPL proposes a storm cost recovery framework that draws from the mechanism that was established in FPL's 2010 Rate Settlement and continued in the each of the three settlement agreements that followed, with an update that reflects the circumstances FPL has experienced over several storm seasons. Starting with its 2010 Rate Settlement, FPL's storm cost recovery mechanism included an interim cost recovery cap of $4 per 1,000 kWh on monthly residential bills, or roughly $390 million annually. As I have explained in my testimony, FPL's restoration costs have substantially exceeded that amount during multiple storm seasons since the mechanism's cap was originally established, incurring over a billion dollars of costs in 2017, 2022, and 2024.

Accordingly, as part of the proposed four-year plan, FPL proposes to continue the storm cost recovery mechanism with a limited increase of the baseline cap to $5 per 1,000 kWh on monthly residential bills. If FPL incurs storm costs related to a named tropical storm, the Company will be begin collecting a surcharge limited to $5 per 1,000 kWh on monthly residential bills (roughly $500 million annually) 60 days after filing a petition for recovery. This interim recovery period will be based on 12 months. If costs related to named storms exceed that amount in any one year, the Company may request recovery of the additional amount, with the timing of the additional amount to be determined by the Commission.

FPL does not seek to replenish its storm reserve through base rates, so it has not included any amounts in its revenue requirement request. Instead, the storm cost recovery mechanism would be used to replenish the Company's storm reserve in the event it was fully depleted. The Company's storm reserve replenishment amount in this proposal is $300 million, which is only moderately more than the $220 million reserve level reached during the 2021 Rate Settlement period. Like the proposed cap, the proposed storm reserve is modestly increased from FPL's prior storm cost recovery mechanisms to reflect FPL's restoration experience over the two recent settlement periods. The storm replenishment amount would be included in, not incremental to, the $5 interim recovery cap.

Any costs not recovered under this mechanism would be deferred on the balance sheet and recovered beyond the initial 12 months as determined by the Commission. The terms of FPL's proposal are detailed on Exhibit SRB-5.

Q. Please explain why the storm cost recovery mechanism is beneficial and appropriate.

A. Fundamentally, FPL believes that customers are best served by a two-pronged approach to storm cost mitigation. First, a funded storm reserve provides for instant liquidity to assist in the immediate funding of storm restoration activities. FPL's funded storm reserve is significantly underfunded today. A properly funded storm reserve for FPL would be multiples of the amount permitted under the 2021 Settlement Agreement, and much higher than what FPL is asking for in this proceeding.

Second, 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. The mechanism also reduces the total overall costs to customers by reducing the financing costs FPL would otherwise incur if no interim surcharge were authorized. These components form the core of a robust storm cost financial plan. This framework has worked well for customers and the Company and should be continued.

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 this manner of recovering storm costs 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 storm cost recovery mechanism 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.

X. FOUR-YEAR PLAN

Q. Please summarize why FPL is proposing a four-year plan.

A. Multi-year rate plans have been a mainstay for FPL for more than 15 years. By operating under those plans and the relative certainty that they provide, FPL has achieved successful outcomes for customers. Avoiding the need to initiate serial rate proceedings allows FPL to focus on its long-term strategy of making smart investments to drive reliability, excellent customer service, and low bills. As I have described, plans that include an appropriate set of elements have facilitated execution of a proven strategy that has resulted in superior reliability and significant bill savings for our customers. With the benefit of financial strength, flexibility, and the ability to focus on running the business, FPL has over the last 15 years, among other things, created billions of dollars in O&M savings, helped customers avoid the compressed collection of a $2 billion fuel under-recovery, obviated on multiple occasions the need to impose a storm restoration surcharge, and has even been positioned to avoid requesting a further base rate increase for up to three years, all for the benefit of customers. In fact, under the 2021 Rate Settlement, even when faced with significant inflation, FPL widened its lead in O&M cost-efficiency compared to its peers as shown in Exhibit SRB-6. At the same time, the Company has provided its investors with a fair return on their investment, partially through non-cash earnings that bridge the gap to subsequent necessary rate adjustments.

There is no reason to change course. FPL proposes a four-year plan that is designed to continue the success it has achieved in recent years and over the long term.

Q. What are the key elements of FPL's four-year rate plan?

A. The four-year rate plan encapsulates FPL's commitment not to request any additional general base rate increase effective prior to January 1, 2030, 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 2026 and 2027 set forth in FPL witness Fuentes's Exhibit LF-2, to include maintaining its current capital structure and authorizing a return on equity of 11.90%.
- Approval of the Tax Adjustment Mechanism ("TAM") with a TAM amount of $2 billion to be available for use through the 2026-2029 period or until the next general change in base rates. The mechanics of the TAM are explained by FPL witness Laney.

- Approval of the SoBRA mechanism as set forth in Exhibit SRB-7 and further described by FPL witnesses Oliver and Laney, such that FPL will be permitted to petition to adjust base rates to recover the cost associated with solar and battery projects that enter service in 2028 and 2029 by demonstrating either an economic need or resource need. The mechanism also will address the impacts of flowing through the battery-related ITCs in a single year; and
- Approval of the mechanism to address potential changes in tax law as set forth in Exhibit SRB-8.

Q. What types of uncertainties and risks will the Company need to manage?

A. The significant changes in the economic environment that occurred during the term of the current Settlement Agreement, which I have described in my testimony, highlight some of the potential risks and uncertainties the Company will assume as part of the four-year rate plan. The risks include changes in interest rates and inflation, as well as new regulations and tariffs, impacts on productivity, the labor force, and technological innovation, all of which impact FPL's ability to execute its capital plan for the benefit of customers. To be able to assume that uncertainty over a sustained period and provide the significant benefits that multi-year rate plans have provided to customers, FPL requests approval of all the elements proposed.

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

A. As an essential component of the four-year rate plan, FPL is proposing that a TAM be approved by the Commission. The TAM is similar in nature to the RSAM and will serve the same purpose as the RSAM and similar mechanisms approved by the Commission as a core element in each of the last four FPL settlement agreements, i.e., 2010, 2012, 2016 and 2021, which were fundamental to FPL's ability to continue to deliver value for customers for at least 15 years. To that end, the TAM is proposed as an accounting mechanism the Company will implement to respond to changes in its underlying revenues and expenses in order to maintain an FPSC-Adjusted ROE within the ROE range authorized by the Commission.

Q. How will the proposed TAM operate?

A. The mechanics of the TAM are detailed by FPL witness Laney. In short, during the term of the four-year plan, the Company may record debits or credits to deferred operating income tax expense and correspondingly credit or debit a regulatory liability that reflects the benefits associated with a deferred tax liability. Whether to record the debits or credits and the level recorded each month will be at the discretion of FPL. It is FPL's intent that the overall resulting ROE for each period will equal a pre-established ROE within the range authorized by this Commission.

Q. What is the amount that the Company is proposing in this proceeding to be available for use in the TAM over the 2026 to 2029 period?

A. The Company is proposing that $2 billion be available for use in the TAM (the "TAM Amount") for the four-year period. For ease of reference, I've included the terms that we are asking the Commission to approve.

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

A. The TAM results only in non-cash earnings. In other words, the TAM 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. Please describe why FPL needs a non-cash mechanism.

A. Based on the high-level projections prepared by witness Laney, FPL projects that the Company's ROE will fall below the proposed authorized range in 2028 and 2029. This means that, without base rate adjustments in 2028 and 2029, FPL will be unable to earn a fair return and would be forced to return to the Commission to seek an incremental base rate increase to be effective January 1, 2028. The TAM makes a four-year rate plan a possibility through the non-cash earnings and flexibility that will enable FPL to cover additional revenue requirements expected during those periods, thus avoiding requests for additional general base rate increases until January 2030.

Although the TAM provides for only non-cash earnings, within the context of FPL's proposal to not seek a general base rate increase for 2028 and 2029, the TAM as proposed provides sufficient assurance of adequate book earnings to allow the Company to commit to its four-year plan. FPL has demonstrated over many years and several multi-year rate plans, that the increased level of regulatory stability over a multi-year period enabled by mechanisms such as this allow the Company to continue to improve the value proposition for customers.

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

A. Yes. FPL proposes two limitations that mirror the limitations that governed its use of the RSAM under FPL's 2012, 2016 and 2021 multi-year rate settlements. First, the TAM 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 TAM 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 four-year term.

Second, the Company cannot record a credit (i.e., decrease) to deferred operating income tax expense at any time during the four-year period of 2026 through 2029 that would cause the TAM Amount to be reduced below $0. Similarly, FPL may not record a debit (i.e., increase) to deferred operating income tax at any time during the four-year period that would cause the TAM Amount to exceed $2 billion.

Q. Why should the Commission approve a new non-cash mechanism that has not previously been authorized?

A. The Commission should approve the TAM because non-cash mechanisms subject to the limitations I have described have proven to be an extremely effective and key element of FPL's ability to keep multi-year rate periods intact and continue delivering superior levels of reliability and low customer bills. 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 describe the SoBRA mechanism FPL is proposing as part of its four-year rate plan.

A. The SoBRA mechanism proposed by FPL will address two rate adjustments. First, the SoBRA will address recovery of the incremental base revenue requirements for new reliable, cost-effective solar generation and battery storage facilities in the later years of the four-year plan, i.e., 2028 and 2029, upon a demonstration of either an economic need or resource need in those years. The revenue requirements and adjustment factors associated with the solar and battery storage facilities will be calculated consistent with the way in which prior FPL SoBRAs have been calculated.

Second, the SoBRA will address the treatment of ITCs generated by battery storage facilities that enter service during the four-year rate period. FPL witness Laney explains that the battery storage facilities are eligible for ITCs and that FPL intends to opt-out of normalization and instead will elect flow-through accounting for all ITCs generated during the four-year rate plan. Doing so substantially reduces revenue requirements in the 12-month period following the facility's in-service date. Accordingly, the SoBRA mechanism proposed here also will account for the series of first year ITCs that are created when the storage facilities enter service and the impact on revenue requirements when the one-year flow-through concludes.

Importantly, as with all SoBRA adjustments, the impact on FPL's earnings is "midpoint seeking" because they are calculated using the approved midpoint ROE. 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 2028 and 2029 in the four-year plan will provide the Company with the ability to defer general base rate increases in both of those years by covering the base revenue requirement of new solar and battery additions, while moving FPL's earnings toward, but not above, the midpoint of its authorized ROE range. Importantly, as these units enter service, customers will immediately begin to receive benefits through the fuel adjustment clause, thereby matching costs with benefits. Exhibit SRB-7 sets forth the terms that we are asking the Commission to approve and which would govern the SoBRA mechanism for 2028 and 2029.

Q. Please describe the role of the mechanism to address changes in tax law as part of FPL's four-year rate plan.

A. The current federal administration and Congress have strongly signaled the probability that tax laws and regulations could change significantly, either during or after the conclusion of the rate case. Such changes could have a material impact on the four-year proposal being presented by FPL.

FPL witness Laney explains that both FPL's 2026 projected test year and 2027 projected test year forecasts are based on the tax laws and regulations in place at the time of FPL's filing, which includes proactive elections of certain tax treatment allowed under the current laws and regulations. These elections benefit customers by reducing FPL's revenue requirements substantially. The Company's four-year rate plan, and the $2 billion TAM Amount, an essential component of this plan, do not contemplate any potential impacts due to changes in tax laws or regulations.

The impacts of changes in tax law or regulation outside of FPL's control could substantially impact the four-year plan by either increasing or decreasing the revenue requirements materially. For that reason, FPL proposes a Tax Law Change mechanism that fairly effectuates changes through an adjustment to base rates in whatever direction new laws or regulations dictate. FPL is seeking approval of this mechanism to ensure continued regulatory support for a utility's efforts to make favorable tax elections for the benefit of customers when they are available and that the outcome of changes to tax law and regulations should flow to customers and the utility in a neutral manner.

Q. What process will be utilized to effectuate a change in tax law or regulations?

A. The process is detailed in Exhibit SRB-8. If a permanent change in federal or state tax law or regulations (referred to as the "new tax law") occurs prior to the conclusion of the final hearing and timing permits, FPL will submit calculations that quantify the impacts of the new tax law on FPL's base revenue requirements so that the Commission may address the impacts when it resolves FPL's base rate request. If, however, the new tax law occurs prior to the conclusion of the final hearing and timing does not permit or occurs after the conclusion of the final hearing, FPL will submit the calculation by the later of 60 days from the Commission's final order resolving FPL's rate petition or 60 days from the effective date of the new tax law.

FPL proposes to open a separate docket for the limited purpose of addressing the base revenue requirement impact of the new tax law. FPL will submit the calculations reflecting the impact on base revenue requirements and ask the Commission to establish an expedited procedural schedule that will still allow intervenors time to review and, if necessary, respond to FPL's filing. FPL will be authorized to adjust base rates upon confirmation by the Commission that FPL appropriately calculated the impacts.

Q. How does FPL propose to quantify and implement the impact of a change in tax law if timing does not permit FPL to quantify the impact on revenue requirements during the pendency of this docket?

A. FPL will compare the revenue requirements utilizing the new tax law against FPL's revenue requirements approved in this Docket, which utilize current tax law. The difference in revenue requirements will demonstrate the impact of the new tax law and will be the amount of FPL's base rate adjustments for 2026 and 2027. The adjustment for 2027 revenue requirements will remain in place for 2028 and 2029. For the time period between enactment of the new tax law and implementation of new tax-adjusted base rates, FPL will defer the impact of the new tax law to the balance sheet for collection or refund through the Capacity Clause.

Q. Will FPL reflect the new tax law in the SoBRA you previously described?

A. Yes. Any rate adjustments proposed through the proposed SoBRA mechanism in 2028 and 2029 will reflect then-current tax law.

Q. Please describe how a decrease to the corporate income tax rate will impact the TAM Amount and explain how FPL proposes to address the impact.

A. All else equal, a decrease in the corporate income tax rate will reduce income tax expense as well as change the classification of a portion of the TAM Amount from a deferred tax liability to an excess accumulated deferred income tax liability ("EADIT"). FPL proposes to restore the TAM Amount by utilizing a corresponding amount of unprotected EADIT associated with tax repairs and mixed service costs.

Q. How will FPL account for any other changes in deferred taxes that result from changes in tax law?

A. Any deficient or excess deferred income taxes that arise will be deferred as a regulatory asset or regulatory liability on the balance sheet and included within FPL's capital structure. If the tax law continues to prescribe the use of the Average Rate Assumption Method, FPL will flow back or collect the protected deferred income taxes over the underlying assets remaining life to ensure compliance with Internal Revenue Service normalization rules. If the new tax law does not specify the treatment of unprotected deferred income taxes, FPL proposes to flow back or collect all other unprotected deferred income taxes over a period of not more than 10 years, consistent with FPL's treatment under Order No. PSC-2019-0225-FOF-EI. FPL will account for the impact of deferred income taxes as part of the calculation that will be submitted to the Commission.

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 and authority with respect to FPL's rates and charges. To that end, FPL will continue to submit earnings surveillance reports consistent with current regulatory requirements.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power & Light Company

MFRs SPONSORED OR CO-SPONSORED BY SCOTT R. BORES

MFR	Period	Title
SOLE SPONSOR:		
D-02	2026 Projected Test Year 2027 Projected Test Year	COST OF CAPITAL - 5 YEAR HISTORY
D-03	2024 Historic Year 2025 Prior Year 2026 Projected Test Year 2027 Projected Test Year	SHORT-TERM DEBT
D-04a	2024 Historic Year 2025 Prior Year 2026 Projected Test Year 2027 Projected Test Year	LONG-TERM DEBT OUTSTANDING
D-04b	2026 Projected Test Year 2027 Projected Test Year	REACQUIRED BONDS
D-05	2024 Historic Year 2025 Prior Year 2026 Projected Test Year 2027 Projected Test Year	PREFERRED STOCK OUTSTANDING
D-07	2026 Projected Test Year 2027 Projected Test Year	COMMON STOCK DATA
D-08	2026 Projected Test Year 2027 Projected Test Year	FINANCIAL PLANS - STOCKS AND BOND ISSUES
D-09	2026 Projected Test Year 2027 Projected Test Year	FINANCIAL INDICATORS - SUMMARY
CO-SPONSOR:		
D-01a	2025 Prior Year 2026 Projected Test Year 2027 Projected Test Year	COST OF CAPITAL - 13-MONTH AVERAGE

FPL

Regional Comparison: Key Performance Metrics

Rank Among 14 Companies

COMPANY	TYPICAL SUMMER EEI BILL 2024	2024 BILL RANK	2023 NON-FUEL O&M ($/MWh)	2023 O&M RANK	SAIDI 2023	2023 SAIDI RANK	CUSTOMER SATISFACTION 2024	CUSTOMER SATISFACTION 2024 RANK
Florida Power & Light Co.	**$122.38**	**1**	**$12.99**	**1**	**49.7**	**1**	**741**	**3**
Tampa Electric Co.	$136.44	5	$26.29	8	60.7	2	726	6
Duke Energy Carolinas (NC)	$142.17	6	$19.29	2	198.4	11	715	11
Entergy Mississippi Inc.	$136.30	4	$25.12	7	291.4	13	723	9
Appalachian Power Co.	$172.35	12	$37.03	14	405.4	14	628	14
Dominion Energy Virginia	$131.52	2	$19.50	4	123.7	7	730	4
Duke Energy Carolinas (SC)	$142.23	7	$19.29	2	198.4	11	715	11
Duke Energy Progress (NC)	$158.47	10	$27.97	9	145.4	9	725	7
Dominion Energy South Carolina	$134.83	3	$19.50	4	89.9	5	730	4
Duke Energy Florida Inc.	$154.68	9	$28.19	11	83.6	4	718	10
Duke Energy Progress (SC)	$161.41	11	$27.97	9	145.4	9	725	7
Georgia Power Co.	$178.85	14	$20.10	6	139.6	8	749	1
Mississippi Power	$150.99	8	$30.64	13	82.1	3	744	2
Alabama Power	$177.74	13	$29.55	12	104.8	6	710	13
Average	**$150.03**		**$24.53**		**151.3**		**720**	
Average Excluding FPL	**$152.15**		**$25.42**		**159.1**		**718**	

1. *Bill Source: EEI Typical 1,000 kWh Residential Customer Bills (Summer 2024). FPL bill represents a weighted average of FPL and FPL-NWFL weighted by total residential electric customer count for 2024.*

2. *O&M Source: S&P Global Market Intelligence, FERC Form 1 Total O&M Expenses less Fuel, Purchased Power, and Other Expenses; Total Sales: Ultimate Consumers Megawatt Hours Sold.*

3. *SAIDI Source: Based on PA Consulting most recent reliability benchmarking analysis (2023 SAIDI Distribution values), which are calculated using the IEEE 2.5 beta methodology.*

4. *Customer Satisfaction Source: https://www.jdpower.com/business/press-releases/2024-us-electric-utility-residential-customer-satisfaction-study?srsltid=AfmBOoo8QF4a059p8Z7gJYlufpf16l7kkFUfnVJjrk-vc5N0wDAtv4yD.*

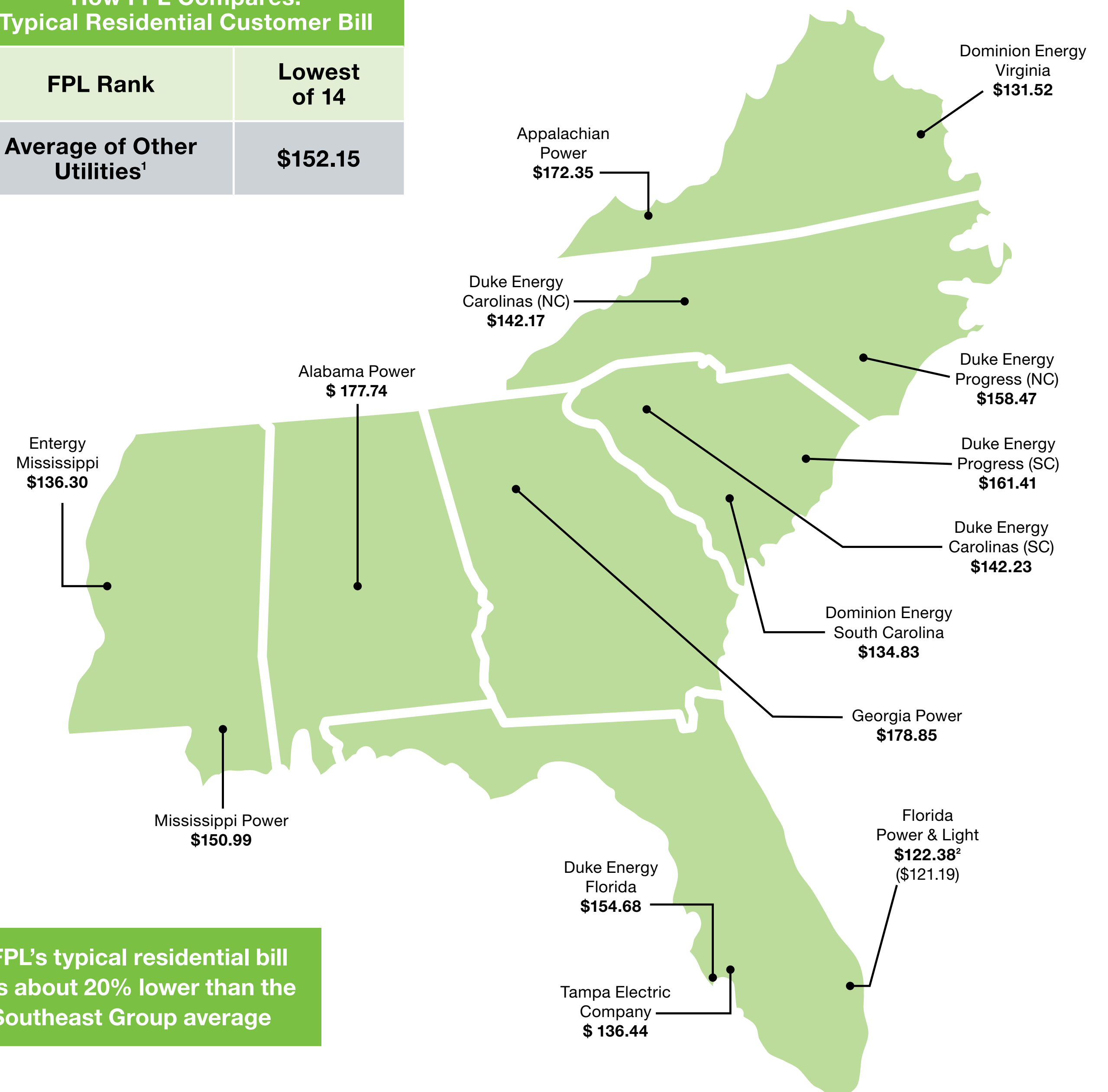
5. *Duke Energy Progress and Duke Energy Carolinas Non-Fuel O&M, SAIDI, and Customer Satisfaction figures are reported on a consolidated basis.*

6. *Dominion Virginia Power and Dominion Energy South Carolina 2023 Non-fuel O&M and Customer Satisfaction figures are reported on a consolidated basis.*

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

Edison Electric Institute data – Summer 2024

How FPL Compares: Typical Residential Customer Bill	
FPL Rank	Lowest of 14
Average of Other Utilities[1]	$152.15



FPL's typical residential bill is about 20% lower than the Southeast Group average

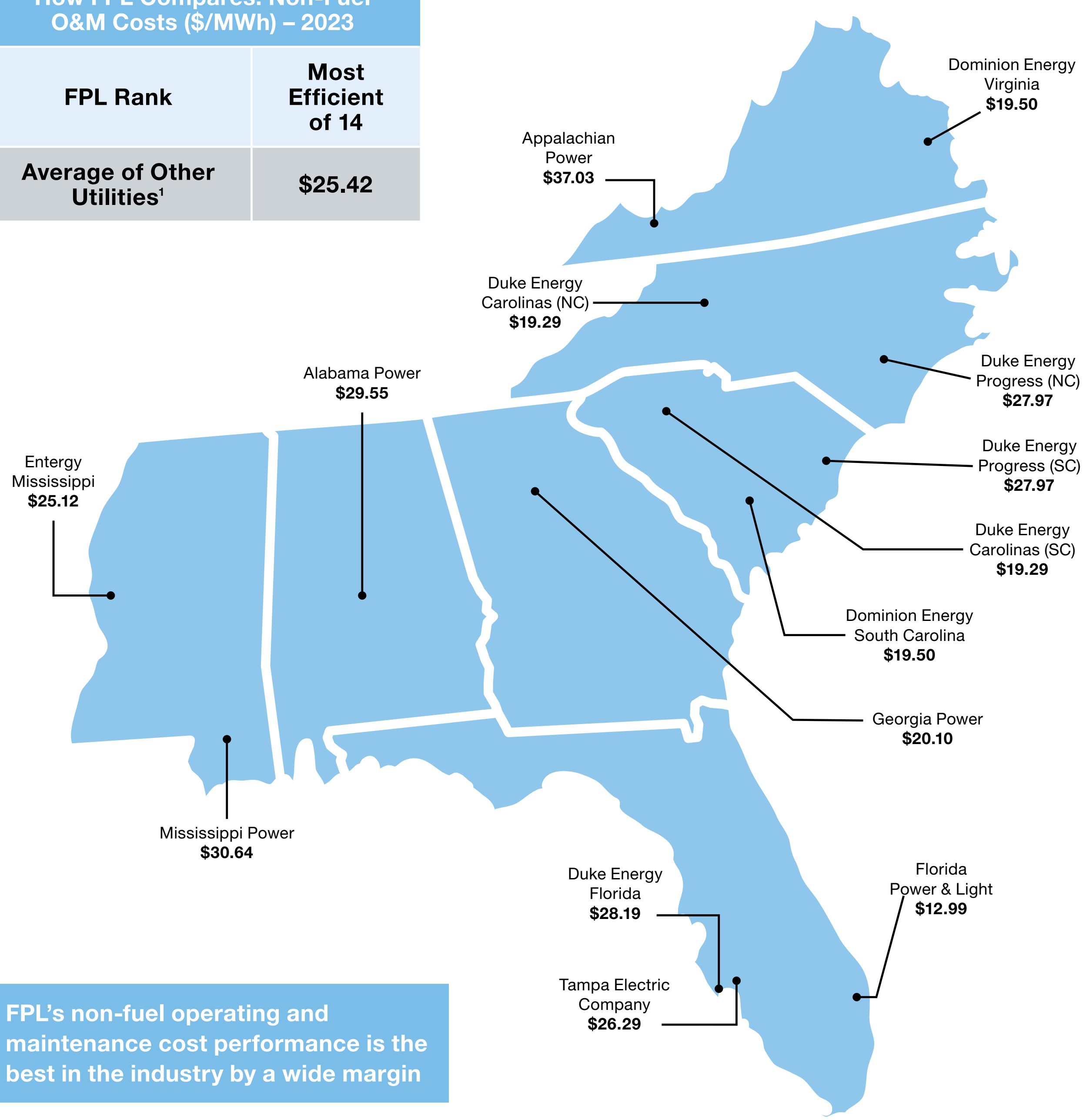
[1] *Average excludes FPL.*

[2] *Bill Source: EEI Typical 1,000 kWh Residential Customer Bills (Summer 2024). FPL bill represents a weighted average of FPL and FPL-NWFL weighted by total residential electric customer count for 2024.*

Regional Comparison: Operational Efficiency

Non-Fuel Operations & Maintenance Costs – 2023

How FPL Compares: Non-Fuel O&M Costs ($/MWh) – 2023	
FPL Rank	Most Efficient of 14
Average of Other Utilities[1]	$25.42



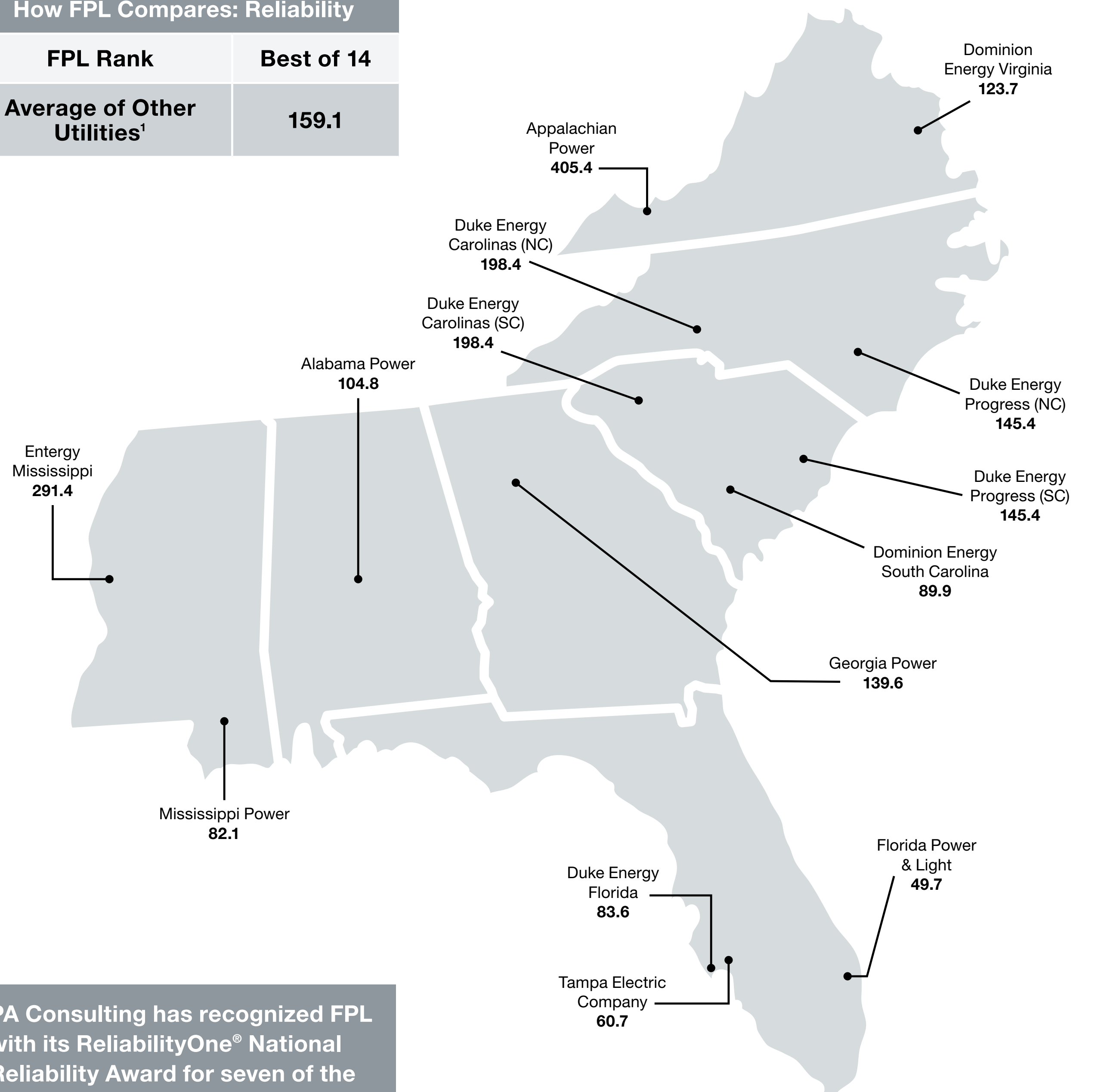
FPL's non-fuel operating and maintenance cost performance is the best in the industry by a wide margin

[1] *Average excludes FPL.*

Regional Comparison: Reliability

PA Consulting Group SAIDI data – 2023

How FPL Compares: Reliability	
FPL Rank	Best of 14
Average of Other Utilities[1]	159.1



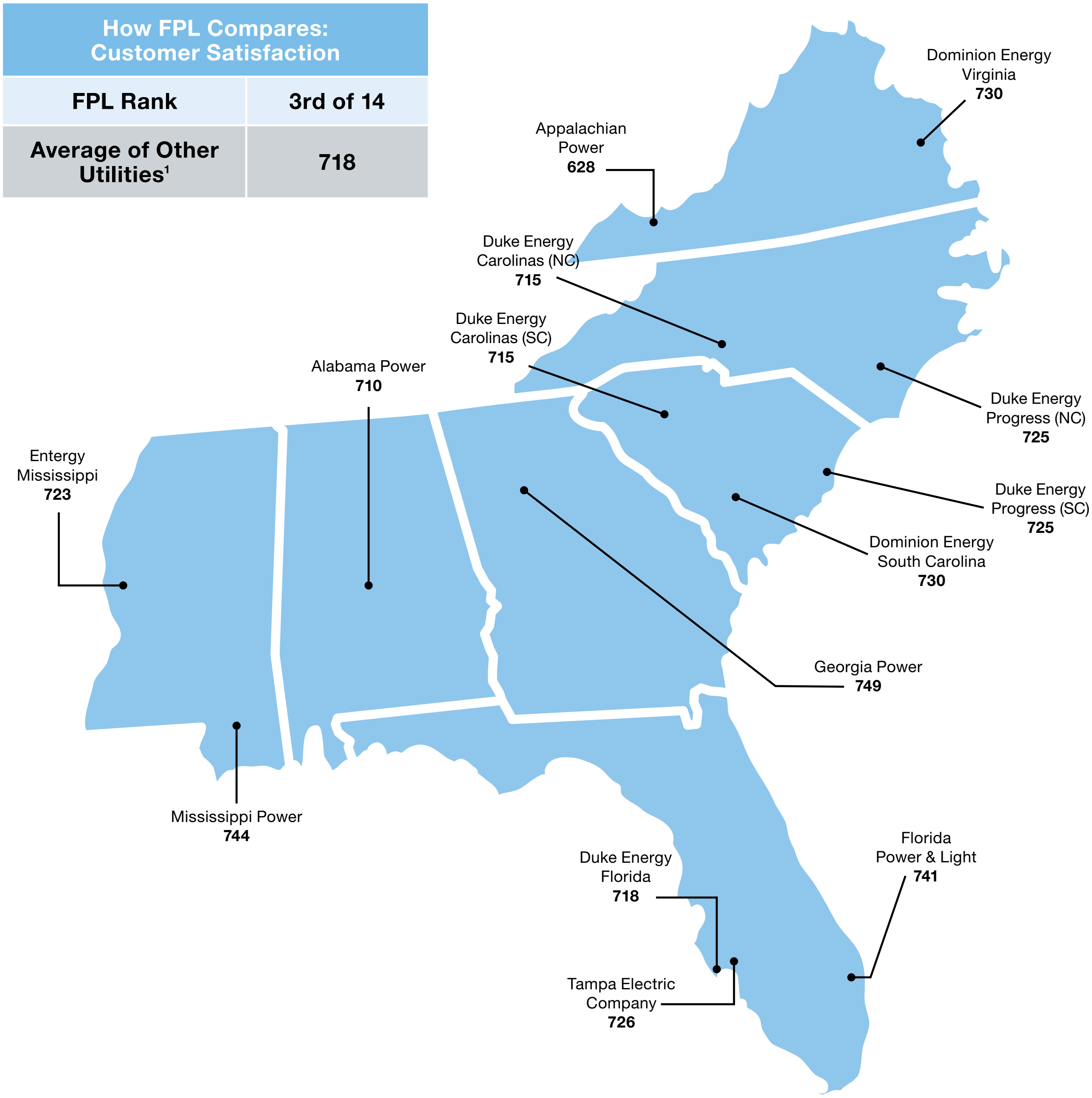
PA Consulting has recognized FPL with its ReliabilityOne® National Reliability Award for seven of the last 10 years

[1] *Average excludes FPL.*

Regional Comparison: Customer Satisfaction

Customer Satisfaction – 2024 (average of residential and commercial scores)

How FPL Compares: Customer Satisfaction	
FPL Rank	3rd of 14
Average of Other Utilities[1]	718



[1] *Average excludes FPL.*

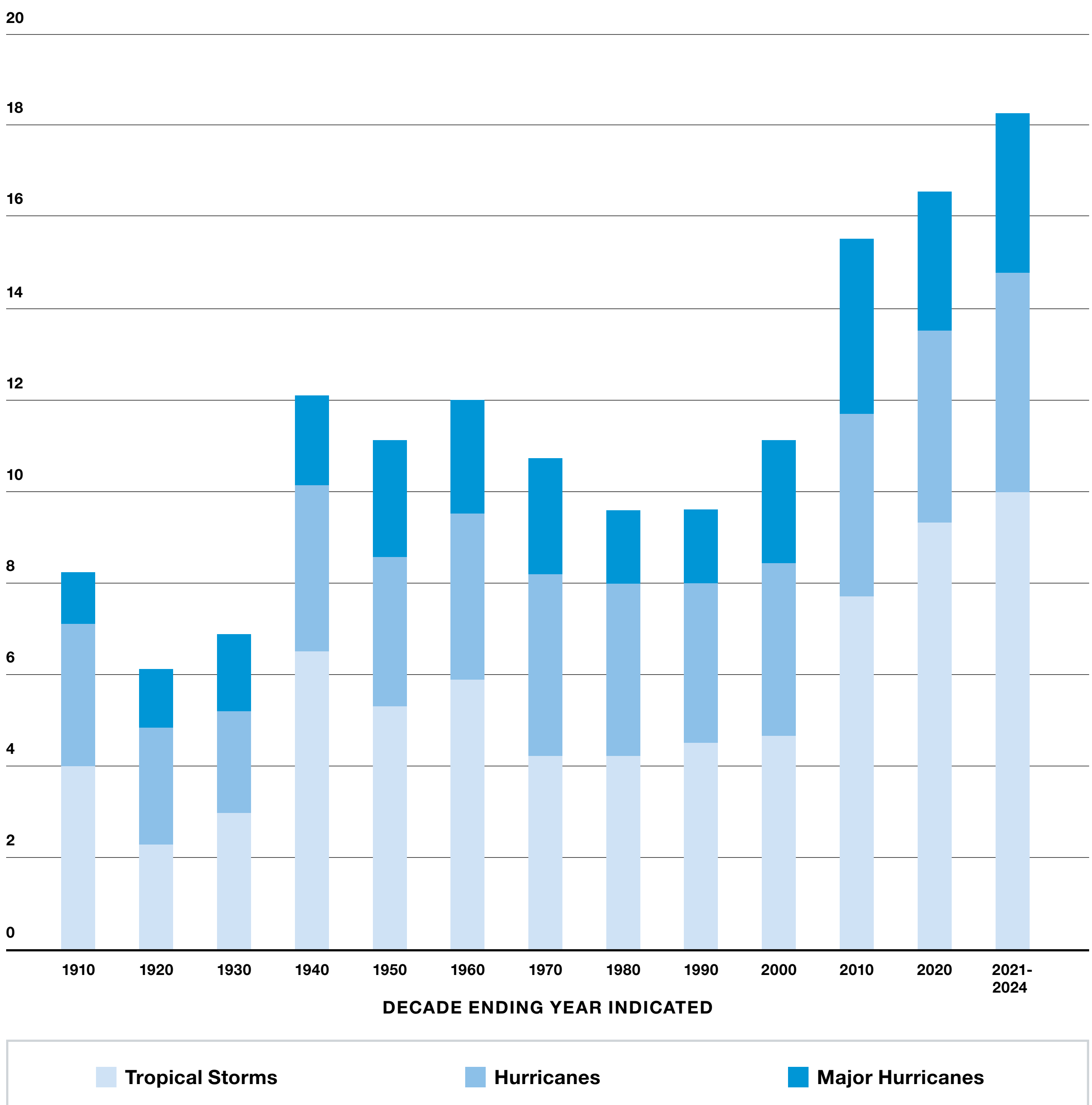
FPL

Price Changes of Materials and Labor

MATERIAL	2020	2021	2022	2023	2024	% INCREASE SINCE 2020
Underground Cable						
Standard 120V/240V Low Voltage Cable (from transformer to customer premise)	$1.24	$1.51	$1.78	$1.79	$1.79	**45%**
Standard 13kV/23kV Medium Voltage non-Feeder Cable (from feeder to transformer)	$1.70	$2.07	$2.57	$2.79	$2.98	**75%**
Standard 13kV/23kV Feeder Cable (main artery out of substation)	$4.82	$6.53	$7.67	$8.18	$8.30	**72%**
Utility Poles						
50’ Wood Pole	$487.58	$510.08	$559.00	$673.05	$667.94	**37%**
55’ Concrete Pole	$1,646.45	$1,705.33	$2,236.88	$2,842.27	$2,839.63	**72%**
Conduit (protective tubing)						
2" Rigid Conduit	$0.42	$1.22	$2.50	$1.74	$1.39	**228%**
6" Rigid Conduit	$1.90	$6.21	$12.89	$9.13	$6.15	**223%**
2" Flexible Conduit	$0.53	$0.76	$1.11	$1.03	$0.71	**35%**
6" Flexible Conduit	$4.45	$6.67	$10.13	$9.76	$7.09	**60%**
Switches						
Typical Padmounted Switchgear	$19,757.66	$20,547.60	$23,875.07	$26,443.36	$28,927.60	**46%**
Transformers						
Average Size Aerial Transformer (overhead service)	$963.14	$1,026.36	$1,993.93	$1,995.05	$1,927.67	**100%**
Vault Transformer (high rise buildings)	$19,961.08	$20,603.34	$28,860.82	$41,638.73	$40,860.24	**105%**
3-Phase Transformer (small commercial customer)	$8,067.08	$8,649.64	$12,038.80	$14,152.69	$15,809.02	**96%**
3-Phase Transformer (mid-sized commercial customer)	$10,006.50	$10,425.70	$15,835.15	$21,142.28	$22,620.75	**126%**
Typical Residential Padmount Transformer (small – 50kVA)	$1,385.12	$1,707.55	$2,895.82	$3,310.85	$3,486.78	**152%**
Typical Residential Padmount Transformer (larger – 75kVA)	$1,701.32	$2,027.74	$3,436.10	$3,688.09	$4,381.50	**158%**
Labor rates						
Avg. distribution underground labor (hourly rate)	$78.66	$80.49	$80.49	$93.03	$93.03	**18%**
Avg. service meter operations (hourly rate)	$69.52	$74.31	$74.31	$85.59	$85.59	**23%**
Avg. Cable Splicer (highly-skilled) labor (hourly rate)	$82.63	$85.42	$85.42	$98.76	$98.76	**20%**

Annual Average Number of Storms by Decade

Atlantic Basin



Source: https://tropical.atmos.colostate.edu/Realtime/index.php?arch&loc=northatlantic

FPL

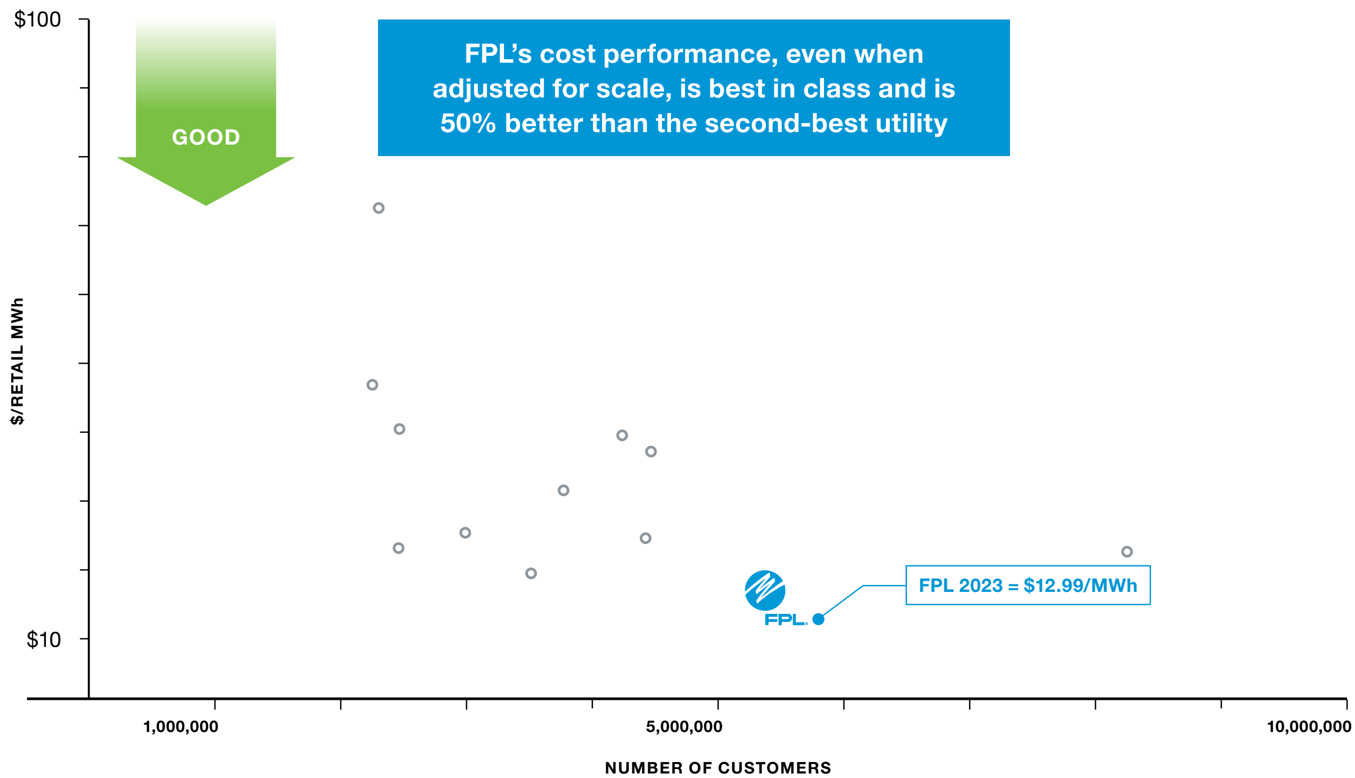
Storm Cost Recovery Mechanism

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

1. Recovery of storm costs from customers will begin, on an interim basis, sixty days following the filing of a cost recovery petition and tariff with the Commission.
2. Consistent with the rate design method approved in this base rate petition, the storm cost recovery (known as the Storm Surcharge) will be based on a 12-month recovery period if the estimated storm costs do not exceed $5.00/1,000 kWh on monthly residential customer bills. The $5.00/1,000 kWh cap will apply in aggregate for a calendar year for the purpose of the interim recovery.
3. In the event the storm costs exceed that level, FPL may defer the additional storm restoration costs in excess of $5.00/1,000 kWh on its balance sheet to be recovered in a subsequent year or years as determined by the Commission; provided, however, that FPL may petition the Commission to allow recovery of more than $5.00/1,000 kWh in the event its storm costs in a given calendar year exceed that amount, inclusive of the amount needed to replenish the storm reserve to the level in (4) below. The period of recovery for amounts in excess of $5.00/1,000 kWh lies within the Commission's discretion.
4. All storm related costs subject to interim recovery under the storm cost recovery mechanism will be calculated and disposed of pursuant to Commission Rule 25-6.0143, F.A.C., and will be limited to costs resulting from a tropical system named by the National Hurricane Center or its successor, to the estimate of incremental costs above the level of storm reserve prior to the storm and to the replenishment of the storm reserve to $300 million.
5. Any proceeding to recover costs associated with any storm shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of the Company and shall not apply any form of earnings test or measure or consider previous or current base rate earnings.

2023 Total Non-Fuel O&M per Retail MWh[1, 2]

Large Utility Group



1. *Source: S&P Global Market Intelligence, FERC Form 1. Total O&M Expenses less Fuel, Purchased Power, and Other Expenses; Total Sales: Ultimate Consumers Megawatt Hours Sold.*

2. *Peer Group includes large electric utility holding companies with at least two million electric customers and net generation comprising 40 percent or more of total energy sales.*

Solar and Battery Base Rate Adjustment (SoBRA) Mechanism

FPL will be authorized to recover costs for solar and battery generation projects that enter service in 2028 and 2029 and the impacts of the flow-through of any investment tax credits (ITC) that conclude during FPL's four-year plan as follows:

1. FPL may build solar and battery generation projects in 2028 and 2029 and recover its costs through a SoBRA by demonstrating either an economic need or a resource need for the projects. FPL will demonstrate the need(s) at the time it makes its final true-up filing in the Fuel and Purchased Power Cost Recovery Clause Docket the year prior to the project's expected in-service date (the SoBRA Proceeding).

   a. To demonstrate an economic need, FPL must demonstrate that the solar and battery projects FPL plans to install during the in-service year (2028 or 2029) lowers FPL's projected system Cumulative Present Value Revenue Requirement (CPVRR) compared to the projected system CPVRR without the solar and battery projects. FPL must also demonstrate that the cost of the components, engineering, and construction are reasonable. For projects justified on economic need pursuant to this paragraph, FPL is limited to construction of 1,490 MW of solar projects in 2028 and 1,788 MW of solar projects in 2029 and 596 MW of battery storage projects in a single year; provided that surplus capacity not constructed in 2028 can be carried over to 2029 if FPL demonstrates an economic need in both years.

   b. To demonstrate a resource need, FPL must demonstrate that incremental capacity or energy is necessary to satisfy FPL's loss of load probability criterion and ensure sufficient planning and operating reserves through 2030 based on the resource planning methodology presented in FPL witness Whitley's Exhibit AWW-1. FPL must also demonstrate that (i) the selected combination of solar and battery projects is the lowest cost resource available to timely meet the resource need, and (ii) the cost of the components, engineering, and construction are reasonable.

2. In the SoBRA Proceeding, FPL also will submit for approval (a) the revenue requirements associated with (i) the solar and battery projects to be installed during the in-service year and (ii) the impact of the conclusion of any ITC flowthrough in the previous year, and (b) the appropriate percentage increase in base rates needed to collect the estimated revenue requirements (SoBRA Factor). Paragraphs 3 through 5 below set forth the methodology for calculating the revenue requirements and SoBRA Factor.

3. The SoBRA revenue requirement is intended to recover the incremental jurisdictional revenue requirement based on the first 12 months of operations of the solar and battery projects and associated facilities beginning on the date the project is placed in-service. The revenue requirement computations for the 2028 and 2029 SoBRAs will be based on the following: (1) estimated capital expenditures for each solar project, net of any plant held for future use

FPL

Solar and Battery Base Rate Adjustment (SoBRA) Mechanism

projected in FPL's 2026 or 2027 Projected Test Years, (2) estimated depreciation expense and related accumulated depreciation calculated using FPL's most recently approved depreciation rates, (3) estimated operating and maintenance expenses, and the (4) estimated income tax expense, including tax credits. The revenue requirements will be calculated using FPL's approved midpoint ROE and an incremental capital structure based on investor sources that is adjusted to reflect the depreciation-related accumulated deferred income tax proration adjustment that is required by Treasury Regulation §1.167(1)-1(h)(6).

4. The SoBRA revenue requirements are also intended to reflect the conclusion of one-year ITC flow-through accounting related to battery storage facilities placed in-service and reflected in the previous year. Accordingly, at the time FPL calculates the revenue requirement, it will also include the revenue needed to account for the conclusion of the ITC flow-through associated with the 2027 battery storage facilities (as part of the 2028 SoBRA revenue requirements) and the 2028 battery storage facilities (as part of the 2029 SoBRA revenue requirements).

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

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

7. In the event that actual capital costs for the 2028 and 2029 solar generation projects are higher than the projection on which the revenue requirements are based, FPL would include the incremental costs in its monthly earnings surveillance report and reflect these costs in its next base rate proceeding.

Mechanism To Address Potential Tax Law Changes

The following terms will apply in the event any permanent change in federal or state tax law or tax regulations (referred to herein as the “new tax law”) is effective during the four-year term 2026 through 2029.

1. If a permanent change in federal or state tax law or regulations occurs prior to the conclusion of the final hearing and timing permits, FPL will submit calculations that quantify the impacts of the new tax law on FPL’s base revenue requirements so that the Commission may address the impacts when it resolves FPL’s base rate request.

2. If the change in law occurs prior to the conclusion of the final hearing and timing does not permit or occurs after the conclusion of the final hearing, FPL will submit the calculation within 60 days of (i) the Commission’s final order resolving FPL’s rate petition or (ii) the effective date of the change in law, whichever is later. FPL will petition to open a separate docket for the purpose and limited scope of addressing the base revenue requirement impact of the new tax law. FPL will submit the calculations reflecting the impact on base revenue requirements and ask the Commission to establish an expedited procedural schedule that will allow intervenors time to review and, if necessary, respond to FPL’s filing. FPL will be authorized to adjust base rates upon confirmation by the Commission that FPL appropriately calculated the impacts pursuant to the methodology set forth in Paragraph 3.

3. Calculation of the impact of the new tax law pursuant to Paragraph 2 shall be calculated as follows: FPL will compare FPL’s revenue requirements utilizing the new tax law against FPL’s Commission-approved revenue requirements utilizing current tax law. The difference in revenue requirements will demonstrate the impact of the new tax law and will be the amount of FPL’s base rate adjustments for 2026 and 2027, as applicable. The adjustment for 2027 revenue requirements will remain in place for 2028 and 2029. To the extent applicable, rate adjustments approved through FPL’s proposed SoBRA mechanism in 2028 and 2029 will reflect then-current tax law.

4. For the time period between the effective date of the new tax law and implementation of new tax-adjusted base rates, FPL will defer the impact of the new tax law to the balance sheet for collection or refund through the Capacity Cost Recovery Clause.

5. All else equal, a decrease in the corporate income tax rate will reduce income tax expense as well as change the classification of a portion of the Tax Adjustment Mechanism (TAM) Amount described in Exhibit IL-13 from a deferred tax liability to excess accumulated deferred income tax liabilities (ADIT). FPL is authorized to restore the TAM Amount by utilizing a corresponding amount of unprotected excess ADIT associated with tax repairs and mixed service costs.

Mechanism To Address Potential Tax Law Changes

6. Deficient or excess ADIT that arise will be deferred as a regulatory asset or regulatory liability on the balance sheet and included within FPL's capital structure. If the tax law continues to prescribe the use of the Average Rate Assumption Method, FPL will flow back or collect the protected deficient or excess ADIT over the underlying assets' remaining life to ensure compliance with Internal Revenue Service normalization rules. If the new tax law does not specify the treatment of unprotected deficient or excess ADIT, for amounts other than the excess ADIT related to the TAM described in Paragraph 5 above, FPL proposes to flow back or collect over a period of not more than 10 years. FPL will account for the impact of deferred income taxes as part of the calculations described in Paragraphs 2 and 3.