**ANDY GARDINER**
*President of the Senate*

**J.R. Kelly**
*Public Counsel*

# STATE OF FLORIDA
## OFFICE OF PUBLIC COUNSEL

C/O THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
1-800-342-0222

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

**STEVE CRISAFULLI**
*Speaker of the House of Representatives*

July 7, 2016

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

**Re: Docket No. 160021, 160061-EI, 160062-EI and 160088-EI**

Dear Ms. Stauffer:

Please find enclosed for filing in the above referenced docket the Direct Testimony and Exhibits of **Daniel J. Lawton**. This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing portal.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

Patricia A. Christensen
Associate Public Counsel

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| In re: Petition for base rate increase by Florida Power & Light Company | Docket No: 160021-EI |
| In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company | Docket No: 160061-EI |
| In re: 2016 depreciation and dismantlement study by Florida Power & Light Company | Docket No: 160062-EI |
| In re: Petition for limited proceeding to modify and continue incentive mechanism by Florida Power & Light Company | Docket No: 160088-EI<br>Filed: July 7, 2016 |

# DIRECT
# TESTIMONY AND EXHIBITS
# OF
# DANIEL J. LAWTON

**ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA**

## TABLE OF CONTENTS

SECTION I INTRODUCTION/BACKGROUND/SUMMARY ........................................ 1

SECTION II SURPLUS EQUITY RETURN INFLATOR REQUEST ........................................ 3

SECTION III FINANCIAL INTEGRITY METRICS........................................ ..24

## EXHIBITS

SCHEDULE (DJL-1), Resume of Daniel J. Lawton ........................................EXHIBIT (DJL-1)

SCHEDULE (DJL-2), Surplus Equity Return Impact Test Year 2017 ........EXHIBIT (DJL-2)

SCHEDULE (DJL-3), Surplus Equity Return Impact Test Year 2018 .........EXHIBIT (DJL-3)

SCHEDULE (DJL-4), Surplus Equity Return Impact Test Year 2019 .........EXHIBIT (DJL-4)

SCHEDULE (DJL-5), Financial Metric Evaluation ........................................EXHIBIT (DJL-5)

**DIRECT TESTIMONY**

**Of**

**Daniel J. Lawton**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 160021-EI, et al (consolidated)

## I. INTRODUCTION/BACKGROUND/SUMMARY

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Daniel J. Lawton. My business address is 12600 Hill Country Boulevard, Suite R-275 Austin, Texas 78738.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.**

A. I have been working in the utility consulting business as an economist since 1983. Consulting engagements have included electric utility load and revenue forecasting, cost of capital analyses, financial analyses, revenue requirements/cost of service reviews, regulatory policy issues, and rate design and cost allocation analyses in litigated rate proceedings before federal, state and local regulatory authorities. I have worked with municipal utilities developing electric rate cost of service studies for reviewing and setting rates. In addition, I have a law practice based in Austin, Texas. My main areas of legal practice include administrative law representing municipalities in electric and gas rate proceedings and other litigation and contract matters. I have included a brief description of my relevant educational background and professional work experience in Schedule (DJL-1).

**Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE PROCEEDINGS?**

A. Yes. A list of cases in which I previously filed testimony is included in Schedule (DJL-1).

**Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?**

A. I am testifying on behalf of the Florida Office of Public Counsel ("OPC").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to address two issues in this case. First, I address Florida Power & Light's ("FPL's" or "Company's") requested surplus equity return inflator in excess of the already inflated market cost of equity requested by FPL. In this case, as part of the proposed four-year rate plan, the Company requests a return on shareholder equity of 11.00%[1] and then further requests an additional upward adjustment or inflator of 50 basis points for an 11.50% total equity return for rate-setting.[2] OPC witness Dr. Woolridge addresses FPL's 11.00% shareholder return on equity ("ROE") request in light of current capital market costs recommended by FPL witness Hevert, while I address the incremental 50 basis point surplus return on equity request recommended by FPL witness Dewhurst.

---

[1] See Direct Testimony Moray Dewhurst at p. 5 lines 10-13, citing witness Hevert's ROE recommendation.
[2] See Direct Testimony Moray Dewhurst at p. 5 lines 13-16.

The second issue I address is FPL's cash flow and financial integrity metrics. Specifically, I address the impact of the OPC's recommended return and revenue requirement recommendations on FPL's financial metrics and financial integrity.

## II. SURPLUS EQUITY RETURN INFLATOR REQUEST

**Q. WHAT ISSUE DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

A. In this section of my testimony, I address the Company's proposed surplus equity return inflator request. As discussed below, the Company has requested that its equity return or shareholder profit be inflated from the requested 11.00% to 11.50%. Under FPL's proposal, the 50 basis point surplus return would be added to shareholder profit, and paid by customers.

**Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED RATE INCREASE PLAN?**

A. The Company has proposed a series of three base rate increases to be implemented over a proposed four-year rate plan covering the period January 2017 through December 31, 2020 with no other base rate increase requests until 2021.[3] All three of the proposed rate increases in the four-year rate plan are based on the requested equity return of 11.50%, which includes the 50 basis point surplus ROE inflator.[4] It is important to note that FPL's current authorized ROE is 10.50% based on the Commission's approval of the 2012 Rate Settlement.[5]

---

[3] Direct Testimony Eric Silagy at p. 20 lines 6-11.
[4] Direct Testimony Eric Silagy at p. 23 lines 19-23.
[5] Direct Testimony Eric Silagy at p, 23, lines 7-8.

The Company's first increase, or 2017 base rate increase proposal, requests an $866 million annual increase to be effective in January 2017.[6] The claimed cost driver for the 2017 base rate increase is "... driven in large part by the significant investment during 2014-2017 ..."[7] The requested ROE with surplus inflator would be 11.50% and the associated revenue and income tax factors, when applied to the Company's requested investment level, drives the size of the base rate increase.

The second base rate increase request under the Company's four-year rate plan is the 2018 Subsequent Year Adjustment.[8] This subsequent year request assumes that the Commission will approve the 11.50% inflated ROE requested by FPL. The Company asserts that even if the entire 2017 request is granted the FPL authorized equity return will fall below the bottom of the proposed ROE range in calendar year 2018. Thus, rather than file for another base rate increase case in 2018, the Company is requesting a Subsequent Year Adjustment to increase rates effective January 2018 by approximately $262 million annually.[9] The Company claims the primary cost drivers for the $262 million Subsequent Year Adjustment 2018 rate increase are the continued investments in system infrastructure to address system growth and provide long-term economic and/or reliability benefits to customers.[10] A review of the FPL filed Schedule A-1 for the 2017 base rate case and the 2018 Subsequent Year Adjustment shows that claimed rate base investment levels increase from $32,536,116,000 to $33,870,897,000

[6] Direct Testimony Eric Silagy at p, 26, line 9.
[7] Direct Testimony Eric Silagy at p, 21, lines 13-14.
[8] Direct Testimony Eric Silagy at p, 24, line 22
[9] Direct Testimony Eric Silagy at p, 26, line 10.
[10] Direct Testimony Eric Silagy at p, 25, lines 1-3.

or by $1,334,781,000. Thus, the Subsequent Year Adjustment $262 million rate increase request is driven in large part by the requested 11.50% ROE which includes the surplus inflator.

The third rate increase addresses the cost of FPL's Okeechobee facility which is expected to be implemented on or about June 2019 when the Okeechobee facility begins commercial operation.[11] The Company estimates a rate base investment increase of $1.063 billion for the Okeechobee facility 2019 adjustment.[12] The resulting annualized rate increase for the 2019 Okeechobee facility adjustment is $209.024 million.[13] This additional increase in investment is applied to the requested 11.0% equity return plus the requested 50 basis point surplus equity return inflator requested by FPL. Again, this Okeechobee increase is to be implemented on or about June 1, 2019, more than two and one half years after the Commission hears FPL's current rate case. No further rate increases are proposed in 2020.

**Q. PLEASE SUMMARIZE THE PROPOSED RATE INCREASES EXPECTED OVER FPL'S PROPOSED FOUR-YEAR RATE PLAN?**

A. If approved by the Commission, the Company's proposed four-year rate plan will result in an $866.354 million annual increase in 2017. This will be followed by a $262.292 million annual increase in 2018, followed by an additional $209.024 million annual increase beginning in June 2019. Thus, under the Company's rate plan, customer rates

[11] Direct Testimony Eric Silagy at p, 25, lines 6-8. Also see Schedule A-1 Okeechobee Limited Scope 2019.
[12] See Schedule A-1 Okeechobee Limited Scope 2019.
[13] See Schedule A-1 Okeechobee Limited Scope 2019.

will increase by about $1,337.670 million annually between January 1, 2017 and June 2019.[14]

**Q. WHAT IS THE FINANCIAL IMPACT ON CUSTOMERS OF THE 50 BASIS POINT SURPLUS ROE INFLATOR ADDED BY FPL EACH YEAR AND OVER THE FOUR YEAR PROPOSED FPL RATE PLAN?**

A. If approved by the Commission, the Company's proposed 50 basis point surplus ROE inflator proposal would increase customer rates approximately $502 million over the four-year life 2017 through 2020 of the proposed rate plan. I have summarized in Schedules (DJL-2) through (DJL-4) the annual impacts of the 50 basis point surplus ROE inflator proposed by FPL. The total impacts of FPL's requested surplus ROE over the life of the four-year rate plan are summarized in Table 1 below.

---

[14] FPL has filed three post-petition Notices of Identified Adjustments that contain relatively minor revenue requirement net reductions to the overall revenue request. I have not attempted to incorporate these adjustments into the original petition figures.

**TABLE 1**
**ANNUAL IMPACT OF FPL'S PROPOSED 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR ON CUSTOMER REVENUE REQUIREMENTS**

| YEAR | INCREMENTAL IMPACT | CUMMULATIVE IMPACT OF ALL PLAN INCREASES |
|---|---|---|
| 2017 | $119.718 MILLION[15] | $119.7 MILLION |
| 2018 | $4.929 MILLION[16] | $124.7 MILLION |
| 2019 | $3.053 MILLION[17] | $127.7 MILLION |
| 2020 | $2.181 MILLION[18] | $129.9 MILLION |
| TOTAL | | **$501.98 MILLION** |

**Q. PLEASE DESCRIBE HOW YOU ESTIMATED THE ANNUAL IMPACT ON REVENUE REQUIREMENTS OF THE 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR?**

A. To calculate the annual revenue requirement impact of FPL's proposed 50 basis point surplus equity return inflator on annual revenue requirements, I recalculated the overall cost of capital for each year of the rate plan employing a cost of equity capital of 11.0% which excludes the requested 50 basis point surplus equity return inflator. The point of this analysis is to isolate and identify the substantial impact that the 50 basis point surplus equity return inflator will have on customer rates. Dr. Woolridge, OPC's cost of capital witness, will be reviewing the FPL requested 11.0% equity return presented by FPL witness Hevert. OPC witness Dr. Woolridge will recommend the appropriate

[15] The calculation details are shown in Schedule (DJL-2)
[16] The calculation details are shown in Schedule (DJL-3)
[17] The total incremental increase estimated for 2019 is $5.234 million which is reduced for an expected June 1, 2019 start date or ((7/12)*$5.234 mm)=$3.053 million. The revenue requirement impact of removing the 50 basis point surplus ROE inflator calculation details are shown in Schedule (DJL-4)
[18] The 2020 amount is adjusted upwards for the incremental change for five months of January through May 31, 2020 for the incremental 2019 Okeechobee increase.

equity return without consideration of a surplus equity return inflator that the Commission should authorize in this proceeding.

As shown in Schedule (DJL-2), the first step in the analysis is to duplicate the FPL revenue requirement request. This is presented on lines 1 through 9 on the left half of the schedule for the year 2017. The resulting revenue requirement of $866 million for 2017 employs the capital structure and cost rates requested by FPL (including the 50 basis point equity return inflator) as presented on lines 10 through 18.

On the right side of Schedule (DJL-2), lines 1 through 9 show the result or impact of removing the 50 basis point equity return inflator from the Company's cost of capital request. The impact is substantial. Removing the 50 basis point surplus equity return inflator results in reducing the $866 million 2017 rate increase request by about $120 million as shown on line 8 of Schedule (DJL-2).

A similar type of analysis was performed on FPL's 2018 and 2019 rate requests as shown on Schedules (DJL-3) and (DJL-4) respectively. These 2018 and 2019 analyses evaluate the impact of removing FPL's proposed 50 basis points surplus equity return inflator from the requested 11.50% ROE as applied to the incremental increase in rate base investment for each year. The annualized impact of removing the 50 basis point surplus equity return inflator from the 2018 Subsequent Year request is about $4.9 million. The annualized impact of removing the 50 basis point surplus equity return inflator from the 2019 Okeechobee revenue requirement is about $5.2 million. Given that the Okeechobee facility is expected to be in service June 2019, the impact of removing FPL's proposed surplus equity return inflator for the remaining seven months of 2019 is about $3.03 million.[19] However, the full annual impact of FPL's proposed surplus equity return inflator for the Okeechobee facility rate adjustment is approximately $5.2 million and will occur in 2020, the last year of the four-year rate plan.

If approved by the Commission, the 50 basis point surplus equity return inflator will allow FPL to extract an extra $502 million from customers over the four-year rate plan as proposed by the Company.

**Q. HOW DOES FPL PROPOSE TO IMPLEMENT THE SURPLUS EQUITY RETURN INFLATOR?**

A. If approved by the Commission, FPL's proposed surplus equity return inflator would be added to the authorized equity return and become part of the base rates. The surplus equity return inflator would remain part of base rate tariffs until modified by the Commission in some future base rate proceeding. Again, the impact of the surplus equity return 50 basis point inflator is shown year by year for the proposed four-year rate plan in Schedules (DJL-2, 3, and 4), as well as Table 1 above.

Thus, if the requested 50 basis point surplus equity return inflator proposal by FPL is approved, consumer base rates will be on average approximately $125 million higher annually and will cost customers an extra $502 million over the four-year rate plan.

[19] Given a June 2019 commercial operation date the rate impact is for seven months (7/12)*$5.2 million= $3.03 million.

Consumer base rates will remain higher until the surplus equity return inflator is removed. Consumers will pay these higher base rates whether FPL performs efficiently or inefficiently. The surplus equity return inflator proposal is not symmetric. For example, poor FPL performance in the future when these rates are in effect does not result in a lower equity return. Moreover, poor performance does not impact the level of the surplus equity return inflator and consumer revenue requirements once included in base rates.

The bottom line is that, based on the evidence provided in its filing, FPL's proposed surplus equity return inflator is quite expensive in that it would raise consumer rates on average approximately $125 million annually, and would cost customers an extra $502 million over the four-year period it would be in effect. Further, the surplus equity return inflator proposal would continue to inflate rates even if FPL's future performance is poor.

**Q. WHAT IS FPL'S CLAIMED REASON FOR REQUESTING THE SURPLUS EQUITY RETURN INFLATOR?**

A. FPL's rationale and specific reasons for the surplus equity return inflator request is outlined and described in the direct testimony of FPL witness Dewhurst. Mr. Dewhurst states:

> "FPL is asking the Commission to increase the authorized ROE established in this case by 50 bps, ***both to reflect what FPL has already accomplished*** **in its efforts to deliver superior value to its customers** ***and as an incentive*** **to promote further efforts to improve the customer value proposition.**"[20] (emphasis added)

[20] Direct Testimony Mr. Dewhurst at p. 27, lines 7-10.

Thus, FPL provides two general reasons as the basis for the surplus equity return inflator in this proceeding. First, FPL claims that efforts in historical (past) performance have led to the delivery of superior value to customers and should be rewarded. Second, FPL claims that the granting of a surplus equity return inflator will be an incentive to promote additional and further efforts to improve customer value.

**Q. DO YOU AGREE WITH FPL'S REASONING FOR CLAIMING THE NEED OR JUSTIFICATION FOR AN EQUITY RETURN INFLATOR FOR PAST ACCOMPLISHMENTS IN THIS CASE?**

A. No, I do not. I will address below the seven specific categories of service, accomplishments, and related efforts that FPL claims are worthy of the surplus equity return inflator. However, even accepting as accurate, for the sake of argument, FPL's claim that its quality of service is exceptional, this does not justify a surplus equity return inflator for past service and efforts. First, customers paid historical Commission authorized tariff rates for electricity and electric service, and the Company was authorized to, and did, earn a return through those rates. There are no terms and conditions in the historical or existing tariffs that historical performance, or exceptional performance, by the Company can or will lead to higher profit levels in the future. However, FPL is now requesting a retroactive review of historical performance to justify higher future profits for shareholders. Such retroactive ratemaking is not appropriate. It would be equally impermissible for consumers to review FPL's past excess profit levels (if such excesses existed) and set future rates to earn lower shareholder profits in an effort to recapture past excesses.[21]

It should also be noted that the current base rates were approved by the Commission as part of an overall non-unanimous settlement of the last FPL rate case. None of the settlement terms or any provisions of the Commission's final order approving rates consistent with the non-unanimous settlement set forth any provisions suggesting historical FPL performance would form the basis of added shareholder profits in future rate proceedings. Instead, rates and tariffs were established for consumers to pay for electric service, and FPL was provided an opportunity to earn a midpoint profit level of 10.50% on shareholder equity. FPL's management performance, like any other regulated utility, is always expected to be prudent in (1) seeking the lowest reasonable costs to consumers, while maintaining the highest reasonable level of reliability; (2) maintaining the lowest reasonable level of emissions from power plants; (3) maintaining the highest reasonable level of consumer service; (4) maintaining the highest level of efficiency and reliability in generating plants; and (5) seeking the lowest reasonable non-fuel O&M costs for consumers. If FPL's management has adequately satisfied those performance expectations on an historical basis, that was presumed because such prudent management behavior was certainly an expectation of the regulatory bargain. However, prudent management and historical success in keeping costs down, improving generation efficiency, and electric reliability are

[21] There is a limited exception, allowing the Commission to look back and penalize a company being guilty of mismanagement due to various instances of misconduct by an executive management official. *See Gulf Power Co. v Wilson*, 597 So. 2d 270, 272 (Fla. 1992). A penalty involving managerial misconduct is not retroactive ratemaking.

reasonable consumer expectations and do not form the basis for additional future profits.

In terms of FPL's second point, that granting the gratuitous equity return performance "bonus" or inflator will be an incentive to promote additional and further efforts to improve customer value, I do not agree such incentives are necessary.

The Company takes the position that positive economic incentives are necessary to induce pursuit of superior customer value.[22] In my opinion, monopolies such as FPL, when granted the monopoly franchise, have a duty to provide superior performance in exchange for cost recovery plus an opportunity to earn a fair and reasonable return or profit commensurate with profits earned from similar risk ventures. Enhanced customer value includes providing service at the lowest rates consistent with good service. In other words, efforts to keep rates as low as reasonably possible are part and parcel of FPL's obligation to serve.

Further, FPL enjoys advantages that competitive enterprises must envy— the absence of competition for market share; a suite of cost recovery mechanisms that greatly reduce the risks that costs will not be recovered; the ability to seek changes in prices when necessary to have an opportunity to earn a fair return, just to name a few. In short, FPL enjoys a privileged position. No additional surplus equity inflator is necessary.

[22] Direct Testimony, Dewhurst at p. 31, lines16-18

**Q. HAS THIS COMMISSION PREVIOUSLY ADJUSTED A COMPANY'S ROE?**

A. Yes, as noted by Mr. Dewhurst, this Commission did award an upward adjustment of 25 basis points to Gulf Power Company's ("Gulf's") equity return.[23] In that Gulf proceeding, this Commission stated: "We find that Gulf's past performance has been superior and we expect that level of performance to continue into the future."[24] However when discussing whether to create an incentive mechanism to promote reliability of service, the Commission found that factors outside of Gulf's control should be considered, stating: ". . Gulf frequently points to its low rates as a benefit to its customers and a factor that should be considered in granting rewards. Gulf does not mention that its geographic location contributes to its low rates."[25] Similarly, FPL touts the fact that it has the lowest rates in the State while failing to mention that its lower rates are a direct result of historically low natural gas prices more than superior managerial performance.

**Q. IN ADDING 25 BASIS POINTS TO GULF'S ROE, DID THE COMMISSION SHIFT THE ROE RANGE BY 25 BASIS POINTS?**

A. No. In the Gulf case, the Commission set the equity return at 12.0% to reflect the determination of a 25 basis point adjustment for performance, and used 11.75% at the mid-point ROE, and established 10.75% to 12.75% as the ROE range.[26] In other words,

---

[23] *Id.* at p. 28, lines 15-19. Also see Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI, p. 35 (issued June 10, 2002)

[24] See Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI, p. 35 (issued June 10, 2002) at p. 35.

[25] *Id.* at p. 34 (in declining to adopt an incentive mechanism, the Commission stated that an incentive mechanism should include rewards and penalties, something which FPL is not proposing in this case)

[26] *Id.* at p. 36.

the Commission increased Gulf's ROE for rate-setting purposes, but did not shift the ROE range upwards as well.

**Q. PLEASE ADDRESS FPL'S CLAIMED BASIS SUPPORTING THE PROPOSITION THAT FPL PROVIDES SUPERIOR CUSTOMER VALUE.**

A. At the outset, I do not dispute that FPL does a good job in terms of service quality and reliability. As stated earlier, FPL lists seven factors to support the claim of FPL's "superior service."[27] These seven factors that FPL claims exemplifies superior service are: low bills, high reliability, low emissions, high customer satisfaction, high fossil fleet reliability, low heat rates, and low non-fuel O&M.[28] As I discuss below, in at least one important instance, FPL's claims of superior service and customer value fall somewhat short of FPL's assertion. In some cases, FPL's characterization of superior service is not complete, or if positive results and increased service quality did occur, it was the result of investments and expenditures paid for by customers, thus no surplus equity return inflator is justified.

**Q. PLEASE ADDRESS FPL'S PERFORMANCE RELATED TO LOW BILLS.**

A. FPL claims that customer bills are lower today than they were 10 years ago.[29] FPL is referring to the total bill including fuel costs. Fuel costs are based on the market cost over which FPL has no control. However, FPL does generally have the opportunity to control its base rate costs. In terms of base rates, an average FPL residential customer

---

[27] Direct Testimony, Dewhurst at p. 27 lines 12-23 to p. 28, lines 1-12.
[28] Direct Testimony, Dewhurst at p. 27 lines 12-23 to p. 28, lines 1-12.
[29] Direct Testimony, Dewhurst at p. 27, lines 14-16.

using 1,000 kWh a month in 2006 had a base rate bill of $38.12.[30] Today, before the rate increase request, the same base rate bill is $54.86,[31] which is 44% higher than the 2006 bill. Clearly, base rates have increased, and they have increased significantly. While overall bills may be lower today relative to 2006, that is in large measure **because the market cost of natural gas has declined dramatically** from earlier periods. FPL does not have any control or influence over the market cost of gas and certainly FPL should not receive $502 million in equity return bonuses because the market price of natural gas has declined. Likewise, one would not look to penalize FPL if the price of natural gas increases in the future.

**Q. PLEASE ADDRESS FPL'S CLAIMS OF SUPERIOR PERFORMANCE AND CUSTOMER VALUE ASSOCIATED WITH THE COMPANY'S RELIABILITY METRICS.**

A. FPL claims to have the highest reliability as measured by the System Average Interruption Duration Index (SAIDI) in Florida and a 44% better SAIDI measure than the national average.[32] It should be noted that FPL witness Miranda states: "[h]istorically, FPL's capital expenditures and O&M expenses result from five major cost drivers: (1) FPSC storm hardening; (2) growth; (3) reliability/grid modernization; (4) grid servicing/support; and (5) complying with other regulatory agency requirements."[33] Mr. Miranda goes on to point out the expected 2014-18 capital

[30] FPL Residential Service Tariff, January 1, 2006.
[31] FPL Residential Service Tariff, July 21, 2015.
[32] *Id.* at p. 27 lines 17-20.
[33] FPL witness Miranda Direct Testimony at p. 30 lines 20-23.

expenditures for "Reliability/Grid Modernization" is $2.21 billion.[34] Moreover, because system reliability also improves as a result of FPL's storm hardening efforts, Mr. Miranda states; "... as previously mentioned, these initiatives also provide significant day-to-day reliability benefits."[35] One reasonably expects that reliability would improve (not deteriorate) when a utility invests significantly in grid modernization and storm hardening efforts.

While reliability is improving and may be at or near the top of the industry, customers have been and will continue paying for these improvements; therefore, there is no basis or policy reason to charge customers a second time to provide shareholders an inflator on the equity return for improved reliability. Improved reliability simply means customers have received what they paid for—a reliable transmission and distribution grid.

**Q. PLEASE ADDRESS FPL'S CLAIMED BASIS SUPPORTING A SURPLUS EQUITY RETURN INFLATOR FOR PROVIDING SUPERIOR CUSTOMER VALUE RELATED TO LOW EMISSIONS, HIGH FOSSIL FUEL FLEET RELIABILITY, LOW HEAT RATES, AND LOW NON-FUEL O&M.**

[34] FPL witness Miranda Direct Testimony at p. 31, lines 17-23

[35] FPL witness Miranda Direct Testimony at p. 12, lines 2-3.

A. Much of the underlying supporting testimony on these measures of customer value can be found in the direct testimony of FPL witness Kennedy. Ms. Kennedy summarizes this claim at page 6, lines 4-19, where she states:

> Since 1990, as FPL transformed its fossil generating fleet, the Company substantially improved its operating performance across key indicators integral to generating electricity for its customers. The cost reductions and performance improvements achieved by FPL's fossil generating fleet provide substantial benefits to the Company's customers.

Ms. Kennedy goes on to state:

> The doubling of FPL's generating capacity over the last two decades to serve its customers' electricity needs as well as the transformation of the Company's generating technology to cleaner and highly efficient combined cycle units ... are both key drivers of FPL's fossil fleet non-fuel O&M and plant maintenance/reliability CAPEX. ... FPL's continued CAPEX and non-fuel O&M are essential to providing these performance benefits.[36]

The claimed customer benefits related to low emissions, high fossil fuel fleet reliability, low heat rates, and low non-fuel O&M are the result of FPL's transformation of its generating fleet to more efficient gas units and continued on-going CAPEX (capital expenditures).

**Q. DO YOU AGREE THAT A PERFORMANCE EQUITY RETURN PREMIUM SHOULD BE APPROVED FOR FPL'S PERFORMANCE RELATED TO LOW EMISSIONS, HIGH FOSSIL FUEL FLEET RELIABILITY, LOW HEAT RATES, AND LOW NON-FUEL O&M?**

A. No. FPL readily acknowledges that the performance metrics related to low emissions, high fossil fuel fleet reliability, low heat rates, and low non-fuel O&M are the result of FPL's transformation of its generating fleet to more efficient gas units and continued

[36] Direct Testimony FPL witness Kennedy at p. 7 lines 4-14.

on-going CAPEX. Again, one reasonably expects these performance metrics to improve (not deteriorate) when a utility invests billions of dollars to transform its generating fleet. Over the past decade, residential customer base rates have increased 44% and customers have paid and will continue to pay for these new plant investments (along with a return on this plant) through rate increases to support the fossil fuel plant transformation, as well as the continued on-going CAPEX. There is no question that the fossil fleet investments have provided benefits in lower emissions, improved heat rates, and reliability for customers; however, this does not justify a $502 million surplus equity return inflator over the duration of FPL's rate plan proposal. FPL is recovering their full investment and the shareholders are recovering an equity return. The success of these fossil fuel investments should not require additional payments to shareholders. Had the fossil plant transformation not produced the promised results or had market gas prices increased substantially, without a finding of imprudent management in FPL's investment decisions, I find it difficult to imagine a scenario where customers could recover past customer payments from FPL for failed results.

**Q. IN YOUR OPINION, ARE DIFFERENCES IN RATE LEVELS ATTRIBUTABLE TO FACTORS OTHER THAN MANAGEMENT PERFORMANCE?**

A. Yes. For example, the costs that a utility incurs to provide service are influenced by the geographical characteristics of its service area and the density of development in that service area, as well as customer mix, vintage of equipment, etc. A utility that has a service area in which there are twice as many customers per square mile as an adjacent utility will incur lower unit costs than its neighbor, and its rates will reflect its lower cost structure. Yet, in this example the reason for lower costs and lower rates has little to do with management performance.

**Q. IN YOUR OPINION, DOES FPL REQUIRE A SURPLUS ROE INFLATOR IN ORDER TO COMPLY WITH ITS OBLIGATIONS TO SERVE CUSTOMERS?**

A. No. The proposal FPL has made in this case is more akin to an excess profit booster mechanism than a performance reward mechanism. In my opinion, this proposal should be denied.

**Q. PLEASE ADDRESS THE ISSUE OF WHETHER A PERFORMANCE INCENTIVE IS APPROPRIATE GIVEN THAT UTILITIES HAVE AN OBLIGATION TO SERVE.**

A. The Company takes the position that positive economic incentives are necessary to "actively encourage" and mimic economic incentives of freely competitive markets "to improve customer value."[37] In my opinion, monopolies such as FPL, when granted the monopoly franchise, have a duty to provide superior performance in exchange for cost recovery plus an opportunity to earn a fair return or profit commensurate with profits earned from similar risk ventures. "Superior performance" includes providing service at the lowest rates consistent with good service. In other words, efforts to keep rates as low as possible are part and parcel of FPL's obligation to serve. It is basic that an *obligation* does not require an incentive or a bonus to fulfill.

---

[37] Direct Testimony, Dewhurst at p. 31, lines 16-18

As previously stated, FPL enjoys advantages that competitive enterprises must envy—absence of competition for market share; cost recovery clauses that greatly reduce the risk that costs will not be recovered; the ability to seek changes in prices when necessary to have an opportunity to earn a fair return, just to name a few. In short, FPL enjoys a privileged position. No additional bonus or reward is necessary.

**Q. ARE YOU AWARE OF ANY OTHER ISSUES THE COMMISSION SHOULD CONSIDER WHEN DECIDING WHETHER TO SUPPLEMENT FPL'S ROE WITH A SURPLUS ROE INFLATOR?**

A. FPL claims to have delivered superior value to its customers as the basis for seeking this surplus ROE inflator.[38] However, on June 20, 2016, FPL entered into a consent order with the Florida Department of Environmental Protection ("FDEP") related to a Notice of Violation and separate Warning Letter for adverse impacts associated with the operation of the cooling canal system for its two nuclear units at the Turkey Point Power Plant complex.[39] The consent order found that cooling canal system was "the major contributing cause to the continuing westward movement of the saline water interface, and that the discharge of the hypersaline water contributes to saltwater intrusion."[40] The consent order "requires FPL to implement a range of comprehensive solutions to improve the operation of the cooling canals, halt and retract the hypersaline plume caused by the canals, update and expand its monitoring network, perform

[38] Direct Testimony, Dewhurst p. 27, line 9.

[39] https://depnewsroom.wordpress.com/hot-topics/florida-power-light-turkey-point-facility/

[40] FDEP Consent Order OGC No. 16-0241 at p. 5 available at https://depnewsroom.wordpress.com/hot-topics/florida-power-light-turkey-point-facility/

restoration projects as well as monitor for and prevent impacts to Biscayne Bay."[41] And prior to the FDEP consent order, FPL entered into a consent agreement with Miami-Dade County to resolve a separate Notice of Violation issued by the county related to the hypersaline water leaking from the cooling canal system.[42]

The cleanup of FPL's permit violation and compliance with the consent order could cost untold millions of dollars to resolve. According to FPL spokesman Peter Robbins, cleanup costs will cost about $50 million in the first year, and FPL expects the customers to pay for their permit violation.[43] Asking customers to pay millions and millions of dollars to fix FPL's permit violation does not equate with delivering superior value to its customers. Shareholders should bear the burden of the cleanup, not the customers. This is yet another reason FPL should not be entitled to a surplus ROE inflator which will cost customers approximately $502 million over a four-year period, not to mention the untold millions for fixing FPL's permit violation.

**Q. ARE YOU OPINING THAT FPL IS ENTITLED TO RECOVER THE CLEANUP COSTS FROM THE CUSTOMERS?**

A. No. That is a separate legal issue, the prudence of which will be resolved in another docket. I only mentioned it here as an example to rebut FPL's claims that it has delivered superior customer value and needs additional incentives to continue doing so.

---

[41] https://depnewsroom.wordpress.com/hot-topics/florida-power-light-turkey-point-facility/

[42] Consent Order at p. 5 available at https://depnewsroom.wordpress.com/hot-topics/florida-power-light-turkey-point-facility/

[43] "Florida gives FPL 10 years to clean up cooling canals," by Jenny Staletovich, published by the Miami Herald on June 21, 2016, available at http://www.miamiherald.com/news/local/environment/article85104132.html

**Q. IS THE REQUESTED 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR NECESSARY FOR THE COMPANY TO HAVE AN OPPORTUNITY TO EARN A REASONABLE RETURN OR MAINTAIN FINANCIAL INTEGRITY?**

A. No. The Company's own evidence and request for an 11.00% equity return establishes that the additional 50 basis point surplus equity return inflator is unnecessary for the shareholders' return nor is the 50 basis point surplus necessary for the financial integrity of the Company. I should note that OPC witness Dr. Woolridge addresses the Company's 11.00% equity return request and is proposing a lower 8.75% return on equity for this case. Implicit in the Commission's establishment of an authorized return on equity is the concept that the authorized return will provide the utility with the opportunity to earn a fair return consistent with risks faced by the enterprise, satisfying the standards set forth in *Hope* and *Bluefield*.[44] Given that the Company's claimed required return on equity does not include the added revenue associated with the 50 basis point requested surplus equity return inflator, FPL's financial integrity and associated financial metrics are not dependent on these funds.

---

[44] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*").

## III. FINANCIAL INTEGRITY

**Q. WHAT ISSUE DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

A. In this section of my testimony, I address FPL's financial integrity and the impact of the OPC revenue requirement recommendation on FPL's financial metrics.

**Q. PLEASE DEFINE THE TERM FINANCIAL INTEGRITY AS YOU USE IT IN YOUR ANALYSIS.**

A. The term financial integrity is a term or concept that addresses a company's ability to access capital at reasonable rates and on reasonable terms. Pursuant to the *Bluefield* and *Hope*[45] standards, financial integrity should be sufficient to attract capital on reasonable terms under a variety of market and economic conditions. The Company, the shareholders, the regulatory authority, and the customers have a stake in FPL maintaining financial integrity and access to capital markets.

**Q. HAVE YOU REVIEWED CREDIT RESEARCH REPORTS FOR THE COMPANY REGARDING CREDIT QUALITY AND CORPORATE FINANCIAL METRICS?**

A. Yes. The Company's credit quality is strong. It is not threatened or under significant pressure of downgrade.

---

[45] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*").

**Q. HAVE YOU REVIEWED RECENT CREDIT REPORTS OF FPL?**

A. Yes. A recent Moody's Investor Service ("Moody's") March 31, 2016 credit research report states:

> **FPL is one of the strongest regulated electric utilities in the US.** The political and regulatory environment for Florida utilities is stable, allaying some of the uncertainties that this year's rate case will entail. Its large, mainly residential service territory is growing, and the economic recovery will result in organic growth in sales and a need for new infrastructure. To meet these needs, FPL continues to make substantial capital investments in its rate base, which will increase earnings as they are completed.[46] (emphasis added)

Moody's describes FPL's ratings outlook as stable and the current ratings assume timely cost recovery mechanisms and regular capital contributions from NextEra will maintain FPL's strong credit metrics.[47] As noted in Dr. Woolridge's testimony and Exhibit JRW-4, according to Moody's, FPL has an A1 credit rating which is higher than NextEra Energy's credit rating of Baa1. Overall, FPL has, and continues to maintain, strong credit metrics and financials based on rating agency evaluations.

**Q. WHAT FINANCIAL RATIOS OR FINANCIAL METRICS SHOULD THE COMMISSION CONSIDER WHEN EVALUATING COST OF EQUITY?**

A. In my opinion, the Commission should consider the financial metrics that bond rating agencies consider in evaluating credit risk to a company. Three key financial metrics involve cash flow coverage of interest, cash flow as a percentage of debt, and debt leverage ratio.

[46] Moody's Investor Services, Credit Opinion, Florida Power & Light Company (March 31, 2016) at p. 1.
[47] Moody's Investor Services, Credit Opinion, Florida Power & Light Company (March 31, 2016) at p. 2.

**Q. HOW ARE THESE FINANCIAL RATIOS CONSIDERED AND CALCULATED?**

A. Ratings agencies such as Moody's and Standard & Poor's ("S&P") develop rating guidelines that make explicit general ratings outcomes that are typical, or expected, given various financial and business risk combinations. A rating matrix or guideline is just that, a guideline, not a rule written in stone that guarantees a specific rating for a specifically achieved financial metric level.

Funds from a company's operations, in other words cash flow, are very critical to any rating/risk consideration. Interest and principal obligations of a company cannot be paid out of earnings if earnings are not cash. Thus, analyses of cash flow reveal debt servicing ability.

Debt and capital structure considerations are indicative of leverage and flexibility to address financial changes. The liquidity crisis that hit all markets and industries in 2008 is an example of the importance of financial flexibility. Stable and continuous cash flows provide financial flexibility.

Each of these financial ratios is calculated in my Schedule (DJL-5) employing OPC's recommendations in this proceeding. The results of my analyses indicate strong financial metrics, supporting FPL's current bond rating.

**Q. WHAT KEY CREDIT METRICS ARE INDICATORS OF CREDIT QUALITY?**

A. As discussed earlier, the two primary rating agencies that provide credit ratings for FPL and its parent NextEra are Moody's and S&P, and both emphasize similar credit metrics. For example, among the key financial metrics considered by Moody's are: (i) cash from operations as a percentage of debt (CFO/Debt), (ii) cash from operations plus interest divided by interest (CFO/Interest), and (iii) Debt/Capitalization. Financial metrics such as CFO/Debt and CFO/Interest are measures of cash flow, while Debt/Capitalization measures the degree to which debt leverage is used to fund operations.

S&P employs three similar financial metrics in evaluating financial integrity and ratings of a company. For example, S&P employs Funds From Operations as a percentage of Debt (FFO/Debt). This financial measure evaluates the cash flow support of debt, which is similar to Moody's CFO/Debt measure. Another S&P metric is the size of debt compared to earnings before income taxes, depreciation and amortization (Debt/EBITDA). This metric (Debt/EBITDA) is a measure of a company's ability to pay off debt and is similar to Moody's (CFO/Interest) metric. A third S&P financial metric is Debt to Capital (Debt/Capital) and is the same indicator of financial leverage employed by Moody's as discussed earlier.

**Q. DOES MOODY'S PROVIDE A LIST OF BENCHMARKS OR EXPECTATIONS FOR VARIOUS FINANCIAL METRICS FOR THE DIFFERENT RISK LEVELS?**

A. Yes. Moody's provides financial metric expectations as guidelines for evaluating various risk levels, as shown in the following table:

| Table 2[48] Moody's Financial Risk Benchmarks | | | |
|---|---|---|---|
| Moody's Bond Rating | CFO/Debt | CFO/Interest | Debt/Capital |
| Aaa | >40% | >8.0x | <25% |
| Aa | 30% - 50% | 6.0x - 8.0x | 25% - 35% |
| A | 22% - 30% | 4.5x - 6.0x | 35% - 45% |
| Baa | 13% - 22% | 2.7x - 4.5x | 45% - 55% |
| Ba | 5% - 13% | 1.5x - 2.7x | 55% -65% |
| B | <5% | <1.5x | >65% |

Like S&P guidelines, Moody's views these benchmarks as typical expectations for the various risk ratings levels. Again, these benchmarks are not precise guarantees of future ratings outcomes – as many factors both qualitative and quantitative go into financial ratings analyses. For this analysis I focus on the benchmark guidelines for single "A" (the current FPL rating) and Baa (the lowest grade for investment grade bonds).

**Q. WHAT IS OPC'S RECOMMENDED ROE AND CAPITAL STRUCTURE THAT YOU WILL BE ASSESSING IN THIS CASE IN RELATION TO FPL'S CREDIT METRICS?**

A. OPC's primary recommendation includes an 8.75% recommended return on equity and a 50% debt/50% equity capital structure. OPC witness Dr. Woolridge sponsors and supports the 8.75% equity return and OPC witness Kevin O'Donnell supports the

[48] Moody's Investor Services; "Regulated Electric and Gas Utilities Assessing Their Credit Quality and Outlook" (January 18, 2013) at p. 33.

50%/50% capital structure from investor sources. The resulting overall return to be earned on rate base investment is 5.05% as is shown in my Schedule (DJL-5).

**Q. PLEASE ADDRESS WHO WILL EXPLAIN WHY THE CAPITAL STRUCTURE IN YOUR SCHEDULE (DJL-5) INCLUDES MORE DEBT THAN REQUESTED BY FPL**

A. OPC witness O'Donnell will address his recommended capital structure in his testimony, including the rationale for including more debt than requested by FPL. Other ratemaking items such as customer deposits, deferred taxes and investment tax credits are also included in capitalization, and thus are addressed in Schedule (DJL-5).

**Q. PLEASE EXPLAIN HOW YOU EVALUATED THE IMPACT OF OPC'S RECOMMENDATION ON FINANCIAL METRICS.**

A. I examined three key financial metrics that are considered by S&P and Moody's that I described earlier. These financial metrics are as follows:

| Moody's | S&P |
|---|---|
| 1 CFO/Debt | FFO/Debt |
| 2 CFO/Interest | Debt/EBITDA |
| 3 Debt/Capital | Debt/Capital |

An evaluation employing Moody's metrics can be found on my Schedule (DJL-5), utilizing the primary OPC recommendation in this case. The financial metrics for OPC's return recommendation are compared to the Moody's benchmarks to determine whether these results are consistent with maintaining financial integrity.

**Q. HOW DID YOU CALCULATE CASH FLOW FROM OPERATIONS ("CFO") FOR THE MOODY'S METRIC EVALUATION?**

A. I employed earnings (return on investment) after taxes plus depreciation for this calculation. These values are presented in my Schedule (DJL-5) Line 6 titled "cash flow."

**Q. HOW DO THE FINANCIAL METRICS COMPARE TO THE BENCHMARKS?**

A. Under OPC's recommendation of 8.75% equity return with a 50% debt/50% equity capital structure and a 5.05% overall rate of return (See Schedule (DJL-5)), the financials all fall within the benchmarks except for the 50% debt ratio compared to the Moody's benchmark. The recommended 50% debt capitalization is not out of line with the Moody's Baa debt capitalization benchmark of 55%.

**Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS?**

A. In my opinion, FPL's financial integrity will remain strong and viable under OPC's recommendations based on an evaluation of the pertinent quantitative financial metrics.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes it does.

# DANIEL J. LAWTON
## B.A. ECONOMICS, MERRIMACK COLLEGE
## M.A. ECONOMICS, TUFTS UNIVERSITY

Prior to beginning his own consulting practice Diversified Utility Consultants, Inc., in 1986 where he practiced as a firm principal through December 31, 2005, Mr. Lawton had been in the utility consulting business with a national engineering and consulting firm. In addition, Mr. Lawton has been employed as a senior analyst and statistical analyst with the Department of Public Service in Minnesota. Prior to Mr. Lawton's involvement in utility regulation and consulting he taught economics, econometrics, statistics and computer science at Doane College.

Mr. Lawton has conducted numerous revenue requirements, fuel reconciliation reviews, financial, and cost of capital studies on electric, gas and telephone utilities for various interveners before local, state and federal regulatory bodies. In addition, Mr. Lawton has provided studies, analyses, and expert testimony on statistics, econometrics, accounting, forecasting, and cost of service issues. Other projects in which Mr. Lawton has been involved include rate design and analyses, prudence analyses, fuel cost reviews and regulatory policy issues for electric, gas and telephone utilities. Mr. Lawton has developed software systems, databases and management systems for cost of service analyses.

Mr. Lawton has developed and numerous forecasts of energy and demand used for utility generation expansion studies as well as municipal financing. Mr. Lawton has represented numerous municipalities as a negotiator in utility related matters. Such negotiations ranges from the settlement of electric rate cases to the negotiation of provisions in purchase power contracts.

In addition to rate consulting work Mr. Lawton through the Lawton Law Firm represents numerous municipalities in Texas before regulatory authorities in electric and gas proceedings. Mr. Lawton also represents municipalities in various contract and franchise matters involving gas and electric utility matters.

A list of cases in which Mr. Lawton has provided testimony is attached.

# UTILITY RATE PROCEEDINGS IN WHICH TESTIMONY HAS BEEN PRESENTED BY DANIEL J. LAWTON

| JURISDICTION/COMPANY | DOCKET NO. | TESTIMONY TOPIC |
|---|---|---|
| **ALASKA REGULATORY COMMISSION** | | |
| Beluga Pipe Line Company | P-04-81 | Cost of Capital |
| Municipal Light & Power | U-13-184 | Cost of Capital |
| Enstar Natural Gas Co. | U-14-111 | Cost of Capital |
| **PUBLIC UTILITIES COMMISSION OF CALIFORNIA** | | |
| Southern California Edison | 12-0415 | Cost of Capital |
| San Diego Gas and Electric | 12-0416 | Cost of Capital |
| Southern California Gas | 12-0417 | Cost of Capital |
| Pacific Gas and Electric | 12-0418 | Cost of Capital |
| **GEORGIA PUBLIC SERVICE COMMISSION** | | |
| Georgia Power Co. | 25060-U | Cost of Capital |
| **FEDERAL ENERGY REGULATORY COMMISSION** | | |
| Alabama Power Company | ER83-369-000 | Cost of Capital |
| Arizona Public Service Company | ER84-450-000 | Cost of Capital |
| Florida Power & Light | EL83-24-000 | Cost Allocation, Rate Design |
| Florida Power & Light | ER84-379-000 | Cost of Capital, Rate Design, Cost of Service |
| Southern California Edison | ER82-427-000 | Forecasting |

| LOUISIANA<br>PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Louisiana Power & Light | U-15684 | Cost of Capital, Depreciation |
| Louisiana Power & Light | U-16518 | Interim Rate Relief |
| Louisiana Power & Light | U-16945 | Nuclear Prudence, Cost of Service |

| MARYLAND<br>PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Baltimore Gas and Electric Company | 9173 | Financial |
| Baltimore Gas and Electric Company | 9326 | Financial |

| MINNESOTA<br>PUBLIC UTILITIES COMMISSION | | |
|---|---|---|
| Continental Telephone | P407/GR-81-700 | Cost of Capital |
| Interstate Power Co. | E001/GR-81-345 | Financial |
| Montana Dakota Utilities | G009/GR-81-448 | Financial, Cost of Capital |
| New ULM Telephone Company | P419/GR81767 | Financial |
| Norman County Telephone | P420/GR-81-230 | Rate Design, Cost of Capital |
| Northern States Power | G002/GR80556 | Statistical Forecasting, Cost of Capital |
| Northwestern Bell | P421/GR80911 | Rate Design, Forecasting |

| MISSOURI<br>PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Missouri Gas Energy | GR-2009-0355 | Financial |
| Ameren UE | ER-2010-0036 | Financial |

| FLORIDA PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Progress Energy | 070052-EI | Cost Recovery |
| Florida Power and Light | 080677-EI | Financial |
| Florida Power and Light | 090130-EI | Depreciation |
| Progress Energy | 090079-EI | Depreciation |
| Florida Power and Light | 120015-EI | Financial Metrics |
| Florida Power and Light | 140001-EI | Economic and Regulatory Policy Issues |
| Florida Power and Light | 150001-EI | Economic and Regulatory Policy Issues Financial Gas Hedging |

| NORTH CAROLINA UTILITIES COMMISSION | | |
|---|---|---|
| North Carolina Natural Gas | G-21, Sub 235 | Forecasting, Cost of Capital, Cost of Service |

| OKLAHOMA PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Arkansas Oklahoma Gas Corporation | 200300088 | Cost of Capital |
| Public Service Company of Oklahoma | 200600285 | Cost of Capital |
| Public Service Company of Oklahoma | 200800144 | Cost of Capital |
| Public Service Company of Oklahoma | 201200054 | Financial and Earnings Related |

| | | |
|---|---|---|
| Oklahoma Natural Gas | 201500213 | Return on Equity, Financial, capital Structure |

| PUBLIC SERVICE COMMISSION OF INDIANA | | |
|---|---|---|
| Kokomo Gas & Fuel Company | 38096 | Cost of Capital |

| PUBLIC UTILITY COMMISSION OF NEVADA | | |
|---|---|---|
| Nevada Bell | 99-9017 | Cost of Capital |
| Nevada Power Company | 99-4005 | Cost of Capital |
| Sierra Pacific Power Company | 99-4002 | Cost of Capital |
| Nevada Power Company | 08-12002 | Cost of Capital |
| Southwest Gas Corporation | 09-04003 | Cost of Capital |
| Sierra Pacific Power Company | 10-06001 & 10-06002 | Cost of Capital & Financial |
| Nevada Power Co. and Sierra Pacific Power Co. | 11-06006 11-06007 11-06008 | Cost of Capital |
| Southwest Gas Corp. | 12-04005 | Cost of Capital |
| Sierra Power Company | 13-06002 13-06003 13-06003 | Cost of Capital |
| NV Energy & MidAmerican Energy Holdings Co. | 13-07021 | Merger and Public Interest Financial |

| PUBLIC SERVICE COMMISSION OF UTAH | | |
|---|---|---|
| PacifiCorp | 04-035-42 | Cost of Capital |
| Rocky Mountain Power | 08-035-38 | Cost of Capital |
| Rocky Mountain Power | 09-035-23 | Cost of Capital |
| Rocky Mountain Power | 10-035-124 | Cost of Capital |
| Rocky Mountain Power | 11-035-200 | Cost of Capital |
| Questar Gas Company<br>Rocky Mountain Power | 13-057-05<br>13-035-184 | Cost of Capital<br>Cost of Capital |

| SOUTH CAROLINA PUBLIC SERVICE COMMISSION | | |
|---|---|---|
| Piedmont Municipal Power | 82-352-E | Forecasting |

| PUBLIC UTILITY COMMISSION OF TEXAS | | |
|---|---|---|
| Central Power & Light Company | 6375 | Cost of Capital, Financial Integrity |
| Central Power & Light Company | 9561 | Cost of Capital, Revenue Requirements |
| Central Power & Light Company | 7560 | Deferred Accounting |
| Central Power & Light Company | 8646 | Rate Design, Excess Capacity |
| Central Power & Light Company | 12820 | STP Adj. Cost of Capital, Post Test-year adjustments, Rate Case Expenses |
| Central Power & Light Company | 14965 | Salary & Wage Exp., Self-Ins. Reserve, Plant Held for Future use, Post Test Year Adjustments, Demand Side Management, Rate Case Exp. |
| Central Power & Light Company | 21528 | Securitization of Regulatory Assets |
| El Paso Electric Company | 9945 | Cost of Capital, Revenue Requirements, |

| | | |
|---|---|---|
| | | Decommissioning Funding |
| El Paso Electric Company | 12700 | Cost of Capital, Rate Moderation Plan, CWIP, Rate Case Expenses |
| Entergy Gulf States Incorporated | 16705 | Cost of Service, Rate Base, Revenues, Cost of Capital, Quality of Service |
| Entergy Gulf States Incorporated | 21111 | Cost Allocation |
| Entergy Gulf States Incorporated | 21984 | Unbundling |
| Entergy Gulf States Incorporated | 22344 | Capital Structure |
| Entergy Gulf States Incorporated | 22356 | Unbundling |
| Entergy Gulf States Incorporated | 24336 | Price to Beat |
| Gulf States Utilities Company | 5560 | Cost of Service |
| Gulf States Utilities Company | 6525 | Cost of Capital, Financial Integrity |
| Gulf States Utilities Company | 6755/7195 | Cost of Service, Cost of Capital, Excess Capacity |
| Gulf States Utilities Company | 8702 | Deferred Accounting, Cost of Capital, Cost of Service |
| Gulf States Utilities Company | 10894 | Affiliate Transaction |
| Gulf States Utilities Company | 11793 | Section 63, Affiliate Transaction |
| Gulf States Utilities Company | 12852 | Deferred acctng., self-Ins. reserve, contra AFUDC adj., River Bend Plant specifically assignable to Louisiana, River Bend Decomm., Cost of Capital, Financial Integrity, Cost of Service, Rate Case Expenses |
| GTE Southwest, Inc. | 15332 | Rate Case Expenses |
| Houston Lighting & Power | 6765 | Forecasting |
| Houston Lighting & Power | 18465 | Stranded costs |
| Lower Colorado River Authority | 8400 | Debt Service Coverage, Rate Design |
| Southwestern Electric Power Company | 5301 | Cost of Service |

| | | |
|---|---|---|
| Southwestern Electric Power Company | 4628 | Rate Design, Financial Forecasting |
| Southwestern Electric Power Company | 24449 | Price to Beat Fuel Factor |
| Southwestern Bell Telephone Company | 8585 | Yellow Pages |
| Southwestern Bell Telephone Company | 18509 | Rate Group Re-Classification |
| Southwestern Public Service Company | 13456 | Interruptible Rates |
| Southwestern Public Service Company | 11520 | Cost of Capital |
| Southwestern Public Service Company | 14174 | Fuel Reconciliation |
| Southwestern Public Service Company | 14499 | TUCO Acquisition |
| Southwestern Public Service Company | 19512 | Fuel Reconciliation |
| Texas-New Mexico Power Company | 9491 | Cost of Capital, Revenue Requirements, Prudence |
| Texas-New Mexico Power Company | 10200 | Prudence |
| Texas-New Mexico Power Company | 17751 | Rate Case Expenses |
| Texas-New Mexico Power Company | 21112 | Acquisition risks/merger benefits |
| Texas Utilities Electric Company | 9300 | Cost of Service, Cost of Capital |
| Texas Utilities Electric Company | 11735 | Revenue Requirements |
| TXU Electric Company | 21527 | Securitization of Regulatory Assets |
| West Texas Utilities Company | 7510 | Cost of Capital, Cost of Service |
| West Texas Utilities Company | 13369 | Rate Design |

| RAILROAD COMMISSION OF TEXAS | | |
|---|---|---|
| Energas Company | 5793 | Cost of Capital |
| Energas Company | 8205 | Cost of Capital |
| Energas Company | 9002-9135 | Cost of Capital, Revenues, Allocation |
| Lone Star Gas Company | 8664 | Rate Design, Cost of Capital, Accumulated Depr. & DFIT, Rate Case Exp. |
| Lone Star Gas Company-Transmission | 8935 | Implementation of Billing Cycle Adjustment |
| Southern Union Gas Company | 6968 | Rate Relief |
| Southern Union Gas Company | 8878 | Test Year Revenues, Joint and Common Costs |
| Texas Gas Service Company | 9465 | Cost of Capital, Cost of Service, Allocation |
| TXU Lone Star Pipeline | 8976 | Cost of Capital, Capital Structure |
| TXU-Gas Distribution | 9145-9151 | Cost of Capital, Transport Fee, Cost Allocation, Adjustment Clause |
| TXU-Gas Distribution | 9400 | Cost of Service, Allocation, Rate Base, Cost of Capital, Rate Design |
| Westar Transmission Company | 4892/5168 | Cost of Capital, Cost of Service |
| Westar Transmission Company | 5787 | Cost of Capital, Revenue Requirement |
| Atmos | 10000 | Cost of Capital |
| Texas Gas Service Company | 10506 | Cost of Capital |

| TEXAS WATER COMMISSION | | |
|---|---|---|
| Southern Utilities Company | 7371-R | Cost of Capital, Cost of Service |

| SCOTSBLUFF, NEBRASKA CITY COUNCIL | | |
|---|---|---|
| K. N. Energy, Inc. | | Cost of Capital |

| HOUSTON CITY COUNCIL | | |
|---|---|---|
| Houston Lighting & Power Company | | Forecasting |

| PUBLIC UTILITY REGULATION BOARD OF EL PASO, TEXAS | | |
|---|---|---|
| Southern Union Gas Company | | Cost of Capital |

| DISTRICT COURT CAMERON COUNTY, TEXAS | | |
|---|---|---|
| City of San Benito, et. al. vs. PGE Gas Transmission et. al. | 96-12-7404 | Fairness Hearing |

| DISTRICT COURT HARRIS COUNTY, TEXAS | | |
|---|---|---|
| City of Wharton, et al vs. Houston Lighting & Power | 96-016613 | Franchise fees |

| DISTRICT COURT TRAVIS COUNTY, TEXAS | | |
|---|---|---|
| City of Round Rock, et al vs. Railroad Commission of Texas et al | GV 304,700 | Mandamus |

| SOUTH DAYTONA, FLORIDA | | |
|---|---|---|
| City of South Daytona v. Florida Power and Light | 2008-30441-CICI | Stranded Costs |

**SCHEDULE (DJL-4), Surplus Return Impact Test Year 2019**

# OKEECHOBEE FIRST YEAR ANNUAL REVENUE REQUIREMENT IMPACT OF FPL'S 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR YEAR ENDED 5/31/20

## REQUESTED REVENUE REQUIREMENT YEAR ENDED 5/31/20

| LINE NO. | DESCRIPTION | AMOUNT ($000'S) |
|---|---|---|
| 1 | JURISDICTIONAL RATE BASE | $1,063,315 |
| 2 | RATE OF RETURN ON INVESTMENT | 8.8740% |
| 3 | REQUIRED NET INCOME | $94,359 |
| 4 | ACTUAL NET INCOME | -$33,868 |
| 5 | NET INCOME DEFICIENCY | $128,227 |
| 6 | NET INCOME MULTIPLIER | 1.63024 |
| 7 | REVENUE REQUIREMENT INCREASE | $209,041 |
| 8 | ANNUAL REVENUE IMPACT OF 50 BASIS POINTS ROE | |
| 9 | SOURCE: SCHEDULE A-1 OKEECHOBEE 2019 | |

## REQUESTED REVENUE REQUIREMENT YEAR ENDED 5/31/20 EXCLUDING 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| DESCRIPTION | AMOUNT ($000'S) |
|---|---|
| JURISDICTIONAL RATE BASE INCREMENTAL CHANGE | $1,063,315 |
| RATE OF RETURN ON INVESTMENT IMPACT W/O 50 BASIS POINTS | -0.3020% |
| IMPACT ON NET INCOME | -$3,211 |
| NET INCOME MULTIPLIER | 1.63024 |
| IMPACT OF 50 BASIS POINTS IN ROE | -$5,234 |
| | **$ (5,234)** |

SOURCE: SCHEDULE A-1 OKEECHOBEE 2019 adjusted to remove 50 basis points from ROE

## CAPITAL STRUCTURE AND COST RATES WITH 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| LINE NO. | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 10 | LONG TERM DEBT | $421,152 | 39.61% | 4.87% | 1.93% |
| 11 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 12 | CUSTOMER DEPOSITS | $0 | 0.00% | 0.00% | 0.00% |
| 13 | COMMON EQUITY | $642,163 | 60.39% | 11.50% | 6.95% |
| 14 | SHORT TERM DEBT | $0 | 0.00% | 0.00% | 0.00% |
| 15 | DEFERRED INCOME TAXES | $0 | 0.00% | 0.00% | 0.00% |
| 16 | INVESTMENT TAX CREDITS | $0 | 0.00% | 8.87% | 0.00% |
| 17 | TOTAL | $1,063,315 | 100.00% | | 8.87% |
| 18 | SOURCE: SCHEDULE D-1a OKEECHOBEE 2019 | | | | |

## CAPITAL STRUCTURE AND COST RATES WITHOUT THE 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| LINE NO. | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 19 | LONG TERM DEBT | $421,152 | 39.61% | 4.87% | 1.93% |
| 20 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 21 | CUSTOMER DEPOSITS | $0 | 0.00% | 0.00% | 0.00% |
| 22 | COMMON EQUITY | $642,163 | 60.39% | 11.00% | 6.64% |
| 23 | SHORT TERM DEBT | $0 | 0.00% | 0.00% | 0.00% |
| 24 | DEFERRED INCOME TAXES | $0 | 0.00% | 0.00% | 0.00% |
| 25 | INVESTMENT TAX CREDITS | $0 | 0.00% | 0.00% | 0.00% |
| 26 | TOTAL | $1,063,315 | 100.00% | | 8.57% |
| 27 | SOURCE: SCHEDULE D-1a OKEECHOBEE 2019 AND EXCLUDING 50 BASIS POINTS IN ROE | | | | |

**SCHEDULE (DJL-3), Surplus Equity Return Impact Test Year 2018**

# SUBSEQUENT YEAR ENDED 12/31/2018 REVENUE REQUIREMENT IMPACT OF FPL'S REQUESTED 50 BASIS SURPLUS EQUITY RETURN INFLATOR

## COMPANY REQUESTED REVENUE REQUIREMENT SUBSEQUENT YEAR 12/31/2018

| LINE NO. | DESCRIPTION | AMOUNT ($000'S) |
|---|---|---|
| 1 | JURISDICTIONAL RATE BASE | $33,870,897 |
| 2 | RATE OF RETURN ON INVESTMENT | 6.7058% |
| 3 | REQUIRED NET INCOME | $2,271,063 |
| 4 | ACTUAL NET INCOME | $1,575,711 |
| 5 | NET INCOME DEFICIENCY | $695,352 |
| 6 | NET INCOME MULTIPLIER | 1.63024 |
| 7 | REVENUE REQUIREMENT | $1,133,591 |
| 8 | STEP 1 INCREASE ADJ. FOR GROWTH (.5712%) | $871,301 |
| 9 | ANNUAL INCREASE 2018 | $262,290 |
| 10 | ANNUAL REVENUE IMPACT OF 50 BASIS POINTS ROE | |
| 11 | SOURCE: SCHEDULE A-1 2018 SUBSEQ. YR | |

## COMPANY RETURN ON INVESTMENT IMPACT WITHOUT 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR SUBSEQUENT YEAR 12/31/2018

| DESCRIPTION | AMOUNT ($000'S) |
|---|---|
| JURISDICTIONAL RATE BASE INCREMENTAL CHANGE | $1,334,781 |
| RATE OF RETURN ON INVESTMENT IMPACT W/O 50 BASIS POINTS | -0.2265% |
| IMPACT ON NET INCOME | -$3,023 |
| NET INCOME MULTIPLIER | 1.63024 |
| IMPACT OF 50 BASIS POINTS IN ROE | -$4,929 |
| | **$ (4,929)** |

SOURCE: SCHEDULE A-1 adjusted to remove 50 basis points from ROE

## COMPANY PROPOSED CAPITAL STRUCTURE AND COST RATES WITH 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| LINE NO. | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 12 | LONG TERM DEBT | $10,024,107 | 29.60% | 4.87% | 1.44% |
| 13 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 14 | CUSTOMER DEPOSITS | $386,360 | 1.14% | 2.04% | 0.02% |
| 15 | COMMON EQUITY | $15,284,522 | 45.13% | 11.50% | 5.19% |
| 16 | SHORT TERM DEBT | $321,611 | 0.95% | 2.68% | 0.03% |
| 17 | DEFERRED INCOME TAXES | $7,753,738 | 22.89% | 0.00% | 0.00% |
| 18 | INVESTMENT TAX CREDITS | $100,559 | 0.30% | 8.87% | 0.03% |
| 19 | TOTAL | $33,870,897 | 100.00% | | 6.71% |
| 20 | SOURCE: SCHEDULE D-1a 2018 SUBSEQ. YR | | | | |

## COMPANY PROPOSED CAPITAL STRUCTURE AND COST RATES WITHOUT THE 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| LINE NO. | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 21 | LONG TERM DEBT | $10,024,107 | 29.60% | 4.87% | 1.44% |
| 22 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 23 | CUSTOMER DEPOSITS | $386,360 | 1.14% | 2.04% | 0.02% |
| 24 | COMMON EQUITY | $15,284,522 | 45.13% | 11.00% | 4.96% |
| 25 | SHORT TERM DEBT | $321,611 | 0.95% | 2.68% | 0.03% |
| 26 | DEFERRED INCOME TAXES | $7,753,738 | 22.89% | 0.00% | 0.00% |
| 27 | INVESTMENT TAX CREDITS | $100,559 | 0.30% | 8.57% | 0.03% |
| 28 | TOTAL | $33,870,897 | 100.00% | | 6.48% |
| 29 | SOURCE: SCHEDULE D-1a SUBSEQ. YR AND EXCLUDING 50 BASIS POINTS IN ROE | | | | |

**SCHEDULE (DJL-4), Surplus Return Impact Test Year 2019**

## OKEECHOBEE FIRST YEAR ANNUAL REVENUE REQUIREMENT IMPACT OF FPL'S 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR YEAR ENDED 5/31/20

### REQUESTED REVENUE REQUIREMENT YEAR ENDED 5/31/20

| LINE NO. | DESCRIPTION | AMOUNT ($000'S) |
|---|---|---|
| 1 | JURISDICTIONAL RATE BASE | $1,063,315 |
| 2 | RATE OF RETURN ON INVESTMENT | 8.8740% |
| 3 | REQUIRED NET INCOME | $94,359 |
| 4 | ACTUAL NET INCOME | -$33,868 |
| 5 | NET INCOME DEFICIENCY | $128,227 |
| 6 | NET INCOME MULTIPLIER | 1.63024 |
| 7 | REVENUE REQUIREMENT INCREASE | $209,041 |
| 8 | **ANNUAL REVENUE IMPACT OF 50 BASIS POINTS ROE** | |
| 9 | **SOURCE: SCHEDULE A-1 OKEECHOBEE 2019** | |

### REQUESTED REVENUE REQUIREMENT YEAR ENDED 5/31/20 EXCLUDING 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| DESCRIPTION | AMOUNT ($000'S) |
|---|---|
| JURISDICTIONAL RATE BASE INCREMENTAL CHANGE | $1,063,315 |
| RATE OF RETURN ON INVESTMENT IMPACT W/O 50 BASIS POINTS | -0.3020% |
| IMPACT ON NET INCOME | -$3,211 |
| NET INCOME MULTIPLIER | 1.63024 |
| IMPACT OF 50 BASIS POINTS IN ROE | -$5,234 |
| | **$ (5,234)** |

**SOURCE: SCHEDULE A-1 OKEECHOBEE 2019 adjusted to remove 50 basis points from ROE**

### CAPITAL STRUCTURE AND COST RATES WITH 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 10 | LONG TERM DEBT | $421,152 | 39.61% | 4.87% | 1.93% |
| 11 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 12 | CUSTOMER DEPOSITS | $0 | 0.00% | 0.00% | 0.00% |
| 13 | COMMON EQUITY | $642,163 | 60.39% | 11.50% | 6.95% |
| 14 | SHORT TERM DEBT | $0 | 0.00% | 0.00% | 0.00% |
| 15 | DEFERRED INCOME TAXES | $0 | 0.00% | 0.00% | 0.00% |
| 16 | INVESTMENT TAX CREDITS | $0 | 0.00% | 8.87% | 0.00% |
| 17 | TOTAL | $1,063,315 | 100.00% | | 8.87% |
| 18 | **SOURCE: SCHEDULE D-1a OKEECHOBEE 2019** | | | | |

### CAPITAL STRUCTURE AND COST RATES WITHOUT THE 50 BASIS POINT SURPLUS EQUITY RETURN INFLATOR

| | CAPITAL STRUCTURE | JURISDICTIONAL ADJUSTED | RATIO | COST RATE | WEIGHTED COST |
|---|---|---|---|---|---|
| 19 | LONG TERM DEBT | $421,152 | 39.61% | 4.87% | 1.93% |
| 20 | PREFERRED STOCK | $0 | 0.00% | 0.00% | 0.00% |
| 21 | CUSTOMER DEPOSITS | $0 | 0.00% | 0.00% | 0.00% |
| 22 | COMMON EQUITY | $642,163 | 60.39% | 11.00% | 6.64% |
| 23 | SHORT TERM DEBT | $0 | 0.00% | 0.00% | 0.00% |
| 24 | DEFERRED INCOME TAXES | $0 | 0.00% | 0.00% | 0.00% |
| 25 | INVESTMENT TAX CREDITS | $0 | 0.00% | 0.00% | 0.00% |
| 26 | TOTAL | $1,063,315 | 100.00% | | 8.57% |
| 27 | **SOURCE: SCHEDULE D-1a OKEECHOBEE 2019 AND EXCLUDING 50 BASIS POINTS IN ROE** | | | | |

# FLORIDA POWER & LIGHT COMPANY
## TEST YEAR ENDED DECEMBER 31, 2017
## FINANCIAL METRICS

REQUESTED CAPITAL STRUCTURE, COST RATES, AND RETURN

| | A | B | C | D | E |
|---|---|---|---|---|---|
| DESCRIPTION | CAPITAL | RATIO | COST RATE | WEIGHTED COST | RETURN |
| LONG TERM DEBT | $9,358,417 | 28.76% | 4.620% | 1.33% | $432,359 |
| CUSTOMER DEPOSITS | $407,328 | 1.25% | 2.050% | 0.03% | $8,350 |
| COMMON EQUITY | $14,682,574 | 45.13% | 11.500% | 5.19% | $1,688,496 |
| SHORT TERM DEBT | $612,939 | 1.88% | 1.850% | 0.03% | $11,339 |
| DEFERRED INCOME TAX | $7,368,582 | 22.65% | 0.000% | 0.00% | $0 |
| INVESTMENT TAX CREDITS | $106,275 | 0.33% | 8.820% | 0.03% | $9,373 |
| TOTAL CAPITAL | $32,536,115 | 100.00% | | 6.61% | $2,149,918 |
| RATE BASE | | | $32,536,115 | | |

PER COMPANY SCHEDULES B-1

ALTERNATIVE CAPITAL STRUCTURE, COST RATES, AND RETURN ON EQUITY@ 8.75%

| DESCRIPTION | CAPITAL | RATIO | COST RATE | WEIGHTED COST | RETURN |
|---|---|---|---|---|---|
| LONG TERM DEBT | $11,636,598 | 35.56% | 4.62% | 1.643% | $537,611 |
| CUSTOMER DEPOSITS | $409,700 | 1.25% | 2.050% | 0.026% | $8,399 |
| COMMON EQUITY | $12,398,749 | 37.89% | 8.750% | 3.315% | $1,084,891 |
| SHORT TERM DEBT | $762,151 | 2.33% | 1.850% | 0.043% | $14,100 |
| DEFERRED INCOME TAX | $7,411,492 | 22.65% | 0.000% | 0.000% | $0 |
| INVESTMENT TAX CREDITS | $106,894 | 0.33% | 6.750% | 0.022% | $7,215 |
| TOTAL CAPITAL | $32,725,584 | 100.00% | | 5.049% | $1,652,215 |
| RATE BASE | | | $32,725,584 | | ($497,703) |

PER COMPANY FILING SCHEDULES B-1, ADJUSTED PER OPC TESTIMONY OF RALPH SMITH EXHIBIT RCS-2 P. 15.

| LINE NO. | DESCRIPTION | A<br>COMPANY REQUESTED Capital Structure & 11.50% ROE | B<br>alt.OPC Capital Structure ROE ADJUSTED TO 8.75% | C<br>Difference | SOURCES COL. A | SOURCES COL. B |
|---|---|---|---|---|---|---|
| 1 | RATE BASE | $32,536,115 | $32,725,584 | | COMPANY FILING SCHEDULE A-1 | COMPANY FILING SCHEDULE A-1 ADJUSTED PER OPC TESTIMONY OF RALPH SMITH AT EXHIBIT RCS-2 P. 2. |
| 2 | RATE OF RETURN | 6.608% | 5.049% | | FPL SCHEDULE D1-A | COMPANY FILING SCHEDULE A-1 ADJUSTED PER OPC TESTIMONY OF RALPH SMITH AT EXHIBIT RCS-2 P. 2. |
| 3 | RETURN | $2,149,918 | $1,652,215 | ($497,703) | LINE 1 TIMES LINE2 | LINE 1 TIMES LINE2 |
| 4 | DEPRECIATION & AMORTIZATION | $1,665,925 | $1,140,564 | ($525,361) | FPL SCHEDULE C-1 | OPC R. SMITH EX. RCS-2 Pp. 7 & 8. |
| 5 | CASH FLOW | $3,815,843 | $2,792,779 | ($1,023,064) | SUM LINES 3 AND 4 | SUM LINES 3 AND 4 |
| 6 | TOTAL DEBT | $9,971,356 | $12,398,749 | $2,427,393 | DEBT ALL SOURCES | DEBT ALL SOURCES |
| 7 | TOTAL INTEREST ESTMATED | $443,698 | $551,711 | | WTD DEBT COST TIMES RATE BASE | WTD DEBT COST TIMES RATE BASE |

| | PROJECTED METRICS | D | E | F<br>Moody's Guidelines for A Bonds | G<br>Moody's Guidelines for Baa Bonds |
|---|---|---|---|---|---|
| 8 | CASH FLOW/INTEREST DSC (X) | 8.6 | 5.1 | 4.5x-6.0x | 2.7x-4.5x |
| 9 | CASH FLOW/DEBT (%) | 38.27% | 22.52% | 22%-30% | 13%-22% |
| 10 | DEBT PERCENTAGE (%) | 40.40% | 50.00% | 35% to 45% | 45%-55% |

SOURCES

COLUMNS D & E ROW 8: LINE 5/ LINE 7

COLUMNS D & E ROW 9:LINE 5/LINE 6

COLUMNS D & E ROW 10: Debt Ratio Investor Sources PER CAPITAL STRUCTURE RECOMMENDATION OF FPL & OPC WITNESSES

COLUMN F & G: Moody's Investor Service, "Electric & Gas Utilities, Assessing Their Credit Quality and Outlook" (January 18, 2013 at 33

DEBT PERCENTAGE BASED ON INVESTOR SOURCES SEE MR. DEWHURST DIRECT AT 23:2 also see OPC witness O'Donnell

ALL DOLLAR AMOUNTS ARE IN ($000).

## CERTIFICATE OF SERVICE

**I HEREBY CERTIFY** that a copy of the foregoing Direct Testimony of Daniel J. Lawton has been furnished by electronic mail on this 7th day of July, 2016, to the following:

Suzanne Brownless
Adria Harper / Danijela Janjic
Kyesha Mapp / Margo Leathers
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
sbrownle@psc.state.fl.us

Ken Hoffman
Florida Power & Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1858
ken.hoffman@fpl.com

John T. Butler
R. Wade Litchfield
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408
john.butler@fpl.com
wade.litchfield@fpl.com

Jon C. Moyle, Jr.
118 North Gadsden Street
Tallahassee, FL 32301
jmoyle@moylelaw.com

K. Wiseman/M. Sundback/W. Rappolt
Andrews Law Firm
1350 I Street NW, Suite 1100
Washington DC20005
kwiseman@andrewskurth.com
msundback@andrewskurth.com
wrappolt@andrewskurth.com

Derrick Price Williamson
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, PA 17050
dwilliamson@spilmanlaw.com

Stephanie U. Roberts
Spilman Thomas & Battle, PLLC
110 Oakwood Drive, Suite 500
Winston-Salem, NC 27103
sroberts@spilmanlaw.com

Federal Executive Agencies
Thomas A. Jernigan
c/o AFCEC/JA-ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB FL32403
Thomas.Jernigan.3@us.af.mil

John B. Coffman, LLC
Coffman Law Firm871 Tuxedo Blvd.
St. Louis MO63119-2044
john@johncoffman.net

Jack McRay AARP Florida
200 W. College Ave., #304
Tallahassee FL32301
jmcray@aarp.org

Robert Scheffel Wright/John T. LaVia, III
Gardner Law Firm
1300 Thomaswood Drive
Tallahassee FL32308
schef@gbwlegal.com
jlavia@gbwlegal.com

Erik L. Sayler
Associate Public Counsel