**BEFORE THE**
**FLORIDA PUBLIC SERVICE COMMISSION**

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| In re: Petition for 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><br>Filed: September 19, 2016 |

# FLORIDA POWER & LIGHT COMPANY'S POST HEARING BRIEF AND STATEMENT OF ISSUES AND POSITIONS

# PART ONE: FPL'S POST HEARING BRIEF

## I. INTRODUCTION

On March 15, 2016, Florida Power & Light Company ("FPL" or the "Company") filed a petition for a base rate increase, its 2016 depreciation and dismantlement study, and a petition for approval of its 2016-2018 storm hardening plan. On April 15, 2016, FPL filed a petition for a limited proceeding to modify and continue its asset optimization incentive mechanism. On May 4, 2016, the Prehearing Officer granted Florida Public Service Commission (the "FPSC" or "Commission") Staff's motion to consolidate these dockets.

In the technical hearing held August 22-26, 29-31, and September 1, 2016, FPL presented in support of its requests the direct testimony of 17 witnesses and rebuttal testimony of 16 witnesses, as well as nearly 190 exhibits.[1] That evidence demonstrates FPL's need for a rate increase of $826,212,000 in January 2017 and a subsequent year adjustment ("SYA") of $269,634,000 in January 2018. The evidence also demonstrates the appropriateness of a limited scope adjustment ("LSA") of $208,771,000 in mid-2019, when the Okeechobee Clean Energy Center ("Okeechobee Unit") is scheduled to go into service. The evidence further demonstrates the reasonableness of FPL's proposed modification and extension of the asset optimization incentive mechanism. This brief explains how Florida law, FPSC policy, and the evidentiary record supports FPL's requests, and why intervenors' recommendations to disallow prudently incurred costs and substantially weaken the Company's financial strength should be denied.

## II. BACKGROUND AND OVERVIEW

Fundamentally, this case is about providing FPL the resources necessary to continue what has been working so well for customers. Through a collection of unsupported assertions and

[1] Certain witnesses filed direct testimony and/or rebuttal testimony in more than one docket.

theories, intervenors[2] seek once again to drastically change the highly successful paradigm that has produced industry leading performance and the strongest value proposition in the state, if not the entire country, for electric customers. Support for intervenor contentions is lacking, both in the real world and in the record of this proceeding.

Many of the intervenors themselves conduct business in various markets providing goods and services to customers. Certainly, those intervenors would agree that from the customer's perspective success in any market, whether regulated or not, is appropriately judged on the basis of the price and quality of the goods or services provided. Yet, that is not how the intervenors want to approach FPL's performance or the long-term strategy that has produced such industry-leading results. Intervenors are wrong, as FPL's track record and the experience of this Commission have proven.

FPL currently is operating under a four-year rate settlement approved by Order No. PSC-13-0023-S-EI ("the 2012 Rate Settlement"). The Commission recognized that the agreement "provides FPL's customers with stability and predictability with respect to their electricity rates, while allowing FPL to maintain the financial strength to make investments necessary to provide customers with safe and reliable power." Order No. PSC-13-0023-S-EI, pp. 7-8. The Commission's findings have been borne out over the term of the 2012 Rate Settlement. FPL has continuously delivered nationally recognized award-winning service, outstanding reliability, and one of the cleanest generation emissions rates of all large U.S. utilities. FPL has done so while maintaining a typical residential 1,000 kilowatt hour ("kWh") customer bill that today is 20% lower than the state average, 30% lower than the national average, and about 14% lower than it

[2] The following parties intervened in these consolidated dockets: the Office of Public Counsel ("OPC"), South Florida Hospital and Healthcare Association ("SFHHA"), Florida Industrial Power Users Group ("FIPUG"), Florida Retail Federation ("FRF"), Wal-Mart Stores East, LP and Sam's East, Inc. ("Walmart"), Federal Executive Agencies ("FEA"), AARP, the Sierra Club, and the Larsons.

was 10 years ago. Tr. 2804 (Cohen). FPL's typical commercial/industrial ("CI") bills also are among the lowest in the state and significantly below the state average. Tr. 2803 (Cohen); Ex. 139.

No intervenor credibly challenges FPL's performance in any material respect. Rather, they attempt to slough off FPL's accomplishments to: (a) lower natural gas prices (while completely ignoring all of the achievements that have nothing to do with lower gas prices); (b) scale advantages (even where others have similar scale advantages, *see* Tr. 417 (Reed) without the same performance and where FPL continues to make improvements wholly unrelated to scale); and/or (c) intervenors' expansive and legally incorrect interpretations of a regulated utility's "obligation to serve" (yet utterly failing to explain why other utilities therefore are not similarly performing or how that performance necessarily would fall short of such a standard).

Because performance matters for purposes of assessing the viability of FPL's strategic model (including the proposed capital expenditures proposed by the Company and the financial policies that underpin all that FPL does or must stand ready to do) and the requested performance adder, it is worth summarizing a few key metrics that went virtually uncontested in this proceeding.

*Fossil Fleet Performance:*

- From 2001 through 2014, the heat rate of FPL's fossil fleet improved nearly 22%, as compared with an approximate 6% average improvement for the industry. Tr. 805 (Kennedy). Strictly related to its best-in-class heat rate, since 2001 FPL's customers have saved an estimated $8 billion in fuel costs. Tr. 806 (Kennedy); Ex. 56.

- Non-fuel operations and maintenance ("O&M") per kWh and workforce requirements per megawatt have improved by 5% and 78%, respectively, since 1990. Ex. 54; *see also* Tr. 809-10 (Kennedy).

- FPL's fossil fleet also significantly outperforms other fossil fleets in the electric industry in terms of equivalent forced outage rate ("EFOR"), ranking either top decile or best in class in nine of the last 10 years through 2014. Tr. 807-08 (Kennedy).

*Nuclear Fleet Performance*

- FPL's Institute of Nuclear Power Operations ("INPO") performance has improved since the last base rate proceeding, while the cost per megawatt hour ("MWh") has come down substantially due both to cost control measures within the nuclear division as well as FPL's extended power uprate project. Ex. 66.

*Transmission and Distribution Performance*

- For more than a decade, FPL has attained the best overall transmission and distribution ("T&D") system reliability among all Florida investor-owned utilities ("IOUs"), as measured by the System Average Interruption Duration Index ("SAIDI"). Tr. 1055 (Miranda).

- Since 2006, FPL's SAIDI and T&D Momentary Average Interruption Frequency Event Index ("MAIFI") have improved by 23% and 33%, respectively. Tr.1069 (Miranda).

- For 2015, the Florida major IOU SAIDI average was 50% higher (worse) than FPL's. Additionally, FPL's 2014 performance ranked 44% better than the national average. Tr. 1055, 1069 (Miranda); Ex. 71.

*Emissions Profile*

- The progressive transformation of FPL's fossil fleet has resulted in it having one of the lowest emissions profiles among major U.S. utilities in terms of carbon dioxide, sulfur dioxide and nitrogen oxides. Tr. 419 (Reed); Ex. 40. FPL's CO2 emissions rate already is cleaner today than the U.S. Environmental Protection Agency's ("EPA") Clean Power Plan's 2030 goal for Florida. Tr. 120 (Silagy).

*Customer Service*

- FPL's rate of "logged" FPSC complaints has been reduced by almost 80% over the last decade. Tr. 703-04 (Santos); Ex. 51.

- FPL is nationally recognized for its customer service: FPL was recognized as a "Utility Customer Champion" in 2015, ranking first in the Southeast region and second nationally for residential customers, and fourth in the Southeast and tenth nationally for business customers. Tr. 685-86, 689 (Santos). Further, FPL's customer satisfaction for both residential and business customers is among the highest in the Southeastern U.S. region based on the average of the scores from JD Power's 2015 Electric Utility Residential Customer Satisfaction Survey and its 2016 Electric Utility Business Customer Satisfaction Survey. Ex. 136, p. 5.

*Non-Fuel O&M*

- FPL is a top performer at controlling non-fuel O&M expenses when compared to other electric utilities in Florida, other large utilities nationally, and a broader group of 27 utilities nationally. For 2014 alone, if FPL had been merely an average performer among a peer group of 27 electric companies, its non-fuel operation and maintenance costs charged to customers would have been approximately $1.91 billion higher than its actual costs. Tr. 418-19 (Reed).

Such strong performance is not accidental, but is instead the direct result of FPL's core strategy over the last 15 years, namely: (1) a relentless focus on efficiency and productivity; (2) smart investments that improve customer value; (3) sound financial policies including a strong balance sheet; and (4) a willingness to innovate and embrace new ideas and technology. Tr. 113 (Silagy). Underlying FPL's pursuit of excellence has been a constructive regulatory environment.

A singularly important element of FPL's strategy has been the consistent maintenance of a core set of financial policies, which have ensured the Company access to the financial resources it needs, under favorable terms, to execute its capital programs, to manage its liquidity needs, and maintain flexibility to respond rapidly to unexpected changes in the external environment – all of which are necessary to deliver superior customer value. Tr. 2451 (Dewhurst). Given the demonstrated success of both FPL's overall strategy and the financial policies that have underpinned it, there is no reason to make major changes.

FPL's filing proposes a continuation of those successful financial policies, updated to reflect today's market conditions, to support a continued strategy of improving the customer value proposition. Specifically, (i) the continued use of FPL's historical capital structure, (ii) the provision of an allowed return on equity ("ROE") of 11% consistent with current and expected capital market conditions, and (iii) the continuation of the current storm cost recovery

mechanism are three major elements that will continue to support FPL's ability to improve its already excellent customer value proposition. *See* Tr. 2451-52 (Dewhurst).

FPL's request also includes an ROE adder of 50 basis points ("bps") to reflect FPL's current outstanding performance and to encourage such performance from FPL (and other utilities) in the future. Tr. 2472 (Dewhurst); Tr. 5872 (Deason) (testifying that "it sends a message to other utilities that there are [ROE adder] opportunities."). The evidence supporting FPL's performance on a wide variety of objective standards that matter most to customers is uncontested, and the FPSC precedent and authority for granting ROE performance adders is well established. *See, e.g.*, Order No. 9628, aff'd, *Gulf Power Co. v. Cresse*, 410 So. 2d 492 (Fla 1982) (FPSC awarding 10 bps ROE adder).

FPL's request consists of: (i) an increase in rates and charges sufficient to generate additional total annual revenues of $826 million to be effective January 1, 2017; (ii) a subsequent year revenue increase of $270 million to be effective January 1, 2018; and (iii) a $209 million limited-scope adjustment for the Okeechobee Unit, to be effective on its commercial in-service date, currently scheduled for June 1, 2019. Tr. 1550 (Barrett). If these increases are approved, FPL commits to not seek a general base rate increase to be effective before January 2021, despite the likelihood that base revenue requirements will continue to increase during this period.

The four-year rate proposal offers customers base rate stability and certainty until at least January 2021 and will produce a typical 1,000-kWh residential customer bill that is expected to remain among the lowest in the state and well below the current national average. Tr. 116 (Silagy), Tr. 2825 (Cohen). In fact, FPL expects that, even with the requested increase, its typical residential CI customer bills through 2020 will be lower than they were in 2006. Tr. 115; Ex. 45 (Silagy). For further context, if FPL's request is granted in full, residential bills over the

period 2006 through 2020 will have decreased 1.4%, small business bills will have decreased 8.6%, and large commercial bills will have decreased 5.1% – as compared to a CPI increase over that same period of 33%. Tr. 2804-05 (Cohen); Ex. 140. As recognized by Walmart witness Chriss, it is total bills, not the individual cost components such as ROE that make up those bills, which matter most to customers. Tr. 5049; Ex. 766.

Based on the evidence in this proceeding, the Commission should approve FPL's four-year base rate proposal, endorsing the strategy that has provided and is expected to continue to provide enormous benefits for customers and one of the strongest, if not the strongest, value propositions among electric utility providers in the country.

## III. LEGAL STANDARD FOR COMMISSION DECISION-MAKING

As an administrative agency, the Commission is governed by the Administrative Procedure Act, Chapter 120, Florida Statutes ("APA"). In contested proceedings, the APA provides that "[f]indings of fact shall be based upon a preponderance of the evidence . . . and shall be based exclusively on the evidence of record and on matters officially recognized." § 120.57(1)(j), Fla. Stat. (emphasis added). The Commission is also obligated to set "fair, just, and reasonable rates." *See* § 366.06(1), Fla. Stat. Rates must be fair and reasonable to FPL as well as to its customers. Accordingly, the Commission must determine new just and reasonable rates if it finds that "such [current] rates are insufficient to yield reasonable compensation for the services rendered[.]" § 366.06(2), Fla. Stat.

"Reasonable compensation" includes both the recovery of prudently incurred costs of providing service, and the opportunity to earn an appropriate ROE. The U.S. Supreme Court has determined that an appropriate ROE is one which is consistent with returns on investments that have similar risk characteristics. *Bluefield Waterworks & Improvement Co. v. Pub. Serv. Com'n*

*of W. Va.*, 262 U.S. 679 (1923); *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). The appropriate rate of return is one which will enable the Company "to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." *Bluefield*, 262 U.S. at 693. Both the U.S. Supreme Court and the Florida Supreme Court have held that setting the ROE is a utility-specific, factual determination. *Bluefield*, 262 U.S. at 692; *United Tel. Co. v. Mayo*, 345 So. 2d 648 (Fla. 1977).

Particularly important in light of the evidence presented in this case, the Commission is specifically authorized to consider the value of the service FPL provides to the public. Section 366.041(1) states:

> In fixing the just, reasonable, and compensatory rates . . .the commission is authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service and the value of such service to the public…

FPL's performance in terms of the "efficiency, sufficiency, and adequacy" of its service and the value of that service to its customers is superb, and warrants consideration by the Commission in its evaluation of the issues presented in this case.

## IV. FPL'S QUALITY OF SERVICE AND VALUE TO CUSTOMERS (ISSUE 39)

The overall quality and value of FPL's service cannot be, and in fact was not, challenged. Whether compared to other electric utilities within Florida, within the Southeastern U.S., or across the country, the total value that FPL provides its customers stands out. FPL has demonstrated that it is possible for an electric utility to provide superior reliability, superior customer service, and clean power with low emissions, and to do so while maintaining highly competitive residential, commercial, and industrial bills. And not only is the absolute quality of service high and bills low, but FPL's service has been *improving* at the same time it has *reduced*

customer bills. FPL referenced many of its exhibits summarizing this performance during its opening statement, and most of these exhibits were never challenged by intervenors.

FPL knows that its customers highly value reliability. The undisputed record evidence supports FPL's track record of strong reliability performance as well as reliability improvements made over the last decade. Tr. 373 (Silagy); Tr. 1069, 1156-58 (Miranda). Excellent customer service also is an important benchmark. FPL witness Santos summarized the many customer service accolades that FPL has won. Tr. 685-86, 688-89, 703-04 (Santos); Exs. 48, 51. Because FPL works hard at providing high quality electric service and controlling costs, its customer bills are comparatively low. FPL's typical residential and CI bills have continually been among the lowest in Florida and well below the national average. Tr. 2803-04 (Cohen); Ex. 139.

FPL witness Dewhurst presented an assessment of the superior value FPL provides customers as compared to major electric utilities in the Southeastern U.S. (Tr. 2452 (Dewhurst); Ex. 136), while FPL witness Reed provided an even broader comparison by performing a benchmarking study that ranked FPL on various metrics among a Straight Electric Group, a Large Utility Group, and a Florida Utility Group. Witness Reed's benchmarking analysis showed that the Company has out-performed similarly sized companies across an array of financial and operating metrics. Tr. 417 (Reed). For example, FPL is a top performer in terms of productive efficiency, reliability, fossil generation fleet performance, and low emissions. Tr. 418-19 (Reed); Exs. 35, 40. As Mr. Reed concluded:

> On an overall basis, FPL's performance continues to stand out as exceptional compared to its peers across the United States. The Company continues to excel at controlling costs and achieving high levels of service to its customers, even in the face of economic drivers over which it has little or no control.

Tr. 419. The benefits to customers of the Company's strong performance in terms of financial and operational metrics are substantial. *Id.*

In sum, FPL provides electric service today that is cleaner and more reliable, with better customer satisfaction, all at a lower price as compared to a decade ago. Tr. 112 (Silagy). FPL's typical residential bill is about 14% lower than it was 10 years ago, and CI typical bills are 16% to 23% lower than they were 10 years ago. Tr. 2804 (Cohen). In contrast, the average U.S. utility bills have increased by about 29% over this same time frame.[3] *Id.* This value that FPL provides its customers was not achieved by accident. Rather, it is the result of consistent and cumulative action over an extended period of time. Tr. 112 (Silagy).

## V. TEST PERIOD AND FORECASTING (ISSUES 24-38)

### A. FPL's Four-Year Proposal is Permitted and Appropriate

FPL's Four-Year Proposal is comprised of a comprehensive base rate adjustment for 2017 in the amount of $826 million, a smaller, subsequent-year adjustment in 2018 in the amount of $270 million, and an adjustment of $209 million in mid-2019 solely for the cost of the FPL Okeechobee Unit once it begins generating power and savings for customers. Tr. 128 (Silagy); Tr. 1550 (Barrett); Ex. 332. In exchange, FPL commits to forgo any request for general base rate increases that would go into effect before 2021, even though base revenue requirements likely will increase during that period. Tr. 128 (Silagy); Tr. 1400 (Barrett).

Florida recognizes the use of projected test years. *See, e.g.*, *Southern Bell Tel & Tel. Co. v. Public Serv. Comm'n*, 443 So. 2d 92, 97 (Fla. 1983); Rule 25-6.140(1)(a), Florida Administrative Code ("F.A.C."). The use of 2017 as the Test Year and 2018 as the Subsequent Year best reflect the Company's revenues, costs and investment during the years in which those

[3] If FPL were an average performing utility: its customers' reliability would be 50% worse (Florida average of 92 minutes versus FPL average of 61 minutes); annual fuel costs would be more than $400 million higher; annual non-fuel O&M expense would be nearly $2 billion higher; the annual typical residential bill would be nearly $500 higher overall; and emissions would be higher, adding the equivalent of more than six million cars to Florida's roads for an entire year. Tr. 121-22 (Silagy).

new rates are proposed to go into effect. Tr. 1498-99 (Barrett). Multi-year rate requests likewise are recognized and authorized by the Courts, the Legislature and this Commission. *Citizens v. Public Serv. Comm'n*, 146 So. 3d 1143, 1157 n.7 (Fla. 2014), § 366.076(2), F.S. and 25-6.0425, F.A.C.; *see also* Order Nos. 13537, PSC-92-1197-FOF-EI and PSC-93-0165-FOF-EI (approving the use of "two fully projected test years" in rate cases for FPL, Florida Power Corp. and Tampa Electric Company, respectively).

FPL's Four-Year Proposal not only is legally permissible but it also represents an efficient and reasonable basis upon which to establish FPL's rates. Taken as a whole, it offers customers base rate stability and certainty at least until January 2021. Phased in over three years, the Proposal is expected to produce total residential customer bills that grow roughly in line with inflation from today through 2020 and that are likely to remain among the lowest in the state. Tr. 1405 (Barrett); Tr. 115, 127 (Silagy). Customers also will maintain the same protections they currently enjoy in the form of Commission oversight of the Company's earnings. Tr. 1405 (Barrett). The four-year period of regulatory certainty balances customer, Commission and Company interests by encouraging management to continue its focus on improving service delivery and realizing additional efficiencies in its operations and stronger customer value. Tr. 1405, 4576, 4582-83 (Barrett); Tr. 115 (Silagy).

Whatever uncertainties exist regarding the 2017-2020 time period will affect customers and FPL asymmetrically, with customers realizing the benefits while FPL assumes the risk. FPL commits to "stay out" of general base rate proceedings if its request is granted in full, so that no new general base rate increase will take effect until at least January 2021. Tr. 1465-67, 1494, 4581 (Barrett). FPL would bear the risk of all economic and market conditions that might arise, including all of the risk of uncertain revenue streams or cost increases that may cause its earnings

to fall below authorized levels. Tr. 1601 (Barrett). FPL's high-level financial forecast of 2019 and 2020 indicate that earnings will decline in those years even if the Commission grants all three elements of FPL's rate request under the four-year proposal. Ex. 460 (OPC's 1st Int. 3). However, if revenues and expenses deviate substantially from those assumed by FPL, such that earnings exceed the top of the approved range of ROE, the Commission or any party can seek a review of FPL's rates for a potential reduction. Tr. 1494, 4581-82 (Barrett).

### B. FPL's 2017 and 2018 Financial Forecasts are Reasonable and Support FPL's Four-Year Proposal

FPL filed two full sets of Minimum Filing Requirements ("MFRs"): one for the 2017 Test Year and a separate set for the 2018 SYA. Tr. 4566 (Barrett). Both sets of MFRs are the product of FPL's rigorous long-standing procedures that control the development and approval of its O&M and capital expenditures budgets, financial forecasts and, ultimately, the MFRs. Tr. 1415 (Barrett). FPL first developed assumptions for inflation, customer and load growth, and new service accounts. These assumptions were prepared by subject matter experts and ultimately evaluated and approved by FPL's budget review committee. Tr. 1408 (Barrett). Once approved, these assumptions, together with detailed budget instructions, were provided to the Company's operating and staff units which, in turn, prepared the 2016 O&M and capital budgets, the O&M forecasts for 2017 and 2018, and the forecasted capital expenditures for 2017 through 2020. Tr. 1408 (Barrett). Concurrent with the development of these detailed budgets, FPL also developed other key components of the financial forecast, such as the energy sales and revenue forecasts as well as forecasts of other base revenues. Tr. 1409-10 (Barrett).

This robust budgeting process produces reasonable results that have proven to serve as a reliable basis for setting base rates in the past. Tr. 4566, 4570 (Barrett). All three years – 2016, 2017 and 2018 – are prepared at a monthly level of detail. And, in anticipation of this

proceeding, each period received the same level of close scrutiny by the budget review committee as the 2016 plan year. Tr. 1413 (Barrett).

The forecast of revenue requirements contained in the Company's 2018 SYA MFRs demonstrates that the level of revenue requirements for the 2017 Test Year is unrepresentative of its 2018 revenue requirements. The 2018 SYA MFRs reflect the *incremental* revenue requirements for that year, demonstrating that the 2018 SYA is necessary and appropriate. Tr. 4567 (Barrett). The base projection that includes 2019 and 2020 indicates that FPL will fall below the allowed ROE range during those years even if each of the base rate requests contained in the Company's four-year proposal are granted in full. Tr. 4581 (Barrett). Thus, FPL's management must find ways to productively and efficiently operate the business to earn an acceptable ROE during that four-year period. Tr. 4581 (Barrett).

Intervenor witnesses have not presented any credible evidence that the 2018 forecast cannot reasonably be relied upon for setting rates. Contrary to their assertions, FPL does not pessimistically forecast its operating costs nor does it have an incentive to do so. Indeed, any asserted incentives would be gravely short-sighted, since FPL and its forecast witnesses (such as Mr. Barrett and Dr. Morley) depend on their continued credibility before this Commission. Tr. 1597-98 (Barrett). A perceived tendency to over-forecast costs and under-forecast its sales would lead to swift rejections by this Commission of any rate requests premised on those forecasts. *Id*. To the contrary, FPL must provide evidence sufficient to defend its cost projections to this Commission, and presenting a pessimistic forecast that hurts the Company's credibility would not serve that purpose. *See also* Tr. 4956 (Morley).

OPC witness Smith refers to Order No. PSC-10-0153-FOF-EI, in which the Commission observed that "[i]f the test year is truly representative of the future, then the utility should earn

within the allowed range for at least the first 12 months of new rates." The Commission went on to acknowledge in the same order that "back-to-back rate increases should only be allowed in extraordinary cases." Thus, the very authority upon which Smith relies *does* allow for subsequent year adjustments in "extraordinary cases," which necessarily include circumstances in which the Company is expected to earn outside of its allowed range in the year following the first 12 months of new rates even with the requested rate relief. Tr. 4578 (Barrett). That is precisely what FPL's 2018 MFRs show: absent the SYA, the Company's 2018 ROE is projected to fall by more than 100 bps even if the Commission grants the full 2017 Test Year request. Tr. 4578 (Barrett).

The Commission's monthly surveillance of the Company's earnings ensures that customers are adequately protected. This oversight mechanism allows the Commission to address any perceived risk that setting rates on the basis of FPL's 2017 and 2018 forecasts will result in FPL earning in excess of the Commission-authorized range.

**C. FPL's Load Forecast is Reasonable and is Providing Accurate Results**

For the reasons discussed below, FPL's load forecasts are reasonable, are providing accurate results, and should be used for the purpose of setting rates in 2017 and 2018 in this proceeding.

1. <u>FPL's Load Forecast Relies on Statistically Sound Methods and Inputs</u>

The Commission has evaluated utilities' load forecasts based on (i) the use of statistically sound forecasting methods and reasonable input assumptions; (ii) whether a load forecast is applied consistently, that is, whether a load forecast used for one purpose, such as a rate filing, is the same forecast used for other purposes, such as generation planning; and (iii) the utility's record of forecasting accuracy when evaluating load forecasts. Tr. 1169-70 (Morley). By all three of these measures, FPL's load forecasts are sound.

FPL developed the load forecast using statistically sound methods. Econometric models served as the primary tool for forecasting customer growth, net energy for load, and peak demands. Consistent with industry practice, FPL relies on leading industry experts for projections of these independent variables. And, consistent with the Commission's policy that rates be based on weather-normalized sales, FPL's load forecast assumes normal weather. Tr. 1173-74 (Morley); *see also,* Order No. PSC-11-0103-FOF-EI.

FPL uses a 20-year period to define normal weather in this proceeding, as it has in its last two rate cases and last five need determination filings. Tr. 1181 (Morley). A 20-year period incorporates the most recent weather data available while also encompassing a sufficient period of time to capture climate trends. To FPL's knowledge, the Commission has never approved a load forecast that used a period shorter than 20 years to define normal weather. Moreover, no party to the proceeding filed testimony supporting a different time period. Modifying the 20-year period used to define normal weather would represent a significant policy change that could produce unintended consequences for resource planning.[4] Tr. 1256 (Morley); Ex. 632.

The use of a shorter period to define normal weather, such as 10 years, would allow one or two non-representative years to skew the definition of normal weather. It also would create a more volatile set of weather assumptions in the load forecast, which, in turn, increases the potential for large and unnecessary fluctuations in annual load forecasts and, by extension, FPL's estimated annual capacity needs. Exs. 480 (OPC's 2nd POD 79), 632.

The rolling 20-year average of cooling degree hours closely tracks the trend in cooling degree hours since 2000. Tr. 1367-68 (Morley); Ex. 632. This is evident in the strong statistical

[4] *See Courts v. Agency for Health Care Administration*, 965 So. 2d 154, 159 (Fla. 1st DCA 2007) ("if an agency changes a non-rule based policy, it must either explain its reasons for its discretionary action based upon expert testimony, documentary opinions, or other appropriate evidence . . . or it must implement its changed policy or interpretation by formal rule making.").

correlation between the rolling 20-year average of cooling degree hours and its trend-line over this period. The same does not hold true for the rolling 10-year average of cooling degree hours. The rolling 10-year average of cooling degree hours and its trend-line are only weakly correlated based on data since 2000. Limiting the data to only 10 years of observations tends to embellish the correlation between the rolling 10-year average and its trend-line, but such a small sample size does not provide an adequate basis for drawing conclusions on the trend in weather variables. In fact, the wide variability in the statistical fit between the rolling 10-year average and its trend-line depending on the observation period selected casts greater doubt on the reliability of using the 10-year period to define normal weather. Tr. 1367-68 (Morley). By contrast, the rolling 20-year average generally tracks and maintains a strong correlation with its statistical trend line regardless of the observation period, confirming that FPL's incorporation of a 20-year normalization period effectively reflects the trend in cooling degree hours. *Id*; Ex. 632.

The load forecast presented by FPL in this proceeding is the Company's official forecast for all planning purposes, including resource planning. With the exception of an updated price of electricity projection, the models and assumptions utilized in FPL's proposed load forecast are identical to those incorporated into the load forecast used in the Company's Okeechobee Unit Need Determination.[5]

Finally, FPL has a strong track record of providing accurate, reliable forecasts. For example, actual weather-normalized net energy for load ("NEL") in 2013 was within 0.35% of FPL's forecasted net energy for load projected for 2013 in the last rate case, equivalent to forecasting a residential customer's monthly usage of 1,110 kWh to within less than 4 kWh

[5] FPL's Okeechobee economic analysis relied on an October 2015 load forecast the Company provided in response to discovery. By omitting portions of the order granting the Need, OPC's counsel attempted to establish through cross-examination that the FPSC relied solely on the original load forecast submitted in that docket. Tr. 1172, 1232; Ex. 616; *see also* Order 16-0032, at pp. 22 -23 (discussing FPL's updated load forecast).

(amounting roughly to the daily use of a toaster). Tr. 1173, 4956-57 (Morley). This high degree of forecasting accuracy supports the reasonableness of FPL's forecasting methodology.

2. FPL's Forecast Shows Moderate Customer And Sales Growth

*Customer growth*. The number of FPL customers is expected to grow by about 72,000 or 1.5% in 2017, and about 73,000 or 1.5% in 2018. The cumulative customer growth from 2013 to 2017 is expected to reach more than 290,000, an increase of 6.3%. By 2020, the cumulative increase in customers since 2013 is expected to reach over one-half million. Tr. 1179 (Morley).

The customer forecast is driven by, among other things, projections of Florida population. FPL recently changed the source of its population forecast from the Bureau of Economic and Business Research to IHS Global Insight ("Global") based on Global's sustained record of better forecasting accuracy and consistency with U.S. census estimates. Ex. 411. No intervenor filed testimony opposing FPL's use of Global as its source for population projection. And, the accuracy of FPL's forecast indicates that all components, including customer growth, are appropriate.

*Net energy for load and retail delivered sales*. FPL is forecasting NEL of 119,644 gigawatt hours ("GWh") in 2016, an increase of about 1.5% over weather-normalized actual 2015. Ex. 334. A decline of 0.6% is projected for 2017, with NEL to total 118,929 GWh. Tr. 1192 (Morley); Ex. 334. In 2018, NEL is forecasted to reach 119,748 GWh, a 0.6% increase over the 2017 projection. Tr. 1193 (Morley); Ex. 334. A similar pattern is projected for FPL's retail delivered sales, which essentially consists of NEL minus wholesale contracts and line losses. Retail delivered sales are expected to reach 107,447 GWh in 2016. In 2017, retail delivered sales are projected to be 107,354 GWh, a minimal decline of less than 0.09% from the

2016 level. Ex. 334. FPL projects retail delivered sales will grow by 0.7% between 2017 and 2018, reaching 108,064 GWh. *Id.*

Ignoring FPL's detailed explanations, OPC witness Dismukes and FIPUG witness Pollock point to the decline in sales projected for 2017 as a reason to reject FPL's load forecast. As FPL thoroughly explained in its testimony and in response to numerous discovery requests, several factors contribute to the minimal 0.09% decline projected for 2017 retail delivered sales. The absence in 2017 of the additional day of electricity consumption present in 2016 as a result of a leap year, in itself results in a 0.2% decline in forecasted retail sales. In other words, if 2016 and 2017 had an equal number of calendar days, a slight sales increase rather than decline would be forecasted for 2017. A minimal decline in sales is also to be expected in view of moderating economic growth, electric prices that reflect the conclusion of the 2016 fuel true-up, and the continued impact from energy efficiency codes and standards and incremental demand-side management. Tr. 4962 (Morley); Exs. 405 (Staff's 7th Int. 162), 438 (Staff's 41st Int. 480), 490 (AARP's 1st Int. 61, 64).

3. FPL's Load Forecast is Vastly Superior to OPC's Proposed Forecast

OPC opposes FPL's rate case load forecast, but provides no legitimate reason for doing so. The reasonableness and reliability of FPL's inputs, assumptions and forecasting methodology were uncontested. Instead, for the thinly-veiled purpose of raising the level of projected sales, OPC advocates for the use of an older forecast, namely, FPL's 2015 Ten Year Site Plan ("TYSP") forecast.

Most tellingly, witness Dismukes never challenged the accuracy of FPL's forecasts. Nor could he credibly attempt to do so. Based on actuals through June 2016, FPL's proposed sales forecast, including the adjustment to the sales forecast reflected in Exhibit 332, is over-

forecasting weather-normalized NEL by only 0.5%. Tr. 4950, 4952 (Morley). OPC's proposed 2016 rate case sales forecast, by contrast, is over-forecasting weather-normalized NEL for the same period by 2.5%.[6] Tr. 4950, 4955 (Morley).

The superiority of FPL's forecast is even more evident in the context of retail delivered sales. Based on actuals through June 2016, OPC's proposed 2016 rate case sales forecast is over-forecasting weather-normalized retail delivered sales by 2.1%. By contrast, FPL's proposed sales forecast, including the adjustment reflected in Exhibit 332, has virtually no weather-normalized forecasting variance, exhibiting only a *de minimis* over-forecast of 0.01%. FPL's proposed sales forecast plainly is patently more accurate.

Unable to dispute the accuracy of FPL's load forecast, OPC witness Dismukes criticizes FPL's forecast on illogical grounds. Chief among his curious positions is the fundamentally misguided notion that forecast models should never be reevaluated. He also rejects FPL's forecast on the grounds that it projects a decline in sales, that it projects declining load factors, and that the sales forecast includes an adjustment to reconcile the sum of the individual revenue class forecasts with the NEL forecast. As detailed below, each of Mr. Dismukes's positions is refuted by undisputed statistical evidence.

- FPL appropriately revised the price term in its 2015 TYSP load forecast model upon learning that it was producing a comparatively large variance due to a weakened link between the CPI for energy price term and monthly electricity consumption. Replacing CPI for energy with two variables for the price of electricity produced the accurate sales forecast described above.[7] Tr. 4954 (Morley).

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[6] This forecast error not only is five times larger than FPL's but also increased by 1.1% (from 1.4%) over a short period of time. This indicates a compounding effect in which past variances build on one another, suggesting even larger variances in the future. Tr. 4950, 4955 (Morley).

[7] Witness Dismukes's claim that FPL did not justify the modeling changes is not credible. FPL witness Morley answered numerous discovery questions about the improvements to the forecasting model, some of which Dismukes formulated. And, if any questions remained, OPC could have inquired further during witness Morley's deposition. It failed to do so. Exs. 411, 415 (Staff's 18th Int. 313), 417 (Staff's 20th Int. 317-318), 436 (Staff's 39th Int. 462).

- OPC witness Dismukes incorrectly asserts that FPL's proposed retail delivered sales forecast in 2017 is "0.55% less than sales reported for 2015." Tr. 3374 (Dismukes). FPL's forecast actually projects that retail delivered sales in each year from 2016 through 2020 will be *higher* than 2015 weather-normalized actuals. Dismukes's flawed analysis is based on *non*-weather normalized sales, which are never an appropriate comparison because of potentially erratic weather fluctuations. Tr. 4959-61 (Morley); Ex. 334.[8]

- Witness Dismukes's wonderment aside, Tr. 3375-80, there is no reason to expect load factors to remain constant. Summer peak demands (highest usage in any hour of the year) and NEL (aggregate usage across all hours of the year) measure fundamentally different types of usage. Indeed, FPL's experience from 2000-2015 demonstrates a history of volatile load factors. Tr. 4963-64 (Morley); Ex. 336.

- The year-to-date variance of FPL's proposed billed sales forecast inclusive of the reconciliation of sales summed across individual revenue classes with the total sales derived from the NEL forecast is only 0.3%. Excluding the reconciliation would result in a year-to-date variance of 1.1%, nearly four times larger. This squarely disposes of Mr. Dismukes's criticism. Tr. 3386-87 (Dismukes); Tr. 4971, 4994-95 (Morley).

## VI. REVENUE REQUIREMENT DRIVERS

The main drivers of FPL's 2017 Test Year Revenue Requirements are:

| | | |
|---|---|---|
| 1. | Capital investment initiatives that support storm hardening, increased reliability, and system growth, which provide long-term economic benefits to customers, and ensure regulatory compliance | $829 million |
| 2. | Impact of FPL's 2016 depreciation study | $187 million |
| 3. | Discontinuation of the reserve amortization as of January 1, 2017 | $175 million |
| 4. | Inflation and customer growth | $145 million |
| 5. | Change in the weighted average cost of capital | $36 million |
| 6. | Revenue growth that partially offsets the growth in base revenue requirements | ($217 million) |
| 7. | Productivity gains that partially offset the growth in base revenue requirements | ($175 million) |

[8] Even if non-weather normalized sales were an appropriate yard stick, FPL's load forecast for 2017 is entirely consistent with historical trends in the level of actual unadjusted sales during years following unusual weather events such as that experienced in FPL's service territory in 2015. Tr. 4960-61 (Morley); *see also* Ex. 150.

| | | |
|---|---|---|
| 8. | Growth in FPL's wholesale business, which reduces the amount of revenues needed from retail customers | ($126 million) |
| 9. | Other | $12 million |

Tr. 1419 (Barrett); Ex. 86.

FPL plans to undertake capital projects representative of its philosophy of continuous improvement through investments in cleaner, smarter generation that advance the Company's clean energy goals, while producing significant fuel savings to help keep customer bills low. The Company also will invest in innovative technology that will be implemented on FPL's existing smart grid to prevent outages and reduce restoration time, thereby improving reliability and increasing customer satisfaction. These projects are discussed in greater detail in Section IX.

Based on FPL's investments in capital improvements and the other drivers listed above and accounting for the adjustments identified in FPL witness Ousdahl's Exhibit 332, the total resulting base revenue deficiency in 2017 is $826 million.

FPL's retail rate base is projected to increase by approximately $1.3 billion from 2017 to 2018. Tr. 1433 (Barrett). Even if the Commission grants FPL's 2017 Base Rate Increase in full, FPL's 2018 ROE is expected to drop more than 100 bps absent the 2018 SYA, putting it below the bottom of the authorized ROE range. Tr. 1432 (Barrett). FPL's proposed 2018 SYA reflects the increase in revenue requirements from 2017 to 2018. The primary drivers of this increase are:

| | | |
|---|---|---|
| 1. | Continued investments in infrastructure that provide long-term economic benefits to customers, and ensure regulatory compliance | $223 million |
| 2. | Inflation and customer growth | $47 million |
| 3. | Change in the weighted average cost of capital | $31 million |
| 4. | Revenue growth that partially offsets the growth in base revenue requirements | ($39 million) |

Tr. 1433 (Barrett); Ex.91. Accounting for the adjustments identified in witness Ousdahl's Exhibit 332, FPL's resulting base revenue deficiency for 2018 is $270 million.

## VII. STORM HARDENING PLAN (ISSUES 21-23)

No intervenor has contended that FPL's storm hardening plan does not meet the requirements of Rule 25-6.0342, F.A.C. Nearly all intervenors either took no position or articulated no significant concern with FPL's storm hardening plan.[9]

The storm hardening benefits that customers already experience today are significant and will continue to grow as FPL implements its 2016-2018 plan, upon Commission approval. An example of the plan's benefits is the 40% better day-to-day reliability that storm-hardened feeders provide compared to non-hardened feeders. Tr. 1096 (Miranda). U.S. Energy Secretary Ernest Moniz emphasized that FPL stands out in its innovations to strengthen the grid, when he said, "FPL really is on the cutting edge of addressing a grid for the 21st century and particularly in the area of resilience," and "It's really what we need." *Id.* Another strong indicator of the success of this effort is the 65% reduction in Commission logged service quality (i.e., reliability-related) complaints for FPL since 2006. Tr. 1056 (Miranda). This is truly reflective of the superior service benefitting FPL's customers as a result of its storm hardening initiatives.

In executing its plan, by year end 2018, FPL will have hardened or placed underground 60% of its feeder network. Tr. 1097-98 (Miranda). Additionally, FPL will have hardened 100% of its system-wide Critical Infrastructure Facilities feeders, which serve hospitals, 911 call centers, and police/fire stations and other key critical facilities. Tr. 1097-98 (Miranda). Within

[9] Only one intervenor witness addressed FPL's 2016-2018 storm hardening plan, but in doing so OPC witness Schultz demonstrated his unfamiliarity with the storm hardening rule and its requirements, observing that the plan did not include vegetation management and pole inspections. Tr. 3452 (Schultz). Those activities are not part of the storm hardening plan, and Mr. Miranda properly discussed them in his rate case testimony. Tr. 1062-63 and 2697-98 (Miranda). OPC has acknowledged that storm hardening is important to improving the storm resilience of the electric grid infrastructure. Ex. 710.

this same timeframe, FPL also will have hardened 100% of Community Project feeders that serve key community needs, such as grocery stores, gas stations, and pharmacies. *Id.*

FPL's proposed Plan satisfies all the requirements of Rule 25-6.0342, is consistent with Commission policy, will continue to provide broad benefits to customers, and should be approved.

## VIII. DEPRECIATION STUDY (ISSUES 40-52)

Consistent with the 2012 Rate Settlement and Rule 25-6.0436, F.A.C., FPL filed a comprehensive depreciation study contemporaneously with its rate case petition in this proceeding, on March 15, 2016 (the "2016 Depreciation Study"). Ex. 113. The study was prepared by Gannett Fleming, a firm with nationally recognized depreciation expertise, which also prepared FPL's previous depreciation study in 2009. Ned Allis, a Supervisor of Depreciation Studies at Gannett Fleming who has a decade of experience in depreciation, is a member of the Society of Depreciation Professionals and is certified as a depreciation professional by that Society, supported the 2016 Depreciation Study with testimony explaining both the theory and application of depreciation principles to FPL's electric system. Ex. 114; Tr. 1813-15. Mr. Allis based his evaluation of FPL's system on an analysis of the Company's historical depreciation data, extensive site visits and meetings with FPL personnel over the past two years, as well as his experience as an active participant in the preparation of the 2009 depreciation study that Gannett Fleming prepared for FPL. Tr. 1821-25 (Allis). The 2016 Depreciation Study relies on the remaining life depreciation methodology, which is used in almost all jurisdictions around the country. In addition, pursuant to Rule 25-6.0436, the study also presents depreciation results using the whole life methodology. The 2016 Depreciation Study is consistent with generally accepted depreciation practices. The use of the straight-line

method, average service life procedure and remaining life technique is consistent with prior Commission orders. The methods used for the estimation of service lives and net salvage also are generally consistent with prior Commission orders. Tr. 1817-22 (Allis).

The 2016 Depreciation Study developed service lives and net salvage parameters for each depreciable property account based on FPL's historical experience and expectations about future conditions. It then applied those parameters to estimated plant and reserve balances as of December 31, 2017 to determine proposed depreciation accrual rates. Tr. 1822-23 (Allis). FPL and Gannett Fleming chose to use year-end 2017 balances because they would be appropriately representative for the two test years FPL is supporting in this proceeding: 2017 and 2018. Additionally, the use of year-end 2017 balances was selected in order to incorporate the longer lives of significant investments FPL has made in its combined cycle plants. Tr. 1788 (Allis).

In the course of discovery, concerns were raised by certain parties and Staff about the use of year-end 2017 balances. To address those concerns, Gannett Fleming determined another set of proposed depreciation accrual rates by applying the same service lives and net salvage parameters that it had developed in the 2016 Depreciation Study, which were not affected by the choice of year-end balances, to year-end 2016 plant and reserve balances. This was a straightforward mathematical calculation, the results of which are presented in Attachment 2 of Exhibit 331. Tr. 1788-89 (Allis); Ex. 767, pp. 54-57. Either set of depreciation accrual rates could be used appropriately in this proceeding, but the revised revenue requirements request presented in Exhibit 332 relies on the rates developed using the year-end 2016 balances.

**A. Intervenor Challenges to the 2016 Depreciation Study Should be Rejected**

No party other than FPL presented a comprehensive depreciation study at the hearing. OPC prefiled testimony of Jacob Pous, who had prepared an alternative depreciation study, but elected during the middle of the hearing to withdraw the testimony rather than have him take the

stand. Tr. 3003 (Rehwinkel). The only contrary record evidence concerning depreciation relates to four narrow points about the 2016 depreciation Study discussed below.

*Use of 2017 Year-End Balances.* SFHHA witness Kollen argues that the use of 2017 year-end plant and reserve balances is improper because Rule 25-6.0436(4)(d) provides that "Submitted data [for a depreciation study] including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates." Mr. Kollen contends that, because FPL proposes to implement the new depreciation rates on January 1, 2017, the year-end 2017 plant and reserve balances are not "brought to the effective date" of those depreciation rates. FPL disagrees that the rule need be interpreted so narrowly. Read literally, the cited language seems to require that the plant balances be as of a date no *earlier* than the effective date of the deprecation rates rather than restricting the use of a *later* estimate. And Mr. Kollen's restrictive interpretation seems especially inapt where, as here, there are rate requests covering two different test periods and the start of the second test period (i.e., January 1, 2018) coincides perfectly with the 2017 year-end plant and reserve balance date.

In any event, FPL fully addressed Mr. Kollen's concern in Exhibit 332 by calculating supplemental depreciation accrual rates using year-end 2016 plant and reserve balances. These supplemental depreciation accrual rates were solely the result of updating the mathematical calculations of depreciation; the same life and net salvage estimates were used for both the year-end 2016 and year-end 2017 depreciation rates. Tr 1789 (Allis); Ex. 767, pp. 54-57. Mr. Kollen did not address those supplemental accrual rates in his prefiled testimony, claiming that he had not had time to evaluate the calculations before it was filed. Tr. 4139. He apparently failed to do any meaningful further evaluation of the calculations by the time that he took the witness stand –

more than six weeks after FPL filed supplemental calculations – as he remained unable to articulate any legitimate objections to the calculations during cross-examination. Tr. 4137-42.

Mr. Kollen's proposed cure would be far worse than the purported malady. He urges that the 2016 Depreciation Study be disregarded and that the Commission continue to rely instead on the depreciation rates that were approved in 2009. On cross-examination, however, he admitted that those rates were based on seven-year-old data and acknowledged that FPL's system has grown a great deal since then. Tr. 4140-41. If one were to reject the 2016 Depreciation Study, then the only reasonable way to use the results of the 2009 study would be to apply the service lives and net salvage parameters developed in that study to current plant balances. Ex. 767, pp. 56-57. Mr. Allis performed that calculation in his rebuttal testimony and showed that it would result in 2017 depreciation expense being a hefty $563 million *higher* than FPL has proposed in the 2016 Depreciation Study. Ex. 767, pp. 9, 56-57. This would hardly be a good outcome for FPL's customers. The better course is to reject Mr. Kollen's proposal.

*Scherer Unit 4 and St. John's River Power Plant ("SJRPP") Life Spans.* The 2016 Depreciation Study proposes 50-year lives for the Scherer Unit 4 and SJRPP coal-fired plants in which FPL is a co-owner. This is the life span that the Commission approved for those plants in 2009. In the interim, environmental regulations have tightened such that many coal plants are being shut down earlier than previously planned, which make the 50-year life more conservative than it was when approved. Mr. Kollen tacks in the opposite direction, however, and recommends *increasing* the life span for those units to 65 years. Ex. 767, pp. 14-15. Much of Mr. Kollen's argument relates to FPL's commitments to co-owners at those plants, which is ironic considering that JEA, the co-owner of SJRPP, is currently assuming a 40-year life span for that plant. Tr. 5077, 5080 (Ferguson).

*Interim Retirements/Capital Spare Parts ("CSP").* Mr. Kollen's final misstep is perhaps his most egregious. FPL's large fleet of combustion turbines (many of which are part of FPL's combined cycle power plants) are comprised of two broad categories of components that are fundamentally different from a depreciation standpoint. The first category consists of largely stationary components, such as the outer turbine casing, the majority of which are likely to last for the full life of the combustion turbine (estimated at 40 years in the 2016 Depreciation Study). The second category, referred to as CSP, consists of components such as turbine blades that are directly exposed to the extremely hot combustion gasses. Not surprisingly, they cannot last as long as components such as the outer casing and, in fact, the manufacturers recommend their replacement at regular intervals throughout the combustion turbine's life. Ex. 767, p. 18. FPL has conservatively estimated an average service life of 9 years for those components. FPL currently has approximately $2 billion invested in CSP.

In spite of the much shorter lives for CSP, which have been recognized in the Commission approved depreciation rates for at least the two most recent depreciation studies, Mr. Kollen recommends that CSP be treated for depreciation purposes as if they have the same life as the long-lived components, which drastically understates their actual depreciation expense. Ex. 767, pp. 17-26. Witness Kollen's analysis ignores FPL's actual historical data for CSP, which includes more than $2 billion in historical retirements of these assets. Ex. 767, p. 4. He further acknowledged under cross-examination that he was not aware of the frequency at which CSP components such as fuel nozzles, transition nozzles and turbine blades need to be replaced. Tr. 4143-44. This contrasts with FPL's proposal, which incorporates both the

historical data and the outlook for CSP.[10] Ex. 767, pp. 16-21. Mr. Kollen further compounds his mistake by significantly overstating the net salvage for interim retirements of CSP, assuming that they will all be interim retired when in fact he estimates that only a fraction of them will be. Ex. 767, pp. 29-31. Mr. Kollen's positions have no foundation in either physical reality or in principles of depreciation analysis and methodology.

*Average Service Lives for Distribution Accounts.* The only other criticism of the 2016 Depreciation Study comes from FEA witness Andrews, who challenges the recommended average service lives for three distribution plant accounts: Account 362 Station Equipment, 365 Overhead Conductors and Devices and Account 369.1 Services - Overhead. The 2016 Depreciation Study recommends increased lives for each of those accounts compared to what the Commission approved in 2009. This recommendation is based on an analysis of all available data on actual retirements of the property within those accounts. Mr. Andrews proposes instead to evaluate the average service lives based on only the most recent 20 years of experience with retirements in the accounts. While Mr. Andrews is correct that the recent trend has been toward longer lives for property in these accounts, the 2016 Depreciation Study has adequately taken that trend into account. In contrast, by limiting his analysis to only the most recent twenty years, Mr. Andrews has exaggerated the distorting effects of the Great Recession, when both additions and retirements in the accounts were unusually low. Ex. 767, pp. 46-47.

[10] FPL's proposal also recommends the creation of separate subaccounts within Account 343 Prime Movers, one for capital spare parts and one for the other combustion turbine components. While it may be mathematically possible to develop a weighted average depreciation rate that apply to all of Account 343, that average depreciation rate would only be appropriate at the point in time when calculated, and would not account for any subsequent activity such as additions to capital spare parts. A subaccount approach is superior because the appropriateness of the depreciation rates set for each subaccount will not be dependent upon the weighted average of the different types of assets that is likely to shift over time, thus better matching depreciation expense with the assets in each subaccount and mitigating the potential for future reserve deficits. Tr. 5108-10, 5153-54 (Allis).

**B. Theoretical Reserve Imbalance**

As required by Rule 25-6.0436, the 2016 Depreciation Study calculates the theoretical reserve imbalance for each depreciable property account. This imbalance represents the difference between the amount of depreciation that would have been accrued on the property in an account under the rates proposed in the 2016 Depreciation Study and the amount that has actually been accrued to date. A positive (surplus) imbalance means that more depreciation has actually been accrued than would be indicated by the proposed rates, while a negative (deficit) imbalance means that less depreciation has actually been accrued.

Using year-end 2016 plant and reserve balances, Exhibit 331, Attachment 2 shows a theoretical reserve deficit of $540.4 million for production plant accounts and a theoretical reserve surplus of $620.8 million for the transmission, distribution and general ("TD&G") accounts, which net to a theoretical reserve surplus of $80.4 million over all accounts. Ex. 331, pp. 63-78. If FEA's proposed survivor curves and average service lives were adopted for Accounts 362, 365, and 369.1, the TD&G theoretical reserve surplus of $620.8 million would increase by approximately $140 million. Tr. 3980 (Andrews).

Under the remaining life method used for the 2016 Depreciation Study, the new rates will take these imbalances into account such that they would be reduced to zero for each account over the remaining lives of the property in that account. Tr. 1863 (Allis). Thus, from the perspective of the depreciation study, it is unnecessary to take separate corrective measures to address the imbalances. From a broader policy perspective, however, the Commission has on occasion taken steps to accelerate the recovery of deficit imbalances and the reversing of surplus imbalances. *See, e.g.*, Order Nos. PSC-99-0519-AS-EI, PSC-02-0501-AS-EI, PSC-05-0902-S-EI, PSC-11-0089-S-EI and PSC-13-0023-S-EI.

For example, flexible reserve amortization has allowed FPL to absorb near-term fluctuations in revenues and expenses under the 2012 Rate Settlement, so FPL could focus instead on identifying and implementing longer-term productivity gains. This process culminated in Project Momentum, which has become an important part of FPL's annual planning process and helped FPL achieve best-in-class O&M performance. Tr. 4572, 4592 (Barrett).

The four-year rate proposal in this proceeding is predicated upon the Commission approving FPL's petition for rate increase as filed. If the Commission does not grant the full rate increase request, flexible reserve amortization pursuant to the mechanism provided in the 2012 Rate Settlement could help FPL stay out for four years nonetheless. As noted above, there is a TD&G theoretical reserve surplus of approximately $621 million, which would increase to approximately $761 million if FEA's position on the average service lives for Accounts 362, 365 and 369.1 were adopted.[11] In addition, any portion of the Reserve Amount under the 2012 Rate Settlement that remains at the end of 2016 could be appropriately added to this total for flexible amortization. Tr. 4592 (Barrett); *see also* Confidential Ex. 636 (current projection of Reserve Amount status at year-end 2016).

[11] Ordinarily, it would be appropriate to look at the total net of the reserve imbalances for all accounts in determining an amount to use for flexible reserve amortization. However, in this instance, the reserve deficit for the production plant accounts relates largely to capital spare parts for combined cycle plants and to the nuclear function where the recent extended power uprates have created a deficit position. Tr. 5153-54 (Allis). Due to the relatively short lives for capital spare parts, the deficit position for combined cycle will be addressed quickly. Tr. 5154 (Allis). Allowing the nuclear deficit position to be corrected over the remaining lives of the nuclear assets is also appropriate, because customers will receive fuel savings from the uprates over the same period. Moreover, if the licenses for FPL's nuclear plants were extended, the deficit position would likely be transformed immediately into a substantial surplus. At the same time, using the TD&G surplus for flexible reserve amortization is unlikely to result in deficits for those accounts, as both FPL and FEA (the only two parties addressing depreciation for those accounts) concur that there has been and remains a trend toward longer average service lives for TD&G accounts. Exhibit 767 Pg. 37-38; Tr. 5150 (Allis); Tr. 3954-55 (Andrews).

## IX. RATE BASE (ISSUES 53-77)

Accounting for the adjustments reflected on Exhibit 332, the appropriate amount of Rate Base for the 2017 Test Year is $32,457,944,000 (jurisdictional adjusted), and the appropriate amount of Rate Base for the 2018 Subsequent Year is $33,893,496,000 (jurisdictional adjusted). Ex. 332, pp. 1, 5. FPL's proposed levels of Working Capital, Construction Work in Progress ("CWIP") and Plant Held for Future Use ("PHFFU") are reasonable. As more fully developed below, intervenors' proposed adjustments are unsupported and in contravention of Commission precedent.

### A. Storm Hardening and Reliability

FPL's transmission and distribution electrical grid is one of the most storm-resilient and reliable in the nation. This has been achieved through the development and implementation of forward-looking storm-hardening, reliability and grid modernization initiatives, combined with the use of cutting-edge technology and strong employee commitment. Tr. 1095 (Miranda). Two primary drivers of FPL's capital initiatives are investments in storm hardening FPL's infrastructure to better withstand bad weather and improving the reliability of the transmission and distribution grid. Tr. 1418-20 (Barrett). FPL will have invested approximately $2.54 billion from 2014 through 2018 in its FPSC storm hardening initiatives. Tr. 1083 (Miranda). Moreover, as part of the 2016-2018 storm hardening plan, FPL will continue to focus and expand its hardening efforts to all critical feeders. Tr. 1424 (Barrett). Additionally, FPL will have invested about $2.21 billion from 2014 to 2018 to continue to modernize its grid and provide superior reliability for customers in a cost-efficient manner. Tr. 1083 (Miranda).

1. Storm Hardening

FPL's storm hardening initiatives are expected to result in fewer damaged facilities, fewer outages, and to reduce the overall restoration time and costs. Tr. 1064 (Miranda); Ex. 474 (OPC's 16th Int. 266). As provided in FPL's previously approved storm hardening plan filings, a 30-year net present value analysis indicates that the restoration cost savings per mile of a hardened feeder alone could be approximately 45-70% of the cost to harden that same mile of feeder. *Id.* This calculation does not quantify the myriad other storm-hardening-related benefits being realized today. FPL's capital expenditures for storm hardening represent approximately 30% of Power Delivery's budget between 2014 and 2018.

Only OPC's witness Schultz recommended reductions of $31.546 million (in 2017) and $45.335 million (in 2018). Tr. 3496 (Schultz). He does not take the position that FPL's storm hardening expenditures are imprudent or unreasonable. Rather, witness Schultz merely observes that FPL's projections are "overly optimistic." *Id*. To the contrary, the projected annual percentage increases in storm hardening capital expenditures for 2016-2018 (ranging from 128% - 144% annually, with an annual average increase of 136%) were attained by FPL during 2013-2015, as FPL achieved annual percentage increases ranging from 116% to 152% annually, with an average increase of 136%. Tr. 2677-78 (Miranda). FPL witness Miranda also showed that the methodology Schultz employed to calculate his adjustment was simplistic and unsound.

The evidence demonstrates that FPL has the technical expertise and a decade of experience to successfully execute its storm hardening plans. *Id.* FPL should continue in this effort, with Commission approval.

2. Reliability

*Power Delivery.* FPL's comprehensive reliability program and grid modernization initiatives are producing superior reliability performance for customers. Tr. 1055 (Miranda). For example, in 2015, FPL achieved its best-ever T&D SAIDI results on record, despite an extreme level (approximately 395,000) of lightning strikes. This demonstrates that FPL's grid modernization and reliability initiatives are effective and beneficial. Tr. 1070 (Miranda).

FPL's grid modernization/smart grid program includes several initiatives as FPL continues to develop a modern, automated and self-healing grid. Tr. 1071 (Miranda). FPL has deployed smart devices such as automated feeder switches ("AFS"), automated lateral switches and fault current indicators that automatically identify and/or isolate problematic line sections and/or clear temporary faults thereby avoiding and/or mitigating interruptions and reducing restoration times and cost. *Id.* As an example, in 2015, there would have been 1,464,974 customer interruptions instead of the actual 784,559, if not for the AFS devices installed on their associated feeders. *Id*; Ex. 72. These reliability and grid modernization initiatives represent approximately 26% of Power Delivery's capital expenditures over the 2014 to 2018 period. Tr. 1083 (Miranda).

This evidence illustrates that smart grid technology improves reliability for customers. This was particularly clear during the quality of service hearings where customers repeatedly complimented FPL on the reliability they are provided. With the requested investments, FPL will continue to maintain and improve this valuable service for its customers.

*Power Generation.* FPL's fossil fleet average non-construction capital expenditures over the 2014 to 2018 timeframe is approximately $480 million annually. Tr. 815 (Kennedy). The 2017 level of fossil fleet non-construction capital expenditures is higher than the 2014-2018

average due primarily to the increased number of Other Production major overhauls scheduled in 2017. Tr. 816 (Kennedy). The capital expenditures associated with these overhauls are necessary to maintain the operational performance and reliability of the fleet. *Id.* Furthermore, the increase in major overhauls scheduled in 2017 is representative of the addition of 46 combustion turbines ("CT"), 13 steam turbines, and 39 heat recovery steam generators that went into commercial service at an earlier period of time. Tr. 833 (Kennedy).

Without directly saying so, OPC and SFHHA incorrectly imply that the capital expenditures are deliberately concentrated in the 2017 Test Year. This implication is clearly without merit in view of the evidence presented by FPL witness Kennedy. For example, Ms. Kennedy testified that FPL's Martin and Manatee plants went commercial in 2005, and so 2017 is the year for 12-year major steam turbine outage work. Tr. 905-06. Therefore, the overhaul schedule for these two units is appropriately projected for the 2017 Test Year. The overwhelming evidence demonstrates that FPL's Power Generation capital expenditures are reasonable and necessary.

*Nuclear.* The operational performance of FPL's nuclear fleet reflects a strong nuclear safety and reliability record. FPL measures its nuclear plant performance using the INPO index. The INPO index is a metric of nuclear plant safety and reliability widely used in the U.S. nuclear power industry. Tr. 984-85 (Goldstein). There are two principal drivers of nuclear capital expenditures: meeting regulatory requirements and sustaining long-term operations of the nuclear units which seek to enhance nuclear safety and improve equipment reliability. Tr. 991 (Goldstein). The level of capital expenditures needed to meet regulatory requirements is not a contested issue in this proceeding.

Moreover, the long-term reliability project capital expenditures have equally gone unchallenged. The primary components of these projects consist of replacement and refurbishment of pumps, motors, valves, breakers and turbines. FPL estimates capital expenditures of $304 million on these projects from 2014 through 2018, of which $152 million will be incurred from 2016 through 2018. Tr. 995 (Goldstein). The steps FPL has taken since 2012 to improve its overall performance, resulting in an improved INPO Index, generation and cost per MWh, have increased generation and improved reliability. Tr. 985 (Goldstein). This reflects a continuation of obtaining substantial benefits from nuclear generation for customers: FPL's nuclear generation has resulted in over $17 billion in fuel savings from January 2000 through 2015, which are passed through directly to customers via the Fuel clause. Tr. 989 (Goldstein). As with the Nuclear Regulatory Commission's metrics, these improvements cannot be sustained without continued investment. Tr. 985 (Goldstein).

**B. Generation Upgrades (Issues 56, 57, 57A)**

A key component of FPL's capital initiatives are three generation upgrade projects that have or are planned to come into service in 2015-2017 and are estimated to result in a combined cumulative present value of revenue requirements ("CPVRR") benefit to customers of $286 million. Collectively, FPL expects to invest approximately $1.65 billion in these upgrade projects. Tr. 1420-22 (Barrett). Each of these three projects is discussed briefly below.

*Gas Turbine Peaker Replacement Project.* FPL has a fleet of 48 gas turbines ("GTs") located at the Port Everglades, Lauderdale and Ft. Myers plant sites. These GTs are 40-45 years old. By today's standards, they are fuel-inefficient and produce high air emissions. Moreover, they are no longer manufactured, making replacement parts hard to find and expensive. FPL is in the process of replacing all but four of the 48 GTs with new, larger and more efficient CTs:

five at the Lauderdale site and two at the Ft. Myers site. The remaining four GTs will be retained (two each) at the Lauderdale and Ft. Myers sites to provide black-start capability that the new CTs are not capable of providing. Tr. 813 (Kennedy). The new CTs will provide a 35% to 40% heat rate efficiency improvement, resulting in lower fuel usage and air emission rates. They also will alleviate the concern over replacement parts availability for the GTs and ensure unit availability of these critical assets. FPL is investing nearly $800 million in this project, which is estimated to produce a CPVRR benefit of $203 million over the operating life of the CTs due to fuel savings and lower maintenance costs. Tr. 1420-21 (Barrett); Tr. 814 (Kennedy); Ex. 87.

The Sierra Club and FIPUG voiced concerns about the peaker replacement project, but their contentions all lack merit. The Sierra Club suggested that battery storage could be a viable alternative to peakers, citing an article in which the chairman of NextEra Energy Inc. ("NEE"), Jim Robo, was quoted as saying that peakers may not be built after 2020. However, FPL witness Barrett confirmed that the peaker replacement project is being implemented this year, that FPL has only limited experience with pilot research and development battery storage projects at present, and that battery storage is not economically competitive with conventional peakers at present. Tr. 1591, 1651-52. Both FIPUG and the Sierra Club suggested that more of the old GTs could be retained, with fewer new CTs being added. However, Mr. Barrett confirmed that the prudent approach was to retire them as FPL has proposed. Tr. 1652. The Sierra Club asked whether FPL could add less MW capacity of new CTs than the MW capacity of the GTs that are being replaced. Mr. Barrett explained that FPL needed to replace all of the MW capacity of the old GTs in order to continue meeting the 20% reserve margin criterion. He also explained that solar and combined cycle generation are not viable alternatives to the peakers. Solar generation is available only intermittently, and combined cycle units are typically base-loaded and thus

would not be available to meet unexpected load requirements (they would already be running). Tr. 1582-83 (Barrett). In fact, FPL had previously evaluated the alternative of using a combined cycle unit as a replacement for the old GTs and concluded that it would be $870 million more expensive for customers than replacing the GTs with CTs. Tr. 1583 (Barrett).

In summary, the peaker replacement project is a reasonable and prudent investment. It will reduce fuel use, lower emissions, make FPL's ability to respond to peak loads less dependent on dated technology and questionable parts availability, and produce an estimated $203 million in CPVRR savings for customers.

*.05 CT Upgrade Project.* FPL is implementing the .05 upgrade project to enhance the "Compressor" section of FPL's 26 General Electric ("GE") 7FA CTs. The upgraded components offered by GE include new designs not available at the time of original construction. The upgrades are being installed during FPL's scheduled planned outages from 2015 to 2017. This project provides operational benefits such as greater generating efficiency (i.e., lower heat rate), and power output (i.e., more MWs), thereby providing overall fuel savings. The project also enhances CT maintainability (including field replacement of compressor blades, parts life and maintenance extensions). FPL is investing more than $450 million in the .05 CT upgrade project, which is estimated to result in $57 million in CPVRR savings for customers due to fuel savings and increased power output. Tr. 812-13 (Kennedy); Tr. 1421 (Barrett); Ex 88.

Only the Sierra Club and FIPUG raised concerns about the .05 CT upgrade project, and those concerns were ill-founded. The Sierra Club asserted that continuing to upgrade the CTs will result in FPL using more natural gas to generate electricity. Mr. Barrett explained that this is not the case; rather, the higher efficiency that will result from the .05 upgrades means that FPL will be able to generate the same amount of electricity with less natural gas. Tr. 1586-88.

FIPUG questioned whether FPL should have evaluated the need for the additional MW capacity resulting from .05 upgrades. However, FPL witness Kennedy explained that the .05 upgrades will result in only *de minimis* (about 26 MW) additional capacity at the time of summer peak, although they would add over 600 MW of capacity when the ambient temperature is 75 degrees. Tr. 879-80. Ms. Kennedy said that the principal benefit from the .05 upgrades is a 1.1% improvement in heat rate, which will help lower bills for customers. Tr. 880.

In summary, the .05 CT upgrade project is a reasonable and prudent investment. It is consistent with FPL's strong tradition of continuous improvement, by making the existing fleet of highly efficient, clean burning gas-fired generation cleaner, even more fuel efficient and thereby producing an estimated $57 million in CPVRR savings for customers.

*Large Scale Solar Projects.* FPL is building three large-scale solar projects during 2015 to 2016 that will continue its strategy of advancing clean energy while keeping customers' bills low. When complete, these projects will provide up to 224 MW (nameplate) of zero-emissions generation while also providing significant fuel savings for our customers, tripling FPL's solar generation capacity from 110 MW to approximately 334 MW. The three sites have inherent advantages, including land that was already owned or under control and locations that are near existing transmission and substation infrastructure. In addition, these projects qualify for a 30% investment tax credit. FPL has competitively bid components of the projects, including the panel supply contract, the inverter supply contract and the engineering, procurement and construction contract. FPL is investing approximately $400 million in the three large-scale solar projects, which is estimated to provide $26 million in CPVRR savings for customers. Tr. 1421-22

(Barrett); Tr. 814 (Kennedy); Ex. 89. No party meaningfully challenged the reasonableness and prudence of the large-scale solar projects.[12]

**C. Plant Held for Future Use (Issue 67)**

PHFFU is the original cost of electric plant owned and held for future use in electric service under a plan for such use. Tr. 5769 (Deason). The Uniform System of Accounts ("USOA") requires that land and land rights recorded in the Company's books must be planned for future electric use, but the USOA does not require a "definite" future use in order to be treated as PHFFU. Tr. 5769-70 (Deason). This is based on sound, practical reasons. Land and land rights may need to be acquired many years in advance of their designated use. To that end, this Commission has long recognized that in Florida, public utilities cannot, in the exercise of good business judgment, indefinitely postpone the acquisitions of property necessary to future expansion. Tr. 5771 (Deason).

The Commission's standard for determining whether specific future use properties should be included in rate base is one of reasonableness. The Commission evaluates what amount of PHFFU is reasonably needed to cost-effectively provide reliable service to existing and future customers. Tr. 5773 (Deason). This necessarily requires a review of specific properties to determine whether their acquisition and retention are reasonable to provide service over an adequate planning horizon. Tr. 5773 (Deason). The Commission does not apply a hard and fast rule to determine what would be included. *Id.*; Order No. 5619, Docket No. 71370-EU ("we

[12] The SFHHA questioned FPL witness Barrett about the CPVRR savings for the large-scale solar projects under various alternative scenarios of different costs of capital, fuel prices and emission costs. Under some of those sensitivity scenarios there would be no CPVRR savings for customers. However, this is not an unusual outcome for sensitivity analyses and does not diminish the conclusion reflected on Exhibit 89 that the large scale solar projects are cost-effective for customers under FPL's current, best projections of the relevant inputs to the CPVRR calculation. *See* Tr. 1528-36 (Barrett).

have no hard and fast rule as to what should be or should not be included but must make an individual study for each tract so held.").

The Commission's reasonableness standard recognizes the growing controversy over land acquisition for the purpose of locating power plants. Tr. 5771 (Deason). The rapid growth Florida has experienced has reduced the number of sites available for future development. This dynamic is further compounded by an increase in conservation areas in Florida, increased demands on Florida's limited water resources, an increase in environmental standards and requirements, an escalation of "not-in-my-backyard" concerns from citizens, and more litigation concerning the placement of utility facilities. Tr. 5780 (Deason). So, too, the time required to locate, acquire, and get all necessary permits has generally increased. *Id.* These principles apply to property acquired for generation as well as for transmission and distribution purposes. Tr. 5779 (Deason).

OPC witness Smith recommends the disallowance of $14.2 million of PHFFU from FPL's rate base. The majority of his recommended disallowance ($10.0 million) is for the cost of sites to either expand existing distribution substations or build new distribution substations. The remaining $4.2 million is for the cost of easements for four transmission projects scheduled to be completed in the 2027-2028 time frame. Disregarding both precedent and any semblance of practicality, witness Smith posits that "[p]roperty held for future use that is beyond the ten-year planning horizon is not used and useful in providing service to ratepayers." Tr. 3721.

Arbitrary and rigid time limitations on the properties' ultimate use do not and should not govern whether PHFFU can be included in rate base. Adopting Mr. Smith's recommended disallowances would be inconsistent with the long-range planning requirements which are necessary for the reliable and cost-effective provision of service to customers. Tr. 2681-82

(Miranda); Tr. 5778-79 (Deason). Conspicuously absent from witness Mr. Smith's recommendation is an evaluation of each property to determine whether each is reasonably needed over the planning horizon. Examination of the properties in question supports inclusion in rate base. *See* Tr. 2681-89.

## X. COST OF CAPITAL (ISSUES 78-86)

FPL has been successful over a sustained period of time in executing its strategy of seeking continuous, incremental improvement in its customer value proposition. At the same time, FPL has delivered good financial results for its investors, which in turn has ensured that FPL has ready access to the financial resources to execute its strategy. Tr. 2450-51 (Dewhurst). One important aspect of FPL's strategy has been the consistent maintenance of a core set of financial policies, which have ensured that the Company has access to the financial resources it needs at very favorable terms to execute its capital programs, to manage its liquidity needs, and to maintain the flexibility to respond rapidly to unexpected changes in the external environment – all of which are necessary to deliver superior customer value. Tr. 2451 (Dewhurst). Given the demonstrated success of both FPL's overall strategy and the financial policies that have underpinned it, there is no reason to make major changes that could imperil what has been a beneficial strategy for customers and FPL. The record demonstrates that it is appropriate to continue the successful policies of the past, updated to reflect today's market conditions, to support a continued strategy of improving the customer value proposition. Tr. 2452 (Dewhurst).

FPL's requested overall rate of return ("ROR") is 6.63% for 2017 and 6.70% for 2018. Ex. 332. These RORs are based on FPL's current capital structure, which is reflective of FPL's specific risk profile and FPL's overall business strategy to maintain a "stronger-than-average" financial position. This strategy, in turn, has helped FPL to deliver the excellent operational

results discussed at length – and largely unchallenged – during this proceeding. FPL's overall requested RORs also incorporate a market-based cost of equity of 11.00% and a 50 basis point equity performance adder reflecting FPL's superior service and customer value.[13] With these RORs, FPL's typical residential bill through 2020 is expected to remain among the lowest in the state. Tr. 2825 (Cohen). Accordingly, FPL's requested cost of capital represents the best of both worlds – low customer bills in the near term *and* the financial strength needed by FPL to continue providing customers with an exceptional value proposition in the long term.

The intervenors' recommendations for FPL's equity ratio and ROE are fundamentally flawed because they presume it is possible to make significant changes to FPL's equity ratio and dramatically cut FPL's authorized ROE with no damaging effects to FPL's overall cost position and its ability to execute its business strategies. Tr. 5884-85, 5895 (Dewhurst). As demonstrated by FPL witness Dewhurst, undermining FPL's financial position will ultimately work to the detriment of long-term customer interests. Tr. 5885.

Intervenor witnesses seek to quantify the impact of their recommendations from the narrow perspective of the potential impacts on credit ratings. This approach is wrong on three fronts: (1) their conclusions that FPL will likely not be downgraded is unsupported by their own testimony;[14] (2) their conclusions that FPL will likely not be downgraded is contrary to rating

[13] See also FPL's positions at the end of this brief, and the evidence cited, on Issues 78 (appropriate amount of accumulated deferred taxes), 79 (appropriate amount and cost rate of unamortized investment tax credits) and 82 (appropriate amount and cost rate for customer deposits).

[14] While stating or implying that FPL would not be downgraded (*see* Tr. 3562 (O'Donnell); Tr. 3626 (Lawton)), in several instances, these witnesses' calculations actually acknowledge downgrades (*see* Tr. 3563 (O'Donnell) or focus merely on keeping FPL's ratings at "investment grade" (or "above junk") (*see* Tr. 3888 (Gorman); Tr. 3626 (Lawton); Tr. 5897 (Dewhurst)). After acknowledging that certain FPL credit metrics would be weakened with SFHHA's recommendations, Witness Baudino admitted that he could not predict what rating agencies may do in reaction to his recommendations. Tr. 3160-61.

agency guidance;[15] and (3) their focus on credit ratings and debt cost increases ignore all the other negative impacts that will likely result from their recommendations.

The detrimental impacts from intervenor witnesses' recommendations on equity ratio and ROE go far beyond a few additional basis points in the cost of long-term debt that would result immediately from credit rating downgrades. The full set of implications that would result from their recommendations include not only likely downgrades, but also negative reactions from equity investors and debt investors; restrictions on liquidity; higher financing costs; deterioration of FPL's cost position; and an erosion of FPL's ability to deliver value to customers. Tr. 5894-95 (Dewhurst).[16]

At the end of the day, intervenors cannot credibly conclude that FPL's total cost of capital would decrease, as they claim, as there is no way of knowing just what the total impact of this degradation and heightened risk perception would be over the long term. And even if the cost of capital decreased on day one, it does not follow that FPL's total costs would be lower over the long term. Tr. 2460 (Dewhurst). Over time, FPL would surely witness reduced electric system investment and, in due course, lower customer value. Tr. 2449, 2460 (Dewhurst). Moreover, the record is clear that FPL's approach to financial strength is working for customers.

[15] Moody's recent credit opinion for FPL stated "a downgrade could be considered if there [is] . . . an increase in debt-to-capitalization above the 40% range." (March 31, 2016). Tr. 5897 (Dewhurst). Despite this very specific guidance, OPC witness O'Donnell, inexplicably testified that he didn't believe credit rating agencies "drill down" into changes to a company's equity ratio. Tr. 3584.

[16] Counsel for the Larsons asked questions regarding FPL's financial strength following FPL's 2010 rate case decision, perhaps attempting to demonstrate that the outcome was sufficient then, despite FPL's concerns. This line of questioning ignored two key facts: (i) FPL's credit rating *was* downgraded after that rate case decision (*see* Tr. 2455 (Dewhurst)); and (ii) shortly thereafter, a settlement was approved that alleviated FPL's financial situation (*Id.*). *See also,* Tr. 2268-69 (Hevert). That settlement allowed FPL to manage its earnings via amortization of a depreciation reserve surplus. Order No. PSC-11-0089-S-EI, Docket No. 080677-EI.

### A. FPL's Risk Profile

Understanding FPL's unique risk profile is critical to understanding FPL's approach to financial policies in general and capital structure in particular. Tr. 5901 (Dewhurst). As explained by FPL witness Dewhurst, FPL has risk exposures in certain areas that are markedly different from most utilities and FPL has chosen to respond to them, in part, by maintaining a stronger-than-average capital structure. TR. 5902. Intervenor witnesses, on the other hand, focus on FPL's stronger-than-average capital structure and credit ratings to conclude that FPL is "low risk." This is a myopic and over-simplified view of risk that focuses on financial risk to the exclusion of business risks, without recognizing that FPL's financial policies counter-balance the business risks it faces. Additionally, this approach confuses the views of debt investors and equity investors. Tr. 5901-02 (Dewhurst).

FPL faces a unique collection of business risks. Tr. 2462-67 (Dewhurst); Tr. 2159-68 (Hevert). For example, FPL owns and operates two nuclear power plants – a risk factor not present for many electric utilities across the country. FPL is at all times subject to potential new mandates from the Nuclear Regulatory Commission that may require increased capital spending and incremental operating costs to ensure the continued operation of this low-cost and emission-free generating source. Tr. 2164 (Hevert); Tr. 2464 (Dewhurst). But perhaps most pronounced is the unique set of risks FPL and its investors face due to FPL's geographic position. Florida is a peninsula and within that peninsula, FPL serves the southernmost portion, with large concentrations of customers. This position results in limited transmission and fuel supply connectivity, even compared to other electric utilities in Florida. Tr. 2463-64, 2642-43 (Dewhurst). Additionally, FPL's risk to storm damage is heightened because it serves customers on *both* the Atlantic and Gulf coasts of Florida, which are highly exposed to damage from

tropical storm activity. Tr. 2464-65 (Dewhurst). As a result, FPL must maintain adequate liquidity for immediate storm response, and investors are still exposed to loss of revenues and other impacts during adverse weather conditions and restoration periods. Tr. 2465 (Dewhurst).

No intervenor presented evidence disputing the particular business risks discussed by FPL witnesses Dewhurst and Hevert. Instead, their witnesses claimed that FPL is "low risk" based primarily on FPL's equity ratio and strong credit ratings. *See, e.g.,* Tr. 3080 (Baudino); 3915 (Gorman).[17] Witnesses Gorman, Woolridge, and Baudino each claims that business risks are incorporated in a company's credit ratings, and because FPL's credit ratings are higher than the average for the proxy groups, then it must mean that FPL has less business risk than other utilities. Tr. 5906 (Dewhurst). As explained by Mr. Dewhurst, this is not an accurate assessment. FPL's risk profile is heavily influenced by its geographical position. This coupled with a strong capital investment program and other factors all suggest that FPL needs to maintain a stronger financial position than most other U.S. utilities. *Id.* These risks are considered by credit rating agencies alongside of FPL's financial policies. Tr. 5909 (Dewhurst). In other words, FPL's strong credit ratings are arrived at *despite* FPL's risk factors, thanks to the strong financial policies it has consistently employed. *Id.*

Intervenors' approaches also assume incorrectly that *debt investors'* perceived risks are the same as *equity investors'* perceived risks. For example, Witness Baudino refers to bond and credit rating agencies within the context of discussing a "fair rate of return" and his ROE estimation models. Tr. 3083. Similarly, in assessing FPL's ROE, witness Woolridge claims

[17] Additionally, certain witnesses identified a handful of regulatory mechanisms, such as the availability of cost recovery clauses and FPL's use of a projected test year, to support claims of "low risk." Tr. 5007-08 (Chriss). These mechanisms are common in the utility industry and therefore fail to reduce FPL's risk profile as compared to its electric utility peers. Tr. 5908 (Dewhurst).

certain risks are already considered by rating agencies. Tr. 3197. Rating agency views do not fully characterize equity investors' risk exposure. Tr. 5906 (Dewhurst). Upon cross-examination, OPC witness Woolridge admitted that credit ratings are intended to assess a utility's credit worthiness and ability to pay debt obligations, as opposed to a measure of equity risk. Tr. 3301.

In response to questioning from counsel for OPC and FIPUG, FEA witness Gorman casually noted that FPL's credit ratings are lower than he would expect given FPL's equity ratio, and suggested the possibility of "double leverage" – i.e., the use of long term debt or credit lines at NEE to fund equity for FPL – for that result. Tr. 3918, 3923, 3926. He is wrong, and his speculation is contrary to fact. NEE issues no debt, and has no lines of credit. *See* Ex. 698; (NEE's 10-K at page 59 reports the issuance of long term debt only at FPL, NextEra Energy Capital Holdings ("NEECH"), and NextEra Energy Resources; at page 57 NEE reports lines of credit at FPL and NEECH only. NEECH provides no financing for FPL). Mr. Gorman failed to have done sufficient research to support his speculation, yet he apparently lacks reservation about suggesting it as a "concern" on the spur of the moment in an evidentiary proceeding. This failure is troubling on its face and casts considerable doubt on the balance of Mr. Gorman's testimony.

The Commission should consider FPL's overall investment risk in evaluating the appropriateness of FPL's current equity ratio and in establishing its ROE. As explained by the Supreme Court:

> The return to the equity owner should be commensurate with the returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure financial confidence in the financial integrity of the enterprise so as to maintain credit and attract capital.

*Hope*, 320 U.S. 591 (1944). When the focus is placed on overall risk instead of just FPL's financial risk, and credit rating agency opinions are placed in their proper, debt-specific context, the continued use of FPL's existing equity ratio and an authorized ROE above the "average" awarded to other electric utilities is well-supported by the record.

**B. Equity Ratio (Issue 83)**

FPL's equity ratio should remain at its current 59.6% level, expressed as a percentage of investor sources, on a 13-month rolling average basis. This is the same, actual equity ratio employed by FPL for over a decade, and reflects consideration of both the overall strategy of the business and the unique circumstances affecting the business, including FPL's unique risk profile, as discussed above. Having said this, it is essential to note that any reference to a 59.6% equity ratio must be addressed in the proper context. First, this is not the amount of equity that resides in the actual capital structure upon which rates are set.[18] Second, comparisons to other utility equity ratios such as were routinely employed by intervenors in their direct case and through cross-examination by their counsel, must be done on an apples to apples basis (i.e., ensuring that ratios listed were being presented consistently for purposes of comparison). This is an exercise that is not easily done and which, for their purposes, intervenors never even attempted to do.

As explained by FPL witness Dewhurst, the Commission also should consider the *results* of the capital structure that is being employed. For example, FPL's cost rates for long term debt are among the lowest in the nation. Tr. 5918-19 (Dewhurst). Moreover, FPL has delivered exemplary performance at low overall costs for customers. *Id.* In sum, we know that FPL's

[18] Including deferred income taxes and other sources of zero or low cost capital, the percentage of equity upon which FPL's rates are set is only 45%. Tr. 5891 (Dewhurst). The weighted average cost of capital reflected in FPL's request is 6.63% for 2017 and 6.70% for 2018.

equity ratio has served customers well for an extended period of time. However, we cannot know the breadth and depth of the damage associated with weakening FPL's capital structure in the manner recommended by Witnesses Baudino, Brosch, O'Donnell, and Pollock. Tr. 5895 (Dewhurst).

FPL has worked to maintain its strong capital structure for many years. Tr. 1897, 2468, 2469 (Dewhurst). It remains consistent with the equity ratio approved by the Commission in the 2010 Pre-Settlement Order, which was subsequently maintained in the 2010 Rate Case Settlement and the 2012 Rate Settlement. And, when appropriately compared to other *operating companies*, FPL's equity ratio is within the range of equity ratios of those other companies. Tr. 5534, 5636 (Hevert); Ex. 358.[19] FPL acknowledges that its equity ratio is on the high end of that range – which is both intentional and entirely appropriate. As discussed above, maintaining a stronger-than-average financial position is a strategy choice that is integral to the manner in which FPL operates. Clearly, this strategy has served customers well.

The intervenor witnesses failed to effectively challenge the need for FPL's equity ratio, because they failed to acknowledge FPL's specific risk profile and failed to dispute that FPL's strategy decision to focus on financial strength has served customers well. Instead, intervenors' witnesses spent their time attempting to compare FPL's equity ratio to irrelevant examples. Specifically, they compared FPL's equity ratio to the following:

- The average equity ratio of various proxy groups consisting of utility *holding companies*, not *operating companies*. *See* Tr. 3106 (Baudino); Exs. 169, 202, 203. Even if FPL's equity ratio were to be compared to the average equity ratio of

[19] Counsel for SFHHA attempted, unsuccessfully, to discredit the top end of FPL witness Hevert's equity ratio range of 45.95% to 61%. *See* Tr. 5711-20. That range can be found in the top table presented in Exhibit 358 which aggregates the operating company equity ratios that are found in the bottom table. Counsel for SFHHA asked several questions about particular operating company equity ratios (i.e., Wheeling Power, Kingsport Power, Superior Water and Light, and Alaska Light and Power), none of which are owned by MGE Energy, Inc., yet it is the operating companies owned by MGE Energy, Inc. that set the top end of the range at 61%.

operating companies, such a comparison overlooks any consideration of differences in situation and strategy. Companies differ in their risk profiles and in how they choose to seek to deliver value to customers. These differences will lead to different financial policies. Tr. 5910-11 (Dewhurst). There is no single, optimal capital structure for every electric utility. *Id.* The range of *operating company* equity ratios held by companies within a combined proxy group is 45.9 % to 61%. Tr. 5636 (Hevert). FPL's equity ratio is within that range.

- The Generally Accepted Accounting Principles ("GAAP") equity ratio of NEE and other NEE subsidiaries (*see* Tr. 3553 O'Donnell; Tr. 3218 (Woolridge); Tr. 3107 (Baudino); Tr. 4463 (Brosch)). This reflects an attempted comparison of "apples and oranges" because it ignores the fact that NEE makes use of a wide variety of instruments for its other subsidiaries such as project debt, tax equity, "hybrid" debt, and equity units that result in GAAP debt ratios that are much higher than the effective economic leverage. Tr. 5912-13 (Dewhurst).

Witness Pollock, Brosch, and O'Donnell all suggest that this Commission should set rates based on arbitrary equity ratios bearing no resemblance to FPL's actual equity ratio, and that FPL could maintain its current equity ratio despite such an order. *See* Tr. 4313 (Pollock); Tr. 4464-65 (Brosch); Tr. 3562-63 (O'Donnell). Doing so would be contrary to Commission direction. *See, e.g.*, Order No. 15451, Docket No.850050-EI (determining that the capital structure used for ratemaking purposes should bear an appropriate relationship to the utility's actual sources of capital). Additionally, as explained by FPL witness Dewhurst, FPL could not maintain its actual equity ratio if electric rates were to be set based on a hypothetical equity ratio. FPL would have to issue $1.2 to $3.2 billion in long-term debt and reduce equity by the same amount to bring its actual capital structure in line with the Commission's decision. Tr. 5920 (Dewhurst). FPL therefore would become far more leveraged and financially risky. *Id.*

In sum, the evidence overwhelmingly supports the continuance of FPL's actual, current equity ratio. FPL's equity ratio is not "excessive," as intervenors claim, when properly compared to the range of other electric utility operating companies' equity ratios and when considered in light of FPL's unique risk profile and chosen strategy of maintaining financial

strength. If the Commission wants to examine the "cost" of FPL's strategy, it need only look to the results FPL has achieved for customers – including its overall low cost position and low customer bills. *See* Tr. 5918-19 (Dewhurst).

**C. Return on Equity (Issue 85)**

Under the *Hope* and *Bluefield* standard, the Commission is required to approve a prospective return to shareholders that equals the return that shareholders could expect on other investments of equal risk. *Hope*, 320 U.S. at 603; *Bluefield*, 262 U.S. at 692-93. Thus, in its determination of an appropriate ROE, the Commission is required to assess FPL's equity risk through the eyes of an equity investor (not through the eyes of a debt investor relying primarily on credit ratings, as intervenor witnesses propose).

FPL's requested ROE midpoint of 11% is supported by the testimony and exhibits of Mr. Dewhurst and Mr. Hevert. Both witnesses provide a unique perspective. Mr. Dewhurst explained the perspective of equity investors, their expectations looking forward, and the investment community's reaction to the 2009 rate case that established a 10% ROE – all based on his personal experience. Mr. Hevert provided the market-based analyses that support a reasonable range of ROEs and FPL's requested 11% midpoint.

Witnesses Baudino, Gorman, Woolridge, and Brosch each proposed absurdly low ROEs. In all instances, they recommend an ROE that is lower than the 10% that prompted FPL's credit rating to be downgraded in 2010. *See* Tr. 5894 (Dewhurst). Indeed, if the Commission adopted any of the intervenor witnesses' ROEs, it would be the lowest ROE authorized for any vertically integrated electric utility in the U.S. since the beginning of 2014. Tr. 5923 (Dewhurst). In fact, OPC's recommended ROE of 8.75% would be less than the lowest ROE awarded in the U.S. since the beginning of 2013, which was a 9% ROE that reflected a performance *penalty*. Tr. 5923 (Dewhurst). There is simply no evidence in the record supporting the radical opinion that

anticipated financial market conditions, FPL's risk profile, or FPL's performance supports the lowest authorized ROE in the country.

1. Mr. Dewhurst

FPL witness Dewhurst testified that, based on his experience and familiarity with FPL's financial position, as well as his direct knowledge of investor perceptions, an ROE of 11% would be consistent with maintaining FPL's strong financial position. Tr. 2470. He also explained that an adequate ROE is important to fairly compensate equity investors for the use of their capital and enable the Company to offer a return sufficient to compete with other firms and attract new capital on reasonable terms, which in turn helps to ensure that FPL can achieve and maintain the necessary financial strength to meet its obligations to its customers. Tr. 2470-71 (Dewhurst). The reasonableness of FPL's requested 11% ROE is clear when compared to the current allowed ROEs for other regulated utilities, particularly within the state of Florida and in the Southeastern U.S. *Id*. As shown in Ex. 136, the range of authorized ROEs currently in place and available to investors in the Southeastern U.S. ranges from 9.70% to 13.29%, with an average of 10.64%. Ex. 136 also shows that FPL's performance as compared to these electric utilities is superior.

2. Mr. Hevert

FPL witness Hevert considered the results of three widely accepted approaches to reach his recommended ROE range: (1) the Capital Asset Pricing Model ("CAPM"); (2) the Bond Yield Plus Risk Premium approach; and (3) the Discounted Cash Flow ("DCF") model, including the Constant Growth and Multi-Stage forms. Tr. 2127 (Hevert). His analyses indicated that FPL's cost of equity is in the range of 10.50% to 11.50%, and he recommended an authorized mid-point of 11%. Tr. 2127, 2129 (Hevert). Mr. Hevert's results were confirmed

when re-run for updated market data, using a combined proxy group that reflected intervenors' proxy companies. Tr. 5648, 5651 (Hevert).

Mr. Hevert's analyses and recommendations also considered the following concepts, none of which were properly reflected by intervenor witnesses in their recommendations:[20]

- the Company's geographic risk, including its vulnerability to severe weather conditions; the Company's need to access external capital; and the potential for new regulatory requirements associated with nuclear generation;

- the potential for an increase in the cost of equity over the Company's proposed four year rate period;

- widespread expectations for increases in interest rates, as revealed in both market data and economists' consensus projections, which weigh in the evaluation of the CAPM, Bond Yield Plus Risk Premium, and DCF results;[21]

- an increasing degree of equity market volatility as the Federal Reserve has begun its process of monetary policy normalization, indicating a level of market uncertainty that has not been observed on a sustained basis for several years; and

- wider than historical credit spreads on utility bonds, indicating investors' views that the risks associated with the utility sector have increased. (FPL notes that while credit spreads have narrowed since it filed its direct case, a topic on which Staff questioned FPL witness Hevert, credit spreads are still relatively higher than they have been on a historical basis.) Tr. 2127-28, 2402 (Hevert); Ex. 688.

FPL witness Hevert explained that as market conditions change, the reliability of individual models will vary. Tr. 2140 (Hevert). For that reason,

> it is important to assess the reasonableness of any financial model's results in the context of observable market data. To the extent that certain ROE estimates are incompatible with such data or inconsistent with basic financial principles, it is appropriate to consider whether alternative estimation techniques are likely to provide more meaningful and reliable results.

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[20] For Mr. Hevert's response to OPC witness Woolridge's testimony, see Tr. 5498-5554; for Mr. Hevert's response to FEA witness Gorman's testimony, see Tr. 5498-5598; for Mr. Hevert's response to SFHHA witness Baudino's testimony, see Tr. 5598-5621; for Mr. Hevert's response to Walmart witness Chriss's testimony, see Tr. 5621-28; and for Mr. Hevert's response to AARP witness Brosch and FIPUG witness Pollock's testimony, see Tr. 5628-33.

[21] OPC witness Woolridge's arguments heavily relied on historical interest rate activity, or the accuracy of historical interest rates, rather than investors' expectations looking forward. *See* Tr. 3193-94, 3204 (Woolridge).

Tr. 2174 (Hevert). In other words, at times, certain model results simply do not make sense. Tr. 5494 (Hevert). For example, recent P/E ratios in the utility sector have been unusually high. The elevated P/E ratios are an important factor simply because the Constant Growth DCF model assumes constant P/E ratios in perpetuity. Consequently, the Constant Growth DCF model assumes data that are inconsistent with the model's fundamental assumptions. Tr. 2331, 5503 (Hevert). For reasons such as this, discussed at length by Mr. Hevert (*see, e.g.,* Tr. 5540-53), Mr. Hevert relied more heavily on his CAPM results as compared to his DCF results.

During the hearing, OPC attempted to paint Mr. Hevert as inconsistent, because in past proceedings – some as old as eight years ago – he used different data sources or he placed more emphasis on DCF results. *See, e.g.,* 2303-05 (Hevert). However, this illustrates Mr. Hevert's point exactly: in certain market conditions, certain data sources and certain models make sense while others do not. *Id.* Indeed, for the reasons explained by Mr. Hevert, it is unreasonable for intervenor witnesses such as Messrs. Woolridge, Gorman, and Baudino to universally adhere to one financial model, such as DCF, in all financial market conditions. Certainly investors, and those who advise investors, cannot be presumed to remain static in the way they look at markets and formulate their expectations in the face of obvious and marked changes in financial conditions and market phenomena. *See* Tr. 2263 (Hevert). Neither should those who as purported experts attempt to assess the cost of equity from the standpoint of those same investors. And yet, that is exactly what intervenor witnesses would propose to do.

FPSC Staff questioned Mr. Hevert on his use of different risk free rate terms within his CAPM equation. The first such term ($r_f$) is forward looking, while the second reflects current capital market conditions within the market risk premium ("MRP") portion of the equation ($r_m - r_f$). *See* Tr. 2141-42 (Hevert). Accordingly, Mr. Hevert used the current 30-day average

Treasury yield as the measure of the risk-free rate in the MRP calculation (Tr. 2143), but relied upon consensus projected treasury yields for the risk free rate at the beginning of the equation (Tr. 2142). This is particularly appropriate given the fact that current Treasury yields have been affected by recent Federal Reserve intervention in capital markets (*see* Tr. 2175-76 (Hevert)) and there is a wide-spread expectation that rates will rise (*see* Tr. 2185 (Hevert)). This expectation was underscored during the technical hearing, when the Chairman of the Federal Reserve issued a statement indicating strengthening support for an increase in the Federal Funds rate. Ex. 804.

None of the ROE witnesses who performed CAPM calculations used the same risk-free rate in both places in the CAPM formula. For example, Dr. Woolridge selected his MRP estimate from a review of Equity Risk Premium studies without attempting to identify studies that assumed the same 4.00% risk-free rate used as the first term in his CAPM analysis. Tr. 3242-43. *See also,* Tr. 3880-84 (Gorman); Ex. 222 (Witness Gorman used a long-term Treasury bond return as the risk-free rate in his MRP calculation but used a different risk-free rate for the first term in his CAPM calculation); *see also,* Ex. 260 (Witness Baudino used a historical return on Long-Term bonds as the risk-free rate in his MRP calculation but used a different risk-free rate for the first term in his CAPM calculation). Accordingly, Mr. Hevert's use of different risk-free rates is not only supported by current market conditions and future expectations regarding interest rates, but also by the approaches taken by different intervenor cost of equity witnesses in this case.

3. Flotation Costs

FPL witness Hevert supported a 0.12% adjustment for flotation costs to be included in FPL's ROE mid-point authorized in this case. Tr. 2169-72 (Hevert). It was acknowledged by intervenor cost of capital witnesses that flotation costs, the costs associated with the public

issuance of common stock, are actual costs of doing business. *See, e.g.,* Tr. 3891 (Gorman); Tr. 3300 (Woolridge). However, intervenor witnesses argued FPL should not recover these costs, with conflicting theories that do not withstand critical scrutiny. *See* Tr. 3891-92 (Gorman) (taking issue with the fact that flotation costs were estimated); Tr. 3125 (Baudino) (claiming current stock prices already account for flotation costs, "to the extent that such costs are even accounted for by investors"); Tr. 3259, 3279 (Woolridge) (arguing with the general principle that a flotation cost adjustment is necessary). These arguments defy authoritative, academic commentary on the topic.[22]

As explained by FPL witness Hevert, "like investments in rate base or issuance costs of long-term debt, flotation costs are incurred over time, but remain part of the cost structure that exists during the test year and beyond." Tr. 5588. The precision intervenors are searching for is simply unnecessary to reach the conclusion that flotation costs are actual costs that, if left unaccounted for, would reduce the utility's earned ROE.

Historically, this Commission has recognized flotation costs as a legitimate element of cost of service. *See* Order No. PSC-02-0787-FOF-EI, Docket No. 010949-EI (providing a 20 basis point flotation cost adjustment); *see also*, Order No. PSC-09-0283-FOF-EI, p. 44, Docket No. 080317-EI (stating that the Commission has traditionally recognized a reasonable adjustment for flotation costs on the order of 25 to 50 bps). Similarly, flotation costs should be recognized in this case.

[22] Shannon P. Pratt, Roger J. Grabowski, *Cost of Capital: Applications and Examples*, 4th ed.; Roger A. Morin, *New Regulatory Finance*, (Public Utilities Reports, Inc. 2006), at 321-322; Shannon P. Pratt, *Cost of Capital Estimation and Applications*, Second Edition, at 220-221; and Cleveland S. Patterson, *Flotation Cost Allowance in Rate of Return Regulation: Comment*, The Journal of Finance Vol. XXXVIII, No. 4. September 1983, at 1337.

**D. Cost of Short and Long Term Debt (Issues 80-81)**

1. Short Term Debt

FPL forecasted its short term debt costs using the forward Intercontinental Exchange London Interbank Offered Rate curve. Tr. 2469 (Dewhurst); Exs. 28 (MFR D-3), 29 (MFR D-3). SFHHA witness Baudino claimed that FPL's short term debt projections should not be based on forecast data, but rather, should reflect FPL's 2016 cost of short term debt of 0.56% – a "reasonable increase," in his opinion, over FPL's 2015 cost of short term debt. Tr. 5114-15 (Baudino); Tr. 5948 (Dewhurst). Mr. Baudino's recommendation is facially unreasonable because it is lower even than FPL's current 30-day commercial paper rates, which are 0.67%. Tr. 5948 (Dewhurst). Thus, if Mr. Baudino's recommendation were to be adopted, FPL would not recover the cost of its short term debt. *Id.* Accordingly, it should be rejected.

2. Long Term Debt

FPL relied on the Blue Chip Financial Forecast, which represents the consensus estimates of more than 40 economists, for its long term debt cost projections. Tr. 2469 (Dewhurst); Exs. 28 (MFR D-8), 29 (MFR D-8). Witnesses Baudino, Gorman, and Pollock all claimed that FPL's projections should be updated with more recent forecasts. FPSC Staff also asked questions at hearing indicating it may be appropriate to update long term debt cost forecasts to reflect reductions since the time of FPL's filing. However, FPL's interest rate forecasts for long term debt are just one component of its overall forecast for this case. Certainly, some elements of FPL's forecast of revenue requirements have gone up and some have gone down since the time of its filing. Choosing just one element to update is asymmetrical. *See* Tr. 5961-63 (Dewhurst). Staff also inquired whether it would be appropriate to revise FPL's projections based upon a debt issuance planned for 2016 at the time the rate case filing was prepared, which ultimately was not

issued. Witness Dewhurst explained that would not be appropriate because other debt issuances that have already occurred and will occur – which also are not reflected in the filing – will replace that issuance. Tr. 2584-85 (Dewhurst). FPL's long term debt costs projected for the test year and subsequent year are reasonable and should be utilized in this proceeding.

**E. Weighted Average Cost of Capital (Issue 86)**

In sum, the continuation of FPL's current capital structure, the authorization of an 11% ROE midpoint, and FPL's projected costs of short and long-term debt are reasonable as demonstrated by the evidence presented in this case. FPL's equity ratio and a reasonable ROE are necessary to maintain the financial strength and flexibility that has served FPL's customers well over an extended period of time. FPL's service is demonstrably superior, and therefore, the ROE adder requested in this case is also justified, as discussed below.

Together, the elements of FPL's requested capital structure and their cost rates result in a weighted average cost of capital ("WACC") of just 6.63% for 2017 and 6.70% for 2018, which is below the average WACC authorized for electric utilities in the U.S. over the last three years. Tr. 2470 (Dewhurst); Ex. 332. This WACC reflects the regulatory capital structure that accounts for deferred income taxes and other no or low-cost sources of capital, which results in only about 45% of FPL's rate base being financed with equity.[23] Tr. 5891 (Dewhurst). Overall, this WACC would enable FPL's residential customers to maintain a typical residential bill among the lowest in the state, while adequately compensating FPL's investors and supporting FPL's financial strength. FPL's proposed WACC, therefore, is eminently reasonable and should be approved.

[23] Yet another example of the intervenor witnesses' common flawed premise that equity ratio and ROE can be examined in isolation is their assumption that the deferred income tax component would remain unchanged if investor-supplied capital ratios or allowed ROEs were changed. However, deferred income taxes are derived from FPL's capital investment program, which would surely be affected if their recommendations were adopted. Over time, reduced investment would reduce deferred income taxes and therefore increase, all other things equal, the overall cost of capital. Tr. 5891-92 (Dewhurst).

## XI. ROE PERFORMANCE ADDER (ISSUES 3, 84)

FPL has requested and justified an ROE performance adder of 50 bps in this proceeding. As set forth by Mr. Dewhurst, the purpose of the performance adder is twofold. It would recognize FPL's current superior service – i.e., what FPL has already accomplished in its efforts to deliver superior value to customers – and it would work as an incentive to promote further efforts to improve the customer value proposition. Tr. 2473, 2600. It would also help shift the regulatory framework towards an "output based" measure of performance, which in Mr. Dewhurst's opinion, would improve the long-term delivery of value to customers within the electric utility industry. Tr. 5970-72.

FPL has set forth four clear benchmarks, or attributes, against which the Commission can assess FPL's performance: customer bills or affordability, reliability of electric service, quality of customer service, and emission rates. Tr. 2627 (Dewhurst). As summarized by Mr. Dewhurst, FPL's performance compares extremely well on all principal measures against other electric utilities both within Florida and elsewhere in the Southeast U.S. Tr. 2452. FPL's operational witnesses also discussed FPL's exceptional performance as it relates to power delivery reliability, fossil fleet operations, and customer service. *See, e.g.,* Tr. 1057, 1069 (Mirand); Tr. 805 (Kennedy); Tr. 685-86, 703-04 (Santos). Improvements in FPL's fossil fleet net heat rate, for example, produce real fuel savings for customers – irrespective of market fuel prices. FPL's performance also is discussed in sections II and IV, above.

As FPL witness Reed testified, FPL's performance far surpasses its peers on a number of other measures as well. His benchmarking analyses showed that the Company has out-performed similarly sized companies across an array of financial and operating metrics, and that the Company has achieved these results in spite of the fact that it is disadvantaged by various exogenous factors that impact a utility's efficiency. Tr. 417 (Reed); Ex. 33. In terms of

productive efficiency — the ability to maximize output and minimize costs — FPL has ranked either first or second of the 27 companies in the Straight Electric Group in each of the 10 years from 2005 to 2014, and FPL has been the highest ranked in the Florida Utility Group and the Large Utility Group throughout this period. Tr. 418 (Reed); Ex. 34. In terms of controlling O&M expenses specifically, FPL was first among the Straight Electric Group each year except 2006 and 2010, when it ranked second, and FPL has been the highest ranked in the Florida Utility Group and Large Utility Group each year. *Id.*

The evidence in this record so clearly supports recognition of FPL's performance that FPL witness Deason summed it up by testifying as follows: ". . . if there's not an ROE adder in this case – I mean, if not FPL, what company? And if not now, when?" Tr. 5873-74. He further explained the importance of awarding an ROE adder in this case, given the evidence supporting it, if the Commission intends for ROE adders to be a useful "tool" in its regulatory "tool kit." Mr. Deason testified that ROE adders should not be common, but by the same token, never granting an adder under any circumstance, would diminish its effectiveness as well. Tr. 5873-74 (Deason) ("if the Commission wants to retain this tool . . . at some point it needs to be used again.").

Nonetheless, the ROE performance adder was opposed by a majority of the intervenors, all of whom enjoy superior electric service from FPL. Their primary objections can be categorized as follows: (i) FPL's excellent service is merely in keeping with its obligation to serve customers; (ii) FPL's performance, especially its low bills, is due to factors outside its control; (iii) specific examples demonstrate a lack of "superior performance" in certain areas; and (iv) FPL's performance is being achieved through investments for which customers are

already paying. Each of these arguments is either factually wrong or misses the policy point entirely.

First, witnesses Pollock, Gorman, Lawton, Brosch, and Baudino all misstate FPL's obligations under Florida law. For example, several of their formulations reflect a *duty* to provide "superior" or "exemplary" service. *See* Tr. 3609 (Lawton);[24] Tr. 3135 (Baudino). FPL's obligation is clearly set forth in Section 366.03, Florida Statutes, and reflects none of the intervenors' formulations. FPL's obligation is to provide "reasonably sufficient, adequate, and efficient" service. Based on the record in this case, FPL's service clearly surpasses this standard.

Second, with respect to factors outside of FPL's control, FPL readily acknowledges that low natural gas prices reduce customers' bills.[25] However, intervenors who carry this view are ignoring the many performance factors within FPL's control that also contribute to lower bills, such as investment decisions that reduce the amount of natural gas consumed by FPL's power plants and FPL's achievements in reducing non-fuel O&M costs. For example, efficiency improvements since 2001 have resulted in approximately $8 billion in customer fuel savings ***strictly from lower fuel consumption*** – not from reductions in the price of natural gas. Tr. 123 (Silagy); Tr. 805, 826 (Kennedy). And as calculated by FPL witness Reed, FPL's customers are saving approximately $1.9 billion a year in non-fuel O&M, as compared to an "average" utility's performance. Tr. 419 (Reed). This directly results in lower O&M costs sought for recovery in this proceeding, and lower customer bills. Tr. 666-67 (Reed). FPL witness Cohen also observed

[24] If it were true, as Mr. Lawton claims, that all monopolies "have a duty to provide superior performance in exchange for cost recovery plus an opportunity to earn a fair and reasonable return," (Tr. 3609) all below-average performing utilities would presumably be denied cost recovery and a reasonable return on their invested capital. Clearly that is not how utility regulation works.

[25] It is *not* a given that population growth or economies of scale necessarily reduce costs. Tr. 5936-37 (Dewhurst). To the extent scale matters, it is accounted for in FPL witness Reed's evaluation of FPL's performance against other large electric utilities, which is superior. *See* Tr. 422-23 (Reed); Ex. 36.

that if FPL's success at reducing customer bills was solely due to low natural gas prices, many other utilities would similarly have reduced customer bills. The evidence, however, is to the contrary: since 2006, FPL's typical residential bill has decreased by 14%, while the national average typical bill has increased 29%.[26] Tr. 2804 (Cohen).

Third, intervenors explored what they consider to be examples of performance that do not warrant an ROE adder, such as recent developments from the normal operation of the cooling canal system at Turkey Point. As explained by FPL witness Dewhurst, no company is immune from environmental risk, however strong its compliance record. Tr. 5939 (Dewhurst), Tr. 1018-20 (Goldstein). Nonetheless, even if one were to accept that this or any other example demonstrates sub-par performance,[27] FPL acknowledged that it is not perfect. Tr. 143 (Silagy). Perfection in every respect is not an appropriate standard for rewarding performance. Tr. 5970-72 (Dewhurst). This is particularly true when a utility, such as FPL, excels in the areas that matter most to customers. *See* Tr. 5971 (Dewhurst).

Fourth, witnesses Pollock and Lawton note correctly that FPL customers have paid or are paying for the investments that produce the service levels customers enjoy today. Tr. 5933 (Dewhurst). In effect, these arguments suggest that differences in performance should have no impact on allowed ROE. And in fact, during cross examination, OPC witness Lawton outright

[26] National average increase of 29% is as of January 1, 2016. More recent data shows the national average typical residential bill has increased by 24% from 2006 to 2016 (EEI data published April 2016). Tr. 5325 (Cohen).

[27] The Larsons attempted to demonstrate through questioning of FPL witnesses Santos and Deason that FPL's failure to achieve projected net savings for the year 2013 from the Advanced Metering Infrastructure project demonstrates subpar performance. As explained by those witnesses, it is true that the timing of costs and savings did not line up the way FPL had originally projected, but ultimately, FPL is providing annual savings that surpass those originally projected. Tr. 774 (Santos); 5866 (Deason). FPL also notes that the source for the Larsons' claim that FPL "promised" $30 million in net savings beginning in 2013 appears to be from a sentence on page 96 of Order No. 10-0153-FOF-EI, which does not align with the figures that appear on pages 95 and 140 of that same order. Pages 95 and 140 indicate $19.943 million in net savings was projected for 2013, which is consistent with the projection FPL actually provided in that case. Tr. 770, 773 (Santos).

stated this – he claimed it did not matter (and should not matter to the Commission) whether FPL was "number one, number 10 or number 520. It doesn't matter." Tr. 3659.[28] As explained by FPL witness Dewhurst, differentiating ROE on the basis of overall performance represents better public policy because over time it is likely to result in higher levels of performance across the state. *See* Tr. 5933.

The Commission has a well-established history of granting ROE performance adders and establishing penalties by lowering ROE. *See,* Order No. 9628, *aff'd*, *Gulf Power Co. v. Cresse,* 410 So. 2d 492 (Fla 1982) (awarding a 10 bps ROE adder); Order No. 23573, *aff'd*, *Gulf Power Co. v. Wilson,* 597 So. 2d 270 (Fla. 1992) (imposing a 50 bps ROE penalty for mismanagement); Order No. PSC-02-0787-FOF-EG (awarding a 25 bps ROE adder); *see also,* Order No. PSC-12-0102-FOF-WS (reducing ROE for "marginal" service). The specific amount of the incentive or penalty, of course, is a matter of judgment. The precedent for FPL's requested ROE adder is clear.[29]

## XII. NET OPERATING INCOME (ISSUES 87-120)

### A. FPL's Projected Levels of 2017 and 2018 Revenues and Expenses are Reasonable

FPL's projected Net Operating Income ("NOI") is $1,645,685,000 for the 2017 Test Year and $1,596,021,000 for the 2018 Subsequent Year. Ex. 332, pp. 1, 3, 7. This requested level of NOI is appropriate, and includes a reasonable revenue projection of $5,926,640,000 for the 2017 Test Year and $5,971,663,000 for the 2018 Test Year. Id. FPL's NOI also includes reasonable total operating expenses projected to be $4,280,956,000 in the 2017 Test Year and

[28] Mr. Lawton testified that incentives were appropriate for regulated utility management (apparently missing the fact that those incentives are paid for by shareholders), but not appropriate for shareholders. Tr. 3658.

[29] This history, and the testimony of FPL witness Deason, also undercuts intervenor witnesses' claims that an ROE adder is inconsistent with the regulation of a monopoly. *See* Tr. 5800-02 (Deason).

$4,375,642,000 in the 2018 Subsequent Year. Id. FPL appropriately removed from the 2017 Test Year and 2018 Subsequent Year revenues and expenses recoverable through the Fuel, Capacity, Environmental and Energy Conservation recovery clauses. Tr. 1672-75 (Ousdahl); Exs. 28 (MFR C-3), 29 (MFR C-3).

1. FPL's Operational O&M Expenses (Issues 97-101)

FPL has successfully managed its nuclear production, fossil production, transmission, distribution, and customer service O&M expenses so as to not exceed the Commission benchmark referenced in MFR C-41. FPL is consistently a high performer in the category of Non-Fuel Production O&M Expense per Customer and has been in the top quartile of the Straight Electric group each year, and the top performer in both the Florida Group and the Large Utility Group for eight of the past 10 years. Tr. 435-36 (Reed). FPL also has performed well in controlling Transmission O&M Expenses and has shown excellence in controlling its Distribution O&M expenses. Since 2007, FPL has ranked among the best performers in all three comparable groups. *Id.* FPL's customer service O&M expenses also are below the Commission's benchmark. Tr. 705 (Santos). FPL's requested operating expenses are reasonable and necessary, and the intervenors recommendations should be rejected.

*Nuclear Fleet O&M Expenses.* FPL's 2017 Test Year O&M for Nuclear Production does not exceed the Commission's benchmark, using adjusted 2013 as the benchmark year. Tr. 996 (Goldstein). In fact, FPL's 2017 Test Year O&M for Nuclear Production is 11% lower than the 2013 actual amount and 16% below the Commission's benchmark. Tr. 1002 (Goldstein). No intervenor has presented evidence that Nuclear's O&M expenses are unreasonable or unwarranted. FPL's nuclear O&M expenses should be approved by this Commission.

*Power Generation O&M Expenses.* FPL has worked aggressively to reduce and contain expenses over the last 25 years despite an 80% cumulative increase in the Consumer Price Index ("CPI") through 2015. Tr. 809 (Kennedy). Over that 25-year period, total non-fuel fossil O&M per unit of installed capacity has been reduced nearly 39%, from $18.5/installed kilowatt ("$/kW") in 1990 to $11.4/kW in 2015. *Id.* Both FPL's 1990 cost escalated by CPI to 2015, and FPL's actual 2015 fossil fleet cost, are two-thirds less than the latest fossil industry average cost, representing significant annual fossil non-fuel O&M avoidance of about half a billion dollars in 2015 alone. *Id.* Moreover, FPL's fossil fleet capacity-managed per employee (23 MW per employee) is projected to be nearly five times better than the rate in 1990 (5 MW per employee). Tr. 810 (Kennedy). In fact, the Steam and Other Production levels of base non-fuel O&M for both the 2017 Test Year and the 2018 Subsequent Year are well below the MFR C-41 O&M benchmark levels on either a portfolio or functional basis. *Id.* This is an impressive accomplishment given the addition of two combined cycle generating units (Riviera Beach and Port Everglades) and three large-scale solar sites since 2013, the prior base year of the O&M benchmark calculation. *Id.*

OPC witness Smith inappropriately recommends that test year generation overhaul expenses be normalized. Tr. 3734 (Smith). However, his four year average approach is not properly based on projected operational and overhaul plans and would not be indicative of FPL's O&M costs going forward. Tr. 4913 (Kennedy). His approach also is not justified because the size and nature of FPL's generation fleet has significantly changed even over the last four years. Tr. 4914 (Kennedy). This transformation of FPL's generation fleet means that the timing of historical maintenance cycles has no bearing on current or future maintenance cycles. *Id.* Consequently, normalization of previous overhaul maintenance costs is not an appropriate basis

to forecast maintenance costs on a going forward basis. Tr. 4915 (Kennedy). FPL would never use such an approach to budget for its maintenance expenditures and to do so here would not properly reflect what or how FPL projects to spend to meet the fleet's needs. *Id.*

*Power Delivery O&M Expenses.* FPL has effectively controlled its total transmission and distribution O&M expenses, which compare favorably to the Commission benchmarks. Tr. 1086-87 (Miranda). With the exception of two items contested by OPC witness Schultz, FPL's O&M expenses for Power Delivery are uncontested by intervenors.

Witness Schultz contends that FPL's 2017 and 2018 projected costs should be reduced. Tr. 3490 (Schultz). To do so, he employed a three-year historical average instead of a five-year average that he has stated in other proceedings is his preferred methodology for comparing actual versus budgeted variances. Tr. 2670-71 (Miranda). FPL's actual vegetation management expenses over the last five years have exceeded the budget twice and differed from budget, on average, by only 1.2%. Tr. 2672 (Miranda). FPL's 2017 and 2018 vegetation management expenses are reasonable and appropriate as filed and should be approved by the Commission. *Id.* Mr. Schultz's recommendation amounts to nothing more than gamesmanship and should be rejected as such by the Commission.

Witness Schultz also contends that FPL's pole inspection expenses should be reduced. Tr. 3492-93. Again, he relies on a three-year average instead of what he has said elsewhere if the preferred approach of using a five-year average of historical costs. Tr. 2670-71, 2674-75 (Miranda). Using a five-year average, his proposed reductions would be 58% lower for 2017 and 2018. Tr. 2675 (Miranda). And there is a more fundamental flaw in Mr. Schultz's logic. By focusing only on O&M expenses, he completely ignores the vast majority of pole inspection costs that are classified as capital expenditures, (i.e. remediation and replacement costs of failed

poles). Tr. 2674 (Miranda). When one looks at total pole inspection costs (O&M plus capital), FPL's actual costs have actually exceeded the budget for the 2011-2015 period. Therefore, Mr. Schultz's one-sided adjustment to only O&M expense does not recognize FPL's total program costs and is inappropriate.

### B. FPL's Projected Compensation Expenses are Reasonable and Necessary To Continue To Provide Excellent Service (Issue 105)

FPL's total projected compensation and benefits cost was demonstrated to be reasonable and necessary. As discussed further below, this was shown in a number of ways, including comparison of FPL's salaries to relevant comparative market data, comparison of growth of payroll costs to principal inflation indices, comparison of FPL's salary cost and productivity measures to those of other utilities, and comparison of the relative value of benefits programs to other utility and general industry companies. In fact, FPL's gross total compensation and benefits costs in 2017 and 2018 are projected to be less than FPL's gross total compensation and benefits costs in 2013. Tr. 1923 (Slattery). Compensation and benefits for employees is a necessary cost of providing safe, efficient, and reliable service to customers. As such, 100% of a reasonable level total of compensation and benefits costs – whether received by employees in base pay or incentive form – should be included for ratemaking purposes.[30] Tr. 5787 (Deason).

#### 1. FPL's Compensation Package is Competitive and not Above Market

FPL designs and manages its compensation and benefits package as part of one total rewards package. This focus has allowed the Company to react to market conditions and drive the superior performance documented by many of its witnesses, while remaining focused on managing total program costs. Tr. 1923 (Slattery). Gross payroll costs are forecasted to increase

[30] Costs properly allocated to affiliates or the wholesale jurisdiction have been removed. Tr. 5240 (Slattery). FPL has also removed the portions of executive and non-executive incentive compensation that were excluded by the Commission's Order No. PSC-10-0153-FOF-EI, from its compensation expense in this case. Tr. 1930 (Slattery).

by only 1.2% from 2013 to 2017 – far lower than the CPI increase of 6.3% for the same period. Tr. 1924, 1930 (Slattery). The projected growth in compensation cost from 2017 to 2018 is also reasonable – FPL projects a 2.4% increase, which remains below the CPI increase. Tr. 1931 (Slattery).

The Company designs its compensation and benefits program to attract, retain, engage and competitively reward its employees based on national and local comparative markets. Tr. 1925 (Slattery). FPL's compensation program reflects a pay-for-performance philosophy, linking total compensation to attainment of corporate, business unit, and individual goals such as excellent reliability and customer service. *Id.* It is intentionally designed to control fixed costs by placing greater emphasis on variable cash compensation, rather than on the traditional programs that are not performance-based. *Id.*

FPL continuously monitors and benchmarks the compensation and benefits components of the total rewards package. Tr. 1926 (Slattery). FPL uses a variety of survey sources to conduct annual benchmarking analyses to assure that FPL's pay levels are comparable to rates paid by its competitors for employees with similar jobs and skill sets, and to assure that annual merit and variable pay increases are comparable in the market. Tr. 1933 (Slattery). The most recent market analysis of FPL's base pay levels included market survey data from approximately 50 sources. These data demonstrate that FPL has maintained its aggregate average base pay below market (i.e., below the median or 50th percentile). Tr. 1934 (Slattery); Ex. 117. FPL's merit base increases and variable incentive pay awards have also been below market. Tr. 1935 (Slattery); Ex. 118. FPL is one of the more efficient electric utilities from a total compensation standpoint on both a per customer and a per MWh basis, further demonstrating success in managing its compensation costs. Tr. 1932 (Slattery); Ex. 116.

FPL likewise has managed its benefits package with an eye toward minimizing costs while at the same time providing an attractive total employment package. FPL's total benefit program has decreased since 2013 and is below average as compared to the relevant comparator groups. Tr. 1936, 1938 (Slattery); Ex. 119. Significantly, for the period 2013 to 2017, FPL's medical benefits costs are projected to decrease by over 2.8%, compared to a 6.3% increase in CPI and a 21.2% increase in the utility industry health care trend. Tr. 1938 (Slattery). FPL's projected medical cost for 2018 represents no increase over the Company's 2013 expense, and remains significantly below CPI and the utility industry healthcare trend. Tr. 1939 (Slattery).

2. FPL's Non-Executive Performance-Based Variable Compensation is a Necessary and Reasonable Expense that Should Be Recovered

Not one party or witness in the case has alleged that FPL's total compensation expense, which includes non-executive performance-based variable compensation, is unreasonable or unnecessary. Accordingly, FPL's evidence on these points remains unchallenged. OPC nevertheless recommends the disallowance of 70% of the non-executive, performance- based cash incentive compensation.[31] OPC's witness Shultz proposes that this Commission disallow 100% of the amount associated with what he calls "financial" goals (40% of the incentive plan) and 50% of the remaining amount that he believes are "customer-related goals." Tr. 5196 (Slattery).[32] This recommendation is based solely on his flawed philosophy of sharing of cash incentive compensation between customers and shareholders. Tr. 5190 (Slattery).

[31] As mentioned above, FPL has already removed 100% of executive incentive compensation, 100% of non-executive above-target stock-based incentive compensation, and 50% of non-executive target stock-based incentive compensation from its request.

[32] It must be noted that this recommendation conflicts with the testimony of another OPC witness in this case, Mr. Lawton, who testified "[t]ypically, the regulators in the utility industry provide incentive comp for management and employees. And that's not unusual to promote and encourage getting the best and the brightest to run these companies, and do a good job." Tr. 3657-58.

The record is replete with factual evidence demonstrating why OPC's recommendation to disallow any portion of performance-based pay should be rejected:

- FPL's market based plans rely on customer-focused performance goals to determine employee payouts, such as O&M costs, capital expenditures, fossil generation availability, nuclear industry composite performance index score, three measures of service reliability, employee safety, environmental compliance, customer satisfaction, and performance under Federal Energy Regulatory Commission ("FERC") and NERC reliability standards.
- Even the O&M and capital expenditure goals that Mr. Schultz claims are "financial" are customer-focused, with real tangible benefits inuring to customers. For example, FPL has done an excellent job of reducing non-fuel O&M, which directly reduces its requested rate relief in this docket. Further, the capital investments FPL has made are improving the value FPL provides.[33]
- FPL's goals are based on industry benchmarks, and FPL's goals are typically set at or above the top quartile or top decile in the industry.[34]
- The Company's results demonstrate that its strategy is working. For example, FPL has been recognized by various third parties for its continued high performance with regard to customer satisfaction.
- Eliminating or reducing the plans would negatively impact the competitive position of the company's total rewards package and the company's ability to attract and retain talent.

Tr. 1954, 1989-90, 2016, 5196, 5199, 5201-03, 5255, 5262-63 (Slattery).

OPC's recommendation should be rejected for legal and policy reasons, too. FPL witness Deason explained why OPC's recommended adjustment violates basic principles of ratemaking. Tr. 5781-88 (Deason). According to witness Deason, "witness Schultz's testimony is totally devoid of any consideration of reasonableness regarding either the overall amount of compensation or of the net amount he has recommended." Tr. 5783 (Deason). Thus, Mr.

[33] Oddly, OPC implied during its cross examination of FPL witness Deason that it is somehow inappropriate to encourage cost reductions for customers, if it may also have the impact of increasing the Company's earnings. Tr. 5826-28.

[34] Despite FPL's demonstrated successes, OPC quibbled with whether FPL's performance-related goals were set high enough to warrant incentives for employees. FPL witness Deason added to FPL witness Slattery's discussion regarding the robustness of FPL's goal-setting process by explaining that in some instances, sustaining high levels of performance (rather than incremental improvements) is an appropriate goal, while in others, "laws of physics and engineering" may prevent further improvement. Tr. 5831 (Deason).

Schultz's recommendation violates a fundamental tenet of regulatory policy – "to provide recovery of all reasonable and necessary costs incurred to provide service to customers." Tr. 5781 (Deason). Practically speaking, if Mr. Schultz's recommendation is accepted, the Company would still have to pay total compensation in line with market standards and would necessarily have to shift dollars from incentive compensation to base compensation in order to continue to attract and retain employees while at the same time avoiding the disallowance that witness Schultz proposes. *See* Tr. 5207 (Slattery). The prudence of such action would be incontrovertible based on Mr. Schultz's arbitrary portions that incentive compensation only benefits shareholders. However, this would be a very poor result for customers who have benefitted from an incentive program linking compensation to attainment of goals that contribute to providing superior performance.

For the foregoing reasons, OPC's recommendation to disallow a portion of non-executive performance based compensation amounts to very poor regulatory policy and would be inconsistent with a number of prior Commission orders, including one as recent as 2012. Tr. 5783-84 (Deason). In Order No. PSC-12-0179-FOF-EI, Docket No. 110138-EI, the Commission recognized the need to compare total salaries to the market and found that OPC's recommendation would have put the salaries below the market median. The Commission also noted, "[w]hen employees excel, we believe that the customers benefit from a higher quality of service." *Id.* at 45. In that case, the Commission allowed 100% recovery of the short-term non-executive performance-based compensation for the allowed positions. *Id.* at 95-97. That rationale applies in this case as well and should likewise result in a rejection of OPC's recommendation.[35]

[35] Witness Schultz's related proposed adjustment to payroll tax should likewise be rejected. Tr. 5216 (Slattery).

3. OPC's Recommended Adjustments Based on Headcount Should be Rejected

OPC's witness Shultz also recommended adjustments to payroll costs based on a historical forecasting variance in *one* of the inputs to the payroll cost equation – annual average headcount. However, the evidence shows that FPL's track record of forecasting payroll costs in total – which ultimately include headcount, the complement of employees needed to perform the planned work, overtime, and temporary or contracted labor – is quite good. In fact, FPL has slightly *under projected* payroll costs despite slightly *over projecting* average headcount. *See* Ex. 351. That actual staffing levels may lag behind budgeted levels does not mean FPL will not incur costs in ensuring the required work is done. *See* Tr. 5211 (Slattery).

The basis for OPC's adjustments to payroll is a review of historical data comparing budgeted headcount to actual headcount. Although Witness Schultz presents more than 10 years of data on his exhibit (*see* 181), he elects to base his recommended adjustment selectively on the 2015 average headcount while ignoring actual costs. Tr. 5211 (Slattery). This approach shows a lack of understanding of the variability and complexity of the work for which FPL plans. He also overstates the O&M "Expense Factor" in his calculation for Exhibit 181, which should be reflected as 59.4% for 2017 and 59.7% for 2018, rather than the 66.29% used on the exhibit. Regardless of the specific data used, this is a flawed analysis. As discussed several times by FPL witness Slattery in her rebuttal testimony and during the hearing, payroll expense is not purely a function of headcount. *See, e.g.*, Tr. 5210 (Slattery). An appropriate analysis should consider actual dollars spent on payroll, including overtime dollars. Tr. 3507 (Slattery).

As demonstrated in Exhibit 351, the variance between FPL's actual and planned gross payroll, as reflected in filings with the FPSC, is 1.21% over the five year period of 2011 through 2015. In other words, the aggregate actual gross payroll expense has been 1.21% higher than planned, and overall quite close to planned. This directly contradicts witness Shultz's assertion

that FPL's headcount projections, which have been higher than actuals, "corresponds to tens of millions of dollars in over-collected payroll costs." Tr. 3464 (Schultz); Tr. 5212 (Slattery). In fact, FPL would have slightly *under-collected* payroll costs if these forecasts had served as the basis for cost recovery (rather than settlements over this time frame). Tr. 5212 (Slattery). The analysis reflected in Exhibit 351 supports the conclusion that no payroll adjustment of any size is warranted.[36]

## XIII. AFFILIATE TRANSACTIONS (ISSUES 162-163, 166)

Internal audits performed in 2013 and 2014 concluded that FPL's controls over affiliate charges are effective and the policies governing affiliate transactions are consistently applied throughout the Company. Tr. 1691 (Ousdahl). The Company's well-established policy of charging support services to its affiliates has reduced FPL's allotment of those costs, to the benefit of its customers. Tr. 1683, 1688 (Ousdahl); Ex. 106.

### A. The Framework for the MR-RV Lateral Transfer Should Be Approved

The pipeline dedicated to delivering natural gas from FPL's Martin Plant to its Riviera Beach Plant (the "MR-RV Lateral") is an FPL asset, the cost of which currently is part of rate base and is recovered from customers in base rates. Tr. 1438, 1538, 1548 (Barrett). FPL proposes to lower the cost to customers associated with that gas delivery by transferring ownership of the MR-RV Lateral to its FERC-regulated affiliate, Florida Southeast Connection ("FSC") at net book value.[37] Tr. 1438 (Barrett). At the conclusion of this proceeding, FPL will

[36] Witness Shultz's related proposed adjustments to benefits expense and payroll taxes should likewise be rejected. Tr. 5214-15 (Slattery). In addition to the fact that no adjustment is warranted, his benefits expense adjustment suffers from other flaws: it is overstated because it does not reflect the fact that FPL's projected benefits expense is based on enrolled employees, not total employees; and it reflects an incorrect O&M expense factor. *Id.*

[37] Based on FPL's current economic analysis, the transfer will reduce customers' rates by $3 million over the life of the pipeline. Tr. 1439, 1631 (Barrett).

determine the revenue requirements associated with the Lateral as a rate base asset and will ask FSC to make a tariff offer that would result in lowering customer rates. Tr. 1439, 1539 (Barrett). If FSC's offer reduces customer rates, FPL will file a petition with this Commission in early 2017 to confirm the cost-effectiveness of the transfer. Tr. 1439-40, 1540, 1548 (Barrett). FPL requests that the Commission approve this conceptual framework.

Incomprehensibly, the SFHHA devoted significant time cross-examining FPL witness Barrett regarding contractual and tariff details about the transfer, such as rights of first refusal, recourse rates, anchor shipper rights and rate design.[38] Tr. 1540-48. As Mr. Barrett made clear: FPL has not entered a contract. Tr. 1538. And, the proposed MR-RV Lateral transfer has no ($0) revenue impact on this proceeding. Tr. 2657 (Dewhurst). FPL included this conceptual request in the spirit of transparency because, if ultimately approved in 2017, it will result in moving a cost from base to clause recovery. *Id.* Whatever the contractual or tariff terms, FPL will petition for approval of the contract only if the transfer is cost-effective. If customer rates would be lower without the transfer, however, the MR-RV Lateral will remain in rate base. Tr. 1539, 1548 (Barrett).

**B. SFHHA's Recommended Merger Surcredit Rider is Unnecessary and Premature**

SFHHA witness Kollen recommends that the Commission adopt a merger savings surcredit rider in order to flow back to customers any savings achieved from future mergers. For a number of reasons, the Commission should reject this recommendation. As a threshold matter, witness Kollen's recommendation is premature. This proposal could only have meaning under a

[38] Not only did the SFHHA devote an inordinate amount of cross-examination to an irrelevant topic, it did so with the wrong witness. The SFHHA's counsel asked FPL witness Barrett numerous questions about the contract and tariff details even though Mr. Barrett made it clear to him on multiple occasions that FPL witness Forrest was in a much better position to respond. Tr. 1542, 1630, 1637-38. However, when Mr. Forrest took the stand, the SFHHA asked him no questions about the contract or tariff, perhaps out of concern that Mr. Forrest would answer them.

set of developed facts that would provide the context and experience necessary to understand and begin to formulate a merger surcredit. Tr. 1731-32, 1743-44 (Ousdahl).

Additionally, merger savings typically will not be material to FPL's cost of service. Tr. 4844 (Ousdahl). The probability of a consummated merger materially impacting FPL's financial forecasts is small and is no greater than any other future variability in revenue or operations. Tr. 4845 (Ousdahl). Even if NEE succeeds in obtaining regulatory approval, full integration between multiple entities does not occur overnight. Integration evolves over a long period of time, typically after the expiration of periods of required continuity at the acquired entity. Tr. 4845 (Ousdahl). It is entirely possible that any theoretically approved merger would produce little to no incremental savings during the four-year period at issue in this proceeding. Tr. 4845 (Ousdahl).

Simply put, consideration of a merger surcredit for NEE's proposed Oncor transaction is premature and highly speculative. Moreover, adoption of a special rider at this junction is simply unnecessary, as the Commission will maintain oversight to evaluate the level of FPL's earnings affected by any merger. Tr. 2846 (Ousdahl).

## XIV. OKEECHOBEE LIMITED SCOPE ADJUSTMENT (ISSUES 124-133)

In Docket No. 150196-EI, FPL applied for and received an affirmative determination of need for the Okeechobee Unit, a combined cycle power plant of approximately 1622 MW of summer peak capacity rating to be built in Okeechobee County and expected to go into service in mid-2019. Order No. PSC-16-0032-FOF-EI, Docket No. 150196-EI ("Order 16-0032"). Because of its mid-2019 in-service date, recovery of the revenue requirements for the Okeechobee Unit is not contemplated in the 2017 Base Rate Increase and 2018 SYA. Accordingly, FPL is requesting an LSA to allow it to recover the revenue requirements associated with the Okeechobee Unit. The 2019 Okeechobee LSA is specifically limited to those

revenue requirements, and the cost assumptions used in developing the revenue requirements for the Okeechobee Unit and are based on the Commission's need determination in Order 16-0032, updated to incorporate the impact of bonus depreciation in the calculation of income taxes as well as revisions to depreciation and cost of capital using information presented by FPL in this proceeding. Tr. 1669 (Ousdahl).

FPL has filed the information for the Okeechobee LSA that is required per Rule 25-6.0431, F.A.C., and proposes to begin recovery of the first-year non-fuel revenue requirements when the Okeechobee Unit goes into service. In addition, FPL will request that its 2019 fuel cost recovery factors also be reduced as of the in-service date of the unit to best match recovery of the limited scope adjustment with the Okeechobee Unit's fuel savings. This rate change synchronization is analogous to that used for the Generation Base Rate Adjustments ("GBRAs") that FPL implemented when each of the Company's last several gas-fired combined cycle units was placed into service. Tr. 1436-37 (Barrett).

Like the GBRAs the Commission has previously approved, under no circumstance could the Okeechobee LSA cause an increase in FPL's earnings above the mid-point ROE approved by the Commission. This "mid-point seeking" feature of GBRAs was recognized by the Commission in FPL's last rate case, Order No. PSC-13-0023-S-EI, affirmed in *Citizens*, 146 So. 3d 1143 (Fla. 2014). While other factors are likely to depress FPL's earnings following the Okeechobee Unit's in-service date, FPL is not seeking a rate increase to recover any other costs for that time period. Tr. 1437 (Barrett). The Okeechobee LSA is an integral part of FPL's four-year rate plan. Tr. 1404-05 (Barrett).

Several parties challenged the appropriateness of the Okeechobee LSA and FPL's computation of related revenue requirements. None of those challenges has merit.

*The Okeechobee LSA Is Appropriate Limited Scope Rate Relief.* The SFHHA and FEA object to the 2019 Okeechobee LSA claiming it is "single-issue ratemaking." In so doing, they ignore Florida law. Limited proceedings, authorized in Section 366.076(1), Florida Statutes and implemented in Commission Rule 25-6.0431, are intended precisely to address a single issue or narrow set of issues. The Okeechobee LSA deals with the single issue of appropriately matching the revenue collected with the underlying revenue requirements associated with the new power plant; therefore, it is precisely the type of limited proceeding available for a limited scope adjustment. Tr. 4579 (Barrett). OPC's witness Smith objects on different grounds, claiming that the Okeechobee LSA requires FPL to project too far into the future. This objection likewise misses the point. As noted above, the Okeechobee LSA is mid-point seeking. It will move FPL's overall earnings toward the mid-point ROE irrespective of where those earnings otherwise would be before the Okeechobee Unit goes into service. If earnings prior to this are below the mid-point, the Okeechobee LSA will move earnings toward the midpoint but never exceed it. Conversely, if earnings prior to the Okeechobee Unit going into service are above the mid-point, the Okeechobee LSA will move earnings toward the mid-point but not fall below it. As SFHHA witness Kollen has previously testified before this Commission, the type of base rate adjustment that the Okeechobee LSA will provide is earnings neutral. Tr. 4580 (Barrett). Moreover, FPL's high-level financial forecast of 2019 and 2020 indicate that earnings will decline in those years even with the Okeechobee LSA. Ex. 460 (OPC's 1st Int. 3).

Furthermore, Mr. Smith is apparently unfamiliar with the long-standing approach FPL has used in its GBRA implementation to ensure that only the actual capital costs, no higher than those estimated, are recovered from customers. As such, customers are protected from paying

for any more than the actual cost for the Okeechobee Unit, capped by the project cost estimate that was approved in Order 16-0032. Tr. 4832 (Ousdahl).

*Calculation of Deferred Income Taxes for the Okeechobee Unit.* The SFHHA challenges FPL's calculation of the accumulated deferred income tax liability that is used to reduce the Okeechobee LSA rate base, but their assertions are incorrect. First, SFHHA witness Kollen fails to recognize that the proper amount of accumulated deferred income tax liability to reduce the Okeechobee LSA rate base is reflected on MFR B-6 and represents a 13-month average of accumulated deferred income taxes related to all timing differences, including bonus depreciation. Tr. 4829 (Ousdahl). Second, he fails to recognize that the depreciation-related accumulated deferred income tax liability for the Okeechobee LSA was properly prorated in accordance with Internal Revenue Code ("IRC") rules set forth in Treasury Regulation §1.167(l)-1(h)(6)(ii). Finally, his calculation of the Okeechobee LSA deferred income taxes is incorrect, as he applies a combined tax rate to the federal tax depreciation timing difference only and ignores the fact that there are other timing differences related to the Okeechobee Unit. Tr. 4829-30 (Ousdahl). Exhibit 327 summarizes the proper calculation of accumulated deferred income taxes for the Okeechobee LSA. Contrary to OPC witness Smith's contention, FPL's calculation fully complies with IRC normalization requirements. FPL's approach of presenting the accumulated deferred income tax liability as a reduction to rate base is equivalent to presenting it in capital structure at zero cost, so there is no violation of IRS requirements. Tr. 4830-31 (Ousdahl).

*Depreciation Rate for Okeechobee Unit.* The SFHHA asserts that the depreciation rate for generation assets in the Okeechobee LSA should be 2.50% rather than FPL's proposed 3.62%. Their proposal reflects a simplistic mathematical exercise in which a 40-year life for a combined cycle unit would yield a 2.50% depreciation rate (i.e., 1 ÷ 40 = 0.025, or 2.50%).

However, this ignores the reality that the Okeechobee Unit will have substantial interim retirements and interim net salvage like the rest of FPL's combined cycle fleet. When interim retirements and interim net salvage are taken into account, the appropriate depreciation rate for generating assets is FPL's proposed 3.62%.[39] Ex. 767 pp. 34-35.

*Incremental Capital Structure for Okeechobee Unit.* OPC asserts that it is inappropriate to use an incremental capital structure to recover the incremental revenue requirements of the Okeechobee LSA. This position is unrealistic, as the Company is unable to finance a large incremental capital project with additions to all sources of capital, which include customer deposits, short-term debt, and investment tax credits that cannot reasonably be expected to increase simply because of the added investment. Moreover, as noted above, accumulated deferred income taxes, normally considered as part of the capital structure, have already been accounted for as a reduction to rate base. The only changes in the capital accounts that will occur as a result of the financing requirements for the Okeechobee Unit are the issuance of long term debt and the balancing of equity in FPL's capital structure as it constructs and places this asset into service, which is why it is appropriate to use an incremental capital structure when determining the revenue requirements for the Okeechobee LSA. Tr. 4831-32 (Ousdahl).

In summary, the Okeechobee LSA is fully authorized by statute and Commission rule, is proper ratemaking, and appropriately calculates the revenue requirements associated with putting the Okeechobee Unit into service. It is an earnings neutral rate adjustment that is fully consistent with FPL's long track record of using GBRAs to efficiently and fairly reflect in rates the cost of

[39] Mr. Allis's rebuttal testimony refers to a depreciation rate of 3.66%. This is the overall Port Everglades Combined Cycle rate calculated under the whole life methodology. *See* Exhibit 331, Attachment 2, p. 39. For the purpose of determining the Okeechobee LSA revenue requirements, FPL used the overall Port Everglades Combined Cycle rate calculated under the remaining life methodology, which is shown on Exhibit 331, Attachment 2, p. 25.

new, highly efficient generating units at the same time that customers begin to benefit from the fuel savings that those units make possible. It should be approved.

## XV. COST OF SERVICE AND RATE DESIGN (ISSUES 135-159)

FPL's proposals for allocating the revenue requirements among the various rate classes should be approved. Tr. 2824-25 (Cohen); Tr. 2910-11 (Deaton); Ex. 147. The cost of service studies and methodologies used by FPL result in a fair and reasonable allocation of production, transmission and distribution costs. Tr. 2909-10, 2933 (Deaton). The proposed changes to existing rates are consistent with the objectives of providing rates that are cost based, understandable and send appropriate price signals, while abiding by the concept of "gradualism" in limiting class rate increases. Tr. 2804, 2811, 2814, 5302-07 (Cohen).

### A. Cost of Service (Issues 136, 138)

The cost of service studies and methodologies result in an equitable allocation of costs and fairly represent each rate class's cost responsibility, and are consistent with methodologies previously approved by this Commission. Tr. 2926, 5391-93, 5410 (Deaton); Ex. 395.

#### 1. The Commission Should Approve the Use of the 12CP and 25% Methodology for Allocating Production Plant as Proposed by FPL and Reject the Alternative Methodologies Advocated by Intervenors

FPL has proposed the use of the 12CP and 25% methodology for allocating production plant to better reflect how FPL plans and operates its generating plants. FPL's proposal to move from using the 12CP and 1/13 method to the 12CP and 25% method of allocating production plant better matches cost causation with cost causer and system benefits and recognizes the importance energy use plays in the selection of generating capacity. FPL has installed a significant amount of combined cycle base and intermediate load generation that costs more to construct but is less costly to operate over time than peaking generation resulting in significant

energy cost savings to customers. Since FPL's last rate case three more combined cycle units have been installed, and FPL continues to install more combined cycle generation. Investments in these generating units that improve the system heat rates and lower fuel costs supports the need to use a greater energy allocation (*e.g.*, 25%) for production plant than is currently allocated under the 12CP and 1/13 methodology.

The rationale for FPL's proposal to use the 12CP and 25% method comports with the rationale this Commission and its staff has embraced in approving and recommending that greater amounts of production plant investment be allocated on an energy basis than is allocated under the 12CP and 1/13th method; it is the recognition that units being constructed are more expensive because they provide benefits other than just additional capacity, i.e., they reduce operating costs and reduce heat rates resulting in energy savings to all customers. Tr. 5391-92 (See Docket Nos. 820097-EU, 850050-EU, 080317-EI and 090079-EI).

Intervenor witnesses Pollock (FIPUG), Baron (SFHHA), Alderson (FEA) and Chriss (Walmart) recommend different methods of allocating production plant and oppose the use of the 12CP and 25% method. Their motivation for opposing the 12CP and 25% method is that it allocates a larger portion of production plant costs to their clients. Baron and Pollock advocate the retention of the 12CP and 1/13th method, while witnesses Alderson and Chriss advocate methods that further reduce the share of production plant costs allocated to their clients and impose additional revenue requirements on residential customers of between $34 and $91 million. Tr. 5399-5400 (Deaton); Ex. 392.

The intervenors' alternate proposals ignore or seek to minimize the role of energy savings in resource selection. Tr. 5394-97 (Deaton). For large CI customers (i.e., FIPUG, SFHHA, Walmart and FEA), investments in the highly efficient combined cycle generation that FPL has

added to its fleet resulted in fuel savings of more than $200 million in 2015 alone, savings which dwarf the additional revenue requirements allocated to those customers under the 12CP and 25% production plant allocation method. In fact, these CI customers' fuel savings is 9 times the increase in base revenue requirements resulting from the 12CP and 25% allocation method. Ex. 391. The Commission should approve FPL's 12CP and 25% method for allocation of production plant and reject the alternative methods proposed by intervenors.

2. The Commission Should Reject the Use of the Minimum Distribution System ("MDS") for allocating Distribution Plant

Once again intervenor witnesses representing large CI customers propose the MDS method for allocating distribution plant, which would shift $74 million in costs away from these CI customers to residential and small commercial customers. Tr. 5409 (Deaton); Ex. 393.

The intervenors' proposals should be rejected for several reasons: the MDS method is based on a set of theoretical distribution facilities designed to serve zero load, which this Commission has previously stated is purely fictitious and has no basis in the way the utility designs its system and incurs costs; it is inconsistent with the central criterion used by FPL in planning its distribution system, which is kW load requirements, not the number of customers served; it arbitrarily shifts all benefits obtained from economies of scale to large customers even though there are economies of scale in serving residential customers; and it double counts the kW loads of customers for the investment in transformers associated with the hypothetical minimum load, which results in a greater cost impact to residential and small commercial customers. Tr. 5401-03 (Deaton). Further, witnesses Pollock and Baron inappropriately rely on Gulf Power Company's ("Gulf") and Tampa Electric Company's ("TECO") MDS classifications as proxies for FPL's distribution plant accounts, which ignores the fact that their systems are

different from FPL's in terms of size (physical area and number of customers), geography and diversity of customers being served.

Intervenor witnesses cite to this Commission's recent approvals of settlements for Gulf and TECO that included the use of an MDS as reasons to require that FPL use an MDS method. Outside of these settlements this Commission has consistently rejected MDS for investor-owned utilities and approvals of MDS as part of a settlement does not constitute an endorsement of the method as the most appropriate approach. Unlike the changes in the makeup of FPL's generation system that justify a different method of allocation for FPL's production plant costs, there have been no changes in FPL's distribution system that warrant moving to an MDS method for distribution plant. Tr. 5407 (Deaton).

FPL's method for allocating distribution plant should be approved. Meters, pull-offs and service drops are appropriately classified as customer-related, and all other distribution plant is classified as demand related.

**B. Rate Design**

1. Allocation of Revenue Requirements (Issues 140, 146)

FPL followed Commission guidance in allocating the revenue increase to the various rate classes. Pursuant to the Commission's gradualism policy, FPL limited the increase to no more than 1.5 times the system average in total, including adjustment clauses. Tr. 2811, 5302-03 (Cohen). The allocation is equitable and moves each customer class closer to parity.

Witnesses for FIPUG, SFHHA, and FEA each argue for a different method of calculating the gradualism limitation, each designed to shield their clients from rate increases for their rate classes that are needed to make reasonable progress toward parity. Witness Baron for SFHHA argues the calculation should exclude clause revenues, witness Alderson argues fuel clause

revenues should be excluded, and witness Pollock argues only revenues from the sale of electricity should be included. None of these witnesses could cite to any Commission order that supported their alternative calculation methods. In fact, witness Baron acknowledged he was requesting that the Commission modify its long-standing gradualism calculation method. Tr. 4234 (Baron). Limiting the gradualism calculation to only revenues from the sale of electricity, or excluding clause revenues, distorts the application of gradualism, would impede the movement of several rate classes to parity (reducing the likelihood of these classes ever reaching parity) and would continue inter-class subsidies. The proposals by these witnesses result in revenue requirements being shifted away from their clients and onto others. Tr. 5305 (Cohen).

Witnesses Pollock and Baron argue that FPL has improperly applied the gradualism guideline in this case asserting that FPL has ignored the impact of the reset of credits on the Commercial Industrial Load Control ("CILC") and Commercial/Industrial Demand Reduction ("CDR") Rider customers. That assertion is incorrect. The Commission's gradualism guideline is applied in terms of *revenues* required to be recovered from a rate class; resetting of the CILC/CDR credits to their pre-settlement levels does not change the revenue responsibility for those rate classes, rather it changes the customers from whom that revenue is to be recovered. Specifically, revenue responsibility resulting from the reset of the CILC/CDR credits will revert back to CILC and CDR customers and eliminate the payment of the higher settlement credits by all FPL customers. A change in the *source* of the revenue recovered does not change the *method* of calculating gradualism. As explained by FPL witness Cohen, it is appropriate to start with current class revenues from all sources when measuring the gradualism limitation. Tr. 5307-08 (Cohen). To treat the CILC/CDR credit reset as a revenue increase unfairly allocates a larger

portion of the increase to other customers and results in other customers continuing to subsidize the CILC/CDR customers. Tr. 2890 (Cohen)

2. Increases in Customer Charge for Residential and Small Commercial Customers (Issue 139)

FPL's proposals for a $2.00 increase in the customer charge for residential customers and small commercial customers should be approved. FRF and AARP both oppose this proposal, but only AARP offers an argument for its opposition. As explained by FPL witness Cohen, the public policy concerns raised by AARP witness Brosch were considered by FPL in proposing the $2.00 addition to the fixed customer charge. FPL chose a modest increase in the charge in recognition of the impact proposing a full recovery of fixed costs through a fixed charge would have on lower usage customers. Energy conservation and investments in energy efficiency will continue to be encouraged under the proposal; customers who use more energy will still pay a higher bill and residential customer usage above 1,000 kWh will still be at a higher rate. Tr. 5317-18 (Cohen).

3. Other Rate Design Issues (Issues 147, 148, 159)

FIPUG, FEA and Walmart also take issue with FPL's pricing of demand and energy charges for certain rate classes and how FPL calculated those charges. As explained by FPL witness Cohen, FPL's design of these charges minimizes extreme bill impacts for low load factor customers, is consistent with FPL's proposals in past cases, maintains the current relationship between demand and energy charges, and maintains current price signals between on- and off-peak energy charges. Tr. 5309-14 (Cohen). Regarding FEA witness Alderson's suggestions that the CILC-1T and CILC-1D rate proposals are not reflective of the cost of service and that CILC -1T rates should be lower than CILC-1D rates, witness Cohen explained that the rate increase proposal for the CILC-1D rates class was limited by the application of gradualism, whereas the

rate increase proposal for the CILC-1T rate class was not. The CILC-1D customers did not receive the full amount of their allocated revenue requirements. Tr. 5314-15 (Cohen).

The Commission should reject FIPUG's request that FPL be required to develop a tariff for a distribution substation level service. Such a tariff is unnecessary and would require FPL to incur significant costs to serve few, if any customers. FPL's existing distribution substation rental agreements allow primary demand service customers to receive service directly from a substation thus avoiding all other distribution costs. Tr. 5322-24 (Cohen).

**C. CDR and CILC Credits (Issues 6, 145, 150)**

FPL's proposed base rate charges reflect the fact that additional credits provided under the 2012 Rate Settlement for CILC and CDR customers have been reset to pre-settlement levels.[40] Those pre-settlement levels have been increased to reflect base rate adjustments associated with the Canaveral, Riviera, and Port Everglades modernizations. Ex. 28 (MFR E-14, Attachment 5). This was done to ensure equitable treatment for these load control customers. Tr. 5320-21 (Cohen).

A key goal of rate design is to ensure fair and equitable rates. Tr. 5321 (Cohen). The revenues from the CILC/CDR credits, including the revenue from the increased level of these credits during the term of the 2012 Rate Settlement, are recovered through the Energy Conservation Cost Recovery ("ECCR") clause and are paid for by all customers. *Id.* It would not be appropriate or fair to these other customers to simply assume extension of the current level of credits beyond 2016. As shown in Exhibit 141, the customers receiving the CILC/CDR credits already pay rates that are well below their cost of service. Tr. 5321 (Cohen). Further,

[40] As discussed above, FPL appropriately reflected the CILC/CDR credit resets consistent with the Commission's gradualism guideline. *See, e.g.,* Tr. 5307-08 (Cohen).

FPL explained during the 2012 Rate Settlement Hearing that the additional credits were only intended to be in effect for the 4-year period ending December 2016. Tr. 2855 (Cohen).

Several intervenor witnesses assert that their clients should retain the CDR/CILC credits that were negotiated as part of the Company's 2012 Rate Settlement. They essentially argue it is appropriate to retain those higher levels of credits because they are cost-effective. *See* Tr.4289 (Pollock) (stating "[t]he Commission has previously determined in FPL's 2015 Demand Side Management case that CILC/CDR were cost-effective at the current level of incentive payments. Accordingly, by FPL's own admission, no further change can be made in this case"); Tr. 4222 (Baron) (stating "[g]iven the cost effectiveness of the current level of credits, there is no basis for FPL's proposed $23 million reduction in this base rate case."); *see also* Tr. 3779 (Alderson) (arguing that FPL should "…prepare a study to estimate the value of these interruptible credits to the FPL system…").

By focusing on cost-effectiveness, or any alternative analysis that would purport to demonstrate the "value" of the program to FPL, these intervenor witnesses have disregarded the two-step process by which the Commission sets financial Demand Side Management ("DSM") incentives. Tr. 5349 (Koch). Cost-effectiveness screening tests serve a preliminary, but not conclusive purpose in establishing DSM program incentives. Cost-effectiveness screening tests are used as a first step to determine which measures may be considered for implementation and to identify the upper limit of a financial incentive that could be paid. *Id.*; Tr. 5352 (Koch). However, a second, and equally important, step is to determine the *appropriate* incentive levels. Actual incentives typically are set at some lower amount sufficient to obtain the participation needed for a given program to contribute sufficiently towards the Company's DSM Goals. Tr. 5349 (Koch). This second step is important to ensure that the general body of customers is not

required to pay more than necessary for DSM programs. *Id.*; Tr. 5352-53 (Koch). Nothing in the record suggests that the additional settlement levels of credits are needed to induce customers to accept interruptible service; in fact, the relevant rates were fully subscribed before the credits were increased under the settlement. Tr. 5349-50, 5354 (Koch).

Intervenors' self-serving arguments should be rejected. The Commission approved the credits that are in place today as part of a multi-faceted settlement agreement. Those credits were appropriately reflected in FPL's 2015 DSM Plan, and approved as part of that Plan, consistent with the term of the 2012 Rate Settlement. Tr. 5353 (Koch). However, inherent in intervenors' requests to retain those credits beyond the term of the 2012 Rate Settlement is a request for the Commission to substantively consider and approve those credits in this base rate proceeding – outside of the ordinary DSM process, and without regard to the two-step process typically utilized. This directly conflicts with the Commission's long-standing policy and practice in designing DSM programs and establishing appropriate DSM incentive levels. Tr. 5350, 5354-55 (Koch). Therefore, the Commission should allow the credits to return to their pre-settlement levels as reflected in FPL's proposed rates.[41]

## XVI. STORM RECOVERY MECHANISM (ISSUES 1, 102, 103)

FPL has requested to continue to recover prudently incurred storm costs under the framework prescribed by the 2010 Rate Settlement, and extended by the 2012 Rate Settlement. Specifically, if FPL incurs storm costs related to a named tropical storm or hurricane, the Company asks that it be permitted to begin collecting up to $4 per 1,000 kWh (roughly $400

[41] SFHHA witness Baron casually mentioned that some hospitals had made investments in facilities to be able to take service under the CILC rate. Tr. 4247. However, there is no evidence in the record indicating that those investments had been made since 2012, nor could there be, seeing has how the CILC rate has been closed since 2000. Tr. 5319 (Cohen). Accordingly, any such investments were made subject to the prior, lower level of credits being available and were apparently deemed sufficient by those hospitals.

million annually) beginning 60 days after filing a petition for recovery with the FPSC, subject to possible refund upon a subsequent prudence review. Tr. 2477, 5943 (Dewhurst). This interim recovery period will last up to 12 months. Tr. 2477 (Dewhurst). This framework was proposed to eliminate a point of contention in this proceeding, because intervenors typically take issue with the traditional approach (and FPL's preferred approach) to storm cost recovery: a combination of an annual accrual to a storm reserve, maintaining a sufficient reserve to accommodate most but not all storm years, and a provision to recover costs that exceed the reserve. *See* Tr. 2478 (Dewhurst).

Only one party presented testimony in opposition to FPL's requested continuation of this mechanism: SFHHA. Witness Kollen presented eight concerns with the mechanism, which essentially boil down to a position that FPL needs no storm cost recovery mechanism. He claimed FPL should exhaust its $120.5 million reserve in the event of a storm, the reserve should be maintained at a level of $0, and future costs can be securitized, among other arguments. *See* Tr. 4106-08 (Kollen). As explained by FPL witness Dewhurst, Mr. Kollen's arguments ignore reality. For example, he completely ignores the high likelihood of major tropical storms in FPL's expansive, largely coastal service area, which extends to both coasts of Florida. He also ignores that securitization of storm costs is far more complex, takes longer, and strains the utility's balance sheet in addition to contributing to intergenerational inequities. Tr. 5943-45 (Dewhurst). Relying on an approach that essentially amounts to "don't worry; we'll sort it out when it happens" would not represent good regulatory policy, would worsen FPL's risk profile, and would have negative financial implications. Tr. 5945-46 (Dewhurst).

The Commission has full legal authority to implement the proposed storm cost recovery mechanism based on the merits of the proposal, regardless of whether it was embodied in a prior

settlement agreement. *See, e.g.,* Order No. PSC-93-0303-AS-EI, p. 2, Docket No. 910890.[42] Moreover, there is substantial Commission precedent for prompt recovery of costs on an interim or projected basis, subject to true-up later. *See*, *e.g.*, Order No. 6357, p. 7, Docket No. 74680-CI; Order No. PSC-05-0937-FOF-EI, pp. 34-35, Docket No. 041291-EI. Ultimately, the Commission's consideration of the storm recovery mechanism as part of a reasonable framework for recovery of storm-related costs does not depend on the terms of the previously approved settlement agreement but rather should be judged on its own merits in the context of this proceeding.

**XVII. INCENTIVE MECHANISM (ISSUES 4, 134)**

As part of FPL's 2012 Rate Settlement, the Commission approved an Incentive Mechanism to provide incentives for gains on short-term wholesale power transactions ("economy sales" and "economy purchases") and optimization of other assets, all of which would increase value for FPL's customers. That Incentive Mechanism has benefited customers as intended and designed, with FPL achieving $21.7 million of additional benefits for customers through the natural gas transportation, storage and trading optimization activities alone. And, it has done so while holding FPL's share of the gains nearly constant – 9.8% under the current Incentive Mechanism vs. 9.3% under the prior mechanism. Tr. 2053-54, 2058-59 (Forrest).

[42] The specific holding from *Florida Power Corp.* is consistent with the well-established body of case law regarding the Commission's considerable discretion and latitude in the ratemaking process. *See Citizens v. Public Serv. Comm'n*, 425 So. 2d 534, 540 (Fla. 1982) ("This Court has consistently recognized the broad legislative grant of authority which these statutes [Sections 366.06(2) and 366.05(1), Florida Statutes] confer and the considerable license the Commission enjoys as a result of this delegation."); *Gulf Power Co. v. Bevis*, 296 So. 2d 482, 487 (Fla. 1974) ("As pointed out by the Commission, it has considerable discretion and latitude in the rate-fixing process."); *Storey v. Mayo*, 217 So. 2d 304, 307 (Fla. 1968) ("The regulatory powers of the Commission …are exclusive and, therefore, necessarily broad and comprehensive."); and *City of Miami v. Fla. Public Serv. Comm'n*, 208 So. 2d 249, 253 (Fla. 1968) ("It is quite apparent that these statutes [Sections 364.14 and 366.06, Florida Statutes,] repose considerable discretion in the Commission in the rate-making process.").

The Incentive Mechanism will automatically terminate at the end of 2016, unless the Commission acts to keep it in effect. FPL has petitioned in this proceeding to continue the Incentive Mechanism for four more years, with two adjustments to address changed circumstances. Tr. 2053-54 (Forrest).

First, FPL proposes to adjust the Incentive Mechanism's sharing threshold. Currently, the threshold is $46 million, which reflects FPL's ability to optimize its use of Unit Power Sales ("UPS") contracts with the Southern Company. Those contracts have facilitated roughly $10 million of gains each year. However, they expired at the end of 2015 and were not renewed because their overall customer economics were not favorable. Accordingly, FPL is proposing to reduce the sharing threshold to $36 million. Tr. 2053-54, 2060-61 (Forrest).

The second adjustment is to the Incentive Mechanism's provision for FPL to recover variable power plant O&M ("VOM") costs. When the Incentive Mechanism was originally approved, FPL's 2013 test year reflected base rate recovery of VOM costs on 514,000 MWh of economy sales. Therefore, FPL currently recovers VOM costs under the Incentive Mechanism only on economy sales exceeding 514,000 MWh. The 2017 and 2018 test years in this proceeding reflect no base rate recovery of VOM costs for economy sales, and so the 514,000 MWh threshold should be removed. At the same time, FPL is proposing to eliminate an asymmetry in the current recovery of VOM costs to make it fairer for customers. When FPL increases its generation output to serve economy sales, that increases VOM costs, and conversely when economy purchases reduce generation output, the VOM costs decrease. FPL proposes to recognize this symmetry by netting economy sales and purchases each year and only applying the VOM charge to the net amount. If economy sales exceed purchases in a year, FPL will

collect the net VOM charge from customers; if economy purchases exceed sales, FPL will credit customers with the net VOM charge. Tr. 2053-54, 2061-62 (Forrest).

OPC and SFHHA witnesses criticized FPL's Incentive Mechanism, but none of their criticisms provide any valid objection. The rebuttal testimonies of FPL witnesses Forrest and Kennedy, which went unchallenged by the intervenors at hearing, demonstrate in detail why each of those criticisms is without merit. Tr. 4679-4702 (Forrest); Tr. 4907-12 (Kennedy); Exs. 347, 348.

## PART TWO: FPL'S STATEMENT OF ISSUES AND POSITIONS

### LEGAL ISSUES

**ISSUE 1:** **Does the Commission possess the authority to grant FPL's proposal to continue utilizing the storm cost recovery mechanism that was part of the settlement agreements approved in Order Nos. PSC-11-0089-S-EI and PSC-13-0023-S-EI?**

FPL: *Yes. The Commission has legal authority to implement the proposed storm cost recovery mechanism based on the merits of the proposal, regardless of whether it was embodied in a prior settlement agreement. Substantial Commission precedent supports prompt recovery of costs on an interim or projected basis, subject to true-up later.*

*See, e.g.*, Order No. 6357, p. 7, Docket No. 74680-CI; Order No. PSC-050937-FOF-EI, pp. 34-35, Docket No. 041291-EI.

**ISSUE 2:** **Does the Commission have the authority to approve FPL's requested limited scope adjustment for the new Okeechobee Energy Center in June of 2019?**

FPL: *Yes. There is statutory authority for approval of a limited scope adjustment for a new generation plant, such as the Okeechobee Unit. Section 366.076(1), F.S. authorizes limited proceedings for consideration of any matter that results in a utility rate adjustment; Section 366.076(2), F.S. allows the Commission to adjust rates to be implemented in years subsequent to the test year. Those statutes are implemented by, respectively, Rules 25-6.0431 and 25-6.0425, F.A.C.*

*See Citizens v. Florida Pub. Serv. Comm'n*, 146 So. 3d 1143, 1157 fn.7 (Fla. 2014).

**ISSUE 3:** **Does the Commission possess the authority to adjust FPL's authorized return on equity based on FPL's performance?**

FPL: *Yes. In setting rates, the Commission may "give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service and the value of such service to the public." Section 366.041 (l), F.S.; *see also,* Order No. PSC-02-0787-FOF-EI, p. 3, Docket No. 010949-EI (Commission awarded 25 basis point ROE adder in recognition of past performance and as incentive for future performance).*

**ISSUE 4:** **Does the Commission have the authority to include non-electric transactions in an incentive mechanism?**

FPL: *The Commission has authority to approve FPL's proposal to include gains generated by optimizing its rights under natural gas transportation and storage

contracts. Those contracts are core components of FPL's fuel-supply strategy for its electric utility operations. Costs incurred under the contracts have been recovered from customers through the Fuel Clause for decades. FPL's proposal simply provides a vehicle for optimizing the use of those contract assets to reduce overall fuel costs for customers.*

Order No. PSC-13-0023-S-EI, *supra*; Order No. 14546, Docket No. 850001-EI-B; *see also, e.g.,* Order No. PSC-15-0586-FOF-EI, Docket No. 150001-EI (approving recovery of annual fuel costs, including transportation charges).

**ISSUE 5: Does the Commission have the authority to approve proposed depreciation rates to be effective January 1, 2017, based upon a depreciation study that uses year-end 2017 plant balances?**

FPL: *Yes. Year-end 2017 plant balances in the 2016 depreciation study are an appropriate match for the 2017 and 2018 test years for ratemaking purposes, consistent with the intent of Rule 25-6.0436. FPL has no objection, however, to using year-end 2016 plant balances. Attachment 2 to Exhibit 331 shows depreciation rates using year-end 2016 balances. Those rates result from straightforward mathematical calculations, and all parties have had more than an adequate opportunity to review those calculations.*

**ISSUE 6: Are Commercial Industrial Load Control (CILC) and Commercial/Industrial Demand Reduction (CDR) credits subject to adjustment in this proceeding?**

FPL: *Yes. The current level of CILC/CDR credits were part of a multi-faceted settlement agreement approved in FPL's 2012 rate case. By proposing to reset the credits to pre-settlement levels (but increased for past GBRAs), FPL is simply recognizing that any permanent change to the credits would arise through the DSM goals and plan proceedings.*

See Brief Section XV.C

**STORM HARDENING ISSUES**

**ISSUE 7: Does the Company's Storm Hardening Plan (Plan) comply with the National Electric Safety Code (ANSI C-2) (NESC) as required by Rule 25-6.0345, F.A.C.?**

FPL: *Yes. FPL's Storm Hardening Plan complies with the National Electrical Safety Code ("NESC") (ANSI C-2) as required by Rule 25-6.0345, F.A.C. FPL's facilities meet or exceed the minimum requirements of NESC.*

See Brief Section VII; Tr. 1100 (Miranda); Ex. 73 (pp. 9-11)

**ISSUE 8:** **Does the Company's Plan address the extreme wind loading standards specified in Figure 250-2(d) of the 2012 edition of the NESC for new distribution facility construction as required by Rule 25-6.0342(3)(b)1, F.A.C.?**

FPL: *Yes. The Company's Plan addresses the extreme wind loading ("EWL") standards specified in Figure 250-2(d) of the 2012 edition of the NESC by utilizing three extreme wind regions corresponding to extreme winds of 105, 130 and 145 mph for new distribution facility construction as required by Rule 25-6.0342(3)(b)1, F.A.C.*

See Brief Section VII; Tr. 1100, 1109-111 (Miranda); Ex. 73 (p. 10)

**ISSUE 9:** **Does the Company's Plan address the extreme wind loading standards specified by Figure 250-2(d) of the 2012 edition of the NESC for major planned work on the distribution system, including expansion, rebuild, or relocation of existing facilities, assigned on or after the effective date of this rule distribution facility construction as required by Rule 25-6.0342(3)(b)2, F.A.C.?**

FPL: *Yes. FPL applies EWL for all major distribution planned work, consistent with the extreme wind regions specified by Figure 250-2(d) of the 2012 edition of the NESC by utilizing three extreme wind regions corresponding to extreme winds of 105, 130 and 145 mph.*

See Brief Section VII; Tr. 1100, 1109-10 (Miranda); Ex. 73 (pp. 10, 12-13)

**ISSUE 10:** **Does the Company's Plan address the extreme wind loading standards specified by Figure 250-2(d) of the 2012 edition of the NESC for distribution facilities serving critical infrastructure facilities and along major thoroughfares taking into account political and geographical boundaries and other applicable operational considerations as required by Rule 25-6.0342(3)(b)3, F.A.C.?**

FPL: *Yes. FPL applies EWL on all critical infrastructure, community project, wind zone and geographic feeders, which are primarily located along or near major thoroughfares, in accordance with the NESC's EWL standards. For 2016, feeder projects and their associated county and address were included in FPL's Plan.*

See Brief Section VII; Tr. 1100, 1109-10 (Miranda); Ex. 73 (p. 15)

**ISSUE 11:** **Is the Company's Plan designed to mitigate damages to underground and supporting overhead transmission and distribution facilities due to flooding and storm surges as required by Rule 25-6.0342(3)(c), F.A.C.?**

FPL: *Yes. FPL's Plan includes utilizing equipment that is more resistant to weathering, corrosion and flooding for new underground construction and

supporting overhead transmission and distribution facilities. FPL's Plan also provides information on several recently completed distribution and transmission initiatives to mitigate the impact of storm surge and flooding.*

See Brief Section VII; Tr. 1100, 1112-15 (Miranda); Ex. 73 (p. 19)

**ISSUE 12: Does the Company's Plan address the extent to which the placement of new and replacement distribution facilities facilitate safe and efficient access for installation and maintenance as required by Rule 25-6.0342(3)(d), F.A.C.?**

FPL: *Yes. FPL's Distribution Guidelines, set forth in its Plan, address the appropriate placement/location of new and replacement overhead and underground distribution facilities (e.g., in private easements or as close to the front edge of property (right of way line), overhead lines should be placed in front or accessible locations where feasible), which facilitates safe and efficient access for installation and maintenance.*

See Brief Section VII; Tr. 1101 (Miranda); Ex. 73 (p. 16 and Appendix)

**ISSUE 13: Does the Company's Plan provide a detailed description of its deployment strategy including a description of the facilities affected; including technical design specifications, construction standards, and construction methodologies employed as required by Rules 25-6.0341 and 25-6.0342(4)(a), F.A.C.?**

FPL: *Yes. FPL's Plan provides a detailed description of its deployment strategy and a description of the facilities affected. The Plan includes how FPL will apply EWL to the design and construction of all new overhead facilities including new pole lines and major work as well as existing facilities. FPL's Plan also includes its Distribution Design Guidelines, Addendum to Distribution Engineering Reference Manual as well as Attachment Guidelines and Procedures.*

See Brief Section VII; Tr. 1101, 1109-10 (Miranda); Ex. 73 (pp. 26-28)

**ISSUE 14: Does the Company's Plan provide a detailed description of its deployment strategy as it relates to the communities and areas within the utility's service area where the electric infrastructure improvements, including facilities identified by the utility as critical infrastructure and along major thoroughfares are to be made as required by Rules 25-6.0342(3)(b)3 and 25-6.0342(4)(b), F.A.C.?**

FPL: *Yes. FPL's Plan includes for 2016: for critical infrastructure and community feeder projects - the County, feeder number, substation name, the type of project (i.e., Police, Fire, community) and project address; for wind zone and feeders – all the above, except for project address; for 01 switches – county, substation feeder.

For 2017 and 2018, FPL will continue to utilize the agreed upon Process to Engage Third Party Attachers.*

See Brief Section VII; Tr. 1101, 1110-11 (Miranda); Ex. 73 (pp. 26-28)

**ISSUE 15: Does the Company's Plan provide a detailed description of its deployment strategy to the extent that the electric infrastructure improvements involve joint use facilities on which third-party attachments exist as required by Rule 25-6.0342(4)(c), F.A.C.?**

FPL: *Yes. For 2016, FPL's Plan contains project details, including project locations. Additionally, FPL continues to utilize the agreed upon Process to Engage Third Party Attachers, which includes providing additional details for 2017 and 2018 projects by certain dates.*

See Brief Section VII; Tr. 1101 (Miranda); Ex. 73 (pp. 17, 26-28)

**ISSUE 16: Does the Company's Plan provide a reasonable estimate of the costs and benefits to the utility of making the electric infrastructure improvements, including the effect on reducing storm restoration costs and customer outages as required by Rule 25-6.0342(4)(d), F.A.C.?**

FPL: *Yes. FPL's estimates distribution and transmission hardening costs of approximately $1,650 million under the Plan. Benefits arising from storm hardening include anticipated: reduction in the numbers of hurricane and non-hurricane related outages; reduction in storm and non-storm outage duration; reduction in storm restoration time; reduction in storm restoration costs; and improved reliability. For instance, hardened feeders have provided an improvement of 40% in day-to-day reliability. It is difficult to quantify these valuable benefits. There has not been sufficient storm activity since hardening began to quantify some of these benefits. In addition, the benefits to customers vary from customer to customer, but it is clear that the benefits accrue not only to FPL's customers but also to the economy of the entire state. Like prior Commission-approved plans, this Plan produces the desired results of reduced customer outages and reduced overall restoration time as efficiently as possible from an economic perspective.*

See Brief Sections VII and IX.A; Tr. 1101 (Miranda); Ex. 73 (pp. 20-21)

**ISSUE 17: Does the Company's plan provide an estimate of the costs and benefits to third-party attachers affected by the electric infrastructure improvements, including the effect on reducing storm restoration costs and customers outages realized by the third-party attachers as required by Rule 25-6.0342(4)(e), F.A.C.?**

FPL: *Yes. FPL's Plan includes third-party attachers' costs and benefits, to the extent they were provided. While FPL requested input from all known attaching entities regarding its Plan, no attaching entity provided information related to their costs and benefits.*

See Brief Section VII; Tr. 1061 (Miranda); Ex.73 (pp. 17, 20)

**ISSUE 18: Does the Company's Plan include a written Attachment Standards and Procedures addressing safety, reliability, pole loading capacity, and engineering standards and procedure for attachments by others to the utility's electric transmission and distribution poles that meet or exceed the edition of the National Electrical Safety Code (ANSI C-2) that is applicable as required by Rule 25-6.0342(5), F.A.C.?**

FPL: *Yes. FPL's Plan includes its Attachment Standards and Procedures. While FPL is not seeking approval of its standards and procedures for attachment by others, its attachment standards and procedures for third-party attachers meet or exceed the NESC.*

See Brief Section VII; Tr. 1061 (Miranda); Ex. 73 (Appendix)

## WOODEN POLE INSPECTION PROGRAM

**ISSUE 19: Does the Company's eight-year wooden pole inspection program comply with Order No. PSC-06-0144-PAA-EI, issued on February 27, 2006, in Docket No. 060078-EI, and Order No. PSC-06-0778-PAA-EU, issued on September 18, 2006, in Docket No. 060531-EU?**

FPL: *Yes. The Company's eight-year wooden pole inspection program complies with Order No. PSC-06-0144-PAA-EI, issued on February 27, 2006, in Docket No. 060078-EI, and Order No. PSC-06-0778-PAA-EU, issued on September 18, 2006, in Docket No. 060531-EU.*

Tr. 1062, 1068, 1135-36 (Miranda); Ex. 514 (SFHHA's 4th POD 100)

## 10 POINT STORM PREPAREDNESS INITIATIVES

**ISSUE 20: Does the Company's 10-point initiatives plan comply with Order No. PSC-06-0351-PAA-EI, issued on April 25, 2006; Order No. PSC-06-0781-PAA-EI, issued on September 19, 2006; and Order No. PSC-07-0468-FOF-EI, issued on May 30, 2007, in Docket No. 060198-EI?**

FPL: *Yes. The Company's 10-point initiatives plan complies with Order No. PSC-06-0351-PAA-EI, issued on April 25, 2006; Order No. PSC-06-0781-PAA-EI, issued on September 19, 2006; and Order No. PSC-07-0468-FOF-EI, issued on May 30, 2007, in Docket No. 060198-EI.*

See Brief Section VII; Tr. 1063, 1068 (Miranda); Ex. 73, 514 (SFHHA's 4th POD 100)

## APPROVAL OF STORM HARDENING PLAN

**ISSUE 21: Should the Company's Storm Hardening Plan for the period 2016 through 2018 be approved?**

FPL: *Yes. As demonstrated by Issues 4-15, FPL's 2016-2018 Plan is in compliance with Rule 25-6.0342. Additionally, it provides significant day-to-day reliability benefits, as hardened feeders perform approximately 40% better than non-hardened feeders.*

See Brief Section VII; Tr. 1065-67, 1115-16, 1118-20, 1127-1128, 1124-25, 1142-46, 1159-60 (Miranda); Ex. 615

## COSTS FOR STORM HARDENING AND 10 POINT INITIATIVES

**ISSUE 22: What adjustments, if any, should be made to rate base associated with the storm hardening Rule 25-6.0342, F.A.C., and 10 point initiatives requirements?**

FPL: *No adjustments should be made to rate base for costs associated with Rule 25-6.0342, F.A.C., and the Commission's 10 point initiatives requirements.*

See Brief Sections VII and IX.A; Tr. 2666-67, 2735-39 (Miranda)

**ISSUE 23: What adjustments, if any, should be made to operating expenses associated with the storm hardening Rule 25-6.0342, F.A.C., and 10 point initiatives requirements?**

FPL: *No adjustments should be made to rate base for costs associated with Rule 25-6.0342, F.A.C., and the Commission's 10 point initiatives requirements.*

See Brief Sections VII and IX.A; Tr. 2666-74, 2735-39 (Miranda)

## TEST PERIOD AND FORECASTING

**ISSUE 24: Is FPL's projected test period of the 12 months ending December 31, 2017, appropriate?**

FPL: *Yes. The Company currently is operating under the 2012 Settlement, which expires December 31, 2016. The Company's petition requests an increase in base rates effective January 1, 2017. Accordingly, 2017 is the most appropriate year to evaluate the Company's projected revenue requirements to afford the appropriate match between revenues and revenue requirements for 2017.*

See Brief Section V.A; Tr. 1415 (Barrett)

**ISSUE 25: Do the facts of this case support the use of a subsequent test year ending December 31, 2018 to adjust base rates?**

FPL: *Yes. FPL has demonstrated the need for an additional increase in base rates effective January 1, 2018, driven largely by continued investments in projects that benefit customers or are necessary for regulatory compliance. Without the 2018 SYA, the Company's ROE is projected to decline more than 100 bps. FPL's 2018 revenue requirements forecast was developed using the same rigorous process used for the 2017 Test Year. It is reasonable and reliable for setting rates.*

Tr. 1432 (Barrett)

**ISSUE 26: Has FPL proven any financial need for rate relief in any period subsequent to the projected test period ending December 31, 2017?**

FPL: *Yes. FPL has proven financial need for rate relief for subsequent test year ending December 31, 2018 and for the Okeechobee limited scope adjustment, with an in-service date of the Okeechobee Unit scheduled for June 1, 2019.*

Tr. 1432, 1436 (Barrett)

**ISSUE 27: Is FPL's projected subsequent test period of the 12 months ending December 31, 2018, appropriate?**

FPL: *Yes. The Company requests an increase in base rates effective January 1, 2018. Accordingly, 2018 is the most appropriate year to evaluate the Company's projected revenue requirements to afford the appropriate match between revenues and revenue requirements for 2018.*

See Brief Section V.A; Tr. 1415 (Barrett)

**ISSUE 28: Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the 2017 projected test year appropriate?**

FPL: *Yes. FPL's forecast of customers, kWh and kW by Rate Schedule and Revenue Class for the 2017 projected test year are appropriate. FPL's forecast reflects statistically sound forecasting methods, includes reasonable input assumptions, and, consistent with Commission precedent, it assumes normal weather conditions. Additionally, the forecast of customers, kWh, and kW by rate schedule is consistent with the sales and customer forecast by revenue class and reflects the billing determinants specified in each rate schedule.*

See Brief Section V.C.; Tr. 1166-75, 1217-19, 4951-57, 4994-95 (Morley); Tr. 2807-08 (Cohen); Exs. 332, 334, 401 (Staff's 3rd Int. 68, 73), 411 (Staff's 13th Int. 255), 415 (Staff's 18th Int. 313), 417 (Staff's 20th Int. 315), 436 (Staff's 39th Int. 462), 459 (Staff's 21st POD 92), 480 (OPC's 2nd POD 79).

**ISSUE 29: Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the 2018 projected test year appropriate, if applicable?**

FPL: *Yes. FPL's forecast of customers, kWh and kW by Rate Schedule and Revenue Class for the 2018 subsequent year are appropriate.*

See Brief Section V.C. and FPL's position on Issue 28

**ISSUE 30: Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the period June 2019 to May 2020, appropriate, if applicable?**

FPL: *Yes. FPL's forecast of customers, kWh and kW by Rate Class and Revenue Class for the June 2019 to May 2020 projected period reflects the same methods, inputs and assumptions as its 2017 and 2018 forecasts. Additionally, FPL proposes to update its sales forecast for the purpose of implementing the Okeechobee LSA. *

See Brief Section V.C; Tr. 1166-75, 1217-19 (Morley), 2807-09 (Cohen). For purposes of implementing the Okeechobee LSA, the forecasted retail base revenues from the sale of electricity during the first 12 months of operation of the Okeechobee Unit (June 2019 through May 2020) will be based on the sales forecast that will be filed with the Fall 2018 capacity and fuel clause filings (which projects retail base revenues for 2019). Ex. 422 (Staff's 25th Int. 354)

**ISSUE 31: Are FPL's projected revenues from sales of electricity by rate class at present rates for the 2016 prior year and projected 2017 test year appropriate?**

FPL: *Yes. FPL has correctly estimated the 2016 and 2017 revenues from sales of electricity at present rates. The revenue calculations for 2017 are detailed in Test Year MFRs E-13b, E-13c, and E-13d and summarized in E-13a.*

Tr. 2814 (Cohen); Ex. 28 (MFRs E-13a, E-13b, E-13c, E-13d)

**ISSUE 32: Are FPL's projected revenues from sales of electricity by rate class at present rates for the projected 2018 test year appropriate, if applicable?**

FPL: *Yes. FPL has correctly estimated the 2018 revenues from sales of electricity at present rates. The revenue calculations for 2018 are detailed in Subsequent Year MFRs E-13b, E-13c, and E-13d and summarized in E-13a as sponsored by FPL witness Cohen. FPL also submitted updated revenues from sales of electricity by rate class at present rates for the First Notice of Identified Adjustments.*

Tr. 2814; Exs. 29 (MFRs E-13a, E-13b, E-13c, E-13d), 452 (Staff's 13th POD 75, Staff's 9th Int. 75c)

**ISSUE 33: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2017 test year budget?**

FPL: *The appropriate inflation factor for forecasting the 2017 test year budget is a 2.5% increase in the CPI for 2017. This projected CPI increase is consistent with the long-term average rate of inflation and with projections by leading industry experts. The appropriate customer growth and new service accounts are those supported in FPL's testimony.*

See Brief Section V.B; Tr. 1210-14 (Morley), 4584 (Barrett); Ex. 475 (OPC's 17th Int. 379). FPL does not apply a specific rate of inflation across the board to its historical costs to develop its forecasts, but rather utilizes CPI as a benchmark reference. FPL's 2017 Test Year O&M would still be significantly below the Commission benchmark and no one category would exceed the benchmark even if OPC's recommended inflation factors were adopted. With the exception of the CPI forecast, no intervenor provided testimony supporting an alternative forecast of customer growth or other trend factors.

**ISSUE 34: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2018 test year budget, if applicable?**

FPL: *The appropriate inflation factor for forecasting the 2018 test year budget is a 2.6% increase in CPI for 2018. See also FPL's position on Issue 33.*

See Brief Section V.B; Ex. 475; Tr. 1210-14 (Morley)

**ISSUE 35: Are FPL's estimated operating and tax expenses, for the projected 2017 test year, sufficiently accurate for purposes of establishing rates?**

FPL: *Yes. With the adjustments on Exhibit 332, FPL's estimated operating and tax expenses for the projected 2017 test year are sufficiently accurate for purposes of establishing rates.*

Ex. 332, p. 3

**ISSUE 36: Are FPL's estimated operating and tax expenses, for the projected 2018 subsequent year, sufficiently accurate for purposes of establishing rates, if applicable?**

FPL: *Yes. With the adjustments on Exhibit 332, FPL's estimated operating and tax expenses for the 2018 Subsequent Year are sufficiently accurate for purposes of establishing rates.*

Ex. 332, p. 7

**ISSUE 37: Are FPL's estimated Net Plant in Service and other rate base elements, for the projected 2017 test year, sufficiently accurate for purposes of establishing rates?**

FPL: *Yes. With the adjustments on Exhibit 332, FPL's estimated Net Plant in Service and other rate base elements, for the 2017 Test Year are sufficiently accurate for purposes of establishing rates.*

Ex. 332, p. 2

**ISSUE 38: Are FPL's estimated Net Plant in Service and other rate base elements, for the projected 2018 subsequent year, sufficiently accurate for purpose of establishing rates, if applicable?**

FPL: *Yes. With the adjustments on Exhibit 332, FPL's estimated Net Plant in Service and other rate base elements, for the 2018 Subsequent Year are sufficiently accurate for purposes of establishing rates.*

Ex. 332, p. 6

## QUALITY OF SERVICE

**ISSUE 39: Is the quality of the electric service provided by FPL adequate taking into consideration: a) the efficiency, sufficiency and adequacy of FPL's facilities provided and the services rendered; b) the cost of providing such services; c) the value of such service to the public; d) the ability of the utility to improve such service and facilities; e) energy conservation and the efficient use of alternative energy resources; and f) any other factors the Commission deems relevant.**

FPL: *Yes; it is far better than adequate. FPL's Customer Service continues to be recognized nationally with several awards for outstanding customer satisfaction and superior customer service. Distribution and Transmission reliability has been the best among Florida investor-owned utilities for the tenth consecutive year and in 2015 FPL received PA Consulting's National Excellence Award, one of the most prestigious awards in the industry. FPL's fossil fleet continues to be among industry leaders for reliability, availability, and generating efficiency, while reducing emissions through the use of cleaner, highly efficient combined cycle technology. In 2016, the nuclear fleet received the Top Industry Practice Award for Leadership and Innovation from the Nuclear Energy Institute, one of the most prestigious awards in the industry. Nationally, FPL is out-performing similarly sized companies across an array of financial and operating metrics, further demonstrating the efficiency of its service and the value of its service to customers. For example, FPL's non-fuel O&M expense would be $1.9 billion

higher annually, it performed merely as an "average" utility, helping keep customer bills low.*

See Brief Section IV; Tr. 417-19, 449-50, 507-12 (Reed); Tr. 981-84, 1000-03, 1043-44 (Goldstein); Tr. 802-09, 948 (Kennedy), Tr: 4705–07 (Forrest); Tr. 686-92, 695, 703-04, 706-08, 730-31, 733, 741, 751, 755-56, and 761, (Santos); Tr. 4553-54 (Hicks); Tr. 1055-57, 1068-75, 1081-82, and 1153-54; Exs. 33-42, 38, 48-51, 54-59, 61, 63, 66, 404 (Staff's 6th Int. 151), 406, 496 (FIPUG's 1st Int. 29-30), 497, 512 (SFHHA 14th Int. 240), 523 (SFHHA's 19th Int. 264), 553

## DEPRECIATION STUDY

**ISSUE 40: What, if any, are the appropriate capital recovery schedules?**

FPL: *The appropriate capital recovery schedules are reflected on Exhibit 109. No party contested the need for, or appropriateness of, using capital recovery schedules for the unrecovered cost of FPL's retired assets. FPL's proposed four-year amortization period is consistent with Commission precedent. SFHHA's proposal to stretch the amortization out over 10 years is inconsistent with that precedent.*

Tr. 1768, 1773-74 (Ferguson); Ex. 109

**ISSUE 41: What is the appropriate depreciation study date?**

FPL: *The Commission could appropriately approve depreciation rates to be effective January 1, 2017, based upon FPL's 2016 Depreciation Study using plant and reserve balances for either year-end 2016 or year-end 2017. Reverting to the 2009 Depreciation Study as SFHHA proposes would rely on outdated, unrepresentative data and increase the 2017 Test Year depreciation expense by $563 million if its parameters were applied to today's plant balances.*

See Brief Section VIII; Tr. 1788-89 (Ferguson); Exs. 113, 331, 767 (p. 56)

**ISSUE 42: If the appropriate depreciation study date is not December 31, 2017, what action should the Commission take?**

FPL: *The Commission should use the proposed rates based on year-end 2016 plant and reserve balances that are reflected in Attachment 2 to Exhibit 331. Attachment 2 provides all necessary information to calculate depreciation rates based on applying the depreciation parameters developed in FPL's 2016 Depreciation Study to year-end 2016 plant and reserve balances. No party presented any plausible evidence of errors in the depreciation calculations reflected on Attachment 2.*

See Brief Section VIII; Tr. 1788-89 (Ferguson); Exs. 331 (Attachment 2), 767 (pp. 54-57)

**ISSUE 43: Should accounts 343 and 364 be separated into subaccounts and different depreciation rates be set for the subaccounts using separate parameters? If so, how should the accumulated depreciation reserves be allocated and what parameters should be applied to each subaccount?**

FPL: *Yes. Separate subaccounts, depreciation parameters and depreciation rates should be established for Account 343 (CSP vs. non-CSP) and Account 364 (wood vs. concrete poles) because the parameters vary significantly for the different types of property in those accounts. The depreciation rates and parameters are those identified in Exhibit 331, Attachment 2. The reserves should be allocated to each subaccount in proportion to the calculated theoretical reserves set forth in Attachment 2.*

See Brief Section VIII; Tr. 5108-10, 5153-54 (Allis); Exs. 331 (Attachment 2), 767 (pp. 31-34)

**ISSUE 44: What are the appropriate depreciation parameters (e.g., service lives, remaining lives, net salvage perentages, and reserve percentages) and resulting depreciation rates for the accounts and subaccounts related to each production unit?**

FPL: *The appropriate depreciation parameters and resulting rates for each production unit are as shown on Attachment 2 to Exhibit 331. No contrary parameters have been proposed, other than the SFHHA's excessive 63-year and 65-year service lives for the Scherer Unit 4 and SJRPP coal-fired units, respectively and SFHHA's inappropriate proposal to apply the lives for a completely different set of assets to Capital Spare Parts (see Issue 43).*

See Brief Section VIII; Tr. 5062-65 (Ferguson), 5108-10, 5153-54 (Allis); Exs. 331 (Attachment 2), 767 (pp. 14, 31-34)

**ISSUE 45: What are the appropriate depreciation parameters (e.g., service lives, remaining lives, and net salvage percentages) and resulting depreciation rates for each transmission, distribution, and general plant account, and subaccounts, if any?**

FPL: *The appropriate depreciation parameters and resulting rates for each transmission, distribution, and general plant account are as shown on Attachment 2 to Exhibit 331. No contrary parameters have been proposed, other than FEA's alternative survivor curves and average service lives for Accounts 362, 365, and 369.1 based on inappropriately short experience bands.*

See Brief Section VIII; Exs. 331 (Attachment 2), 714, 767 (pp. 36-53), 768

**ISSUE 46: Based on the application of the depreciation parameters and resulting depreciation rates that the Commission deems appropriate, and a comparison of the theoretical reserves to the book reserves, what are the resulting imbalances?**

FPL: *Exhibit 331, Attachment 2 shows a theoretical reserve deficit of $540.4 million for production plant accounts and a theoretical reserve surplus of $620.8 million for the TD&G accounts, which net to a theoretical reserve surplus of $80.4 million over all accounts. If FEA's proposed survivor curves and average service lives were adopted for Accounts 362, 365, and 369.1, the TD&G theoretical reserve surplus would increase by approximately $140 million.*

Tr. 3980 (Andrews); Ex. 331 (Attachment 2, Table 5)

**ISSUE 47: If the Commission accepts FPL's depreciation study for purposes of establishing its proposed depreciation rates and related expense, what adjustments, if any, are necessary?**

FPL: *The Commission should accept the changes and depreciation rates reflected on the 2016 Depreciation Study as presented in Exhibit 331, Attachment 2.*

See Brief Section VIII; Exs. 331 (Attachment 2), 767

**ISSUE 48: What, if any, corrective reserve measures should be taken with respect to the imbalances identified in Issue 46?**

FPL: *The remaining life technique should be used, unless another disposition has the ability to defer or avoid future base rate proceedings. Flexible reserve amortization has allowed FPL to absorb near-term fluctuations in revenues and expenses under the 2012 Rate Settlement, so FPL could focus instead on identifying and implementing longer-term productivity gains. This process culminated in Project Momentum, which has become an important part of FPL's annual planning process and helped FPL achieve best-in-class O&M performance.

The four-year rate proposal in this proceeding is predicated upon the Commission approving FPL's three rate requests in full. If the Commission does not grant the full rate requests, a flexible reserve amortization mechanism as provided in the 2012 Rate Settlement could help FPL stay out for four years nonetheless. As addressed in Issue 46, there is a TD&G theoretical reserve surplus of approximately $621 million (approximately $761 million if FEA's position were adopted). In addition, any portion of the Reserve Amount under the 2012 Rate Settlement that remains at the end of 2016 could be appropriately included for flexible amortization.*

See Brief Section VIII; Tr. 1817-22, 1863, 5150, 5153-54 (Allis), 3954-55, 390 (Andrews), 4572, 4592 (Barrett); Exs. 636 (confidential), 767 (pp. 37-39)

**ISSUE 49: What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?**

FPL: *The implementation date should be January 1, 2017.*

Tr. 1772 (Ferguson)

**ISSUE 50: Should FPL's currently approved annual dismantlement accrual be revised?**

FPL: *Yes. The current-approved annual dismantlement accrual is $18,468,387 (total system). Based on FPL's corrected 2016 Dismantlement Study included in Exhibit 343, and accounting for the adjustments listed on Exhibit 332, the annual dismantlement accrual should be increased to $26,181,218 (total system). SFHHA's proposal to eliminate contingencies from dismantlement cost estimates is unreasonable and unsupported and would only shift cost burdens to future customers.*

Tr. 5166-74 (Kopp)

**ISSUE 51: What, if any, corrective dismantlement reserve measures should be approved?**

FPL: *The reserve reallocations proposed in FPL's corrected 2016 Dismantlement Study included in Exhibit 343 should be approved. FPL first allocated its forecasted dismantlement reserve amortization authorized by Order No. PSC-13-0023-S-EI to the units with excess theoretical reserve balances, and, in doing so, brought the reserve to its appropriate level. Next, FPL allocated the remaining dismantlement reserve amortization to the units with the longest remaining lives. In doing so, FPL minimized the calculated incremental dismantlement accrual.*

Ex. 343

**ISSUE 52: What is the appropriate annual accrual and reserve for dismantlement**

**A. For the 2017 projected test year?**

FPL: *The appropriate annual provision for dismantlement is $26,181,218 (total system) based on FPL's corrected 2016 Dismantlement Study included in Exhibit 343. The total dismantlement reserve is ($239,918,805) for the 2017 projected Test Year (jurisdictional adjusted).*

Exs. 28 (MFRs: B-2, B-6, C-3 and C-4), 331, 343

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate annual provision for dismantlement is $26,181,218 (total system) based on FPL's corrected 2016 Dismantlement Study included in Exhibit 343. The total dismantlement reserve is ($264,571,334) for the 2018 subsequent projected test year (jurisdictional adjusted).*

Exs. 29 (MFRs: B-2, B-6, C-3 and C-4), 331, 343

## RATE BASE

**ISSUE 53: Should the revenue requirement associated with West County Energy Center Unit 3 currently collected through the Capacity Cost Recovery Clause be included in base rates?**

FPL: *Yes. Consistent with FPL's 2012 Rate Settlement, revenues associated with WCEC3 are forecasted and reflected as base revenues, and therefore should be included in base rates.*

Tr. 1680-82 (Ousdahl); Ex. 418 (Staff's 21st Int. 329)

**ISSUE 54: Has FPL appropriately accounted for the impact of the Cedar Bay settlement agreement**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL has appropriately accounted for the Cedar Bay settlement in the 2017 and 2018 test years by complying with the terms set forth in Order No. PSC-15-0401-AS-EI, Docket No. 150075-EI.*

Tr. 1484-87 (Barrett)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. See FPL's position on Issue 54.A.*

**ISSUE 55: Has FPL made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation and Working Capital**

**A. For the 2017 projected test year?**

FPL: *Yes. All non-utility activities have been appropriately removed from rate base for the 2017 and 2018 test years.*

Tr. 1682-92 (Ousdahl)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. See FPL's position on Issue 55.A.*

**ISSUE 56: What is the appropriate amount of Plant in Service for FPL's Large Scale Solar Projects?**

FPL: *The appropriate amount of plant in-service, including AFUDC, for FPL's large scale solar projects is $408,230,000 as shown on MFR Schedule B-11. These projects are an important step in the direction of greater reliance on renewable resources. They take advantage of unique circumstances that allow them to be cost-effective for customers on a CPVRR basis. FPL has effectively controlled costs by competitively bidding substantially all of the projects' major cost components.*

See Brief Section IX.B

**ISSUE 57: Is FPL's replacement of its peaking units reasonable and prudent?**

FPL: *Yes. Peaking capacity plays a vital role in FPL's ability to provide reliable electric power to its customers. FPL projects that replacement of the existing gas turbine peaking units with modern, efficient and clean-running combustions turbines will generate $203 million of CPVRR savings for customers over the life of the units. It will also help FPL maintain system reliability given parts availability issues with the current equipment.*

See Brief Section IX.B

**ISSUE 57A: Are FPL's .05 combustion turbine upgrade projects reasonable and prudent?**

FPL: *Yes. FPL's upgrades to its existing GE compressors will lower overall system fuel costs and are projected to generate CPVRR customer savings of $57 million over the life of the assets. There is no evidence in the record disputing the cost-effectiveness of these upgrades or their role in reducing system fuel costs.*

See Brief, Section IX.B

**ISSUE 58: If adjustments are made to FPL's proposed depreciation and dismantling expenses, what is the impact on rate base**

**A. For the 2017 projected test year?**

FPL: *Other than the adjustments listed on Exhibit 332, no other adjustments are appropriate.*

Ex. 332

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 58.A.*

**ISSUE 59: What is the appropriate level of Plant in Service (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of Plant in Service is $43,118,337,000 (jurisdictional adjusted) for the 2017 Test Year.*

Ex. 332, p. 2

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of Plant in Service is $45,506,093,000 (jurisdictional adjusted) for the 2018 Subsequent Year.*

Ex. 332, p. 6

**ISSUE 60: What is the appropriate level of Accumulated Depreciation (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of Accumulated Depreciation is $13,062,032,000 (jurisdictional adjusted) for the 2017 Test Year.*

Ex. 332, p. 2

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of Accumulated Depreciation is $14,190,224,000 (jurisdictional adjusted) for the 2018 Subsequent Year.*

Ex. 332, p. 6

**ISSUE 61: Are FPL's proposed adjustments to move certain CWIP projects from base rates to the Environmental Cost Recovery Clause appropriate?**

FPL: *Yes. FPL's proposed adjustments to move CWIP balances associated with Commission-approved ECRC projects from rate base to clause is appropriate. The adjustment removes these projects from CWIP in rate base and reflects the balances in the ECRC throughout their lifecycles.*

Tr. 1674-75 (Ousdahl); Ex. 424 (Staff's 27th Int. 361)

**ISSUE 62: Are FPL's proposed adjustments to move certain CWIP projects from base rates to the Energy Conservation Cost Recovery Clause appropriate?**

FPL: *Yes. FPL's proposed adjustments to move CWIP balances associated with Commission-approved ECCR Clause projects from rate base to clause is appropriate. The adjustment removes these projects from CWIP in rate base and reflects the balances in the ECCR Clause throughout their lifecycles.*

Tr. 1674-75 (Ousdahl); Ex. 422 (Staff's 25th Int. 353)

**ISSUE 63: Is the company's proposed adjustment to remove Fukushima-related costs from the rate base and recover all Fukushima-related capital costs in the Capacity Cost Recovery Clause appropriate?**

FPL: *Yes. The Company's proposed adjustment to remove Fukushima-related costs from rate base and recover all Fukushima-related capital costs solely in the Capacity Cost Recovery Clause is appropriate. The adjustment proposes recovery of all Fukushima-related costs through the Capacity Clause, which will help to reduce complexity in accounting and ratemaking.*

Tr. 1672-73 (Ousdahl)

**ISSUE 64: What is the appropriate level of Construction Work in Progress to be included in rate base**

**A. For the 2017 projected test year?**

FPL: *As reflected on FPL witness Ousdahl's Exhibit 332, the appropriate amount of Construction Work in Progress ("CWIP") is $747,902,000 (jurisdictional adjusted) for the 2017 projected test year. Consistent with Rule 25-6.0141 F.A.C., FPL requests rate base inclusion of only AFUDC-*ineligible* CWIP.*

Ex. 332, p. 2. CWIP constitutes an investment by the Company upon which a return should be allowed. Construction projects ineligible for a return through the accrual of allowance for funds used during construction ("AFUDC") are included in rate base. When a utility's construction program is so large that reliance solely on AFUDC would harm the company's financial integrity, the Commission allows large projects otherwise eligible for AFUDC to be included in rate base. Tr. 5768-69 (Deason). Rule 25-6.0141, F.A.C. provides that projects are AFUDC-eligible if the construction period spans at least one year and the project costs total at least 0.5% of total plant in service, which for FPL is a project threshold cost of approximately $246 million in the 2017 Test Year. Tr. 5762 (Deason).

FIPUG witness Pollock's recommendation that 100% of FPL's CWIP be excluded from rate base altogether disregards this Commission's rules. Inexplicably, he further opines that the amount of CWIP being sought by FPL is insufficient to create financial stress if it were disallowed, yet is large enough that it would significantly add to rate shock if it were allowed in rate base. Contrary to his assertion, a showing of extraordinary financial harm is not a requirement to allow rate base inclusion of AFUDC ineligible CWIP. Tr. 4307 (Pollock). 5768-5769 (Deason); *see also* FPL's position on Issue 66 regarding inclusion of NFIP.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *As reflected on FPL witness Ousdahl's Exhibit 332, the appropriate amount of CWIP is $807,556,000 (jurisdictional adjusted) for the 2018 subsequent projected test year.*

Ex. 332, p. 6; see also FPL's position on Issue 64.A

**ISSUE 65: Are FPL's proposed reserves for Nuclear End of Life Material and Supplies and Last Core Nuclear Fuel appropriate**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL's proposed accruals for Nuclear End of Life ("EOL") Material and Supplies and Last Core Nuclear Fuel for the 2017 Test Year comports with Commission Order Nos. PSC-16-0250-PAA-EI and PSC-16-0293-CO-EI. The appropriate amount of EOL Material and Supplies reserve for the 2017 Test Year is ($22,298,000) (jurisdictional). The appropriate amount of EOL last core nuclear fuel reserve for the 2017 Test Year is ($102,591,000) (jurisdictional).*

Ex. 112. No party disputed the amount related to this accrual. However, SFHHA proposed subsuming this accrual with the funded nuclear decommissioning reserve, which is inappropriate and contrary to Commission precedent.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. The appropriate amount of EOL material and supplies reserve for the 2018 Subsequent Year is ($24,221,000) (jurisdictional). The appropriate amount of EOL last core nuclear fuel reserve for the 2018 Subsequent Year is ($113,369,000) (jurisdictional).*

Ex. 112; see also FPL's position on Issue 65.A

**ISSUE 66: What is the appropriate level of Nuclear Fuel (NFIP, Nuclear Fuel Assemblies in Reactor, Spent Nuclear Fuel less Accumulated Provision for Amortization of Nuclear Fuel Assemblies, End of Life Materials and Supplies, Nuclear Fuel Last Core)**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of Nuclear Fuel for the 2017 Test Year is $630,075,000 (jurisdictional). This amount does not include EOL materials and supplies or nuclear fuel last core as these items are reflected in different FERC accounts and included in working capital. See Issue 65 for the balances for EOL materials and supplies and nuclear fuel last core reserves.*

Ex. 332, p. 2. SFHHA witness Kollen recommends a disallowance of 100% of the amount of nuclear fuel in process ("NFIP") in CWIP, suggesting that it be allowed to accrue AFUDC instead. Such disallowance is inconsistent with Commission policy and Rule 25-6.0141, F.A.C. Even witness Kollen recognizes that "all costs associated with the construction or completion of an asset that is constructed or acquired to provide service should be recovered from customers over the period that the asset provides service to those customers." That is precisely the point: the NFIP is needed to assure *existing* customers of continuous service from nuclear plants just like any other fuel type. In fact, paragraph (1)(g) of Rule 25-6.0141 does not reference NFIP at all. Even if paragraph (1)(g) does apply, however, the NFIP amounts for each fuel cycle at each nuclear plant do not meet the Rule's threshold requirements. Nor does Witness Kollen make any suggestion that including the NFIP in rate base would be inappropriate or unduly burdensome, as required by the Rule. Tr. 4077 (Kollen), 5762, 5767 (Deason); Exs. 28, 29 (MFR B-16).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate amount of Nuclear Fuel for the 2018 Subsequent Year is $606,781,000 (jurisdictional).*

Ex. 332, p. 6; see also FPL's position on Issue 66.A

**ISSUE 67: What is the appropriate level of Property Held for Future Use**

**A. For the 2017 projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of PHFFU is $233,289,000 (jurisdictional adjusted) for the 2017 Test Year.*

See Brief Section IX.C; Tr. 2681-83, 2688, (Miranda); Exs. 28, 332 (pg. 2)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments on Exhibit 332, the appropriate amount of PHFFU is $242,882,000 (jurisdictional adjusted) for the 2018 Subsequent Year.*

See Brief Section IX.C; Tr. 2681-83, 2688 (Miranda); Exs. 29, 332 (p. 6)

**ISSUE 68: What is the appropriate level of fossil fuel inventories**

**A. For the 2017 projected test year?**

FPL: *The 2017 projections for FPL's fossil fuel inventories reflected MFR B-18 (Ex. 28) are appropriate and reflect the necessary levels FPL must maintain at each plant to sustain operations during transit time and to cover contingencies that may delay delivery, such as weather, port delays, and plant-specific delivery infrastructure risks.*

Tr. 856, 868-71, 952-53 (Kennedy); Ex. 28 (MFR B-18).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The 2018 projections for FPL's fossil fuel inventories refelcted on MFR B-18 are appropriate. See also FPL's position on Issue 68.A.*

Ex. 29 (MFR B-18)

**ISSUE 69: Should the unamortized balance of Rate Case Expense be included in Working Capital and, if so, what is the appropriate amount to include**

**A. For the 2017 projected test year?**

FPL: *Yes. Full recovery of necessary rate case expenses is appropriate but will not occur unless FPL is afforded the opportunity to earn a return on the unamortized balance of those expenses. The appropriate unamortized Rate Case Expense balance to be included in the 2017 Test Year Working Capital is $3,711,750 (jurisdictional), reduced from the original estimate on MFR C-10.*

Tr. 4892 (Ousdahl); Ex. 431. Due to timing, this reduction is not reflected on Exhibit 332, or on the revenue requirements calculations set forth herein. Inclusion of this amount is appropriate to avoid a disallowance of reasonable and necessary costs. FPL is aware of the Commission's policy against inclusion of the unamortized balance in rate base, but disagrees with it. Tr. 4842 (Ousdahl). As a regulated entity, FPL must seek rate relief through a rate case filing and participation in an expensive rate case proceeding. Rate case expenses are an unpaid cost financed by FPL, thus constituting an investment on which FPL should be allowed to earn a return pursuant to cost-of-service ratemaking principles. Tr. 4842, 4892 (Ousdahl). By disallowing prudently incurred costs, the Commission's practice imposes an unwarranted penalty on the Company for seeking rates that will allow it an opportunity to earn a reasonable return on its investment. Tr. 4842 (Ousdahl).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes, See subpart A above. The appropriate unamortized Rate Case Expense balance to be included in the 2018 Subsequent Year Working Capital is $2,651,250 (jurisdictional).*

Tr. 4892 (Ousdahl)

**ISSUE 70: What is the appropriate amount of injuries and damages (I&D) reserve to include in rate base?**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of Injuries & Damages reserve is $18,962,000 (jurisdictional) for the 2017 projected test year.*

Ex. 328 (total system). SFHHA witness Kollen incorrectly asserts that the Injuries and Damages reserve is a "cost tracking mechanism" designed to "ensure that the Company's costs are recovered from customers dollar for dollar over time so that neither the Company nor customers are benefitted or harmed." Rather, the Injuries and Damages reserve reflects the balance of liabilities incurred by the Company for personal injury or property damage that have not yet been paid. As required by GAAP, FPL applies accrual accounting, not the cash method suggested by witness Kollen. Witness Kollen further recommends ordering FPL to zero out its injuries and damages reserve and flow back the accrued reserve to customers over four years. Doing so would violate GAAP, FPSC, and FERC accounting requirements. Finally, witness Kollen's assertion that FPL has overstated its injuries and damages accrual for 2017 and 2018 is unsupported. A comparison of historical and forecasted injuries and damages reserve activity for the period 2011 through 2018 demonstrates that FPL's accruals for 2017 and 2018 are lower than the actual payments made as recently as 2015 and lower than the five year historical average. Tr. 4048-49 (Kollen), 4834-35 (Ousdahl); Ex 328.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate amount of Injuries & Damages reserve is $18,880,000 (jurisdictional) for the 2018 subsequent projected test year.*

Ex. 328 (total system); see also FPL's position on Issue 70.A

**ISSUE 71: What is the appropriate amount of deferred pension debit in working capital for FPL to include in rate base**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of deferred pension debit in working capital for FPL to include in rate base is $1,286,690,000 (jurisdictional) for the 2017 projected test year.*

Exs. 332, 517 (total system)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of deferred pension debit in working capital for FPL to include in rate base is $1,346,625,000 for the 2018 subsequent projected test year.*

Exs. 332, 517 (total system).

**ISSUE 72: Should the unbilled revenues be included in working capital**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL incurs costs to deliver energy to customers, all of which costs have been accrued or paid. Delivery of that energy gives rise to both (i) customer accounts receivables and (ii) receivables for unbilled revenues. FPL must finance the costs of delivering energy, whether or not the energy sales have yet been billed. For this reason, the Commission has a long-standing practice of including unbilled revenues in working capital.*

Tr. 4836-38 (Ousdahl). SFHHA witness Kollen's recommendation that unbilled revenues be removed from working capital is inconsistent with the Commission's well-reasoned practice. *See* Order Nos. 11437, 13537 and PSC-10-0153-FOF-EI (rate cases in which the Commission included unbilled revenues in FPL's working capital calculation). FPL has incurred costs to deliver the energy that gave rise to both customer accounts receivables and the receivable for unbilled revenues. As such, the Company must finance the costs of providing that service and should earn a return on the promise of payment whether invoiced or not. Tr. 4836-38 (Ousdahl). Witness Kollen attempts to justify the recommended departure from Commission practice by pointing out that FPL does not accrue unbilled revenues for fuel clause recovery. Tr. 4081 (Kollen). Unlike unbilled base revenues, however, GAAP does not require the Company to record unbilled revenues associated with clause recoveries. Tr. 4836-38 (Ousdahl).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. See Issue 72.A.*

**ISSUE 73: What is the appropriate methodology for calculating FPL's Working Capital**

**A. For the 2017 projected test year?**

FPL: *The balance sheet approach is the appropriate methodology for calculating Working Capital for the 2017 Test Year and 2018 Subsequent Year. This

approach reasonably measures the investment in current operations required to deliver electric service and is therefore appropriate for calculating Working Capital. *

Stipulated issue. All parties agreed to the use of the balance sheet method of calculating working capital.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Stipulated. See Issue 73.A.*

**ISSUE 74: If FPL's balance sheet approach methodology for calculating its Working Capital is adopted, what adjustments, if any, should be made to FPL's proposed Working Capital**

**A. For the 2017 projected test year?**

FPL: *Other than the adjustments listed on Exhibit 332, no other adjustments are appropriate.*

Ex. 332, p. 2

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 74.A.*

Ex. 332, p. 6

**ISSUE 75: Should FPL's requested change in methodology for recovering nuclear maintenance outage costs from accrue-in-advance to defer-and-amortize be approved? If so, are any adjustments necessary**

**A. For the 2017 projected test year?**

FPL: *Yes, with FPL's reduced nuclear facility outage durations and costs, FPL's requested change in methodology for recovering nuclear maintenance outage costs from accrue-in-advance to defer-and-amortize should be approved. The approach is in accordance with GAAP and reduces rate base. No other adjustments are necessary.*

Tr. 1671-72 (Ousdahl); Ex. 97

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 75.A.*

**ISSUE 76: What is the appropriate level of Working Capital (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Working Capital for the 2017 Test Year is $790,373,000 (jurisdictional).*

Ex. 332, p. 2

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Working Capital for the 2018 Subsequent Year is $920,407,000 (jurisdictional).*

Ex. 332, p. 2

**ISSUE 77: What is the appropriate level of rate base**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Rate Base for the 2017 Test Year is $32,457,944,000 (jurisdictional).*

Ex. 332, p. 2

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Rate Base for the 2018 Subsequent Year is $33,893,496,000 (jurisdictional).*

Ex. 332, p. 6

## COST OF CAPITAL

**ISSUE 78: What is the appropriate amount of accumulated deferred taxes to include in the capital structure and should a proration adjustment to deferred taxes be included in capital structure**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of accumulated deferred taxes included in capital structure for the 2017 Test Year is $7,297,546,000 (jurisdictional). FPL included a proration adjustment to deferred taxes in capital structure for both years in order to comply with treasury regulations that govern calculation of rates using a projected test year.*

Ex. 332, p. 4. The Company has appropriately applied the 13-month average to the prorated accumulated deferred taxes ("ADIT") balance as required under the normalization rules. Based on an incomplete review of Treasury Regulations, SFHHA witness Kollen argues that FPL has overstated the amount of required deferred income tax proration. Tr. 4091 (Kollen). Kollen cites to IRC examples that merely specify the formula for computing the prorated ADIT activity to derive monthly balances. Tr. 4833 (Ousdahl). He ignores IRC 168(i)(9)(B)(ii), which provides that the convention used for calculating rate base also must be applied in computing the associated ADIT balance treated as zero-cost capital. Tr. 4833-34 (Ousdahl).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of accumulated deferred taxes included in capital structure is $7,665,944,000 (jurisdictional) for the 2018 Subsequent Year. See also FPL's position on Issue 78.A.*

Ex. 332, p. 8

**ISSUE 79: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of unamortized investment tax credits and cost rate included in capital structure for the 2017 Test Year is $108,530,000 (jurisdictional) and 8.81%, respectively. The determination of the cost rate should only include the long-term sources of capital; common and preferred stock and long-term debt.*

Ex. 332, p. 4

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Accounting for the adjustments reflected on Exhibit 332, the appropriate amount of unamortized investment tax credits and cost rate included in capital structure for the 2018 Subsequent Year $103,505,000 (jurisdictional adjusted) and 8.88%, respectively. See also FPL's position on Issue 79.A.*

Ex. 332, p. 8

**ISSUE 80: What is the appropriate amount and cost rate for short-term debt to include in the capital structure**

**A. For the 2017 projected test year?**

FPL: *As reflected on Exhibit 332, the appropriate amount and cost rate for short-term debt for the 2017 Test Year is $512,545,000 (jurisdictional) and 1.99%.*

Ex. 332, p. 4

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *As reflected on Exhibit 332, the appropriate amount and cost rate for short-term debt for the 2018 Subsequent Year is $458,463,000 (jurisdictional) and 2.39%.*

Ex. 332, p. 8

**ISSUE 81: What is the appropriate amount and cost rate for long-term debt to include in the capital structure**

**A. For the 2017 projected test year?**

FPL: *As reflected on Exhibit 332, the appropriate amount and cost rate for long-term debt for the 2017 Test Year is $9,420,954,000 (jurisdictional) and 4.60%. It would be inappropriate to update this one element of FPL's forecast in isolation.*

Tr. 5962-63 (Dewhurst), Ex. 332, p. 4

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *As reflected on Exhibit 332, the appropriate amount and cost rate for long-term debt in the 2018 Subsequent Year is $9,895,307,000 (jurisdictional) and 4.80%. See also FPL's position on Issue 81.A.*

Ex. 332, p. 8

**ISSUE 82: What is the appropriate amount and cost rate for customer deposits to include in the capital structure**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount and cost rate for customer deposits for the 2017 Test Year is $414,102,000 (jurisdictional) and 2.04%.*

Exs. 332 (p. 4), 28 (MFR D-6). No party challenged the appropriate amount and cost rate for customer deposits to include in FPL's capital structure.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount and cost rate for customer deposits for the 2018 Subsequent Year is $399,496,000 (jurisdictional) and 2.04%. See also Issue 82.A.*

Exs. 332 (p. 8), 29 (MFR D-6)

**ISSUE 83: What is the appropriate equity ratio to use in the capital structure for ratemaking purposes**

**A. For the 2017 projected test year?**

FPL: *FPL's equity ratio should remain at approximately 59.6% as a percentage of investor sources based on a rolling 13-month average throughout the four-year period. This equity ratio appropriately reflects FPL's business risk profile and FPL's strategy of maintaining a "stronger than average" financial position, which has served customers well over an extended period of time. Maintaining FPL's capital structure will provide the financial flexibility and strength needed to absorb unexpected financial shocks, such as a major hurricane, support FPL's substantial capital investment and construction requirements, and indicate to capital markets the Commission's continued commitment to support the financial integrity of the Company. Weakening FPL's capital structure, as intervenors suggest, would result in degradation of credit and likely downgrades to the Company's credit ratings, damaging customers' long term interests.*

See Brief Section X.B; Tr. 2467-72, 5910-22 (Dewhurst); 2187-90, 5553-54 (Hevert).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL position on Issue 83.A.*

**ISSUE 84: Should FPL's request for a 50 basis point performance adder to the authorized return on equity be approved?**

FPL: *Yes. The requested incentive is an appropriate means to recognize FPL's superior service, including its low bills, high reliability, low emissions, award-winning customer service, "top-decile" fossil fleet reliability, "best-in-class" fossil heat rates and low non-fuel O&M, and to encourage FPL to continue seeking opportunities to improve its customer value. It will also encourage all electric investor-owned utilities in Florida to strive to improve performance for the benefit of all Floridians. The requested incentive is consistent with past Commission decisions, in which an authorized ROE was either incrementally increased (or decreased) in recognition of performance. The Florida Supreme Court also has affirmed the Commission's authority to adjust ROE for excellent service.*

See Brief Section XI; Tr. 418, 435-36, 442-43, 448-50, 455-56, 419, 443-44 (Reed); Tr. 981-84, 1000-03, 1043-44 (Goldstein); Tr. 802-09, 948 (Kennedy); Tr. 686-92, 695, 703-04, 706-08, 730-31, 733, 741, 751, 755-56, 761, (Santos); Tr. 2452-53, 2645, 5972-73 (Dewhurst); Tr. 4553-54 (Hicks); Tr. 5795-5813, 5861-62, 5869-76 (Deason); Tr. 2824-25 (Cohen); Tr. 1068-75 (Miranda); Exs. 34, 35, 38-40, 48-51, 54-59, 61, 63, 66, 69-72, 136, 404 (Staff's 6th Int. 151), 406, 496 (FIPUG's 1st Int. 29-30), 512 (SFHHA's 14th Int. 240), 523 (SFHHA's 19th Int. 264), 553

**ISSUE 85: What is the appropriate authorized return on equity (ROE) to use in establishing FPL's revenue requirement**

**A. For the 2017 projected test year?**

FPL: *The Commission should authorize 11.5%, including the 50 basis point performance adder, as the return on common equity. FPL's requested ROE is fully supported by the results of market-based models and appropriately reflects specific, forward-looking financial market conditions. Additionally, an ROE of 11% is reasonable when compared to current authorized ROEs in the Southeastern U.S. Granting FPL's requested ROE will appropriately take into account FPL's company-specific risk factors which are additive to those risks of the typical vertically-integrated electric utility, such as the Company's operation of nuclear plants and FPL's uniquely high level of hurricane risk exposure both in terms of geographical distribution of assets and likelihood of hurricane strikes. The requested rate also addresses the risk of the Company's proposed multi-year stay-out. Granting FPL's requested return on common equity will maintain FPL's financial strength and flexibility, important components to FPL's strategy to deploy capital to continuously improve customer value.*

See Brief Section X.C; Tr. 2462-67, 2470-77 (Dewhurst); 2126-30, 2172-77 (Hevert); Ex. 136

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 85.A.*

**ISSUE 86: What is the appropriate weighted average cost of capital to use in establishing FPL's revenue requirement?**

**A. For the 2017 projected test year?**

FPL: *The appropriate after-tax WACC for the 2017 Test Year is 6.63%.*

Ex. 332, p. 4

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate after-tax WACC for the 2018 Subsequent Year is 6.70%.*

Ex. 332, p. 8

**NET OPERATING INCOME**

**ISSUE 87: What are the appropriate projected amounts of other operating revenues**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Other Operating Revenues is $194,123,000 (jurisdictional) for the 2017 Test Year.*

Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Other Operating Revenues is $200,391,000 (jurisdictional) for the 2018 Subsequent Year.*

Ex. 332, p. 7

**ISSUE 88: What is the appropriate level of Total Operating Revenues**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate level of Total Operating Revenues is $5,926,640,000 (jurisdictional) for the 2017 Test Year.*

See Brief Section XII; Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate level of Total Operating Revenues is $5,971,663,000 (jurisdictional) for the 2018 Subsequent Year.*

See Brief Section XII; Ex. 332, p. 7

**ISSUE 89: Has FPL made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL has made the appropriate 2017 Test Year adjustments to remove fuel revenues and expenses recoverable through the Fuel Adjustment Clause.*

Ex. 28 (MFR C-3)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. FPL has made the appropriate 2018 Subsequent Year adjustments to remove fuel revenues and expenses recoverable through the Fuel Adjustment Clause.*

Ex. 29 (MFR C-3)

**ISSUE 90: Has FPL made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL has made the appropriate 2017 Test Year adjustments to remove capacity revenues and expenses recoverable through the CCR Clause.*

Ex. 28 (MFR C-3)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. FPL has made the appropriate 2018 Subsequent Year adjustments to remove capacity revenues and expenses recoverable through the CCR Clause.*

Ex. 29 (MFR C-3)

**ISSUE 91: Has FPL made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL made the appropriate 2017 Test Year adjustments to remove environmental revenues and expenses recoverable through the Environmental Cost Recovery ("ECR") Clause.*

Ex. 28 (MFR C-3)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. FPL made the appropriate 2018 Subsequent Year adjustments to remove environmental revenues and expenses recoverable through the ECR Clause.*

Ex. 29 (MFR C-3)

**ISSUE 92: Has FPL made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause**

**A. For the 2017 projected test year?**

FPL: *Yes. FPL made the appropriate 2017 Test Year adjustments to remove conservation revenues and expenses recoverable through the Energy Conservation Cost Recovery ("ECCR") Clause.*

Ex. 28 (MFR C-3)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. FPL made the appropriate 2018 Subsequent Year adjustments to remove conservation revenues and expenses recoverable through the ECCR Clause.*

Ex. 29 (MFR C-3)

**ISSUE 93: Has FPL made the appropriate adjustments to remove all non-utility activities from operating revenues and operating expenses**

**A. For the 2017 projected test year?**

FPL: *Yes. All non-utility activities have been appropriately removed from operating revenues and expenses for the 2017 Test Year.*

Tr. 1682-92 (Ousdahl)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. See also FPL's position on Issue 93.A.*

**ISSUE 94: What is the appropriate percentage value (or other assignment value or methodology basis) to allocate FPL shared corporate services costs and/or expenses to its affiliates**

**A. For the 2017 projected test year?**

FPL: *FPL shared corporate services costs and/or expenses are allocated using specific drivers and the Massachusetts Formula, pursuant to which 35% of FPL Corporate Service Charges are to be allocated to affiliates for the 2017 Test Year.*

Ex. 106

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *For the 2018 Subsequent Year, 36% of FPL Corporate Service Charges are to be allocated to affiliates. See also FPL's position on Issue 94.A.*

Ex. 106

**ISSUE 95: What is the appropriate amount of FPL shared corporate services costs and/or expenses (including executive compensation and benefits) to be allocated to affiliates**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of FPL Corporate Service Charges to be allocated to affiliates is $85,724,000 for the 2017 Test Year.*

Ex. 106

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate amount of FPL Corporate Service Charges to be allocated to affiliates is $89,198,000 for the 2018 Subsequent Year.*

Ex. 106

**ISSUE 96: Should any adjustments be made to FPL's operating revenues or operating expenses for the effects of transactions with affiliated companies**

**A. For the 2017 projected test year?**

FPL: *No adjustments are required or should be made to FPL's forecasted operating revenues or operating expenses for the effects of transactions with affiliated companies for either the 2017 Test Year or 2018 Subsequent Year.*

Tr. 1682-91 (Ousdahl)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 96.A.*

**ISSUE 97: What is the appropriate amount of FPL's vegetation management expense**

**A. For the 2017 projected test year?**

FPL: *FPL's vegetation management expenses of $65,645,000 (total system) for the 2017 Test Year is appropriate. These expenses were developed pursuant to a

rigorous budget process by knowledgeable experts who understand FPL's program and system.*

See Brief Section XII.A; Tr. 2668-74; Ex. 706

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *FPL's vegetation management expenses of $69,648,000 (total system) for the 2018 Subsequent Year is appropriate. See FPL's position on Issue 97.A.*

See Brief Section XII.A

**ISSUE 98: What is the appropriate level of generation overhaul expense**

**A. For the 2017 projected test year?**

FPL: *The appropriate level of generation overhaul expense is $46,048,000 (jurisdictional) for the 2017 Test Year.*

See Brief Section XII.A; Tr. 847-48, 910-14, 4914-18, 4921, 4936 (Kennedy); Exs. 605, 606, 607

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate level of generation overhaul expense is $51,927,000 (jurisdictional) for the 2018 Subsequent Year.*

See Brief Section XII.A; Tr. 847-48, 910-14, 4914-18, 4921, 4936 (Kennedy); Exs. 605, 606, 607

**ISSUE 99: What is the appropriate amount of FPL's production plant O&M expense**

**A. For the 2017 projected test year?**

FPL: *FPL's production plant O&M expense of $532,533,000 (jurisdictional adjusted) for the 2017 test year is appropriate. The non-nuclear O&M request in 2017 ($224,824,000), excluding non-recoverable fuel O&M expense, is commensurate with the transformation of FPL's fossil fleet. The nuclear O&M expense is $307,709,000 (jurisdictional adjusted) for the 2017 test year and is necessary to maintain FPL's nuclear facilities.*

See Brief Section XII.A; Tr. 989, 991, 996 (Goldstein), 827-28, 896-902, 4909-12, 4922-23 (Kennedy); Exs. 332, 426 (Staff's 29th Int. 371), 599, 600, 603

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *FPL's production plant O&M expense of $547,977,000 (jurisdictional adjusted) for the 2018 subsequent test year is appropriate. The non-nuclear O&M request in 2018 ($232,280,000), excluding non-recoverable fuel O&M expense, is commensurate with the transformation of FPL's fossil fleet. The nuclear O&M expense is $315,697,000 (jurisdictional adjusted) for 2018 subsequent test year and is necessary to maintain FPL's nuclear facilities.*

See Brief Section XII.A; Tr. 989, 991, 996 (Goldstein), 827-28, 896-902, 4909-12, 4922-23 (Kennedy); Exs. 332, 426 (Staff's 29th Int. 371), 599, 600, 603

**ISSUE 100: What is the appropriate amount of FPL's transmission O&M expense**

**A. For the 2017 projected test year?**

FPL: *FPL's transmission O&M expense of $59,903,000 (jurisdictional) for the 2017 Test Year is appropriate.*

Exs. 28 (MFR C-3, C-4, p. 7, line 2), 479

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *FPL's transmission O&M expense of $61,211,000 (jurisdictional) for the 2018 Subsequent Year is appropriate.*

Exs. 29 (MFR C-3, C-4, p. 7, line 14), 479

**ISSUE 101: What is the appropriate amount of FPL's distribution O&M expense**

**A. For the 2017 projected test year?**

FPL: *FPL's distribution O&M expense of $294,243,000 (jurisdictional) for the 2017 Test Year is appropriate.*

Exs. 28 (MFR C-3, C-4), 479

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *FPL's distribution O&M expense of $317,186,000 (jurisdictional) for the 2018 Subsequent Year is appropriate.*

Exs. 29 (MFR C-3, C-4, p. 8, line 7), 479.

**ISSUE 102: Should the Commission approve FPL's proposal to continue the interim storm cost recovery mechanism that was part of the settlement agreements approved in Order Nos. PSC-11-0089-S-EI and PSC-13-0023-S-EI?**

FPL: *Yes. While the Company continues to believe that the best practice is to contribute to a storm reserve on an on-going basis, FPL requested to continue the storm cost recovery mechanism that was approved in the 2010 Rate Settlement and continued by the 2012 Rate Settlement. The single witness who opposed FPL's request fails to recognize the danger inherent in a $0 storm reserve and no cost recovery mechanism.*

See Brief Section XVI; Tr. 2477-79, 5942-47 (Dewhurst).

**ISSUE 103: What is the appropriate annual storm damage accrual and storm damage reserve**

**A. For the 2017 projected test year?**

FPL: *FPL has not requested an annual storm damage accrual or a target reserve level in this proceeding. FPL is requesting that if FPL incurs storm costs related to a named tropical storm or hurricane, the Company may begin collecting up to $4 per 1,000 kWh beginning 60 days after filing a petition for recovery.*

Tr. 2477-79 (Dewhurst)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 103.A.*

**ISSUE 104: What is the appropriate amount of Other Post Employment Benefits expense**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of Other Post Employment Benefits Expense, excluding amounts forecasted to be included in capital expenditures and charged to affiliates for the 2017 Test Year is $8,307,000 (jurisdictional).*

Tr. 1935-37, 1943-45 (Slattery); Exs. 28-29 (MFR C-35), 401, 474

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate amount of Other Post Employment Benefits Expense, excluding amounts forecasted to be included in capital expenditures and charged to affiliates for the 2018 Subsequent Year is $8,389,000 (jurisdictional).*

Tr. 1935-37, 1943-45 (Slattery); Exs. 28-29 (MFR C-35), 401, 474

**ISSUE 105: What is the appropriate amount of FPL's requested level of Salaries and Employee Benefits**

**A. For the 2017 projected test year?**

FPL: *The entirety of FPL's 2017 and 2018 Salaries and Employee Benefits expenses are appropriate. The reasonableness of FPL's salary and benefit expense was demonstrated in a number of ways, including comparisons to the relevant market, a comparison of FPL's salary cost efficiency to those of other utilities, and the relative value of benefits programs to other utility and general industry companies. OPC's recommendations are flawed and should be rejected.*

See Brief Section XII.B; Tr. 1921-45, 1949-52, 1954, 1989-90, 2016, 5189-91, 5196-5208, 5214-17 (Slattery); Exs. 28, 29 (MFR C-35), 116-122, 351, 463 (OPC's 4th Int. 139), 474 (OPC's 16th Int. 372, 374), 479 (OPC's 1st POD 2)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 105A.*

**ISSUE 106: What is the appropriate amount of Pension Expense**

**A. For the 2017 projected test year?**

FPL: *As reflected on MFR C-17, the appropriate amount of Pension Cost for the 2017 Test Year is $60,529,000 (total system).*

Ex. 28 (MFR C-17)

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *As reflected on MFR C-17, the appropriate amount of Pension Cost for the 2018 Subsequent Year is $62,555,000 (total system).*

Ex. 29 (MFR C-17)

**ISSUE 106A: Should an adjustment be made to the amount of the Directors and Officers Liability Insurance expense that FPL included in the 2017 and, if applicable, 2018 projected test year(s)?**

FPL: *No. DOL insurance is a reasonable and necessary cost of providing service that should be included in a company's revenue requirements. Recommendations to disallow a portion due to perceived shareholder benefits ignores the customer benefits and violates a basic tenet of regulatory theory; i.e., that all necessary and prudent costs should be allowed to be recovered in rates. Prior Commission decisions have allowed for the recovery of DOL expense in rates.*

Tr. 5949-50 (Dewhurst); Tr. 5789-95, 5835-42 (Deason); Order No. PSC-09-0411-FOF-GU, p. 37, Docket No. 080318-GU; Order No. PSC-09-0283-FOF-EI, p. 64, Docket No. 080317-EI.

**ISSUE 107: What is the appropriate amount and amortization period for Rate Case Expense**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of FPL's total rate case expenses is $4,242,000, and amortization period is four years. This reflects a reduction from the $4,925,000 estimate provided on MFR C-10. Based on the revised amount, the proper amount of amortization for 2017 is $1,060,500.*

Ex. 431. The Company should recover the level of rate case expenses it was reasonably required to incur to adequately present its case, and it should not be penalized for filing a request in accordance with Commission policy. Tr. 4840 (Ousdahl). SFHHA witness Kollen insists that no rate case should be recovered because, according to him, no rate case increase is justified. Tr. 4075 (Kollen). This is not – and should never be – the standard for recovery. Tr. 4840 (Ousdahl). OPC witness Smith seeks disallowance of incremental labor expenses, outside services and certain travel and lodging costs. Tr. 3726 (Smith). But all of these costs are being incurred directly as a result of the rate proceeding. Tr. 4840, 4860 (Ousdahl). OPC's calculation of an overall recovery amount based on the amount FPL was allowed to recover in 2009 ignores that each rate case is developed on the evidence necessary to support the particular request in question. Additionally, witness Smith used a 2009 rate case expense figure that is about $1.5 million lower than the actual figure reported by FPL. Tr. 4841 (Ousdahl). Intervenors were also particularly inquisitive about the $270,000 estimated for a potential rate case-related appeal. While such an appeal remains a possibility, FPL expressly recognized that it will not incur these costs if no such appeal is filed, which would therefore eliminate the need for recovery of such costs. Tr. 4880, 4894-95 (Ousdahl).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *See FPL's position on Issue 107.A.*

**ISSUE 108: What is the appropriate amount of uncollectible expense and bad debt rate**

**A. For the 2017 projected test year?**

FPL: *With the adjustments listed on Exhibit 332, the appropriate amount of uncollectible expense is $6,845,000 for the 2017 Test Year. The appropriate bad debt rate is 0.066% for the 2017 Test Year.*

Exs. 28 (MFR C-11), 332. No party presented evidence challenging the amount of uncollectible expense and bad debt rate for the 2017 Test Year.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments listed on Exhibit 332, the appropriate amount of uncollectible expense is $6,992,000 for the 2018 Subsequent Year. The appropriate bad debt rate is 0.066% for the 2018 Subsequent Year.*

Exs. 29 (MFR C-11), 332. No party presented evidence challenging the amount of uncollectible expense and bad debt rate for the 2018 Subsequent Year.

**ISSUE 109: Has FPL included the appropriate amount of costs and savings associated with the AMI smart meters**

**A. For the 2017 projected test year?**

FPL: *Yes. The smart meter deployment has been completed and the appropriate amount of costs and savings associated with smart meters has been reflected in the 2017 Test Year.*

Exs. 475, 501. No party presented evidence challenging the amount of costs and savings associated with smart meters included in the 2017 Test Year.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Yes. See also FPL's position on Issue 109.A.*

Exhibit 475 and 501. No party presented evidence challenging the amount of costs and savings associated with smart meters included in the 2018 Subsequent Year.

**ISSUE 110: If the proposed change in accounting to defer and amortize the nuclear maintenance reserve is approved, is the company's proposed adjustment to nuclear maintenance expense appropriate?**

FPL: *Yes. The proposed adjustment to nuclear maintenance expense is appropriate.*

Tr. 1671-72 (Ousdahl); Exs. 28 (MFR C-3), 29 (MFR C-3)

**ISSUE 111: What are the appropriate expense accruals for: (1) end of life materials and supplies and 2) last core nuclear fuel**

**A. For the 2017 projected test year?**

FPL: *The appropriate amount of expense accruals for the 2017 Test Year for the EOL M&S and last core nuclear fuel is $1,871,000 and $10,504,000 (jurisdictional), respectively.*

Tr. 1768, 5068-69 (Ferguson); Ex. 112

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *The appropriate amount of expense accruals for the 2018 Subsequent Year for the EOL M&S and last core nuclear fuel is $1,871,000 and $10,505,000 (jurisdictional), respectively.*

Tr. 1768, 5068-69 (Ferguson); Ex. 112

**ISSUE 112: What are the appropriate projected amounts of injuries and damages (I&D) expense accruals**

**A. For the 2017 projected test year?**

FPL: *With the adjustments listed on Exhibit 332, the appropriate amount of Injuries & Damages expense accruals for the 2017 Test Year is $10,065,000 (jurisdictional).*

Tr. 4835-36 (Ousdahl); Ex. 328 (total system).

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments listed on Exhibit 332, the appropriate amount of Injuries & Damages expense accruals for the 2018 Subsequent Year is $11,328,000 (jurisdictional).*

Tr. 4835-36 (Ousdahl); Ex. 328 (total system).

**ISSUE 113: What is the appropriate level of O&M Expense (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of O&M Expense is $1,348,392,000 (jurisdictional) for the 2017 Test Year.*

See Brief Section XII; Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of O&M Expense is $1,398,044,000 (jurisdictional) for the 2018 Subsequent Year.*

See Brief Section XII; Ex. 332, p. 7

**ISSUE 114: What is the appropriate amount of depreciation, amortization, and fossil dismantlement expense (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of depreciation and amortization expense is $1,643,740,000 (jurisdictional) for the 2017 Test Year.*

Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Accounting for the adjustments reflected on Exhibit 332, the appropriate amount of depreciation and amortization expense is $1,714,341,000 (jurisdictional adjusted) for the 2018 Subsequent Year.*

Ex. 332, p. 7

**ISSUE 115: What is the appropriate level of Taxes Other Than Income (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Taxes Other Than Income Taxes is $578,106,000 (jurisdictional) for the 2017 Test Year.*

Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Taxes Other Than Income Taxes is $615,358,000 (jurisdictional) for the 2018 Subsequent Year.*

Ex. 332, p. 7

**ISSUE 116: What is the appropriate level of Income Taxes**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Income Taxes is $716,478,000 (jurisdictional) for the 2017 Test Year.*

Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Income Taxes is $653,722,000 (jurisdictional) for the 2018 Subsequent Year.*

Ex. 332, p. 7

**ISSUE 117: What is the appropriate level of (Gain)/Loss on Disposal of utility property**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of (Gain)/Loss on Disposal of Plant is ($5,759,000) (jurisdictional) for the 2017 Test Year.*

Stipulated issue. Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of (Gain)/Loss on Disposal of Plant is ($5,730,000) (jurisdictional) for the 2018 Subsequent Year.*

Ex. 332, p. 7. No party presented evidence challenging FPL's position.

**ISSUE 118: What is the appropriate level of Total Operating Expenses? (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Total Operating Expenses is $4,280,956,000 (jurisdictional) for the 2017 Test Year.*

See Brief Section XII; Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Total Operating Expenses is $4,375,642,000 (jurisdictional) for the 2018 Test Year.*

See Brief Section XII; Ex. 332, p. 7

**ISSUE 119: Is the company's proposed net operating income adjustment to remove Fukushima-related O&M expenses from base rates and recover all Fukushima-related expenses in the capacity cost recovery clause appropriate?**

FPL: *Yes. It is appropriate to remove all Fukushima-related costs from rate base and recover all Fukushima-related costs solely through the CCR Clause. This adjustment will reduce complexity in accounting and ratemaking.*

Tr. 1672-73 (Ousdahl).

**ISSUE 120: What is the appropriate level of Net Operating Income (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Net Operating Income is $1,645,685,000 (jurisdictional) for the 2017 Test Year.*

Ex. 332, p. 3

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate amount of Net Operating Income is $1,596,021,000 (jurisdictional) for the 2018 Subsequent Year.*

Ex. 332, p. 7

## REVENUE REQUIREMENTS

**ISSUE 121: Is the Section 199 Manufacturer's deduction properly reflected in the revenue expansion factor?**

**A. For the 2017 projected test year?**

FPL: *No. The Commission's current process and historical practice requires only an income tax gross up of the ROE in proposed base rates at the statutory income tax rate. Therefore, the Section 199 Manufacturer's deduction does not need to be included in the revenue expansion factor.*

Tr. 4843-44 (Ousdahl). FPL's revenue requirements calculations already provide customers the benefit of its forecasted Section 199 Manufacturer's Deduction pursuant to the Commission precedent and as required by MFR C-44. In fact, FPL provided customers the benefit of the full exclusion of the gas reserves Section 199 detriment, even though the Woodford project will be included in the Company's proforma federal income tax calculation. SFHHA witness Kollen's recommendation to reflect the Section 199 Deduction in FPL's revenue expansion factor should be rejected. Tr. 4843-44 (Ousdahl); Exs. 28 (MFR C-44), 29 (MFR-C44), 331, 332.

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *No. See FPL's position on Issue 121.A.*

**ISSUE 122: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPL**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the revenue expansion factor and net operating income multiplier for the 2017 Test Year is 0.61340.*

Ex. 332, p. 13

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *Accounting for the adjustments reflected on Exhibit 332, the revenue expansion factor and net operating income multiplier for the 2018 subsequent projected test year is 1.63025.*

Ex. 332, p. 13

**ISSUE 123: What is the appropriate annual operating revenue increase or decrease (Fallout Issue)**

**A. For the 2017 projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate annual operating revenue increase is $826,212,000 for the 2017 Test Year.*

Ex. 332, p. 1

**B. If applicable, for the 2018 subsequent projected test year?**

FPL: *With the adjustments reflected on Exhibit 332, the appropriate annual operating revenue increase is $269,634,000 for the 2018 Subsequent Year.*

Ex. 332, p. 5

**OKEECHOBEE LIMITED SCOPE ADJUSTMENT**

**ISSUE 124: Should the Commission approve or deny a limited scope adjustment for the new Okeechobee Energy Center? And if approved, what conditions/ adjustments, if any should be included?**

FPL: *Yes. The Commission should approve the Okeechobee LSA. The LSA will be limited to revenue requirements based on cost estimates approved by the

Commission in Order 16-0032 and will be trued up if actual construction costs are lower. The LSA will synch-up with the fuel savings that commence when the unit goes into service, and it cannot cause FPL to earn more than the approved ROE mid-point.*

See Brief Section XIV; Tr. 4580 (Barrett)

**ISSUE 125: Has FPL proven any financial need for single-issue rate relief in 2019, based upon only the additional costs associated with the Okeechobee generating unit, and with no offset for anticipated load and revenue growth forecasted to occur in 2019?**

FPL: *Yes. Limited proceedings, authorized in Section 366.076(1), Florida Statutes and implemented in Commission Rule 25-6.0431, are intended precisely to address a single issue such as the Okeechobee LSA. The LSA deals with the single issue of appropriately matching the revenue collected with the underlying revenue requirements associated with the new power plant. Further, the LSA will synch-up those revenue requirements with the offsetting fuel savings generated by the plant.*

See Brief Section XIV; Tr. 4579 (Barrett)

**ISSUE 126: What are the appropriate depreciation rates for the Okeechobee Energy Center?**

FPL: *The appropriate composite depreciation rate for the Okeechobee Unit is 3.62%. This rate properly reflects the effect of interim retirements, which can reasonably be expected as components are replaced for reliable and efficient plant operation.*

See Brief Sections VIII and XIV; Tr. 1773 (Ferguson); Exs. 331 (Attachment 2), 767 (Section IV.E)

**ISSUE 127: What is the appropriate treatment for deferred income taxes associated with the Okeechobee Energy Center?**

FPL: *The appropriate treatment of deferred income taxes in the 2019 Okeechobee LSA is a reduction to rate base. FPL has properly taken bonus depreciation into account in its calculation of the rate base reduction.*

See Brief Section XIV; Tr. 4829-31 (Ousdahl)

**ISSUE 128: Is FPL's requested rate base of $1,063,315,000 for the new Okeechobee Energy Center appropriate?**

FPL: *As reflected on Exhibit 332, FPL's requested rate base for the Okeechobee Unit is $1,063,210,000. This amount properly reflects the plant in service estimate approved in Order 16-0032, less depreciation and deferred income taxes.*

See Brief Section XIV; Ex. 332, p. 10.

**ISSUE 129: What is the appropriate weighted average cost of capital, including the proper components, amounts and cost rates associated with the capital structure, to calculate the limited scope adjustment for the new Okeechobee Energy Center?**

FPL: *As reflected on Exhibit 332, the appropriate WACC to calculate the Okeechobee LSA is 8.85%. This consists of long-term debt at a cost rate of 4.80% and common equity at a cost rate of 11.50%.*

See Brief Section XIV; Ex. 332, p. 12

**ISSUE 130: Is FPL's requested net operating loss of $33.868 million for the new Okeechobee Energy Center appropriate?**

FPL: *FPL's requested net operating loss for the Okeechobee Unit is $33,998,000.*

Ex. 332, p. 11

**ISSUE 131: What is the appropriate Net Operating Income Multiplier for the new Okeechobee Energy Center? (Fallout)**

FPL: *The appropriate Net Operating Income Multiplier for the Okeechobee Unit is 1.63025.*

See Brief Section XIV; Ex. 332, p. 13

**ISSUE 132: Is FPL's requested limited scope adjustment of $209 million for the new Okeechobee Energy Center appropriate?**

FPL: *Yes. FPL's requested Okeechobee LSA in the amount of $208,771,000 is appropriate.*

See Brief Section XIV; Ex. 332, p. 9

**ISSUE 133: What is the appropriate effective date for implementing FPL's limited scope adjustment for the new Okeechobee Energy Center?**

FPL: *The appropriate effective date for implementing the Okeechobee LSA is concurrent with the in-service date of the Okeechobee Unit, currently scheduled for June 1, 2019. This will allow rates under the LSA to coincide with the commencement of fuel savings resulting from the plant's operation.*

See Brief Section XIV; Tr. 2801-02, 2821-24 (Cohen); Ex. 142

## ASSET OPTIMIZATION INCENTIVE MECHANISM

**ISSUE 134: Should the asset optimization incentive mechanism as proposed by FPL be approved?**

FPL: *Yes. The asset optimization incentive mechanism has successfully delivered additional value for FPL's customers by allowing FPL to share in the benefits when customer-value thresholds are achieved. FPL's proposed modifications to the customer-value threshold and variable power plant O&M recovery will update the incentive mechanism to reflect current conditions. Continuing the incentive mechanism as modified will appropriately incent FPL to continue identifying and acting upon opportunities for gains that create substantial value for customers.*

See Brief Section XVII; Tr. 2057-59, 2062-63, 2073, 4684, 4696, 4699-4700 (Forrest); 4908, 4912, 4921 (Kennedy); Ex. 123

## COST OF SERVICE AND RATE DESIGN ISSUES

**ISSUE 135: Is FPL's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?**

FPL: *Yes, with the adjustments listed on Exhibit 332, the jurisdictional separation of costs and revenues between the wholesale and retail jurisdictions filed by FPL is appropriate. The factors were developed consistent with Commission guidance in prior rate cases, the instructions provided in MFR E-1 and with the method used in the Company's clause adjustment filings and surveillance reports.*

Tr. 2910-11, 2919-21 (Deaton); Ex. 28 (MFR E-10, Attachment 1)

**ISSUE 136: What is the appropriate methodology to allocate production costs to the rate classes?**

FPL: *The appropriate production plant allocation method is 12CP and 25%, which reflects how FPL's generation is planned and operated. FPL has installed a significant amount of generation that costs more to construct but less to operate than peaking generation, resulting in significant fuel savings. The Commission has previously approved increasing the level of production plant costs allocated based on energy to reflect the levels of plant installed that reduce fuel costs.*

See Brief Section XV.A; Tr. 2924-28, 5386-95 (Deaton); Ex. 391

**ISSUE 137: What is the appropriate methodology to allocate transmission costs to the rate classes?**

FPL: *FPL's 12 CP method is the appropriate method for allocating transmission costs to rate classes. The 12 CP method reflects FPL's transmission planning criteria and is consistent with that approved by the other Florida IOUs.*

Tr. 2910, 2926-27 (Deaton)

**ISSUE 138: What is the appropriate methodology to allocate distribution costs to the rate classes?**

FPL: *The appropriate method to allocate distribution plant costs is that filed by FPL. The Commission has consistently rejected the use of the MDS method for IOU utilities (with the exception of the use of MDS as part of a settlement). The MDS method is inconsistent with FPL's distribution planning and would increase the costs to residential and small commercial customers.*

See Brief Section XV.A; Tr. 5385-87, 5401-10, 5480-82 (Deaton); Ex. 395

**ISSUE 139: Is FPL's proposal to recover a portion of fixed distribution costs through the customer charge instead of energy charge appropriate for residential and general service non-demand rate classes?**

FPL: *Yes. FPL's proposal is a modest step in aligning fixed costs with fixed cost recovery while minimizing bill impacts. Approximately 83% and 81% of FPL's residential and general services charges, respectively, are made up of demand-related costs that are currently recovered through a variable energy charge. The proposal to increase the customer charge by $2.00 represents approximately 10% of the fixed distribution costs being recovered through the energy charge.*

Tr. 2815-16, 2843-45 (Cohen); Ex. 407 (Staff's 9th Int. 220-21)

**ISSUE 140: How should the change in revenue requirement be allocated to the customer classes?**

FPL: *The increase should be allocated as shown in MFR E-8. FPL followed Commission guidance and limited revenue increases to each class to no more than 150% of the system average in total including clauses. The result is all classes are moved closer to parity to the greatest extent practical.*

See Brief Section XV.B; Tr. 2811-12, 5302-10 (Cohen); Ex. 28 (MFR E-8)

**ISSUE 141: What are the appropriate service charges (initial connection, reconnect for nonpayment, connection of existing account, field collection)**

**A. Effective January 1, 2017?**

FPL: *The appropriate service charges effective January 1, 2017 and January 1, 2018 are those shown in MFR E-13b.*

Tr. 2812-13 (Cohen); Exs. 28 (MFR E-7 and E-13b), 407 (Staff's 9th Int. 212, 216)

**B. Effective January 1, 2018?**

FPL: *The appropriate service charges effective January 1, 2017 and January 1, 2018 are those shown in MFR E-13b.*

Tr. 2812-13 (Cohen); Ex. 29 (MFR E-7 and E-13b)

**ISSUE 142: Is FPL's proposed new meter tampering penalty charge, effective on January 1, 2017, appropriate?**

FPL: *Yes. Tampering with electrical meters is dangerous and energy theft increases the cost to all our customers. This penalty is intended to be an additional deterrent for meter tampering and the theft of electricity. Other Florida utilities impose similar penalties/fees.*

Tr. 2813 (Cohen); Exs. 28 (MFR E-7 and E-13b), 407 (Staff's 9th Int. 217-18), 416 (Staff's 19th Int. 314)

**ISSUE 143: What are the appropriate temporary construction service charges**

**A. Effective January 1, 2017?**

FPL: *The appropriate temporary/construction service charges for 2017 overhead ($367.48) and underground ($209.02) are those shown in MFR E-7.*

Tr. 2813 (Cohen); Ex. 28 (MFR E-7)

**B. Effective January 1, 2018?**

FPL: *The appropriate temporary/construction service charges for 2018 overhead ($376.34) and underground ($215.24) are those shown in MFR E-7 (2018 SYA).*

Tr. 2813; Ex. 29 (MFR E-7)

**ISSUE 144: What is the appropriate monthly kilowatt credit for customers who own their own transformers pursuant to the Transformation Rider**

**A. Effective January 1, 2017?**

FPL: *Effective January 1, 2017, the appropriate monthly transformer credit is calculated to be $0.24 per kW as reflected in Exhibit 331.*

Exs. 331, 332

**B. Effective January 1, 2018?**

FPL: *Effective January 1, 2018, the appropriate monthly transformer credit is calculated to be $0.24 per kW as reflected on 2018 Subsequent Year MFR E-14 Attachment 2 of 6, page 36 of 42.*

Ex. 29 (MFR E-14 Attachment 2 of 6, p. 36 of 42)

**ISSUE 145: What is the appropriate monthly credit for Commercial/Industrial Demand Reduction (CDR) Rider customers effective January 1, 2017?**

FPL: *The appropriate monthly credit for Commercial/Industrial Demand Reduction (CDR) Rider is shown in 2017 Test Year MFR A-3. As explained in FPL's position for Issue 150, the CDR credit should be reset to pre-settlement levels, adjusted for base rate increases for the Canaveral, Riviera, and Port Everglades modernizations.*

See Brief Section XV.C; Tr. 2815-16, 2824, 5301, 5306-09, 5319-21 (Cohen); 5349-50, 5354, 5358-59, 5368-69 (Koch); Ex. 28 (MFRs A-3, E-13c)

**ISSUE 146: What are the appropriate customer charges**

**A. Effective January 1, 2017?**

FPL: *The appropriate customer charges are those shown in 2017 Test Year MFR A-3.*

See Brief Section XV.B; Tr. 2815-16, 2843-45 (Cohen); Exs. 28 (MFR A-3), 142, 407 (Staff's 9th Int. 220-21)

**B. Effective January 1, 2018?**

FPL: *The appropriate customer charges are those shown in MFR A-3 (2018 SYA).*

See Brief Section XV.B; Tr. 2815-16, 2843-45 (Cohen); Exs. 29 (MFR A-3), 142, 407 (Staff's 9th Int. 220-21)

**ISSUE 147: What are the appropriate demand charges**

**A. Effective January 1, 2017?**

FPL: *The appropriate demand charges are those shown in 2017 Test Year MFR A-3.*

See Brief Section XV.B; Tr. 5309-5316 (Cohen); Exs. 28 (MFR A-3), 142

**B. Effective January 1, 2018?**

FPL: *The appropriate demand charges are those shown in MFR A-3 (2018 SYA).*

See Brief Section XV.B; Tr. 5309-16 (Cohen); Exs. 29 (MFR A-3), 142

**ISSUE 148: What are the appropriate energy charges**

**A. Effective January 1, 2017?**

FPL: *The appropriate energy charges are those shown in 2017 Test Year MFR A-3.*

See Brief Section XV.B; Exs. 28 (MFR A-3), 142

**B. Effective January 1, 2018?**

FPL: *The appropriate energy charges are those shown in MFR A-3 (2018 SYA).*

See Brief Section XV.B; Exs. 29 (MFR A-3), 142

**ISSUE 149: What are the appropriate charges for the Standby and Supplemental Services (SST-1, ISST-1) rate schedules**

**A. Effective January 1, 2017?**

FPL: *The appropriate charges for the SST-1 and ISST-1 rate schedules are those shown in Exhibit 142. The tariff sheets showing the charges are contained in 2017 Test Year MFR E-14, Attachment 1.*

Tr. 5411 (Cohen); Exs. 28 (MFR E-14, Attachment 1), 142

**B. Effective January 1, 2018?**

FPL: *The appropriate charges for the SST-1 and ISST-1 rate schedules are those shown in Exhibit 142. The tariff sheets showing the charges are contained in 2018 Subsequent Year MFR E-14, Attachment 1.*

Tr. 5411 (Cohen); Exs. 29 (MFR E-14, Attachment 1), 142

**ISSUE 150: What are the appropriate charges for the Commercial Industrial Load Control (CILC) rate schedule**

**A. Effective January 1, 2017?**

FPL: *The appropriate charges for the CILC rate schedule are those shown in tariff sheets 2017 Test Year MFR Schedule E-14, Attachment 1. The CILC and the CDR Rider credits are appropriately reset to pre-settlement levels, with

adjustments to reflect base rate adjustments associated with the Canaveral, Riviera and Port Everglades modernizations. It would not be appropriate or fair to other customers to continue the current level of CILC/CDR credits beyond 2016; customers receiving CILC/CDR credits already pay rates well below their cost of service. The Commission should reject requests to retain the current level of credits which were part of a negotiated multi-faceted settlement; inherent in such a request is an attempt to have the Commission substantively consider and approve the credits outside of a DSM proceeding, in conflict with the Commission's two-step process of assessing the appropriate level of incentives as part of the DSM goal-setting and plan-approval dockets.*

See Brief, Section XV.C; Tr. 2815-16, 2824, 5301, 5306-09, 5319-21 (Cohen), 5349-50, 5354, 5358-60, 5368-69 (Koch); Exs. 28 (MFR E-14, Attachment 1); 142

**B. Effective January 1, 2018?**

FPL: *The appropriate charges for the Commercial/Industrial Load Control (CILC) rate schedule are those shown in tariff sheets included in the 2018 Subsequent Year MFR E-14, Attachment 1 (Ex. 29). See also FPL's position on Issue 150.A.*

**ISSUE 151: What are the appropriate lighting rate charges**

**A. Effective January 1, 2017?**

FPL: *The appropriate lighting rate schedule charges are those presented in the 2017 Test Year MFR A-3 and in the tariff sheets provided in the 2017 Test Year MFR E-14, Attachment 1 of FPL's filing.*

Exs. 28 (MFRs A-3 and E-14, Attachment 1), 142

**B. Effective January 1, 2018?**

FPL: *The appropriate lighting rate schedule charges are those presented 2018 Subsequent Year MFR A-3 and in the tariff sheets provided in the 2018 Subsequent Year MFR E-14, Attachment 1 of FPL's filing, except for the underground conductors charge as noted in Item 3 of FPL's First Notice of Identified Adjustments, Exhibit 331.*

Exs. 29 (MFRs A-3 and MFR E-14, Attachment 1), 142, 332

**ISSUE 152: Is FPL's proposal to close the customer-owned street lighting service option of the Street Lighting (SL-1) rate schedule to new customers appropriate?**

FPL: *Yes. As explained in FPL witness Cohen's direct testimony, over time lighting customers have changed facilities and added equipment without notifying FPL

which has resulted in billings becoming less accurate for the provision of service. Replacing this service option with a metered rate will address accuracy of billing and improve the service to customers.*

Tr. 2816-20 (Cohen); Exs. 28 (MFRs A-3 and E-14, Attachment 1), 29 (MFRs A-3 and E-14, Attachment 1), 142

**ISSUE 153: Is FPL's proposal to close the current Traffic Signal (SL-2) rate schedule to new customers appropriate?**

FPL: *Yes. Over time, traffic signal customers have changed facilities and added equipment without notifying FPL which has resulted in reduced billing accuracy. Replacing this service option with a metered rate will address accuracy of billing and improve the service to customers.*

Tr. 2816-17 (Cohen); Exs. 28 (MFRs A-3 and MFR E-14, Attachment 1), 29 (MFRs A-3 and E-14, Attachment 1), 142

**ISSUE 154: Is FPL's proposed new metered Street Lighting (SL-1M) rate schedule appropriate and what are the appropriate charges**

**A. Effective January 1, 2017?**

FPL: *Yes. As explained in FPL's position for Issue 152, replacing the current lighting option with a metered rate for lighting customers will ensure accuracy of billing and improve service. The appropriate metered SL-1M rate schedule charges are those presented in the tariff sheets provided in MFR E-14, Attachment 1.*

Tr. 2817-18 (Cohen); Exs. 28 (MFR E-14, Attachment 1), 142

**B. Effective January 1, 2018?**

FPL: *Yes. The appropriate metered SL-1M rate schedule charges are those presented in the tariff sheets provided in 2018 Subsequent Year MFR E-14, Attachment 1. See also FPL's position on Issues 152 and 154.A.*

Tr. 2817-18 (Cohen); Exs. 28 (MFR E-14, Attachment 1), 142

**ISSUE 155: Is FPL's proposed new metered Traffic Signal (SL-2M) rate schedule appropriate and what are the appropriate charges**

**A. Effective January 1, 2017?**

FPL: *Yes. Replacing the current lighting option with a metered rate for traffic signal customers will ensure accuracy of billing and improve service. The appropriate

SL-2M rate schedule charges are those presented in the tariff sheets provided in 2017 Test Year MFR E-14, Attachment 1. See also FPL's position on Issue 152.*

Tr. 2817-18 (Cohen); Exs. 28 (MFR E-14, Attachment 1), 142

**B. Effective January 1, 2018?**

FPL: *Yes. The appropriate SL-2M rate schedule charges are those presented in the tariff sheets provided in 2018 Subsequent Year MFR E-14, Attachment 1. See also FPL's position on Issues 152 and 155.A.*

Tr. 2817-18 (Cohen); Exs. 28 (MFR E-14, Attachment 1), 142

**ISSUE 156: Is FPL's proposed allocation and rate design for the new Okeechobee Energy Center limited scope adjustment, currently scheduled for June 1, 2019, reasonable?**

FPL: *Yes. FPL's proposed allocation for the Okeechobee LSA is reasonable. At the time of the Okeechobee Unit's in-service date, base charges, non-clause recoverable credits and CDR credits will be adjusted by an equal percentage and new fuel factors will be calculated to incorporate fuel savings. This is consistent with the methodology utilized for the recovery of costs of the Riviera Beach and the Port Everglades Plants.*

Tr. 2801-02, 2821-24 (Cohen); Ex. 142

**ISSUE 157: Should FPL's proposal to file updated base rates in the 2018 Capacity Clause proceeding to recover the Okeechobee Energy Center limited scope adjustment be approved?**

FPL: *Yes. FPL's proposal is consistent with the cost-recovery methodology utilized by FPL for previous adjustments related to the Riviera Beach and Port Everglades Plants that were part of FPL's Commission-approved 2012 Rate Settlement.*

Tr. 2801-02, 2821-24 (Cohen); Ex. 142

**ISSUE 158: Should the Commission approve the following modifications to tariff terms and conditions that have been proposed by FPL:**

**Close relamping option for customer-owned lights for Street Lighting (SL-1) and Outdoor Lighting (OL-1) customers;**

FPL: *Yes. The relamping option should be closed for customer-owned lights for Street Lighting (SL-1) and Outdoor Lighting (OL-1) customers.*

**Add a willful damage clause, require an active house account and clarify where outdoor lights can be installed for the Outdoor Lighting (OL-1) tariff;**

FPL: *Yes. A willful damage clause should be added, an active house account should be required and where outdoor lights can be installed should be clarified for the Outdoor Lighting (OL-1) tariff.*

**Clarify the tariff application to pre-1992 parking lot customers and eliminate the word "patrol" from the services provided on the Street Lighting (SL-1) tariff;**

FPL: *Yes. For the reasons outlined in witness Cohen's testimony, a clarification of the tariff application to pre-1992 parking lot customers and the elimination of the word "patrol" from the services provided on the Street Lighting (SL-1) tariff should be approved.*

**Remove the minimum 2,000 kW demand from transmission–level tariffs;**

FPL: *Yes. For the reasons outlined in witness Cohen's testimony, the minimum 2,000 kW demand for transmission–level tariffs should be removed.*

**Standardize the language in the Service section of the distribution level tariffs to include three phase service and clarify that standard service is distribution level; and**

FPL: *Yes. For the reasons outlined in witness Cohen's testimony, the language in the Service section of the distribution level tariffs should be standardized to include three phase service and clarify that standard service is distribution level.*

**Add language to provide that surety bonds must remain in effect to ensure payments for electric service in the event of bankruptcy or other insolvency.**

FPL: *Yes. For the reasons outlined in witness Cohen's testimony, language should be added to provide that surety bonds must remain in effect to ensure payments for electric service in the event of bankruptcy or other insolvency.*

Tr. 2818-21 (Cohen). No party presented evidence challenging these tariff modifications.

**ISSUE 159: Should the Commission require FPL to develop a tariff for a distribution substation level of service for qualifying customers?**

FPL: *No. As explained in witness Cohen's rebuttal testimony, FPL already offers customers two options that allow qualifying customers to take service under transmission rates and avoid all distribution costs, other than their share of substation costs. A new tariff would require FPL to incur significant costs to serve only a few, if any customers.*

Tr. 5322-24 (Cohen); Exs. 388, 438 (Staff's 41st Int. 476)

**ISSUE 160: Should the Commission give staff administrative authority to approve tariffs reflecting Commission approved rates and charges effective January 1, 2017, January 1, 2018, and tariffs reflecting the commercial operation of the new Okeechobee Energy Center (June 1, 2019)?**

FPL: *The Commission should approve tariffs reflecting the approved rates and charges effective January 1, 2017, January 1, 2018 and tariffs reflecting the commercial operation of the Okeechobee Unit. The Commission should direct staff to verify that the revised tariffs are consistent with the its decision.*

**ISSUE 161: What are the effective dates of FPL's proposed rates and charges?**

FPL: *The effective dates for FPL's proposed rates and charges are as follows: Test Year: January 1, 2017; Subsequent Year: January 1, 2018; Okeechobee LSA: In-service date of the unit, currently projected as June 1, 2019.*

See Brief Section II

**OTHER ISSUES**

**ISSUE 162: Should the Commission approve FPL's proposal to transfer the Martin-Riviera pipeline lateral to Florida Southeast Connection (FSC)?**

FPL: *Yes. The Commission should approve the transfer of the Martin-Riviera pipeline lateral to Florida Southeast Connection because it would reduce operating risk over the remaining life of the asset and will be pursued only if it provides an economic benefit to customers (CPVRR) versus FPL continuing to own the asset within rate base.*

See Brief Section XIII.A; Tr. 1438, 1539 (Barrett)

**ISSUE 163: What requirements, if any, should the Commission impose on FPL if it approves FPL's proposed transfer of the Martin-Riviera pipeline lateral to Florida Southeast Connection?**

FPL: *FPL will file a petition prior for final approval of the transfer of the MR-RV lateral to FSC in 2017 demonstrating that the transfer remains cost-effective. The petition will also request approval to simultaneously lower base rates and increase fuel clause factors to recover the transportation charges that FPL will pay to FSC for use of the MR-RV lateral pursuant to the transportation agreement.*

See Brief Section XIII.A; Tr. 1438-1440, 1540 (Barrett)

**ISSUE 164: Did FPL's Third Notice of Identified Adjustments remove the appropriate amount associated with the Woodford project and other gas reserve costs?**

FPL: *Yes. FPL's Third Notice of Identified Adjustments (Exhibit 331) removed the appropriate amounts associated with the Woodford project and other gas reserve investments.*

Ex. 331

**ISSUE 165: Should FPL be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?**

FPL: *FPL has no objection to making such a filing.*

**ISSUE 166: Should a mechanism be established to capture for the benefit of ratepayers savings, if any, that result from any mergers, acquisitions or reorganizations by NextEra Energy?**

FPL: *No. A merger savings mechanism intended to flow back savings from future mergers, acquisitions or reorganizations is unnecessary and premature.*

See Brief Section XIII.B; Tr. 1730-34, 4844-46 (Ousdahl)

**ISSUE 167: Should this docket be closed?**

FPL: *Yes.*

Respectfully submitted this 19th day of September, 2016.

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**CERTIFICATE OF SERVICE**
**160021-EI**

**I HEREBY CERTIFY** that a true and correct copy of FPL's Post Hearing Brief and Statement of Issues and Positions has been furnished by electronic mail this 19th day of September 2016, to the following parties:

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