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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Power 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
	Filed: September 19, 2016

AARP'S POST-HEARING BRIEF

AARP[1], pursuant to the official procedural schedule ordered in the above-styled rate case[2] and Rule 28-106.215 of the Florida Administrative Code, and hereby files its Post-Hearing Brief[3], organized by issues as contained in the Prehearing Order[4].

I. Overall Summary

The electric customers of Florida Power & Light Company deserve a significant ***rate reduction***, as evidenced by the competent and substantial testimony and exhibits

[1] AARP was granted intervention in Order No. PSC-16-0180-PCO-EI. AARP is a nonpartisan, nonprofit, nationwide organization that helps people turn their goals and dreams into real possibilities, strengthens communities and fights for the issues that matter most to families such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse. In 1999, the "American Association of Retired Persons" changed its name to simply "AARP", in recognition of the fact that people do not have to be retired to become members. AARP has more than 2.8 million members in the state of Florida, a substantial number of which are residential electric customers served by FPL.
[2] Order No. PSC-16-0211-PCO-EI.
[3] Throughout this brief, Florida Power & Light Company is referred to as "FPL" or the "Company". The Office of Public Counsel is referred to as "Public Counsel". References to the transcript are designated Tr., followed by the page number.
[4] Order No. PSC-16-0341-PCO-EI.

on the record of this proceeding regarding this utility's revenue requirement that has been placed into the record by the Public Counsel and other intervening parties. After adjustments made during the evidentiary hearing, the Public Counsel's 2017 recommendation is for FPL's revenue requirement to be reduced by over $327 million[5] in order to achieve a reasonable level that would most closely reflect the ***forecasted cost of providing electric service*** to FPL's customers in the future. Applied through a proper rate design, this recommendation could lower base rates for large and small electric ratepayers, providing a much needed boost to the Florida economy.

In sharp contrast, FPL has pieced together a massively inflated, multi-year plan of cumulative ***rate increases*** in this proceeding that distorts and distracts from the straightforward evidence regarding the actual cost FPL will incur to provide electric service. Hundreds of pages of FPL testimony, and several days of hearing time, were devoted to an over-the-top promotion of the utility's service as "exceptional", "superior" and "outstanding". Such accolades may or may not be deserved, but they are irrelevant to the central question facing the Florida Public Service Commission: How much should it cost for FPL to efficiently provide safe and reliable electric service at fair, just, and reasonable rates?[6] AARP does not believe that residential consumers should pay any more for essential electric service than is absolutely necessary to provide safe and reliable service. Most households do not have extra money at the end of the month to pad a monopoly with bonus profits.

[5] OPC Exhibit 717.
[6] Section 366.06, Florida Statutes.

FPL's multi-year rate plan that is <u>not</u> supported by credible financial forecast data. If granted, it would burden residential customers with cumulative rate increases of nearly $1.3 billion, or more than 23 percent over the Company's present base rate revenues.[7] The proposed base rate increase for the first year of FPL's plan in 2017 is seriously overstated and should be denied for many reasons, particularly because this plan includes a blatantly excessive return on equity allowance and an unreasonably thick equity capitalization ratio that would fall far outside the norm for regulated utilities. As explained below, FPL's return on equity and capital structure proposals are so excessive that, if approved, they would stand at the extreme end of anti-consumer regulatory decisions nationwide, and likely compel Florida ratepayers to pay to FPL the most overly-generous utility profits allowed anywhere in the entire country.

Beyond 2017, FPL proposes additional "subsequent year" 2018 base rate increases that are similarly overstated by the same excessive capital cost and ratemaking positions taken by the Company for 2017, and that suffers from dependence upon financial data that is even more speculative and which cannot accurately predict FPL's revenue requirement that far into the future.

Even more outrageous is the Company's proposed third layer of base rate increases for 2019, for which no need has been shown, that would charge customers on a piecemeal basis for completion of the Okeechobee generating facility as a "limited scope adjustment" to base rates, while ignoring any other potentially offsetting changes

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[7]The Commission should be mindful of the fact that FPL customers also remain exposed to potentially very large additional future bill increases, when and if natural gas market prices rebound from the historically low levels now being enjoyed, because of the FPL's large exposure to natural gas as a generation fuel. Testimony of AARP witness Michael Brosch, pp. 5, 8.

to revenue, expense and investment levels that may occur in 2019. Among the beneficial changes that would be denied to consumers, when electric rates go up a third time, are any corresponding operational savings that could result from the pending proposal of FPL's parent NextEra Energy to acquire the Oncor Electric Delivery Company.[8] FPL would be allowed to pass along significant cost increases, while ignoring future cost savings or sales and revenue growth that, if recognized, would mitigate rate increases for consumers.

AARP witness Michael Brosch testified about the uncertainties inherent in attempting to accurately forecast electric sales volumes, capital market conditions, utility expense levels and rate base investments more than 24 months into the future.[9] These uncertainties, coupled with the unavoidable management bias in developing such ratemaking forecasts, dictates that such speculative forecasts should <u>not</u> be relied upon as support for large utility rate increases stretching into 2018 and beyond. The risks to customers raised by FPL's proposed multi-year rate plan argue against its adoption.[10] The Commission has previously rejected multi-year ratemaking proposals from FPL, as recently as the Company's last litigated Florida rate case, and for the same reasons as described in AARP's expert testimony.

The large revenue increases proposed by FPL in each year of the Company's rate plan are seriously overstated because of the excessive return on equity and equity ratio embedded in FPL's filing.[11] The cost of capital in US financial markets has significantly

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[8] Exhibit 647; Tr. 1638-1646.
[9] Testimony of AARP witness Michael Brosch, pp. 3, 14-29.
[10] <u>Id</u>.
[11] Testimony of AARP witness Michael Brosch, pp. 38-43.

declined since the Commission last awarded FPL a 10.0 percent ROE in Docket No. 080677, the Company's 2009 test year rate case. Recognizing this trend, the ROE levels authorized by regulators for electric utilities across the country have significantly declined since that year. Yet, FPL ignores these trends and inexplicably asserts an entitlement to an <u>increased</u> ROE of 11.0 percent that would be further expanded by a proposed 50 basis point adder for its alleged "performance" relative to its peers. These proposals are unreasonable and should be rejected for all of the reasons stated in the testimony of witness Brosch.

FPL's proposed rate increases are also greatly overstated by the Company's capital structure manipulation, through which NextEra Energy's least risky FPL monopoly utility subsidiary is saddled with an equity ratio of 59 percent, at the same time that the consolidated capitalization of NextEra Energy is only 42 percent.[12] FPL has presented no evidence that the extremely high equity concentrated on FPL's books by its NextEra parent, that greatly expands FPL utility revenue requirements, can be considered cost effective for ratepayers. The Commission should reject this FPL proposal and employ either an industry average equity ratio not exceeding 47 percent or the much lower consolidated equity ratio of NextEra Energy, in place of the equity thick capitalization that is maintained on FPL's books.

Regardless of the Commission's final determination of FPL revenue requirements, AARP supports the utility's class cost of service and rate design proposals, with one notable exception. Even if the overall revenue reduction advocated by Public Counsel is

[12] Testimony of AARP witness Michael Brosch, pp. 43-51.

not approved, there should be no increase to the residential customer charges within the Company's tariff. Important public policy reasons dictate that there should be no change to fixed monthly customer charges.[13] Those reasons include the policy of maintaining customers' control over monthly bills, increasing the affordability of services to low-usage customers, encouraging conservation habits and improved financial payback on energy efficiency investments that are made by FPL's residential customers. Increasing the fixed part of the monthly household electric bill would reduce the reward that consumers experience for engaging in conservation and energy efficient behavior.

II. Discussion of Selected Issues

ISSUE 1: Do the facts of this case support the use of a subsequent test year ending December 31, 2018 to adjust base rates?

AARP: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating offsetting revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

Pre-approving a rate change for FPL based upon a subsequent test year projected more than a year down the road is not necessary or good policy. It is simply not possible to accurately quantify distant future revenue requirements based upon such attenuated estimates. If a subsequent year rate change is implemented, residential ratepayers will suffer the risk of having future rates locked in, even though more accurate and reliable cost information will be available closer to 2018. FPL's multi-year plan is risky for

[13] Testimony of AARP witness Michael Brosch, pp. 56-58.

consumers, unreasonable and unnecessary. AARP urges the Commission to reject any rate changes beyond what is projected for 2017.

AARP witness Brosch explained in his testimony why FPL's proposed multi-year rate plan, with sequential and cumulatively massive base rate increases, is not reasonable.[14] Instead, only a single base rate change should be implemented, based solely upon 2017 test year rate base, operating income and cost of capital findings. The uncertainties inherent in attempting to accurately forecast electric sales volumes, capital market conditions, utility expense levels and rate base investments so far into the future, when coupled with the unavoidable management bias in developing such ratemaking forecasts, dictates that such speculative forecasts <u>not</u> be relied upon as support. The Commission concluded in Docket No. 080677-EL that, "[a]s one reaches farther into the future, predictions and projections of future economic conditions become less certain and more subject to the vagaries of changing variables" while noting that, "[t]he Company's ratepayers deserve a full investigation into the cause of FPL's claimed deterioration of its earnings" in these more distant time periods.[15] These conclusions remain valid today.

<u>ISSUE 2</u>: Has FPL proven any financial need for rate relief in any period subsequent to the projected test period ending December 31, 2017?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

[14] Testimony of AARP witness Michael Brosch, p. 3.
[15] Order No. PSC-10-0153-FOF-EI issued March 17, 2010 in Docket No. 080677-EI at 9-10.

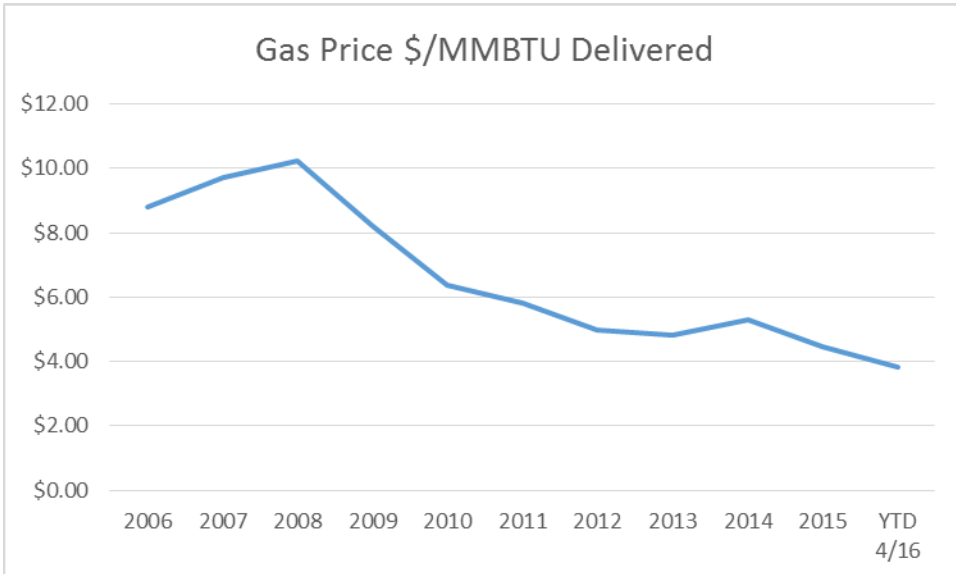
Not only is the evidence of any need for a pre-approved rate increase for year 2017 (and for year 2018) lacking, it would expose consumers to unnecessary risks that their electric bills would be far too high above the cost to provide service in those years.

Incredibly, FPL attempts to characterize its proposed 23 percent, $1.3 billion future multi-year rate plan as beneficial to customers, but does not explain the benefit based upon any reliable estimate of future costs. FPL CEO Mr. Silagy rationalizes large proposed future base rate increases by looking backward and discussing operational and financial results under the prior rate settlement. For example, Mr. Silagy claims, "As described by FPL witness Barrett and other FPL witnesses, the 2012 Rate Settlement has proven to be of significant value for our customers. During the term of this settlement agreement, FPL has been able to continue to improve its already high level of service and operational performance." Mr. Silagy then lists several generation modernization projects, cost reduction, emission reduction and reliability improvement initiatives and concludes, "[t]his was accomplished while keeping typical customer bills among the lowest in the state and the nation."[16]

However, the unspoken reality is that it is really the favorable trends in the cost of natural gas that is responsible for FPL rates being currently low in comparison to other utilities. Gas is the primary fuel consumed by FPL to generate electricity and in 2014 natural gas represented 69 percent of the Company's overall fuel mix.[17] Fortunately, from the perspective of FPL customers, the delivered cost per MMBTU of natural gas

[16] Direct Testimony of Eric Silagy, pages 9-10.
[17] Testimony of AARP witness Michael Brosch, p. 8, referencing FPL responses to Staff Interrogatory No. 140 and AARP Interrogatory No. 28.

consumed by FPL for electric generation has trended dramatically downward since 2008[18]:



Over the same time period, FPL has increased its dependence upon natural gas as a generation fuel source, reducing fuel diversity and increasing the risk to ratepayers that higher future gas prices will amplify the higher bill impacts caused by the Company's proposed large base rate increases. If the 636 million MMBTU of natural gas that was used by FPL for generation fuel in 2015 were priced at the 83.5 cents higher average price incurred just one year earlier, in 2014, the annual cost difference to FPL and ratepayers (via the fuel adjustment surcharge) would exceed $531 million.[19] This is not a recipe for rate "stability" for FPL's residential customers.

FPL should receive no "credit" for historically favorable trends in market natural gas prices. The Commission should also remain aware of the substantial risk of future gas

[18] Testimony of AARP witness Michael Brosch, p. 9.
[19] Testimony of AARP witness Michael Brosch, p. 8, referencing FPL's response to AARP Interrogatory No. 18 shows FPL's average delivered cost of Natural Gas in 2015 was $4.4543/MMBTU, compared to $5.2897/MMBTU in 2014, a reduction of $0.8354. When this difference is applied to 2015 annual gas volumes of 636,277,332 MMBTU, the cost savings impact is $531.5 million.

price volatility that the fuel adjustment mechanism effectively shifts to ratepayers. If higher fuel adjustment clause charges are needed in the future because gas prices return to historical average levels, those fuel charges will become additive to the base rate increases now being sought by FPL, at which time the Company will have less interest in touting trends in customers' typical bills.[20]

Mr. Silagy also claims that a benefit of multi-year rate plans is an improved ability for management to "focus" upon the business to improve service quality and efficiency. However, it is completely unnecessary for electric rates to be established for multiple future years in a single rate case in order for utility management to remain focused upon the need to improve reliability, to maximize operational efficiency, to comply with emission regulations and to control costs. Utility management is responsible for these core utility business responsibilities without regard to how or when electric rates are established.

Hypothetically, if electric rates were tightly constrained for multiple years within a rate plan that was carefully designed to impose "stretch" financial goals upon the utility, it could be argued that efficiency incentives are improved.[21] However, during FPL's current rate plan that expires after 2016, the Base Rate levels and other additional rate relief approved in Order No. PSC-13-0023-S-EI clearly did not involve "stretch" goals.[22] Instead, forecasted non-fuel O&M expenses and capital costs were seriously overstated by FPL in its filing in Docket No. 120015, relative to actual costs in subsequent years. Additionally, FPL's large incremental investments in modernization of the Cape Canaveral, Riviera Beach and Port Everglades plants were not completed by FPL without

[20] Testimony of AARP witness Michael Brosch, p. 11.
[21] Testimony of AARP witness Michael Brosch, pp. 11-12.
[22] Testimony of AARP witness Michael Brosch, p. 12.

incremental rate relief through three additional generation base rate adjustment ("GBRA") rate increases, all at additional expense to ratepayers.[23]

While the FPL rate plan that expires at the end of 2016 has not been particularly good for consumers, it has clearly been very beneficial to FPL and to NextEra shareholders. The expiring rate plan has produced sustained, exceptionally strong financial performance in every year 2013 through 2016 for the Company and its shareholders. According to MFR Schedule D-7, FPL has experienced persistently strong earned returns on average book equity and steadily increasing interest coverage ratios, which have contributed to reported growth in earnings per share and the market value of the common shares of NextEra Energy, Inc. In fact, FPL's shareholders have not experienced <u>any</u> periods of inadequate returns in the past decade, under the Commission's rate orders or the multi-year rate plans.[24] FPL's actual return on average common equity for the past decade (years 2006 through 2015) has exceeded 10.0% in every one of the last ten years, including each of the recession years starting in late 2008. Most recently, FPL earned 11.5% returns on equity in both years 2014 and 2015.[25]

Such persistently high returns are virtually unheard of in the realm of regulated utilities, where throughout the Country authorized and earned returns have trended down to single digits as they track declining interest rates. Unfortunately, the financial rewards achieved by FPL and NextEra shareholders over the past decade have not resulted from management cost controls, but instead have come largely at the expense of ratepayers, who continued to pay ever higher Base Rate charges to support FPL's financial results,

[23] See Order No. PSC-13-0023-S-EI, page 5.
[24] Testimony of AARP witness Michael Brosch, p. 12.
[25] Testimony of AARP witness Michael Brosch, p. 13, referencing FPL Response to AARP Interrogatory No. 10.

while also absorbing a growing liability for larger future rate base rates as the Company booked amortizations of depreciation reserve balances to further improve FPL recorded earnings.[26]

Dependence upon forecasted data adds considerable complexity to the ratemaking process and should demand much more involvement in rate case audits and the careful testing of forecasting assumptions that drive what level of forecasted costs ratepayers must support. A single future test year can be reasonably tested against recent historical facts and amounts, because changes are more predictable in the near future than the more distant future.[27] For example FPL knows how many employees in each department are required to operate and maintain all the facilities and automated systems that exist today. However, the staffing levels needed next year, in terms of employee headcounts and labor hours, is somewhat less certain, due to continuous changes in installed facilities, new technologies being deployed, weather impacts, variable customer demands, changes in laws and regulations, opportunities for outsourcing work to contractors and the potential for business mergers and reorganizations. In more distant forecast years two or three, much less is known or knowable about the variables impacting the quantity of required labor.

Under cross-examination, FPL cost of capital witness Hevert acknowledged that it is increasingly more difficult to estimate the appropriateness of rate of return recommendations the further in time the estimate is being made.[28] He tries to use this

[26] Testimony of AARP witness Michael Brosch, p. 13, referencing FPL response to AARP Interrogatory No. 71, in which FPL provided calculations showing how return on equity has been increased historically each of the prior years 2010 through 2015, through the recording of negative depreciation expenses that increased earnings in those years, but will increase future rate base and required depreciation recoveries from ratepayers in future years.
[27] Testimony of AARP witness Michael Brosch, p. 17.
[28] Tr. ___________.

uncertainty and risk to argue for a higher allowed return on equity for FPL, since it is asking for decisions based up on several years into the future. This uncertainty actually argues against the adoption of a multi-year rate plan. The risk that consumers will be paying too much is simply too high under a multi-year plan, and the uncertainties added by adoption of a multi-year approach certainly should not be used to justify even higher returns and more excessive profits for the monopoly utility.

Utility management has a tremendous information advantage from which to develop rate case forecasts that employ pessimistic assumptions and inputs, so as to optimize rate levels and reduce the risk of lower future earnings if future actual costs exceed rate case forecasted levels. More importantly, utility management is allowed to create the rate case forecast with a strong profit incentive to pessimistically assume higher future costs and minimal productivity gains. The problems with bias and information asymmetry that are associated with utility forecasts that are used to set rates has been studied by the National Regulatory Research Institute (NRRI) in "Future Test Years: Challenges posed for State Utility Commissions".[29]

These are not hypothetical problems. The Company's past forecasts used in prior rate cases prove the point that FPL's management-developed forecasts are always impacted by the strong fiduciary responsibility to shareholders to maximize the utility's earnings opportunity provided under Commission-approved rates.[30] FPL's forecasted non-fuel O&M expenses were significantly overstated in each of the last two rate case cycles involving 2010 and 2013 test year, by $97 million and $130 million, respectively.

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[29] NRRI Briefing Paper 13-08, July 2013. See excerpts in the testimony of AARP witness Michael Brosch, p. 17-19; The full report is Exhibit 200.
[30] Testimony of AARP witness Michael Brosch, p. 21.

These amounts were calculated by FPL on a ratemaking-adjusted basis and are undisputed in the record.[31]

<u>ISSUE 3</u>: Is FPL's projected subsequent test period of the 12 months ending December 31, 2018, appropriate?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

See the AARP's discussion of FPL's multi-year rate plan on Issues 25 and 26 above.

<u>ISSUE 4</u>: Are FPL's forecasts of Customers, KWH, and KW by Rate Schedule and Revenue Class, for the 2018 projected test year appropriate, if applicable?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

See the AARP's discussion of FPL's multi-year rate plan on Issue 25 and 26 above.

If, however, the Commission does adopt a rate change for a 2018 test year, FPL's NEL energy sales forecast should be rejected as unacceptable for ratemaking purposes, and instead the 2015 TYSP NEL forecast should be adopted, which will increase test year weather-normalized retail delivered energy by 3,896 gigawatt-hours, or 3.5 percent. Likewise, the proposed adjustment will increase subsequent year weather-normalized retail delivered energy by 4,882 gigawatt-hours, or 4.3 percent.[32]

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[31] *Id*, p.20-21.
[32] OPC witness Dismukes testimony, pp. 17-18.

<u>ISSUE 5</u>: 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?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed limited scope 2019 rate increase proposal.

See the AARP's discussion of FPL's multi-year rate plan on Issues 25 and 26 above.

<u>ISSUE 6</u>: Are FPL's projected revenues from sales of electricity by rate class at present rates for the projected 2018 test year appropriate, if applicable?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal, including the sales projections that are included therein.

See the AARP's discussion of FPL's multi-year rate plan on Issues 25, 26, and 27 above.

<u>ISSUE 7</u>: Are FPL's estimated operating and tax expenses, for the projected 2018 subsequent year, sufficiently accurate for purposes of establishing rates, if applicable?

<u>AARP</u>: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

See the AARP's discussion of FPL's multi-year rate plan on Issues 25 and 26 above.

<u>ISSUE 8</u>: 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?

AARP: No. The highly speculative nature of long term financial forecasts, coupled with the inherent bias of utility personnel to overstate costs and risks, while understating revenue growth and productivity gains, supports Commission rejection of FPL's proposed subsequent year 2018 rate increase proposal.

See the AARP's discussion of FPL's multi-year rate plan on Issues 25 and 26 above.

ISSUE 9: What is the appropriate equity ratio to use in the capital structure for ratemaking purposes?

A. For the 2017 projected test year?

AARP: The approved common equity ratio used for ratemaking, on a financial basis excluding deferred taxes, deferred ITC and customer deposits, should not exceed an industry average 47 percent and could employ the much lower actual consolidated equity ratio of NextEra Energy, Inc.

FPL proposes to continue maintaining a very equity "thick" capital structure on its books and has proposed an equity ratio of **59.6 percent** be used to set rates. Equity capital imposes a significantly higher cost rate upon ratepayers than long-term debt or short-term debt. First, common equity capital requires a higher percentage annual return than long-term debt, causing a larger equity ratio to increase the overall weighted average cost of capital. Additionally, equity capital requires a factor-up for income taxes because, unlike debt financing where interest payments are income tax deductible by the utility, the collection of common equity return from ratepayers has no corresponding tax deduction and therefore produces taxable income and income tax expense that amplifies the equity return cost by about 1.6 times the nominal cost.[33]

[33] Testimony of AARP witness Michael Brosch, p. 44; MFR Schedule A-1 applies a "Net Operating Income Multiplier" of 1.63024 at line 14 to recognize that additional Net Operating Income for common equity investors requires this factor up for income taxes. MFR Schedule C-44, in turn, depicts the

The Company's equity thick capitalization dramatically inflates the revenues that ratepayers must provide, in order to pay income taxes and provide an 11.5 percent return on so much equity capital. Every dollar of rate base that is supported by investor-supplied capital would require 12.7 cents of pretax return revenues under the Company's cost of capital proposal.[34] In contrast, by remixing the investor-supplied elements of the capital structure to limit the equity ratio to an industry average 47 percent, while leaving FPL's excessive 11.5% ROE recommendation unchanged, the pretax return percentage that ratepayers are required support would be 11.03%.[35]

Using FPL's asserted 2017 test year revenue requirement as an example, if the ratemaking capital structure were limited to a more typical 47 percent weighting of common equity within the financial capital structure used to set rates, holding all else constant in the Company's filing, the resulting revenue requirement in the 2017 test year would decline by approximately $426 million.[36] Forcing ratepayers to pay FPL to maintain such an outrageously high equity ratio is extremely costly and unreasonable. Notably, FPL has provided no empirical evidence or quantitative support to demonstrate its equity-thick capitalization is cost-effective for either the Company or its ratepayers, and the utility has thus failed to meet its burden of proof on this issue.

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development of this factor, revealing that it includes Federal income taxes at a 35% rate, State income tax at 5.5% and a small additional allowance for regulatory assessments and bad debts.

[34] Testimony of AARP witness Michael Brosch, p. 45-46.

[35] Testimony of AARP witness Michael Brosch, p. 46.

[36] Testimony of AARP witness Michael Brosch, p. 47. Rate base for 2017 on MFR Schedule A-1 of $32,536 million, less $7,882 million supported by non-investor supplied capital in MFR Schedule D-1 of ($7,368 Deferred Taxes + $106 ITC + $407 Deposits), yields investor supplied capital of $24,654 million. Reducing the pretax return requirement on this amount of investor-supplied capital from 12.76% to 11.03% (a change of 1.73%) would reduce the revenue requirement by approximately $426 million.

A much more prudent ("balanced") capital structure should be employed for ratemaking purposes to protect consumers. Long term debt capital is much less costly than common equity and the return charged to ratepayers for debt capital is not subject to income taxes, a cost that greatly amplifies the cost of added equity capital.[37] On the other hand, adding higher proportions of debt to the capital structure increases financial risk to the utility, because interest and principal repayment on debt is a fixed obligation that must paid regardless of variations in income. Higher debt "leverage" increases earnings volatility because reported income is reduced by interest expense, in amounts that grow whenever more debt is included in the capitalization of any business. This is why electric utilities generally maintain a balanced capital structure employing equity ratios that generally fall between 45 and 50 percent of total investor-supplied capital.[38]

By any comparison, FPL's proposed ratemaking equity ratio is excessive. According to AUS Monthly Utility Reports June 2016 issue, the average common equity ratio for a sample of 17 large investor owned electric utilities was only 46.1 percent.[39] Similarly, an industry survey published by the Edison Electric Institute, the EEI 2015 Financial Review of Electric Utilities, indicates a composite common equity ratio for the "Regulated" category of the U.S Investor-Owned Electric Utility Industry at 45.7 percent at year-end 2014 and 44.9 percent at year-end 2015.[40] A third source

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[37] Testimony of AARP witness Michael Brosch, p. 47-48.
[38] Testimony of AARP witness Michael Brosch, p. 49.
[39] See AARP Exhibit 202, June 2016 AUS Utility Report, page 6. NextEra Energy is included at a reported common equity ratio of only 40.9 percent that is presented to the investment community on a consolidated basis. However, for ratemaking purposes a much higher 59.6% equity ratio is used for FPL, which has the effect of increasing FPL's revenue requirement.
[40] See AARP Exhibit 201, Edison Electric Institute, 2015 Financial Review, page 14, available at: http://www.eei.org/resourcesandmedia/industrydataanalysis/industryfinancialanalysis/finreview/Documents/FinancialReview_2015.pdf "Regulated" electric utilities are those with greater than 80% of total asset subject to regulation.

of industry data, includes the current balance sheet statistics from Y Charts for 26 of the largest investor-owned electric utilities in North America, showing the average equity ratio for this group to be 46.9 percent.[41]

Even FPL's own cost of capital witness, Mr. Hevert, relies upon a proxy group of electric utilities with an indicated mean "% Common Equity" ratio of about 53 percent for this group, a level significantly below FPL's proposed 59.6 % equity ratio. Notably, Mr. Hevert's selected proxy group includes several outlier utilities with equity ratios above 70 percent and includes no electric utilities with an equity ratio below 45 percent. [42] Previous testimony and a chart showing the equity ratios for other American electric utilities from another FPL witness, Mr. John Reed, also graphical shows how FPL's proposed 59% equity ratio is far out of the mainstream.[43] The Commission should correct this anomaly and no longer burden FPL ratepayers with excessive capital costs that benefit only NextEra shareholders.

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

AARP: The approved common equity ratio used for ratemaking, on a financial basis excluding deferred taxes, deferred ITC and customer deposits, should not exceed an industry average 47 percent and could employ the much lower actual consolidated equity ratio of NextEra Energy, Inc.

See AARP's discussion of Issue 83A above.

ISSUE 10: Should FPL's request for a 50 basis point performance adder to the authorized return on equity be approved?

[41] See AARP Exhibit 203.
[42] See Exhibit 133, RBH-10, page 1.
[43] See Exhibit 588, excerpts from John Reed's testimony before the Texas PUC in Docket No. 38929, pp. 15-16.

AARP: No. FPL shareholders have already been richly rewarded for past performance without adding another layer of prospective rewards for investors. Prospective rewards should be awarded only for prospective performance and the Company has not quantified any specific and unique benefits that FPL will achieve incrementally in each future year to justify charging ratepayers the $119 million per year that this "adder" would contribute to the revenue requirement.

The large base rate increases being proposed by FPL imply that future cost control performance is not forecasted to be sufficient to justify bonus ROE awards at this time. Additionally, incentive compensation for employees is included in FPL's asserted revenue requirement, causing any ROE adder for shareholders to be excessive and redundant to such employee incentive compensation.

It is the responsibility of the management of a regulated monopoly utility to constantly strive for the provision of safe and reliable service at the lowest practical cost, and so there is no need to burden ratepayers with higher rates in the form of a return on equity ("ROE") "bonus" or "booster" for such expected efforts. FPL and NextEra shareholders have been richly rewarded in every year of the past decade with consistently strong earnings under the existing regulatory framework in Florida, without adding another layer of prospective rewards for investors.[44]

Additionally, since FPL has included in its proposed revenue requirement significant costs for incentive compensation that is expected to be awarded to utility employees and management, based upon their anticipated ongoing efforts to improve service quality and efficiency,[45] any further bonus payments to shareholders for the same performance would be redundant.

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[44] Testimony of AARP witness Michael Brosch, p. 51, referencing FPL's response to AARP Interrogatory No. 10 which indicates that FPL's actual return on average common equity from 2006 through 2015 stayed within a narrow range of 10.14% (in 2009) and 12.01% (in 2006) in spite of the major recession years experienced after 2007.

[45] Testimony of AARP witness Mr. Brosch, p. 52, referencing FPL responses to Staff Interrogatories 16-21.

An ROE bonus reward is a blunt instrument that would be very costly to ratepayers. FPL has not shown the proposed bonus to be cost-effective in relation to any specifically extraordinary risks taken or achievements accomplished by the utility. Adding 50 basis points to the ROE would charge ratepayers an extra $119 million annually, based upon the Company's proposed rate base and equity ratio in the 2017 test year.[46] Mr. Dewhurst and Mr. Reed have not quantified specific and unique benefits that FPL could achieve incrementally in *each future year* to justify these extra annual charges to customers. For instance, FPL's rate case forecasts do not include any assumed incremental productivity measures that would reduce future charges to customers as an offset to the return bonus then being collected.

The fact that FPL is proposing large base rate increases in this rate case undermines FPL claims that its cost controls are better than those of an average utility. The primary driver of FPL-proposed rate increases in this rate case is the large amount of capital spending that is planned and forecasted. This is where cost control could be most important to the Company and its ratepayers. The fact that large base rate increases are believed to be required by FPL in each of the next three years is an admission that the Company has limited control over its total cost of service, including capital expenditures and the depreciation of capital assets.[47] As discussed above with regard to claims about FPL's overall rates, FPL management cannot realistically claim credit for the large historical declines in natural gas market prices. Additionally, the Company's fuel adjustment procedures will ensure that electric rates will trend upward in

[46] Testimony of AARP witness Michael Brosch, p. 52-53. The overall ROR at an 11% ROE in 2017 on MFR Schedule D-1 would decline to 6.38%, which would flow through Schedule A-1 and reduce the required net operating income by $73.4 million, then be multiplied by the conversion factor of 1.6x.
[47] Testimony of AARP witness Michael Brosch, p.53.

the future if natural gas generation fuel market prices rebound. The over-reliance on natural gas is not a factor for which FPL should be rewarded.

As a matter of regulatory policy, any prospective ROE awards should be tied directly to future performance that will benefit ratepayers. It is important to note that FPL shareholders will be rewarded prospectively with higher earnings in each instance where future cost reductions are achieved by management, because of regulatory lag and the use of forecasted test years in Florida. Unfortunately, this same reward system also provides a strong incentive for overstatement of rate case test year forecasts, making it difficult to distinguish how much of any improved earnings caused by favorable expense and investment variances relative to forecast levels are the result of management performance or overly pessimistic forecasts.[48]

If, however, an incentive regulation framework is what it is being considered, the Company would need to commit to specific measurable future goals, and then, in order to be fair, the value of any rewards from ratepayers would need to be set in a manner that is carefully calibrated so that the size of each reward was proportionate to the value of the future performance improvement actually achieved. Presumably, such a system would also require that FPL bake into its rate case forecasts the anticipated performance levels for cost reductions, to ensure that ratepayers actually receive the benefits for which rewards are paid.[49]

FPL admitted in response to AARP discovery that no incremental, new productivity measures were included in the utility's rate case forecasts, an alarming admission in the context of a $1.3 billion multi-year rate increase plan based upon such forecasts.[50] In an

[48] Testimony of AARP witness Michael Brosch, pp.54-55.
[49] Testimony of AARP witness Michael Brosch, p.55.
[50] Id., p.27.

effort to remedy this obvious flaw in its rate case forecasts, FPL witness Barrett admitted in rebuttal testimony that only "known and quantifiable" productivity improvements were originally included in its filed forecast amounts and that, upon further review, additional productivity-related new cost reduction amounts "…estimated to be $9.7 million and $7.0 million in 2017 and 2018, respectively" should now be recognized.[51] These token, late-filed adjustments in FPL's rebuttal are no cure for the broader inherent bias and uncertainty associated with dependence upon management-prepared forecasts used to set rates.

It is telling that FPL witness Dewhurst testifies that utility ratepayers should always pay more for good service through a bonus ROE adder, but not receive any relief from higher rates when expected future performance is unremarkable.[52] This is a clearly unbalanced view of how regulation should work, that should be rejected by the Commission.

<u>ISSUE 11</u>: What is the appropriate authorized return on equity (ROE) to use in establishing FPL's revenue requirement:

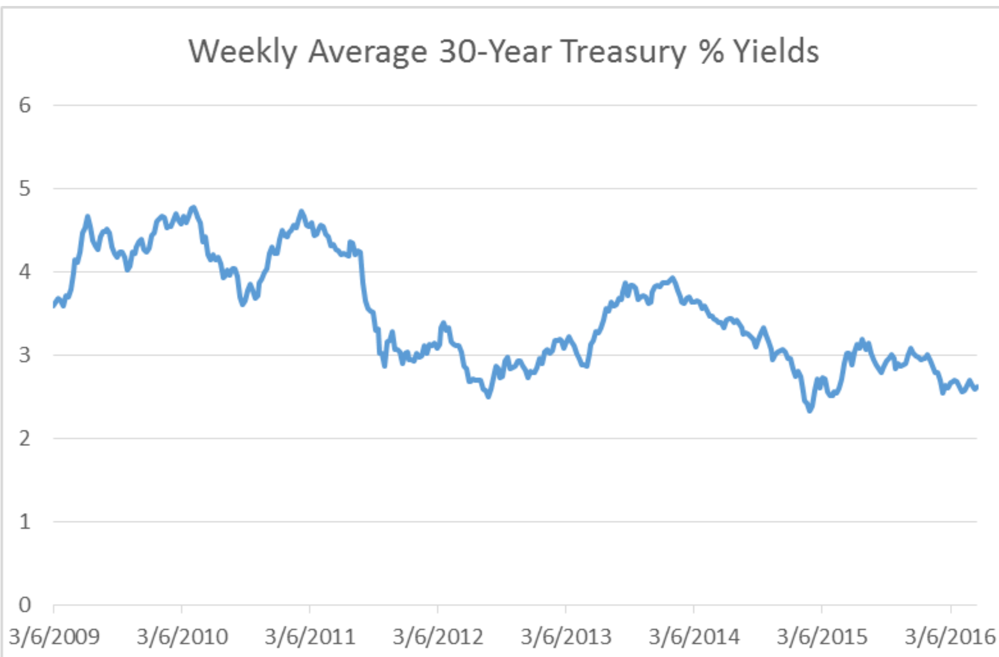
A. For the 2017 projected test year?

<u>AARP</u>: The ROE awarded should be significantly lower than the 10.0 percent last approved by the Commission for FPL in a litigated rate case, using a 2009 test year. Market interest rates have declined materially since 2009. Regulators in other states have recognized these declines by reducing the average level of authorized ROE in rate orders across the Country.

[51] Rebuttal Testimony of Robert E. Barrett, p.12.

[52] Mr. Dewhurst discounts penalty provisions at page 31 of his testimony, stating, "While penalties for deliberately or negligently poor performance may be appropriate in some circumstances, in the vast majority of cases regulated utilities are seeking to provide good value to customers. The practical issue is how to encourage new and different approaches in order to advance the "state of the art" in providing service to customers."

In FPL Docket No. 080677, which employed a projected 2010 test year, this Commission approved an authorized ROE of 10.0 percent.[53] In FPL Docket No. 120015-EI in 2013, the settling parties agreed to an authorized ROE of 10.5 percent that was approved by the Commission.[54] Since 2013, market interest rates, as measured by 30-year U S Treasury bond yields, have dropped precipitously. Long term risk free rates of return, as indicated by the yield on 30-year treasury bonds, are significantly lower in 2016 than the average of such yields in 2010 or in 2013, as illustrated in the following chart containing data from March of 2009 through May of 2016:[55]



The settlement ROE adopted in Docket No. 120015-EI for the 2013 test year was part of a negotiated package of ratemaking provisions. Therefore, the agreed-upon authorized ROE of 10.5% may not have been directly tied to any particular party's analysis of the

53 Order No. PSC-10-0153-FOF-EI, page 132 and Schedule 2. The authorized ROE was unchanged in Order No. PSC-11-0089-S-EI issued February 1, 2011 in Docket No. 080677-EI.
54 Order No. PSC-13-00230S-EI, page 5 and Attachment A, page 2.
55 Testimony of AARP witness Michael Brosch, p.40, referencing a downloaded an article at federalreserve.gov/releases/h15 as weekly "Treasury constant maturities 30-year" as weekly (Friday) information. For the week ended July 1, 2016, the 30-year treasury yield was 2.28%.

cost of equity. However, with regard to the earlier Commission-approved ROE in FPL's last litigated test year 2010 rate case, it is obvious that current risk free capital cost rates are much lower today than when the Commission last received evidence regarding capital costs in Docket No. 080677-EI and determined the Company's cost of equity.[56]

FPL's cost of capital witness himself, Mr. Hevert, relied upon 30-year treasury yield data within his Bond Yield Plus Risk Premium analysis, as an indicator of the risk free cost of capital. Mr. Hevert states, "First, because utility assets represent long-duration investments, I relied on estimates of the 30-year Treasury yield as the risk-free rate component of the CAPM analysis." However, the "estimates" referenced by Mr. Hevert are his future estimates at 4.00 percent in 2017 to 4.80 percent in 2020, which are much higher than recent actual 30-Year treasury yields of well less than 3.0 percent. [57]

In the state of Illinois, the two largest electric utilities, Commonwealth Edison Company and Ameren Illinois Companies, have been allowed annual formula-based rate adjustments, with an updated ROE each year based upon the average 30-year treasury yield for the prior twelve month period, plus 580 basis points (5.80 percent). In the pending cases filed by both utilities, this calculation yields an allowed return on equity of 8.64 percent, which is the sum of average monthly market yield for 30-year Treasury Securities in 2015 of 2.84%, plus 5.80% as the statutory "spread" above the risk free rate of return.[58]

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[56] Order No. PSC-10-0153-FOF-EI issued March 17, 2010. At pages 3 and 4, the Order states that FPL's Petition that initiated the proceeding was filed on March 18, 2009 and that the Technical Hearing was held in Tallahassee on August 24-28 and 31, 2009, September 2-5, 16 and 17, 2009 and October 21-23, 2009.

[57] Direct Testimony of Robert Hevert, page 20; See also Table 3 at page 26; Testimony of AARP witness Michael Brosch, p.41, referencing FPL's response to Staff Interrogatory No. 245.

[58] Testimony of AARP witness Michael Brosch, p.41.

Ordinary residential households served by FPL in Florida have not benefitted from the lower returns required in today's capital markets. The approved 10 percent ROE level in the last litigated FPL rate case has proven with hindsight to be excessive, compared to subsequent favorable trends in the risk free cost of capital in public financial markets. Since late 2009, when the Commission last ruled upon cost of equity evidence in a litigated FPL rate case, the average risk free cost of capital has declined from well above 4 percent to well below 3 percent, a decline of more than 100 basis points. The approved ROE level in the settlement agreed upon in Docket No. 120015-EI was even more excessive, given the continuing downward trend in capital costs that has persisted in recent years.

Public utility commissions in other states have been reducing the allowed ROE levels of electric utilities in recent years to recognize extremely favorable trends in capital market conditions. The comparable average ROE levels authorized for electric utilities throughout the rest of the United States in the past several years has declined, as illustrated at page 1 of the Edison Electric Institute ("EEI") Rate Case Summary – Q1 2016 Financial Update report.[59] This report reveals the generally declining trend in average authorized ROE levels in rate orders that were issued since 2009, with the average authorized ROE across the Country below 10.0 percent in eight out of the last twelve quarters reported.[60] Further amplifying the excessive authorized ROE requested

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[59] AARP Exhibit 201.

[60] See AARP Exhibit 1.4 at page 4. The period Q1 2013 through Q1 2016 includes a range of average authorized ROE levels from a low of 9.4% in Q3 2015 to a high of 10.37% in Q1 2015. The 10.5% cost of equity included in the Settlement of Docket No. 120015-EI that was filed in Q3 2012 exceeded the monthly average ROE levels granted U.S. Investor Owned Electric Utilities in every month reported by EEI since Q1 2012. Notably, the 10.26% average awarded ROE in Q1 2016 in this report is characterized by EEI at page 1 under "HIGHLIGHTS" as "…boosted by a Virginia Electric & Power case that included ROE incentives" as more fully explained on page 5.

by FPL is the Company's extremely high equity ratio included within the ratemaking capital structure (discussed above), that further burdens FPL ratepayers with excessive capital costs.

The Commission should set the allowance for FPL's return on equity going forward at a level that reflects the general trend of declining costs in U.S. capital markets since 2009 in a manner consistent with the general lower recently authorized ROE levels found reasonable for U.S. investor-owned utilities across the country.[61] If FPL is allowed an ROE in the range of 10.5%-11.00%, it will be an extreme outlier, perhaps the highest and most anti-consumer ROE award recently allowed anywhere in the United States. Instead the Commission should strive for a balanced approach to this issue, significantly lower than 10.0%.

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

AARP: AARP does not support multi-year ratemaking for FPL. However, any ROE awarded for 2018 should be significantly lower than the 10.0 percent last approved by the Commission for FPL in a litigated rate case, using a 2009 test year. Market interest rates have declined materially since 2009. Regulators in other states have recognized these declines by reducing the average level of authorized ROE in rate orders across the Country.

See AARP's discussion of Issue 85A above.

ISSUE 12: What is the appropriate weighted average cost of capital to use in establishing FPL's revenue requirement?

A. For the 2017 projected test year?

AARP: The overall cost of capital is derivative from ROE, capital structure, cost of debt and the other elements of regulatory capitalization. See AARP positions above with respect to ROE and equity ratio.

[61] Testimony of AARP witness Michael Brosch, p.43.

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

<u>AARP</u>: AARP does not support multi-year ratemaking for FPL. However, the overall cost of capital is derivative from ROE, capital structure, cost of debt and the other elements of regulatory capitalization. See AARP positions above with respect to ROE and equity ratio.

<u>ISSUE 13</u>: What is the appropriate annual operating revenue increase or decrease (Fallout Issue)?

A. For the 2017 projected test year?

<u>AARP</u>: This issue is derivative from all findings above.

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

<u>AARP</u>: AARP does not support multi-year ratemaking for FPL. However, any revenue requirement for 2018 would be derivative from all findings above, if authorized by the Commission.

In the Company's last litigated base rate case, Docket No. 080677-EI, the Commission's Order, issued on March 17, 2010, stated a policy preference against "back-to-back" rate increases and then rejected the subsequent test year 2011 proposed base rate increase that was proposed by FPL, stating:

> We believe that back-to-back rate increases should be allowed only in extraordinary circumstances. Historically, we have used the test year concept for setting rates. Under this concept, the test year is deemed to be representative of the future, and used to set rates that will allow the utility the opportunity to earn a rate of return within an allowed range. If the test year is truly representative of the future, then the utility should earn a return within the allowed range for at least the first 12 months of new rates.[62]

Moreover, in that same rate case, the Commission properly recognized that generating unit investments should be reasonably considered within traditional

[62] Order No. PSC-IO-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, p. 9.

rate case filings, where costs and revenues can be reviewed “as a whole” rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments:

> According to FPL, we should approve continuation of the GBRA because it is "reasonable, cost-based and sends the appropriate price signals to customers." While the term "cost-based" may accurately describe the GBRA, a rate case proceeding provides more of an opportunity to rigorously review costs and earnings as a whole. Regarding the price signals, we agree that implementation of the GBRA may link reductions in fuel costs to increases in base rates that may occur as a new plant is put in service. However, a traditional base rate proceeding could also be timed (based on the Company's request) to coincide with the in-service date of a new plant, thus achieving the same result. FPL witness Barrett testified that it is possible for the Company to structure the timing of a rate request associated with a new plant so that both the plant's costs and its fuel savings benefits are received by the customer at the same time. FPL witness Pimentel stated that "the reason that we're requesting the GBRA, first and foremost, is as we build generation that's been approved by this Commission in need determinations, we're trying to match the customer savings and fuel efficiency with the actual capital that we are putting into the business." This goal could be achieved within the process of a traditional rate case.
>
> Another of FPL's arguments for the GBRA mechanism was that it has the potential to avoid the need for a rate case. It is not possible for us or interested parties to examine projected costs at the same level of detail during a need determination proceeding as we would be able to do in a traditional rate case proceeding. A need determination examines costs only in comparison to alternative sources of generation. It does not allow for a review of the full scope of costs and earnings, as a rate case does. FPL witness Barrett acknowledged that the GBRA mechanism would be a limited-scope proceeding focused only on the GBRA, and intervenors would not be able to raise other cost issues in such a proceeding. SFHHA witness Kollen also argued against the GBRA because FPL would have the ability to impose a base rate increase for new generation and transmission projects without consideration of other revenues and costs. OPC witness Brown explained that if the GBRA is approved and the economy subsequently recovers, FPL's shareholders may earn greater returns that could be sufficient to cover the cost of new generating units without increasing base rates. According to OPC, having a GBRA mechanism in place would mean FPL would have less incentive to control overall costs. Witness Brown also pointed out that under the GBRA, FPL would essentially be "imposing a surcharge on customers' bills to cover the costs associated with a single component of its overall costs of providing

> service," and we would not have the ability to evaluate whether FPL's existing base rates were sufficient to cover some or all of the costs.[63]

These circumstances noted by the Commission in FPL's last litigated rate case, that caused rejection of GBRA recovery of generating unit costs in isolation, all pertain to the Company's proposed third year 2019 so-called Limited Scope Adjustment rate increase proposal for the Okeechobee Energy Center and dictate its rejection.

Other structural changes to the business environment could impact FPL's future cost of service after 2018 that are not presently known, even though such changes may offset some of the expected Okeechobee project costs.[64] These include the possibility of:

- NextEra mergers or acquisitions, beyond the pending Hawaiian Electric transaction (i.e., NextEra's acquisition of Oncor)[65], that could more broadly spread shared corporate administrative costs that are now born largely by FPL and its ratepayers,
- Changes in corporate tax laws or regulations,
- Refinancing of long term debt at lower cost rates, depending upon future capital market conditions.[66]
- Expanded deployment of technologies that reduce operational costs.

[63] Id., at 14-15.
[64] Testimony of AARP witness Michael Brosch, pp. 33-34.
[65] See Exhibit 647; Tr. 1638-1646.
[66] Testimony of AARP witness Michael Brosch, pp. 33-34. As an historical example, in September 2015, FPL repurchased $400 million of its debt in a transaction that resulted in savings to the Company and its customers, according to FPL's response to AARP Interrogatory No. 72 and POD No. 47. The Company's Treasury Department is responsible for monitoring all outstanding debt to determine whether opportunities to improve the overall funding profile exist.

- Additional distribution and transmission hardening investments that reduce service restoration costs after storm events.[67]
- Continued productivity initiatives, of the types described in FPL testimony.

The point is not that these beneficial changes will fully offset rising costs, but rather that unforeseen future events may have a material impact upon FPL's actual revenue requirement in 2019 and beyond. The Company's proposed limited scope rate increase for only the Okeechobee project costs has assumed away such possibilities, proposing to ignore them in favor of piecemeal, single-issue ratemaking for only selected Okeechobee cost increases in 2019. If Okeechobee costs were instead considered within the context of an overall base rate proceeding, other changes in costs and revenues would not be ignored.

ISSUE 14: 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?

AARP: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

[67] FPL's pending 2016-2018 Storm Hardening Plan Petition states at page 9, paragraph 20, "FPL has estimated that, over an analytical study period of 30 years, the net present value of Restoration Cost Savings per mile of hardened feeder would be approximately 45 percent to 70 percent of the cost to harden that mile of feeder for future major storm frequencies in the range of once every three to five years. Of course, it is possible that FPL will face major storms more frequently than that, as it did in the 2004-2005 hurricane seasons. If that were the case, then the net present value of Restoration Cost Savings likely would exceed the hardening costs."

<u>ISSUE 15</u>: 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?

<u>AARP</u>: No. There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

<u>ISSUE 16</u>: Is FPL's requested rate base of $1,063,315,000 for the new Okeechobee Energy Center appropriate?

<u>AARP</u>: No. No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

<u>ISSUE 17</u>: 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?

<u>AARP</u>: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

ISSUE 18: Is FPL's requested net operating loss of $33.868 million for the new Okeechobee Energy Center appropriate?

AARP: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

ISSUE 19: Is FPL's requested limited scope adjustment of $209 million for the new Okeechobee Energy Center appropriate?

AARP: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

ISSUE 20: What is the appropriate effective date for implementing FPL's limited scope adjustment for the new Okeechobee Energy Center?

AARP: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

See AARP's discussion of Okeechobee in Issue 123 above.

COST OF SERVICE AND RATE DESIGN ISSUES

ISSUE 21: What is the appropriate methodology to allocate production costs to the rate classes?

AARP: AARP supports FPL's methodology on this issue.

Furthermore, while class cost of service studies can be helpful as a guide, but should be tempered with the public policy goals of gradualism and affordability. If any inter-class cost shifts are ordered in this docket, then the extent of those shifts should be constrained by the Commission's practice of ensuring that (1) no class should receive a base rate increase greater than 1.5 times the system average percentage increase in total, and (2) no class should receive a decrease while another class is receiving an increase.

ISSUE 22: What is the appropriate methodology to allocate transmission costs to the rate classes?

AARP: AARP supports FPL's methodology on this issue.

Furthermore, while class cost of service studies can be helpful as a guide, but should be tempered with the public policy goals of gradualism and affordability. If any inter-class cost shifts are ordered in this docket, then the extent of those shifts should be constrained by the Commission's practice of ensuring that (1) no class should receive a base rate increase greater than 1.5 times the system average percentage increase in total, and (2) no class should receive a decrease while another class is receiving an increase.

ISSUE 23: What is the appropriate methodology to allocate distribution costs to the rate classes?

AARP: AARP supports FPL's methodology on this issue.

Furthermore, while class cost of service studies can be helpful as a guide, but should be tempered with the public policy goals of gradualism and affordability. If any inter-class cost shifts are ordered in this docket, then the extent of those shifts should be constrained by the Commission's practice of ensuring that (1) no class should receive a base rate increase greater than 1.5 times the system average percentage increase in total, and (2) no class should receive a decrease while another class is receiving an increase.

<u>ISSUE 24</u>: 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?

<u>AARP</u>: Yes, but ***only*** as to metering and billing expenses. The residential customer charge should not be increased in order to expand the portion of fixed distribution costs recovered therein. Important public policy reasons dictate that there should be no change to fixed monthly customer charges.

There is a current nationwide push by utilities to push costs onto fixed charges that cannot be controlled by consumers. However, important public policy reasons dictate that there should be no change to fixed monthly customer charges, including maintaining customers' control over monthly bills, increasing the affordability of services to low-usage customers, encouragement of conservation habits and improved financial payback on energy efficiency investments that are made by FPL's residential customers. Maintaining the RS-1 Customer Charge at the current level, instead of increasing it by $2.00 is a good public policy, since it allows customers to retain more control over their energy bills through a variable energy charge.

Is it not necessary nor reasonable to recover more of a utility's "fixed costs" to serve residential customers through a "fixed charge" as suggested by FPL witness Ms. Cohen. The distinction between fixed and variable costs are often in the eye of the beholder.

Furthermore, there are important public policy reasons why electric utilities typically do not have very high fixed residential monthly customer charges, even though the majority of the utility's costs other than fuel and purchased energy are relatively fixed and do not vary with kWh consumption levels. Low residential customer charges are desirable as a matter of public policy because they:

1. Increase the degree of control residential customers have over their monthly energy bills, by reducing the fixed charge at zero or minimal energy usage.
2. Improve affordability for low income customers that also have low monthly energy usage levels.
3. Encourage energy conservation habits with larger per-kWh savings rewards.
4. Improve the payback on energy efficiency investments with larger bill savings for each kWh of ongoing reduced energy consumption.

Additionally, for the reasons explained in the testimony of Michael Brosch, it is obvious that FPL's overall asserted rate increase amounts over the next three years have been overstated. If the Commission concludes that the Company's revenue requirement is much smaller than indicated by FPL's filed MFR schedules, there is even less reason to increase monthly residential customer charges.

ISSUE 25: How should the change in revenue requirement be allocated to the customer classes?

AARP: AARP supports FPL's position on this issue.

ISSUE 26: Is FPL's proposed allocation and rate design for the new Okeechobee Energy Center limited scope adjustment, currently scheduled for June 1, 2019, reasonable?

AARP: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

<u>ISSUE 27</u>: 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?

<u>AARP</u>: No piecemeal rate relief for Okeechobee Energy Center should be approved. The Commission has previously found that generating unit investments can be reasonably considered within traditional rate case filings, where costs and revenues can be reviewed "as a whole" rather than on a piecemeal basis, to determine whether rate relief is actually needed at the time of completion of such new investments.

There has been no showing by FPL that the Company's overall cost of service in 2019 will exceed its approved base rate revenue levels at that time, or that additional revenues would be needed in amounts equal to the piecemeal revenue requirement of only the new Okeechobee generation in isolation. The Company has not forecasted or accounted for any changes in its overall revenues and costs after 2018, other than accounting for the direct costs attributable solely to the Okeechobee generation. It is unknown whether revenue growth or changes in capital costs, O&M and rate base will occur after 2019 in amounts that would partially or completely offset any incremental costs of Okeechobee generation.

<u>ISSUE 28</u>: 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)?

<u>AARP</u>: AARP does not support a multi-year approach to rate changes in this case. Also see AARP's position above regarding no piecemeal rate relief for Okeechobee Energy Center.

III. Conclusion

WHEREFORE, AARP respectfully asks the Commission to issue its final order, reducing FPL's base rate revenue requirement by $327 million, in order to achieve a reasonable level of rates that would more closely reflect the forecasted cost of providing electric service to FPL's customers in the future. Regardless of the Commission's revenue requirement determinations, the rate design ordered should protect residential consumers as detailed in this brief, and by retaining and not increasing the current residential customer charge. AARP requests any further relief consistent with its recommendations herein.

Respectfully submitted,

/s/ John B. Coffman

John B. Coffman (Mo Bar #36591)
John B. Coffman, LLC
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
Ph: (573) 424-6779
E-mail: john@johncoffman.net

Qualified Representative for AARP

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and accurate copy of the foregoing document has been furnished by electronic mail on this 19th day of September, 2016, to the following:

Martha Barrera
Suzanne Brownless
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
sbrownle@psc.state.fl.us
mbarrera@psc.state.fl.us

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

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

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

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

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

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

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

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

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

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

J.R. Kelly
Public Counsel
Patricia A. Christensen
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399
kelly.jr@leg.state.fl.us
christensen.patty@leg.state.fl.us

/s/ John B. Coffman