Public Disclosure Version

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE:	**PETITION FOR RATE INCREASE BY FLORIDA POWER AND LIGHT COMPANY**	)))	**DOCKET NO. 080677-EI**

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

SOUTH FLORIDA HOSPITAL AND HEALTH CARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2009

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DIRECT TESTIMONY OF RICHARD A. BAUDINO

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am a consultant with Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I received my Master of Arts degree with a major in Economics and a minor in Statistics from New Mexico State University in 1982. I also received my Bachelor of Arts Degree with majors in Economics and English from New Mexico State in 1979.

I began my professional career with the New Mexico Public Service Commission Staff in October 1982 and was employed there as a Utility Economist. During my employment with the Staff, my responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in which I testified included cost of service,

rate of return, rate design, revenue requirements, analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-ins.

In October 1989, I joined the utility consulting firm of Kennedy and Associates as a Senior Consultant where my duties and responsibilities covered substantially the same areas as those during my tenure with the New Mexico Public Service Commission Staff. I became Manager in July 1992 and was named Director of Consulting in January 1995. Currently, I am a consultant with Kennedy and Associates.

Exhibit ____(RAB-1) summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the South Florida Hospital and Health Care Association ("SFHHA").

Q. What is the purpose of your Direct Testimony?

A. The purpose of my direct testimony is to address the allowed return on equity for Florida Power and Light Company ("FPL" or "Company").

Q. Please summarize your Direct Testimony.

A. I recommend that the Florida Public Service Commission ("Commission") approve a rate of return on equity ("ROE") for FPL of 10.40%. This recommendation is based on the low end of the range of results from my Discounted Cash Flow ("DCF") analyses for a comparison group of electric companies. I also employed the Capital

Asset Pricing Model ("CAPM"), but did not directly incorporate the results into my recommendation. In my opinion, a return on equity of 10.40% is a reasonable estimate of the required return on equity for a low-risk utility such as FPL.

I also recommend that FPL's equity ratio be reduced from the level requested by the Company. My recommended adjusted equity ratio for bond rating agency purposes is 50%. This results in an equity ratio for ratemaking purposes of 53.5%. My recommended equity ratio strikes a proper balance between supporting the Company's bond rating and minimizing costs for ratepayers.

I also adjusted the amount and cost of FPL's short-term debt contained in its capital structure. My calculations reflect the addition of $600 million of short-term debt, with the cost of this debt at 0.60%, which reflects the 3-month London Interbank Offer Rate ("LIBOR") as of June 30, 2009. Mr. Kollen adds commitment fees to this number, which he explains in detail in his testimony.

Turning to the Company's testimony, the Commission should reject the return on equity recommendation of 12.50% of Dr. William Avera, witness for FPL. As I will explain in detail in Section IV of my Direct Testimony, Dr. Avera's subjective approach greatly overstated the required return on equity for FPL. Further, the results from Dr. Avera's quantitative analyses do not support his recommendation. In particular, FPL's requested equity return simply exceeds the range of results calculated by FPL itself for its utility proxy group. Dr. Avera's recommended ROE

only is supported by the ROE range from a group of non-utility companies. This non-utility group completely fails to reflect the low risk utility operations of FPL. Dr. Avera's recommended return on equity of 12.50% would harm ratepayers because it would result in excessive rate levels for the Company's ratepayers.

I also recommend that the Commission reject Dr. Avera's and Mr. Pimentel's position supporting FPL's proposed capital structure and, specifically, the Company's requested equity ratio for ratemaking purposes of 59.6%. As I will show later in my Direct Testimony, FPL's requested common equity ratio is excessive, is significantly higher than the common equity ratio of similar risk electric companies, and would impose excessive and burdensome costs on ratepayers.

II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

Q. Mr. Baudino, what has the trend been in long-term capital costs over the last few years?

A. Exhibit ____(RAB-2) presents a graphic depiction of the trend in interest rates from January 2000 through May 2009. The interest rates shown are for the 20-year U.S. Treasury Bond and the average public utility bond from the Mergent Bond Record. Exhibit ____(RAB-2) shows that the yields on long-term Treasury and utility bonds have declined since early 2000, although rates have been quite volatile. Yields trended downward from 2002 through 2006, with the 20-year Treasury bond yield declining from 5.69% to 4.78% at the end of December 2006. The yield on the average public utility bond also decreased significantly over that time, falling from 7.83% in March 2002 to 5.83% in December 2006, a decline of 200 basis points. Public utility bond yields fell far more than long-term Treasury yields over the last four years.

2007 saw a rise in bond yields, fueled in part by investors' concerns over turmoil and defaults associated with the sub-prime lending market. This accelerated in 2008, a year in which world financial markets experienced tumultuous changes and volatility not seen since the Great Depression. As noted in the SBBI 2009 Yearbook, both

large and small company stocks declined around 37% for the year.[1] Investors, in a flight to quality and safety, also pulled their funds out of those corporate bonds that were perceived to be higher risk and invested in the safety of Treasury securities.[2] The 2009 SBBI Yearbook reported that long-term Treasury Bonds returned 25.87% during 2008, while long-term corporate bonds returned 8.78%. Thus, bonds significantly outperformed stocks in 2008.

The stocks of electric utilities did not fare well during the financial market upheaval of 2008. The Dow Jones Utility Average was down from its opening level in January 2008 of 532.50 to 370.76 at the end of December, a decline of 30.4%. This decline was smaller than the decline in the overall stock market. Utility bond yields also increased significantly during the year, rising from 6.08% in January to a high of 7.80% in November. And as investors flocked to the safety of Treasury securities, the yield spread between long-term Treasury securities and the index of public utility bonds widened from 1.73% in January to 3.69% in December, the highest spread during the entire period shown in Exhibit ___(RAB-2).

So far in 2009, utility bond yields have fallen from November 2008 levels as has the spread between public utility bond yields and long-term Treasuries. The average utility bond yield in May was 6.83%, a decline of almost 100 basis points from

1 *2009 Ibbotson SBBI Classic Yearbook*, Morningstar, page 11.

[redacted]

November 2008. And according to Moody's Credit Trends, the average public utility bond yield closed at 6.22% on June 30, 2009. At the end of May the yield spread between utility bonds and the long-term Treasury bond declined substantially to 2.61%. The Dow Jones Utility Average has also recovered this year, rising from its opening level in January of 341.15 to a June close of 357.81, an increase of 4.88% for the year.

Q. How does the investment community regard the electric utility industry as a whole?

A. In its May 29, 2009 report on the electric utility industry, Value Line noted the following:

> Since our last review, electric utility stocks as a whole have continued to struggle, based on shareprice performance. Many utilities have been hampered by higher capital costs and weaker generation margins stemming from lower demand and a sharp decline in energy prices.
>
> * * *
>
> During challenging economic times, investors tend to migrate towards utility stocks due to their relative stability and attractive dividend yields. And, now seems like a better time than ever, as the broad market selloff early in the year has led to higher yields and increased total-return potential. All told, we believe this might be a good time for investors to increase their electric-utility exposure.

Moody's Investor Service published a report entitled *U.S. Investor-Owned Electric Utilities* and made a number of observations regarding the outlook for the industry. First Moody's characterized the outlook for the electric utility industry as stable with respect to its expectations for the next twelve to eighteen months. Moody's expects that the industry's fundamentals will remain intact, but expressed concerns over

rising business and operating risks over the longer term.

On page 2 of this report, Moody's also added:

> The U.S. investor-owned electric utility sector enjoys solid credit metrics and the fundamental credit outlook remains stable. In general, state regulators continue to let the utilities recover prudently incurred operating costs and capital expenditures relatively quickly, and with reasonable rates of return. Moreover, we believe state regulators would otherwise prefer to regulate financially healthy companies.
>
> The sector is also well positioned relative to many other corporate/industrial sectors, primarily due to the fundamental business plan: providing monopolistic electric service within a designated service territory in exchange for oversight and limitations on profitability. However, we are increasingly concerned with business and operating risks, which are not new but appear to be accelerating faster than previously understood. These business and operating risks include potential environmental legislation from the Obama Administration; the continued capital investment needs for refurbishing aging infrastructure; and a potentially more contentious regulatory relationship amid a protracted or severe recession.
>
> Although liquidity appears to be reasonable today, the sector's substantial negative free cash flow generation creates a need for unfettered access to the capital markets. This represents a fundamental weakness to the sector's business plan.

Q. Briefly describe Florida Power and Light Company.

A. FPL is a wholly owned subsidiary of FPL Group.[3] FPL Group's other principle subsidiary is NextEra Energy Resources, which engages in the competitive energy business and produces its energy primarily from clean and renewable fuels. FPL is a rate regulated electric company that provides service to approximately 4.5 million customers of the east and lower west coasts of Florida. As of December 31, 2008

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3 The following description of FPL is based on information contained in the Company's 2008 Form 10-K and 2008 Annual Report.

FPL derived 53% of its revenues from Residential sales, 40% from commercial sales, and 7% from Industrial and other customers.

FPL's resources for serving load consisted of 24,997 mWs of which 22,087 were owned by FPL. FPL's current reserve margin is 28%, which is adequate to meet its current and projected customer loads. FPL's 2008 fuel mix consisted of 53% natural gas, 22% nuclear generation, 14% purchased power, 6% coal generation, and 5% oil generation. On page 7 of its 2008 10-K report, FPL noted that its "diverse fuel options, along with purchased power, enable FPL to shift between sources of generation to achieve a more economical fuel mix." FPL collects fuel costs through a recovery mechanism approved by the FPSC that enables the company to true-up differences between actual and projected costs.

Capacity payments to other companies for purchased power are recovered from customers through a capacity clause and through base rates. FPL noted on page 6 of its 10-K report that beginning in 2009, FPL will be able to recover pre-construction costs and carrying charges on construction costs for new nuclear capacity through the capacity clause.

FPL noted that it will incur significant planned capital expenditures through 2013 that are expected to total $13.4 billion.

With respect to capitalization, FPL's regulated utility operations are far less leveraged than FPL Group's unregulated operations. At the end of 2008, FPL's utility operations were capitalized with 56% common equity compared to FPL Group's unregulated operations, which were supported by only 24.2% common equity. This data came from FPL's Schedule D-2.

Q. How do FPL and FPL Group characterize their current financial position and performance.

A. In his letter to shareholders in FPL Group's 2008 Annual Report, the Chairman and Chief Executive Officer of FPL Group stated the following:

> Our successful strategy has generated outstanding value for shareholders over the longer term as well. Since 2002, FPL Group has outperformed 84 percent of the companies in the S&P Utility Index and 85 percent of the companies in the S&P 500 Index as measured by total shareholder return. Our total shareholder return during this period was 127 percent, compared with 32 percent for the S&P Utility Index and -10 percent for the S&P 500 Index.
>
> The same trend holds across the three-year, five-year and 10-year periods. FPL Group has delivered total shareholder returns of 33 percent, 81 percent and 135 percent respectively, easily outpacing the S&P Utility Index (3 percent, 49 percent and 31 percent) and the S&P 500 (-23 percent, -10 percent and -13 percent).
>
> ***We are also particularly proud of our ability to weather the financial crisis. FPL Group's financial discipline, attractive projects and strong balance sheet meant that capital remained available at reasonable costs throughout 2008. Indeed, in the midst of a very difficult credit and economic environment, we were able to raise approximately $1.3 billion of capital on reasonable terms in the fourth quarter of 2008 alone.*** (emphasis added)
>
> There's little doubt that 2008 will go down in history as one of the most tumultuous and difficult years in the past century for economies and credit markets the world over, including the U.S. and Florida economies. ***FPL Group has not been immune to these shocks, but our ability to generate double-digit earnings growth in a highly challenging year is a powerful endorsement of our long-term strategy, our commitment to financial discipline, and our dedicated and talented employees.*** (emphasis added)

In recent presentations to the financial community and at FPL Group's 2009 shareholders' meeting, FPL Group reported very positive results for the company. For example, in its presentation entitled *2009 Credit Suisse Energy Summit*, FPL Group made the following important points:

- FPL Group is a "premier U.S. power company"
- FPL Group's returns to share holders have substantially outperformed the Dow Jones Industrial Average, the Utility Index, and the S&P 500.
- FPL Group has one of the strongest balance sheets in the industry.
- FPL Group maintains a "strong liquidity position" assisted by "one of the largest bank groups in the industry".

In a presentation entitled *Sanford C. Bernstein & Co. Strategic Decisions Conference 2009* dated May 27, 2009, FPL stated on page 5 that FPL Group had the "best utility franchise in the nation" and had "favorable long-term demographic trends." And in another presentation entitled *NextEra Energy Resources 2009 Bank Meeting* dated May 5, 2009, on page 14 the FPL Group Chairman and CEO characterized FPL Group's earnings profile as "significantly weighted toward lower risk sources", 47% of which was the FPL utility. [redacted]

I have included excerpts from these three presentations in Exhibit ___(RAB-3).

Q. How is FPL viewed by the major bond rating agencies?

A. FPL's first mortgage bonds are rated A by Standard & Poor's ("S&P") and Aa3 by

Moody's.

S&P's February 12, 2009 report on FPL stated that FPL Group's outlook is stable and "reflects the predictable cash flow from FP&L, a favorable regulatory environment, and an historically healthy service territory." S&P noted that FPL Group's outlook could be pressured if growth in the unregulated businesses increases business risk, if the forecasts become more dependent on FPL Energy, or if projected cash flow does not maintain the current financial risk profile. S&P also underscored its concern that the ratings could be imperiled if FPL Group fails to manage significant risks in its merchant energy and energy marketing and trading subsidiaries.

Moody's June 20, 2008 report on FPL noted that its ratings were supported by strong financial performance and cash flow coverage, timely cost recovery mechanisms, favorable regulatory environment, and a large mainly residential service territory that has experienced high growth rates in recent years. Offsetting these strengths are the Company's large expected capital expenditures over the next few years, a slowing economy, and risks from hurricanes.

Q. Mr. Baudino, what is your conclusion regarding the financial health and overall risk of FPL?

A. Overall FPL remains a low risk electric utility with solid financial health and excellent bond ratings. In its own investor presentations, the Company emphasized

that it is one of three companies in the power sector with an 'A' or better credit rating. And according to FPL Group's CEO Mr. Hay, FPL has the "best utility franchise in the nation." FPL's stable and relatively low risk electric operations have provided substantial financial stability to FPL Group and its more risky wholesale market-based power marketing subsidiaries. FPL Group would be a substantially riskier company without the stable utility operations of FPL.

As FPL Group's CEO Mr. Hay pointed out, despite extreme instability and uncertainty in the credit markets last year, FPL Group had no problem accessing liquidity for its operations, including its utility operations. And FPL Group derives most of its earning from lower risk sources, the largest contributor being FPL's regulated utility operations. Now that credit markets have become more stable this year, FPL should continue to have access to the credit it needs to fund operations and invest in plant and infrastructure to serve its Florida customers and on very reasonable terms.

III. DETERMINATION OF FAIR RATE OF RETURN

Q. Please describe the methods you employed in estimating a fair rate of return for FPL.

A. I employed a Discounted Cash Flow ("DCF") analysis for a group of comparison electric companies to estimate the cost of equity for the Company's regulated electric operations. I also employed several Capital Asset Pricing Model ("CAPM") analyses using both historical and forward-looking data.

Q. What are the main guidelines to which you adhere in estimating the cost of equity for a firm?

A. Generally speaking, the estimated cost of equity should be comparable to the returns of other firms with similar risk structures and should be sufficient for the firm to attract capital. These are the basic standards set out by the United States Supreme Court in *Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944)* and *Bluefield W.W. & Improv. Co. v. Public Service Comm'n, 262 U.S. 679 (1922).*

From an economist's perspective, the notion of "opportunity cost" plays a vital role in estimating the return on equity. One measures the opportunity cost of an investment equal to what one would have obtained in the next best alternative. For example, let us suppose that an investor decides to purchase the stock of a publicly traded electric utility. That investor made the decision based on the expectation of dividend payments and perhaps some appreciation in the stock's value over time;

however, that investor's opportunity cost is measured by what she or he could have invested in as the next best alternative. That alternative could have been another utility stock, a utility bond, a mutual fund, a money market fund, or any other number of investment vehicles.

The key determinant in deciding whether to invest, however, is based on comparative levels of risk. Our hypothetical investor would not invest in a particular electric company stock if it offered a return lower than other investments of similar risk. The opportunity cost simply would not justify such an investment. Thus, the task for the rate of return analyst is to estimate a return that is equal to the return being offered by other risk-comparable firms.

Q. What are the major types of risk faced by utility companies?

A. In general, risk associated with the holding of common stock can be separated into three major categories: business risk, financial risk, and liquidity risk. Business risk refers to risks inherent in the operation of the business. Volatility of the firm's sales, long-term demand for its product(s), the amount of operating leverage, and quality of management are all factors that affect business risk. The quality of regulation at the state and federal levels also plays an important role in business risk for regulated utility companies.

Financial risk refers to the impact on a firm's future cash flows from the use of debt in the capital structure. Interest payments to bondholders represent a prior call on the firm's cash flows and must be met before income is available to the common

shareholders. Additional debt means additional variability in the firm's earnings, leading to additional risk.

Liquidity risk refers to the ability of an investor to quickly sell an investment without a substantial price concession. The easier it is for an investor to sell an investment for cash, the lower the liquidity risk will be. Stock markets, such as the New York and American Stock Exchanges, help ease liquidity risk substantially. Investors who own stocks that are traded in these markets know on a daily basis what the market prices of their investments are and that they can sell these investments fairly quickly. Many electric utility stocks are traded on the New York Stock Exchange and are considered liquid investments.

Q. Are there any indices available to investors that quantify the total risk of a company?

A. Bond ratings are tools that investors use to assess the risk comparability of firms. Bond rating agencies such as Moody's and Standard and Poor's perform detailed analyses of factors that contribute to the risk of a particular investment. The end result of their analyses is a bond rating that reflects these risks.

With respect to FPL's utility operations, it is also important to note the statements made by key personnel in the Company regarding the utility's low risk operations and that it has the "best utility franchise in the nation." The combination of these statements and the foregoing data are compelling evidence of FPL's low-risk profile.

Discounted Cash Flow ("DCF") Model

Q. Please describe the basic DCF approach.

A. The basic DCF approach is rooted in valuation theory. It is based on the premise that the value of a financial asset is determined by its ability to generate future net cash flows. In the case of a common stock, those future cash flows take the form of dividends and appreciation in stock price. The value of the stock to investors is the discounted present value of future cash flows. The general equation then is:

$$V = \frac{R}{(1+r)} + \frac{R}{(1+r)^2} + \frac{R}{(1+r)^3} + ... \frac{R}{(1+r)^n}$$

Where: $V = asset\ value$
$R = yearly\ cash\ flows$
$r = discount\ rate$

This is no different from determining the value of any asset from an economic point of view; however, the commonly employed DCF model makes certain simplifying assumptions. One is that the stream of income from the equity share is assumed to be perpetual; that is, there is no salvage or residual value at the end of some maturity date (as is the case with a bond). Another important assumption is that financial markets are reasonably efficient; that is, they correctly evaluate the cash flows relative to the appropriate discount rate, thus rendering the stock price efficient relative to other alternatives. Finally, the model I employ also assumes a constant growth rate in dividends. The fundamental relationship employed in the DCF method is described by the formula:

$$k = \frac{D_1}{P_0} + g$$

Where: D_1 = *the next period dividend*
P_0 = *current stock price*
g = *expected growth rate*
k = *investor-required return*

Under the formula, it is apparent that "k" must reflect the investors' expected return. Use of the DCF method to determine an investor-required return is complicated by the need to express investors' expectations relative to dividends, earnings, and book value over an infinite time horizon. Financial theory suggests that stockholders purchase common stock on the assumption that there will be some change in the rate of dividend payments over time. We assume that the rate of growth in dividends is constant over the assumed time horizon, but the model could easily handle varying growth rates if we knew what they were. Finally, the relevant time frame is prospective rather than retrospective.

Q. What was your first step in conducting your DCF analysis for FPL?

A. My first step was to construct a comparison group of companies with a risk profile that is reasonably similar to FPL.

Q. Please describe your approach for selecting a comparison group of electric companies.

A. I used several criteria to select a comparison group. First, using the July 2009 issue of the AUS Utility Reports, I selected electric companies that were rated at least A by Moody's and Standard and Poor's. FPL currently carries senior secured bond ratings of A+ from S&P and Aa3 from Moody's, so using the either/or criterion for

an A rating assures that the companies in the comparison group carry bond ratings that are similar to FPL.

From that group, I selected companies that had at least 50% of their revenues from electric operations and that had long-term earnings growth forecasts from Value Line and either Zacks Investment Research ("Zacks") or First Call/Thomson Financial. I will describe Zacks and First Call/Thomson Financial later in my testimony. From this group, I then eliminated companies that had recently cut or eliminated dividends, were recently or currently involved in merger activities, or had recent experience with significant earnings fluctuations.

I also eliminated Duke Energy due to a major corporate restructuring that will significantly affect future earnings. I also eliminated Exelon Corp. because most earnings and growth is expected to come from an unregulated generation subsidiary. I eliminated MGE Energy because it did not have earnings growth forecasts from either Zacks or Thomson.

The resulting group of the comparison electric companies that I used in my analysis is shown in the table below.

FLORIDA POWER AND LIGHT COMPANY
COMPARISON GROUP

	S&P Rating	Moody's Rating
1 ALLETE, Inc. (NYSE-ALE)	A-	NR
2 Alliant Energy Corporation (NYSE-LNT)	A-	A2
3 Consolidated Edison, Inc. (NYSE-ED)	A-	A1
4 DPL Inc.(NYSE-DPL)	A	A2
5 DTE Energy Company (NYSE-DTE)	A-	A3
6 Edison International (NYSE-EIX)	A	A2
7 FPL Group, Inc. (NYSE-FPL)	A	Aa3
8 IDACORP, Inc. (NYSE-IDA)	A-	A3
9 NSTAR (NYSE-NST)	AA-	A1
10 Progress Energy Inc. (NYSE-PGN)	A-	A2
11 Public Service Enterprise Group (NYSE-PEG)	A-	A3
12 Southern Company (NYSE-SO)	A	A2
13 Wisconsin Energy Corporation (NYSE-WEC)	A-	Aa3
14 Xcel Energy Inc. (NYSE-XEL)	A-	A3

Q. What was your first step in determining the DCF return on equity for the comparison group?

A. I first determined the current dividend yield, D_1/P_0, from the basic equation. My general practice is to use six months as the most reasonable period over which to estimate the dividend yield. The six-month period I used covered the months from January through June 2009. I obtained historical prices and dividends from Yahoo! Finance. The annualized dividend divided by the average monthly price represents the average dividend yield for each month in the period.

The resulting average dividend yield for the group is 5.25%. These calculations are shown in Exhibit ____(RAB-4).

Q. Mr. Baudino, did the dividend yield for your comparison group exhibit volatility over the *six*-month period you used in your analysis?

A. Yes. Page 3 of Exhibit ____(RAB-4) shows the monthly average yields for the comparison group, which ranged from 4.75% to 5.66%. Obviously, increased volatility in the stock market affected utility stock prices as well.

Q. Having established the average dividend yield, how did you determine the investors' expected growth rate for the electric comparison group?

A. The investors' expected growth rate, in theory, correctly forecasts the constant rate of growth in dividends. The dividend growth rate is a function of earnings growth and the payout ratio, neither of which is known precisely for the future. We refer to a perpetual growth rate since the DCF model has no arbitrary cut-off point. We must estimate the investors' expected growth rate because there is no way to know with absolute certainty what investors expect the growth rate to be in the short term, much less in perpetuity.

In this analysis, I relied on three major sources of analysts' forecasts for growth. These sources are Value Line, Zacks, and Thomson Financial.

Q. Please briefly describe Value Line, Zacks, and Thomson Financial.

A. Value Line is an investment survey that is published for approximately 1,700 companies, both regulated and unregulated. It is updated quarterly and probably represents the most comprehensive and widely used of all investment information services. It provides both historical and forecasted information on a number of

important data elements. Value Line neither participates in financial markets as a broker nor works for the utility industry in any capacity of which I am aware.

According to Zacks' website, Zacks "was formed in 1978 to compile, analyze, and distribute investment research to both institutional and individual investors." Zacks gathers opinions from a variety of analysts on earnings growth forecasts for numerous firms including regulated electric utilities. The estimates of the analysts responding are combined to produce consensus average and median estimates of earnings growth.

Like Zacks, Thomson Financial also provides detailed investment research on numerous companies. Thomson also compiles and reports consensus analysts' forecasts of earnings growth. I obtained these forecasts from Yahoo! Finance.

Q. Why did you rely on analysts' forecasts in your analysis?

A. Return on equity analysis is a forward-looking process. Five-year or ten-year historical growth rates may not accurately represent investor expectations for dividend growth. Analysts' forecasts for earnings and dividend growth provide better proxies for the expected growth component in the DCF model than historical growth rates. Analysts' forecasts are also widely available to investors and one can reasonably assume that they influence investor expectations.

Q. How did you utilize your data sources to estimate growth rates for the comparison group?

A. Exhibit____(RAB-5) presents the Value Line, Zacks, and Thomson Financial forecasted growth estimates. These earnings and dividend growth estimates for the comparison group are summarized on Columns (1) through (5) of Exhibit ____(RAB-5).

I also utilized the sustainable growth formula in estimating the expected growth rate. The sustainable growth method, also known as the retention ratio method, recognizes that the firm retains a portion of its earnings to fuel growth in dividends. These retained earnings, which are plowed back into the firm's asset base, are expected to earn a rate of return. This, in turn, generates growth in the firm's book value, market value, and dividends.

The sustainable growth method is calculated using the following formula:

$$G = B \times R$$

Where: G = *expected retention growth rate*
B = *the firm's expected retention ratio*
R = *the expected return*

In its proper form, this calculation is forward-looking. That is, the investors' expected retention ratio and return must be used in order to measure what investors anticipate will happen in the future. Data on expected retention ratios and returns may be obtained from Value Line.

The expected sustainable growth estimates for the comparison group are presented in Column (3) on page 1 of Exhibit ____(RAB-5). The data came from the Value Line forecasts for the comparison group.

Q. How did you approach the calculation of earnings growth forecasts in this case?

A. For purposes of this case, I looked at three different methods for calculating the expected growth rates for my comparison group.

For Method 1, I calculated the average of all the growth rates for the companies in my comparison group using Value Line, Zacks, and Thomson. I excluded a negative value for ALLETE because it is not plausible for investors to expect negative future growth rates for electric utilities.

For Method 2, I calculated the median growth rates for my comparison group. The median value represents the middle value in a data range and is not influenced by excessively high or low numbers in the data set. The median growth rate for each forecast provides additional valuable information regarding expected growth rates for the group.

For Method 3, I omitted double-digit growth rates and growth rates that were near zero (less than 1%) from the calculation of the averages. This is similar to omitting the high and low values from the calculation. These calculations are shown on page 2 of Exhibit ____(RAB-5).

The expected growth rates produced by all three methods fall in a range from 3.75% to 6.25%.

Q. Why did you eliminate high and low growth rate forecasts in Method 3?

A. With respect to growth rates near zero, it is reasonable to conclude that investors expect positive long-term earnings and dividend growth over time. Including growth rates of 1% or less may understate expected growth for the comparison group. Regarding double-digit growth rates, it is highly unlikely that investors would expect such high growth rates over the long run for electric utilities. Indeed, the vast majority of growth forecasts is in the single digits and reflects the more conservative financial profile of a regulated industry.

Q. How did you proceed to determine the DCF return of equity for the electric comparison group?

A. To estimate the expected dividend yield (D_1) for the group, the current dividend yield must be moved forward in time to account for dividend increases over the next twelve months. I estimated the expected dividend yield by multiplying the current dividend yield by one plus one-half the expected growth rate. I should note that for Method 3, I excluded the dividend yields for companies whose growth rates were excluded from each respective source.

I then added the expected growth rates to the expected dividend yield. The calculations of the resulting DCF returns on equity for both methods are presented on page 2 of Exhibit ____(RAB-5).

Q. Please explain how you calculated your DCF cost of equity estimates.

A. Page 2 of Exhibit ____(RAB-5) presents the DCF results utilizing three different methods. Method 1 utilizes the average growth rates for the comparison group. I used the Value Line earnings and dividend growth forecasts and the consensus analysts' forecasts. The average DCF cost of equity result is 11.01%. The midpoint of the four growth rates is 10.68%.

Method 2 employs the median growth rates from Value Line, Zacks, and Thomson. The average DCF return on equity is 10.80% and the midpoint of the results is 10.38%.

Method 3 employs the growth rates for the group excluding double digit growth forecasts and forecasts less than or equal to 1.0%. The average of these growth rates results in a DCF estimate of 11.13%. The midpoint of the growth rates results in a DCF estimate of 10.96%.

Capital Asset Pricing Model

Q. Briefly summarize the Capital Asset Pricing Model ("CAPM") approach.

A. The theory underlying the CAPM approach is that investors, through diversified portfolios, may combine assets to minimize the total risk of the portfolio.

Diversification allows investors to diversify away all risks specific to a particular company and be left only with market risk that affects all companies. Thus, the CAPM theory identifies two types of risks for a security: company-specific risk and market risk. Company-specific risk includes such events as strikes, management errors, marketing failures, lawsuits, and other events that are unique to a particular firm. Market risk includes inflation, business cycles, war, variations in interest rates, and changes in consumer confidence. Market risk tends to affect all stocks and cannot be diversified away. The idea behind the CAPM is that diversified investors are rewarded with returns based on market risk.

Within the CAPM framework, the expected return on a security is equal to the risk-free rate of return plus a risk premium that is proportional to the security's market, or non-diversifiable, risk. Beta is the factor that reflects the inherent market risk of a security and measures the volatility of a particular security relative to the overall market for securities. For example, a stock with a beta of 1.0 indicates that if the market rises by 15%, that stock will also rise by 15%. This stock moves in tandem with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall 50% as much as the overall market. So with an increase in the market of 15%, this stock will only rise 7.5%. Stocks with betas greater than 1.0 will rise and fall more than the overall market. Thus, beta is the measure of the relative risk of individual securities vis-à-vis the market.

Based on the foregoing discussion, the equation for determining the return for a security in the CAPM framework is:

$$K = Rf + \beta(MRP)$$

Where:
K = *Required Return on equity*
Rf = *Risk-free rate*
MRP = *Market risk premium*
β = *Beta*

This equation tells us about the risk/return relationship posited by the CAPM. Investors are risk averse and will only accept higher risk if they receive higher returns. These returns can be determined in relation to a stock's beta and the market risk premium. The general level of risk aversion in the economy determines the market risk premium. If the risk-free rate of return is 3.0% and the required return on the total market is 15%, then the risk premium is 12%. Any stock's required return can be determined by multiplying its beta by the market risk premium. Stocks with betas greater than 1.0 are considered riskier than the overall market and will have higher required returns. Conversely, stocks with betas less than 1.0 will have required returns lower than the market as a whole.

Q. In general, are there concerns regarding the use of the CAPM in estimating the return on equity?

A. Yes. As briefly discussed earlier, there is some controversy surrounding the use of the CAPM.[4] There is evidence that beta is not the primary factor in determining the risk of a security. For example, Value Line's "Safety Rank" is a measure of total risk, not its calculated beta coefficient. Beta coefficients usually describe only a small amount of total investment risk. Finally, a considerable amount of judgment must be employed in determining the risk-free rate and market return portions of the CAPM equation. The analyst's application of judgment can significantly influence the results obtained from the CAPM. My past experience with the CAPM indicates that it is prudent to use a wide variety of data in estimating returns. Of course, the range of results may also be wide, indicating the difficulty in obtaining a reliable estimate from the CAPM.

Q. How did you estimate the market return portion of the CAPM?

A. The first source I used was the Value Line Investment Survey for Windows for June 10, 2009. Value Line provides a summary statistical report detailing, among other things, forecasted growth in dividends, earnings, and book value for the companies Value Line follows. I have presented these three growth rates and the average on page 2 of Exhibit ____(RAB-6). The average growth rate is 8.14%. Combining this growth rate with the average expected dividend yield of the Value Line companies of 2.27% results in an expected market return of 10.41%. The detailed calculations are shown on page 1 Exhibit ____(RAB-6).

4 For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pp. 229 – 239, 1999 edition.

I also considered a supplemental check to this market estimate. Morningstar publishes a study of historical returns on the stock market in its *Ibbotson SBBI 2009 Valuation Yearbook.* Some analysts employ this historical data to estimate the market risk premium of stocks over the risk-free rate. The assumption is that a risk premium calculated over a long period of time is reflective of investor expectations going forward. Exhibit ____(RAB-7) presents the calculation of the market return using the historical data.

Q. Please address the use of historical earned returns to estimate the market risk premium.

A. The use of historic earned returns on the S&P 500 to estimate the current market risk premium is rather suspect because it naively assumes that investors currently expect historic risk premiums to continue unchanged into the future regardless of present or forecasted economic conditions. Brigham, Shome, and Vinson noted the following with respect to the use of historic risk premiums calculated using the returns as reported by Ibbotson and Sinquefield (referred to in the quote as "I&S"):

> There are both conceptual and measurement problems with using I&S data for purposes of estimating the cost of capital. Conceptually, there is no compelling reason to think that investors expect the same relative returns that were earned in the past. Indeed, evidence presented in the following sections indicates that relative expected returns should, and do, vary

> significantly over time. Empirically, the measured historic premium is sensitive both to the choice of estimation horizon and to the end points. These choices are essentially arbitrary, yet can result in significant differences in the final outcome.[5]

In summary, the use of historic earned returns should be viewed with a great deal of caution. There is no real support for the proposition that an unchanging, mechanically applied historical risk premium is representative of current investor expectations and return requirements.

Q. How did you determine the risk free rate?

A. I used the average yields on the 20-year Treasury bond and five-year Treasury note over the six-month period from January through June 2009. The 20-year Treasury bond is often used by rate of return analysts as the risk-free rate, but it contains a significant amount of interest rate risk. The five-year Treasury note carries less interest rate risk than the 20-year bond and is more stable than three-month Treasury bills. Therefore, I have employed both of these securities as proxies for the risk-free rate of return. This approach provides a reasonable range over which the CAPM may be estimated.

Q. What is your estimate of the market risk premium?

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5 Brigham, E.F., Shome, D.K. and Vinson, S.R., "The Risk Premium Approach to Measuring a Utility's Cost of Equity," *Financial Management*, Spring 1985, pp. 33-45.

A. Exhibit ____(RAB-6), line 9 of page 1, presents my estimates of the market risk premium based on a DCF analysis applied to current market data. The market risk premium is 6.47% using the 20-year Treasury bond and 8.41% using the five-year Treasury bond.

Utilizing the historical Ibbotson data on market returns, the market risk premium ranges from 4.40% to 5.97%. This is shown on Exhibit ____(RAB-7).

Q. How did you determine the value for beta?

A. I obtained the betas for the companies in the electric company comparison group from most recent Value Line reports. The average of the Value Line betas for the electric group is .69.

Q. Please summarize the CAPM results.

A. The CAPM results using the 20-year and five-year Treasury bond yields and Value Line market return data range from 7.77% to 8.38%.

The CAPM results using the historical Ibbotson data range from 6.96% to 8.03%. These results are shown on Exhibit ____(RAB-7).

Conclusions and Recommendations

Q. Please summarize the cost of equity you recommend the Commission adopt for FPL.

A. I recommend that the Commission adopt the DCF model I developed and the cost of equity estimates for the comparison group of electric utility companies that I compiled. The results for the electric company comparison group using the constant-growth DCF model and the expected growth rate forecasts ranged from 10.38% to 11.13%. Based on this range of results, I recommend that the Commission adopt a 10.40% return on equity for FPL in this proceeding. This recommendation is based on the low end of the range of results from my DCF analyses.

I offer this recommendation to the FPSC as a just and reasonable estimate of investor return on equity requirements for a lower risk electric utility such as FPL. First, FPL's bond ratings are higher than those of the companies in my comparison group. There is only one other utility in the group that has an Aa3 bond rating from Moody's. All the other companies have lower ratings that FPL. With respect to the S&P ratings, nine of the 14 companies have an A- rating, compared to FPL's A rating. FPL's higher bond rating suggests a lower required ROE than the average company in my comparison group. And as I stated earlier, FPL's own CEO has stated without qualification that the Company has the "best utility franchise in the nation." This supports my position that FPL is a lower risk electric utility compared to the average electric utility company.

Also, as I shall show subsequently in my testimony, I am recommending a much higher common equity ratio for FPL than the average equity ratio for the comparison group. This suggests that FPL has less financial risk than the comparison group,

making it less risky overall. This further justifies a return on equity for FPL that is near the low end of the range of results from the DCF model.

Finally, it should be noted that the CAPM results are much lower than the DCF results in this proceeding. This is the case with both the forward-looking and the historical versions of the CAPM. I do not rely on the CAPM for my ROE recommendation, but these results suggest that using the lower end of the DCF range of results is reasonable in this case.

Q. Both Dr. Avera and Mr. Pimentel recommend that the Commission recognize and encourage "exemplary management" in setting the return on equity for FPL. Do you agree?

A. No. I recommend that the Commission base its allowed return on equity on market-based data and analysis that I have provided in my testimony and in particular the results of the DCF analyses. Using appropriate cost of equity models to estimate the investor required return for FPL will, if applied properly, fairly compensate investors for their equity investment. Increasing the investor required return to recognize factors such as "exemplary management" would over compensate investors and result in excessive rates to ratepayers. The regulatory balance would be tipped in favor of shareholders and against customers. Moreover, providing an inflated return on equity to recognize exemplary management performance undercuts the benefits of such performance, which should be lower costs and greater efficiency. Ratepayers

should expect exemplary management from the Company without having to support an inflated return to shareholders. I recommend that the Commission reject this path.

Capital Structure and Weighted Cost of Capital

Q. Did you review FPL's requested capital structure?

A. Yes. The Company's requested capital structure and weighted cost of capital is presented in Schedule D-1A and in Exhibit AP-7 attached to the Direct Testimony of FPL witness Armando Pimentel. Dr. Avera also discussed the Company's capital structure beginning on page 74 of his testimony. Both witnesses supported an "adjusted" equity ratio of 55.8%, which includes the imputation of $950 million of off-balance sheet purchased power agreements ("PPAs"). It is important to note that this is not the capital structure the Company is using for ratemaking purposes, but is instead one that is designed to reflect how FPL off-balance sheet PPAs are treated for purposes of bond rating agency reporting.

Q. Have you calculated the weighting of common stock, preferred stock, and short and long-term debt the Company is requesting for ratemaking purposes?

A. Yes. Table 2 below presents the percentages of equity and debt excluding the imputed PPAs. These amounts come from MFR Schedule D-1a. These amounts are investor-supplied capital amounts used by the Company to develop its overall weighted return, exclusive of accumulated deferred income taxes, customer deposits, and investment tax credits.

TABLE 2 FPL REQUESTED DEBT AND EQUITY			
		Amount	Pct.
Long-term Debt	$	5,377,787	39.2%
Short-term Debt	$	161,857	1.2%
Common Equity	$	8,178,980	59.6%
Total	$	13,718,624	100.0%

Although both Dr. Avera and Mr. Pimentel presented FPL's "adjusted" capital structure as containing 55.8% equity, for ratemaking purposes FPL proposes to include almost 60% common equity in its capital structure. The 59.6% common equity ratio is the actual equity percentage that the Company seeks to include in its rates in this proceeding, not the lower 55.8% cited in the Company's testimony. Dr. Avera and Mr. Pimentel did identify this number as "adjusted" equity, but the difference between 55.8% and the actual ratemaking equity percentage of 59.6% needs to be clarified.

Q. Mr. Baudino, is FPL's proposed level of equity reasonable?

A. No. FPL's proposed level of equity is excessive, unreasonable, and would result in unjust and unreasonable rates to ratepayers. As I will demonstrate, FPL does not require this burdensome level of equity investment to support its current credit rating. I recommend that the Commission reject FPL's proposed level of common

equity and reduce it to a reasonable level that supports its credit rating and that does not burden its customers with excessive costs.

Further, FPL understated the amount of short-term debt that should be included in the capital structure. Based on the last few years of data, substantially more short-term debt should be included in the Company's capital structure for ratemaking purposes.

Q. How do you recommend that the Commission proceed with adjusting FPL's capital structure?

A. First, I recommend that FPL's equity level be reduced to conform to the high end of S&P's debt-to-total capital range consistent with an A credit profile. Second, I recommend that the Commission include $600 million of short-term debt, an amount consistent with the Company's short-term debt levels over the last few years.

The effect of these adjustments is a reduction in the Company's weighted cost of capital.

Q. Please summarize FPL's presentation of its capital structure and common equity ratio.

A. Both Dr. Avera and Mr. Pimentel support an "actual adjusted equity ratio" of 55.8%. This equity percentage was derived by including $0.949 billion of long-term PPAs into the long-term debt amount shown in Table 2 of my testimony. Mr. Pimentel and

Dr. Avera supported this presentation as being reasonable based on the premise that the rating agencies take PPAs into account when evaluating financial strength and bond ratings. On page 34 of this testimony, Mr. Pimentel testified that "FPL needs to maintain a higher unadjusted equity ratio to attain the same level of financial security with PPAs than without."

Q. Does FPL need to maintain an unadjusted equity ratio of 60% to maintain its credit rating?

A. In my opinion, the answer is no.

In a recent article on utilities ratings analysis[6], S&P described how it assigns three key financial ratios in developing and assigning bond ratings. These ratios are as follows:

- Funds from Operations ("FFO") Interest Coverage
- Funds from Operations / Total Debt
- Total Debt / Total Capital

This article explained how these key ratios are used by S&P in developing a "Business Risk Profile" and "Financial Risk Profile". The Financial Risk Profile is assessed based on the three key ratios cited above. The Business Risk Profile encompasses S&P's qualitative assessment of factors such as the quality of

6 "U.S. Utilities Ratings Analysis Now Portrayed In The S&P corporate Ratings Matrix", Standard and Poor's Ratings Direct, November 30, 2007.

regulation, the markets in which the company operates, operations, competitiveness, and management. Business Risk Profiles are characterized by S&P as Excellent, Strong, Satisfactory, Weak, or Vulnerable. Financial Risk Profiles are characterized as Minimal, Modest, Intermediate, Aggressive, or Highly Leveraged.

Currently S&P assigns an "excellent" business risk profile and an "intermediate" financial risk profile to FPL Group. According to S&P, the adjusted debt/total capital ratios to support these ratings would fall into a range of 35% - 50%. This may also be viewed as an adjusted equity ratio range of 50% - 65%.

Finally, S&P noted that its ratio analysis matrix serves as a guide and that it does not arrive at ratings by rote. Other factors may lead its rating committee to a different conclusion than what would otherwise be indicated by the matrix.

Q. What is your recommendation for an adjusted equity ratio for bond rating agency reporting purposes?

A. I recommend that the Commission approve an adjusted equity ratio of 50%, which is at the low end of the adjusted equity range of 50% - 65%. A 50% equity ratio (and a 50% adjusted debt ratio) conforms to the S&P ratio guidelines for an electric utility such as FPL, which has an excellent business risk profile and an intermediate financial risk profile.

An adjusted equity ratio of 50% is also much less expensive for ratepayers than the Company's proposed 55.8% adjusted equity ratio. This is very important because ratepayers should not have to support a needlessly expensive capital structure that is overly rich with equity capitalization. Common equity is the most expensive form of financing for FPL, and should be prudently minimized while still supporting an A credit rating. My recommendation of an adjusted equity ratio of 50% for financial reporting purposes accomplishes an appropriate balance between the interest of shareholders and ratepayers. The Company's proposal does not.

Q. Please describe how you adjusted the Company's capital structure to reflect the 50% adjusted equity ratio.

A. Please refer to Exhibit ____(RAB-8), Adjustment No. 1. This exhibit shows two views of FPL's capital structure, one for ratemaking purposes and one for bond rating agency reporting purposes. The ratemaking capital structure starts with the actual amounts of debt and equity from the Company's filing, which total $13.718 billion. The bond rating agency reporting capital structure adds the amount of imputed debt associated with FPL's PPAs, for a total of $14.668 billion. The equity amount is reduced by $0.845 billion to get to a 50% equity ratio for financial reporting purposes. For ratemaking purposes, this results in an equity ratio of 53.5%.

Q. How does the 53.5% ratemaking equity ratio compare to historical and projected equity ratios for FPL?

A. It compares quite closely to the equity ratios contained in the Company's Schedule D-2, which includes historical and forecasted capital structures through the end of the projected test year. The common equity ratios from Schedule D-2 are as follows:

2007	54.6%
2008	56.0%
2009	55.2%
2010	53.8%
2011	54.8%

I would also note that the Company's proposed equity ratio of 59.6% greatly exceeds all of the equity ratios contained in its Schedule D-2.

Q. How does your recommended 53.5% equity ratio compare to the equity ratio of your comparison group?

A. Exhibit ___(RAB-9) shows the comparison group's capital structures for 2008 as reported by Value Line. The average equity ratio for the group, including common and preferred, is 47.6%, which is much lower than my recommended equity ratio for FPL.

Q. Please address FPL's proposed amount of short-term debt in the capital structure.

A. FPL's proposed capital structure contains only $161.9 million of short-term debt. This substantially understates the amount of short-term debt the Company has used in the recent past and if far less than contained in the forecasted capital structures in

Schedule D-2. Schedule D-2 shows the following amounts of short-term debt in FPL's historic and forecasted capital structures (in 000s):

2007	$842,300
2008	$772,934
2009	$710,087
2010	$549,207
2011	$616,316

Obviously, the Company's proposed short-term debt level of $161.9 million is not even remotely close to the levels shown in Schedule D-2. Further, as recently as October 2008 during perhaps the worst month of financial turmoil of the year, FPL issued $1.29 billion of commercial paper, according to the Company's response to SFHHA's Ninth Set of Interrogatories, Question No. 266. Without question, the Company's proposed test year level of short-term debt is totally unsupported and should be rejected by the Commission.

Q. What is your recommendation regarding the amount of short-term debt that should be included in the capital structure for ratemaking purposes?

A. I recommend that the Commission include $600 million of short-term debt in the Company's capital structure. I have included this as Adjustment No. 2 in Exhibit ___(RAB-8). This amount is rather conservative considering the amounts shown by the Company on Schedule D-2 and is quite close to the amount for 2011. In my opinion, a short-term debt level of $600 million is reasonable and tracks the Company's recent financial experience and its financial forecasts.

Q. What interest rate do you recommend for the short-term debt?

A. I recommend a short-term debt cost rate of 0.60%. Current 3-month commercial paper rates are yielding approximately 0.26% and the Company primarily issues commercial paper for short-term financing. The 3-month London Interbank Offer Rate ("LIBOR") is also often used as a reference for the cost of short-term financing. As of June 29, 2009, the LIBOR stood at 0.60%.

I also recommend that the Commission reject the Company's proposed short-term debt rate of 2.96%. This debt rate is greatly in excess of current short-term interest rates and in no way reflects current market conditions. In fact, excluding commitment fees, the interest rate proposed by the Company is 2.77%, according to MFR Schedule D-3.

Q. Does the Company's requested short-term interest rate include commitment fees?

A. Yes. I recommend that the Commission not include commitment fees in the cost of short-term debt. This is because the amount of FPL's commitment fees are fixed and do not vary with the amount of short-term debt utilized by the Company. The Company is entitled to collect its commitment fees, but not in the short-term debt interest rate. Mr. Kollen included the dollar amount of FPL's commitment fees in his revenue requirement analysis and addresses this issue in further detail.

Q. Did you review the recent Commission Order for TECO in Docket No. 080317-EI?

A. Yes, I reviewed the Commission's Order in that Docket.

Q. Did the Commission adjust TECO's capital structure in that Order?

A. Yes. The Commission reduced TECO's requested equity percentage of investor-supplied capital from 56.6% to approximately 54% for ratemaking purposes. In its Order, the Commission stated the following:

> "It important to keep in mind that the level of equity recognized for purposes of setting rates should be in line with the risk associated with the provision of regulated operations. There is no mandate from S&P or any of the other rating agencies that we or any other regulatory commission allow an inflated equity ratio at the utility level to compensate for the parent company's use of higher debt leverage to fund other, non-regulated businesses."

Q. What rate did the Commission use for short-term debt in that case?

A. On page 34 of its Order, the Commission found that a cost rate of 2.75% was appropriate. This rate was based on the 3-month LIBOR rate plus 175 basis points to account for financing fees. Thus, the LIBOR rate approved by the Commission would have been 1.0%.

Q. How does this compare to your recommended rate for short-term debt?

A. This is quite close to the rate I recommend, which is 0.60%. There is no need in this case to add anything for financing costs since Mr. Kollen is including FPL's commitment fees in his revenue requirement recommendation. Also, this rate is

close to the rate actually incurred by the Company since last year, which was below 0.50%.[7]

Q. Do you have any concluding comments on capital structure?

A. Yes. An excessive FPL common equity ratio could result in ratepayers subsidizing FPL Group's unregulated affiliate activities, which are grouped into the FPL Group Capital affiliate. FPL Group could not maintain a single 'A' credit rating on a corporate-wide basis without the support of an excessive FPL common equity ratio because, as I pointed out in Section II of my testimony, FPL Group Capital is extremely highly leveraged. The S&P report I cited in Section II confirmed that its single A credit rating for FPL Group was based on the consolidated credit profile of the company, which includes both FPL and FPL Group Capital. FPL Group Capital owns FPL Energy, stating that the ratings largely reflect the regulated cash flows from FPL's utility operations. The report also noted that the higher risk operations of FPL energy detract from FPL Group's credit quality.

I fully concur with the FPSC's position in the TECO Order, stating that the level of equity for ratemaking purposes should reflect regulated operations, not unregulated operations.

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7 Please refer to Exhibit ___(RAB-12), which includes excerpts from FPL Group presentations to the financial community.

Finally, I would note that my proposed capital structure strikes an appropriate balance between the interests of shareholders and ratepayers. My proposed equity ratio is consistent with an 'A' rating and supports FPL's credit quality. It also results in a fair weighted cost of capital that does not unduly burden the Company's ratepayers. I recommend that the Commission adopt my proposed equity ratio and recommended return on equity.

IV. RESPONSE TO FPL TESTIMONY

Q. Have you reviewed the Direct Testimony of Dr. William Avera?

A. Yes.

Q. Please summarize your conclusions with respect to Dr. Avera's testimony and return on equity recommendation.

A. My conclusions regarding Dr. Avera's testimony and return on equity recommendation are as follows.

First, Dr. Avera's recommended 12.50% return on equity is grossly overstated. His recommendation fails to track the results of his Utility Proxy Group analyses, which range from 10.5% to 11.7%.

Second, Dr. Avera failed to include forecasted dividend growth in his DCF analyses. Failing to include this important information overstated his DCF results.

Third, Dr. Avera overstated the Market Risk Premium in his CAPM analysis because of a faulty approach to estimating the market return portion of the CAPM. My CAPM results suggest much lower expected returns.

Fourth, Dr. Avera's expected earnings approach is inappropriate and should be rejected by the Commission.

Fifth, Dr. Avera's adjustment for flotation costs is inappropriate and should be rejected.

Dr. Avera's ROE Range and Recommendation

Q. Please summarize the results of Dr. Avera's ROE analyses.

A. Dr. Avera used three methods to estimate the cost of equity for FPL: the DCF model, the CAPM, and an expected earning approach. He used two groups of companies to estimate the cost of equity, one composed of regulated electric utilities ("Utility Proxy Group") and another using unregulated companies ("Non-Utility Proxy Group"), which completely excluded utility operations. The results from his various methods are as follows:

Utility Proxy Group:

DCF - 10.6% to 11.5%
CAPM - 10.5%
Expected earnings - 11.7%

Non-Utility Proxy Group:

DCF - 12.9% - 13.4%
CAPM - 11.5%

Dr. Avera also recommended a 25 basis point adjustment for flotation costs.

Based on these results, Dr. Avera recommended a range for FPL cost of equity of 12.0% - 13.0%. On page 73 of his Direct Testimony, Dr. Avera stated that his conclusion "is supported by the implications of ongoing turmoil in the capital markets and my recommended 25 basis point adjustment for flotation costs."

Q. In your opinion, do the results of Dr. Avera's various analyses support his recommended 12.5% ROE for FPL?

A. No. The bulk of Dr. Avera's results suggest a much lower ROE, more in the range of 10.5% - 11.7% if the Utility Proxy Group results are used. If one adds his flotation cost adjustment, then the range would increase to 10.75% - 11.95%, which is still below his recommended range for FPL.

Only the Non-Utility Proxy Group results support anything above 12.0%.

Q. Is it appropriate to use a group of unregulated companies that do not have monopoly service characteristics of electric utilities to estimate a fair return on equity for a low-risk regulated electric company such as FPL?

A. No. Dr. Avera's use of unregulated non-utility companies to estimate a fair rate of return for FPL is completely inappropriate and should be rejected by the Commission.

Utilities have protected markets, e.g. service territories, enjoy full recovery of prudently incurred costs, and may increase their rates to cover increases in costs.

Generally, the non-utility companies simply do not have these options and must compete with other firms for sales and for customers. Obviously, the non-utility companies have higher overall risk structures than a low-risk electric company like FPL and will have higher required returns from their shareholders. It is not at all surprising that Dr. Avera's ROE results for his Non-Utility Proxy Group were substantially higher than the results for his Utility Proxy Group. Given the higher business risk for the non-utility group of companies, this is exactly the result that would have been expected. However, these results do not form any kind of reasonable basis to estimate the investor required ROE for FPL. Quite the contrary, the returns from the non-utility proxy group are a good measure of returns that are, by definition, substantially in excess of those to be expected in the utility segment.

Moreover, FPL's bond ratings suggest a lower required return on equity than the average utility. FPL's lower risk profile was mentioned prominently by FPL Group's Mr. Hay in the presentations I cited in Section II of my testimony. Using higher required returns from a group of unregulated companies is obviously unjustified, inflates FPL's required ROE, and should be rejected by the Commission.

Q. Do Dr. Avera's concerns regarding the "challenging capital market environment" (pg. 72) support his recommended 12.0% - 13.0% range for ROE?

A. No, not at all. Concerns about the current capital markets are fully reflected in interest rates and stock prices. Both Dr. Avera and I used this current data in

estimating our recommended ROEs to the Commission. The market data I used compel a much lower ROE range than Dr. Avera recommended.

Moreover, Dr. Avera's market data also support a much lower range than he recommends. Dr. Avera's use of judgment simply inflated his ROE recommendation. Later in my testimony, I will show how Dr. Avera's DCF and CAPM results for his Utility Proxy Group are overstated and could result in an even lower range of results.

Q. Do you have any concluding remarks for this section of your response to Dr. Avera?

A. Yes. In my response to Dr. Avera's DCF and CAPM analyses, I will confine my remarks to the results from his Utility Proxy Group analyses. I will not further address the Non-Utility Proxy Group because I have already explained why the Commission should reject the use of this group in estimating the cost of equity for FPL.

DCF Analyses

Q. Please summarize Dr. Avera's approach to the DCF model and its results.

A. Dr. Avera utilized the constant growth form of the DCF model to estimate the fair return on equity. He employed analysts' earnings growth forecasts from Value Line, First Call, IBES, and Zacks to estimate the growth component of the model.

Q. Did Dr. Avera consider dividend growth forecasts in his DCF analysis?

A. No. Dr. Avera failed to include lower dividend growth forecasts in his analysis.

On page 46 of his Direct Testimony, Dr. Avera opined that dividend growth rates "are not likely to provide a meaningful guide to investors' current growth expectations." In support of this opinion, he cited articles from the *Financial Analysts Journal* and Value Line's description of its Timeliness Rank.

Q. Should Dr. Avera have included dividend growth forecasts in his DCF analyses?

A. Yes. Dr. Avera erred in failing to include dividend growth forecasts from Value Line in his DCF analyses. With respect to regulated utility companies, dividend growth provides the primary source of cash flow to the investor. It is certainly the case that earnings growth fuels dividend growth and should be considered in estimating the ROE using the DCF model. However, Value Line's dividend growth forecasts are widely available to investors and can reasonably be assumed to influence their expectations with respect to growth. I weighted earnings growth 75% and dividend growth 25% in my growth calculations, so I agree to some extent with Dr. Avera that earnings growth

is the primary factor considered by investors. But it should not be considered the only factor.

Regarding the articles from the *Financial Analysts Journal* cited by Dr. Avera on page 47 of his testimony, it is not surprising that earnings and cash flow are considered more important than book value and dividends, particularly for non-utility companies that may not pay out much in the way of dividends. However, this is not the case for utility companies. FPL Group itself stressed the importance of its historical dividend growth in a presentation by Mr. Hay dated May 22, 2009. I have included an excerpt from this presentation in Exhibit ___(RAB-10). Dividend growth estimates should be included in the forecast of dividend growth in the DCF model.

Q. What is the average dividend growth rate for Dr. Avera's Utility Proxy Group?

A. The average dividend growth rate forecast from Value Line is 4.97%. I have included these forecasts in Exhibit ____(RAB-11). As shown in Exhibit ___(RAB-11), including Value Line's dividend growth forecast results in a DCF cost of equity of 9.94% for the Utility Proxy Group. This result closely compares to my DCF ROE using dividend growth of 9.73%.

This result suggests a lower result for the lower bound of Dr. Avera's results.

Capital Asset Pricing Model

Q. Please present your conclusions regarding the results of Dr. Avera's CAPM analysis.

A. I disagree with Dr. Avera's formulation of the CAPM. Dr. Avera estimated the market return portion of the CAPM by estimating the current market return for dividend paying stocks in the S&P 500. This limited his "market" return to only 346 companies.

The market return portion of the CAPM should represent the most comprehensive estimate of the total return for all investment alternatives, not just a small subset of publicly traded stocks. In practice, of course, finding such an estimate is difficult and is one of the more thorny problems in estimating an accurate ROE when using the CAPM. If one limits the market return to stocks, then there are more comprehensive measures of the stock market available, such as the Value Line Investment Survey that I used in my CAPM analysis. Value Line's projected earnings growth used a sample of over 1500 stocks, its book value growth estimate used over 1400 stocks, and its dividend growth estimate used over 800 stocks. These are much broader samples than Dr. Avera's limited sample of dividend paying stocks from the S&P 500.

The forward-looking CAPM results I present in Exhibit ___(RAB-6) using a broader market index suggest much lower required rates of return than Dr. Avera recommends in his testimony.

Q. Dr. Avera did not present historical market returns in his CAPM analysis. Has Dr. Avera used historic return in his past ROE testimonies?

A. Yes. Dr. Avera used to present historical market returns from the SBBI Yearbook in his past testimonies. In this case, Dr. Avera did not use historic market returns for reasons that he explained on page 60 of his testimony.

As I previously testified, I too have concerns regarding the use of historical market returns to estimate the investor required return on equity for electric utilities. It should be noted, however, that the historical market return data I presented in Exhibit ___(RAB-7) suggests much lower CAPM ROEs than the 10.5% number that Dr. Avera recommended in his testimony. Furthermore, my alternative forward-looking CAPM results also underscore Dr. Avera's overstatement of the CAPM results.

Expected Earning Approach

Q. Please comment on Dr. Avera's expected earning approach.

A. Dr. Avera's expected earnings approach should be rejected by the Commission.

All Dr. Avera did in this analysis was report Value Line's forecasted returns on book equity for 2009 and the period 2011 - 2013. He did not use any market-based model such as the DCF or CAPM. Forecasted earned returns on book equity may have nothing whatsoever to do with investors' required returns in the marketplace. For example, if earned returns on book equity exceed the market-based DCF return on

equity, then investors may expect a company to earn more on book equity than the market-based required rate of return. Instead, I recommend that the Commission utilize a range of returns generated by the DCF model in setting FPL's cost of equity in this case.

Flotation Costs

Q. On page 63 of his Direct Testimony, Dr. Avera recommended a 25 basis point adjustment to recognize flotation costs. Should the Commission add a flotation cost adjustment to the cost of equity for FPL?

A. No. I recommend that the Commission reject Dr. Avera's proposed flotation cost adjustment.

First, it is inappropriate to use flotation cost percentages from studies of other companies to estimate a flotation cost adjustment for the Companies. Dr. Avera failed to provide any specific information on flotation costs incurred by FPL. Thus, the 25 basis point adjustment he proposes is not tied to any actual flotation cost incurred by the Company, either now or in the past.

Second, in my opinion it is likely that flotation costs are already accounted for in current stock prices and that adding an adjustment for flotation costs amounts to double

counting. A DCF model using current stock prices should already account for investor expectations regarding the collection of flotation costs. Multiplying the dividend yield by a 5% flotation cost adjustment, for example, essentially assumes that the current stock price is wrong and that it must be adjusted downward to increase the dividend yield and the resulting cost of equity. I do not believe that this is an appropriate assumption. Current stock prices most likely already account for flotation costs, to the extent that such costs are even accounted for by investors.

Current Capital Market Conditions

Q. Please summarize the FPL witnesses' position on the current state of capital markets and the relationship to FPL's allowed ROE in this case.

A. Both Dr. Avera and Mr. Pimentel expressed serious concerns with respect to current capital market conditions and the effect on FPL and its ability to access capital markets at a reasonable cost. I will cite examples below that I believe are representative of their concerns.

On page 4 of his Direct Testimony, Dr. Avera noted that FPL is planning significant new capital investments and "must be in a position of financial strength to attract private capital on reasonable terms from investors whose first instinct is to rush to the safety of U.S. Treasury securities." On page 17, Dr. Avera noted that the spread between public utility bonds and Treasury bonds has increased dramatically, reaching 338 basis points in January 2009. He also noted on page 14 that the recent sell-off in

common stocks and increase in utility bond yields "are indicative of higher costs for long-term capital, reflecting the fact that the ongoing financial and economic crisis has spilled over into the utility industry."

On page 5 of his Direct Testimony, Mr. Pimentel cited a Moody's article, opining that "the current financial crisis has 'materially changed the banking environment for utilities going forward'." On page 6, he noted the impact of the reduced capacity in the banking environment to offer new credit lines and suggested that this "illustrates the need for FPL to maintain a strong financial position to benefit customers." On page 8 Mr. Pimentel noted the volatility in the short-term and long-term debt markets and stated that at times these markets lacked the necessary liquidity for an efficient market structure. However, on page 9 he also noted that FPL has been able to have continued access to financial market through the ongoing turmoil in the financial markets.

Q. Please respond to these concerns regarding current market conditions and FPL's allowed cost of equity in this proceeding.

A. Without a doubt, financial markets have undergone one of the most serious periods of volatility and uncertainty in history. And the stock market continues to be volatile in 2009. However, it should be noted that the United States government and governments around the world have moved to stabilize world financial markets and provide liquidity. Some examples of these actions in the U.S. include:

- The Emergency Economic Stabilization Act of 2008, which authorized the U.S. Treasury to spend up to $700 billion to purchase distressed assets from banks and to make capital injections into banks.

- Significant increase in loans by the Federal Reserve through is Term Auction Facility, which is designed to make loans to depository institutions (such as banks) available at its discount window.

- Creation by the Federal Reserve of the Term Asset-Backed Securities Loan Facility ("TALF"), which is designed to assist the credit needs of households and small businesses by supporting the issuance of asset-backed securities.

- Interest rate reductions by the Federal Reserve. The Fed's Discount Rate currently stands at 0.50%.

It is also important to note that, even through the height of the financial crisis last year, FPL Group did not experience problems in accessing capital markets for debt and commercial paper. As I mentioned earlier, FPL Group issued almost $1.3 billion in commercial paper in October 2008.

Further, in a presentation entitled *NextEra Energy Resources 2009 bank Meeting* dated May 5, 2009, page 7, Mr. Pimentel showed that FPL Group's corporate credit facility, which has an initial 5-year term through April 2012, was extended for an additional year through 2013. This facility is in the amount of $6.75 billion and is sufficient to meet "day-to-day" liquidity needs. This suggests that FPL's standing with the financial community is quite solid. In the same presentation dated May 6, 2009, Ms. Kathy Beilhart also noted FPL's top tier credit rating, substantial liquidity, access to commercial paper at attractive rates, and pointed out that FPL Group raised $4.3 billion since the last bank meeting. In fact, on page 5, Ms. Beilhart showed that the average rate for commercial paper for FPL Group was below 0.50%, very close to my

recommended short-term debt rate of 0.60% and far less than the Company's requested short-term debt rate of 2.775, excluding commitment fees.

I have included excerpts from these two presentations in Exhibit ___(RAB-12).

Further, in statements to shareholders and the investment community, FPL Group positioned itself as a "premier energy company" with long-term positive trends, a lower-risk financial profile, outstanding shareholder returns, and adequate access to capital markets.

It is important for the Commission to allow a cost of equity for FPL that maintains its financial integrity and allows the Company continued access to capital market on reasonable terms. It is also important for FPL's customers not to be burdened by excessive rates during a severe recession, which our economy has been in since the last quarter of 2008. FPL's requested 12.50% ROE and the excessive equity in its capital structure result in a burdensome cost of capital that is too expensive for ratepayers to maintain. I recommend that the Commission adopt SFHHA's recommended capital structure and my recommended 10.40% return on equity.

Q. Does this complete your testimony?

A. Yes.

Public Disclosure Version

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE:	**PETITION FOR RATE INCREASE BY FLORIDA POWER AND LIGHT COMPANY**	)))	**DOCKET NO. 080677-EI**

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

SOUTH FLORIDA HOSPITAL AND HEALTH CARE ASSOCIATION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

July 2009

EXHIBIT__(RAB-1)

RESUME OF RICHARD A. BAUDINO

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Twenty five years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Electric and Gas Utility Rate Design
Cost of Capital for Electric, Gas and Water Companies
Ratemaking Treatment of Generating Plant Sale/Leasebacks
Electric and Gas Utility Cost of Service
Revenue Requirements
Gas industry restructuring and competition
Fuel cost auditing

RESUME OF RICHARD A. BAUDINO

EXPERIENCE

1989 to Present: **Kennedy and Associates: Consultant** - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to 1989: ***New Mexico Public Service Commission Staff*: Utility Economist** - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Industrial Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
Armco Steel Company, L.P.
Association of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
General Electric Company
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Industrial Group
Occidental Chemical
PSI Industrial Group
Taconite Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group

Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/84	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of *sale/leaseback expense.*
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.

Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
10/88	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.

Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.

Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.
7/94	R-00942986	PA	Armco; Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035-E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343-000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.

Expert Testimony Appearances
of
Richard A. Baudino
As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.

Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.

Expert Testimony Appearances
of
Richard A. Baudino
As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket E)	LA	Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.
10/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.
11/00	R-00005277 (Rebuttal)	PA	Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042	PA	Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.

Expert Testimony Appearances
of
Richard A. Baudino
As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169	KY	Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-594E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks – WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks – WPC	Return on equity.
9/04	U-23327, Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity

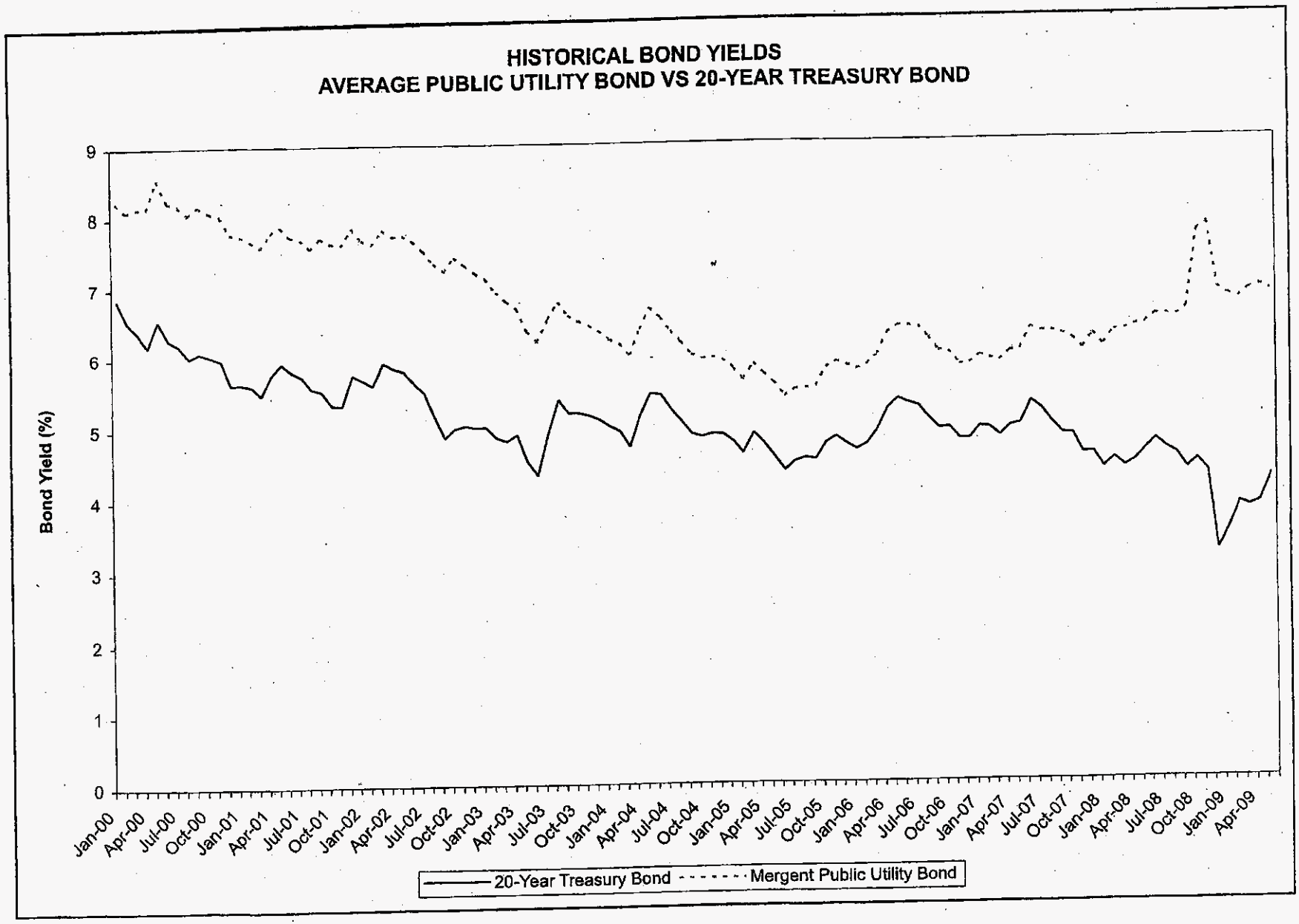
Expert Testimony Appearances of Richard A. Baudino As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
06/05	050045-EI	FL	South Florida Hospital and HealthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Revenue requirement, cost allocation, rate design, Tariff issues.
01/06	2005-0034	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Return on equity.
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on equity, Service quality
08/06	ER-2006-0314	MO	Missouri Office of the Public Counsel	Kansas City Power & Light Co.	Return on equity, Weighted cost of capital
08/06	06S-234EG	CO	CF&I Steel, L.P. & Climax Molybdenum	Public Service Company of Colorado	Return on equity, Weighted cost of capital
01/07	06-0960-E-42T	WV	West Virginia Energy Users Group	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112		AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661		Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01		Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103		Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797		Louisiana Public Service Commission	Cleco Power LLC & Southwestern Elec. Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR		Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity

Expert Testimony Appearances
of
Richard A. Baudino
As of May 2009

Date	Case	Jurisdict.	Party	Utility	Subject
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Cost and revenue allocation, Tariff issues
07/08	R-2008-2028394	PA	Philadelphia Area Industrial Energy users Group	PECO Energy	Cost and revenue allocation, Tariff issues
07/08	R-2008-2039634	PA	PPL Gas Large Users Gp.	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-UR-119	WI	Wisconsin Industrial Energy Group	Wisconsin PS	Cost of Equity
09/08	ER-2008-0318	MO	The Commercial Group	AmerenUE	Cost and revenue allocation
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065		The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532		The Commercial Group	Commonwealth Edison	Cost and revenue allocation

EXHIBIT__(RAB-2)


HISTORICAL BOND YIELDS
AVERAGE PUBLIC UTILITY BOND VS 20-YEAR TREASURY BOND
Bond Yield (%)
0
1
2
3
4
5
6
7
8
9
Jan-00
Apr-00
Jul-00
Oct-00
Jan-01
Apr-01
Jul-01
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Oct-08
Jan-09
Apr-09
20-Year Treasury Bond
Mergent Public Utility Bond

Exhibit ____(RAB-3)

2009 Credit Suisse Energy Summit

Paul Cutler
Treasurer
FPL Group, Inc.

Mike O'Sullivan
Senior Vice President
NextEra Energy Resources

February 3, 2009

FPL Group is a premier U.S. power company

FPL Group

- $21.1 B market capitalization
- 39,015 MW in operation
- $16.4 B operating revenue
- $44.8 B in total assets

Florida Power & Light

- One of the largest U.S. electric utilities
- Vertically integrated, retail rate-regulated
- 4.5 MM customer accounts
- 22,087 MW in operation
- $11.6 B in operating revenues
- $26.2 B in total assets

NextEra Energy Resources

- Successful wholesale generator
- U.S. leader in renewable generation
- Assets in 25 states and Canada
- 16,928 MW in operation
- $4.6 B in operating revenues
- $17.2 B in total assets

A growing, diversified and financially strong Company

Market Capitalization as of January 28, 2009
Operating Revenue for the year ended December 31, 2008
All other data as of December 31, 2008

FPL GROUP

We are committed to creating shareholder value

Total Shareholder Returns[1]

	Total Shareholder Return			
	1 Year	3 Year	5 Year	10 Year
FPL	-23.5%	32.6%	81.2%	135.1%
UTY	-27.2%	3.9%	54.9%	70.0%
S&P 500	-37.0%	-23.0%	-10.5%	-13.0%
DJIA	-31.9%	-11.8%	-5.5%	18.1%

Notwithstanding the recent market dislocations, FPL Group has consistently delivered long-term shareholder value

[1] Trailing one-, three- , five- and ten-year total shareholder returns based on December 31, 2008 share price

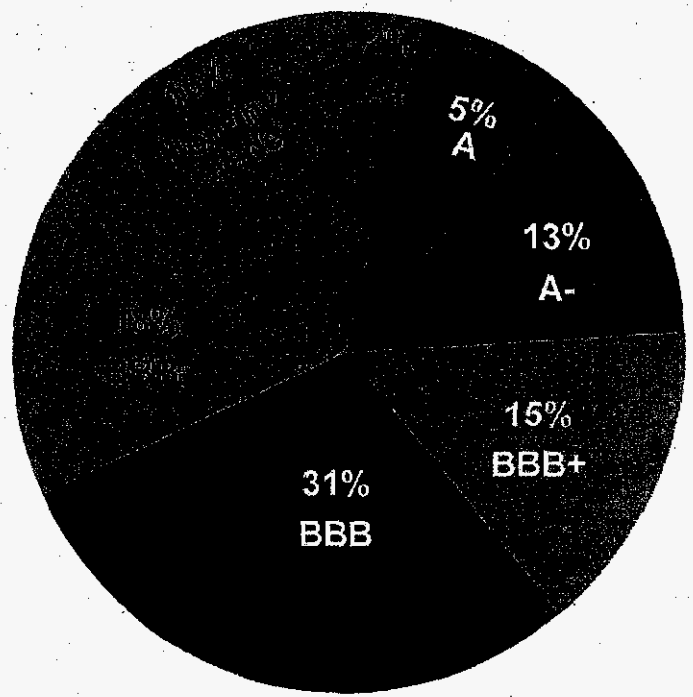
FPL Group has one of the strongest balance sheets in the industry

Credit Ratings

FPL Group Ratings

	Fitch	Moody's	S&P
FPL Group			
Corporate credit rating	A	A2	A
Outlook	Stable	Stable	Stable
Florida Power & Light			
First mortgage bonds	AA-	Aa3	A
Commercial paper	F1	P-1	A-1
Outlook	Stable	Stable	Stable
FPL Group Capital			
Sr. unsecured debentures	A	A2	A-
Commercial paper	F1	P-1	A-1
Outlook	Stable	Stable	Stable

Power Sector Ratings



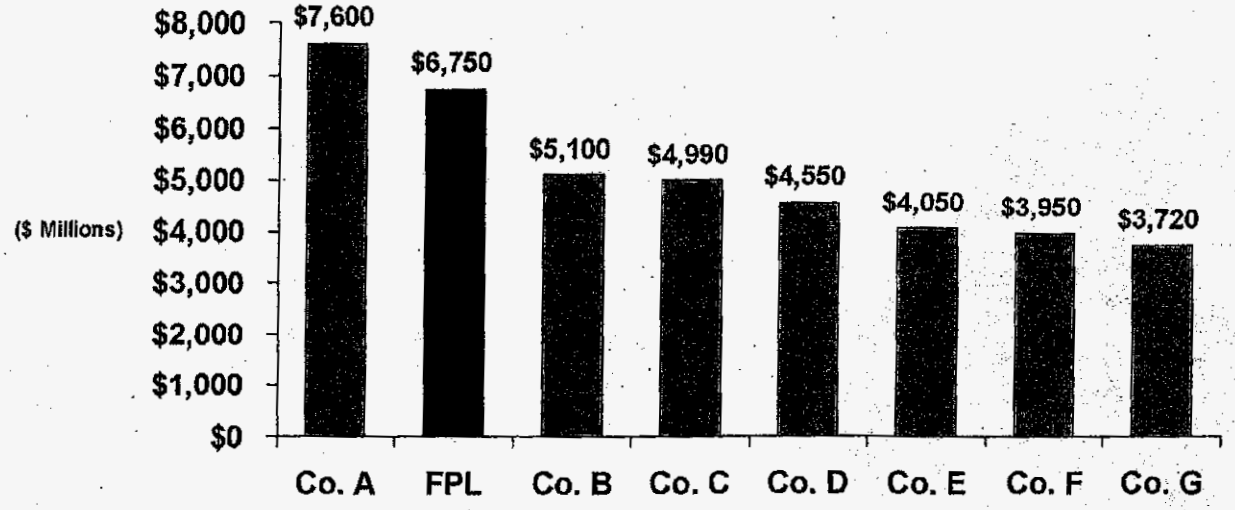
Only three companies in the power sector, including FPL Group, have an "A" or better issuer credit rating

Source: Standard & Poor's Corporate Parent Issuer Credit Rating as of October 1, 2008

FPL GROUP

FPL Group maintains a strong liquidity position

Summary of Corporate Credit Facilities



- Originated April 2007
- Initial five year term through April 2012
- One of the largest bank groups in the industry
- In 2008, extended the majority of the term for an additional year to 2013
- Supports letter of credit issuance, meets day to day liquidity needs and supports commercial paper programs

FPL GROUP

FPL GROUP

Sanford C. Bernstein & Co.
Strategic Decisions Conference 2009

Lew Hay

Chairman and CEO

May 27, 2009

FPL Group has strong growth prospects

FPL Group Balanced Growth Strategy

- **Best utility franchise in the nation**
  - Major opportunities to deploy capital at fair rates of return
    - -- Approximately $7 billion in invested capital growth through 2012
    - -- Investment includes nuclear uprates, natural gas generation expansion and renewables
  - Favorable long-term demographic trends
- **NextEra Energy Resources is a leading renewable player in the U.S.**
  - Significant wind investment opportunity in the next four years, with superior financial returns
  - Additional opportunities in solar, transmission and gas infrastructure
  - Well-positioned for a carbon constrained world
- **Financial strength and discipline**
- **Proven track record**

10%-*plus* average annual growth in adjusted EPS (2006-2012)
+
strong dividend yield and growing dividend

FPL GROUP.

FPL GROUP

NextEra Energy Resources
2009 Bank Meeting

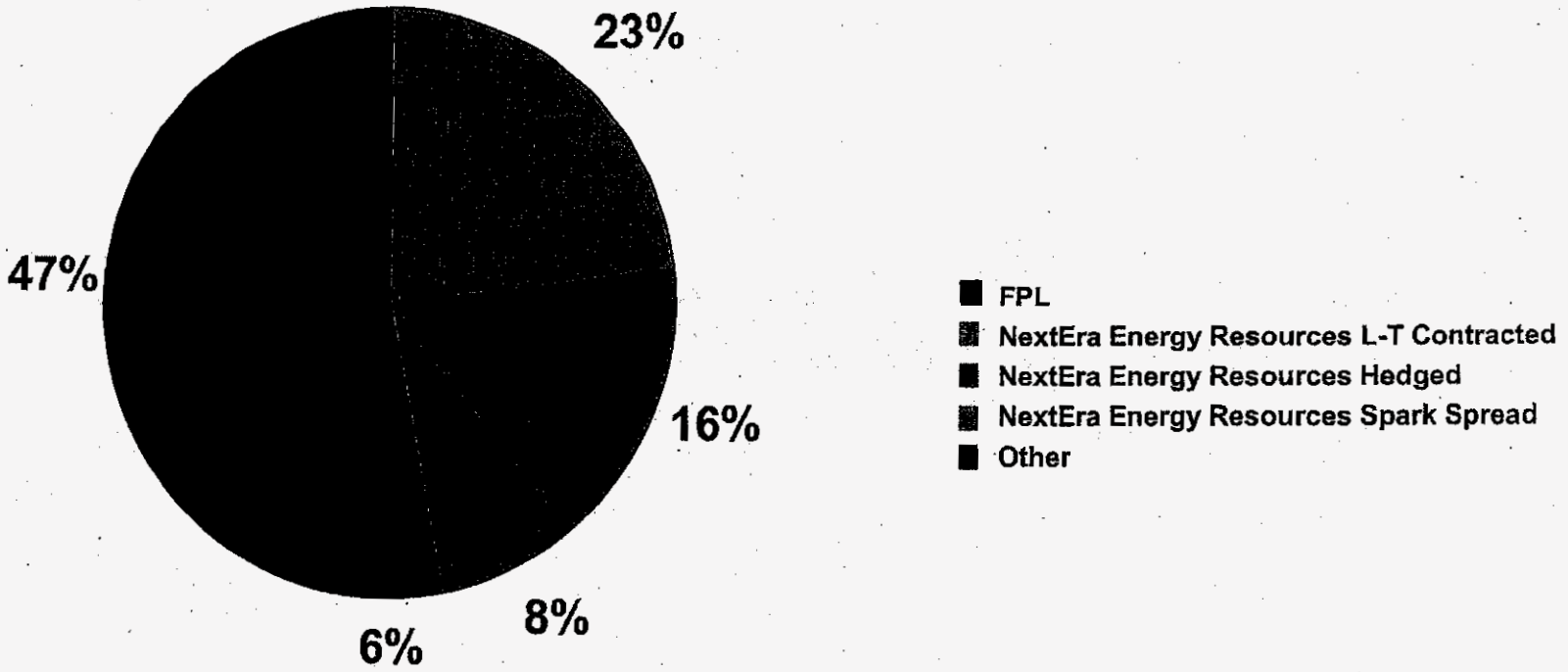
Lew Hay

Chairman and CEO

May 5, 2009

FPL Group's earnings profile is significantly weighted toward lower risk sources

2009E EBITDA Contribution



86% of 2009E EBITDA comes from either regulated rates, long-term contracts, or hedged assets

FPL GROUP

Note: NextEra Energy Resources' EBITDA includes its share of the pre-tax effect of production tax credits

CONFIDENTIAL

INFORMATION

REDACTED

EXHIBIT__(RAB-4)

FLORIDA POWER AND LIGHT COMPANY
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
ALLETE	High Price ($)	29.140	27.860	27.520	28.240	33.270	32.890
	Low Price ($)	26.570	25.800	24.450	23.350	26.400	29.550
	Avg. Price ($)	27.855	26.830	25.985	25.795	29.835	31.220
	Dividend ($)	0.440	0.440	0.440	0.440	0.430	0.430
	Mo. Avg. Div.	6.32%	6.56%	6.77%	6.82%	5.77%	5.51%
	6 mos. Avg.	6.29%					
Alliant Energy	High Price ($)	26.260	25.090	25.400	25.180	30.500	29.960
	Low Price ($)	23.610	22.080	22.360	20.310	22.520	26.660
	Avg. Price ($)	24.935	23.585	23.880	22.745	26.510	28.310
	Dividend ($)	0.375	0.375	0.375	0.375	0.375	0.375
	Mo. Avg. Div.	6.02%	6.36%	6.28%	6.59%	5.66%	5.30%
	6 mos. Avg.	6.03%					
Consolidated Edison	High Price ($)	37.530	38.170	40.000	39.990	41.630	41.790
	Low Price ($)	35.330	34.360	36.950	32.560	35.880	38.590
	Avg. Price ($)	36.430	36.265	38.475	36.275	38.755	40.190
	Dividend ($)	0.590	0.590	0.590	0.590	0.590	0.585
	Mo. Avg. Div.	6.48%	6.51%	6.13%	6.51%	6.09%	5.82%
	6 mos. Avg.	6.26%					
DPL, Inc.	High Price ($)	23.670	23.080	23.450	23.190	23.000	23.390
	Low Price ($)	21.570	21.030	22.170	19.710	19.180	20.810
	Avg. Price ($)	22.620	22.055	22.810	21.450	21.090	22.100
	Dividend ($)	0.285	0.285	0.285	0.285	0.285	0.275
	Mo. Avg. Div.	5.04%	5.17%	5.00%	5.31%	5.41%	4.98%
	6 mos. Avg.	5.15%					
DTE Energy	High Price ($)	32.430	32.280	30.560	28.790	35.260	37.110
	Low Price ($)	30.520	28.850	27.320	23.320	26.740	33.120
	Avg. Price ($)	31.475	30.565	28.940	26.055	31.000	35.115
	Dividend ($)	0.530	0.530	0.530	0.530	0.530	0.530
	Mo. Avg. Div.	6.74%	6.94%	7.33%	8.14%	6.84%	6.04%
	6 mos. Avg.	7.00%					
Edison International	High Price ($)	32.520	30.850	30.310	29.920	33.570	34.170
	Low Price ($)	29.070	27.580	27.500	23.090	26.560	30.310
	Avg. Price ($)	30.795	29.215	28.905	26.505	30.065	32.240
	Dividend ($)	0.310	0.310	0.310	0.310	0.310	0.310
	Mo. Avg. Div.	4.03%	4.24%	4.29%	4.68%	4.12%	3.85%
	6 mos. Avg.	4.20%					
FPL Group	High Price ($)	59.000	58.500	54.750	52.250	53.990	53.310
	Low Price ($)	54.390	52.400	49.700	41.480	44.400	46.750
	Avg. Price ($)	56.695	55.450	52.225	46.865	49.195	50.030
	Dividend ($)	0.473	0.473	0.473	0.473	0.473	0.445
	Mo. Avg. Div.	3.34%	3.41%	3.62%	4.04%	3.85%	3.56%
	6 mos. Avg.	3.64%					

FLORIDA POWER AND LIGHT COMPANY
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
IDACORP	High Price ($)	26.200	24.490	24.550	24.430	29.250	30.470
	Low Price ($)	23.470	22.220	22.690	20.910	23.480	28.070
	Avg. Price ($)	24.835	23.355	23.620	22.670	26.365	29.270
	Dividend ($)	0.300	0.300	0.300	0.300	0.300	0.300
	Mo. Avg. Div.	4.83%	5.14%	5.08%	5.29%	4.55%	4.10%
	6 mos. Avg.	4.83%					
NSTAR	High Price ($)	32.140	34.680	32.610	32.340	35.150	36.800
	Low Price ($)	29.810	28.540	29.710	27.490	31.530	32.340
	Avg. Price ($)	30.975	31.610	31.160	29.915	33.340	34.570
	Dividend ($)	0.375	0.375	0.375	0.375	0.375	0.375
	Mo. Avg. Div.	4.84%	4.75%	4.81%	5.01%	4.50%	4.34%
	6 mos. Avg.	4.71%					
Progress Energy	High Price ($)	38.200	36.450	36.670	36.930	40.700	40.850
	Low Price ($)	35.030	33.750	33.500	31.350	34.650	36.610
	Avg. Price ($)	36.615	35.100	35.085	34.140	37.675	38.730
	Dividend ($)	0.620	0.620	0.620	0.620	0.620	0.620
	Mo. Avg. Div.	6.77%	7.07%	7.07%	7.26%	6.58%	6.40%
	6 mos. Avg.	6.86%					
Public Service Enterprise	High Price ($)	33.940	32.910	31.210	29.990	33.020	33.660
	Low Price ($)	31.280	29.840	27.850	23.650	26.630	28.550
	Avg. Price ($)	32.610	31.375	29.530	26.820	29.825	31.105
	Dividend ($)	0.333	0.333	0.333	0.333	0.323	0.323
	Mo. Avg. Div.	4.08%	4.25%	4.51%	4.97%	4.33%	4.15%
	6 mos. Avg.	4.38%					
Southern Company	High Price ($)	32.050	29.810	31.780	31.860	33.800	37.620
	Low Price ($)	28.410	27.190	28.100	26.480	29.650	33.250
	Avg. Price ($)	30.230	28.500	29.940	29.170	31.725	35.435
	Dividend ($)	0.438	0.438	0.438	0.420	0.420	0.420
	Mo. Avg. Div.	5.80%	6.15%	5.85%	5.76%	5.30%	4.74%
	6 mos. Avg.	5.60%					
Wisconsin Energy	High Price ($)	41.260	40.970	42.230	41.820	46.480	46.350
	Low Price ($)	39.210	36.670	39.230	36.310	39.500	40.910
	Avg. Price ($)	40.235	38.820	40.730	39.065	42.990	43.630
	Dividend ($)	0.338	0.338	0.338	0.338	0.338	0.270
	Mo. Avg. Div.	3.36%	3.48%	3.32%	3.46%	3.14%	2.48%
	6 mos. Avg.	3.21%					

FLORIDA POWER AND LIGHT COMPANY
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

			Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
Xcel Energy	High Price ($)		18.770	18.640	18.980	18.870	19.130	19.070
	Low Price ($)		17.250	16.830	17.650	16.010	17.150	17.710
	Avg. Price ($)		18.010	17.735	18.315	17.440	18.140	18.390
	Dividend ($)		0.245	0.238	0.238	0.238	0.238	0.238
	Mo. Avg. Div.		5.44%	5.37%	5.20%	5.46%	5.25%	5.18%
	6 mos. Avg.		5.32%					
Average Dividend Yield		5.25%						
Monthly Group Average			5.22%	5.38%	5.38%	5.66%	5.10%	4.75%

Source: Yahoo! Finance

EXHIBIT__(RAB-5)

FLORIDA POWER AND LIGHT COMPANY
COMPARISON GROUP
DCF Growth Rate Analysis

Company	(1) Value Line DPS	(2) Value Line EPS	(3) Value Line B x R	(4) Zacks	(5) First Call/ Thomson
ALLETE	3.00%	-1.00%	2.50%	4.00%	6.00%
Alliant Energy	7.00%	4.50%	3.50%	5.30%	5.95%
Consolidated Edison	1.00%	2.50%	3.00%	4.00%	2.09%
DPL, Inc.	3.50%	8.00%	9.50%	7.43%	7.43%
DTE Energy	3.00%	7.50%	3.50%	6.00%	3.50%
Edison International	4.50%	3.50%	7.00%	6.33%	2.05%
FPL Group	6.00%	10.00%	8.00%	9.07%	9.57%
IDACORP	0.00%	4.50%	4.00%	5.00%	5.00%
NSTAR	5.50%	8.00%	6.00%	7.00%	6.67%
Progress Energy	1.00%	6.00%	3.00%	4.80%	5.59%
Public Service Enterprise Group	6.00%	7.50%	9.00%	6.67%	7.00%
Southern Company	4.00%	4.50%	5.00%	5.00%	5.36%
Wisconsin Energy	13.50%	8.00%	6.50%	8.43%	9.04%
Xcel Energy	3.00%	6.50%	5.00%	5.18%	6.38%
Averages excluding negative values	4.36%	6.23%	5.39%	6.02%	5.83%
Median Values	3.75%	6.25%	5.00%	5.65%	5.98%
Averages excl. > or =10% & < or = 1%	4.55%	5.92%	5.39%	6.02%	5.83%

Sources: **Zack's and First Call/Thomson Earnings Reports, June 2009**
Value Line Investment Survey, May 29, June 2, and June 26, 2009

RETURN ON EQUITY CALCULATION
FLORIDA POWER AND LIGHT COMPANY

	(1) Value Line Dividend Gr.	(2) Value Line Earnings Gr.	(3) Zack's Earning Gr.	(4) First Call Earning Gr.	(5) Average of All Gr. Rates
Method 1:					
Dividend Yield	5.25%	5.25%	5.25%	5.25%	5.25%
Growth Rate	4.36%	6.23%	6.02%	5.83%	5.61%
Expected Div. Yield	5.36%	5.41%	5.41%	5.40%	5.40%
DCF Return on Equity	***9.72%***	***11.64%***	***11.43%***	***11.23%***	***11.01%***
Midpoint of Results					***10.68%***
Method 2:					
Dividend Yield	5.25%	5.25%	5.25%	5.25%	5.25%
Median Growth Rate	3.75%	6.25%	5.65%	5.98%	5.41%
Expected Div. Yield	5.35%	5.41%	5.40%	5.41%	5.39%
DCF Return on Equity	***9.10%***	***11.66%***	***11.05%***	***11.39%***	***10.80%***
Midpoint of Results					***10.38%***
Method 3:					
Dividend Yield	5.81%	5.30%	5.25%	5.25%	5.40%
Growth Rate Excl. Rates > 10% & < or = 1%	4.55%	5.92%	6.02%	5.83%	5.58%
Expected Div. Yield	5.94%	5.45%	5.41%	5.40%	5.55%
DCF Return on Equity	***10.49%***	***11.37%***	***11.43%***	***11.23%***	***11.13%***
Midpoint of Results					***10.96%***

EXHIBIT__(RAB-6)

FLORIDA POWER AND LIGHT COMPANY
Capital Asset Pricing Model Analysis
Comparison Group

20-Year Treasury Bond, Value Line Beta

Line No.		Value Line
1	Market Required Return Estimate	
2	Expected Dividend Yield	2.27%
3	Expected Growth	8.14%
4	Required Return	10.41%
5	Risk-free Rate of Return, 20-Year Treasury Bond	
6	Average of Last Six Months	3.94%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	6.47%
10	Comparison Group Beta	0.69
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 10 * Line 9)	4.44%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	8.38%

5-Year Treasury Bond, Value Line Beta

1	Market Required Return Estimate	
2	Expected Dividend Yield	2.27%
3	Expected Growth	8.14%
4	Required Return	10.41%
5	Risk-free Rate of Return, 5-Year Treasury Bond	
6	Average of Last Six Months	2.00%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.41%
10	Comparison Group Beta	0.69
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 9 * Line 10)	5.77%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	7.77%

FLORIDA POWER AND LIGHT COMPANY
Capital Asset Pricing Model Analysis
Comparison Group

Supporting Data for CAPM Analyses

20 Year Treasury Bond Data

	Avg. Yield
January-09	3.46%
February-09	3.83%
March-09	3.78%
April-09	3.84%
May-09	4.22%
June-09	4.51%
6 month average	3.94%

5 Year Treasury Bond Data

	Avg. Yield
January-09	1.60%
February-09	1.87%
March-09	1.82%
April-09	1.86%
May-09	2.13%
June-09	2.71%
6 month average	2.00%

Value Line Market Growth Rate Data:

Forecasted Data:	
Earnings	9.26%
Book Value	8.18%
Dividends	6.99%
Average	8.14%

Source: Value Line Investment Survey for Windows, June 10, 2009

Comparison Group Betas:

	Value Line
ALLETE, inc.	0.70
Alliant Energy	0.70
Consolidated Edison	0.65
DPL, Inc.	0.60
DTE Energy	0.75
Edison International	0.80
FPL Group, Inc.	0.75
IDACORP	0.70
NSTAR	0.65
Progress Energy	0.65
Public Service Enterprise Gp	0.80
Southern Company	0.55
Wisconsin Energy	0.65
Xcel Energy	0.65
	0.69

Sources: Value Line reports

EXHIBIT__(RAB-7)

FLORIDA POWER AND LIGHT COMPANY
Capital Asset Pricing Model Analysis
Historic Market Premium

	Geometric Mean	Arithmetic Mean
Long-Term Annual Return on Stocks	9.60%	11.17%
Long-Term Annual Income Return on Long-Term Government Bonds	5.20%	5.20%
Historical Market Risk Premium	4.40%	5.97%
Comparison Group Beta, Value Line	0.69	0.69
Beta * Market Premium	3.02%	4.09%
Current 20-Year Treasury Bond Yield	3.94%	3.94%
CAPM Cost of Equity, Value Line Beta	**6.96%**	**8.03%**

Source: *Ibbotson SBBI 2009 Valuation Yearbook,* Morningstar

EXHIBIT__(RAB-8)

SFHHA ADJUSTED CAPITAL STRUCTURE

Ratemaking Capital Structure	Amount	Adjustment 1 Adjustments	Adjusted Amounts	Pct.	Adjustment 2 Adjustments	Adjusted Amounts	Pct.
Long-Term Debt	$ 5,377,787	$ 845,038	$ 6,222,825	45.4%	$ (438,143)	$ 5,784,682	42.2%
Short-term Debt	$ 161,857		$ 161,857	1.2%	$ 438,143	$ 600,000	4.4%
Common Equity	$ 8,178,980	$ (845,038)	$ 7,333,942	53.5%		$ 7,333,942	53.5%
Totals	$ 13,718,624		$ 13,718,624	100.0%		$ 13,718,624	100.0%
Rating Agency Reporting Capital Structure							
Long-Term Debt	$ 5,377,787	$ 845,038	$ 6,222,825	42.4%	$ (438,143)	$ 5,784,682	39.4%
Adjustment for PPAs	$ 949,260		$ 949,260	6.5%		$ 949,260	6.5%
Short-term Debt	$ 161,857		$ 161,857	1.1%	$ 438,143	$ 600,000	4.1%
Common Equity	$ 8,178,980	$ (845,038)	$ 7,333,942	50.0%		$ 7,333,942	50.0%
Totals	$ 14,667,884		$ 14,667,884	100.0%		$ 14,667,884	100.0%

EXHIBIT__(RAB-9)

COMPARISON GROUP CAPITAL STRUCTURES

	Long-term Debt	Common Equity	Preferred Stock
ALLETE, Inc. (NYSE-ALE)	41.6%	58.4%	0.0%
Alliant Energy Corporation (NYSE-LNT)	36.3%	58.6%	5.1%
Consolidated Edison, Inc. (NYSE-ED)	48.8%	51.2%	0.0%
DPL Inc.(NYSE-DPL)	58.0%	41.1%	0.9%
DTE Energy Company (NYSE-DTE)	56.4%	43.6%	0.0%
Edison International (NYSE-EIX)	51.2%	44.5%	4.3%
FPL Group, Inc. (NYSE-FPL)	54.2%	45.8%	0.0%
IDACORP, Inc. (NYSE-IDA)	47.6%	52.4%	0.0%
NSTAR (NYSE-NST)	56.1%	42.8%	1.1%
Progress Energy Inc. (NYSE-PGN)	55.1%	44.4%	0.5%
Public Service Enterprise Group (NYSE-PEG)	50.5%	49.0%	0.5%
Southern Company (NYSE-SO)	53.9%	42.6%	3.5%
Wisconsin Energy Corporation (NYSE-WEC)	54.8%	44.8%	0.4%
Xcel Energy Inc. (NYSE-XEL)	52.2%	47.1%	0.7%
	51.2%	47.6%	1.2%

Source: Value Line Reports 2009

Exhibit ____(RAB-10)

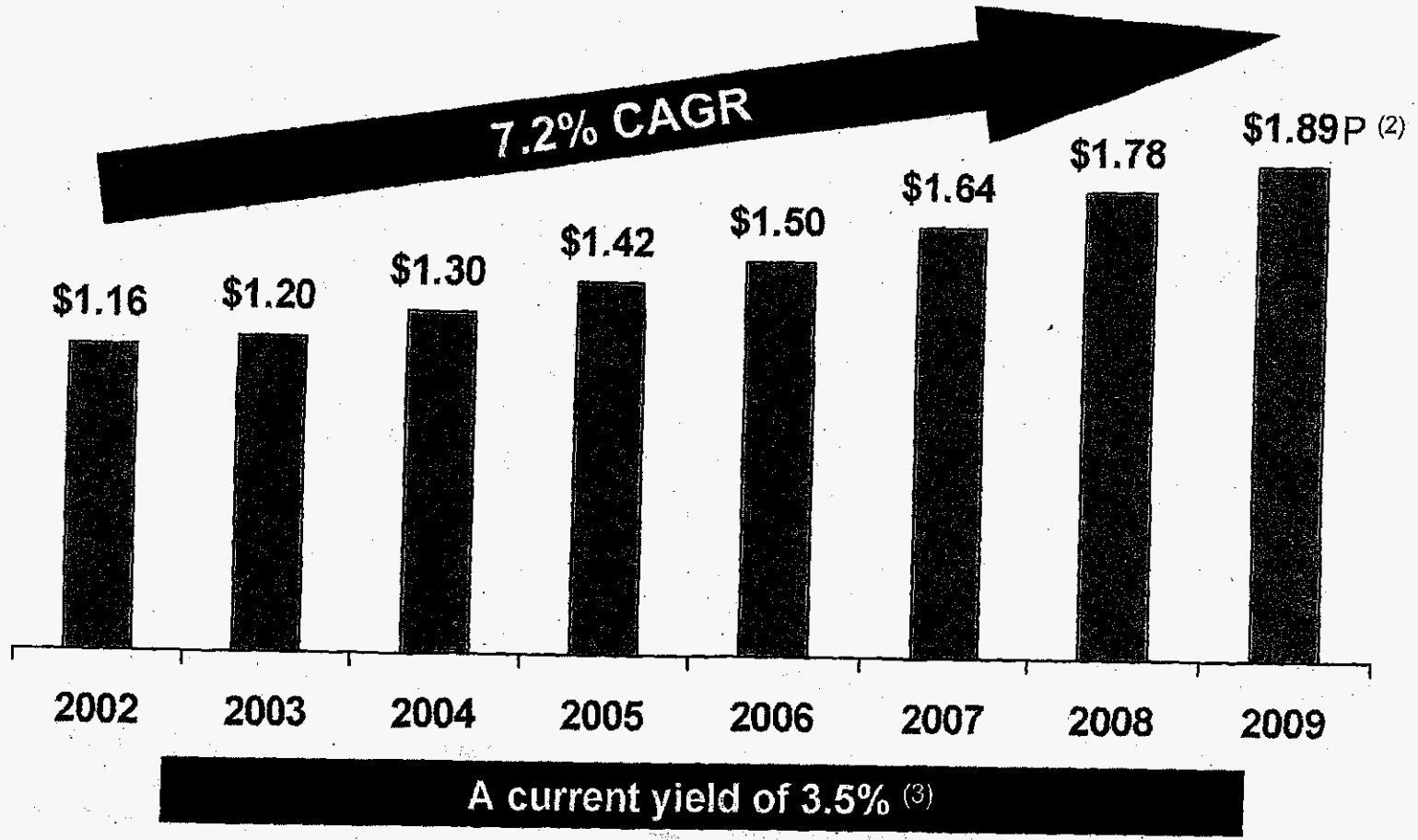
FPL GROUP

Welcome Shareholders

Lew Hay
Chairman and CEO
May 22, 2009

Dividends are another important element of the FPL Group value proposition

A Competitive Dividend[1]



1) Annualized split-adjusted quarterly dividend
2) Projected based upon dividend of $0.4725 paid on March 16, 2009. Dividend declarations are subject to the discretion of the board of directors of FPL Group.
3) Yield information calculated using May 18, 2009 closing market price

FPL GROUP.

EXHIBIT__(RAB-11)

AVERA UTILITY PROXY GROUP
DCF ANALYSIS WITH VALUE LINE DIVIDEND GROWTH FORECASTS

	Avera Div. Yield	Value Line Div. Growth	DCF ROE
ALLETE	5.70%	3.00%	8.70%
Alliant Energy	4.90%	7.00%	11.90%
Consolidated Edison	5.90%	1.00%	6.90%
Dominion Resources	5.00%	7.00%	12.00%
Duke Energy	6.30%	NMF	
FPL Group	3.90%	6.00%	9.90%
Integrys Energy	6.40%	1.50%	7.90%
MDU Resources	2.80%	N/A	
NSTAR	4.10%	5.50%	9.60%
OGE Energy	5.50%	3.00%	8.50%
PG&E Corp.	4.20%	7.50%	11.70%
Portland General	5.40%	7.00%	12.40%
Progress Energy	6.10%	1.00%	7.10%
SCANA Corp.	5.50%	3.00%	8.50%
Sempra Energy	3.70%	8.50%	12.20%
Southern Company	4.70%	4.00%	8.70%
Vectren Energy	5.10%	3.00%	8.10%
Wisconsin Energy	3.10%	13.50%	16.60%
Xcel Energy	5.20%	3.00%	8.20%
Averge	4.96%	4.97%	9.94%

Source: 2009 Value Line Reports

Exhibit ____(RAB-12)

FPL GROUP

NextEra Energy Resources
2009 Bank Meeting

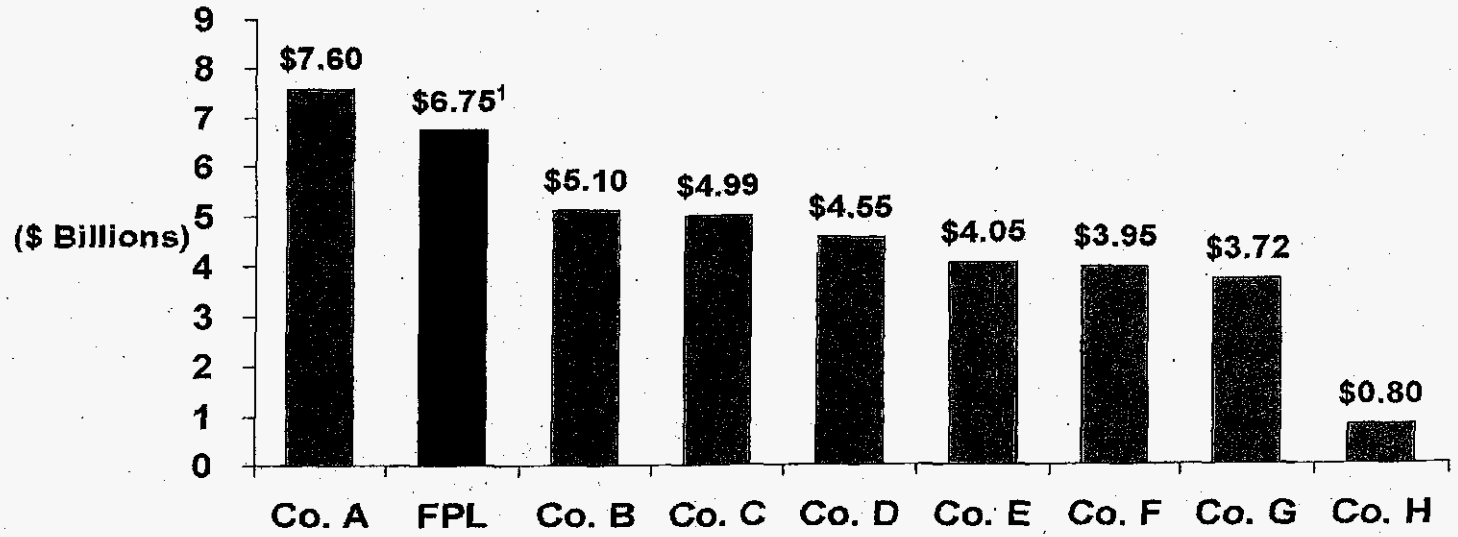
Armando Pimentel

Chief Financial Officer

May 5, 2009

FPL Group maintains a strong liquidity position

Summary of Corporate Credit Facilities



- Originated April 2007
- Initial five year term through April 2012
- Extended the majority of the term for an additional year to 2013
- One of the largest bank groups in the industry
- Supports letter of credit issuance, meets day to day liquidity needs and supports commercial paper programs

[1] Includes term loan facility of $250 million

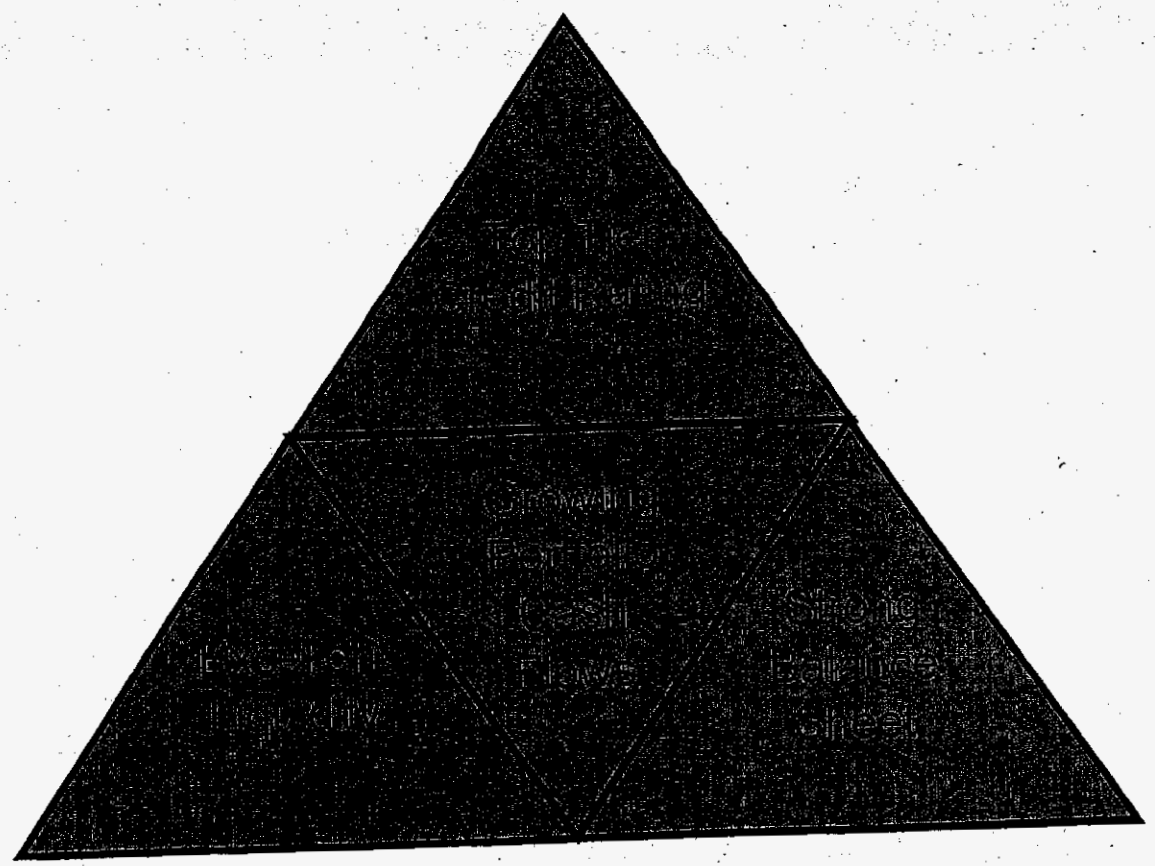
NextEra Energy Resources
2009 Bank Meeting

Kathy Beilhart

Assistant Treasurer

May 6, 2009

It starts with a strong foundation



Built upon our dedicated and talented employees

FPL GROUP.

Maintaining liquidity is vital in today's market

Summary of Corporate Credit Facilities

- **$6.75 billion in total**
  - $6.5 billion Corporate Credit Facility
    - $2.5 billon for FPL
    - $4.0 billion for FPL Group Capital
- **Originated April 2007**
- **Initial five year term through April 2012**
- **Extended the maturity for an additional year to 2013[1]**
- **One of the largest bank groups in the industry**
- **Supports letter of credit issuance, meets day to day liquidity needs and supports commercial paper programs**

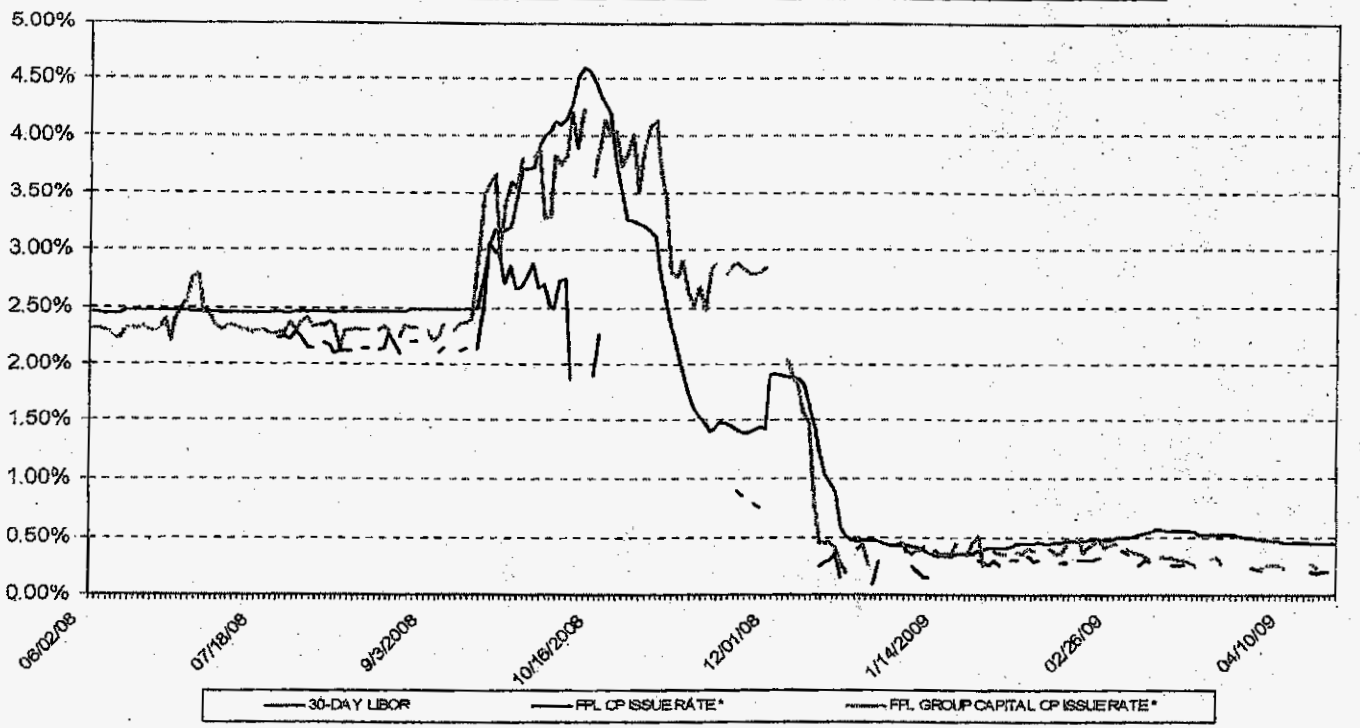
Thank you for your commitment to us

FPL GROUP

[1] $57 million of the $6.5 billion credit facility was not extended and matures in 2012.

Continued access to commercial paper markets at attractive rates

FPL & FPL Group Capital Commercial paper borrowing rates compared to 30 Day LIBOR



We have maintained access to the short term market at very attractive rates

*Breaks in line represent days with no commercial paper issuances

FPL GROUP

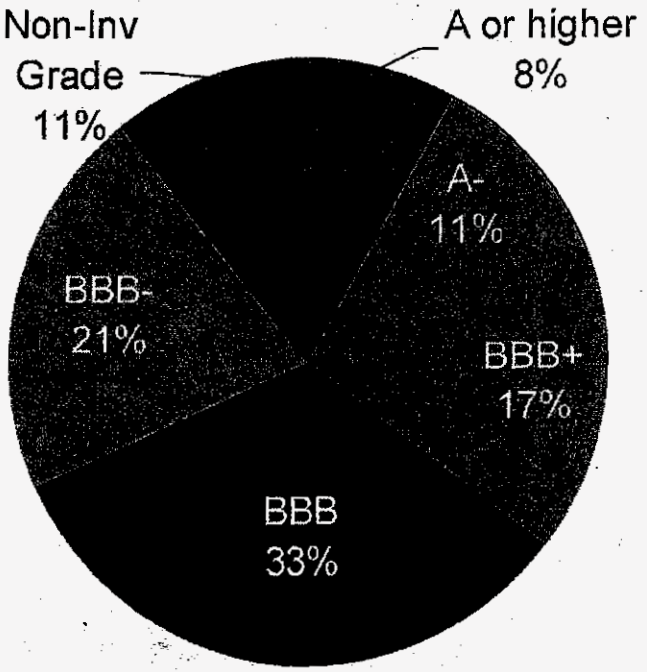
We have earned some of the highest credit ratings in the industry

Credit Ratings

FPL Group Ratings

	Fitch	Moody's	S&P
FPL Group			
Corporate credit rating	A	A2	A
Outlook	Stable	Stable	Stable
Florida Power & Light			
First mortgage bonds	AA-	Aa3	A
Commercial paper	F1	P-1	A-1
Outlook	Stable	Stable	Stable
FPL Group Capital			
Sr. unsecured debentures	A	A2	A-
Commercial paper	F1	P-1	A-1
Outlook	Stable	Stable	Stable

Utility Credit Ratings[1]



Only three companies in the power sector, including FPL Group, have an "A" or better issuer credit rating[2]

[1] EEI Credit Ratings - Financial Update Q4 2008
[2] Standard & Poor's Corporate Parent Issuer Credit Rating as of March 31, 2009.

FPL GROUP.

CERTIFICATE OF SERVICE
DOCKET NO. 080677-EI

I HEREBY CERTIFY that a copy of the **PREFILED TESTIMONY AND EXHIBITS OF THE SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION** has been furnished by electronic mail and U.S. mail to the following parties on this 16th day of July, 2009 to the following:

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