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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160021-EI

PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY.
_______________________________/

DOCKET NO. 160061-EI

PETITION FOR APPROVAL OF 2016-2018 STORM HARDENING PLAN BY FLORIDA POWER & LIGHT COMPANY
_______________________________/

DOCKET NO. 160062-EI

2016 DEPRECIATION AND DISMANTLEMENT STUDY BY, FLORIDA POWER & LIGHT COMPANY.
_______________________________/

DOCKET NO. 160088-EI

PETITION FOR LIMITED PROCEEDING TO MODIFY AND CONTINUE INCENTIVE MECHANISM, BY FLORIDA POWER & LIGHT COMPANY.
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CORRECTED

VOLUME 18
PAGES 2219 - 2290

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS

DATE: Thursday, August 25, 2016

TIME: Commenced at 3:30 p.m.
Concluded at ~~5:30~~ 5:19 p.m. CD

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

*** SEE NEXT PAGE FOR EXPLANATION. ***

REPORTED BY: LISA GAINEY
Court Reporter
(850) 894-0828

APPEARANCES: (As heretofore noted.)

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*** Corrected to replace the incorrect pages that were inadvertently filed in the original Volume 18, with the correct pages.***

INDEX

WITNESSES

P R O C E E D I N G S

(Transcript follows in sequence from Volume 18.)

* * * * *

BY MR. MOYLE:

Q How about with respect to risk associated with weather? Are you aware of Tampa Electric Company?

A I am, yes.

Q And do you know where they serve, how many counties they serve and where it is?

A I could not tell you how many counties, but I could tell you it's in the Tampa area, yes. I think it's called an aptonym, yes.

Q Yeah, the name helps with that. Do you know how many counties FPL provides service in?

A I don't know the number of counties, no.

Q Do you know geographically -- you know, Florida is a peninsular. Do you know if they go above Orlando?

A I do. I know they serve generally the entire east coast portions of the north central region, portions of the south, sort of west region of the State.

Q And with respect to -- you know let's hope storms don't come, but to the extent that they do, if

you have an electric utility that is geographically spread out, it's not as likely that a storm is going to take out the whole system as compared to having an electric utility that's located maybe in one or two counties. Is that fair?

A I think that's fair if you're comparing two companies. If you were to broaden the analysis to a company such as Xcel which serves Minnesota, Texas, Colorado and Wisconsin, multiple jurisdictions, then I suppose they would have greater diversification still.

Q And you also made some risk comments with respect to nuclear risk; is that right?

A That's right.

Q And do you then suggest maybe that nuclear facilities provide a little higher level of risk?

A What I say in my testimony is that it's a risk that the company discusses, and it's a risk that's been disclosed. I think risks such as nuclear are hard to quantify. It's hard to put a basis point number on that, but because it was an issue that the company disclosed, it did seem something to me that would rise to the level of getting investors' attentions.

So, that's why I included it. As to your question of whether or how I would have quantified that, I really didn't because I don't think you can.

Q Do you know if investors are considering or quantifying the issue related to possible environmental issues associated with the Turkey Point cooling canals?

A I couldn't tell you.

Q Just don't know one way or the other?

A I don't know how they would.

Q And how about with respect to lawsuits that are filed under the Clean Water Act or things like that? Is that something that investors consider or no?

A It could be -- again, to the extent it rises to the level of disclosure and, of course, every investor would have their own view as to probabilities and outcomes.

Q So, I think it would be hard to know what investors, you know, are thinking. I mean, do you talk to pension funds and insurance companies and big investors to say what are you guys thinking?

A Myself, no. Again, what I will review are disclosure documents. I don't disagree that it's a hard thing to quantify. I don't disagree that it's a hard number to get your arms around.

If you noticed, my recommended range is 10.5 to 11.5, and my recommendation is at the mid point of that range. So, I think it's a consideration, but I think it's hard to quantify and I think it's hard to figure out, you know, how to move within the range on account of it.

This goes to one of the points I made earlier. There's lots of numbers here. It appears empirical, but it's not entirely mathematical. There's an element of judgment.

Q I'm sorry. What was your range?

A 10.5 to 11.5.

Q So, how did you treat the 50 basis point adder --

A I did not.

Q -- if at all. You didn't look at that? You don't say anything about that? That's not part of your testimony?

A That's correct.

MR. MOYLE: That's all I have. Thank you.

CHAIRMAN BROWN: Thank you, Mr. Moyle. FRF, I guess.

EXAMINATION

BY MR. WRIGHT:

Q Yes, ma'am, thank you very much. I have what I believe will be a very few questions for Mr. Hevert. Good afternoon, Mr. Hevert.

A Good afternoon.

Q In preparing your testimony in this case,

did you familiarize yourself with FPL's financial operations and performance from 2010 through the present time?

A FPL as opposed to Nexterra?

Q FPL and Nexterra.

A Yes, I've reviewed FPL's -- I've looked at the MFRs, and I've also looked at 10K which breaks out FPL in particular.

Q And did you familiarize yourself with Nexterra Energy's stock prices during that time period?

A During that time period, I could not tell you offhand. I've certainly reviewed the company stock performance recently.

Q Would you agree, perhaps subject to check if it's really necessary, that FPL's stock price increased fairly steadily with natural fluctuations from 2010 through the present time?

A I would say two things to that. I would agree that's the case, and I would agree that's not unlike the utility sector. I also would say that more recently, the utility sector has begun to underperform the general market.

Q Would you agree that Nexterra Energy didn't have any trouble selling common stock in the period 2010 to 2012?

A I could not tell you the extent to which it was undersubscribed or oversubscribed. I have no reason to doubt that they were successful in issuing their stock.

Q It was steadily traded at prices somewhere between 50 and $100, wasn't it?

A Yes, I would agree with that.

Q That would indicate that there's a pretty good market for the common stock of Nexterra Energy; would it not?

A Again, having been involved in raising capital for a utility, I know that in raising it, it's not often as easy as it looks. I will agree with you that the company was able to raise equity, if that's your question.

Q Thank you. We agree that interest rates in the 2010-2012 -- in general, let's say the United States Treasury bond rates in the time period 2012 to 2012 were generally a bit higher than they are currently.

A I think there were periods in 2012 that they were at the current level, but of course, in 2012, we had not undergone the level of intervention by the Federal Reserve that we have since then. So, I'm not really sure that we can compare the two time periods for that purpose.

MR. WRIGHT: That's all I have.

CHAIRMAN BROWN: Thank you, Mr. Wright.

FEA, Mr. Jernigan.

CROSS EXAMINATION

BY MR. JERNIGAN:

Q Mr. Hevert, could you pull back out 656? You were just discussing that with Mr. Moyle a moment ago.

A Yes, I have that.

Q Thank you. And again, this is actually from your Exhibit RBH-42, correct?

A From my rebuttal testimony, yes.

Q And the range of dates on this exhibit, as I look at it, I see it looks like it starts in January of 2013 and goes all the way through June of 2016; is that correct?

A Yes, that's right.

Q And as I look -- you've stated it several times, but your recommendation is a range of 10.5 to 11.5?

A Yes, that's correct.

Q And as you look over the approved ROEs that are listed here, I only see only one that falls within your range; is that correct?

A I believe that's correct, yes.

Q And all other ranges for the past three years appear to be below that, correct?

A Right. I mean, there's one within ten basis points, a couple within 25, but generally, I would agree with you, yes.

Q And as we look at this on the first page of -- well, the page that's listed Page 2 of 2 where we see our averages written out by Mr. Moyle, if you'd look midway through the case underneath the dark line, there's a line titled "Total Cases."

You see that?

A Yes, I see that.

Q And it lists 103. That's 103 cases in the last three years, correct?

A I'm sorry, I see where you are. Yes, that's the total across all cases. That's right.

Q And only one case has fallen within your recommended range in the last 103 cases?

A I'm sorry. I didn't mean to interrupt you.

Q Of those 103 cases, only one has fallen within your recommended range, correct?

A Right. And of those 103, there were, of course, many that were from less-rated jurisdictions. There were many that were not vertically integrated, but as to your principal observation, I agree with you.

Q Florida is included in here, correct?

A What?

Q There are Florida cases in here, correct?

A Yes.

MR. JERNIGAN: That's my questions.

CHAIRMAN BROWN: Thank you, Mr. Jernigan. Sierra Club?

MS. CSANK: No questions, Madam Chairman.

CHAIRMAN BROWN: Thank you, Ms. Csank. Wal-Mart, Ms. Roberts.

MS. ROBERTS: No questions. We will have questions for his rebuttal.

CHAIRMAN BROWN: Thank you, Ms. Roberts. AARP?

Yes, I have a few, thank you.

EXAMINATION

BY MR. COFFMAN:

Q Good afternoon, Mr. Hevert. Good to see you again.

A Always a pleasure.

Q Well, let me start with these exhibits that were from your rebuttal schedule that we've been talking about. Would you agree that over the last year that the average authorized return on equity from a PUC

has been in the range of 9.5 to 9.7?

A I'm sorry, can you repeat that question?

Q Within the last, say, 12 months, what do you believe the average authorized return on equity has been from public utility commissions in this country?

A Over the last 12 months if you were to look across all jurisdictions, all states, it probably is in the range of about 9.7 percent. Of course, that would include all of those jurisdictions distribution vertically integrated but excluding the Virginia rider cases.

Q And these particular exhibits from RRA or S & L Financial -- they stop at around June 15th. Have you reviewed PUC orders that have occurred since that time?

A I'm certainly aware of some, but I could not put my finger on them right away.

Q Okay. Would you agree with me that legally-regulated utilities are not entitled to a private -- such as you would expect to have in a speculative venture or highly-profitable venture?

MR. LITCHFIELD: Object to the form of the question. It's vague. And to the extent that it calls for a legal conclusion, I would object on that basis as well.

CHAIRMAN BROWN: Can you rephrase the question, please.

Q This language does appear in constitutional law courses, but I'm asking him as an expert in the cost of capital if he believes that regulated utilities should receive an authorized rate of return such as you would respect from speculative ventures.

A Again, I'm not an attorney, but I think that the return that investors require are returns that they would get on investments of comparable risk, one of the other Holcomb-Bluefield standards as I understand as a layperson. Typically, I think investors would not look at utilities as speculative ventures.

Q And authorized return on equities should not be equivalent to a highly-profitable enterprise.

MR. LITCHFIELD: Object. Could counsel define "highly profitable enterprise"?

MR. COFFMAN: Well, I'm just looking at the witness' testimony where he uses that word and asking him --

CHAIRMAN BROWN: Mr. Coffman, can you maybe ask him a broader question or ask him to be able to -- rephrase it.

MR. COFFMAN: Well, his testimony will stand as it is.

MR. LITCHFIELD: You actually haven't cracked the cover of his direct testimony yet.

CHAIRMAN BROWN: Please proceed, Mr. Coffman.

BY MR. COFFMAN:

Q On Page 31 of your direct testimony, you list the results of your DCF study.

A Excuse me one second. Yes, I'm there.

Q And your results are from 9.31 percent to 9.42 percent; is that correct?

A Well, no, they are from 8.61 percent to 10.2 percent.

Q Was that the average, then, the 9.31 to 9.42 percent?

A Yes, that's right.

Q And that includes flotation cost; does it not?

A It does.

Q Now, most regulatory jurisdictions don't allow flotation costs to be included in return of equity, do they?

A I could not tell you how many do and how many do not, but I would agree that some do and some don't. Excuse me, one last thing. I just wanted to check something real quick here. The schedules to my testimony, of course, provide the estimates without the flotation costs. So, that data is there.

Q If you have that handy, could you tell me what that 9.31 to 9.42 percent average DCF result would be if you subtracted the flotation costs?

A You bet. And you can see these results on Exhibit RBH-4 going from Page 1 to Page 3. The 9.31 would correspond to 9.19. The 9.35 would correspond to the 9.23. The 9.42 would correspond to 9.3. So, estimates that I already consider to be quite low would be lower still as a consequence of removing the flotation costs.

Q Do you agree with me that there should be some correspondence between an authorized return on equity and the business risk of the regulated entity?

A Yes, I agree with that.

Q And if I listed certain qualities that might relate to Florida Power & Light in this jurisdiction, could you tell me if you believe that they would tend to make Florida Power & Light more or less risky?

A More or less risky relative to what?

Q For instance, a jurisdiction that allows construction work in progress for its nuclear power plants as opposed to a jurisdiction without that does not allow construction work in progress for its nuclear

power plants. Which is more or less risky?

A Here's where it gets difficult because you can have a jurisdiction that allows construction work in progress, and you might say at first glance that that necessarily makes it less risky than another. But another jurisdiction may have a rider to recover substantial capital costs.

So, that's why I think it's sometimes difficult to compare one discrete element of ratemaking without sort of looking at the broad suite available to other utilities. And that's sort of the qualification that I wanted to make.

Q Can you answer the question in isolation assuming all other factors being equal?

A All other things being equal, I would agree with you.

Q And what are you agreeing with exactly?

A I'm not going to say whatever you said.

(Laughter.)

Q That a utility has the opportunity to collect charges in advance through construction in progress is less risky than a utility that does not have that opportunity. Can you agree with that?

A All else being equal.

Q Fair enough. A utility that has the

opportunity to have a storm-hardening mechanism as opposed to one that does not have that kind of piecemeal mechanism.

A   Well, with the qualification that both utilities are equally susceptible to other events --

Q   Fair enough.

A   -- with that qualification.

Q   What about a utility that is considered to be operating in a constructive regulatory environment as opposed to a utility that is not?

A   I think from the perspective of investors, constructive regulatory environment is very helpful, and it becomes part of their expectations. I think a constructive regulatory environment, to the extent that it reduces uncertainty and that's important to the investors, would be something that reduces risk, but it's certainly that weighs in their expectations as well.

Q   Maybe it would be helpful at this point for you to define what is meant by constructive regulatory environment.

A   Sure. As I understand it from looking at regulatory research associates, from looking at rating agencies, a constructive regulatory environment is one that will allow investors -- will give debt-holders, for example, comfort in the ability to have their return, to get the return that they require.

There's an element of predictability to a constructive regulatory requirement. There's an element that investors will be aware and have confidence that the outcome will not be destructive to their investment.

Q What about multi-year plans? Assuming we're operating in a jurisdiction that approves rates just for one year in an on-going period as opposed to locking a certain number of rate increases over a four-year period, which is more or less risky?

A Well, I will say again all else being equal, having the ability to understand what revenue recovery will be reduces uncertainty. But as I've said in my testimony, one of the issues that arises, especially in this capital market with a multi-year plan, is the uncertainty surrounding increasing capital costs going forward.

In my view, that's a risk that investors are keenly aware of.

Q On Page 37, you list a variety of considerations that you think may be reason to consider a cost to equity outside of the range of results on your analysis. No. 5, on Line 10, there is the

potential for the increase in the cost of equity over the company's proposed four-year rate period.

A And I just want to say I don't quite agree with your premise of your question.

Q Please go ahead and characterize it the way you wish.

A Thank you. When I look at these factors, these are factors that I think ought to be taken into consideration and understanding where the range of returns likely lies and within that range where the return ought to be.

It's not an exercise of trying to push the ROE above a range. It's trying to figure out what the range is and where we set the return within that range.

Q Well, that's good to hear because I was going to ask you do you think that the potential for a decrease in the cost of equity over a proposed four-year plan would be something that this Commission should consider?

A Well, I think that's true. I think if that were a likely possibility, but all we can do at this point is to look at what the market is telling us.

We can look at economist's projections and see quite clearly that they expect interest rates to increase, and we can look at forward interest rates and see them increasing. We can look at the relative values of puts and calls on government bond indices and see if the market expects interest rates to increase.

Just on an intuitive bases when interest rates are low and have been kept low because of government policy, and the government has stated its intent to move to a more normal policy, I think it's fair to conclude that over time, interest rates are more likely to increase than decrease.

Q So, you think that there is a greater risk that the cost of equity would increase over the next four years than decrease?

A If you look at the -- let's go back and break it down. I don't want to belabor the point, but it was actually a fairly complicated question.

When you look at the cost of equity, it's a function of many things. Interest rates are one of them. Growth rates are another one of them. Volatility is another one of them.

If we look at the fact that interest rates are low -- and we all know they are low right now -- and they are low because of the effect of Federal policy and we know that Federal intent is to normalize interest rates, we reasonably can conclude that interest rates will go up. And as interest rates go up, generally speaking, the cost of equity will go up.

As the Federal Government begins to normalize policy in anticipation of higher growth within the overall macroeconomic economy -- within the overall economy, again, we can see the potential for growth which would tend to increase the cost of equity.

When we look at all of those variables and we see what the market is saying about those variables, I think we can conclude, on balance, the market sees those factors as more likely increasing than decreasing.

Q I appreciate your thoughtful qualification. Is that a qualification to a yes or a no?

A It's a yes.

Q Then can I not draw a conclusion from that that a four-year plan is a riskier proposition than a one-year rate decision?

A I think that is a judgment that people have to weigh. There are certainly benefits associated with a four-year plan. There's rate stability. There's predictability. There's efficiency in the prosecution of events such as these.

There is the ability of the company to focus on operations. There are lots of benefits associated with a four-year plan. And I recognize that and appreciate those.

But I think we also ought to recognize the fact that utilities are capital-intensive enterprises. And because they are capital intensive, they depend very, very heavily on external capital. And because that's the case, I do think we need to take into account the fact that these costs may rise in the future.

So, I do think it's a judgment. I understand that there's benefits associated with the four-year plan, but I also think that we ought to consider the other side. We ought to consider the potential for increasing capital costs.

Q So, assuming -- and I don't believe that the evidence supports this, but assuming that there's going to be a rate increase as opposed to a rate decrease as a result of the --

MR. LITCHFIELD: Objection to counsel characterizing the outcome or predicting any particular outcome which otherwise testified.

CHAIRMAN BROWN: I didn't hear that --

MR. COFFMAN: I simply said that I'm not conceding that the evidence supports a rate increase in this case, but assuming that there was --

CHAIRMAN BROWN: Objection overruled.

BY MR. COFFMAN:

Q Assuming that there will be a rate increase as a result of this case, would you be telling this Commission that if it is going to approve a series of rate increases over a number of years that the authorized return on equity should be higher than if they were approving only a one-year rate increase?

A I think my recommendation, my 11 percent recommendation, takes into consideration the fact that over the course of four years, interest rates likely will increase. As to what my recommendation would be absent a four-year plan, I couldn't tell you. I've not really done that.

Q So, you haven't even considered that possibility.

A I've looked at the four-year plan, and I've thought about it in the context of the four-year plan. I've looked at the likelihood that rates will increase over the course of that four-year plan.

And to be clear, my 11 percent recommendation takes into account the likelihood of those increases. It also takes into account the fact that the company foregoes the option to seek a rate relief over the course of those four years.

So, would my recommendation be lower if it were a one-year plan? Perhaps. But my recommendation takes into consideration the fact that it's a four-year plan.

MR. COFFMAN: Okay. Thank you very much. That's all I have.

CHAIRMAN BROWN: Thank you. It looks like we're at 4:00 right now. Let's take about a five-minute break and let the court reporter rest her hands and stretch. So, we'll reconvene at 4:05.

(Brief recess.)

MR. LITCHFIELD: Madam Chairman, we are willing to stipulate that Mr. Smith -- this was OPC's witness that had travel constraints. Therefore, it would be unnecessary for him to travel at all. We're willing to take Mr. Steve Chris, the Wal-Mart witness, the other constrained witness, out of order sometime Wednesday afternoon. He'll arrive apparently around 1:00 on Wednesday.

So, we'd be willing to take him out of order during our rebuttal case if that will accommodate the parties and solve a few of our scheduling constraints.

CHAIRMAN BROWN: Muy bueno. Any problem?

MS. BROWNLESS: No, that's great. Thank you.

CHAIRMAN BROWN: OPC.

MR. SAYLER: Yes, ma'am, we'll take that stipulation.

CHAIRMAN BROWN: Thank you all for working together. Makes it a little more efficient for us.

MR. MOYLE: It was a great five-minute break.

MS. BROWNLESS: I am so sad to say this, but we do have cross examination questions for Mr. Smith.

MR. LITCHFIELD: I apologize. They only checked with me.

MS. BROWNLESS: And nobody checked with us before now. If you can give us five minutes, perhaps we can resolve this, please, ma'am.

CHAIRMAN BROWN: Absolutely. How about let's give you ten minutes. Is that enough?

MS. BROWNLESS: That would be lovely.

CHAIRMAN BROWN: Let's reconvene at 4:20.

MR. LITCHFIELD: Well, Madam Chair, I was going to suggest that we don't have to have the decision made in the next ten minutes. We have the next break.

I would also like to take the opportunity to indicate that the exhibit, the late-filed exhibit from Ms. Santos' testimony in response to Commissioners Brise's questions, has been circulated to all the parties.

No one has any objections to it being marked and entered into the record, if you would like to do that now.

CHAIRMAN BROWN: Let's do it now. We are at 658. I don't have a copy of it.

MR. LITCHFIELD: And we will circulate that right now.

MR. SAYLER: And Madam Chair, as a way to expedite things, we do have some exhibits to pass out immediately after the Larsons go. So, maybe we can pass out our exhibits at the same time just as soon as --

CHAIRMAN BROWN: No.

MR. SAYLER: No? Wait?

CHAIRMAN BROWN: A little confusing. Thank you.

MR. SAYLER: Trying to be helpful.

CHAIRMAN BROWN: Thank you, though. We have a lot of paper in front of us. I love the title. This is great. This is great. Okay. So, we will mark this as 658. It is titled response to Commissioner Brise, Re: Call Center Metrics, proffered by FPL. Thank you.

MR. LITCHFIELD: We thought about titling it totally responsive to Commissioner Brise, but we went with this.

CHAIRMAN BROWN: All right. Do we have any more housekeeping items or can we proceed?

MS. BROWNLESS: Excuse me. With regard to Exhibit 658, are we moving it into the record now or what are we are doing?

MR. LITCHFIELD: Yes, I moved it.

MS. BROWNLESS: And it's an exhibit, been accepted?

CHAIRMAN BROWN: Yes.

MS. BROWNLESS: Sorry. Thank you.

CHAIRMAN BROWN: I thought that was clear. So, we are on, looking at the order -- AARP, you're finished?

MR. COFFMAN: Yes, ma'am.

CHAIRMAN BROWN: We are on the Larsons.

MR. SKOP: Thank you, Madam Chairman, just a few questions.

EXAMINATION

BY MR. SKOP:

Q Good afternoon, Mr. Hevert. I'm Nathan Scop representing the Larsons. Just a few questions with respect to your direct prefiled testimony. To begin with, you would agree that FPL is a strong and financially healthy company, correct?

A I would agree that the company has a strong A-minus credit rating. Yes, I would agree that's true.

Q And you would also agree that its parent, Nexterra, is also a strong and financially healthy company, correct?

A That's correct, although I would say that my analyses are focused on FPL.

Q Thank you. Going back to a question that you answered from one of the intervenors regarding a constructive regulatory environment, you would agree that under a constructive regulatory environment, the Commission would be expected to make appropriate downward adjustments to ROE when the risk-free rate has declined significantly, correct?

A No, I would not agree with that.

Q So, it's only a one-way street? When interest rates rise, then the utilities should get a higher ROE?

A I think your question, at least as I understood it, was a general proposition. I don't believe that's true as a general proposition. I think that there are circumstances such as we talked about a little bit earlier when interest rates are being driven by monetary policy that is intended to change over time. That's one thing.

The next point is that the return on equity and interest rates generally move directionally, but they don't move in lock step. So, I don't think I can agree with a general proposition like that.

Q So, when Fed policy has been in effect for a number of years and the risk-free rate has been substantially lower than historical levels, then do I understand your testimony to mean that the utility should then still be allowed to capture a higher ROE which includes a higher market premium?

A I think there's a few things in there that I'd like to address. One is when you say a market premium, I assume what you're talking about is the difference between the cost of equity and interest rates.

And if your question is as interest rates fall should that premium increase, the answer is unequivocally yes. That's been proven many times over by many studies. As interest rates fall, the equity risk premium increases. There's no doubt about that.

So, the equity risk premium would expand as interest rates decrease, generally speaking. I think that's especially the case when you have, again, interest rates that are being so driven by monetary policy.

And there have been times when interest rates fall, and they fall because investors are just skittish. They're afraid. They want to move into a security that has a lot of security such as Treasuries. What that means their level of risk aversion has increased, and they require a higher return.

So, there are lots of reasons why as interest rates fall, the cost of equity could go up, but certainly as interest rates fall, the equity risk premium goes up.

Q Okay. To expand on that a little bit, when Fed policy results in a risk-free rate that is low, consumers also feel that lower rate in terms of interest rates that they would receive on savings, correct?

A Yes, I agree with that.

Q So, if I understand, your testimony is that when interest rates fall, the utility's ROE should be

held constant; is that correct?

A I don't know if it's constant. It depends on the circumstances and it depends on the level, but the proposition is this and it extends beyond utilities: As interest rates fall, the premium that equity investors require increases.

Q If I could ask you to turn now to Page 10 of your testimony through Page 12, beginning on Page 10 at Line 11 and continuing to Page 12, Lines 1 through 2.

A Yes, I'm there.

Q And in that passage of your direct prefiled testimony you speak about the Bluefield and Hope decisions and the principals that came out of those Supreme Court decisions, correct?

A Yes, that's right.

Q And on Page 12, Line 1 continuing to Line 2, I guess the take-away from the Bluefield and Hope cases, amongst other things, is that the return needs to be set appropriately -- it needs to be adequate to maintain and support the company's credit and to attract capital, correct?

A I think that's right. What I would say is this is my, again, layman's interpretation. I rely on lawyer's interpretation on the Hope and Bluefield standards. There are three parts to it: The comparable risk/comparable return, the capital attraction and financial integrity portions. So, in my view, I look at Hope and Bluefield as addressing those three issues.

Q And you have no reason to doubt that FPL from the period of 2010 when the rate case and the settlement was decided to present day has any problems in raising capital or attracting capital, correct?

A I've no reason to believe that FPL has had a hard time attracting capital, and I think it's in large measure due to the company's financial position that it has developed and has been part of the constructive regulatory environment.

Q And you would also agree that since 2010, FPL has made billions of dollars of additional investment to rate base, correct?

A Oh, yes.

Q But since 2010, FPL has made that investment at a mid point ROE of 10.5 percent, correct?

A I agree with that, yes.

Q And you have no reason to doubt that FPL's parent company, Nexterra Energy, has the ability to attract capital, would you?

A I've no reason to doubt that, but again, my analysis is focused on FPL, not the parent company.

Q Very well. Thank you. If I could ask you now to turn to Page 16 of your testimony, Lines 12 through 16. In that passage of your testimony, you indicated that you did not include Nexterra Energy, Inc., in your analysis, correct?

A That's right. This has been my long-standing practice.

Q All right. Thank you. If I could ask you now to turn to Page 19 of your testimony which generally addresses the Capital Asset Pricing Model Analysis.

A Easy for you to say. No, that's right.

Q As you can see in your testimony, it provides the mathematical formula and the beta, the risk-free rate, the required return on the market as a whole as well as the required market cost of equity.

So, the question I have on Page 19, what did you utilize for the risk-free rate of return in your analysis?

A I used three measures. I used the current risk-free rate. I used the projected 2017 risk-free rate, and a projected 2020 risk-free rate. And I'm sorry, I should be clear. Those all are based on the consensus projections provided by Blue Chip Economics.

Q Historically what has been the average

risk-free rate?

A Going way back?

Q Yes.

A Well, if you were to look at the source that a lot of people use for historical analyses of this type of work, they'll look at the long-term, risk-free rate as being about 5.2 percent.

The one thing I would say is that 5.2 percent relates to a 20-year, as I understand it, Treasury security. Here we're using a 30-year treasury security, so it would be somewhat higher, but it's about 5.2 percent for the 20-year Treasury.

MR. SKOP: May I have a moment, Madame Chair?

CHAIRMAN BROWN: Sure.

BY MR. SKOP:

Q So, you would disagree that the historical risk-free rate of return is approximately 3.5 percent, correct?

A If you're looking at a real risk-free rate at 3.5 percent and you figure inflation historically has been somewhere around 2 percent, that might come close, but the long-term historical risk-free rate I would not agree has been 3 percent.

And just one thing. When I say long-term historical, I'm talking about a very long-term time series. I don't know what period you're looking at.

Q I believe my time period was into the thirties, but maybe my recollection has failed me in my old age.

If I could ask you to turn to Page 20 of your testimony.

A I'm there.

Q And it discusses at Lines 12 through 18, your use of the risk-free rate. You looked at the current rate on 30-year Treasury bonds, which is subject to check, on Line 16, 2.96 percent. And then you also looked at 30-year Treasury yields as reported by Blue Chip Financial Forecast for the proposed period in 2017 which is 4 percent. And I believe you stated 4.8 percent in 2020.

Did you only consult Blue Chip Financial Forecast for the out-year projections?

A I'm sorry. Is your question is Blue Chip the only source that I looked at?

Q Yes.

A Yes, Blue Chip is the source that I consistently use. It's commercially available. And in my view, it's used quite a bit by the investing community.

Q I believe you stated in response to questions from intervenors about the Fed policy and their desire to normalize interest rates. You can't say with any certainty when that will happen, correct?

A That's a good point. We cannot say with certainty. What we can do is look at what the market is saying. For example, the Chicago Board of Options Exchange has a method that they can use to calculate the implied probability of a Federal funds increase based on options on Fed funds futures.

When I last looked at it, the probability -- what the market is telling us is that there's about a two-thirds chance of a rate increase over the coming year, and that rate increase could be 25, 50, 75 basis points.

So, when we look at the market, the market is telling us that even within a year, it's more likely than not that there will be an increase in the Federal funds rate.

Q Thank you. Going back to Page 19 of your testimony, you on Page 11 identified the beta for the use in the Capital Asset Pricing Model. What was the beta used in your calculation?

A There were two sources of beta coefficients that we used. One is from Value Line. The other is from Bloomberg. We choose those two sources because again, I think they're very frequently and widely used in the financial community.

If you ever watch CNBC or Squawk Box, you see a bunch of people sitting behind a Bloomberg terminal. So, we think that's a pretty good indication that it's widely used.

There are slight differences between the two. Value Line calculates their beta coefficients over a five-year period of time; Bloomberg over a two-year period. There are other subtle differences, but that's the principal one.

Q Thank you. And that is on RBH-7, correct?

A I believe that's right. I'm just going to check and make sure. Yes, that's right.

Q But to determine appropriate -- well, let me reframe this question. FPL stock is not individually traded, correct?

A Yes, that's correct.

Q If we have excluded its parent company and its stock is traded at its parent company level, then shouldn't --

MR. LITCHFIELD: Object to the question. It's vague. Counsel said "its stock" in the same sentence as Nexterra. It's not clear to me whose stock he's referring to.

MR. SKOP: I will reframe. Thank you.

CHAIRMAN BROWN: Please.

BY MR. SKOP:

Q So, you indicated the FPL stock for the regulated utility is not traded on an individual basis, correct?

A Correct.

Q All right. And so, FPL is a wholly-owned subsidiary of Nexterra Energy, Inc.; correct?

A Yes.

Q So, Nexterra Energy, Inc., subject to check, is traded under the stock ticker symbol NEE on the New York Stock Exchange, correct?

A Correct.

Q So, in terms of determining the beta to use for CAPM ROE analysis, wouldn't the beta of the parent company come into play?

A No, for the following reason: One is what we're doing here when we look at the cost of equity, it's based on the principle of opportunity costs. Opportunity costs is the return that you would get on an investment of comparable risk. It goes back to Hope and Bluefield.

That's the way we look at rate of return.

That's the whole purpose of establishing proxy groups. We want to establish a group of companies that are publicly traded that are fundamentally comparable to the subject company. We use their market data as a proxy for the subject company's data.

We don't use the parent company because, as I said in my testimony, there would be an element of circularity, but I think, more importantly, the issue is using proxy companies is more consistent with the Hope and Bluefield standards. It's more consistent with the principle of opportunity costs which really underlie the cost of equity.

Q Thank you. So, generally on your Exhibit RBH-7, you list a group of proxy companies. Each of those has their own stock ticker symbol, correct?

A Yes, that's correct.

Q So, unlike FPL, the regulated utility, these are somewhat different because FPL's stock, as you testified to, is not publicly traded, correct?

A That's right. And that's why we go through a whole exercise of screening companies out so that we can get companies that we think are most fundamentally comparable to FPL.

Q And FPL, you would agree, has a very strong balance sheet, correct?

A Well, again, I think if you measure that by reference to its credit rating at an A-minus rating, I would consider that strong, yes.

Q So, having a strong balance sheet would otherwise imply less risk, correct?

A For the perspective of a debt-holder. We were talking a little bit earlier today about the difference between debt and equity and about the issue of residual risk to equity holders. I think we can say that generally there's a relationship between credit ratings and overall risk but only to a point.

I think if you were to look at, for example, combinations of ROE estimates and credit ratings, there's not often a strong relationship between the two. So, I do think that credit ratings are helpful in establishing proxy groups, but I don't think we can use credit ratings as a measure of the cost of equity.

Q Thank you. Continuing on Exhibit RBH-7, you list the mean for the proxy group companies and the co-efficients from Bloomberg and Value Line. Can you explain why the coefficients are substantially different between the two?

A I'm sorry, I didn't mean to interrupt. Was there something you needed to finish?

Q No, I just was asking if you could explain

the difference between the coefficients for the proxy group between Bloomberg and Value Line in terms of the mean values.

A Sure. I mentioned a little bit ago that Value Line calculates their beta coefficients over five years and Bloomberg calculates their beta coefficients over two years. Let's first -- I can go back and just give you a general sense of what these statistics are meant to represent.

They are meant to the represent of relative risk of a company to the market. So, if the market moves by 10 percent and the company had a beta coefficient of one, it would move by 10 percent. If its beta coefficient were .8, it would move by 8 percent.

That's, generally speaking, what these coefficients calculate. It's what they measure, rather. The way they're calculated is by looking at returns on the security relative to return on the market over a long period of time. It's a regression analysis.

Now, Bloomberg calculates it over two years; Value Line over five. Over the most recent two years -- and I would say from late 2015 into the early perhaps mid part of 2016 -- we saw the utility sector trade up in value to the point that it was in excess of the market on a price-to-earnings ratio.

What that meant was that it became less correlated with the whole market. We were talking about one of the equations earlier, and we can go through that, but the point is during that period, the utilities did not move as much in the same direction as the rest of the market. So, the beta coefficient was lower.

I think -- and I've said in my testimony -- that that period of time is a function of Federal policy, the Federal Reserve's intervention in the market. I don't think we can take those results and consider them to be a very meaningful representative of investors' expectations looking forward, but the principal difference is the calculation period.

Q So, following up on what you just said, are FPL customers investors?

A I don't know which FPL customers may be investors in any of these companies.

Q All right. Do you know the average risk-free rate of return in the market from in January of 2010 to present? Do you have an average value for that?

A Do I know the average offhand? No, I don't know the average offhand. I know that at points in 2012, it was about the same level. If we look at the 30-year Treasury yield, it was about the same level it is now. It had gone up, and it had gone down.

I could not tell you offhand what the average has been. It's been quite volatile over that period.

Q But lower than historic norms, correct?

A Oh, I certainly would agree with that for all the reasons that we talked about earlier.

Q So, going back to your contention that because of Fed policy, you know, with respect to the low risk-free rate, effectively you're stating that that should not be considered because over a six-year period that's an outlier, correct?

A I don't think I'm saying exactly that. You'll see that all the data I have in here is based on the current market, and the current market reflects the Federal Reserve's policies.

I think what we have to be careful about is understanding each of the models in their assumptions and whether or not an assumption that, for example, the current market conditions, including the Federal Reserve's intervention in the market, is going to stay in place in perpetuity.

I think those are the types of observations that we have to make in some of the evaluations we have to make. So, I'm not saying that we don't take into account the current market conditions. All of my analyses do reflect current data. We just have to be very careful in how we interpret it.

Q So, unlike consumers that are affected by Federal policy, FPL should be insulated from that, correct?

A I'm not saying that they should be insulated from anything. I'm saying that the cost of equity ought to reflect investors' requirements and it ought to reflect investors' expectations. And I don't think investors expect Federal policy to remain in place forever, which is essentially what some of these models assume.

Q Referring back to what's been marked as entered in evidence as Exhibit No. 368. I'm going to ask -- I'm sorry, 638. I appear to be a bit dyslexic today. I'm sorry. I recognize you might not have the it --

CHAIRMAN BROWN: Do you have a copy of that?

THE WITNESS: I'll see. There's a stack here.

MR. SKOP: If not, I will ask a general

question which may not require --

CHAIRMAN BROWN: Mr. Skop, did you say 638?

MR. SKOP: Yes, ma'am.

CHAIRMAN BROWN: That is an excerpt from NEE 2015 annual report, correct?

THE WITNESS: Correct.

MR. SKOP: Looks like someone broke the rules. It's not up here, but I would appreciate seeing it, if we could.

CHAIRMAN BROWN: Absolutely. We're having them get it to you.

BY MR. SKOP:

Q If I could ask you to turn to Page 56 of the document.

A Yes.

Q At the top right-hand corner, it lists the breakdown for FPL for the various years ending December 31st?

A Yes, I see that.

Q And if I could ask you to look at the entry for 2015.

A I see a column for 2015, yes.

Q And do you see under the header sources of cash, cash flow from operating activities for FPL for 2015?

A Yes, I do.

Q And you would agree, would you not, that that's in excess of $3.3 billion?

A I would. The other point I would make from this is if you look down the column a little bit more to uses of cash, you see capital expenditures of about 3.6. That means that the company's internal cash flows were not sufficient to cover its capital expenditures.

And again, this goes back to the point made a little bit earlier about the need to ensure that the company has the flexibility and the ability to access external capital because right here, 2015, on a free cash flow basis -- free cash flow meaning cash flow from operating activities less capital expenditures -- it was in a negative position.

Q Do you see the column net increase in cash and cash equivalents just below that?

A Yes, I'm sorry. I see that.

Q And for 2015, there was a net increase in cash, correct?

A Yes, right.

Q And that's after FPL and its parent had paid or after -- excuse me. There's an entry for dividends there, correct?

A Yes, it is.

Q And obviously, FPL is not paying dividends directly because its stock itself is not publicly traded, but that net increase in cash for FPL is after a reduction for dividends, correct?

A That's part of it, that's right. It was after dividends, after long-term borrowings, after capital contributed from any other sources.

MR. SKOP: Moving on, I just have a few more questions, Madam Chair.

CHAIRMAN BROWN: All right.

Q On Page 39 of your testimony, Lines 5 through 10, you discuss maintaining financial integrity in a variety of economic and capital market conditions. You see that?

A I'm sorry, that was -- I see, yes. Lines 10 and 11?

Q Nine and ten.

A I'm sorry. Yes, I'm there.

Q And basically, it says to maintain its financial integrity in a variety of economic and capital market conditions, correct?

A Yes, that's right.

Q Do you have any reason to doubt that from 2010 to present where FPL has made billions of dollars in investments at a 10.5 percent ROE, that it has not

been able to maintain its financial integrity under a variety of economic and capital market conditions including the greatest recession since the great Depression?

A   Well, I think if your question is since 2010 has the company been able to maintain its economic condition, I agree with you. And I also think that when we saw the great capital market contraction in 2008-2009, companies such as FPL that were financially strong were able to go into the markets.

That's the point. Financial flexibility/ financial strength enables you to go into the markets during those really different periods, during those tough times. I'd certainly defer to Mr. Dewhurst on this, but in my own experience raising capital, I never had to deal with a situation like 2008-2009. And still there were times at which markets became constrained, and I was thankful that the company I worked for had a strong A credit rating.

So, when I say a variety of capital market conditions, it includes those very difficult periods of constraint in like 2008-2009.

Q   Are you familiar with the Commission's decision in the 2009 FPL rate case?

A   Yes. Generally, yes.

Q And you would agree that during the rate case, one of the issues that FPL raised would be its inability to attract capital if the rate request was not approved?

A I cannot speak to that offhand.

Q Subject to check, would you agree in the wake of the 2009 FPL rate case decision, that FPL reported strong earnings since that time?

MR. LITCHFIELD: I'm not sure how he's going to get the witness to agree subject to check, a contention that Mr. Skop apparently has no interest to put in front of him.

MR. SKOF: I will reframe. Thank you, Mr. Litchfield.

BY MR. SKOF:

Q You would agree that FPL has reported strong earnings since the Commission's decision in the 2009 FPL rate case where the majority of the FPL rate increase was denied, correct?

A I'm not sure how you calculate --

MR. LITCHFIELD: I'll object to the predicate that Mr. Skop is laying. For one, it omits a very important part of that timeframe including a settlement that allowed FPL to be restored to a somewhat acceptable or reasonably adequate position to bridge it through to the next rate case. That testimony has been submitted in this case, so I resist Mr. Skop's attempt to recharacterize history for purpose of making a very personal point here.

MR. SKOF: Thank you, Mr. Litchfield. Madam Chair, I will withdraw that question and ask a very different one.

CHAIRMAN BROWN: Thank you.

MR. SKOF: Yes.

BY MR. SKOP:

Q Since the 2010 settlement that was approved by the Florida Public Service, FPL has reported strong earnings, correct?

A I don't know what you mean by "strong earnings." I would say FPL has reported earnings, and FPL has maintained its credit quality. I don't know what you mean by strong earnings.

Q Record earnings, quarter to quarter and year to year from 2009 to 2010.

A Excuse me. I don't know about the record quarter to quarter earnings.

Q All right. We'll move on. You stated that one of the factors that you considered in your analysis was a geographic risk, correct?

A Yes, that's right.

Q You would agree that geographic risk to the extent considered in an ROE analysis if -- excuse me. I'm misreading my question. Sorry.

To the extent that geographic risk is considered an ROE analysis, you would agree that that risk would be mitigated if the Commission has a proven track record of allowing the timely recovery of prudently-incurred storm recovery costs, correct?

A I think it's mitigated to some degree, and this goes back to the financial flexibility issue we were talking about a minute ago.

When you have large storm cost recovery needs, those cash flow needs are immediate. As a consequence, you need the immediate financial flexibility. You need the liquidity to be able to deal with those issues.

If you can gain recovery later, that's certainly a benefit, but in the near term, you need to be able to pay out of cash flows and out of short-term sources of liquidity to be able to deal with those expenses that arise.

So, it's that issue of financial flexibility that I think is in the period between when the restoration activities begin and the recovery begins that's an important consideration.

Q Now, with respect to your recommended range of ROE for a midpoint, I believe it was 10.5 percent to 11 percent but with a recommended mid point of 11, correct?

A 10.5 to 11.5 with 11 as the recommendation.

Q Do you have any reason to believe that FPL would not be able to make additional investments if this Commission were to set the ROE at 10.5 percent.

A I think anything within my range is reasonable. That's why I said it that way. My sense is that it becomes more likely to be the best estimate of investor-required returns towards the mid point, but that said, I think anything within my range is a reasonable estimate.

Q I just have one final question. Do you know off the top of your head the beta for Nexterra Energy stock, NEE?

A No, I don't because it's simply not part of my analysis.

MR. SKOF: Thank you. No further questions. Thank you, Madam Chair.

CHAIRMAN BROWN: Thank you, Mr. Skop. Now, we're on public counsel. Mr. Sayler, now is a good time to pass out those exhibits. Staff, can

you assist him, please.
MR. SAYLER: Thank you, Madam Chair. There are quite a number of them, so it will take a few moments.
CHAIRMAN BROWN: Sure
MR. SAYLER: And these exhibits consist of excerpts from Mr. Hevert. Did I get that right, Hevert?
THE WITNESS: I know who you mean.
(Laughter.)
MR. SAYLER: There are quite a few, so I have a summary page, just a quick way to organize them in short titles and things of that nature.
CHAIRMAN BROWN: There must be a lot.
MR. SAYLER: And they are all organized in order, and there's two boxes.
CHAIRMAN BROWN: Very nice, thank you.
MR. SAYLER: I took your admonition to heart to organize it ahead of time.
CHAIRMAN BROWN: Thank you. Let's take a five-minute break. It looks like they are trying to figure it out. Five-minute break.
(Brief recess.)
CHAIRMAN BROWN: Mr. Sayler.
MR. SAYLER: Thank you, Madam Chair. I

apologize for the confusion. The large packet that is in the binder clip are on my list here Exhibits 1 through 12.

CHAIRMAN BROWN: Right.

MR. SAYLER: And then the next four that came out should be in the order as shown here, 13, 14, 15 and 16.

CHAIRMAN BROWN: Got it all organized. Before you go, I just wanted to note for the record that Sierra Club has been excused for the rest of the evening but will be back tomorrow. Also, staff has an announcement.

MS. BROWNLESS: Yes, ma'am, we can stipulate to excuse Mr. Smith.

CHAIRMAN BROWN: Okay. Thank you. And any questions before we begin? It's official. He is excused.

Please proceed.

MR. SAYLER: All right.

CHAIRMAN BROWN: Would you like to label these at this time?

MR. SAYLER: Yes, I was going to suggest that.

CHAIRMAN BROWN: We're at 659. So, would you like to do it in the order that you have it listed?

MR. SAYLER: Yes. No. 1, Otter Tail Power Company testimony in South Dakota would be 659.

CHAIRMAN BROWN: We will do that.

MR. SAYLER: 660 will be SCEGS testimony in South Carolina.

CHAIRMAN BROWN: 660, okay.

MR. SAYLER: 661 would be TECO testimony.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 662 is 30-year Treasury Rate.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 663, recent V-I-X or VIX. 664, New Mexico testimony.

CHAIRMAN BROWN: Uh-huh.

MR. SAYLER: 665, New Hampshire testimony.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 666.

CHAIRMAN BROWN: You said it.

(Laughter.)

MR. SAYLER: Poor Kansas. That's KCP&L in Kansas testimony. 667, KCPL operations in Missouri testimony. 668, KCPL credit rating.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 669 is PSCNC testimony in North Carolina.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 670 is historical Hevert market risk premiums.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 671 will be the June 2014 CO, as in Colorado, and December 2014 NM, as in New Mexico, testimony comparison.

CHAIRMAN BROWN: Okay.

MR. SAYLER: 672, Hevert 2014 KCPL in Missouri.

CHAIRMAN BROWN: Okay.

MR. SAYLER: And 673, four -- No. 15 will be 673, four 2016 Hevert testimonies.

CHAIRMAN BROWN: Okay.

MR. SAYLER: And last for 16 will be 674, Hevert DCF and CAPM results, 2008-2016.

CHAIRMAN BROWN: Okay. We will mark all of those exhibits as you have identified in the order. I hope our court reporter has those all correctly.

And with that, Mr. Sayler, seeing a nod, you may proceed.

MR. LITCHFIELD: I'm sorry. Madam Chairman, we might have missed a couple of those designations. May I ask a couple of clarification points?

CHAIRMAN BROWN: I can help you with that.

MR. LITCHFIELD: Thank you. Which number is the historical Hevert market risk premium?

CHAIRMAN BROWN: That is 670. Do you need a copy?

MR. LITCHFIELD: No, I have one. I think that was the only one I was missing. Thank you very much.

CHAIRMAN BROWN: Anyone else? Mr. Guyton?

MS. GUYTON: Which one is 668?

CHAIRMAN BROWN: 668 is KCPL credit rating.

THE WITNESS: Can I ask one?

CHAIRMAN BROWN: Yes, please. Into the microphone.

THE WITNESS: Oh, I'm sorry. Hevert DCS and CAPM results, 2008-2016.

CHAIRMAN BROWN: The last one, 674.

THE WITNESS: 674, thank you.

CHAIRMAN BROWN: Let's roll.

FURTHER EXAMINATION

BY MR. SAYLER:

Q Good afternoon, Mr. Hevert.

A Good afternoon.

Q My name is Eric Sayler on behalf of the

customers. I believe this is your first time testifying as the Florida Public Service Commission; is that correct?

A It is.

Q Welcome to the PSC.

A Well, thank you.

Q I do have a lengthy list of questions, some general background questions. And if you can answer yes, no, I don't know first and if you feel you need to do an explanation, feel free, but I do have a lot of cross. Hopefully, we can move along expeditiously.

CHAIRMAN BROWN: So, I think what he's saying is you can be succinct with your clarification.

A Well, yes.

Q Furthermore, some of these exhibits that were passed out may not necessarily be relied upon, depending upon some of the answers that you respond. So, even though they are marked, we may not necessarily go through them.

A Fair enough.

Q A few background hypothetical questions. This is about expert witnesses. You're an expert witness who's testified about ROE-type matters in about 150 jurisdictions; is that correct?

A No, in about 150 cases.

Q 150 cases. Thank you. And you've been providing expert witness testimony since 2001?

A Since 2001. Yes, I think that's about right.

Q And in your years of testifying, you've seen many expert witnesses testify in this area --

A I have.

Q -- in your discipline. And you would agree that some are better than others; is that correct?

A It's not my judgment to make.

Q And when it comes to the credibility of witnesses, you would agree some have more credibility than others; is that right?

A Same answer. Not my judgment to make.

Q When it comes to credibility of a witness, how would you define that?

A I'll tell you how I focus on my credibility, and that is based on my background. It's based on my practical experience. It's based on my training. It's based on the way I apply my approaches, and it's the way I look at the market.

Q All right. Thank you. And you would agree that providing consistent testimony and analysis before different regulatory bodies helps bolster and reinforce

a witness' credibility?

A I don't want to belabor this and extend it, but when you say "consistent," I'm not sure what you mean by that.

Q Consistent applications of the various models and analyses and inputs and things of that nature.

A I don't fully agree with that. As I said earlier today, the application of models depends upon the prevailing market circumstances. So, to consistently apply one model and to consistently give that model one weight I don't think is a credible approach, and I should say consistently doing so without respect to market conditions.

Q And you would agree that if a witness changes their methodology from time to time, that could potentially undermine their credibility?

A I disagree.

Q Okay. And earlier today, you testified in your opening about the use of judgment by an expert witness?

A I did, yes.

Q And I believe you said that use of judgment applies to the models, the inputs and interpretation of results; is that right?

A Generally, that's correct.
Q And you would agree that expert witnesses are worth the money they are paid; is that correct?
A The market is the market.
Q And when it comes to this case, do you know how much your budget is for your fees in this case?
A I do not recall offhand. I should have checked that before I got here.
Q All right. Do you know how much you've billed to date?
A To date as a firm, I believe we've billed less than $100,000.
Q All right. And when it comes to hourly rates, do you have a rate -- one rate and then the different associates in your firm have other rates?
A I do. Typically in these types of projects, because we like to do them as efficiently as possible, we have a lot of hours put to the lower-rate people. I would say that on average if you looked at a weighted average billing rate, it's probably in the $240 range.
Q And is your hourly rate above that?
A It is, yes.
Q And is your hourly rate confidential?
A I don't think it is.
Q Okay.

A I would defer to the witness on that one.
Q If you don't mind, what is it?
A I believe in this case, it's $375 an hour.
Q All right. And do you have the same hourly rate in this case as you would in other jurisdictions?
A Yes.
Q And when it comes to finance, you'd agree that there's a positive relationship between risk and expected returns?
A I would say there's a positive relationship between risk and required returns.
Q But not expected returns?
A Well, to the extent expected returns equal required, then I would agree with you.
Q And you would agree that no one can accurately predict future interest rates; is that correct?
A I agree with that. That's why we look at multiple data sources, and that's why we look at, in particular, what the market is telling us.
Q And all the ROE experts rely on various models and methodologies to estimate a reasonable return on equity; is that correct?
A I agree with that, yes.
Q And the main models that I've noticed in

reviewing many testimonies are the discounted cash flow model?
A That's one.
Q Or the DCF method?
A That's correct.
Q And with that there are two subsets. That would be the DCF multistage and the DCF constant growth; is that correct?
A I would agree with that.
Q And then there's the Capital Asset Pricing Model or CAPM method?
A And there are variants of that that sometimes are used, but yes, that's one.
Q And do you use those variants depending upon what -- why would you use different variants?
A There are some jurisdictions, for example, in New York where, by practice, they'll use what's referred to as the Empirical Capital Asset Pricing Model. We adopt the practice there.
Q And then there's the Bond Yield Plus Premium Analysis; is that correct?
A Yes, that's right.
Q And it is true that you've used these various models throughout your career?
A I have.

Q And when estimating return on equities for utilities, you've provided testimonies for both gas and electric companies; is that correct?

A Yes, that's right.

Q And would the methodology for calculating ROEs for these utilities be pretty much the same except for the use of the proxy groups?

A No, there could be slight differences in some of the -- for example, some of the growth rates that we would look at for gas versus electric companies, but I would say, generally speaking, we use the same forms of the model. It's just that some of the inputs may differ.

Q Okay. And in helping you analyze the utility you're providing testimony for, you often have different proxy groups; is that correct?

A Yes, that's right.

Q And you're familiar with the term V-I-X or Volatility Index?

A I am.

Q And sometimes called the fear index?

A It's a colloquialism that I've heard, yes.

Q And you have both current as of today or recently and then there's also a Chicago Board of Exchange Index for VIX, is that correct, or futures

VIX?

A I think I understand your question, but let me just restate it to be sure. There is the currently-traded VIX which you can get off of Yahoo Finance, for example. And then the Chicago Board Option Exchange provides what they refer to as the term structure of volatility which is the implied level of the VIX based on options going forward about 18 months. So, I'm not sure if that's what you were referring to.

Q I believe so. And in the past, you've used that one in some of your analyses?

A Yes. For one particular analysis, I have, that's correct.

Q And do you currently use that analysis today?

A I do not for a very good reason.

Q Backing up to proxy groups, it's important to get the proxy group right. You want to have large companies with large companies, small companies with smaller companies?

A I've never used size. I've never used market capitalization as a screening criterion. I think fundamentally I agree with you that it's important to get companies that are comparable, fundamentally comparable, to the subject, but I've not used size as a criterion usually.

Q Did you use Duke Energy in your proxy group in this case?

A I think originally, I did. I'm just going to check real quick if you don't mind.

Q Certainly.

A No, Duke was not in my proxy group here.

Q And what about Tampa Electric?

A No, Tampa Electric was not.

Q Was that because they were subject to a recent merger?

A Yes, that would have been the reason.

Q And that same question for Southern Company. Did you use them?

A I did not, not in this case. I have in the past, but because of the acquisition of AGL, they were excluded.

Q And returning to the VIX or the volatility, where is the market now currently with the volatility index?

A The VIX right now currently is trading at about -- it's a little under 14.

Q And in this case, you're recommending an 11 percent ROE with a range of 10.5 to 11.5?

A That's correct.

Q And that is based predominantly on your reliance on the CAPM model; is that correct?

A I put a lot of weight on risk premium-based models in this case, that's correct.

Q And did you use the other models, the Sanity Check?

A I did not really use them as corroborating methods in this case, but I used the range of results of all the models.

Q And you and I believe Witness Dewhurst are supporting the company's request for a capital structure?

A Yes, that's correct.

Q And that's for ratemaking purposes?

A That's my understanding, yes.

Q And that's a 59.6 common equity ratio?

A On the basis of investor-supplied capital.

Q And you have a proxy group for common equity ratio?

A I have a proxy group that I use for both estimating the cost of equity and for looking at the common equity ratio.

Q Thank you for that clarification. So, it's the same unified proxy group for all purposes?

A Same group. The one clarification I would make is that for the purpose of looking at the capital structure, I focused my review on the utility operating companies held by the parent companies in the proxy group.

Q And when it comes to general questions about the risk of a utility, I believe a couple of my counterparts asked you questions about hypotheticals about if you keep all things the same but change one variable, it makes a company relatively riskier or less risky. Do you remember that?

A Yes, I do.

Q And just a couple of questions along that line to fill that out. In a hypothetical jurisdiction if there was a fuel capacity clause that allowed recovery of fuel O&M costs or fuel costs as well as capacity costs, that would make it less risky than a jurisdiction that didn't have that?

MR. LITCHFIELD: May I ask for a clarification? In this hypothetical jurisdiction, is there an office of public counsel that never opposes any recovery through the clauses?

MR. SAYLER: In hypothetical, yes. The real world is different.

(Laughter.)

CHAIRMAN BROWN: Thank you for that levity.

Mr. Sayler, I also want to remind you that some of this line of questioning that you had previously said they are already facts in the records. So, if you could streamline your cross to a new line of questions that aren't.

I believe your hypothetical is fresh, but if you could just streamline it, it would be great.

MR. SAYLER: Okay. I will just lump my hypothetical altogether.

BY MR. SAYLER:

Q If you had a jurisdiction that had a fuel clause, a clause that allowed you to recover any environmental compliance costs, allowed you to recover any costs associated with energy efficiency, costs associated with building nuclear power plants as well as a mechanism for storm cost recovery as compared to a jurisdiction that didn't have it, would a utility in that jurisdiction be less risky than one without all those?

A If everything else remained constant, then, certainly, those issues accelerate the recovery of costs and mitigate the uncertainty associated with some costs, but holding everything else equal, I think is a very strong assumption.

Q And were you aware that Florida is a

jurisdiction that has all those things?

A I am aware of that, yes.

Q Well now, we turn to the large stack of exhibits, Mr. Hevert. And in all of my paper, I lost my key. I apologize, Madam Chair. Ah, I found it. I apologize. As you made an excellent comment earlier, Chairman Brown, we're drowning in paper.

THE WITNESS: I'm sorry, Madam Chair, if we're going to get into the exhibits, I do not have full copies of these. These are excerpts.

CHAIRMAN BROWN: And FPL reminded the parties last night to make sure that they provide -- all Intervenors provide them with copies, full and complete of the exhibits.

Mr. Sayler.

MR. SAYLER: Madam Chair, I provided a copy on CD-rom earlier today to Mr. Butler, and I assume that was disseminated to FPL?

CHAIRMAN BROWN: Yes.

(Brief pause.)

(Transcript continues in sequence in Volume 19.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

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

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

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

DATED this 26th day of August, 2016.

Lisa Gainey

LISA GAINEY
NOTARY PUBLIC
COMMISSION #EE198942
EXPIRES MAY 23, 2020