BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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
	§	Dated: September 19, 2016

SOUTH FLORIDA HOSPITAL AND HEALTHCARE ASSOCIATION'S POST-HEARING BRIEF

The South Florida Hospital and Healthcare Association ("SFHHA"), pursuant to Order Nos. PSC-16-0125-PCO-EI, and PSC-16-0341-PHO-EI, hereby files this Post-Hearing Brief in the captioned proceeding.

INTRODUCTION

This rate case reflects an excessive request for revenues by Florida Power and Light Company ("FPL" or "Company"). The case was not necessary. Following the Commission's order approving the settlement agreement in FPL's 2012 rate case, Fitch Ratings ("Fitch") noted that "[w]hile the order spans a four-year term (until December 2016), FPL could potentially delay filing a rate case for a longer period by proactively managing its costs." *See* Ex. 256 at p. 2. Further, FPL's surveillance reports and other evidence in this case demonstrate that the base rates that were provided for in the 2012 settlement agreement have enabled FPL to flourish. FPL's owner has announced projected dividend increases of 24-26% by 2018 and an increase in the proportion of earnings that will be paid out, from 55% to 65%. *See* Ex. 697 at pp. 3-4.

SFHHA's witnesses also showed that the costs underlying FPL's rates support a reduction, not an increase in FPL's revenue requirement. Based on the evidence, the Commission should reject FPL's requested base rate increases.

STATEMENT OF BASIC POSITION

A. Summary

This case presents four primary areas of dispute, resolution of which should result in the Commission's outright rejection of FPL's proposal in this proceeding. *First*, FPL's proposed base rate increase for the 2017 test year is wholly unsupported by the record evidence, the balance of which indicates that FPL's base rates should actually be decreased. *Second*, FPL proposes an abnormal procedural vehicle, namely its four-year base rate plan involving rate increases based on conjectured 2018 test year estimates and the so-called Okeechobee Clean Energy Center ("Okeechobee") "limited scope adjustment," both of which are too remote in time to serve as bases to set rates. *Third*, FPL's requested capital costs are unreasonable. Its proposed return on equity ("ROE"), and requested 50-basis-point adder to the ROE, combined with an excessive 60% equity component of capitalization (based on investor-supplied sources) and demonstrably overstated debt costs, are wholly out of step with current financial markets and the ROEs set by other public utility commissions based upon current market conditions. *Fourth*, FPL has proposed a major shift in the allocation of costs among rate classes, without any cost support or cost analysis to justify the shift.

With respect to the first key area of dispute, the approximately $826.212 million base rate increase FPL seeks affective January 1, 2017 is unsupported by the record. The evidence demonstrates that FPL's current rates, under which it has flourished and achieved credit upgrades since the last rate case, should actually be reduced by at least $212.714 million.

As to the second area of dispute, FPL proposes to implement not one, but three base rate increases through a single procedural vehicle. FPL relies on chronologically remote test years, and data projections to set rates through December 2020, more than 4 years from now. FPL's approach would subject its customers, as opposed to FPL, to the risks associated with such distant forecasts. FPL witness Reed has repeatedly criticized comparable proposals as "piecemeal" ratemaking in other dockets. *See* Tr. 647:19-24 (Reed); Ex. 589 at p. 15; Ex. 590 at pp. 6-7.

Third, FPL has not presented evidence to justify an award of an 11.5% ROE (11.00% plus the 50-basis-point adder), or the abnormally thick equity component of its capital structure. FPL's debt cost projections are an excellent example of why FPL's management, from a rate-payer perspective, is far from "excellent." *See* Part C, *infra.*

Finally, FPL's proposal to replace its long-standing 12 CP and 1/13th methodology to allocate the cost of production plant is wholly unsupported. FPL's justification, an allocation of costs based on purported benefits, has no basis in cost-based ratemaking. The allocation of costs in cost-based ratemaking is based on cost causation, not alleged benefits. Here, FPL has not presented any evidence to demonstrate that the major shift in cost responsibility it proposes would allocate costs to the consumers that cause FPL to incur the costs of new generating capacity. Further, FPL's claimed benefits vastly overstate the benefits to the ratepayers to whom FPL would shift millions of dollars of costs. FPL's proposal to implement a 12 CP and 25% cost allocation methodology should be rejected because it is wholly unsupported by a cost causation analysis and would unreasonably shifts costs to high load factor, large commercial ratepayers, such as hospitals, who did not cause FPL to add capacity to its system.

B. Overview of Revenue Requirement Issues

FPL's proposal in this proceeding includes a number of items that improperly and excessively increase its revenue requirement for its proposed 2017 and 2018 test years, and the Okeechobee 2019 year.

Chief among these is FPL's problematic depreciation study, premised on a study date of December 31, 2017, an entire calendar year removed from FPL's proposed January 1, 2017 effective date for those depreciation rates. FPL attempted to rectify the obvious flaw in its depreciation study by subsequently proposing a late-filed alternative depreciation study using plant balances as of December 31, 2016. The alternative study was not filed with FPL's base rate application and avoided any meaningful discovery. Further, when FPL filed the alternative study as an alleged adjustment, it did not affirmatively advocate its use in lieu of the erroneous study that had been filed with its application.[1] Accordingly, SFHHA Witness Kollen recommended rejecting the flawed study altogether and retaining FPL's present depreciation rates and resulting expense, which would result in a $195.412 million and $198.548 million reduction in depreciation expense in FPL's base rates for 2017 and 2018, respectively. Alternatively, SFHHA recommends several adjustments to FPL's proposed depreciation rates to mitigate significant repercussions of the erroneous study date, as further discussed below.

FPL also proposed excessive amortization (over 4 years) of several generating units that will be retired, unnecessarily increasing customers' rates. A longer amortization period, as SFHHA recommends (*i.e.*, 10 years), would serve customers' interests and would not harm FPL. Striking a reasonable balance between FPL's interests and those of its customers, which is

[1] FPL Second Notice of Identified Adjustments at 1-2, Docket No. 160021-EI, *et al*., (filed June 16, 2016) ("FPL continues to believe that the use of year-end 2017 balances would provide a good match with FPL's 2017 Test Year and 2018 Subsequent Year, but has no objection to using results for year-end 2016 balances for the purpose of setting depreciation rates…").

consistent with Commission policy, reduces FPL's revenue requirement by $22.574 million and $22.592 million in 2017 and 2018, respectively, as calculated by SFHHA Witness Kollen.

FPL's proposed revenue requirement is also inflated by its inclusion of nuclear end-of-life materials and supplies and nuclear fuel last core as ordinary expenses. Those items should be reflected in its decommissioning trust fund, as is the case for similar fossil fuel-related costs in FPL's fossil dismantling reserves. Properly accounting for these costs will also mitigate the substantial overfunding of FPL's nuclear decommissioning trust fund. This adjustment further reduces FPL's revenue requirement by $41.649 million and $41.652 million in 2017 and 2018, respectively.

SFHHA also recommends that the Commission remove Account 173 Accrued Utility Revenues (unbilled revenues) from working capital in rate base because FPL incurs no incremental costs for these revenues, but imposes additional costs on its customers when it includes them in working capital, including taxes. This adjustment further reduces FPL's revenue requirement by $22.578 million and $22.930 million in 2017 and 2018, respectively.

Based on the cost reductions recommended in SFHHA's further discussion of the issues below, FPL's current rates should be reduced by at least $212.714 million effective January 1, 2017. SFHHA further shows that if the Commission permits FPL to adjust rates effective January 1, 2018 (an adjustment SFHHA opposes), a reduction from present rates is warranted. Finally, while SFHHA also opposes FPL's requested limited scope adjustment for the Okeechobee Clean Energy Center, SFHHA shows that an increase of no more than $166.053 million from present rates can be justified when Okeechobee is placed in service.

C. Overview of ROE Issues

FPL's proposed 11.5% ROE (including the adder) and equity capitalization are excessive. SFHHA recommends that FPL's ROE be set at 9% and equity capitalization be established at 55% based on investor sources.

FPL's proposed ROE is not supported by the vast majority of FPL's own cost of capital models, and the single model that may provide support was severely flawed because it fails to comport with the basic requirements of the model. In addition, FPL should not be granted a 50 basis point adder. FPL's benchmarking study failed to properly assess FPL's performance because it did not accurately account for FPL's size and other issues.

FPL's proposed 59.6% common equity ratio based on investor sources is inflated and should be adjusted to 55%. FPL could not produce *a single document* in discovery demonstrating that FPL considered other capital structures or studied the costs and benefits of employing alternative capital structures to finance its business. Nor could FPL provide a benchmarking study against other utilities. SFHHA has presented evidence that FPL's proposed equity ratio *increases* FPL's financial strength due to changing conditions since 2012, including the elimination of power purchase agreements. In order to maintain FPL's financial strength, SFHHA's proposed 55% equity capitalization based on investor sources is appropriate.

D. The Company's "Three-In-One" Base Rate Increase Proposal

FPL requests not one, but three, base rate increases: a proposed base rate increase of $826.212 million for the 2017 test year ending December 31, 2017; a second base rate increase of $269.634 million on January 1, 2018; and a third base rate increase of $208.771 million for the Okeechobee Clean Energy Center on or about June 1, 2019, which FPL styled as a "limited scope adjustment." Collectively, this would increase FPL's base rates from present levels by $1,304.617 million annually as of 2020. FPL's proposal to utilize chronologically remote future

test years, using data projections that are years removed from the most recent actual available data, subjects its customers to significant risks associated with such distant forecasts. Moreover, FPL is strongly incentivized to underestimate its revenues and overestimate its costs in such multi-year projections and retain the benefits of its upside estimation error. Tr. 4046:20-4047:2 (Kollen). If FPL were to in fact under-recover, it can petition the Commission based on more timely and realistic data. Accordingly, there is no reason why the Commission should grant the extraordinary relief FPL seeks which puts ratepayers unnecessarily at risk.

E. Overview of Cost Allocation Issues

There are two major cost allocation issues in this case. First, whether FPL has provided evidentiary support for its proposal to abandon the 12 CP and 1/13 methodology it has used for over three decades and instead to allocate the costs of production plant based on a 12 CP and 25% methodology. Second, whether the Commission should require FPL to implement the use of a Minimum Distribution System ("MDS") methodology to allocate the costs of distribution plant.

With respect to the first issue, FPL claims two justifications for switching to a 12 CP and 25% methodology: (1) that the methodology allegedly is appropriate considering how FPL purportedly plans and operates its system, and (2) because FPL's installation of combined-cycle plants has produced savings through avoidance of fuel costs for all customers. As to the latter claim, FPL claimed in its rebuttal case that large CI (commercial and industrial) ratepayers gained over $200 million in fuel savings in 2015 alone, which FPL claims is nine times more than the increase in revenue requirements they would incur under the 12 CP and 25% methodology.

FPL's arguments are meritless. FPL's addition of combined cycle units with lower heat rates that produce fuel savings is an entirely separate matter that does not drive the costs of

production plant under cost-based ratemaking. Under cost-based ratemaking, cost responsibility is supposed to follow cost causation. Therefore, to determine the proper methodology to allocate the costs of production plant, it is critical to know: what is the reason FPL added the capacity and what class or classes of ratepayers caused FPL to add the capacity. FPL conducted no study to make that determination. In fact, FPL presented no cost-based study at all to try to support its proposal to switch from the 12 CP and 1/13 methodology.

The undisputed evidence does not support FPL's proposal. The evidence shows that FPL has installed new capacity on its system for only one reason -- to meet its summer reserve margin requirement. Had the capacity not been needed, there would be no debate over whether the combined cycle units produced savings through reduced fuel costs because FPL would not have added the new plants to its system. The question thus is which rate classes caused the increase in demand resulting in the summer peak. Large commercial and industrial customers (especially those who obtain credits for abating demands in peak periods) who take service at high load factors on a regular basis throughout the year do not experience disproportionate demand spikes that drive the peak or the need for more capacity. Large CI high load factor customers are not the "cost causers" and therefore should not be assigned heightened responsibility for paying for additional capacity that was not installed to serve their needs. The same is not true of residential customers whose summer peak demands spike significantly.

Furthermore, FPL errs in claiming that it would be appropriate to assign cost responsibility to large CI customers based on alleged fuel savings benefits arising from the installation of new, more efficient combined-cycle units. FPL's claims concerning those alleged fuel savings are both irrelevant and erroneous. FPL's claim that large CI customers gained over $200 million in fuel cost savings is patently false. Of the $200 million in alleged savings, $169

million is attributable to customers with demand of less than 2000 KW who therefore are *not* large electric consumers according to FPL's own rates and tariff witness. Tr. 2864:22-25 (Cohen). The alleged savings also are vastly overstated. At best, the savings are a gross calculation as FPL failed to offset against the "savings" the capital investment in the new plants, associated O&M expenses, and the undepreciated remaining investments in the plants that were retired and replaced by the combined-cycle units. Additionally, FPL calculated the savings by using 2001 system heat rate as a base line each time a new plant came on line, as if nothing had changed since 2001. As a result, FPL's calculation ignored the incremental improvements to the system heat rate that occurred each time a new more efficient plant was added to the system, resulting in an overstatement of the value of savings produced by the addition of each new plant. Due to those shortcomings in FPL's analysis, it is not clear that there were any savings on a net basis.

Thus, the Commission should reject FPL's proposal to switch to a 12 CP and 25% methodology to allocate the cost of production plant because FPL provided no cost-based evidence to support the proposal and even its claim that fuel cost savings justify the switch has no valid evidentiary support.

There is, on the other hand, substantial evidence supporting implementation of the MDS methodology for distribution plant. FPL continues to advance a misconception in this case, as in past cases, that the MDS assumes that a utility would build facilities to serve zero load. That is not correct. As SFHHA witness Baron explained, the MDS methodology is based upon the indisputable fact that certain minimum facilities, *i.e.*, poles, transformers and conductors, need to be installed to connect a customer to a distribution system regardless what level of demand the

customer will require. Given that fact, the MDS methodology allocates the costs of those facilities on a customer basis, rather than on the basis of load.

FPL's own distribution planning documents are fully consistent with the underlying principle of MDS. Those planning documents in fact show that FPL DOES plan its distribution system based on the number of customers to be served as the MDS method assumes.

Ex. 786, taken from FPL's Distribution Engineering Reference Manual, is replete with instructions to that effect. *See* in particular pages SFHHA 014787-88 which contain three tables that specify overhead transformer design and size *based on the number of customers to be served*. Similarly, *see* pages SFHHA 014810-12, which contain two tables that set forth standards for underground line design and transformer size based on the number of customers to be served. These pages are appended hereto in Attachment C for the convenience of the Commissioners. The tables on the referenced pages provide the details FPL follows in designing its distribution system to follow the Manual's mandate that "Transformer loading for the majority of cases should be based on serving a maximum number of customers from a transformer . . ." Ex. 786 at page SFHHA 014636.

FPL's objections to MDS are thus refuted by its own Manual. Further, FPL's suggestion that MDS would impose an excessive rate increase on residential customers is contradicted by the evidence. Witness Deaton's attempted comparison of FPL's rates versus the rate of Consolidated Edison of New York, Inc. ("Con Ed") is a *non-sequitur*. The total cost of electric service (including procured merchant energy) to New York City -- an unbundled jurisdiction -- and FPL's cost of providing service to its service territory, Tr. 4264:22-4265:10 (Baron), have nothing to do with each other, as should be obvious. Additionally, the claim made on redirect that MDS would increase FPL's unit customer charge for residential ratepayers from about $8 to

$12 is demonstrably false. FPL's witness on re-direct did not mention that FPL itself is proposing to increase the customer charge from $7.87 per month to $10 per month. Further, SFHHA has never proposed that costs attributable to implementation of MDS should be allocated 100% to the customer charge. The additional cost responsibility for the residential class of approximately $74.9 million that would result from implementation of MDS could be allocated between the customer and the kWh charge to the residential class. Moreover, the $74.9 million increase (which would be just a 2% overall increase in residential rates) assumes FPL were to be awarded 100% of its requested increase in this case. *See infra* at 134-35. Hence, the total impact on the residential class of implementing MDS likely is far less than 2%. In fact, if SFHHA's recommended adjustments to FPL's requested revenue increase are accepted, all rate classes will receive a rate decrease. Accordingly, the Commission should order FPL to implement MDS because it properly assigns costs based on cost causation. FPL's current rate design instead imposes on large commercial and industrial customers the costs of facilities that FPL installed to serve other customer classes.

F. FPL's proposed elimination of CDR/CILC Credits set under the 2012 Rate Case Settlement

The impact of shifting costs to large CI customers based on the erroneous 12CP and 25% methodology, and requiring all customers to improperly bear distribution costs as a result of the failure to implement MDS is compounded by the termination of CDR/CILC credits, which FPL characterizes as a "reset" back to pre-2012 rate case settlement levels. Despite the fact that all of the evidence in this case, including FPL's own analyses, demonstrates that the existing levels of CILC and CDR credits are cost-effective, FPL's proposal to reset the credits back to pre-2012 levels would contribute significantly to a **83%** increase in base rates for CILC customers utilizing the CDR program. Ex. 561 and MFR E-13a. FPL provide no evidence or substantive

argument in support of this change even though it significantly raises the rates of CDR program participants. FPL's proposal ignores the significant benefits provided by the customers participating in the CILC and CDR program who can reduce their demands on the system enabling FPL to avoid significant capital investment in new capacity. Of course, increased capital investment allows FPL to add to rate base, increase rates, and thus increase its own earnings, usually for decades to come, even if the new facilities are not needed to meet the peak in each subsequent year.

G. Conclusion

In summary, the evidence supports a reduction to FPL's revenue requirement of at least $212.714 million effective January 1, 2017. Further, the Commission should reject FPL's proposal to have base rates reset in 2018. However, if the Commission permits FPL to adjust rates effective January 1, 2018, a rate reduction from present rates is appropriate. Finally, while SFHHA opposes FPL's requested limited scope adjustment for the Okeechobee Clean Energy Center, SFHHA also shows that an increase of no more than $166.053 million from present rates can be justified. *See* Appendix A, attached hereto, for a table summarizing SFHHA's recommended reductions to FPL's revenue requirements for the 2017 test year, and Appendix B, also attached hereto, for a table summarizing SFHHA's recommended reductions to FPL's revenue requirements for the 2018 subsequent test year.

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?

POSITION: No. Paragraph 15 of the settlement agreement approved in Order No. PSC-13-0023-S-EI specifies that "No party will assert in any proceeding before the Commission that this Agreement or any of the terms in the Agreement shall have

any precedential value." Further, terms applicable to the recovery mechanism include proposals that are unrelated to base rates and beyond the scope of this proceeding.

DISCUSSION:

The storm cost recovery mechanism was an element of the settlement agreements approved in Docket Nos. 090130-EI (the "2010 Settlement") and 120015-EI (the "2012 Settlement"). Outside of the context of a settlement, the proposal is unnecessary and harmful to customers. Since it was an element of the 2010 and 2012 Settlements, the Commission has not yet adjudicated the merits of FPL's proposed storm cost recovery process, and it should be rejected here.

FPL's proposed recovery process harms customers. Under the proposal, FPL's expenditures and recovery effectively would be self-executing without Commission oversight or opportunity for ratepayer review. It would allow FPL to recover storm damage costs of any amount regardless of whether there is a balance in the storm reserve fund, and despite the fact that MFR Schedule B-21 projects the fund will have a balance of $120.462 million at the end of the 2017 test year. Tr. 4106:11-13 (Kollen). The Commission should not allow recovery of storm costs unless the existing reserve is exhausted. The purpose of the reserve is to provide recovery of storm damage costs, not to exist in perpetuity or be disregarded at the very time it is needed. Tr. 4106:13-15 (Kollen).

There are multiple additional reasons why FPL's proposal should be rejected. First, there is no need, and no valid reason, to intentionally restore the reserve to its prior level if it is in fact fully depleted. FPL can petition the Commission for deferral of storm costs if and when they are incurred. Accordingly, the appropriate and least-cost level is $0.

Second, FPL has access to lines of credit to finance storm damage costs if necessary, the costs of which could be included in base rates if approved by the Commission. Tr. 4106:19-21

(Kollen). Third, FPL can utilize short-term credit facilities to temporarily finance storm costs at very low interest rates, securitize storm costs, and recover the debt service costs associated with the securitization through a surcharge. Tr. 4108:16-4109:1-2 (Kollen). Section 366.8260 permits FPL to recover reasonable and necessary storm costs and fund storm damage-related costs, guaranteeing FPL cost recovery and providing customers the benefits of low-cost securitization financing. Tr. 4107:17-19 (Kollen). That is a lower cost means to recover storm costs than the mechanism FPL proposed.

Fourth, contrary to FPL's assertions, premature recovery of storm costs imposes an income tax on the recovery which is unnecessary and harms customers because it costs more than recovery of costs after storm damages are actually incurred and deducted for income tax purposes. For these reasons, the Commission should reject FPL's storm cost recovery mechanism that was part of the 2012 settlement.

Fifth, FPL's proposed 12-month recovery period is unnecessarily short for purposes of recovering storm damage expenses. Storm costs can be in the hundreds of millions of dollars, and should therefore be recovered over a longer period, perhaps three to ten years depending on the magnitude of the costs and frequency of named storms. Moreover, some recovery costs will provide benefits that continue beyond 12 months, such as repairing plant and the clearing of vegetation, and therefore are more appropriately recovered over the longer period reflective of the benefits. Further, FPL's significant investments in storm hardening, if as effective as alleged by FPL, should significantly reduce the cost impact of future major storms thereby reducing the level of incremental cost that must be recovered. *See* Tr. 1097-1109 (Miranda); Ex. 74.

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?

POSITION: *No. The Commission does not have authority to approve FPL's requested adjustment because this is not a "limited proceeding" within the intended scope of

> Rule 25-6.0431, but rather a "full revenue requirements proceeding." FPL can file to increase base rates when the Okeechobee facility's in-service date is closer. FPL's request for a rate increase for Okeechobee requires the Commission and the parties to unnecessarily speculate about the economic environment, revenues, and costs nearly three years into the future, which prevents the Commission from adequately reviewing Okeechobee's actual impact on rates. The Commission does not have authorization to approve a rate adjustment based upon such speculative evidence.*

DISCUSSION:

FPL's proposed Okeechobee LSA should be rejected because it is not a "limited proceeding" within the intended scope of 25-6.0431, the procedural vehicle FPL relies upon. It is a "full revenue requirements proceeding" in the context of FPL's proposed 2017 test year and 2018 subsequent year adjustment. FPL's Okeechobee LSA proposal is limited only in the sense that it limits the Commission's analysis to issues and factors that can only result in increased rates without any consideration of off-setting factors, such as increased revenues, accumulated depreciation or other economic considerations that could partially or wholly mitigate any purported need FPL has for additional revenue to recover costs associated with the Okeechobee facility. The Commission should thus reject FPL's proposed Okeechobee LSA, because it constitutes a "one-way ratchet" that can only increase costs for customers and does not reflect or even allow for the possibility in the 2019-2020 time period of off-setting adjustments that might mitigate those increased costs. The Okeechobee LSA also does not include any true-up mechanism to reflect the actual cost of the Okeechobee plant, despite the fact that FPL has a history of completing projects below budget, as stated by Witness Silagy. Tr. 118:9-12 (Silagy).

Even if the Commission were willing to entertain FPL's Okeechobee LSA as a "limited proceeding" within the scope of Rule 25-6.0431, the Commission should reject FPL's proposal because it relies on speculative cost and revenue data. Such speculative data do not constitute substantial competent evidence, contrary to Section 366.06(1), which directs the Commission to

set rates for utility companies based upon "the actual legitimate costs of the property of each utility company, actually used and useful in the public service." Whether a project under construction now and contingent on a number of remaining authorizations[2] will be used and useful in the provision of service four years hence cannot be known now with anything approaching the certainty of a traditional test year. FPL's Okeechobee LSA proposal relies on highly speculative projections regarding numerous factors that are critical to determining just, reasonable and fair rates for Okeechobee based on a test year ending May 31, 2020. Tr. 4045:7-9 (Kollen). The Okeechobee LSA also represents the type of piecemeal ratemaking adjustment justifiably criticized by FPL Witness Reed in other cases. Tr. 647:19-24 (Reed); Ex. 589 at p. 15; Ex. 590 at pp. 6-7. Accordingly, the Commission should reject FPL's Okeechobee proposal. If FPL believes it needs a revenue increase when the Okeechobee plant commences service, it can file a base rate proceeding that is more contemporaneous with the in-service date of the plant, when the actual costs and revenues associated with Okeechobee, and its impact on FPL's customers, can be more accurately established.[3]

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

POSITION: The Commission has expressed in the past that it has the authority to grant a percentage incentive to a utility's ROE, but the facts in this case do not support the grant of such an incentive. *See* discussion of Issue No. 84.

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[2] On September 7, 2016, the Federal Energy Regulatory Commission ("FERC") issued an Order on Rehearing in Docket Nos. CP14-554-001, CP15-16-001, and CP15-17-001, partially denying and partially granting several requests for rehearing related to FERC's approval under Section 7 of the Natural Gas Act (15 U.S.C. § 717) of the Florida Southeast Connection and Sabal Trail projects. *See Florida Southeast Connection, LLC*, 156 FERC ¶ 61,160 (2016). FERC's Order on Rehearing clears the way for any participating parties to file appeals of the order with the applicable federal appellate court. Due to the fact that FERC's Order on Rehearing was issued after the beginning of the hearing in this case, and thus does not fall within the scope of materials cited in Part VI(F) of the Commission's Order No. PSC-16-0125-PCO-EI establishing procedure in this proceeding, SFHHA respectfully requests that the Commission take official recognition of FERC's order for purposes of this proceeding.

[3] *See* Order No. PSC-10-0153-FOF-EI at 14 ("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").

The Florida Supreme Court has stated that the Commission may adjust an electric utility's ROE for factors such as "management efficiency" so long as the resulting ROE is not set outside the range of reasonable returns. *See Gulf Power Co. v. Wilson*, 597 So.2d 270, 273 (Fla. 1992). However, the Commission has not established an objective system of standards or benchmarks against which electric utilities may be measured in order to adjust an electric utility's ROE upwards or downwards. Without a carefully delineated system of standards, the Commission cannot provide clear signals to Florida electric utilities regarding what behavior it intends to incentivize or punish with the use of ROE adjustments.

In the past, the Commission has approved both ROE adders and penalties for an electric utility's (1) "continuing high level of performance in customer satisfaction, customer complaints, transmission and distribution reliability, and generating plant availability," *In re: Request for Rate Increase by Gulf Power Co.*, Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI at 35 (2002), (2) mismanagement related to unethical and illegal activities, *In re: Petition of Gulf Power Co. for an Increase in its Rates & Charges*, Docket No. 891345-EI, Order No. 23573, 1990 Fla. PUC LEXIS 1320, at *30-46 (1990) and (3) "continued . . . commitment to an effective conservation program . . . ." *In re: Petition of Gulf Power Co. for an Increase in its Rates & Charges*, Docket No. 810136-EU (CR), Order No. 10557, 1982 Fla. PUC LEXIS 913 at *84 (1982). None of the above cited orders provided objective and clear standards or benchmarks by which an electric utility's performance would be measured. The use of both ROE adders and penalties have been sporadic and undefined. As a result, they have not provided clear incentives to Commission-regulated electric utilities.

Absent a Commission-approved set of standards and benchmarks, FPL has proposed its own system to evaluate itself. FPL's proposed "standards" are incomplete, reward behavior that

FPL states it would pursue without an incentive, and ignore bad management decisions. Unsurprisingly, FPL manages to pass its own test for superior management and service. As will be shown in the discussion related to Issue Nos. 83 and 84, FPL's benchmarking study is methodologically flawed and incorporates unreliable data. However, more fundamentally, as a matter of process, the Commission should not allow an individual utility to set the standard by which it and other utilities' performance will be judged.

A rulemaking proceeding provides a fairer and more inclusive process for the Commission to establish objective benchmarks and standards by which all electric utilities under its regulation can be judged. Those standards and benchmarks can be designed to incentivize all electric utilities in the state to provide the best service to their ratepayers at the least possible cost. Rather than having the input of a single utility regarding the appropriate factors, the Commission can obtain opinions from all of the utilities and customers within its jurisdiction. An open and fair process will ensure that the mechanism chosen by the Commission to reward and punish electric utilities for their performance provides the right incentives across the state to all of the Commission regulated electric utilities.

DISCUSSION:

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

POSITION: No position at this time.

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?

POSITION: No. The depreciation study date must be consistent with the effective date of the change in depreciation rates. Rule 25-6.0436(4)(d) states that "The plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of such rates." No timely depreciation study keyed to January 1, 2017 was filed with FPL's direct case.

DISCUSSION:

The Commission does not have the authority to approve depreciation rates based on a study date inconsistent with the effective date of the change in those depreciation rates. Rule 25-6.0436(4)(d) states that "[s]ubmitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of such rates." Tr. 4053:16-21 (Kollen). Although the Commission could, hypothetically, waive the Rule 25-6.0436(4)(d) requirement, FPL has not presented any basis for the Commission to do so, and further has not petitioned the Commission for any waiver of that requirement, as it has under similar circumstances in the past. *See* Order No. PSC-01-1144-PAA-EI at 3 (waiving the Rule 25-6.0436 requirement due to substantial financial hardship to FPL). There was no explanation from FPL why it used a December 31, 2017 study date in its direct case. The depreciation study date is the valuation date for the gross plant and accumulated depreciation reserves balances, together with net salvage, used to calculate the depreciation rates. Thus, a study date beyond the date the depreciation rates would take effect is illogical.

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

POSITION: No. The current level of the CDR and CILC credits are fully justified by the economic analyses FPL filed in its DSM proceedings. Moreover, FPL's proposal to terminate the credits is an important contributor to the 83% (*see* page 11, *supra*) rate increase for Rate CILC-1D for the 2018 test year.

DISCUSSION:

Based on FPL's own economic analyses filed in its demand-side management ("DSM") proceedings, s*ee* Ex. 279, each of FPL's demand response programs is cost-effective under the Rate Impact Measure ("RIM") test, including the CILC and CDR credits FPL now wants to reduce in this base rate case. Tr. 4222:5-7 (Baron); *see* Ex. 279. In fact, and again based on

FPL's own demand-side management economic analysis, *increasing* the current CDR credit of $8.26/kW month to $13.52/kW month would be cost-effective under the RIM test.

While FPL nonetheless is proposing to eliminate $23 million in credits, FPL made no inquiry regarding the millions of dollars of investments in equipment its customers installed in reliance on the level of credits, Tr. 252:14-21 (Silagy) including negative impacts upon employment. Furthermore, FPL fails to provide any basis for "resetting" the CILC and CDR credits. FPL witness Cohen merely asserted that the CILC and CDR credits "are reset to pre-settlement levels (adjusted for Generation Base Rate Adjustments) as shown in MFR E-14, Attachment 5." Tr. 2815-2816 (Cohen). She also admitted that FPL did not perform any study or analysis to support the so-called reset of the CILC and CDR credits to zero. Tr. 2853:17-23 (Cohen). Further, FPL's current proposal is contrary to its position in FPL's 2012 base rate case that it would be inappropriate and contrary to Commission orders to consider a change in the CILC and CDR curtailment credits in a base rate case. There FPL maintained that "*increasing the credits for either CILC or CDR would be contrary to the Commission's Order* [No. PSC-99-0505-PCO-EG]." Tr. 4222:18-4223:5, 4223:27-28 (Baron) (emphasis added). Moreover, the fact that the term of the 2012 settlement ends December 31, 2016 provides no basis to reduce the credits. As Ms. Cohen acknowledged, absent FPL filing to increase base rates, all rates established as a result of the settlement would have remained in effect. Tr. 2862:13-19 (Cohen) Thus, the fact that the term of the settlement expires is not in and of itself a triggering event for a change in rates or credits.

Given FPL's prior opposition, and its failure to provide any substantive basis for adjusting the level of CILC and CDR credits, it is fundamentally inconsistent for FPL to propose a $23 million CDR/CILC credit reduction. FPL cannot have it both ways, arguing (in the last

case) that it is contrary to Commission orders to increase these credits in a base rate case, but in this base rate case, arguing that the credits can change. This is particularly true given that (1) the reduction directly contributes to an increase of 83% in base rates for CILC-1D customers, and (2) FPL's own analysis shows that the current levels of credits are cost-effective. For these reasons, FPL's proposal should be rejected.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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.?

POSITION No. The Company has provided an identical estimate of the benefits of the 2016-2018 Storm Hardening Plan to that provided for all of its past Storm Hardening Plans since 2007. Due to the proposed significant increase in storm hardening costs included in this Plan, the Commission should require the Company to further study the benefits of its hardening investments at its own expense before these substantial increases are approved. *See* discussion of Issue No. 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.?

POSITION: No position at this time.

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.?

POSITION: No position at this time.

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?

POSITION: No position at this time.

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?

POSITION: No position at this time.

APPROVAL OF STORM HARDENING PLAN

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

POSITION: No. The Company's Storm Hardening Plan provides diminishing reliability and cost savings to customers at disproportionately higher, and severely escalating, costs to customers.

DISCUSSION:

The evidence in this case, most of which was not initially provided in FPL's 2016-2018 Storm Hardening Plan ("Plan"), demonstrates that its Plan will not enhance reliability and reduce restoration costs and outage times in a cost-effective manner, as required by Rule 25-6.0342. FPL's Plan proposes to nearly triple hardening expenditures from the $300 million in 2014 to $870 million in 2018. Ex. 613; Tr. 1121:11-15 (Miranda). However, FPL's Plan will by its very design provide diminishing reliability and cost benefits to FPL's customers.

FPL Witness Miranda testified that FPL's Plan will initiate its lateral hardening initiative in 2018. Tr. 1099:8-9 (Miranda). At that time, FPL's previous sole focus on higher voltage feeders, which typically serve 1,500 customers, will shift, devoting more resources to lower

voltage laterals, which typically serve 35 customers on average. Tr. 1118:16-18 (Miranda). Hardening thousands of laterals (each of which serve only 35 customers) may be expensive, and that is particularly why Rule 25-6.0342 requires a showing that storm hardening expenses are cost-effective.

FPL attempts to support its Plan by asserting that "everyday reliability benefits" will amount to a 40% reduction in service disruptions on hardened feeders as compared to non-hardened feeders. *See* Ex. 615. However, FPL did not provide any study or quantification supporting its 40% reduction estimate other than a conclusory assertion contained in a presentation, as reflected in Ex. 615. Specifically, FPL did not establish that its Plan actually enhances reliability, much less at a level commensurate with the costs it proposes to incur. Accordingly, the Commission should reject FPL's proposal to nearly treble its hardening-related expenses because FPL failed to provide the Commission evidence upon which the Commission could conclude that the benefits justify the costs. Instead, the Commission should approve the same level of investment FPL requested for 2015 under its prior storm hardening plan. FPL can file to increase the level of investment at a future date if it can satisfy the test required by Rule 25-6.0347.

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?

POSITION: No position at this time.

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?

POSITION: No position at this time.

TEST PERIOD AND FORECASTING

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

POSITION: No. A projected test period should be less chronologically remote. *See also* discussion of Issue 25.

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

POSITION: No. The projections used for the 2018 test year are far more uncertain than those for 2016, given that the 2018 test year is 25 to 36 months removed from the most recent actual data. FPL has not provided any specific, known factual basis for saddling its customers with the forecasting risks associated with using a 2018 test year.

DISCUSSION:

FPL's proposed 2018 subsequent test year is based on speculation about numerous factors, and projections of costs based on thousands of assumptions and tens of thousands of data inputs, that are critical to determining rates. A 2018 test year that is 25 to 36 months removed from the present is too remote to serve as a basis to set rates that must be based on competent evidence. Tr. 4045:7-21 (Kollen).

FPL witness Silagy asserts that FPL's four-year rate plan will, among, other things, provide FPL's customers with the benefit of rate certainty and stability through 2020. Tr. 128: 2-4 (Silagy). This is obviously incorrect. Rate increases in each of three sequential years are not rate "stability." Further, the facts and FPL's past history demonstrate that while FPL's rates may have been "certain" for four years as a result of settlement, those rates ultimately were excessive. As FPL Witness Barrett admitted, FPL has repeatedly overestimated its cost of debt, as in both its 2012 rate case, in which its estimates were 100 basis points too high, Tr. 4628:16-25 (Barrett); Tr. 4629:17-25 (Barrett); *see* Exs. 736, 737, and up *to 300 basis points too high* in its 2009 rate case. Tr. 4631:4-4632:18 (Barrett); *see* Exs. 736, 738. In fact, Witness Barrett could

not identify any instance in FPL's last two rate cases when it *underestimated* interest rates for its debt issuances. Tr. 4632:19-23 (Barrett) In utilizing multi-year projections of the thousands of data inputs that encompass a rate proposal, FPL necessarily has strong incentive to underestimate its revenues and overestimate its costs and retain the benefits of actual greater revenues and lower costs after the revenue requirement is determined at an excessive level. This has in fact been the result of prior FPL multi-year rate settlements, during which FPL's actual costs have been below levels FPL projected in its filings. As Witness Silagy asserts, "[p]rior multi-year rate settlements…have provided FPL the financial capacity" to make several "necessary" investments. Tr. 127:21-23 (Silagy). Due to the inability to forecast with any degree of accuracy components that are critical to properly setting rates, the Commission should reject FPL's proposal to adjust rates effective January 1, 2018 based on a 2018 test year. *See also* discussion of Issue No. 31.

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

POSITION: No. *See* SFHHA discussion regarding Issue No, 25 related to the 2018 subsequent year adjustment. As for the Okeechobee "limited scope adjustment," the Company's claimed revenue deficiency for the proposed test year ending May 31, 2020 is based on its projection of revenues and costs reflecting estimated data that is itself nearly four and a half years removed from the filing date. FPL's projections and assumptions are far too speculative to support a finding of a revenue deficiency or an entitlement to any rate relief, let alone the significant rate relief it is requesting here.

DISCUSSION:

There is no reason to set rates for Okeechobee in this proceeding. Okeechobee has only recently been approved by the Commission and will not be in commercial operation until May 2019, Tr. 4045:1-3 (Kollen), at the earliest.[4] The problems associated with FPL's proposed 2018

[4] On September 7, 2016, the Federal Energy Regulatory Commission ("FERC") issued an Order on Rehearing in Docket Nos. CP14-554-001, CP15-16-001, and CP15-17-001, partially denying and partially granting several

subsequent test year are further magnified with respect to FPL's proposed Okeechobee LSA. The Okeechobee LSA reflects projected cost and revenue data that, for the 12 months ending May 2020, is 42 to 53 months removed from the most recent actual data. Tr. 4045:21-23 (Kollen). Moreover, FPL's proposed Okeechobee LSA proposes only one change (in FPL's favor) based upon the commencement of the operation of the Okeechobee plant, and that formulation simply provides one factor that on a stand-alone basis would increase rates, without consideration of factors such as sales growth which would have the opposite effect, to say nothing of other factors that could cause unit rates to decrease. Acceptance of FPL's proposal exclusively would benefit FPL, not its customers. Tr. 4046:1-16 (Kollen).

The Commission should therefore reject FPL's Okeechobee proposal at this time and allow FPL to demonstrate the purported benefits of Okeechobee to FPL's customers with gas and environmental regulation compliance cost forecasts (among other projections) that are closer in time to actual circumstances. Surely FPL's "most efficient unit" (Tr. 4059:17 (Kollen)), can stand on its own merit in the future when FPL can more accurately quantify, and the Commission can fully analyze, the cost and revenue data necessary to demonstrate the opportunity Okeechobee purportedly represents for FPL's customers.

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

POSITION: No. The January 1 through December 31, 2018 test year involves too much speculation regarding many factors. *See* SFHHA discussion of Issue 25.

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requests for rehearing related to FERC's approval under Section 7 of the Natural Gas Act (15 U.S.C. § 717) of the Florida Southeast Connection and Sabal Trail projects. *See Florida Southeast Connection, LLC*, 156 FERC ¶ 61,160 (2016). FERC's Order on Rehearing clears the way for any participating parties to file appeals of the order with the applicable federal appellate court. Due to the fact that FERC's Order on Rehearing was issued after the beginning of the hearing in this case, and thus does not fall within the scope of materials cited in Part VI(F) of the Commission's Order No. PSC-16-0125-PCO-EI establishing procedure in this proceeding, SFHHA respectfully requests that the Commission take official recognition of FERC's order for purposes of this proceeding.

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

POSITION: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates. *See* SFHHA discussion of Issue No. 31 below.

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?

POSITION: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates. *See* SFHHA discussion of Issue 25.

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?

POSITION: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates. *See* SFHHA discussion of Issue 26.

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?

POSITION: SFHHA supports the position of OPC. Additionally, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

DISCUSSION:

FPL's projected revenues from sales of electricity by rate class at present rates for the 2017 test year are flawed and unreasonable.

FPL's projections of revenues from sales of electricity by rate class produced anomalous results. The evidence shows that FPL has not adequately supported its forecast of net energy for load ("NEL") sales forecast, which is used to project revenues by rate class and to develop billing determinants. FPL Witness Morley stated that the variance between forecasted NEL and actual NEL should be as close to zero as possible, but definitely below plus or minus 1.0%. Tr. 1323:17-19 (Morley). But as demonstrated by Ex. 627, even on a weather-normalized basis, the variance on FPL's forecasts of NEL were *never* below 1.0% in any year from 2012 through 2015. In fact, in only one year, 2012, were FPL's forecasts at 1.0%. Ex. 627. In all other years,

the Company's NEL forecasts had absolute average error ranges from 1.4% to 2.3%. *Id*. Indeed, in 2015, just one year ago, FPL's forecasts of NEL were the most inaccurate of those surveyed. *See* Ex. 627. Accordingly, by FPL's own standard, and even when its forecast was only one year removed from the analysis year, FPL's forecasts of NEL failed to fall within the target range.

Perhaps an explanation for the errors in the forecasts of NEL are that they rely on FPL's forecasts of natural gas prices. Tr. 1248:2-7 (Morley); Ex. 616. FPL Witness Forrest admitted that, historically, accurately forecasting natural gas prices has been very difficult. Tr. 4751:6-11 (Forrest). His testimony also shows that FPL's forecasts just a few years ahead were sometimes off by as much as three hundred percent, Tr. 4776:1-4779:8 (Forrest); *see also* Exs. 743-749, and even in the current year were off by 15% just nine months ahead. Tr. 4781:9-15 (Forrest); Ex. 747. FPL has presented no evidence that shows that its current forecasts of gas prices, NEL or revenues from sales of electricity, are any more reliable than those of the past. In fact, the evidence shows otherwise.

For instance, FPL's forecast of customer growth, which FPL asserts is among the primary drivers of future electricity needs, Tr. 1060:20-22 (Morley), is itself based upon unreliable data. According to FPL witness Morley, FPL uses an econometric model to forecast customer growth that is based upon a statewide forecast of customer growth, despite the fact that FPL serves some of the most densely-populated counties such as Dade and Broward. Tr. 1336:19-1337:11 (Morley); *see also* Ex. 630. In the 2012 rate case, Dr. Morley admitted that "in order to understand population growth, you would need to look at individual counties [in Florida]". Tr. 1337:12-20 (Morley); Ex. 630. However, FPL inexplicitly relied on high-level statewide

population growth data nonetheless. This results in an apples-to-oranges comparison that renders its customer growth forecasts unreliable.

Further, FPL has a history of providing unreliable forecasts of the summer and winter peaks. From 1988 to 2011, FPL's forecasts of the summer peak, even on a weather-normalized basis, were off by as much as 17%. Tr. 1308:19-1309:8 (Morley); *see also* Ex. 621. FPL's more recent winter peak forecasts also are inaccurate. FPL's 2012 forecast for the 2013 winter peak was too high by approximately 32%. Tr. 1314:14-17 (Morley). Certainly weather is an unpredictable variable in any context, but given the importance of weather in FPL's projections of revenues, the significance of those revenues in setting customers' rates, and its history of inaccurate forecasts, FPL's forecasts of revenues from sales of electricity cannot be accepted as a reliable basis, without adjustment, upon which to set rates.

A separate problem concerning FPL's forecasts and its projections of billing determinants is that they are the product of a black box. FPL reduces forecasts of peak load by purported increases in the codes and standards for energy efficiency estimated by a consultant named ITRON. Tr. 1185:1-16 (Morley). Dr. Morley acknowledged that her model is dependent upon the reliability of the inputs. Tr. 1334:3-16 (Morley); 1247:9-15 (Morley). Nonetheless, FPL did not submit the ITRON study as an exhibit, or offer any testimony by an FPL or ITRON employee to attempt to demonstrate that the ITRON estimates were sufficiently reliable to enable FPL to utilize them for purposes of its load forecast. Tr. 1247:16-18 (Morley). FPL had the burden to establish every element of its requested rate increase,[5] but failed to produce any

[5] *See In re*: *Application for Increase in Water & Wastewater Rates*, 2009 Fla. PUC LEXIS 415, at *197 (2009). ("The burden of proof in ratemaking cases in which a utility seeks an increase in rates rests on the utility." (referencing *S. Fla. Natural Gas Co. v. Fla. Pub. Serv. Comm'n*, 534 So.2d 695, 697 (Fla. 1988); *Fla. Power Corp. v. Cresse*, 413 So.2d 1187, 1191 (Fla. 1982) *("Cresse"); Sunshine Utils. v. Fla. Pub. Serv. Comm'n*, 577 So.2d 663, 666 (Fla. 1st DCA 1991))); *In re: Application for Increase in Wastewater Rates in Monroe Cnty.*, 2009 Fla. PUC LEXIS 42, at *35 ("As in all utility cases, the Utility has the burden of proof."); *In re: Fuel & Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor*, 2009 Fla. PUC

evidence concerning an element it asserts is one of the "primary drivers of future electricity needs" that significantly impacts its load forecasts. Tr. 1334:3-10 (Morley). Similarly, the software program that FPL used to develop many of its MFRs that set forth the bases for its rate calculations was developed by an entity named Utilities International, Inc. Tr. 2872:25-2873:3 (Cohen). Nonetheless, FPL did not make the software available to interveners based on licensing restrictions. Tr. 2985:5-2986:6 (Deaton). As a result, neither interveners nor the Commission were provided a live model enabling them to test the calculations underlying FPL's proposed revenue requirement, NEL billing determinants and rates. FPL had the burden in this case to present evidence in support of every element of its proposal. It failed to satisfy that burden by relying on complex software programs that it refused to submit to scrutiny by ratepayers and the Commission.[6]

LEXIS 161, at *30-31 (2009) ("It has been well established both by us and the State's courts that the burden of proof lies with the utility who is seeking a rate change." (referencing *Cresse*, 413 So.2d at 1191)). *See also* FLA. ADMIN. CODE § 25-30.450 ("In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility.").

[6] *See In re: Application for Increase in Water & Wastewater Rates*, 2009 Fla. PUC LEXIS 415, at *197 (2009) ("The burden of proof in ratemaking cases in which a utility seeks an increase in rates rests on the utility." (referencing *S. Fla. Natural Gas Co. v. Fla. Pub. Serv. Comm'n*, 534 So.2d 695, 697 (Fla. 1988); *Fla. Power Corp. v. Cresse*, 413 So.2d 1187, 1191 (Fla. 1982) *("Cresse"); Sunshine Utils. v. Fla. Pub. Serv. Comm'n*, 577 So.2d 663, 666 (Fla. 1st DCA 1991))); *In re: Application for Increase in Wastewater Rates in Monroe Cnty.*, 2009 Fla. PUC LEXIS 42, at *35 ("As in all utility cases, the Utility has the burden of proof."); *In re: Fuel & Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor*, 2009 Fla. PUC LEXIS 161, at *30-31 (2009) ("It has been well established both by us and the State's courts that the burden of proof lies with the utility who is seeking a rate change." (referencing *Cresse*, 413 So.2d at 1191)). *See also* FLA. ADMIN. CODE§ 25-30.450 ("In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility."). *See also Petition for Increase in Rates by Progress Energy Fla., Inc.*, 2010 Fla. PUC LEXIS 199, at *414 (2010) ("A Commission finding based on competent, substantial evidence is not limited to a particular method in arriving at what constitutes such evidence. Nothing requires the Commission to accept self-serving benchmarking data at the expense of more compelling methods of proof."); *In re: Petition of Fla. Power & Light Co. for Approval of "Tax Savings" Refund for 1988*, 1991 Fla. PUC LEXIS 1043, at *5 (1991) ("The burden of proof remains at all times with the utility. If the utility does not establish, through competent substantial evidence, that its expenditures were reasonable, prudent, and utility-related, it is not entitled to relief even if its case is unchallenged"); *see also Wash. Utils. & Transp. Comm'n v. PacifiCorp*, 2011 Wash. UTC LEXIS 342, at *45 (2011) ("As we stated in Order 06, '[u]ltimately, the Company has the responsibility to develop a computer model to determine NPC and the burden to demonstrate that the model is well-designed.' ").

The bottom line is that FPL's forecasts of projected revenues from sales of electricity by rate class, NEL and billing determinants cannot be accepted because FPL's forecasts underlying that projection have a long history of inaccuracy, and there are gaping holes in FPL's evidentiary support for the forecasts in the present case, even by its own standards. In particular, as discussed below in Issue No. 140, because FPL relies heavily upon Dr. Morley's forecasts in developing its billing determinants and appropriate cost allocation, FPL's failure to support the accuracy of its forecasts must be recognized in the Commission's analysis of the reliability of FPL's proposed billing determinants. Accordingly, because FPL's forecast of kWh sales by rate schedule and revenue class are based upon an erroneous and unreliable NEL and sales forecasts, the Commission should reject both as unacceptable for all purposes in this proceeding. Instead, as recommended by OPC Witness Dismukes, the Commission should adopt new forecasts of kWh sales by rate schedule and revenue class based upon the Company's 2015 Ten Year Site Plan. Alternatively, the Commission should modify FPL's forecasts of NEL revenues from sales of electricity and projected billing determinants to protect ratepayers from forecasting errors.

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?

POSITION: SFHHA supports the position of OPC. For all the reasons discussed in Issue No. 31, FPL's forecasts are flawed and should not be accepted by the Commission for the purpose of setting rates.

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

POSITION: SFHHA supports the position of OPC.

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

POSITION: SFHHA supports the position of OPC.

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

POSITION: No. *See* SFHHA positions with respect Issues 40-161.

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?

POSITION: No. *See* SFHHA positions with respect Issues 25, and 40-161.

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?

POSITION: No. *See* SFHHA positions with respect Issues 40-77.

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?

POSITION: No. The Company's projections and assumptions underlying its proposed rate base elements for the 2018 subsequent year are far too speculative, and thus cannot provide a basis for the Commission to sufficiently analyze whether those elements are fair, just and reasonable. *See also* SFHHA's positions with respect to Issues 25, and 40-77.

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.

POSITION: No position at this time.

DEPRECIATION STUDY

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

POSITION: *Since all of the plant relevant to consideration of capital recovery is retired, the amortization and recovery period is not dependent on its remaining service life. On that basis, the Commission has greater discretion to determine the appropriate amortization and recovery period. Accordingly, the Commission should extend FPL's proposed 4-year amortization periods for Turkey Point Unit 1, Putnam Units 1, 2, and common, Fort Lauderdale gas turbines, Fort Myers gas turbines, Port Everglades gas turbines, and Putnam transmission to a 10-year amortization period for capital recovery, which provides a reasonable balance between the Company's interests and its customers and avoids excessive accelerated recovery.*

DISCUSSION:

FPL's proposed capital recovery schedules result in excessive amortization of retired plant costs due to an unduly short four-year amortization period for several retired plants, which should be adjusted to a more reasonable ten-year amortization period. In Ex. 109, Witness Ferguson identifies several generation units that he states will be retired by FPL by the end of the 2017 Test Year, which Witness Ferguson states should be recovered over a four-year period. Tr. 1773:15-1774:3 (Ferguson). Among those plants to be retired are Turkey Point Unit 1; Putnam Units 1, 2 and common facilities; Fort Lauderdale gas turbines; Fort Myers gas turbines; Port Everglades gas turbines; and Putnam transmission. *See* Ex. 109

When SFHHA asked FPL to identify any provision of Rule 25-6.0436, F.A.C., (which Witness Ferguson cited in support of his four-year amortization period) that requires such a period, FPL cited a provision of the Rule addressing recovery where there is a calculated deficiency and where the "utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process." Tr. 4072:16-20 (Kollen). That provision of the Rule does not address the length of recovery or amortization period. FPL also cited to the settlements in Docket Nos. 080677-EI, 090130-EI, and 1200015-EI where FPL was allowed to amortize such costs over a 4 year period. *See* Ex. 303; Tr. 4073:1-3 (Kollen). However, the settlements in those cases are not precedent, and in any event, addressed only the recovery of capital costs at issue in those proceedings, not the recovery of capital costs at issue in this proceeding.

There is no compelling reason for the Commission to use a four-year amortization period as FPL proposes. The amortization and recovery period is not dependent on the remaining service lives of the assets, because they are already retired. On that basis, the Commission has

greater discretion to determine the appropriate amortization and recovery period. In doing so, the Commission should consider that a longer amortization and recovery period minimizes both the initial annual increase in rates and revenue requirements, and the reductions in both after the amortization is completed. Tr. 4073:11-13 (Kollen). In such cases, there should be a balance between the interests of FPL and its customers, particularly when the utility earns a return on the unamortized balance, which FPL has requested in this proceeding. On an economic basis, there is no harm to FPL regardless of whether the amortization and recovery period is shorter, such as four years, or longer, such as 10 or 20 years. Tr. 4073:16-18 (Kollen). On the other hand, customers significantly benefit from minimizing the annual rate effect through use of a longer amortization and recovery period. Moreover, the retirement of the older gas units allows, according to FPL, new more efficient, cleaner units to take their place. Given that FPL's customers will be enjoying the benefits produced by the units' replacement for decades to come, 4 years is far too short an amortization and recovery period. Further, no intergenerational issue is created by amortizing the costs over a longer period because, according to FPL, future customers will receive benefits by the replacement of the older plants with newer, more efficient combined-cycle units. Accordingly, the Commission should strike a reasonable balance between FPL and its customers' interests and adopt a ten-year amortization period, and avoid adding excessive accelerated recovery on top of the costs for new generation that replaced the retired generating plants. Tr. 4074:1-4 (Kollen). As reflected in Ex. 304, such an action would reduce amortization expense by $22.543 million and $22.561 million, and the revenue requirement by $22.574 million and $22.592 million, in 2017 and 2018, respectively. *See* Ex. 304.

ISSUE 41 What is the appropriate depreciation study date?

POSITION: December 31, 2016, to match FPL's proposed effective date. Rule 25-6.0436(4)(d) states that "Submitted data including plant and reserve balances…involving estimates shall be brought to the effective date of such

rates." The mismatch between FPL's study date and the rate's effective date arbitrarily increases depreciation rates and expense and the corresponding revenue requirement. Moreover, FPL's late-filed alternative depreciation study cannot be considered by the Commission, as it was not filed with FPL's application.

DISCUSSION:

Rule 25-6.0436(4)(d), F.A.C., which governs the timing and content of depreciation studies, requires that the Company use a January 1, 2017 study date to match the proposed effective date of the proposed depreciation rates. Specifically, the Rule states that "plant balances may include estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought *to the effective date of such rates*" (emphasis added). Accordingly, in order to comply with the Rule, the depreciation study date must be consistent with the effective date of the change in depreciation rates, because it is the valuation date for the gross plant and accumulated depreciation reserves balances, together with net salvage, used to calculate the depreciation rates. Tr. 4053:16-19 (Kollen). Instead, FPL used a depreciation study date of December 31, 2017 - *the end of the proposed 2017 test year*. FPL's depreciation study not only erroneously presumed that there will be no change in depreciation rates or expense starting January 1, 2017, but also rendered the depreciation study unreliable and significantly overstated FPL's proposed depreciation rates.

In effect, FPL simultaneously assumed that depreciation rates and expense would change on January 1, 2017 for purposes of test year depreciation expense and related rate base components, but that they would not change on January 1, 2017 for purposes of the depreciation study. Tr. 4054:17-20 (Kollen). In his rebuttal testimony, Witness Ferguson asserts that "FPL continues to believe that the use of year-end 2017 plant and reserve balances provides a good match with FPL's 2017 Test Year and 2018 Subsequent Year." Tr. 5067:12:12-14 (Ferguson). However, he failed to provide any rationalization for FPL's mutually exclusive assumptions in

its proposed depreciation study and those in its proposed depreciation rates, which together arbitrarily and erroneously increased the proposed depreciation rates, expense and the revenue requirement by introducing multiple errors into the depreciation study. Tr. 4054:20-22 (Kollen). The most obvious error was shaving one year off the remaining service lives of each plant account compared to the beginning of the test year when the depreciation rates will be implemented, improperly increasing the calculated depreciation rates by fully depreciating an asset with a service life of 20 years in just 19 years. *See* Tr. 4055:3-17 (Kollen).

Another significant error resulting from FPL's proposed study date is that it increased the gross plant that must be recovered over the service life to include all projected plant additions during 2017. By definition, for purposes of the depreciation study, that plant was not in service or subject to depreciation at the beginning of the year. Yet the depreciation rate was increased on January 1, 2017 to recover the cost of that plant. Tr. 4055:18-21 (Kollen).

Another significant error is that the study understated the accumulated depreciation at the December 31, 2017 study date because the depreciation expense projected for 2017 and reflected in the accumulated depreciation was based on the old depreciation rates, not the new rates that presumably will be in effect on January 1, 2017. This results in a greater service value (gross plant less accumulated depreciation plus net salvage) to be recovered and compounds the effect of the service life error and the gross plant in service error. Tr. 4056:1-7 (Kollen).

Given the significant problems associated with the depreciation study date FPL filed in its application, it should be rejected. Moreover, FPL's late-filed alternative depreciation study based on plant balances as of December 31, 2016 cannot be considered by the Commission as it was not filed with FPL's base rate application. Further, FPL did not advocate the late-filed study's use in lieu of the study FPL filed with its petition, no witness sponsored it, and no

reasonable discovery opportunity existed with regard to it.[7] It is also not possible to perform a new comprehensive depreciation study, review the study in this or another proceeding, and incorporate the adjudicated results in new base rates on January 1, 2017. SFHHA thus recommends that the Commission instead retain FPL's present depreciation rates and the resulting expense. Tr. 4056:18-20 (Kollen).

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

POSITION: The Commission should reject FPL's depreciation study based on a December 31, 2017 study date as the study is wholly unreliable and significantly overstates proposed depreciation rates. Based on such a rejection, the most appropriate action would be to retain present depreciation rates. Alternatively, a less erroneous approach than FPL's proposal would be to make several adjustments to FPL's depreciation rate proposal. *See* SFHHA discussion of Issue Nos. 43 and 44.

DISCUSSION:

As an initial matter, the Commission should reject FPL's depreciation study as discussed in Issue 41 above. Because intervenors were not provided the opportunity to obtain discovery concerning the depreciation study FPL submitted as an adjustment prior to the time when intervenor testimony was due, the Commission should retain FPL's present depreciation rates. This can be accomplished by removing FPL's adjustments to depreciation expense and reducing the revenue requirements accordingly. Tr. 4056:18-4057:2 (Kollen).

If the Commission nonetheless uses FPL's proposed depreciation study included with its initial rate application as the basis to set new depreciation rates effective January 1, 2017, the Commission should make several adjustments that will partially correct the flawed results from the improper study date and other errors in the Gannett Fleming study. These adjustments

[7] FPL Second Notice of Identified Adjustments, Tables 1 through 8 (June 16, 2016). SFHHA further notes that even when FPL did file its alternative depreciation study, it did not abandon its position that the original depreciation study was appropriate in its view.

include shortening the service lives by 1 year (*see* discussion of Issue 47 below), rejecting the proposal to separate certain accounts into multiple accounts to increase the depreciation rates (*see* discussion of Issue 43 below), and using service lives for Scherer 4 and St. John's River Power Project that are consistent with the operators' projected service lives for those facilities (*see* discussion of Issue 44 below). Tr. 4057:17-21 (Kollen). It is not possible at this time and in the context of the instant proceeding to correct the many errors in gross plant and accumulated depreciation resulting from the erroneous study date without performing a new comprehensive depreciation study. Tr. 4057:21-4058:2 (Kollen). The corrections advocated here involve only those errors that can be corrected based upon this record.

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?

POSITION: Account 343 should not be separated into subaccounts with different depreciation rates.

SFHHA has no position at this time regarding Account 364.

POSITION:

The Commission should reject FPL's proposal to split Account 343 into two subaccounts with different depreciation rates. The proposal arbitrarily increases depreciation rates and expense.

FPL's proposes a minor reduction in the Account 343 *General* subaccount for the various generating units, but a significant increase in the depreciation rates for the 343.2 *Capital Spare Parts* subaccount. FPL's proposal would result, for example, in an increase from the present Account 343 depreciation rate for Martin 8 of 4.30% to a depreciation rate for Martin 8's 343.2 *Capital Spare Parts* of 7.98%. Tr. 4059:11-16 (Kollen).

The Commission should reject the proposal to split Account 343 for several reasons. First, the shorter lives of certain components are already addressed in the average service lives and retirement survivor curves reflected in present depreciation rates. Second, and similarly, the interim net salvage is already addressed in the net salvage rates reflected in the present depreciation rates for the portion of plant expected to be retired as interim retirements, as stated by FPL's own witness. Tr. 1847:18-23 (Allis). Third, the depreciation study fails to properly separate the historic data between the two new proposed subaccounts. Tr. 4059:18-23 (Kollen). Instead, it incorrectly assumed that the historic interim retirement patterns and net salvage that have applied generally will continue to apply to Account 343 *General*, but assumed a different and more aggressive interim retirement curve and different net salvage for Account 343.2 *Capital Spare Parts*. The latter assumption also is incorrect due to FPL's accounting for Capital Spare Parts, which overstates both parameters. Tr. 4060:1-5 (Kollen).

Alternatively, if the Commission approves FPL's request to split account 343, the Commission should reject FPL's proposed allocation of the depreciation reserve, which would result in an excessive allocation of the reserve to the general subaccount 343, which has a longer service life, and an inadequate allocation to capital spare parts subaccount 343.2, which has a shorter service life. Ex. 113 at pp. 139-144. In effect, by shifting more of the depreciation reserve to the subaccount with the longer life, FPL increased the net book value in account 343.2 recoverable over a shorter service life, and in that manner, increased the overall depreciation expense for the two subaccounts on a combined basis. Tr. 4061:11-15 (Kollen). Not only is the result of the proposal flawed, but the calculation of accumulated depreciation for the two subaccounts underlying the proposal is itself based on the false presumption that the parameters FPL proposes for each subaccount were in effect all years historically and will be in effect all

years prospectively. Tr. 4062:1-3 (Kollen). That is a false assumption historically, allocating more depreciation to account 343 General and less accumulated depreciation to new account 343.2, which disproportionately increases the net book value of account 343.2 *Capital Spare Parts*, which FPL further proposes to depreciate over a shorter service life. Tr. 4062:3-6 (Kollen).

The Commission should allocate accumulated depreciation between accounts 343 and 343.2 using gross plant, not FPL's proposed theoretical depreciation reserves. This makes sense because, at present, there is only a single depreciation rate for account 343 for each FPL power plant, meaning each dollar of plant in account 343 generated the same depreciation expense and accumulated depreciation through the date of the depreciation study or until account 343 is split into two subaccounts. In other words, if and when the gross plant in account 343 is split into two subaccounts, the accumulated depreciation should be allocated between the two subaccounts in the same proportion as the gross plant associated with those accounts.

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

POSITION: *Except as discussed herein concerning the Scherer 4 and SJRRP facilities, SFHHA supports OPC's position. With respect to Scherer 4, the Commission should use a probable retirement date of 2052, and align Scherer 4's service life with that used by Georgia Power Company for the Scherer 3 plant, which is on the same site and shares common facilities with Scherer 4. Moreover, Georgia Power Company and FPL have invested heavily in environmental compliance in recent years, extending Scherer 4's probable service life. FPL also does not have the unilateral right to shut down Scherer 4 in 2039. Without any credible information to the contrary from FPL or JEA, the Commission should use a retirement date of 2052 for SJRRP, reflecting an identical 65-year life span.*

DISCUSSION:

FPL's depreciation study assumes probable retirement dates of 2039 for the Scherer 4 unit and its common facilities, and 2038 for SJRPP. FPL admitted that its assumed service life is

fifteen years shorter than the remaining service life used by Georgia Power Company, which is the operator of Scherer 4 and operator and part owner of the common facilities, and owner of Scherer Units 1, 2 and 3. *See* Tr. 4064:20-4065:5 (Kollen); *see also* Ex. 296. Moreover, it is highly unlikely that Scherer 4, even if retired before Scherer 3, will be dismantled before the other three units at the site, and demolition of retired units is normally delayed until all units are retired at the site. Tr. 4065:21-4066:2 (Kollen).

Georgia Power Company and FPL have made significant investments in recent years to comply with federal and state environmental regulations and, as the minority owner, FPL does not have the unilateral right to shut down the facility at the time it is projecting its retirement. To that point, FPL admitted that it will have to negotiate with the other part owner of Scherer Unit 4, Jacksonville Electric authority ("JEA"), concerning dismantlement of the unit and then will have to negotiate with Georgia Power due to its interests in the common facilities. Tr. 5078:12-5079:1 (Ferguson). Based on these factors, FPL's estimated retirement date of 2039 for Scherer Unit 4 is not credible. Rather, the evidence supports a 2015 retirement date consistent with Georgia Power's plans for Scherer Units 1, 2 and 3.

As for SJRPP, FPL simply failed to provide any probative information concerning the probable retirement date of that facility. Ex. 296. In the absence of any credible information to the contrary from FPL or JEA, the Commission should use a similar probable retirement date of 2052 for SJRPP, reflecting a 65-year life span.

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?

POSITION: SFHHA supports OPC's position.

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?

POSITION: If the Commission does not reject FPL's depreciation study, any imbalances should be computed in accordance with SFHHA witness Kollen's recommendations, as set forth in Ex. 296 and additionally incorporate OPC's recommendations.

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?

POSITION: *If the Commission accepts FPL's depreciation study date of December 31, 2017, the Commission should make several adjustments to FPL's depreciation rate proposal. First, the Commission should extend the service lives of each plant account by one year to mitigate the arbitrary impacts of shortening the remaining service lives of plant accounts as is done under FPL's study (see Issue 41). Second, the Commission should reject FPL's proposal to separate certain accounts into multiple accounts, thereby increasing depreciation rates (see Issue 43). Lastly, the Commission should use service lives for Scherer 4 and SJRPP that are consistent with the operators' projected service lives for those facilities, as discussed in reference to Issue 44.*

POSITION: *See* SFHHA discussion of Issue Nos. 41, 43, and 44.

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

POSITION: If the Commission accepts FPL's depreciation study, it should properly allocate the accumulated depreciation using gross plant, not FPL's proposed theoretical depreciation reserves. Any imbalances should be computed in accordance with SFHHA witness Kollen's recommendations, as set forth in Ex. 296 as well as in accordance with OPC's recommendations**.**

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

POSITION: FPL's depreciation study should be rejected and present depreciation rates should remain in effect. Alternatively, revised depreciation rates, capital recovery schedules and amortization schedules should be put into effect January 1, 2017 subject to the modifications proposed by Witness Kollen, as well as OPC.

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

POSITION: Yes. *See* discussion of Issue No. 51.

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

POSITION: First, contingencies should be eliminated. Alternatively, if the Commission does not eliminate them, they should be reduced to 10% of the dismantlement estimate. Further, FPL should also be required to calculate the annuitized or levelized

dismantlement expense, including the offset due to the return on the annual expense accruals and to remove the increase in the reserve from working capital in rate base in 2017 and 2018. In this manner, the expense accruals and return on the accumulated reserve are synchronized over the 4 year period.

DISCUSSION:

As an initial matter, the Commission should reject FPL's proposal to continue to include contingencies in the present cost estimate reflected in the dismantling cost study. FPL's dismantling cost estimates represent the best estimates they have based on the requirements and information available when they were developed. Tr. 4067:14-15 (Kollen). As with any estimate, the actual cost may be more or less. It is premature and unnecessary to assume decades before retirement that the best estimate is insufficient. The best estimate in fact may be excessive. Only when the costs actually are incurred will there be certainty as to the actual costs. If and when contractors are retained to actually dismantle and restore the sites at some date in the future, it may be appropriate for FPL to add contingencies to contract costs for management purposes. Tr. 4067:19-21 (Kollen). However, it is entirely inappropriate to add contingencies at this time, particularly when the contingencies represent a one-way correction that skews recovery only in FPL's favor, and forces customers to pay excessive amounts in addition to FPL's best estimate. Further, FPL has the opportunity to periodically update the cost estimates if future costs, engineering, and technical processes warrant. As a result, FPL has the full ability to protect its interests if the bases for its estimates should change.

Should the Commission decide to allow FPL to use contingencies in dismantlement cost estimates, the contingencies should be set at 10% of the dismantlement estimate. FPL has provided no justification for *increasing* the contingency from the prior 16.0%, to 20.0%. As the industry has accumulated experience in dismantling and there is more actual data available regarding dismantlements compared to prior estimates, estimates should be more accurate, not

less accurate. Tr. 4068:11-14 (Kollen). FPL's proposed increase suggests precisely the opposite.

Lastly, the Commission should require FPL to escalate the dismantlement expense reserve over the same 4-year period FPL proposes to escalate the dismantlement expense accrual. The expense accrual and the accumulated reserve are interrelated, such that any escalation in the accrual should be synchronized with a corresponding escalation to the reserve. This will prevent an unnecessary mismatch between the two accounts, resulting in an unnecessary increase in the revenue requirement. Tr. 4070:15-4071:3 (Kollen); *see* Ex. 302. The best methodology to reflect the interrelationship between the accrual and the reserve is to calculate the annuitized or levelized expense, including the offset due to the return on the annual expense accruals and to remove the increase in the reserve from working capital in rate base in 2017 and 2018.

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

A. For the 2017 projected test year?

POSITION: FPL's proposed annual accrual should be reduced by $5.546 million to reflect the recommendations of SFHHA Witness Kollen. *See* discussion of Issue No. 51. SFHHA also supports OPC's recommended adjustments to the annual accrual and reserve for dismantlement.

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

POSITION: FPL's proposed annual accrual should be reduced by $5.805 million to reflect Witness Kollen's recommendation. SFHHA also supports OPC's recommended adjustments to the annual accrual and reserve for dismantlement.

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?

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

POSITION: FPL's CPVRR analysis supporting the Large Scale Solar Projects is based on highly speculative "emissions savings" benefits tied to the implementation of the Clean Power Plan, the impact of which is unknown at this time. The Commission should thus reject FPL's proposed investments in these Projects.

DISCUSSION:

FPL's CPVRR analysis for the $400 million investment in Large Scale Solar Projects inappropriately relies on highly speculative benefits. The Commission should reject it and withhold approval until FPL can offer a more reliable analysis. Specifically, FPL's analysis shows a very narrow $26 million negative CPVRR, Ex. 89, which inappropriately relies on $62 million in "emissions savings" for over 17% of its Net System Benefit. FPL Witness Barrett admitted those "savings" were related to projected emissions regulations associated with the implementation of the Clean Power Plan. Tr. 1530:10-16 (Barrett). An increase in estimated fuel costs of only 10% would render the project uneconomic. Tr. 1529:8-11 (Barrett). As noted above, FPL's fuel cost estimates have been off by a magnitude of three times just a few years into the future and off by as much as 15% just this year. *See* Exs. 744-748; Tr. 4781:9-15

(Forrest). As a result, the "savings" FPL calculated are not reliable. Accordingly, the Commission should reject FPL's inappropriate CPVRR, and the associated investments it proposes to recover from customers.

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

POSITION: No position at this time.

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?

POSITION: Reducing accumulated depreciation to reflect depreciation expense reductions would increase its rate base impact by $97.249 million. Reflecting extended amortization of capital recovery costs would increase rate base by $11.272 million. Reducing accumulated fossil dismantling to reflect dismantling expense reductions would increase rate base by $2.666 million.

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

POSITION: Reducing accumulated depreciation to reflect depreciation expense reductions would increase its rate base impact by $294.242 million. Reflecting extended amortization of capital recovery costs would increase rate base by $33.824 million. Reducing accumulated fossil dismantling to reflect dismantling expense reductions would increase rate base by $8.001 million.

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

A. For the 2017 projected test year?

POSITION: $32,025.421 million.

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

POSITION: $33,622.827 million.

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

A. For the 2017 projected test year?

POSITION: FPL's proposed Accumulated Depreciation for the 2017 test year should be reduced by $97.249 million, consistent with SFHHA witness Kollen's recommendations. *See* discussion of Issue Nos. 40-44 and 47. SFHHA also supports additional reductions to FPL's proposed Accumulated depreciation as recommended by OPC.

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

POSITION: FPL's proposed Accumulated Depreciation for the 2018 test year should be reduced by $294.247 million, consistent with SFHHA witness Kollen's recommendations. *See* discussion of Issue Nos. 40-44 and 47. SFHHA also supports additional reductions to FPL's proposed Accumulated Depreciation as recommended by OPC.

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

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

ISSUE 65: Are FPL's proposed reserves for Nuclear End of Life ("EOL") Material and Supplies ("M&S") and Last Core Nuclear Fuel appropriate

A. For the 2017 projected test year?

POSITION: No. The Commission should add the nuclear EOL M&S and nuclear fuel last core to the nuclear decommissioning liability, eliminate the associated expense accruals, and amortize the reserves already recovered from customers over a 4 year amortization period. This results in consistent treatment of the nuclear decommissioning and fossil dismantling liabilities and expense accruals and allows the Commission to combine the excess funding for nuclear decommissioning with these additional nuclear retirement costs.

DISCUSSION:

The Commission should eliminate the expense accruals for nuclear EOL materials and supplies and nuclear fuel last core costs, and require FPL to add them to the nuclear decommissioning liability trust fund. FPL should account for these nuclear decommissioning costs in the same manner it does for projected costs for the unrecovered materials and supplies included in FPL's fossil dismantling reserves, as shown in the fossil dismantling study, *see* Ex. 110, but instead proposes to do so through expense accruals. Tr. 4050:10-16 (Kollen). As of December 31, 2015, FPL's nuclear decommissioning trust funds were overfunded by $379.284 million. Tr. 4051:6-8 (Kollen); *see also* FPL response to Staff 1-90 Attachment 2 in Docket No. 150265-EI. Adding nuclear EOL M&S and last core expense accruals will allow the Commission to "net" the excessing funding in the nuclear decommissioning trust funds against the unrecovered EOL M&S and nuclear fuel last core expenses, thereby increasing decommissioning liabilities to include the full estimated cost of these expenses and allowing customers to receive some current benefit from the excess decommissioning funding. Tr. 4051:20-4052:6 (Kollen). This significant benefit can be achieved without increasing the nuclear decommissioning expense, which FPL arbitrarily set at $0, rather than at a negative expense. Moreover, this will allow the Commission to combine the excess funding for nuclear decommissioning with these additional costs related to the retirement of the nuclear units.

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

POSITION: No. The Commission should make an adjustment for the 2018 subsequent test year similar to that proposed in the discussion of Issue 65(A) above.

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?

POSITION: The Commission should remove NFIP in the amount of $406.621 million from rate base and direct the Company to accrue AFUDC during construction. This is the appropriate treatment because financing costs during construction are a cost of the asset, and recovery should not be made upfront through NFIP.

The Commission should exercise its authority under Rule 25-6.0141(1)(g), which FPL cited in support of its proposal to include NFIP in rate base, *see* Ex. 306, to remove NFIP in the amount of $406.621 million from rate base. Instead, the excluded amount should be treated as being eligible for AFUDC during construction. This would eliminate over $40 million of FPL's revenue requirements, Tr. 4079:3-4 (Kollen), and allow customers to pay those costs over the life of the assets used to provide service, rather than upfront. Providing FPL a current return on the cost of these NFIP projects in this proceeding would inappropriately force today's customers to pay a portion of the cost of the assets before they are placed in-service rather than allocating the financing costs of these projects during construction to the customers who will be served by the assets. Tr. 4078:13-18 (Kollen).

Two alternatives exist for the recovery of costs incurred to finance projects during construction. One is CWIP, providing the utility current recovery of the financing costs in rate base during construction. The other alternative is an allowance for funds used during construction, AFUDC, providing the utility recovery through a return of (depreciation) and a return on the AFUDC included in plant in-service over the lives of the underlying assets. Tr. 4076:6-10 (Kollen). Thus, the recovery is a matter of timing because the net present value generally is considered to be equivalent if the return on rate base, the AFUDC rate, and the discount rate are equivalent.

In this case, the Commission should allow recovery of a portion of FPL's financing costs through AFUDC. First, the financing cost during construction is a cost of the asset, similar to all the other costs included in NFIP, and there is no compelling reason to provide upfront recovery

of one component of the asset's cost. Tr. 4076:16-20 (Kollen). Second, there is the issue of intergenerational equity. If the recovery is accelerated through NFIP in rate base, then today's customers pay for a component of the asset's cost before it provides any service and future customers are relieved of that cost of service that should be allocated to them as they use the nuclear fuel. In other words, current inclusion of NFIP in rate base provides an unnecessary intergenerational subsidy from today's customers, many of whom will not be taking service from FPL years into the future, to future generations of customers, many of whom will be new customers of FPL in the future. Tr. 4076:21-4077:8 (Kollen). Third, by definition, assets have lives that extend beyond the test year. Thus, 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. This is the concept underlying the capitalization of plant costs and the depreciation and recovery of those costs over the assets' estimated service lives. Tr. 4077:9-14 (Kollen).

FPL opposes this recommendation through the testimony of Witness Deason. Witness Deason's primary objection is that SFHHA Witness Kollen's recommendation is inconsistent with Rule 25-6.0141, F.A.C., because the "amounts of NFIP for each fuel cycle at each nuclear plant do not meet the Rule's [0.5 percent of total plant in service] threshold requirements." Tr. 5762:15-21 (Deason). However, Witness Deason offers no support from the Commission's rules or orders for the proposition that NFIP costs should be analyzed on the basis of each fuel cycle at each nuclear plant for purposes of meeting the Rule's project cost threshold. Rule 25-60141 does not state or even suggest that such a granular definition of "project" is appropriate in any context, let alone for NFIP costs.

Witness Deason further objects to SFHHA's recommendation on the ground that "it would be inappropriate to make such a significant unilateral change to Commission policy that has been adopted…by rule" "without the benefit of a thorough evidentiary review" in a rulemaking proceeding open to all interested parties. Tr. 5763:2-8 (Deason). As in the instance of his testimony in the 2012 rate case, Witness Deason's interpretation is incorrect. The Commission does not need to create a rulemaking proceeding or issue a new widespread policy in order to modify FPL's NFIP in rate base based upon the specific facts of this case. In fact, Witness Deason confirmed that the Commission maintains the "limited discretion to exclude a portion of CWIP from rate base and allow it to accrue AFUDC instead." Tr. 5765:6-8 (Deason). Decisions in individual administrative adjudications may establish precedent or a practice the agency observes going forward.[8]

Witness Deason also contends that SFHHA's recommendation to exclude NFIP from rate base will result in intergenerational inequity, while the Company's proposal will ensure that "NFIP…needed to assure existing customers of continuous service from nuclear plants just like coal in transit and coal in inventory" for coal plants. Tr. 5764:5-10 (Deason). But that rationale is at a level of generality and abstraction that would support the inclusion of virtually any cost in rate base. In any event, it is uncontested that the nuclear fuel will be consumed providing service over time.

[8] *Florida Cities Water Co. v. Florida Pub. Serv. Comm.*, 384 So. 2d 1280, 1281 (Fla. 1980) ("Administrative agencies are not required to institute rulemaking procedures each time a new policy is developed") (citing *McDonald v. Department of Banking and Finance*, 346 So. 2d 569, 580-581 (Fla. Dist. Ct. App. 1977) (finding that, similar to the Federal Administrative Procedure Act, Section 120.54, Florida Statutes (Florida Administrative Procedure Act ("APA")) "does not chill the open development of policy by forbidding all utterance of it except within the strict rulemaking process of [the Florida APA]."

For the foregoing reasons, the Commission should exercise its authority under Rule 25-6.0141(1)(g) to exclude $406.621 million of NFIP from rate base as proposed by SFHHA and instead allow FPL to accrue AFUDC on the excluded amount.

Lastly, if the Commission adopts the foregoing recommendation, then, rate base should be increased by $20.797 million. *See* discussion of Issue No. 65.

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

POSITION: For the reasons discussed in Issue No. 66(A) above for the 2017 test year, in 2018, the Commission should remove $412.437 million in NFIP from rate base. Also, Witness Kollen's recommendation regarding End of Life Materials and Supplies and Nuclear Last Core Reserves be amortized over four years produces a $62.394 million increase to its rate base in 2018.

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

For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No. FPL should be denied rate case expense recovery in this instance as it was unnecessary for it to file this rate case. However if any rate case expense recovery is allowed, the unamortized balance should not be included in working capital. The Commission's long-standing practice of excluding unamortized rate

case expense from working capital apportions the cost of a rate case between ratepayers and shareholders customers.

POSITION:

FPL never should have filed this case because no rate increase was needed nor is justified. In view of that circumstance, the Commission should make FPL bear its own rate case expenses.

Following the Commission's order approving the settlement agreement in FPL's 2012 rate case, Fitch Ratings ("Fitch") noted that "[w]hile the order spans a four-year term (until December 2016), FPL could potentially delay filing a rate case for a longer period by proactively managing its costs." *See* Ex. 256 at p. 2.

FPL's surveillance reports show that FPL consistently has earned an ROE of 11.5%. Ex. 573; Ex. 134, MFR D-7. That return is the maximum FPL is permitted under the 2012 settlement and is excessive as compared to the ROEs of most utilities in this country. Exs. 656-657. FPL's owner is increasing its dividend through at least 2018, and increasing the ratio of its earnings that it is paying out from 55% to 65%. Ex. 697 at pp. 3-4.

FPL's proposed rate increases are driven in part by adjustments that are contrary to Commission policy or represent inappropriate departures from FPL's past practices or applicable rules. The Commission should make it clear that where a utility does not justify the relief sought by its petition, it must bear its own rate case expenses.

However, if any rate case expense recovery is allowed, the Commission should exclude unamortized rate case expense from FPL' s working capital for several reasons. First, not only has the Commission historically excluded unamortized rate case expenses from rate base, but the Commission rejected similar requests to include such expenses in FPL's 2009 base rate proceeding (stating "[w]e do not agree with the Company that the unamortized balance of rate

case expense should be included in rate base"). FPL 2010 Rate Order, *In re: Petition for Increase in Rates by Fla. Power & Light Co.*, Docket No. 080677-EI, Order No. PSC-10-0153-FOF-EI at 164 (2010); *see also Gulf Power Company*, Docket No. 110138-EI. *In re: Petition for increase in rates by Gulf Power Company*, Docket No. 110138-EI, Order No. PSC-12-0179-FOF-EI at 30 (2012) ("Gulf Power Company Order").

Further, excluding these expenses from rate base would result in a sharing of the costs and an equitable balance between FPL and its customers. FPL is allocated the carrying costs and customers are allocated the principal, which is the greater share of the costs. Such a sharing is appropriate in a typical case because the rate case expenses are incurred by the utility for the benefit of the utility and its shareholder, not its customers. Tr. 4083:3-8 (Kollen). The Commission affirmed the concept of sharing between the utility and its customers in *Gulf Power* finding that "ratepayers and shareholders should share the cost of a rate case; *i.e*., the cost of the rate case would be included in O&M expense, but the unamortized portion would be removed from working capital. This practice underscores the belief that customers should not be required to pay a return on funds spent to increase their rates."

Moreover, the amortization period FPL proposes is sufficiently short that the actual carrying costs on the unamortized rate case expense will be relatively minor. Such costs are short-lived assets, which typically are financed with short-term debt, further reducing the actual carrying costs on the unamortized rate case expense to relatively minor amounts. The Commission can ensure those carrying costs remain minor by rejecting FPL's proposal to include $4.569 million of commitment fees in its cost of short-term debt, and approve an increase in FPL's overall cost of short-term debt from 0.28% to 0.56%, as further discussed in Issue No. 80 below. Tr. 3114:5-57:4 (Baudino). Lastly, if the estimated costs are included in

rate base, FPL will over-recover each year after the test year because revenues recovered will not decline even though the remaining balance of the costs will be declining as they are amortized. That will occur because there is no true-up of the recoveries with the actual costs. The Commission recognized this concern in *Gulf Power*:

> While unamortized rate case expense does not earn a return in working capital for electric and gas companies, it is offset by the fact that rates are not reduced after the four year amortization period ends. Thus, the amount in O&M expense continues to be collected after total rate case expense has been recovered. [Gulf Power Company Order at 31].

For these reasons, the unamortized balance of FPL's rate case expenses should be excluded from working capital.

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

POSITION: No. For the same reasons discussed in Issue No. 69(A) for the 2017 test year.

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?

POSITION: The Commission should amortize the excess reserve to $0 over a four year amortization period. This will return the excess reserve to customers in a timely manner rather than allowing the Company to retain the excess recoveries indefinitely. This will produce an increase to rate base of $2.455 million to be amortized over 4 years.

FPL projects an I&D expense reserve of $19.500 million at December 31, 2017 and $19.500 million at December 31, 2018. *See* MFR B-21. Such a large level of reserve indicates that FPL has recovered more from customers, which increases the reserve level, than the actual I&D costs it has incurred. Tr. 4048:5-7 (Kollen). In addition, FPL projects only a slight reduction in the reserve from $20.796 million at January 1, 2017 to $19.500 million at December 31, 2017, and that the reserve will remain unchanged at $19.500 million at December 31, 2018, according to Schedule B-21. The goal of reserve accounting is to equitably ensure that FPL's

costs are recovered from customers dollar for dollar over time so that neither FPL nor customers are benefitted or harmed. In other words, the goal is to achieve a $0 balance in the reserve over time, not to build and then retain an overrecovery balance in perpetuity and without ever truing it up to $0. Tr. 4048:22-4049:4 (Kollen). Accordingly, the Commission should amortize the excess reserve to $0 over a four-year amortization period, which will return the excess reserve to customers in a timely manner rather than allowing FPL to retain the excess recoveries indefinitely. As shown in Ex. 287, this will produce an increase to rate base of $2.455 million to be amortized over 4 years.

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

POSITION: *See* discussion of Issue 70(A) above. This will produce an increase to rate base of $7.080 million to be amortized over 4 years.

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?

POSITION: FPL included overstated amounts in rate base case as it acknowledged in response to SFHHA interrogatories. The corrected amount of deferred pension debit included in FPL's responses to SFHHA Interrogatory Nos. 132 and 133, is $1,329.977 million (total Company) for 2017. *See* Ex. 307.

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

POSITION: The corrected amount of deferred pension debit included in FPL's responses to SFHHA Interrogatory Nos. 132 and 133, is $1,390.849 million (total Company) for 2018.

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

A. For the 2017 projected test year?

POSITION: No. The unbilled revenues are an accounting placeholder for a future receivable, for which the Company incurs no carrying costs, and should not be included in cash working capital in rate base.

The Commission should remove the accrued revenues from working capital in rate base. FPL included $228.510 million in 2017 in account 173 Accrued Utility Revenues (unbilled

revenues) in working capital. Tr. 4080:16-17 (Kollen). The amount in this account consists of the unbilled revenues related only to FPL's base tariffs. These unbilled revenues represent the estimated revenues that will be billed for service that was provided during the month, but that were not yet billed at the end of the month. Each month, the unbilled revenues for the prior month are reversed because the prior month's unbilled revenues are billed in the current month and then a new estimate for the current month is recorded. Tr. 4080:19-23 (Kollen). FPL does not incur any carrying costs on these unbilled revenues, and therefore should not include these accrued revenues in working capital, for several reasons.

First, as stated above, the unbilled revenues recognized by FPL are for base rates only, and do not include revenues for the recovery of the variable costs recovered through clauses, meaning FPL did not incur incremental costs to earn these estimated revenues. Tr. 4081:7-9 (Kollen). If FPL does not accrue unbilled revenues for fuel clause recovery revenues, then it also does not accrue accounts payable for the related fuel expense and there is no incremental amount in the accounts payable account to offset the nonfuel unbilled revenues. Second, the billed revenues actually provide contemporaneous recovery FPL's fixed costs each month that do not vary based on sales from month to month. Tr. 4081:10-14 (Kollen). These costs include the return on FPL's rate base investment, depreciation expense, non-fuel O&M expense, and other operating expenses. This is particularly true when the revenue requirement is based on a projected test year that corresponds to the utility's test year and not to a lagged test year that corresponds to the utility's unbilled service periods. Tr. 4081:17-21 (Kollen). Therefore, the Commission should exclude unbilled revenues from FPL's working capital in the 2017 test year.

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

POSITION: No. *See* discussion of Issue 72(A) above.

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

A. For the 2017 projected test year?

POSITION: No position at this time, beyond the adjustments previously discussed.

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

POSITION: *See* response to subpart 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?

POSITION: No position at this time, beyond the adjustments previously discussed.

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

POSITION: *See* response to subpart A.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: The Company's requested level of Working Capital should be reduced by $236.347 million to remove the account 173 Accrued Utility Revenues (unbilled revenues), rate case expenses and deferred pension debits as discussed in Issues 69, 71, and 72 above.

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

POSITION: The Company's requested level of Working Capital should be reduced by $241.473 million to remove the account 173 Accrued Utility Revenues (unbilled revenues), rate case expenses and pension debits as discussed in Issues 69, 71, and 72 above.

ISSUE 77: What is the appropriate level of rate base

A. For the 2017 projected test year?

POSITION: $32,025.421 million. *See* Ex. 308.

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

POSITION: $33,622.827 million. *See* Ex. 308.

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?

POSITION: $7,464.298 million. Ex. 309 at p. 5. Yes, a proration adjustment consistent with Treasury Regulation 1.167(l)-1(h)(6), whereby the amounts in Column E are summed and added to the beginning balance of ADIT in the test year, should be used to include deferred taxes in capital structure.

The appropriate amount of ADIT to include in FPL's capital structure is reflected on page 5 of Ex. 309. That total reflects adjustments made by SFHHA to FPL's as-filed rate base and adjustments necessary to reflect the total cost of service effect of SFHHA's adjustments. If FPL's as-filed rate base is adjusted without a corresponding adjustment to FPL's as-filed ADIT balance, FPL's rates will not reflect its actual costs. Just and reasonable rates require that adjustments flow through all aspects of FPL's cost of service. Additionally, a proration adjustment consistent with Treasury Regulation 1.167(l)-1(h)(6) should be used to include deferred taxes in capital structure. The proration adjustment recommended by FPL witness Ousdahl should be rejected, as it conflicts with the cited Treasury Regulation.

Treasury Regulation 1.167(l)-1(h)(6) sets forth a "proration" projected test year methodology that effectively reduces the ADIT that may be treated as cost-free capital. It does so by adjusting the ADIT balance only once per month when the deferred tax expense is recorded and that change is reflected only for the remaining days in the test year. Tr. 4089:21-24 (Kollen); *see* Ex. 313. FPL has never before sought to reduce the 13-month average ADIT

calculated for the test year based on this "proration" methodology, instead consistently synchronizing the deferred tax expense recorded and recovered during the test year with the ADIT included as cost-free capital to FPL in the cost of capital applied to rate base. Tr. 4090:3-7 (Kollen). That ratemaking treatment reflects the economic reality that the deferred income tax expense is recovered throughout the month, not at the end of the month, and that customers are entitled to a carrying charge on the average amount of the deferred tax expense recoveries in the form of ADIT at 0% cost. Tr. 4090:7-11 (Kollen). Notably, FPL never has self-reported a "normalization violation" and the IRS never has found a "normalization violation." *See* Ex. 314.

FPL witness Ousdahl calculated the effect of the "proration" methodology on a monthly basis as shown in Column E of Ex. 100, which sums to $143.670 million for 2017. Ms. Ousdahl then additionally calculated the monthly prorated accumulated activity in Column F and then computed *another* 13-month average of this column. Finally, Ms. Ousdahl calculated the difference between the actual 13-month average and the 13-month average that she calculated in Column F to further reduce ADIT. Witness Ousdahl's calculation of the proration reduction is inconsistent with the Treasury Regulation. Tr. 4091:3-7 (Kollen).

The Treasury Regulation requires that the amounts in Column E, which are the changes in ADIT each month weighted for the number of days to the end of the year, be summed ($143.670 million) and added to the beginning balance of ADIT in the test year ($8,110.356 million). Tr. 4091:6-8 (Kollen). These weighted amounts are then summed to determine the 13-month average pursuant to the Treasury Regulation. Tr. 4091:17-20 (Kollen). Inexplicably, Ms. Ousdahl added another step in Column F that is inconsistent with and nowhere shown in the Treasury Regulation or the examples provided therein. This extra step dilutes the 13-month average pursuant to the Treasury Regulation by taking another 13-month average of the monthly

accumulated activity. Tr. 4091:10-13, 4091:17-20 (Kollen). The 13-month average using the "proration" methodology is less than the actual 13-month average shown in Column B of Ex. 100 by only $10.674 million for 2017 compared to Ms. Ousdahl's additional proposed column F reduction of $57.553 million for 2017. Tr. 4092:3-6 (Kollen).

A simple way to determine that Ms. Ousdahl's proposed extra step in Column F of Ex. 100 results in an unreasonably large proration adjustment is to compare FPL's proposed reduction to that of each of the examples in the Treasury Regulation. Tr. 4092:7-11 (Kollen). FPL's proposed reduction in the ADIT is a multiple of the average deferred income tax expense during 2017 rather than a fraction as is the case in each of the examples provided in the Treasury Regulation. FPL's proposed reduction in ADIT is $57.553 million in 2017, the value of nearly 2 and a half months of the average monthly deferred tax expense of $25.023 million ($300.274 million divided by 12). The reduction following the methodology set forth in the Treasury Regulation results in a reduction of only $10.674 million for 2017, or somewhat less than a half month of the average monthly deferred tax expense of $25.023 million. Tr. 4092:11-16 (Kollen). The effect of correcting the error in FPL's calculation is reflected in Ex. 309 at p. 5.

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

POSITION: $7,993.355 million. Ex. 310 at p. 5. SFHHA's proposed proration for the 2017 test year, as discussed in Issue No. 78(A) above, should also apply to the 2018 test year, if the Commission approves FPL's proposal to include the 2018 subsequent year adjustment in this rate case.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: The Company's proposed amount of short-term debt should be reduced by $4.569 million to remove fixed commitment fees that should be collected in O&M expenses, as addressed by SFHHA at Tr. 3114-3115 (Baudino). The appropriate cost rate for short-term debt is 0.56%, which provides for a reasonable increase over FPL's December 31, 2015 cost of short-term debt of 0.28%.

The appropriate amount of short term debt to include in FPL's capital structure is $1,230,353,000, as described in Issue No. 83 (equity ratio). Ex. 309 at p. 5. FPL's total long term and short term debt should not be less than 45% of investor-supplied capital. Tr. 4097:13-18.

The appropriate cost of short term debt is 0.56%, as recommended by SFHHA witnesses Kollen and Baudino. Ex. 309 at p. 5. The Commission should reject FPL's proposal to include fixed commitment fees of $4.569 million in its requested cost of short-term debt, as reflected in MFR D-3, and reduce FPL's proposed cost of short-term debt by that amount. Tr. 3114:6-10 (Baudino). Including these largely fixed fees in short-term debt costs requires the Commission to recalculate the percentage cost of short-term debt whenever it changes the rate base or modifies the amount of short-term debt. Instead, as recommended by SFHHA witness Baudino, these fees should be collected in O&M expenses. This will ensure that FPL fully recovers these fixed expenses. Tr. 3114:12-13 (Baudino). At the same time, only the short-term debt interest rate itself is reflected in the weighted cost of capital regardless of the adjustments to rate base or the modifications to the capital structure. Tr. 3114:13-16 (Baudino).

As further recommended by SFHHA, the Commission should adopt a cost of short-term debt of 0.56%, which is the percentage cost shown in MFR D-3 for the prior year ended December 31, 2016. Tr. 3114:18-20 (Baudino). FPL should not be allowed to inflate its cost of

short-term debt based on forecasts that may or may not come to pass, just as it did for its forecasted long-term debt issuances. SFHHA's recommended 0.56% cost of short-term debt allows for a reasonable increase over FPL's December 31, 2015 cost of short-term debt of 0.28%, which is also shown in Schedule D-3. Tr. 3115:1-3 (Baudino). The Commission should prohibit pass-through of inflated costs of short-term debt to the Company's ratepayers.

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

POSITION: *See* discussion of Issue No. 80(A) above.

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?

POSITION: Debt in total should not be less than 45% of investor-supplied capital. The appropriate cost rate for long-term debt is 4.1%, which represents a 5 basis point increase in the current A-rated bond yield.

The appropriate amount of long term debt to include in FPL's capital structure is $9,842,821,000, as described in Issue 78**.** Ex. 309 at 5. FPL's total long term and short term debt should not be less than 45% of investor-supplied capital. Tr. 4095:13-18 (Kollen).

The appropriate cost rate for long term debt is 4.52%. Ex. 309 at 5. FPL's proposed 4.62% cost rate is excessive.

FPL witness Dewhurst stated that FPL projected its long-term debt cost by relying on the Blue Chip Financial Forecast, as presented in MFR D-8. Tr. 2469:10-13 (Dewhurst). For purposes of the 2017 test year, FPL included two new issuances of First Mortgage Bonds with assumed coupon rates of 6.16%. Tr. 3111:20-54:2 (Baudino). The Commission should reject FPL's assumed coupon rates, because they are grossly inflated given current yields for A-rated utility bonds, which range from 3.93% in May to 4.27% in January according to the Mergent

Bond Record. Tr. 4088:3-9 (Kollen). Moreover, Moody's reported that as of June 10, 2016 A-rated utility bond yields were 3.75%. Tr. 4088:9-10 (Kollen).

Although the Blue Chip Financial Forecasts used by FPL may be forecasting higher future interest rates in 2017 and 2018, there is absolutely no reason to adopt forecasts that are excessively higher than today's current utility bond yields. Tr. 4088:12-15 (Kollen). FPL can save ratepayers hundreds of millions of dollars by financing now at lower current interest rates than at its expected long-term debt cost even if the debt is not needed until 2018. For example, presuming FPL will need the $950 million in financing it projects for 2018, it can finance that amount in 2016 at 4.10% (midpoint of the January-May yields identified above, and well above the 3.75% yield for July A-rated yields), resulting in an **annual** interest cost of **$39** million. Tr. 4089:7-15 (Kollen). Yet FPL's proposal in this case would impose higher financing costs through future debt issuances that (according to FPL) run the risk of incurring interest rates of 6.16%-6.50%. Tr. 4089:7-9 (Kollen). Assuming FPL obtained an interest rate of 6.40% on future debt issuances, borrowing that $950 million from the above example would involve annual interest payments of **$60.8** million. Tr. 4089:10-12 (Kollen). FPL is trying to inflate its costs in a conjectured future, which, in the above example would cost its customers approximately **$440** million in additional financing costs over the life of a single 20-year bond issuance (*see* Tr. 3113:7-23 (Baudino) (*i.e.,* 20 years times the approximately $22 million difference each year)), when it could reduce those costs by acting in the present, real world. Accordingly, as recommended by SFHHA, the Commission should authorize a cost of long-term debt of 4.1% for FPL's forecasted debt issues, which provides a cushion above the current A-rated bond yields. Tr. 4089:1-4 (Kollen).

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

POSITION: *See* discussion of Issue 81(A).

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: If the Commission authorizes an ROE no greater than 9.0%, FPL's common equity ratio should be set at 55%. However, if the Commission authorizes an ROE greater than 9.0%, FPL's equity ratio should be lowered to 53%. *See* 3108-3110.

The appropriate equity ratio to use in FPL's overall capital structure for ratemaking purposes is shown in Ex. 309 at p. 5, as recommended by SFHHA Witnesses Baudino and Kollen (if the Commission adopts a ROE greater than SFHHA's recommended 9%, then SFHHA recommends a lower equity ratio).[9] FPL's proposed equity ratio is inappropriate, inflated, and unnecessary to maintain FPL's financial strength. Ex. 28 (MFR Sch. D-1a for 2017 TY).

For ratemaking purposes, FPL accounts for ADIT, ITC, and Customer Deposits through its capitalization (*id.*), but utilities in other jurisdictions account for such items by adjusting rate base. While the methodologies used to account for those items are different, the effect on the subject utility's revenue requirement is the same. Nevertheless, it's important to note the difference when assessing FPL's equity ratio because it is inappropriate to compare FPL's equity ratio for ratemaking purposes (which includes ADIT and other items) with equity ratios

[9] In the event the Commission authorizes a ROE greater than 9.0%, the Commission should lower FPL's equity ratio accordingly. The Commission could lower FPL's equity ratio to 53%, which is the average common equity ratio the proxy group of companies presented in Mr. Hevert's direct evidence. Tr. 3111:11-13 (Baudino). This is certainly a reasonable, even generous, equity percentage considering that the average equity ratio for SFHHA Witness Baudino's comparison group of companies is 50%. Tr. 3111:13-15 (Baudino).

computed for other utilities that do *not* include such items in the calculation of capitalization. Such a comparison would not be meaningful but rather an apples-to-bananas comparison. Statements that FPL's equity ratio is reasonable because for ratemaking purposes it is 45.13% obfuscate FPL's equity capitalization. Furthermore, because FPL claims that its equity capitalization is necessary to maintain its financial strength, it's necessary to evaluate FPL's capitalization from the perspective of investors. From a capitalization perspective, investors are concerned with FPL's investor supplied capital (equity, long term debt, and short term debt). In terms of FPL's investor- supplied capital (equity, long term debt, and short term debt), SFHHA has proposed that FPL employ a 55% equity ratio. Tr. 3108:20-21 (Baudino); Ex. 309 at 5 (55% equity ratio equals $13,533,878 (equity) divided by the sum of 13,533,878 (equity), $9,842,821 (long term debt) and $1,230,353 short term debt)). In contrast, FPL has requested a 59.6% equity ratio. Ex. 28 (MFR Sch. D-1a for 2017 TY) (59.6% equals $14,682,574 (equity) divided by the sum of $14,682,574 (equity), $9,358,417 (long term debt) and $612,939 (short term debt)).

FPL's equity capitalization is a significant driver of its revenue requirement and FPL's rates. By financing its operations using a 59.6% equity ratio, as opposed to the 55% ratio recommended by SFHHA, ratepayers would pay approximately $136 million per year more in compensation to FPL (using a 9% equity return for the 2017 test year). Tr. 4337 (line "Adjust Capital Structure") (Kollen). Each dollar of equity financing the cost FPL's ratepayers *three to four times* the cost of financing that capital as debt. Tr. 3062:11-13 (Baudino); Tr. 3109:16-18 (Baudino). The thick equity proposed by FPL for its capital structure for regulatory purposes thus is extremely costly in lieu of debt.

Considering that FPL's capitalization is such a significant cost driver, the Commission and FPL's ratepayers should expect FPL to: (1) follow good utility practice and document its capitalization analyses and decisions, (2) perform qualitative and quantitative analyses regarding the optimal capitalization for FPL to utilize, and (3) use documented analyses to help select an equity capitalization that minimizes costs to ratepayers, including not just FPL's cost of debt and equity but FPL's ability to minimize project costs in the future. FPL failed to meet all three minimum expectations. FPL's complete failure to meet those three minimum expectations is a textbook example of mismanagement. Not only should such mismanagement disqualify FPL from eligibility for any ROE "performance adder," it should also result in the rejection of FPL's proposed equity ratio.

FPL Witness Reed has worked for one hundred energy and utility clients over the course of his career (Tr. 527:24-528:2 (Reed)), providing financial advice to many utilities. Tr. 635:12-16 (Reed). According to FPL's President, "Mr. Reed is well known to be an expert" in the industry. Tr. 254:1-4 (Silagy). Mr. Reed explained that good utility practice involves "practices that a utility that was acting in a reasonable and prudent matter would follow." Tr. 531:11-14 (Reed). He testified that in order for a utility to achieve not only its service obligations but also its "cost-control objectives" it should "look at the cost of capital, cost of debt, [and] cost of equity." Tr. 634:16-20 (Reed). FPL Witness Reed explained that a thorough analysis of a utility's ROE and capital structure "would not just consider the existing ROE and the existing capital structure." Tr. 636:16-20 (Reed). Further, he stated that when his firm performs an assessment of a utility's financial profile, his firm documents such analysis. Tr. 635:22-636:4 (Reed).

FPL failed to follow good utility practice. It failed to document any capital structure analyses during its regular course of business. FPL did not have any documents that discussed or analyzed (1) "how increasing, decreasing or maintaining FPL's equity ratio would affect its 'total cost of capital' ", Ex. 256 at p. 69, (2) "how FPL's equity ratio affected its credit rating," Ex. 256 at 7, (3) "the costs and benefits of FPL maintaining its current credit rating," Ex. 256 at 73, (4) "how FPL's equity ratio affected its 'financial strength' or access to capital," Ex. 256 at 76, or (5) "the costs and benefits of improving FPL's financial strength." Ex. 256 at 72. These are topics about which FPL sponsors opinions of its witnesses, but no empirical evidence. FPL could not even produce a single document "*describing* FPL's target capital structure." Ex. 256 at 74 (emphasis added). FPL Witness Dewhurst repeatedly admonishes intervenors for not considering FPL's "strategy" of financial strength, *see e.g.*, Tr. 5789:23 (Dewhurst) (claiming that intervenors "ignore both FPL's position and its strategy"), but FPL itself apparently does not have a single document describing its strategy. In other words, FPL, using over $24 billion in investor- supplied capital (Ex. 28 (MFR Sch. D-1a for 2017 TY) (equity, LTD and STD)), did not have a single planning document describing its goals and why FPL was pursuing its capitalization policy.

This failure is remarkable. FPL attempted to defend its complete lack of documentation through two strawmen. First, FPL attempted to dismiss the absence of the analyses requested by SFHHA ostensibly because they would involve simplistic assumptions. *E.g.*, Ex. 256 at 69. Of course, that analysis is precisely the type FPL Witness Hevert conducted to find the "optimal" credit rating for other utilities in his career, defined as the rating that "minimizes, at any given point in time, the cost of capital…" *See* Ex. 792 at 90 in original document. Moreover, FPL's response completely misapprehends the nature of discovery. Discovery requests are designed to

be broad to capture any analyses performed by FPL. Yet, even faced with a broad request, FPL failed to produce a single document. Second, FPL Witness Dewhurst claimed that the analyses requested "are not useful in the real world" and do "not reflect real world behavior." Tr. 5795:6-22 (Dewhurst). It's not clear how a document "*describing* FPL's target capital structure" (Ex. 256 at 74 (emphasis added)) or analyzing "how FPL's equity ratio affected its 'financial strength' or access to capital" (Ex. 256 at 76), would not be useful in the real world or reflect real world behavior. Like most of Witness Dewhurst's assertions these are opinions lacking any actual empirical support. Further, his claim is contracted by the two consultants that FPL hired for this proceeding. FPL Witness Reed's firm (Concentric Energy) regularly performs such analyses, as described above. He testified that a thorough analysis of a utility's ROE and capital structure "would not just consider the existing ROE and the existing capital structure" (Tr. 636:16-20 (Reed)), and that such assessments would be documented. Tr. 635:22-636:4 (Reed). In fact, when FPL Witness Hevert worked for Concentric Energy in 2011 (Ex. 792), he provided extensive testimony and analysis regarding the development of a utility's target credit rating. Ex. 792 at 84-90. He analyzed the costs and benefits of maintaining the utility's credit rating and how the utility's credit rating would affect its cost of debt and access to capital markets. *Id.* In addition, Witness Dewhurst's claim that there is not sufficient data available to perform the analyses, Tr. 5795:18-19 (Dewhurst), is contradicted by the significant amount of data provided by FPL Witness Hevert in his prior testimony. Ex. 792 at 84-90. Today, we live in a world of big data. There is a plethora of data available, including financial data used by FPL's own consultants in this proceeding. FPL Witness Dewhurst's claim that there is not adequate data available is outlandish. Contrary to Witness Dewhurst's unsupported assertion, utilities are

capable of performing such analyses and FPL's own consultant witnesses have performed them in the past.

FPL's failure to commit a capital structure analysis to even a single piece of paper or perform any empirical computation stands in stark contrast to the repeated computations and obvious dedication of resources lavished on Mr. Reed's rationalization of the incentive ROE adder. If FPL had expended a fraction of the time and effort on performing, creating and documenting substantive capital structure analyses as it had expended on Mr. Reed's analysis, this simply would not be an issue in this case.

FPL also failed to adequately benchmark its capitalization against the industry or document such benchmarking consistent with good utility practice. Despite claiming in FPL Witness Dewhurst's testimony that FPL "employed a balanced capital structure consistent with other financially strong utilities" (Tr. 2453:17-18 (Dewhurst)) FPL *could not provide a single* "*study* of the capital structures employed by 'other financially strong utilities.' " Ex. 256 at 79 (emphasis added). FPL was also unable to provide a single study that "compar[ed] the financial strength of FPL to that of other U.S. electric utilities." Ex. 256 at 80. Like nearly all of the Witness Dewhurst's conclusory opinions, when asked to provide any analytical support for his statements, none was furnished.

Even relying on benchmarking provided after FPL decided to employ a 59.6% equity ratio and filed its direct evidence in this proceeding, FPL could not comport its requested equity capitalization with comparable utilities. When asked to provide the authorized equity ratios for each of the major southeastern investor-owned utilities that FPL listed in Dewhurst direct evidence, FPL provided a chart that demonstrated that FPL's equity ratio was by far the highest (the next highest was just 54%). Ex. 256 at 82. Furthermore, FPL Witness Hevert's attempt to

compare FPL's capitalization to the capitalization of his proxy group was woefully inaccurate and incomplete. *See* Exs. 133 and 358. He reviewed only the other companies' equity and long term debt balances. *See* Exs. 133 and 358; Tr. 2366:16-25. Yet, FPL's equity ratio described by all of the parties in this proceeding was derived based upon equity, long term debt and short term debt.[10] Witness Hevert's failure to include short term debt inflated the amount of equity that he reported in his exhibit. Further, as FPL succinctly explained at the hearing, computing the capital structure "using simply these two elements" (equity and long term debt), would assume "an *inapplicable and inappropriate computation of capital structure*." Tr. 5712:24-5713:14 (Hevert) (emphasis added). Those were the only two components considered in FPL Witness Hevert's Ex. 358.[11] Witness Hevert (1) reported equity ratios for companies that did not even do their own financing (*i.e.*, they did not issue any market debt),[12] (2) failed to account for capital leases,[13] and (3) failed to account for purchased power obligations, which affects a utility's

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[10] Ex. 28 (MFR Sch. D-1a for 2017 TY) (59.6% equals $14,682,574 (equity) divided by the sum of $14,682,574 (equity), $9,358,417 (long term debt) and $612,939 (short term debt)); Tr. 3108:20-21 (Baudino); Ex. 309 at 5 (55% equity ratio equals $13,533,878 (equity) divided by the sum of 13,533,878 (equity), $9,842,821 (long term debt) and $1,230,353 short term debt)).

[11] *Compare* Ex. 358 at 1, line Wheeling Power Co., Column 2015Q4 (53.73% equity ratio for the fourth quarter of 2015) *with* Tr. 5712:9-5714:3 and Ex. 788 at p. 112, col. Current Year - 2015/Q4 (53.7% equity computed by dividing $406,461,375 (Line 16 - Total Proprietary Capital) by the sum of $406,461,375 (Line 16 - Total Proprietary Capital) and $350,000,000 (Line 24 - Long Term Debt)).

[12] For example, Wheeling Power did not issue its own debt in 2014 and Kingsport Power Company did not issue its own debt in either 2014 or 2015. *Compare* Ex. 358 at 1, line Wheeling Power Co., Column 2014Q4 (reporting a 79.75% equity ratio for Wheeling Power Co. for Q4 2014) *with* Ex. 788 at p. 112, col. "Prior Year," line 20 "Advances from Associated Companies" (noting that Wheeling Power's only "long term debt" in Q4 2014 was "Advances from Associated Companies," not market derived debt); *Compare* Ex. 358 at 1, line Kingsport Power Co., Columns 2014Q4 and 2015Q4 (reporting a 59.7% equity ratio for Q4 2015 and 61% for Q4 2014) *with* Ex. 789 at p. 112, cols. "Current Year and "Prior Year," line 20 "Advances from Associated Companies" (noting that Kingsport Power's only "long term debt" in Q4 2014 and 2015 was "Advances from Associated Companies," not market derived debt). The Federal Energy Regulatory Commission does not recognize capital structures of entities that do not issue debt in their own name, or if they do, if the debt is guaranteed by a corporate parent. *See* Opinion No. 414, *Transcontinental Gas Pipeline Corp.*, 80 FERC ¶ 61,157, 61,657-60 (1997).

[13] For example, Alaska Electric Light and Power Co. had capital leases that significantly affected its liability side of the balance sheet. Ex. 790 at p. 112, line 26 (reporting over $60 million in capital leases). Yet, Witness Hevert only captured Alaska Electric's *long term debt* in his capitalization chart. *Compare* Ex. 358, line "Alaska Electric Light and Power Company," column, 2015Q4 (reporting an equity ratio of 58.18%) *with* Ex.

ability to use debt obligations.[14] If FPL Witness Hevert had accounted for such information, the reported equity ratios would have been substantially lower. Witness Hevert's analysis also failed to correctly report the equity and long term debt ratios for the proxy companies.[15] Instead, he calculated the proxy company's equity ratio by taking the simple average of the electric operating companies owned by the proxy company.[16] Such an approach distorts the average because it over-weights smaller capitalized companies.[17] A more accurate assessment would have weighted the equity ratios based on the total capitalization of each entity. Finally, the companies included in the Witness Hevert's proxy group are not comparable to FPL as described in ISSUE 83, *infra.* FPL Witness Dewhurst stated that he was not familiar at all with the operating companies used by Witness Hevert to justify high equity ratios, such as Kingsport Power, Wheeling Power, Superior Water and Light, and Alaska Light and Power. Tr. 2545:23-2546:1 (Dewhurst).

FPL's failure to document any analyses regarding the optimal capitalization is explained by the economic incentives created by FPL's use of an abnormally thick equity capitalization. FPL has admitted that "*there's a distinction between rate regulated entities and unregulated entities*" regarding their profit motive and selected capital structure. Ex. 261 at 8 (lines 12 -17) (emphasis added). FPL agreed that if an unregulated enterprise "simply replaced some its

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790 (deriving a 58.18% equity ratio by dividing line 16 by the sum of lines 16 and 24, which does *not* include the capital leases).

[14] *See* Ex. 791 at p. 112 and 123.8 (describing how Superior Water, Light and Power Company purchased over $44 million in power in 2014 and 2015, while its total equity was approximately $41 million).

[15] Ex. 683 at p. 42 (reporting Westar's actual equity ratio as of 2014 Q4 as 49%); Tr. 2372:7-16. Ex. 133 at p. 1, line "Westar Energy, Inc." (incorrectly reporting a 65.73% equity ratio for 2014 Q4).

[16] *E.g.*, Alliant Energy Corp.'s 51.65% 2016 Q1 equity ratio is derived by averaging the equity ratios for Interstate Power and Light Company and Wisconsin Power and Light Company ((51.52% + 51.78%) / 2 = 51.65%). Tr. 5715:13-5716:22.

[17] Unsurprisingly, smaller entities that are not similar to FPL have higher reported equity ratios. *E.g.*, Kingsport Power Co. and Superior Water, Light and Power Co.

existing equity with debt, [but] didn't change the overall level of capitalization, earnings per share of that enterprise would increase." Ex. 261 at p. 4 (line 20) - p. 5 (line 21). In contrast, FPL also agreed that "if FPL's capital structure was changed by replacing some of its existing equity with debt for purposes of setting rates, earnings per share of FPL would not automatically increase." Ex. 261 at 8 (lines 6-10). In other words, unlike a non-regulated company, FPL has a powerful economic incentive to use an inefficient capital structure. That's because the savings derived from using a more efficient capital structure (with less equity) would flow to ratepayers. FPL has the opposite motivation of a non-regulated entity. The more FPL increases its equity ratio, the higher FPL's overall return is for the same investment in rate base. That motivation is not speculative. As NextEra Energy admitted in a February 2016 investor presentation, "FPL's net income is largely a function of capital employed, ***capital structure (equity ratio)*** and ROE earned." Ex. 255 at 3 (emphasis added). In addition, individuals at FPL deciding what equity ratio to use at FPL and providing testimony in support of such equity ratio have very large financial incentives to increase FPL's equity ratio and therefore its net income.[18]

SFHHA's proposed 55% equity ratio for investor supplied capital is conservative and would provide ample financial strength for FPL's operations. Contrary to SFHHA Witness Dewhurst's suggestion that SFHHA is proposing to "slash" FPL's equity ratio (Tr. 5899:6 (Dewhurst)), SFHHA's proposed capitalization would result in FPL *matching the highest equity ratio* of any of the companies included in SFHHA's proposed proxy group. Tr. 3106:1 (Table 3) (Baudino). It would also be the highest equity ratio authorized for the regulated utilities in the

[18] "Regulators must decide: Is FPL rate increase a customer investment or a tax?" Miami Herald (Aug, 30, 2016) (available at: http://www.miamiherald.com/news/business/article98893112.html) (last visited Sept. 19, 2016). Section 90.202(12), Florida Statutes, permits official recognition of "Facts that are not subject to dispute because they are capable of accurate and ready determination by resort to sources whose accuracy cannot be questioned." FPL Witness Dewhurst's financial position in NextEra Energy is publically available. Accordingly, SFHHA respectfully requests Official Recognition, pursuant to Section 90.202(12) of the Florida Statutes of that interest.

southeast states that FPL Witness Dewhurst believes are comparable to FPL. Ex. 256 at 82. To the extent FPL is increasing its overall capitalization over the next four years, the Commission should direct FPL to gradually "grow" into the 55% equity ratio by issuing more debt than it had otherwise planned and decreasing equity infusions. Therefore, SFHHA is not suggesting, as FPL Witness Dewhurst erroneously suggests, that "utilities are alike and interchangeable in every other respect." Tr. 5787:18 (Dewhurst).

SFHHA does not take supporting FPL's financial strength lightly or capriciously suggest that FPL's capitalization should be adjusted. In FPL's 2012 rate case, SFHHA was the only intervener that filed testimony regarding capital structure that accepted FPL's equity ratio. SFHHA is not proposing to finance FPL's operations with 100% debt as suggested by FPL Witness Dewhurst's overly dramatic and erroneous description of SFHHA's proposal. Tr. 5792:19-5793:2 (Dewhurst). SFHHA recognizes that maintaining a credit supportive equity ratio is important for maintaining FPL's credit ratings and keeping other costs low. However, FPL's proposed 59.6% equity ratio is out of line with the requirements for financial strength that FPL has described in the past.

As recently as 2014, FPL's equity component of capital structure, as shown in its MFRs, (MFR D-1) was 55%. With this lower common equity, FPL suffered no diminution in its credit and bond ratings. To the contrary, FPL has flourished since the 2012 base rate case. In calendar year 2015, based upon its 2012 rates, which remain in effect today, FPL earned an 11.50% regulatory ROE - the top of the authorized range. Ex. 573. FPL also reported in early August

2016 that it had earned an approximately 11.50% regulatory ROE in the second quarter of 2016, which again is based on the current base rates derived under the 2012 rate settlement.[19]

Moreover, the circumstances facing FPL have materially changed. FPL has achieved and maintained an A credit rating based on its 2012 rates. In the 2017 test year and beyond, FPL also will have far less exposure to power purchase agreement ("PPA") obligations, which FPL repeatedly cited in the 2012 case as an additional rationale for the thick equity ratio it requested in 2012, Docket No. 120015-EI. *See* Tr. 4749:20-4750:17, Tr. 3110:3-20 (Baudino); Ex. 256 at 52:3-53:7. Mr. Barrett confirmed that if the cost of long-term debt from FPL's 2009 rate case was still in effect for purposes its 2016 rate case, the annual cost of that debt would be $110 million higher than it actually is today. Tr. 4637:9-15 (Barrett); Ex. 738.

SFHHA is proposing to maintain FPL's financial strength; FPL in contrast is proposing to unnecessarily increase its financial strength rate. In FPL's 2012 rate proceeding, FPL Witness Dewhurst "testified that S&P imputed $922 million of the Company's [power purchase agreements ("PPAs")] as debt when evaluating FPL's financial strength." Tr. 3110:7-9 (Baudino). As a result, FPL needed to maintain a higher equity ratio in 2012 to account for the imputed debt. Since 2012, FPL has substantially reduced its PPA obligations to just $185 million in 2016. Tr. 3111:3-4 (Baudino). In other words, hundreds of millions of dollars of imputed debt have been eliminated from FPL's balance sheet between 2012 and 2016. As a result, FPL does not need to maintain an approximately 60% equity ratio to maintain the same level of financial strength that it enjoyed in 2012. By maintaining FPL's equity ratio at a level that was necessary to support approximately $800 million of PPA obligations that no longer exist and a higher interest rate on its debt than is now the case, FPL is proposing to substantially

[19] *See* FPL 2nd Quarter 2016 Form 10-Q Report at p. 42 (filed July 28, 2016) ("FPL's increase in net income for the three and six months ended June 30, 2016 was primarily driven by continued investments in plant in service and other property while earning an 11.50% regulatory ROE on its retail rate base.").

increase its financial strength, not maintain it. Not surprisingly, FPL's direct and rebuttal testimony in this proceeding does not discuss the reduction in PPAs at all.

FPL's proposed equity ratio of approximately 60% common equity versus 40% long term debt, as recommended by FPL, is clearly excessive and also completely unnecessary for FPL to maintain an A/A credit rating. SFHHA's witness provided an extended discussion of the results of his study supporting his conclusion that implementing SFHHA's recommendations would leave FPL's credit metrics solidly within the range used for FPL's current credit rating. See Tr. 3155:17-3161:20. In a period of record low or near record low interest rates, it is wholly inconsistent with protecting the interests of FPL's ratepayers' to simply presume, without empirical analysis, that the capital structure of FPL should be set at 60%.

From a regulatory perspective, it is also important to move FPL's equity ratio from an extreme outlier to the top of the range of comparable utility equity ratios, as described above. FPL Witness Reed has explained that "the use of a capital structure that is more consistent with the average of the companies in the proxy group effectively equalizes a component of the financial risk faced by different firms, and strengths the effectiveness of company comparisons. This is useful for establishing an appropriate level of leverage, but also for determining an appropriate ROE and for other regulatory determinations." Ex. 588 at 16:7-13. In that testimony Witness Reed provided a range of electric utility *authorized* equity ratios. An equity ratio above 60% was not even included in the chart. In this proceeding, FPL could not identify a single utility that has "an approved equity ratio of 59.6%." Ex. 256 at 77-78. Moving FPL from its current position as an extreme outlier to the top of the range of comparable utility equity ratios ensures that the Commission can make effective comparisons between FPL and other utilities regarding risk and ROE.

FPL repeatedly notes that financial strength is important during down turns (Tr. 5922:7-9 (Dewhurst)) and claims that capital structure analysis "cannot be reduced to an arithmetic search for the 'lowest' cost of capital." Tr. 5918:9-10 (Dewhurst). But, that is no reason to retain the costly 59.6% equity component. FPL Witness Hevert calculated the cost impacts of experiencing a one-notch reduction in credit ratings during the most severe "financial crisis" of the past 75 years, the Great Recession.[20] That calculation is consistent with OPC Witness O'Donnell's calculations. The upshot is that even if there was a one notch reduction in FPL's credit rating (despite SFHHA Witness Baudino's testimony that his proposals would leave FPL squarely within the range of the metrics associated with FPL's current credit ratings), FPL's ratepayers are incontrovertibly *far* better off relative to FPL's continued 59.6% equity component autopilot proposal.[21]

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

POSITION: *See* SFHHA discussion of Issue No. 83(A).

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

POSITION: *No. The Commission should base its allowed return on equity on market-based data and analysis that will fairly compensate investors for their equity investment. Arbitrarily increasing the investor required return to recognize factors such as alleged "excellent management" would overcompensate investors and result in excessive rates to ratepayers. Moreover, providing an inflated return on equity to recognize claimed "exemplary management" performance undercuts the benefits

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[20] Ex. 792 at 87, 89; *see* Tr. 2267:7-9, 15-16 and 20-21 ("the great financial market contraction of 2008-09").

[21] FPL Witness Hevert's evidence in Ex. 792 showed an almost imperceptible cost increase when moving from an A- to a BBB+ rating in his Table 7, and the increase across 2008-2009 for the movement from an A rating to BBB+ averaged 0.43% (*i.e.*, 0.71% in 2009 and 0.16% in 2008, *see* Table 13) which on bonds previously yielding 5%, would involve an increase of the yield to 5.22%. This additional 22 basis points spread over FPL's anticipated debt issuances for 2016-2020, would result in an increase of only approximately $5 million per year, which is swamped by the $136 million in savings arising from going from 60% equity to 55% equity. Ex. 29 (MFR Schedule D-4a (increasing the interest rate for the bonds listed on lines 2-4 and 27 by 22 basis points, increases the annual debt cost associated with those issuances by approximately $5 million per year); Tr. 4037, Table, line "Adjust Capital Structure - 55% (showing saving of approximately $136 million). Of course, at higher ROEs, the savings from setting equity at 55% of capital structure rather than 59.6% would only be greater.

> of such performance, which should be greater efficiency, lower costs, and lower rates to customers. FPL's ratepayers have paid FPL dollar for dollar for the O&M expenses and capital investments FPL has made over time that have resulted in the rates currently being paid by customers. And FPL's management and employees have accomplished this without any special ROE adder that would flow to shareholders. FPL and its affiliates already receive many incentives if they operate efficiently. Unfortunately, FPL's management could not be fairly labeled "exemplary" given, *inter alia*, the use of a 60% equity component in the capital structure.*

DISCUSSION:

FPL' s request for a 50-basis-point performance adder to the authorized ROE should not be approved for several reasons. First, the Commission should base FPL's authorized return on equity on market-based, quantifiable data and analysis that fairly compensates investors for their equity investment. Second, providing FPL with an inflated return on equity to recognize claimed "exemplary management" performance undercuts the benefits of such performance, *i.e.*, greater efficiency results in lower costs which should produce lower rates for customers. Third, the Commission cannot credibly label FPL's management "exemplary," given its proposed use of a 60% equity component in capital structure, as discussed in Issue No. 83 above. The stark contrast between the lack of any supporting documented empirical analysis or benchmarking for the thick equity component, and the lavish studies FPL underwrote to justify its 50 basis point adder, is an eloquent statement of why FPL is not entitled to be recognized as FPL seeks. Additionally, FPL's plans to bring into operation in 2013 and 2014 an enormous coal-generation facility is another reason the adder is unwarranted. Ex. 567. Finally, to the extent FPL has enjoyed success, that success is not disproportionately reliant on the skill of its management. Ex. 792.

In stark contrast to the market-based data and analysis conducted by SFHHA which support its recommended ROE and capital structure, FPL's proposed ROE adder constitutes an arbitrary increase not supported by any identifiable metric. Rather it is advanced on the basis of

FPL's purported "exemplary management." Using appropriate cost of equity models to estimate the investor required return for FPL will, if applied properly, fairly compensate investors for their equity investment. Tr. 3135:4-6 (Baudino). Ironically, FPL's own witness, Mr. Reed, has testified in prior rate cases that the traditional cost-of-service model adequately incents a utility to capture efficiencies so that it can increase its earned return over that which would otherwise be achievable. Tr. 643:13-20 (Reed); *see* Ex. 589. But in this case, FPL ignores Mr. Reed's conclusion, and instead requires an adder to incent efficiency. FPL's equity owner benefits significantly even without an ROE adder. None of the existing incentives were identified by FPL in its direct or rebuttal case, but FPL admitted their existence upon cross examination. For instance, FPL management has an existing incentive to keep rates for service low so that demand for FPL' s services increases and, in turn, revenues and earnings increase. Lower rates may induce industrial customers to maintain or increase their production within FPL's service territory. Tr. 196:21-197:24 (Silagy). Lower rates can induce absorbing new munis. Conversely, higher rates could induce munis to *not* renew franchises, reducing the retail sales of FPL. In addition, to the extent superior service decreases the number and duration of outages experienced by the FPL's customers after adverse weather, the utility can maintain service for longer periods and achieve the corresponding revenues associated with such service. By virtue of the significant hardening investments FPL has made and proposes in this proceeding, Tr. 1121:11-15 (Miranda); *see* Ex. 613, and any resulting reliability benefits, Ex. 615, FPL increases its earnings and lowers its risk. Tr. 1122:19-1123:5 (Miranda); Tr. 2463:4-10 and 2635:10-22 (Dewhurst). Of course, just like other regulated utilities that recover their costs under base rate mechanisms, FPL can decrease its expenses associated with O&M and other variable costs in between rate proceedings and pocket the savings as an additional return (capped at the top of the

authorized return, of course) until its next rate proceeding. Tr. 2463:4-10; Tr. 2635:10-22 (Dewhurst). Again, the evidence reflects that FPL has been earning near the very top of its authorized ROE as it approaches the date when new rats would take effect. *See* p. 75, *supra*. FPL is experiencing another significant increase in capital it accesses at zero cost by the increasing ADIT balance. FPL's owner is seeking to privatize the gains from FPL's long term natural gas transmission contracts (*see* Issue No.162, *infra*). Similarly, if FPL achieves lower capital costs by financing the $950 million in debt it presumes it will need in 2018 now, as opposed to future interest rates, which FPL Witness Hevert asserts will be higher than present rates, FPL can achieve a higher ROE until its rates are reviewed again by the Commission. Tr. 3113:7-18 (Baudino). The foregoing actions can lower costs, produce stronger returns for investors, and ultimately better service for customers. Additionally, as evidenced by the testimony of FPL's President, FPL's commitment to providing superior customer value would survive even absent the proposed ROE adder, Tr. 224:12-225:3 (Silagy), because those actions are not tied to, and do not rely upon the award of an ROE adder. FPL has a more than adequate incentive to take those actions.

FPL's ratepayers have paid FPL dollar for dollar for the O&M expenses and capital investments FPL has made over time that have resulted in the rates currently being paid by customers. Tr. 3135:16-19 (Baudino). Ratepayers should enjoy the benefits of those investments and expenses through the resulting increased efficiency, lower costs, and ultimately lower rates. FPL's management and employees have achieved the alleged efficiencies and related cost savings without any special ROE adder flowing to shareholders. FPL ratepayers should not have their rates increased a second time, in addition to FPL's increases in rate base and O&M.

The ROE adder fails to provide any direct incentive to FPL employees through incentive compensation or ensure actual savings by being tied directly to demonstrable reductions in FPL's costs. As FPL Witness Dewhurst explained, FPL could do anything it desires with the money it earns through the adder, including passing it on to FPL's parent, which could use it to offset losses at, or "headwinds" experienced by, FPL's affiliates. Tr. 2640:7-2641:17 (Dewhurst). The ROE adder is simply the wrong tool for incentivizing utility performance.

In the event the Commission concludes that an ROE adder properly incentivizes utilities and ultimately considers an adder in this proceeding, the Commission should still reject the adder because the benchmarking study performed by FPL Witness Reed does not constitute competent, substantial evidence upon which the Commission should base such a determination. FPL Witness Reed asserts that his benchmarking study "shows that the Company has out-performed similarly sized companies across an array of financial and operating metrics." Tr. 417:11-13 (Reed). On the basis only of his flawed study, FPL Witness Reed concludes that "the Company has outperformed comparable utilities in productive efficiency despite facing significantly greater situational challenges compared to its peers in the industry," Tr. 445:18-20 (Reed), which FPL Witness Dewhurst then contends should serve as sufficient support for FPL's request for a 50-basis-point adder. Tr. 2461:11-2462:2, 2462:9-13 and 2467:10-17 (Dewhurst). As shown in detail below, FPL Witness Reed's benchmarking study is flawed and provides results skewed in FPL's favor.

FPL's President and FPL Witness Reed both claim that FPL's benchmarking study demonstrates that FPL outperformed "similarly-sized companies." Tr. 135:18-20 (Silagy); Tr. 417:11-13 (Reed). FPL's President further explained that an important factor in determining a suitable universe of comparable companies is the size of those other utilities, because similarly

sized utilities will allow the analysis to adequately represent the relative success of the utilities in capturing and exploiting scale economies. Tr. 256:15-257:3 (Silagy). Yet, the companies to which FPL was compared often had a fraction of the customers and sales that FPL has. Tr. 665:16-658:1. Moreover Mr. Reed has testified that newer vintages of generating units have greater efficiency, flexibility and improved operating costs than older units. *See* Ex. 583 at 24:14-22. These characteristics help drive the results of Mr. Reed's study, not FPL's "excellent management."

To the extent the Commission could find that FPL has enjoyed success to the benefit of its customers, this success is hardly the result of its management, or even any deliberate action on its own part. FPL admitted at the hearing that the results its customers are experiencing today, which purportedly support its proposed adder, are the result of decisions made 10 to 15 years ago, notably a period during which it was not receiving any ROE adder. Tr. 120:7-9; and 242:13-16 (Silagy). Among these decisions, according to FPL's President, was the decision to start to invest in cleaner energy sources in 2006 and 2007. Tr. 243:6-25 (Silagy). In reality, however, the decision to deliver to its customers a clean emissions profile, Tr. 224:24-225:3 (Silagy), which FPL's President heavily relied upon in support of FPL's ROE adder proposal, Tr. 246:16-23 (Silagy), was one made by this Commission when it rejected FPL's proposed Glades Power Park coal plant, which FPL criticized (Ex. 569) immediately following the Commission's order. Tr. 245:14-20; *see also* Ex. 568. Furthermore, FPL Witness Reed testified that FPL's performance on carbon emissions relative to other utilities was an important factor in his analysis. Tr. 581:7-14 (Reed). Following the Commission's rejection of FPL's Glades Power Park petition, FPL constructed several gas-fired units that had more capacity and cost less than

the Glades units. Tr. 245:21-246:15 (Silagy). Once again, the credit should go to the Commission, not FPL, for the result.

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?

POSITION: 9.00%. FPL's recommended 11.5% ROE was based on a flawed analysis. The FPL DCF utility proxy group included companies involved in significant ongoing merger activity and are not comparable to FPL. In addition, FPL's recommendation was based upon various inappropriate adders, such as a flotation cost adjustment and a performance adder. FPL did not provide evidence supporting its presumption that its current stock price is wrong and that it must be adjusted downward to increase the dividend yield and the resulting cost of equity to reflect flotation costs.

DISCUSSION:

FPL's revenue requirement should not be established using a 11.00% ROE, as proposed by FPL. FPL's ROE recommendation is flawed because it (1) primarily relies on a Capital Asset Pricing Model ("CAPM") that is internally inconsistent and presents serious methodological issues, (2) disregards discounted cash flow ("DCF") results based on an unproven analysis that FPL's witness fails to fully support, (3) is derived by including various inappropriate adders such as flotation costs, and (4) is justified on a false premise (*i.e.*, that FPL has higher risks than other electric utilities and requires a higher ROE to maintain its financial strength).

SFHHA Witness Baudino's ROE recommendation does not suffer from the above mentioned flaws, and his results should be adopted by the Commission. Based on his analysis, the appropriate ROE for FPL is 9%. SFHHA's recommended ROE and capital structure result in a just and reasonable rate of return.

A. FPL's Flawed ROE Computations

The ROE must be estimated based upon models that rely upon data from the financial markets, such as dividend yields and analyst growth rates.

FPL developed its proposed ROE using three methods: the CAPM, the DCF model, and the Bond Yield Plus Risk Premium approach. Tr. 2127:8-11 (Hevert). Notably, the results of the vast majority of the multiple iterations of FPL's models do not support FPL's requested 11% ROE. FPL Witness Hevert's (1) mean unadjusted DCF results ranged from 8.91% to 9.48% (Ex. 354 at 1-3; Ex. 355 at 1, 3, 5), (2) Bond Yield Plus Risk Premium results ranged from 10.18% to 10.44% (Ex. 365 at 9), and (3) mean CAPM results for the model using the Bloomberg beta coefficient ranged from 9.9% to 10.23% (Ex. 352 at 1). The only model sponsored by FPL that can reasonably be argued on its face to support FPL's proposed 11% ROE is the mean CAPM results for the model using the Value Line beta coefficient. However, for the reasons described immediately below, FPL Witness Hevert's CAPM, especially the Value Line beta coefficient iteration of the model, is inherently flawed.

1. CAPM

The results of FPL's CAPM are not reliable. FPL's CAPM results were derived using a method that failed to comport with the basic requirements of the CAPM. FPL Witness Hevert (1) mismatched the beta coefficient and the market return when utilizing the Value Line beta coefficient, (2) derived a market return by providing DCF returns for individual companies in the S&P 500 index even though the data necessary to employ a DCF model were not available for each company in the index, and (3) utilized a risk free rate that inflated his CAPM results. SFHHA Witness Baudino's CAPM did not suffer from these methodological errors. SFHHA's results confirm that a 9% ROE is more than adequate compensation for FPL's equity holder.

a) FPL's Value Line Beta Coefficient is Inconsistent with the CAPM Employed

Beta is supposed to measure the volatility and correlation of returns between a subject company and the market as a whole. Tr. 2142:4-6 (Hevert). When applying the CAPM, the

company's beta is multiplied by the market risk premium (*i.e.*, the required return on the market as a whole minus the risk free rate). Tr. 2141:8-15 (Hevert). Both terms of the CAPM (beta and the market risk premium) require an analyst to select a market as a whole. As Dr. Roger A. Morin explained in his book "New Regulatory Finance" (cited by FPL Witness Hevert for different propositions, *see* Tr. 2188, n.62) "for reasons of consistency, the market index employed [for deriving the Market Risk Premium] *should be the same as the market index used in deriving estimates of beta*." Ex. 689 at 159 (emphasis added). FPL Witness Hevert failed to follow this requirement; he did not match the market indexes used in his CAPM model.

Instead, FPL Witness Hevert utilized two average beta coefficients (Bloomberg and Value Line) to derive his CAPM results in Ex. 352. The beta coefficient in the second table in Ex. 352 used Value Line data. Rather than relying upon the S&P 500 Index, Value Line derives its beta coefficients using the New York Stock Exchange Composite Index. Tr. 2364:1-4 (Hevert). The New York Stock Exchange Composite Index is significantly different than the S&P 500 Index. While the S&P 500 Index includes approximately 500 of the largest U.S. based publically traded companies, the New York Stock Exchange Composite Index includes over 2,000 entities and foreign listings traded on the New York Stock Exchange. Tr. 2364:5-8 (Hevert); Ex. 680 at 2.

Yet, FPL Witness Hevert multiplied the Value Line beta (based on the New York Stock Exchange) by his market risk premium calculation (based on the S&P 500 index) (Ex. 352). As a result, the CAPM results in the second table of Ex. 352 are derived using an inconsistent application of the CAPM model. Simply stated, if beta is supposed to measure a given company's variance from Market A *and you apply the beta coefficient to the market premium for*

Market B, then the result is meaningless. The results of FPL Witness Hevert's mix-and-match CAPM using Value Line's beta cannot be relied upon for setting FPL's ROE.

b) FPL's Market Risk Premium Was Derived Using Data Incompatible with the Model

FPL Witness Hevert derived his market risk premium by applying a constant growth DCF model to each of the companies in the S&P 500 Index that had growth rates available (ignoring up to 5% of the S&P 500 Index's market capitalization). Tr. 2143:10-2144:5 (Hevert). As described in detail below, since the predicate for a DCF analysis does not exist for many of those entities, the CAPM results cannot be relied on.

FPL Witness Hevert has testified that "companies cannot be analyzed using the DCF model" "that do not pay cash dividends." Ex. 679 at 18:1-3 (emphasis added). FPL Witness Hevert unequivocally stated in discovery in this proceeding that the DCF model "requires consistent dividend payments." Ex. 676 (emphasis added); Tr. 2149:4-16 (Hevert). According to Witness Hevert, in order to provide a "meaningful result," an entity must (1) have a sufficient history of quarterly dividend payments, and (2) not have recently decreased its quarterly dividend payment (Ex. 676). Witness Hevert explained that, to determine whether a company meets those criteria, the analyst must perform a company-by-company analysis. Tr. 2348:22-2350:22 (Hevert). Yet, when applying the DCF model to the entities in the S&P 500 Index, FPL Witness Hevert did not do that. Instead, he carelessly included entities that did not pay *any* dividend when calculating the S&P market risk premium. Ex. 352. Further, he did not perform a company-by-company analysis to determine which entities failed to have a sufficient history of quarterly dividend payments or recently decreased their quarterly dividend payment. As a result, by his own standards, his application of the DCF model was fundamentally flawed and, therefore, his market risk premium fails to provide meaningful results. Tr. 2350:6-9 (Hevert).

In addition, FPL Witness Hevert ostensibly required an entity to be covered by at least two of the three following *publically available* sources for growth estimates: Value Line, Zacks and Yahoo! First Call. He then averaged the results in order to avoid bias when applying the DCF model to his proxy group. Ex. 677; Tr. 2353:11-19. Yet, when applying his DCF model to the S&P 500 index to calculate the market risk premium for the CAPM, Witness Hevert either used Value Line or Bloomberg (*not an average of both*) (Ex. 356). Therefore, based on his own testimony, the results of each CAPM iteration (Value Line and Bloomberg) may be biased. Further, he relied on Bloomberg growth data even though, according to his belief, it is inappropriate to use DCF model inputs from sources of data that are not publically available.

c) FPL's Risk Free Rate Was Inappropriate

FPL Witness Hevert relied on forecasted 30-year Treasury yields to derive the risk free rate in four of his six CAPM results (Ex. 352). Such forecasts should not be relied on for developing a CAPM analysis.

Blue Chip's forecasts have been unreliable and overstated over the past eight years. *See* Exs. 736 - 738 (comparing FPL's forecasted debt costs based on Blue Chip data in prior proceedings with the actual debt costs achieved by FPL). In fact, in just this proceeding, FPL Witness Hevert lowered his estimated Treasury yields by 40 basis points between the time he filed his direct testimony in March 2016 and his rebuttal testimony in June 2016 based on Blue Chip's erratic and inflated forecasting. *Compare* Ex. 125 at p. col. 1 *with* Ex. 352 at p. 1, col. 1.

Furthermore, FPL Witness Hevert mismatches the risk free rate used in two parts of his CAPM model. The risk free rate is used twice in the model, once to derive the market risk premium and a second time to be added back to the individual company's market risk premium to complete the CAPM. Tr. 2141:8-13 (Hevert). As shown in the equation for the CAPM, the risk free rate should be the same in both parts of the equation. Otherwise, the individual

company market return (*i.e.*, the result of multiplying the beta by the market risk premium) may be overstated. However, FPL Witness Hevert did not match the risk free rates. When deriving the market risk premium, he used the current yield on 30-year Treasuries (2.5%) (Ex. 356), but when completing his equation, he used Blue Chip forecasts for four of the six CAPM equations. Ex. 352 at p. 1 col. 1. As a result, his CAPM results for those equations are significantly overstated. By subtracting a lower risk free rate when deriving the market risk premium, FPL Witness Hevert ensured that the resulting individual company market return (*i.e.*, the result of multiplying the beta by the market risk premium) was as high as possible. If FPL Witness Hevert had properly matched the risk free rate, the individual company market return would not have been so distorted.

d) SFHHA's CAPM Analysis Was Proper

SFHHA Witness Baudino's CAPM analysis does not suffer from the substantial flaws described above. First, SFHHA developed a market risk premium using a market return derived from Value Line and applied to that the Value Line beta coefficient (Ex. 259). SFHHA's beta and the market risk premium consistently used the same overall market and did not result in a mismatched formula. *Id.* (relying on Value Line data for both). Second, the market return was derived based upon market data from Value Line rather than applying a DCF model to an incomplete data set. Ex. 259 at p. 2 (relying on analyst projections of growth rather than attempting to apply a DCF model to an incomplete data set). Finally, SFHHA also consistently used the same risk free rate throughout the CAPM. Ex. 259 (matching the risk free rate in all parts of the equation). The resulting ROE derived from the CAPM model ranged from 8.03% and 8.28% and demonstrated that SFHHA's recommended 9.0% ROE was ample. Ex. 259.

2. DCF Analysis

As SFHHA explained, the first step when conducting a DCF analysis is "to construct a comparison group of companies with a risk profile that is reasonably similar to FPL" (Tr. 3085:12-13 (Baudino)), which is required by the seminal *Bluefield* and *Hope* Decisions.[22]

In rebuttal, FPL inappropriately expanded the proxy group that it used to derive its proxy group, including entities that FPL Witness Hevert excluded in his prior direct testimony, including: El Paso Electric ("El Paso"); Entergy Corp. ("Entergy"); First Energy Corp. ("First Energy"); MGE Energy, Inc. ("MGE Energy"); and PG&E Corp. ("PG&E") (Ex. 367). El Paso failed to have a sufficient history of dividends (Ex. 678), which FPL Witness Hevert admits is a requirement of the DCF analysis. Ex. 676. Entergy and PG&E were parties to a merger or significant transaction (Ex. 678), which affects those companies' dividend and price data leading to inaccurate DCF results. Tr. 2353:22-2355:4 (Hevert). In FPL Witness Hevert's direct testimony, he stated that First Energy failed to be sufficiently comparable to FPL for proxy group inclusion (Ex. 678). MGE Energy was not covered by an adequate number of rating analysts resulting in potential bias, and in FPL Witness Hevert's opinion MGE Energy failed to be sufficiently comparable to FPL (Exs. 677 and 678). Based on FPL Witness Hevert's own direct evidence, these entities were not appropriate for proxy group inclusion. Given the history of swapping out approaches in the pursuit of higher returns, it is no surprise that FPL Witness Hevert abandoned his direct testimony proxy group because the results updated by the time of rebuttal for those entities resulted in a lower average ROE.[23] However, FPL Witness Hevert's proxy group in his direct case was also over inclusive.

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[22] *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (citations omitted) ("*Hope*"); *Bluefield Water Works & Improvement Co*., 262 U.S. 679, 692-93 (1923) ("*Bluefield*").

[23] *See* Ex. 354 (average mean ROE for Allete, Alliant, Ameren, AEP, Avista, CMS Energy, DTE Energy, IDACORP, Northwestern, OGE Energy, Otter Tail, Pinnacle West, PNM Resources, Portland General Electric,

In its direct case, FPL included a number of entities that had bond ratings that were lower than FPL's A rating from S&P and Aa2 rating from Moody's. Ameren Corp. ("Ameren"), American Electric Power Co. ("AEP"), CMS Energy Corp. ("CMS"), DTE Energy Corp. ("DTE"), Great Plains Energy, Inc. ("Great Plains"), Otter Tail Corp. ("Otter Tail"), Pinnacle West Capital Corp. ("Pinnacle West"), PNM Resources, Inc. and SCANA Corp. ("SCANA") each having ratings below of FPL. Tr. 3130, Table 5 (Baudino). Including those entities in a proxy group for FPL overstates FPL's return on equity because those entities have greater risks than FPL, as measured by objective credit analysts. Tr. 3130:9-12 (Baudino).

As SFHHA showed, when the DCF results for those non-comparable entities are excluded from the analysis, the DCF results range from 8.52% to 9.54%, nowhere near 11%. The midpoint of that range is approximately Witness Baudino's recommended 9% (Ex. 258 at pp. 1-2).

In a thinly veiled attempt to increase his recommended ROE, FPL Witness Hevert attempted to discourage the use of the DCF analysis. He claimed that the DCF results were weighed down because the proxy group's price to earnings ("P/E") ratio relative to the S&P 500 Index P/E ratio was above its "historical average." Tr. 2177 (Hevert). However, FPL Witness Hevert has inconsistently applied this analysis. In fact, in a 2008 rate proceeding, the relative P/E ratio was further from the "historical average" than Witness Hevert noted in this proceeding,[24] but he did not there make that adjustment that he now insists is necessary. A consistent application of Witness Hevert's concerns regarding P/E ratios would have required

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SCANA, and Xcel was **8.73%,** lower than the ROE reported for his broader group, 8.91% -- (8.4% + 9.4% + 9.26% + 7.8% + 8.37% + 9.53% + 8.79% + 6.46% + 8.94% + 7.8% + 10.16% + 7.27% + 11.19% + 8.39% + 8.67%) / 16 = 8.73%).

[24] *Compare* Tr. 2177 (Hevert) (noting a ratio including a 5 percent premium compared to a "historical average" 7 percent discount) *with* Ex. 684 at 32 (noting a discount of 34 percent in September 2008 compared to a "historical average" 7 percent discount). September 2008 was the end of the study period used by Witness Hevert in that proceeding. Ex. 679 at 37:7-10.

Witness Hevert to state in the 2008 rate case that his DCF results were overstated. Yet, in that 2008 proceeding, FPL Witness Hevert did not note any abnormalities or claim any adjustment was necessary. FPL Witness Hevert's inconsistent treatment of the relative P/E ratios demonstrates that the concern regarding relative P/E ratios in this proceeding was concocted to impugn the results of the DCF model.

Indeed, while denouncing the form of DCF calculation SFHHA used here, FPL Witness Hevert has used the same DCF methodology in the past. *See, e.g.*, Ex. 679, 661, 665, 792.

Further, FPL Witness Hevert's analytical approach was flawed. His "historical average," derived from a data set beginning in January 2000, depressed the relative P/E ratio. The relative P/E ratio in January 2000 was 0.42. Ex. 684 at 69. By beginning his data set at an abnormally low number, FPL Witness Hevert ensured that the "historical average" would be depressed. FPL Witness Hevert's novel argument for impugning the DCF results doesn't comport with either actual data or his own prior practice and should be rejected.

3. FPL's Bond Yield Risk Premium Approach

FPL Witness Hevert's Bond Yield Plus Risk Premium approach estimated FPL's ROE between 10.04% and 10.37% (Ex. 353 at p. 1). The Bond Yield Plus Risk Premium approach used historical data regarding allowed returns for regulated utility companies and average yields for the 30-year Treasury from 1980 through 2016 (Ex. 353). The methodology did not include current market data. Tr. 3123:7-10 (Baudino). The market data included in SFHHA's DCF analysis is superior to the risk premium approach because it relies on market evidence of the ROE required by investors for FPL. Tr. 3123:3-18 (Baudino). Further, FPL Witness Hevert's methodology is fundamentally flawed. He includes the allowed return on equity approved by different state Commissions as of the date of the approval. However, those approvals were based on market data from at least six months prior to the relevant Commission orders (for example, if

the Commission relies on the market data in FPL's rebuttal case and the intervenors' answering testimony then a decision issued in December 2016, will reflect at least a six month lag). While claiming to account for the lag by using bond yields derived from the average of bond yields for the 200 day period prior to the decision (Tr. 2146:9-14 (Hevert)), FPL Witness Hevert fails to make the appropriate comparison. Comparing allowed return to bond yields derived from the past 200 days (or the 7 month period that was excluded from the analysis used by the regulatory commissions) does not appropriately match data. The same study period should apply so that both bond yields and other data are stated for comparable time periods (*e.g.*, the last half of 2015). This mismatch in data is a fundamental flaw in FPL's analysis.

B. Flotation Costs

FPL Witness Hevert recommended a 11-basis-point adder to FPL's ROE for "flotation costs" (Ex. 359). That adjustment to FPL's ROE should be rejected.

The DCF model utilized by SFHHA already accounts for flotation costs through the use of current stock prices in the model. Tr. 3124:10-3125:6 (Baudino). Multiplying the dividend yield by a 4% flotation cost adjustment, for example, essentially assumes that *the current stock price is wrong* and that it must be adjusted downward to increase the dividend yield and the resulting cost of equity. Tr. 3124:15-3125:4 (Baudino).

In addition, FPL has failed to demonstrate that it will incur flotation costs in the test period. FPL does not issue publicly-traded common stock. All of its equity is held by its parent, NextEra Energy. Any NextEra Energy flotation costs are not directly related to FPL's financing. Without any evidence that FPL issues common equity to the market or even that FPL's parent NextEra Energy issued equity on FPL's behalf, the Commission must reject FPL's proposed flotation cost adjustment.

C. FPL is a Low Risk Utility and Its Market-Based ROE Should Not be Adjusted

FPL is a low risk electric utility and should only be granted a market-based ROE because: (1) it has an abnormally high credit rating for a utility and adopting SFHHA's recommended ROE and other cost of service adjustments would not affect its rating; (2) FPL's assessment of its risk in this proceeding failed to provide a comprehensive overview of FPL's risk factors and a comparison of FPL to other utilities; (3) FPL experiences a number of factors that lower its risks, as compared to other utilities, including its relatively unique equity-thick capital structure; and (4) FPL's claimed need for "financial strength" (derived from a higher ROE than justified by the market) does not result in the promised cost savings to ratepayers.

FPL's current issuer or corporate credit ratings are "A-" from S&P, "A1" from Moody's and "A" from Fitch Ratings Ltd. ("Fitch"). Tr. 2137:10-12. Notably, FPL's ratings are deflated due to its ownership by NextEra Energy; S&P has explained that *if FPL was rated on a standalone basis* (*i.e.*, without NextEra Energy's influence), *FPL's corporate credit rating would be A+* (two notches higher than its current rating). Ex. 256 at 58. In addition, FPL's first mortgage bonds are rated "A" by S&P, "Aa2" by Moody's, and "AA-" by Fitch. Ex. 256 at 4 (Fitch); 18 (S&P); Ex. 255 at 6 (listing first mortgage bond rating for FPL for S&P, Fitch and Moody's). S&P also rates FPL's business risk as "excellent," which is the best, low risk rating that a company can receive from S&P. Tr. 3132:16-19 (Baudino). While FPL Witness Hevert notes that other electric utility operating companies have an excellent business risk rating (Hevert Rebuttal at 132:1-12), he neglects to mention that S&P views "FPL's business risk profile as being at the *upper end* of the 'excellent' category, relative to its peers." Ex. 256 at 57 (emphasis added).

NextEra Energy's own analysis of FPL's relative risk (outside of this rate proceeding and relying on objective sources) supports the proposition that its risk is low as compared to other

utilities. In February 2016, NextEra Energy stated that an A- credit rating from S&P would make an entity, such as FPL, "one of the strongest investment-grade rated electric utilities in the U.S." *See* Ex. 255 at 6 (while the analysis is presented for NextEra Energy as compared to utility credit ratings, FPL is equally applicable). It is uncontested that only 4% of other S&P-rated utilities have a credit rating at A or higher as compared to S&P's standalone rating of A+ for FPL. *Id.*; Ex. 256 at 58.

Disregarding the comprehensive nature of these objective risk measures, FPL attempts to claim that its "risk profile . . . is slightly greater than the typical utility's . . ." Tr. 2463:12-16 (Dewhurst). Notably, FPL's analysis of its risk profile was limited to the factors that FPL believed increased its relative risk (*i.e.*, those listed in Witnesses Dewhurst and Hevert's testimonies); FPL did not assess factors that decreased its relative risk. Tr. 2463:4-16 (Dewhurst); Tr. 2159:5-11 (Hevert). Therefore, even if the Commission's accepts FPL's argument that it has "slightly" higher risk for the areas that FPL discusses in its evidence, the analysis is incomplete and offset by the risk factors FPL does not discuss. Most importantly, FPL has lower financial risk as compared to other utilities due to its inflated equity ratio (that assessment holds true whether FPL's equity is approximately 60% (as proposed by FPL) or 55% (as proposed by SFHHA)), as discussed in Issue 83 and above.

Unlike FPL's limited review of its risk profile, credit rating agencies consider the risks identified by Witnesses Dewhurst and Hevert, "as well as other factors, in determining their bond and credit ratings for regulated electric companies." Tr. 3128:20-22 (Baudino). The ratings provide an assessment of the overall risk of a utility company so that "comparing FPL's bond and credit ratings to the companies in our respective proxy groups will provide the Commission an objective assessment of how FPL's overall risk compares to our groups." Tr. 3129:1-3

(Baudino). Since the proxy group is used to calculate the ROE, it's important to compare FPL to the proxy companies to determine if FPL is more or less risky and should therefore receive a higher or lower ROE than the ROE derived from the proxy group.

While FPL Witness Dewhurst *claims* that "FPL's risk profile is somewhat greater than most utilities in the country, including those in FPL witness Hevert's proxy group" (Tr. 2467:12-17 (Dewhurst)), FPL failed to provide any analyses comparing its risks to the utility industry or the proxy group. Witness Hevert did not conduct any studies regarding geographic risks, capital access, and nuclear generation requirements that compared FPL to the companies in his proxy group. Tr. 3128:4-10 (citing Ex. 256 at pp. 83-88). Contrary to Witness Dewhurst's insinuation that FPL compared its risk to the proxy group or other utilities, FPL Witness Hevert stated that he "did not believe it was necessary to perform any additional comparative risk analysis" other than his "selection criteria used to identify a proxy group of comparable publically traded electric utility companies." Ex. 256 at 89-90. Simply stated, the comparison study that Witness Dewhurst claimed Witness Hevert performed was never actually conducted. Other than conclusory and unsupported statements like Witness Dewhurst's, FPL's claim that it is a comparatively high risk utility is completely unsupported by the record evidence, and FPL has clearly failed to meet its burden of proof or even present a prima facie case in its direct case.

FPL's testimony in this proceeding regarding its overall risk profile is also at odds with what FPL's parent tells investors regarding FPL's risks. According to NextEra Energy, FPL "is one the best utility franchises in the U.S." Ex. 255 at 9. NextEra Energy also noted that "Florida's economic growth remains solid," relying upon Florida's declining unemployment rate, rising consumer sentiment and increase in building permits as evidence. *Id.* at 10. The credit rating agencies agree with NextEra Energy's assessment of FPL's risks. Fitch stated that FPL

has (1) "higher stability and predictability of profits relative to utility peers," (2) a "favorable customer mix," (3) "favorable location or high geographic diversity," and (4) a "highly captive supply and customer base." Ex. 256 at 21. S&P found that FPL's business risk was at the upper end of the "excellent" category (Ex. 256 at 57**)** and stated that FPL (1) was a "high-quality electric utility that generates steady earnings and cash flows," and (2) had a "relatively strong service territory with good customer growth prospects and predominantly residential and commercial base." Ex. 256 at 48. Moody's concurred, finding that "FPL is one of the strongest regulated electric utilities in the U.S. . . ." Tr. 3073:12-13 (Baudino) (quoting a Moody's credit report regarding FPL).

Furthermore, SFHHA produced evidence that demonstrates a number of risk factors specific to FPL are clearly below average and mitigate the risks identified by FPL and that have been confirmed by objective sources. FPL's reliance on natural gas lowers FPL risks associated with carbon-based environmental rules and legislation. Tr. 3071:15-21 (Baudino). Further, FPL has stated that it "expects to seek recovery through the environmental clause for compliance costs associated with any new environmental laws and regulations." Ex. 255 at 17. Fitch agrees that FPL has relatively low environmental risk, stating that FPL has "limited or manageable exposure to environmental regulations." Ex. 256 at 21. That below average risk factor mitigates the risk associated with FPL's dependence on natural gas. In fact, FPL overstates the amount that its fuel mix increases its risk profile. Fitch concluded that regarding FPL's underlying fuel supply mix, FPL had "low variable costs and moderate flexibility of supply." Ex. 256 at 21.

FPL also experiences lower risk due to its cost recovery clauses that have been approved by the Commission. While FPL Witnesses attempted to demonstrate that FPL's clause recovery is similar to the clauses used by members of the proxy group, his analysis was far too simplistic.

Tr. 5627:5-18 (Hevert). Witness Hevert simply listed the clauses available to each utility rather than study how each utility uses the clauses to avoid risk. *See* Ex. 384. As FPL Witness Dewhurst explains, such an approach fails to provide a complete picture because "the mere existence of a clause recovery mechanism by itself tells us little" regarding how the clause affects a utility's risk. Tr. 5784:15-18 (Dewhurst). Unlike other utilities, FPL is very dependent upon its clauses for recovery. As stated by FPL:

> Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through the various clauses, *include substantially all fuel, purchased power and interchange expense, certain construction-related costs and conservation and certain environmental-related costs*. [Ex. 255 at 16 (emphasis added)]

Moody's concluded that "Because *a high percentage of FPL's revenues* are recovered through cost recovery clauses and its leverage is low, FPL's credit metrics are among the strongest in the utility sector . . ." Tr. 3073:13-16 (Baudino) (quoting Moody's credit report regarding FPL) (emphasis added). Fitch stated that due to FPL's ability to pass through changes in fuel to customers, FPL has "limited exposure to changes in commodity prices." Ex. 256 at 21. By depending upon cost recovery clauses, FPL decreases its exposure to incurring expenses that it will not be able to recoup from ratepayers or which it will experience a significant delay in recovering. As Moody's explained, unlike the other utilities, FPL recovers a "high percentage" of its revenues from cost recovery clauses. Tr. 3073:13-16 (Baudino). FPL Witness Hevert's analysis simply did not study the percentage of revenue attributable to clause recovery for each utility in the proxy group. *See* Tr. 5627:5-18 (Hevert); Ex. 384.

Without any record evidence (such as market returns for utility companies or demonstrably higher risk as compared to other utilities) to support its recommended ROE, FPL attempts to demonstrate that ROEs below 10% are not commonly awarded by state utility commissions. *See, e.g.*, Hevert Rebuttal at 141:16-142:3. However, the evidence relied upon by

FPL is based upon the ROEs granted to other electric utilities from earlier time periods, *see, e.g.*, 656-657. As FPL Witness Hevert noted in his direct testimony, but did not describe in his rebuttal testimony, orders authorizing an ROE are a lagging indicator. Tr. 2146:9-14 (Hevert). By Witness Hevert's estimate the lag is approximately 200 days, or more than six months. *Id.* It is important to note how the financial markets and the cost of equity have changed since the reported allowed ROEs were issued.

Reported allowed ROEs for electric utilities have been trending downward for years, including 2016. *See, e.g.*, Exs. 656-657. For instance, in 2000 (based on lagged data from 1999 through the beginning of 2000), allowed ROEs ranged from 10.6% to 12.1%. Ex. 381 at 13. In 2008 (based on lagged data from 2007 through the beginning of 2008), allowed ROEs ranged from 9.4% to 11.04%. *Id.* at 15-16. Finally, in 2016 (based on lagged data from 2015), allowed *ROEs have ranged from 9.0% to 9.85%. Id.* at 19. That steady trend downward has shown no signs of reversing. It's also not surprising because the observable cost of capital (interest rates on bond yields) has also been trending downwards. SFHHA Witness Baudino demonstrated that interest rates for both long-term U.S. Treasuries and utility bonds have fallen since early 2008. Tr. 3064:2-13 (Baudino); Ex. 253. While FPL contends that interest rates are about to rise, they have been making that claim for eight years. FPL contends that interest rates "only [have] one way to go. And that would be up . . ." Tr. 4633:12-14 (Barrett). However, that is incorrect. Interest rates have steadily declined since 2008, and there isn't a barrier that interest rates cannot fall below. In fact, many countries have begun to experience negative interest rates. Tr. 3068:4-18 (Baudino). Further, even if interest rates rose, it's difficult to gauge the level of rise and timing. As Witness Baudino explained:

> I acknowledge that the U.S. economy is operating in a low interest rate environment. It is likely at some point in the near future that the Fed will raise

> short-term interest rates further. *However, the timing and the level of any such move are not known at this time*. It is important to realize that investor expectations of higher interest rates, if any, are *already embodied in current securities prices, which include debt securities and stock prices*. [Tr. 3069:8-13 (Baudino) (emphasis added)].

Providing FPL an ROE higher than dictated by current market evidence based upon unreliable forecasted interest rates makes little sense for a rate regulated entity. As shown through the last eight years, low interest rates are a long lasting trend. If that trend reverses sometimes in the future, FPL is free to file a new rate case to reflect the change, but assuming the trend will reverse based on unreliable evidence would only impose additional costs on rate payers.

All of these factors suggest not only that FPL's ROE should be lower than the ROE allowed for its 2012 settlement (10.5%), but that FPL's current ROE should be lower than the ROEs awarded to other, higher-risk electric utilities during prior periods when capital costs were higher, including the allowed returns for 2016 (based on data from the end of 2015) that ranged from 9.0% to 9.85%.

On rebuttal, *without any empirical analysis*, FPL Witness Dewhurst claims that SFHHA's recommended capital structure and ROE "would seriously undermine FPL's financial strength" and likely lead to, *inter alia*, credit rating downgrades Tr. 5765:14-15, Tr. 5770:7-5771:8 (Dewhurst). Witness Dewhurst continued to claim on rebuttal that FPL faces "unique" risks that "are markedly different from most utilities." Tr. 5777:22 and 5778:18 (Dewhurst). Yet, as described above FPL's direct evidence was completely devoid of any analytical comparison of risk between FPL and other utilities and FPL's rebuttal testimony failed to add any additional analysis. In fact, Witness Dewhurst did not even provide a single exhibit with his rebuttal testimony. He couldn't provide such information because it does not exist, as evidenced by multiple objective analyzes of FPL's specific risks provided by credit rating agencies. Contrary to Witness Dewhurst's straw man suggestion (Tr. 5780:18-20 (Dewhurst)), SFHHA is

not simply relying on the rating itself, but the specific analyses provided by the rating agencies of each of FPL's business risks as described in detail above, and documented in its testimony. *See* Tr. 3071:1-3072:30; 3073:8-3076:18; 3110:3-3111:7 (Baudino).

SFHHA Witness Baudino also provided evidence that SFHHA's recommendations, including its ROE and equity ratio recommendations, would likely not affect FPL's credit rating. Tr. 3159:7-3162:20; 3167:3-3168:11 (Baudino). Based upon the credit rating agencies' guidance concerning the financial ratios they employ to determine their ratings, SFHHA's recommendation places FPL in the range of metrics applicable to FPL's current credit rating of A- from S&P. Tr. 3159:7-18 (Baudino). During cross examination (Tr. 3162:16-3163:2 (Baudino); Ex. 720 is identical to Ex. 256 at 54-60), Staff noted that S&P stated that NextEra and its subsidiaries ratings could be lowered if NextEra Energy's funds from operation to debt declined to less than 25% on a consistent basis. Ex. 720 at 3; Ex. 256 at 56. However, Witness Baudino testified that his funds from operations to debt ratio for FPL was 29%, well above the threshold. Tr. 3158:18-24. In addition, that threshold applies to NextEra Energy, not FPL. Ex. 720 at 3; Ex. 256 at 56. That is because NextEra Energy is the entity that drives FPL's rating lower. As noted above and described by S&P, if FPL was assessed as a standalone entity, its rating would be A+, not A-. Ex. 720 at 5; Ex. 256 at 58. In other words, the force driving FPL's credit rating downward is not FPL's operations, *but NextEra Energy's operations*.

SFHHA Witness Baudino testified FPL's credit metrics would remain solidly within the range established for its existing A- level if SFHHA's recommendations, including a 9% ROE and 55% equity ratio, were implemented. Tr. 3105:6-11; 3158:18-3161:20; 3167:9-3168:11 (Baudino). While Witness Dewhurst makes conclusory accusations, he failed to provides *any* empirical analysis (including any comparison of metrics results under SFHHA's proposal)

disputing Witness Baudino's findings. The reason such evidence is missing is because it doesn't exist.

FPL's final claim that an 11 % ROE is necessary rests on FPL's assertions that FPL requires a high ROE to maintain "financial strength." *See* Tr. 5760:12-19 (Dewhurst). This claim is faulty for a number of reasons. First, providing FPL with a higher ROE in order to maintain its "financial strength," uses the wrong tool for the job. A higher ROE can be used by FPL to pursue a number of corporate purposes that would not increase its financial strength at all. FPL has no obligation to retain its extra earnings to ensure it can meet its obligations in difficult circumstances. Instead, the extra funds can be distributed to FPL's parent and returned to investors (for instance, in the higher dividends announced by NextEra and noted on p. 1, *supra*). If FPL is truly concerned that it needs further financial strength to meet its obligations after a hurricane, then there are far more focused tools to deal with that concern. Adjusting the ROE to provide an extra cushion in difficult times, is an expensive (just 25 basis points costs ratepayers approximately $45 million per year that will never be available again to account for any future adverse events) and blunt instrument that fails to serve the purpose that FPL is proposing.

Finally, FPL's financial strength is already more than adequate. FPL maintains one of the highest equity ratios of any electric utility in the United States. *See*, *e.g.*, Tr. 3104:19-3106:5 (Baudino); Ex. 256 at 80. Despite the excessive equity share of FPL's capitalization, SFHHA has proposed to lower FPL's equity capitalization only to 55%. That percentage would still result in FPL having the highest equity ratio of any proxy company in SFHHA witness Baudino's proxy group. *See* Tr. 3106 (Baudino). As a result, FPL has extra equity and the resulting retained earnings and cash to withstand adverse events. With an "excellent" business

risk profile and one of the strongest balance sheets in the electric utility industry, FPL has ready access to the debt markets.

In conclusion, by all objective measures FPL is a low risk electric utility. Even if one were to accept that the factors identified by FPL elevate its risks, those factors are mitigated by a number of low risk aspects of FPL's business. FPL's ROE should not be set above market to provide it with "financial strength." Such an expense is not needed and is extremely costly for very little benefit to ratepayers.

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

POSITION: *See* discussion of Issue No. 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?

POSITION: So long as FPL's ROE is set at 9.00%, FPL's weighted average cost of capital should be 5.18%. *See* Ex. 309 at page 5.

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

POSITION: So long as FPL's ROE is set at 9.00%, FPL's weighted average cost of capital should be 5.16%. *See* Ex. 310 at page 5.

NET OPERATING INCOME

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

SFHHA: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: Supports the position of OPC.

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

POSITION: Supports the position of OPC.

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?

POSITION: Supports the position of OPC.

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

POSITION: Supports the position of OPC.

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?

POSITION: Supports the position of OPC.

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

POSITION: Supports the position of OPC.

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?

POSITION: Supports the position of OPC.

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

POSITION: Supports the position of OPC.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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

A. For the 2017 projected test year?

POSITION: SFHHA agrees with OPC's recommended reductions to this expense.

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

POSITION: SFHHA agrees with OPC's recommended reductions to this expense.

ISSUE 101: What is the appropriate amount of FPL's distribution O&M expense

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No. The storm cost recovery mechanism was an element of the settlement agreement approved in Docket Nos. 090130-EI and 120015-EI. *See* discussion of Issue Nos. 1 and 103.

ISSUE 103: What is the appropriate annual storm damage accrual and storm damage reserve

A. For the 2017 projected test year?

POSITION: No accrual is necessary. FPL has a substantial storm damage reserve and has mechanisms available to it to obtain funds in the event of excessive storm damages. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

DISCUSSION:

No accrual of storm damage costs is necessary. FPL's storm damage reserve is substantially funded as evidenced by FPL's projection of $120.462 million in the storm damage reserve for the 2017 test year. Tr. 4106:11-13 (Kollen); *see* MFR B-21. If FPL depletes its storm damage reserve, FPL has mechanisms to recover any additional storm damage costs. For instance, Section 366.8260 of the Florida Statutes permits FPL to recover its reasonable and necessary storm damage costs and to replenish the storm damage reserve through a surcharge pursuant to securitization financing. Section 366.8260 both guarantees cost recovery for FPL and provides FPL ratepayers with low-cost securitization financing. Tr. 4107:17-22 (Kollen); *see* FLA. STAT. § 366.8260 (2016). Additionally, given the aggressive investments FPL proposes in this proceeding for storm hardening, and its prior claimed expenses for that purpose which will ultimately result in the hardening of 60% of its backbone feeder network by the end of 2018, the damage FPL sustained for any given storm intensity in the past should be materially reduced in the future. Tr. 1115:12-17 (Miranda). *See* discussion of Issue No. 21, *supra*. Therefore, at this time, FPL has no need to accrue storm damage costs. Tr. 4107:9-11 (Kollen)

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

POSITION: For the reasons discussed in Issue No. 103(A), no storm accrual is necessary for the 2018 test year. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

ISSUE 104: What is the appropriate amount of Other Post-Employment Benefits expense

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

ISSUE 105: What is the appropriate amount of FPL's requested level of Salaries and Employee Benefits

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

ISSUE 106: What is the appropriate amount of Pension Expense

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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)?

POSITION: SFHHA supports the position of OPC.

ISSUE 107: What is the appropriate amount and amortization period for Rate Case Expense

A. For the 2017 projected test year?

POSITION: FPL should not have filed this rate case as is explained above. As such, it should not obtain recovery of any rate case expenses. If any rate case expenses are allowed, they should be amortized over 4 years without carrying costs. *See* discussion of Issue No. 69.

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

POSITION: *See* SFHHA Position on Issue No. 107(A).

ISSUE 108: What is the appropriate amount of uncollectible expense and bad debt rate

A. For the 2017 projected test year?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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

POSITION: No position at this time.

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?

POSITION: No position at this time.

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?

POSITION: *See* discussion of Issue No. 65.

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

POSITION: *See* discussion of Issue No. 111(A).

ISSUE 112: What are the appropriate projected amounts of injuries and damages (I&D) expense accruals

A. For the 2017 projected test year?

POSITION: $10.404 million, as proposed by FPL.

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

POSITION: $10.404 million, same as for 2017, which is a $1.296 million reduction in I&D expense and $1.298 million in the revenue requirement for 2018.

ISSUE 113: What is the appropriate level of O&M Expense (Fallout Issue)

A. For the 2017 projected test year?

POSITION: The level that results from implementing those changes proposed by SFHHA and those changes proposed by OPC that SFHHA supports.
B. If applicable, for the 2018 subsequent projected test year?

POSITION: The level that results from implementing those changes proposed by SFHHA and those changes proposed by OPC that SFHHA supports.

ISSUE 114: What is the appropriate amount of depreciation, amortization, and fossil dismantlement expense (Fallout Issue)

A. For the 2017 projected test year?

POSITION: An amount not to exceed $1,401.313 million.

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

POSITION: An amount not to exceed $1,470.650 million.

ISSUE 115: What is the appropriate level of Taxes Other Than Income (Fallout Issue)

A. For the 2017 projected test year?

POSITION: An amount not to exceed $578.191 million.

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

POSITION: An amount not to exceed $615.473 million.

ISSUE 116: What is the appropriate level of Income Taxes

A. For the 2017 projected test year?

POSITION: Income Taxes expense should be modified consistent with SFHHA's recommendations on *inter alia*, ROE and capital structure. *See also* response to Issue 121. An amount not to exceed $424.607 million.

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

POSITION: *See* Response to Issue 116(A). An amount not to exceed $339.446 million.

ISSUE 117: What is the appropriate level of (Gain)/Loss on Disposal of utility property

A. For the 2017 projected test year?

POSITION: Any level of (Gain)/Loss on Disposal of utility property should reflect, at a minimum, the adjustments recommended by SFHHA, resulting in an amount not to exceed ($5.759 million).

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

POSITION: *See* discussion of Issue No. 117(A). An amount not to exceed ($10.759 million).

ISSUE 118: What is the appropriate level of Total Operating Expenses? (Fallout Issue)

A. For the 2017 projected test year?

POSITION: Any level of Total Operating Expenses should reflect, at a minimum, SFHHA's recommendations, resulting in an amount not to exceed $3,750.769 million.

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

POSITION: *See* discussion of Issue No. 118(A). An amount not to exceed $3,815.486 million.

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?

POSITION: No position at this time.

ISSUE 120: What is the appropriate level of Net Operating Income (Fallout Issue)

A. For the 2017 projected test year?

POSITION: *See* discussion of Issue No. 118(A). An amount not to exceed $2,171.436 million.

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

POSITION: *See* discussion of Issue No. 118(A). An amount not to exceed $2,152.043 million.

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?

POSITION: No. FPL did not reflect the Section 199 deduction in the calculation of the revenue expansion factor shown on Schedule C-44. This error had the effect of increasing the revenue expansion factor and improperly increasing the revenue

deficiency. If the Commission finds that FPL has a revenue deficiency in any of the test years, the revenue expansion factor should be corrected to include the Section 199 deduction.

FPL's calculation of the Section 199 ("Manufacturer's") deduction in the calculation of income tax expense, as shown in MFR Schedule C-22, was in error. Tr. 4096:1-2, 4096:15-16 (Kollen). Normally, the Section 199 deduction is reflected in the revenue expansion conversion factor to ensure that the additional income tax resulting from the gross-up of the operating income deficiency is correctly calculated. The revenue expansion factor calculates the revenue deficiency by grossing-up the operating income deficiency for income taxes and other revenue-based expenses. Tr. 4096:12-14 (Kollen). Omitting the Section 199 deduction improperly increased the revenue expansion factor, thereby improperly increasing the revenue deficiency. Consistent with SFHHA witness Kollen's recommendation, if the Commission determines that there is an operating income deficiency in either test year, it should modify the revenue expansion factor to reflect the Section 199 deduction because the Section 199 deduction will increase as taxable income increases due to the revenue increase(s). Tr. 4096:20-4097:11 (Kollen). If necessary, the Commission should calculate the revenue expansion factor as recommended by Mr. Kollen in Ex. 314.

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

POSITION: No. *See* discussion for the 2017 test year in 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?

POSITION: The deduction of 9% of taxable income allocable to production. The calculations to support this deduction are set forth in Ex. 314.

DISCUSSION:

Consistent with SFHHA's discussion of Issue 121, FPL should reflect the Section 199 Manufacturer's deduction in the calculation of the revenue expansion factor depicted on MFR Schedule C-44. Tr. 4097:12-14 (Kollen). This error improperly increased the revenue expansion factor and thereby improperly increased the revenue deficiency. A deduction of 9% of taxable income should be attributed to production based on the ratio of net production plant divided by net total plant, as depicted in MFR Schedule E-3a. Tr. 4097:14-17 (Kollen). This calculation is reasonable because income tax expense is equivalent to the gross-up on the equity return on rate base. Net production plant ratio is a proxy for the net production rate base ratio. These calculations are shown in Ex. 314.

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

POSITION: *See* discussion of Issue No. 122(A).

ISSUE 123: What is the appropriate annual operating revenue increase or decrease (Fallout Issue)

A. For the 2017 projected test year?

POSITION: At a minimum, annual operating revenue should reflect, *inter alia*, the adjustments recommended by SFHHA.

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

POSITION: *See* Response to Issue 123(A).

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?

POSITION: *The Commission should deny the adjustment. *See* SFHHA discussion of Issue No. 2. FPL's proposed base rate increase for Okeechobee is a selective single issue rate increase that is not balanced against potential reductions in the revenue requirement from other sources and does not reflect future reductions in costs as Okeechobee is depreciated for book and income tax purposes. Further, the adjustment is never trued-up to reflect the actual cost of the plant, despite FPL's

claim that it has a history of completing projects below budget, as asserted by Mr. Silagy. If approved, the Commission should use a 2.5% depreciation rate. ADIT should be at least $152.822 million, compared to the $85.747 million proposed. The 50 basis point adder should also be eliminated.*

DISCUSSION:

The Commission should deny FPL's proposal for the reasons discussed in Issue No. 2 above. Should the Commission approve the Okeechobee LSA, the Commission should make several adjustments to FPL's proposed revenue requirement, given the significant level of costs FPL proposes to include in its base rates beginning in mid-2019 as part of this proposal.

As an initial matter, FPL's proposed depreciation rate for Okeechobee is excessive. FPL's depreciation study reflects a remaining life of 39 years though FPL has assumed that new CC plants have a 40 year service life. Thus, the Okeechobee depreciation rate should reflect a 40-year service life. Tr. 4100:13-17 (Kollen). Second, as discussed further above, the Commission should reject FPL's proposal to split Account 343 into two subaccounts in the Okeechobee LSA depreciation study. Third, FPL should be required to use actual statistical retirement data in its next depreciation study after the plant operates for a few years. Given those changes, a 2.5% depreciation rate for Okeechobee is warranted. Tr. 4101:5-7 (Kollen).

Another serious problem with the proposed Okeechobee LSA is a significantly understated ADIT calculation. Specifically, FPL failed to reflect the availability of bonus depreciation the day Okeechobee enters service for tax purposes. Tr. 4101:17-19 (Kollen). FPL Witness Ousdahl admitted that FPL would not offset the 18 months of depreciation it accumulates between January 2018 and Okeechobee's June 2019 in-service date from the revenue requirement. Tr. 1727:22-1728:11 (Ousdahl). As the Commission has clearly explained in previous cases, ratepayers are entitled to the benefit associated with deferred tax expenses:

> ADITs represent the income tax component resulting from the application of the income tax rate to temporary differences at each balance sheet date. Deferred tax

> expense reflects the period to period change in ADITs. Because the financial statements reflect accrual accounting, the income tax expense calculation must reflect the liability for income taxes payable in the future as a result of transactions recorded in the current financial statements. Deferred income taxes are generated when ratepayers pay income tax expenses in rates prior to the Company actually being required to make those payments to the U.S. Treasury. Deferred income taxes are included in capital structure because these funds are used by the Company in the provision of utility electric service and should be reflected in the utility's regulated capital structure.[25]

Further, MFR B-1 shows that FPL calculated total ADIT of only $85.747 million, which is $75.296 million less than the $152.822 million of ADIT the Company will be able to remove from rate base. Tr. 4101:21-4102:3 (Kollen); *see* Ex. 311 for Mr. Kollen's full calculation of the ADIT reduction to rate base. If FPL's proposed ADIT amounts for Okeechobee are not adjusted, ratepayers will not receive the full benefit of the deferred taxes FPL should accrue for the plant.

In contrast to its significantly understated ADIT calculation for Okeechobee, FPL's proposed cost of capital for the plant is significantly overstated. Despite the significant discrepancy in the cost of debt and equity to its customers, as discussed, *inter alia*, FPL proposes a capital structure of 60.39% common equity and 39.61% long-term debt for Okeechobee. Tr. 4102:16-18; *see* MFR D-1a. As recommended by SFHHA, the Okeechobee LSA should reflect a cost of long-term debt of 4.1%, which reduces the Okeechobee revenue requirement by $1.333 million. *See* discussion of Issue No. 81; Ex. 311. Additionally, as discussed above the 50 basis point ROE adder should not apply to the Okeechobee LSA.

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?

POSITION: No. *See* discussion of Issue Nos. 26 and 124.

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[25] FPL 2010 Rate Order, *In re: Petition for Increase in Rates by Fla. Power & Light Co.*, Docket No. 080677-EI, Order No. PSC-10-0153-FOF-EI, at 104 (2010) (quoting *In re: Petition for Rate Increase by Tampa Elec. Co.*, Docket No. 080317-EI, Order No. PSC-09-0283-FOF-EI (2009)).

ISSUE 126: What are the appropriate depreciation rates for the Okeechobee Energy Center?

POSITION: *See* SFHHA discussion of Issue No. 124.

ISSUE 127: What is the appropriate treatment for deferred income taxes associated with the Okeechobee Energy Center?

POSITION: *See* SFHHA discussion of Issue No. 124.

ISSUE 128: Is FPL's requested rate base of $1,063,315,000 for the new Okeechobee Energy Center appropriate?

POSITION: No. First, the proposed LSA is inappropriate in its entirety. If an adjustment is nonetheless permitted, and all SFHHA adjustments to rate base and capital structure are approved, the Okeechobee rate base impact should be $988.194 million.

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?

POSITION: 6.79%, assuming the Commission adopts all of the SFHHA adjustments to rate base and capital structure, and no double counting.

ISSUE 130: Is FPL's requested net operating loss of $33.868 million for the new Okeechobee Energy Center appropriate?

POSITION: No. Numerous adjustments need to be made to FPL's calculations. *See* discussion of Issue No. 124. FPL's proposed ROE adder should be eliminated, resulting in a $4.865 million reduction to its proposed revenue requirement. Mr. Baudino's recommended reduction to FPL's requested ROE produces an additional $19.458 million reduction to FPL's requested revenue requirement. Finally, correction of FPL's proposed capital structure results in an additional $7.366 million reduction.

ISSUE 131: What is the appropriate Net Operating Income Multiplier for the new Okeechobee Energy Center? (Fallout)

POSITION: The Net Operating Income Multiplier for the Okeechobee Energy Center should be determined, at a minimum, in accordance with SFHHA's foregoing positions.

ISSUE 132: Is FPL's requested limited scope adjustment of $209 million for the new Okeechobee Energy Center appropriate?

POSITION: No. *See* discussion of Issue No. 26 above.

ISSUE 133: What is the appropriate effective date for implementing FPL's limited scope adjustment for the new Okeechobee Energy Center?

POSITION: Given present uncertainty, June 30, 2019 is not an appropriate effective date. *See* discussion of Issue Nos. 2 and 124 above.

ASSET OPTIMIZATION INCENTIVE MECHANISM

ISSUE 134: Should the asset optimization incentive mechanism as proposed by FPL be approved?

POSITION: No. The Commission should instead modify the Incentive Mechanism so that the entire savings from economy purchases and sales are timely flowed through to customers and so that it provides an incentive and reasonable sharing only of the net gains from asset optimization activities.

DISCUSSION:

The Commission should make several modifications to FPL's proposed Incentive Mechanism to ensure that the entire savings FPL achieves from economy purchases and sales are timely flowed through to customers, and so that the Incentive Mechanism provides an incentive for, and reasonable sharing only of, the actual net gains from asset optimization activities.

A. No Incentive is Appropriate for Economy Purchases and Sales in the Incentive Mechanism

The Commission should modify the Incentive Mechanism such that it includes only the actual cost of economy purchases included in the Fuel Adjustment Clause ("FAC"), excluding "gains" calculated based upon FPL's avoided marginal dispatch costs. FPL's current Incentive Mechanism, which was implemented as a result of the settlement in the 2012 rate case, includes in the calculation of net "gains" the so-called variable power plant O&M expense based on a calculated $1.51 per MWh rate times economy sales in excess of 514,000 MWh. Tr. 4017:3-7 (Kollen). That threshold is necessary because the revenues and expenses for this level of economy sales were included in the base revenue requirement. Tr. 4017:5-7 (Kollen). FPL calculated the net "gains" from economy sales by subtracting the so-called variable power plant O&M expense from the economy sales "gains" (revenues less fuel expense). Ex. 123 at p. 3 (showing calculations under the "Prior Mechanism").

As part of its proposal in this case, FPL proposes to modify the above-described present calculation in three respects: (1) to net *all* energy from *all* economy sales (eliminating the existing 514,000 MWh threshold) and economy purchases, and multiply the resulting net energy (sales less purchases) times the variable power plant O&M rate; (2) change the variable power plant O&M rate per MWh to revise the corresponding expense from $1.51/MWh to $0.97/MWh; and (3) reduce the prescribed first-tier threshold, under which FPL shares 100% of net "gains" with customers, from $46 million to $36 million, ostensibly because of the termination of the Company's Unit Power Sales ("UPS") agreement with Southern Company at the end of 2015. Tr. 4018:1-8 (Kollen).

The Commission should reject these proposed changes to the Incentive Mechanism. As an initial matter, FPL has a prudence obligation to its customers to make economy purchases when the cost is less than FPL's avoided costs of dispatching its own generating units. Tr. 4018:13-14 (Kollen). Consistent with that prudence obligation, prior to the present Incentive Mechanism, FPL did not retain any of the net "gain," or savings, from economy purchases. Ex. 283. Further consistent with that obligation, Duke Energy, Tampa Electric, and Gulf Power Company are not allowed to retain any of their savings from economy purchases, as demonstrated by an admission FPL made. Ex. 284. It would not be a just or reasonable outcome for FPL's customers to allow FPL to retain any of the net "gain" from economy purchases, for performing its fundamental duty to its customers, particularly when FPL already benefits from that "gain" indirectly (through lower O&M costs).

Furthermore, FPL is not doing anything unique in engaging in the activities underlying economy purchases and sales. FPL witness Forrest admitted that many utilities have active trading desks that engage in the same types of activities undertaken by FPL. Tr. 2100:19-2101:6

(Forrest). Accordingly, the trading activities underlying FPL's economy purchases and sales are commonplace and FPL would be negligent if it were not actively engaged in those activities.

Moreover, it would be unreasonable and inappropriate to provide FPL an incentive to make economy sales when it has available energy in excess of that necessary to meet its firm load obligations. FPL's customers pay for all prudent and reasonable fixed costs of FPL's generating units in their entirety through base rates or one of FPL's many various clause rates. FPL does not retain or pay any share of those fixed costs. Tr. 4019:5-6 (Kollen). Accordingly, FPL has an obligation to make economy sales to reduce the recovery of fixed costs of its generating units from its customers. Since all of the costs and risks associated with economy sales are allocated to FPL's customers, all net "gains" from economy sales made from the generating units should be allocated to customers as well. To borrow the analogy of SFHHA Witness Kollen: "customers have paid for the 'cows' (generating units) and are entitled to the 'milk' ('energy') from those 'cows,' regardless of whether the milk is used 'in-kind' (to meet their load) or sold to others (to meet their loads) for income." Tr. 4019:9-12 (Kollen).

The Commission should therefore reject FPL's proposal to continue the present Incentive Mechanism's calculations and sharing of the net "gains" on economy purchases and sales. Instead, as recommended by SFHHA Witness Kollen, the Commission should include all economy purchases at cost, include all economy sales revenues, net of the marginal cost of dispatching FPL's own generating units or purchases made to supply the sales in the Incentive Mechanism, and exclude the entirety of all net "gains" from the Incentive Mechanism. Tr. 4019:15-21 (Kollen).

B. Base O&M Fossil Overhaul and Capital Spare Parts Depreciation Expense should not be included in the Variable Power Plan O&M Rate

If the Commission allows FPL to share in the net "gains" from economy purchases and

sales, then it should correct the calculation of the net "gains" in the Incentive Mechanism by removing all "base O&M fossil overhaul" expense and "CT capital spare parts depreciation" expense from the calculation of the so-called variable O&M expense. The variable power plant O&M rate ostensibly is the marginal or variable non-fuel operating expense per MWh generated whether it is the incremental cost per MWh for economy sales or the decremental cost for economy purchases. Under FPL's proposed Incentive Mechanism, economy energy sold and economy energy purchased are netted and the resulting figure is multiplied by the variable plant O&M rate per MWh. If FPL has net economy sales, then the "expense" is subtracted from the net "gain" allocated between customers and FPL. Tr. 4020:14-18 (Kollen). If there are economy purchases, then the avoided "expense" will be added to the net "gain" allocated between customers and FPL. Tr. 4020:18-19 (Kollen). In contrast, FPL's present Incentive Mechanism only subtracts variable power plant O&M expense from economy sales revenues in the calculation of "gains," but there is not a similar addition to economy purchases savings reflected in the calculation of net "gains." Tr. 4020:10-13 (Kollen). However, any "expense" is recovered from customers through the FAC regardless of whether any related gains exceed the threshold of the magnitude of any net "gains." Tr. 4020:22-24 (Kollen). This feature of FPL's present and proposed Incentive Mechanisms provides FPL with double recovery of the so-called variable power plant expense through the FAC, even though such costs are not fuel costs and are in fact already included in the base revenue requirement. Tr. 4020:24-4021:2 (Kollen).

This distinction is very important in light of FPL's methodology for calculating variable power plant O&M, which includes three components: (1) "base O&M fossil overhaul;" (2) "base qualifying facility (steam and other production) VOM;" and (3) "recoverable CT parts depreciation expense per annum." Ex. 285. FPL summed the costs for these components and

divided by total MWh generated to calculate variable power plant O&M per MWh. Tr. 4021:7-11 (Kollen). The Commission should reject FPL's proposal to include these expenses in the variable power plant O&M rate and expense for several reasons. As an initial matter, these costs are not fuel costs, but rather are non-fuel O&M and depreciation expenses.

Additionally, these costs are fixed, and FPL incurs them regardless of (a) whether a plant dispatches 1 MW or 1000 MW or (b) whether the output is increased to make economy sales or reduced due to economy purchases. Tr. 4021:18-21 (Kollen). As an example, if FPL's generating units are operating at less than full capacity and it is economical to sell into the market, then the units are ramped up and their output is increased to supply those additional sales, which will improve the relevant unit's efficiency and thereby its average heat rate, reducing that unit's average cost to generate electricity. Tr. 4021:21-4022:4 (Kollen). Generator maintenance activities for many FPL generation plants are based on hours of operation, not energy output. Tr. 906:6-12; 908:16-22 (Kennedy). Thus, the on-the-ground realities of FPL's operations undermine FPL's purported correlation between unit output and O&M fossil overhaul expenses, particularly on the margin for economy sales and purchases, as most fossil overhaul is performed seasonally when capacity is not needed to supply load.

Likewise, depreciation expense is not a function of generating unit output. FPL calculates depreciation expense based on gross plant times its approved depreciation rates. Tr. 4022:10-12 (Kollen). There is no correlation between unit output and the timing or amount of depreciation expense, and it is also not accrued at greater amounts in months where output is greater or accrued at lesser amounts where output is less. Tr. 4022:12-15 (Kollen). Further, FPL has not proposed to account for, or provided any prepared evidence demonstrating that, increased output ostensibly causing accelerated replacement of equipment. In short, this "depreciation

expense" is an amount calculated only to increase FPL's recoveries through the FAC.

Moreover, and as discussed briefly above, these costs are already recovered fully through the base revenue requirement, meaning any recovery through the Incentive Mechanism allows FPL to recover the same costs a second time, and FPL has not proposed any ratemaking adjustments to the costs included in the base revenue requirement to reflect that base revenue requirement in FPL's proposed Incentive Mechanism. Tr. 4022:22-4023:1 (Kollen). Accordingly, if the Commission decides to include economy sales and purchases in the Incentive Mechanism, it should correct the calculation of the variable power plant O&M rate to remove the "base O&M fossil overhaul" and "recoverable CT parts depreciation expense per annum," leaving only the "base qualifying facility (steam and other production) VOM" component, which is the only actual variable expense included in that rate. Tr. 4023:20 (Kollen).

C. A Reasonable Incentive for Asset Optimization Activities is Appropriate

FPL's request presents three additional questions regarding the Incentive Mechanism. First, is FPL's request to lower the level of the threshold of benefits, above which net "gains" are shared by FPL and its customers, fair? Second, the Commission must determine an appropriate methodology for sharing those "gains" between customers and FPL. Third, the Commission must ultimately decide the appropriate methodology to calculate the net "gains." Tr. 4024:21-4025:1 (Kollen).

If the Commission approves a threshold mechanism, then FPL's customers receive all net "gains" up to that threshold before there is any sharing between customers and FPL. Without a threshold mechanism, then all net "gains" are shared between customers and FPL, which would generally merit a lesser share attributable to FPL, than would be equitable in the absence of a threshold with FPL. For instance, with no threshold before sharing, a split of perhaps 90% to customers and 10% to FPL, could be possible because FPL will share in all net "gains," not only

those net "gains" over the threshold. Tr. 4025:12-15 (Kollen). As an initial matter, the Commission should reject FPL's proposal to continue its use of a threshold for sharing any net "gains," as discussed above with respect to economy purchases and sales. Accordingly, in lieu of a threshold, the Commission should require that all net "gains" (as properly calculated) from asset optimization activities be shared 90% to customers and 10% to FPL. This proposed adjustment would provide a timely reduction in FAC charges to customers from any net "gains," from assets or contracts already paid for by customers, but also incentivizes FPL to maintain, and also increase, these "gains" no matter their relative size or value. Tr. 4026:1-6 (Kollen).

Under FPL's proposed four-year rate plan, the very same costs that FPL allocates to offset before calculating gains under the proposed Incentive Mechanism (personnel, software, and hardware necessary for its trading and asset optimization activities) are *already included* in the base revenue requirement. Tr. 4026:12-16 (Kollen). Without any ratemaking adjustment the Commission should only allow FPL to continue to recover costs through the Incentive Mechanism that are *not* included in the base revenue requirement. Tr. 4026:17-22 (Kollen). FPL's proposal would have customers share with FPL any net "gains" that result from assets or contracts paid for 100% by customers, Tr. 4026:23-4027:4 (Kollen), which is not just and reasonable and should be rejected.

D. The Sharing Threshold is Unnecessary Under SFHHA's Recommendations

Any threshold the Commission approves will require it to guess, without adequate information, regarding FPL's future economy purchases and sales and other asset optimization activities during the next four years when the Incentive Mechanism will be in effect. Tr. 4027:21-4028:2 (Kollen). FPL's proposed $36 million threshold is arbitrary; at this stage, FPL has not shared the information necessary to assess the adequacy of its proposal. Because it failed to provide any evidence substantiating the accuracy of its proposed threshold with supporting

projections or other analysis, a thorough analysis by the Commission is not possible.

In addition to the procedural shortcomings associated with FPL's proposed threshold, the threshold itself is inappropriate for several reasons. First, FPL's proposed $46 million threshold, as well as the $36 million threshold in the existing Incentive Mechanism, does not reflect or match the economy purchases or sales or optimization activities and any net "gains" projected in FPL's internal projects for the test years proposed in this proceeding. In fact, FPL has not included any such projections in this proceeding. Tr. 4028:3-8 (Kollen). Second, FPL has not provided any estimates or other support for such estimates of the economy purchases and sales or optimization activities and any associated net "gains" for the test years in this proceeding. Instead, all of FPL's quantitative analyses merely compare its so-called Prior Mechanism to the present Incentive Mechanism, ostensibly in order to demonstrate customer benefits, or endeavor to quantify the effects of the termination of the UPS with Southern Company. However, FPL's testimony does not recognize other changes in capacity, loads, fuel costs, generating unit performance, PPAs, and the market for economy sales and purchases. Tr. 4028:9-16 (Kollen). For instance, FPL will have substantial additional natural gas pipeline capacity on the Florida Sunshine Coast pipeline which can be released to other entities for substantial sums.

FPL's omission of any such projections is important because FPL proposes a reduction (to $36 million) in the initial threshold for sharing net "gains" relative to the $46 million level adopted in the 2012 rate case settlement, adjusted only to reflect the "lost" economy sales from the UPS agreement, and ignoring all other changes in capacity, marginal cost of dispatching its own units and the market prices that have occurred since then.[26] FPL has added thousands of

[26] Tr. 4028:17-22 (Kollen). For example, the Company has replaced the 928 MW of UPS capacity with more than 1,300 MW of capacity at the Port Everglades next Generation Clean Energy Center, which affects its marginal cost of dispatch and the energy it has available to supply its own load and economy sales. *See* Ex. 286.

MW of new and converted natural gas generation while retiring older generation since the 2012 rate case, affecting its marginal cost of dispatch, as well as the energy it has available to supply its own load and economy sales. Thus, FPL's existing Incentive Mechanism will not reflect the realities of its current operations. Tr. 4029:2-5 (Kollen). The existing threshold in the current Incentive Mechanism is further rendered meaningless by FPL's much larger proportion of natural gas capacity in its generation fleet, which fundamentally changes the level of fuel costs that should be reflected in the Incentive Mechanism. Moreover, changes in "the fuel costs of other market participants in economy sales (there is an economy purchase by another entity whenever FPL makes an economy sale) and economy purchases (there is an economy sale by another entity whenever FPL makes economy purchases) . . . make the prior and proposed thresholds threshold meaningless going forward." Tr. 4029:9-13 (Kollen). In short, the threshold from the settlement of the 2012 rate case, adjusted only for the expiration of the UPS agreement, is meaningless as a threshold or even as an indicator of ongoing net "gains" from economy sales and purchases. Tr. 4029:14-16 (Kollen).

The Commission should thus reject FPL's proposal to reduce the sharing threshold to $36 million in the absence of any credible projections of economy sales and purchases for the next four years and the inability to assess an appropriate threshold. Further, the Commission should adjust the Incentive Mechanism to provide customers at least 90% and FPL retain no more than 10% of all net "gains" in excess of any approved sharing threshold, which constitutes a significant and meaningful incentive for FPL when applied to all incentivized net "gains." FPL has offered no empirical basis for its proposal to retain 60% of net "gains" between $36 million and $100 million, or 50% of net "gains" over $100 million. Without any valid reason for approving that proposal, the Commission should reject those excessive retention percentages,

which were the result of the settlement of the 2012 rate case, relate to FPL's UPS with Southern Company, and for which FPL has not offered any meaningful support.

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?

POSITION: No position at this time.

ISSUE 136: What is the appropriate methodology to allocate production costs to the rate classes?

POSITION: SFHHA recommends the use of the 12CP and 1/13 energy allocation methodology, in effect for many years on FPL because it more accurately reflects causation of production costs than FPL's proposed change to a 12 CP and 25% methodology that is unjustified and over-allocates production costs to large commercial class ratepayers.

DISCUSSION:

For the first time in decades, FPL is now opposing the use of the 12 CP and 1/13th methodology to allocate the costs of production (generation plant), instead proposing a 12 CP and 25% methodology. This change increases the amount of fixed costs that are allocated to rate classes on the basis of energy usage, from 8% to 25%. The result harms high load factor commercial and industrial users notwithstanding that they use the system most efficiently and therefore make the most consistent, predictable customers, enhancing the scale economies enjoyed by *all* customers. Tr. 2846:6-9 (Cohen). The harm results because as the customer efficiently takes service, including during off-peak hours, it would be required to pay for more fixed costs on per kWh basis (25% vs 8%) as if the service during off-peak hours was causing FPL to add generating capacity to serve that off-peak load. Tr. 4182:4-9 (Baron). In other words, the high load factor customer is deemed under FPL's proposed cost allocation method to have incrementally and disproportionately contributed to the need for additional generating capacity and therefore is assigned increased cost responsibility for FPL's fixed investment in

generating capacity. This is an illogical result because the capital investment in generating capacity was incurred to meet the summer peak reserve margin. FPL does not add generating capacity to meet increased off-peak energy usage, especially in non-summer months. Tr. 4182:11-18 (Baron). As a result, high load factor customers are penalized for helping to defray fixed costs other customers caused FPL to incur for capacity that such cost-causing lower load factor customers would otherwise bear.

There is no dispute among the parties (including FPL) that FPL is a summer peaking utility, *i.e.*, it typically experiences its annual coincident peak at some time between June and August, inclusive. Tr. 1300:7-10 (Morley). Further, the evidence unambiguously demonstrates that the newest additions to FPL's fleet, the West Energy County Center and Okeechobee, were added exclusively to satisfy FPL's summer reserve margin. Tr. 2971:5-13 (Deaton). In fact, in FPL's Petition for Determination of Need for Okeechobee, Ex. 641, FPL specifically cited its projection of annual increases of 1.6% in summer peak demand between 2015 and 2024, and a cumulative increase in demand of 2,110 MW relative to the actual 2014 summer peak, as the driver for adding the capacity. Tr. 2970:14-23 (Deaton). Based on that indisputable fact, the most appropriate methodology to allocate the fixed costs for FPL's generation plants would be a 1 CP methodology. That methodology would recognize that the need to meet the summer reserve margin (*i.e.*, the summer peak hour demand plus 20%) is the driver for FPL's addition of generation capacity in the past and is causing FPL to add the Okeechobee capacity in 2019. FPL's proposed methodology to shift an additional 17% of fixed costs into the energy component actually moves cost responsibility in the opposite direction of cost causation.

FPL however failed to present any cost-based evidence purporting to support its 12CP and 25% allocation proposal. As part of FPL's direct case and even at the hearing, FPL

attempted to justify its proposal to allocate a greater share of production-related costs to large commercial and industrial customers by claiming they "enjoyed the benefits of the fuel savings [and thus should be] seeing greater costs being allocated to them to cover their fair share of the costs of the generating plants that produced those savings." Tr. 2953:16-2954:4 (Deaton); *see* Ex. 266. But cost-based ratemaking allocates costs based on cost causation, not alleged benefits which SFHHA showed were overstated and possibly non-existent. *See* Issue No. 136, *supra.* And as to cost-causation, FPL did not include in its evidence any analysis or study to show what rate classes caused FPL to add capacity to its system, or to try to justify its proposed 25% energy allocator. Tr. 4185:7-11 (Baron); Ex. 267. In fact, FPL admitted it did not perform any study to evaluate which rate classes have caused it to add new generating capacity. Tr. 2976:15-2977:3 (Cohen). As a result, FPL proposes to shift a significant level of costs to large commercial and industrial customers without any substantive analysis, or any reliable basis in cost causation principles. Tr. 4185:14-16 (Baron).

However, data from FPL's MFRs show the rate classes that have caused FPL to add capacity. In particular, MFR E-11 shows that the residential rate class' summer peak day demand is almost 18% higher than its monthly average peak demand.[27] This contrasts with the CILC-ID and GSLD(T)-2 rate classes. Their summer peaks exceed their average peak demand by just 6.6% and 6.0%, respectively.[28] Accordingly, the significant swing on FPL's system that requires it to add capacity to meet its summer peak reserve margin is caused disproportionately by the residential rate class, not large, high load factor commercial customers such as hospitals. Thus, FPL's proposal fails to account for and is inconsistent with cost causation.

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[27] *See* MFR E-11. For the residential class, summer CP (12,995,889) divided by 12 CP average (11,039,192) = 17.7%.

[28] *See* MFR E-11. For the CILC-ID rate class, summer CP (375,555) divided by 12 CP average (352,331) = 6.6%. For the GSLD(T)-2 rate class, summer CP (348,552) divided by 12 CP average (328,755) = 6.0%.

Instead of producing a study analyzing cost causation related to its assertion of benefits for fuel savings, FPL advances its 12 CP and 25% methodology by citing the significant amount of base and intermediate load generation it has installed, which it alleges is more capital intensive, but cheaper to operate than the peaking resources being replaced. Tr. 2925:18-21 (Deaton); Tr. 2939:20-24 (Deaton). However, with the exception of two very small solar projects, every generating resource FPL has put into service in the last 12 years has been a combined-cycle unit. Tr. 4188 at Table 2 (Baron). Clearly, nothing with respect to FPL's generation resource mix has changed in 2016 or at any other time relevant to its proposed significant change in cost of service methodology. The one thing that has changed, as stated by SFHHA Witness Baron, is the dramatic collapse in the price of natural gas since 2005, which suggests that the amount of savings achieved by the greater use of more efficient gas-fired generation has diminished. Tr. 4188:7-18:3 (Baron).

Although FPL did not provide any cost-based analysis to support its proposed 12 CP and 25% methodology, SFHHA Witness Baron did perform a cost causation analysis to determine the reasonableness of FPL's proposal. His study determined that the cause of the costs FPL proposes to shift to large C&I customers has nothing to do with the choice of combined-cycle versus other types of technologies. Tr. 4191:14-16 (Baron).

As part of his analysis, Mr. Baron used a screening curve, which is a cost curve reflecting both fixed and variable costs, to compare the relative economics of a higher capital cost combined cycle unit ("CCGT") (comparable to the majority of the units installed by FPL in the last 12 years) to those of a combustion turbine peaking unit ("CT") (the type of unit FPL is replacing with its new CCGTs) at different usage levels. Tr. 4194-4196 (Baron).

Mr. Baron identified a significant problem with FPL's proposed use of the 12 CP and 25% methodology based on his cost curve analysis. His analysis identified that energy usage during the top 2,190 hours during the year is the only energy usage that impacts the trade-off between CCs and CTs, not the aggregate annual energy usage presumed by FPL's proposal. Tr. 4199:11-13 (Baron). These top 2,190 hours of energy use occur primarily during the peak months of May through September. Tr. 4201 at Table 5 (Baron). Moreover, the top 2,190 hours constitute a very high percentage of on-peak hours during these 5 warmest months and a relatively low percentage of off-peak hours as compared to the on-peak hours in those months. This means that if 25% of rate class energy use is to be used in the production allocation factor, the energy use should be a weighted energy use for each rate class, with most of the weight given to rate class energy use during the 5 peak months of May through September, with primary weight being given to on-peak energy use, not off-peak as assigned under FPL's proposed methodology. Tr. 4199:17-4200:3 (Baron).

SFHHA Witness Baron further studied the percent of annual energy use during historical May through September periods for FPL's major rate classes, and determined that lower load factor consumers, such as residential customers, contributed a larger percentage of FPL's annual kWh demand during that peak period than did higher load factor customers. Tr. 4202:9-15 (Baron). The evidence also showed that large C&I customers use their capacity more efficiently than residential and small commercial class customers. For instance, the NCP load factor for the CILC-ID and GSLD (T)-2 rate classes were 67.79% and 58.94%, respectively, *see* MFR Schedule E-17 at pp. 1 and 8, whereas residential and small commercial customers' NCP load factors were just 25.95% and 19.92%, respectively. See MFR Schedule E-17, pp. 4 and 13. Thus, residential and small residential class customers are under-utilizing capacity that was built

to serve their demand, and FPL's proposal would require higher load factor customers to subsidize the cost of the underutilized capacity. Mr. Baron therefore demonstrates that FPL's proposal is in fact contrary to cost causation principles, because the 12 CP and 25% proposal bases the allocation of 25% of fixed production costs on a customer's energy usage, and not on generation resource trade-offs during the highest 2,190 load hours of the year - the only hours relevant to the very generation resource trade-offs FPL summarily cites in its proposal. Tr. 4203:4-8 (Baron).

In her rebuttal testimony FPL Witness Deaton attempted to disprove Mr. Baron's recommendations by alleging that large commercial and industrial customers ("CI") have enjoyed nine times more of the benefits from FPL's fuel savings than other customers. Tr. 5388:20-5389:2 (Deaton). But Ms. Deaton's arguments are unavailing. The exhibit she offers to support her claimed fuel savings benefits to "CI" customers includes rate classes, the majority of which are for customers consuming well below the 2,000 kW demand benchmark used by FPL to define large commercial class customers. Tr. 2864:22-2865:11 (Cohen); *see also* MFR E-13a. In fact, of the $200 million in savings Ms. Deaton alleges $169 million is attributable to small or at best medium commercial class customers. *See* Ex. 783. Less than 6% is attributable to large commercial class customers, *i.e.*, those which demand of 200 kW or higher. *Id*. (*see* data regarding the GSLD (T)-2 Rate Class). At the same time, the residential rate class (which swings significantly on the system thereby causing FPL to add capacity to meet its summer peak requirements) will get a $24.6 million decrease in revenue requirement responsibility notwithstanding that it is the cost causer of the increased capacity.

Additionally, FPL's asserted fuel savings are vastly overstated. As described above, FPL's calculation of savings ignored in their entirety the costs FPL incurred and continues to

incur to produce the so-called savings, *i.e.*, capital investment in the combined-cycle units that replaced less efficient capacity, increased O & M expenses associated with the combined-cycle plants and remaining investment in the prematurely retired plants that were replaced by the combined-cycle plants. *See* Ex. 783; *See also* Tr. 902:16-904:13 (Kennedy); Exs. 602-605. Also, as described above, using a 2001 system heat rate as a baseline for all plants whenever they commenced operation vastly overstates gross savings. Tr. 902:10-903:3 (Kennedy); Ex. 604. As a result, FPL produced no evidence that can support its proposal to switch to a 12CP and 25% methodology.

As discussed above, based on the record evidence, the most appropriate methodology to adopt based on these facts would be a 1 CP methodology. However, at a minimum, the Commission should continue to require FPL to use the 12 CP and 1/13 method to allocate the costs of production plant because that method at least captures rate class usage during the 12 monthly peaks, and the additional 1/13 energy component while unjustified, shifts just a moderate amount of costs. FPL's proposed 12 CP and 25% methodology on the other hand is entirely inappropriate and unsupported.

ISSUE 137: What is the appropriate methodology to allocate transmission costs to the rate classes?

POSITION: Transmission plant-related costs should be allocated to rate classes based upon a 100 percent demand basis. The appropriate demand allocator is the summer coincident peak methodology; however, at a minimum, transmission plant-related costs should be allocated using the traditional FPL 12 CP and 1/13th method.

DISCUSSION:

Transmission plant should be allocated on a 100 percent demand basis, reflecting the cost of transmission plant the summer CP method. Adoption of the summer CP method would be consistent with the common utility practice of sizing transmission plant to meet system peak demands. Because the transmission system has to be designed to transmit the system peak load,

the peak loads that occur in other months are irrelevant. Moreover, because FPL is a summer-peaking utility, Tr. 1300:7-10 (Morley), the system is designed to handle that projected summer peak. As a result, the use of the summer CP method would align cost responsibility with cost causation, *i.e.*, each customer class would pay for the cost of transmission facilities based upon its contribution to the summer peak. Given the operation and design of FPL's system, its proposed use of a 12 CP method to allocate transmission costs is inappropriate, because it effectively mutes the planning signals provided by the system summer peak with irrelevant information from the other, lower, 11 monthly peaks. Accordingly, SFHHA submits that the Commission should adopt the summer CP method for allocation of the costs of transmission plant.

That said, SFHHA would support the use of FPL's traditional 12 CP and 1/13th methodology for the allocation of transmission plant as less inappropriate than a 12CP and 25% methodology.

ISSUE 138: What is the appropriate methodology to allocate distribution costs to the rate classes?

POSITION: Minimum distribution cost (MDS) method. There is no plausible rationale that would somehow distinguish cost causation related to the installation of poles, overhead conductors, underground conductors and transformers on FPL's distribution system from that of TECO and GPC in Florida, or the many other utilities that rely on the MDS method. MDS identifies the distribution facilities that would be required to simply interconnect a customer to the system, irrespective of their kW load.

DISCUSSION:

FPL should utilize the MDS method in allocating distribution costs to the rate classes. Under its methodology, FPL assigns all costs of its distribution system as demand-related, except for Account 369 services and Account 370 meters, which it classifies as customer-related. Nonetheless, FPL admits, Tr. 5313:4-14 (Cohen), that its proposed demand charges remain lower

than unit cost. Tr. 2928:17-22 (Deaton). FPL's methodology significantly distorts FPL's parity analyses, which results in large general service rate classes being assigned substantially higher proposed rate increases than other rate classes. Tr. 4205:1-3 (Baron). FPL's methodology ignores any "customer related" cost responsibility for hundreds of millions of dollars of distribution plant and expenses, contrary to the approaches used by many other utilities throughout the country (including two major Florida electric utilities, TECO and Gulf Power) and the NARUC Manual, which recognizes a "customer component" of distribution cost based on a minimum distribution system concept. Tr. 4183:5-11 (Baron).

Under the MDS methodology, the cost of the minimum facilities to interconnect a customer to the system are assigned on a customer basis. Tr. 4215:2-8 (Baron). The NARUC Manual in fact requires that treatment:

> When the utility installs distribution plant to provide service to a customer and to meet the customer's peak demand requirements, the utility *must* classify distribution plant separately into demand - and customer - related costs.
>
> Classifying distribution plant as a demand cost assigns investment of that plant to a customer or group of customers based upon its contribution to some total peak demand.
>
> * * * * * * * *
>
> Distribution plant Accounts 364 through 370 involve demand and customer costs. The customer component of distribution facilities is that portion of costs which varies with the number of customers. *Thus, the number of poles, conductors, transformers and meters are directly related to the number of customers on the utility's system.* [Ex 269 at 8 (emphasis added).]

Furthermore, recovery costs of poles, transformers and conductors as customer component would be consistent with the way FPL plans its distribution system. Ex. 786 contains excerpts from FPL' s engineering guidelines concerning the installation of transformers. The guidelines show that as specified by the NARUC Manual, the design and sizing of transformers is based on the number of customers served.

In particular, the guidelines set forth tables that provide specific directions on the size of a transformer to install based upon the number of customers the transformer will serve. Table II at 014787 dictates the size of a transformer (in half ton increments) ranging from 1 ton to 5 tons based on serving between 1 and 20 customers. Ex. 786 at pp. 14812 and 14788. Table III at page 014788 provides voltage levels for different size transformers based upon the number of full electric homes to be served. Ex. 786 at p. 014788. The guidelines also set forth examples to make clear what size of transformer to install given the number of customers. For example, under Table III at page 014788 of the guidelines, an example is provided concerning the size of a transformer to serve four customers. Ex. 786 at p. 014788. Page 014793 sets forth a table to determine the demand that can be served by a transformer based on the number of customers on the transformer, and the coincident factor is determined based upon the number of customers on a transformer. Ex. 786 at p. 014793. The guidelines also provide for different underground designs based on the number of customers served. Ex. 786 at 014810-12.

SFHHA Witness Baron illustrates the myriad problems associated with FPL's methodology for allocating its distribution costs on the basis of load. Tr. 4208:16 (Baron). For instance, FPL's current cost of service study assumes on average more than 35 residential customers are served from a single pole, while it assumes about *13 poles to serve a single GSLDT-2 customer*. Tr. 4209:2-5 (Baron); *see* Ex. 272. That result is implausible.

Therefore, the Commission should require FPL to utilize the MDS methodology in classifying and allocating costs of the minimum distribution facilities, *i.e.*, transformers, conductors and poles, as SFHHA Witness Baron has recommended. Such a requirement would be fully consistent with the implementation of MDS by TECO and Gulf Power, the guidelines of the NARUC Manual and the principle that cost responsibility follows cost causation.

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?

POSITION: SFHHA does not take a position on the specific allocation of any increase in the revenue requirement for the residential customer class as between the customer and demand components. However, FPL witness Deaton's assertion that adoption of MDS would require a four dollar increase in the customer component from $8 to $12, Tr.5480:24-5481:2 (Deaton), is simply not true.

DISCUSSION:

The current residential customer charge is $7.87/month. FPL is proposing to increase the customer charge to $10.00/month, a 27% increase. (MFR E-14, Test Year Attachment 2, page 23, lines 3 and 11). SFHHA does not take a specific position on the customer charge, except to note that its recommendations in the aggregate would produce a decrease in rates for all ratepayers.

SFHHA addresses here the claim FPL witness Deaton made on redirect that SFHHA's recommendation to adopt MDS would increase the customer charge from $8 to $12.

To begin and as noted, FPL itself is proposing to increase the customer charge from $7.87 to $10. A further increase to $12/month as stated by Ms. Deaton is not supported by the evidence. To increase the customer charge to $12 would require an increase in residential rate class revenues by $104,391,072, which is $29.5 million more than the evidence presented in this case shows FPL is seeking. [29] In fact, the increase in the residential revenue requirement from

[29] From MFR E-14, Test Year Attachment 2, page 23, lines 3 and 11, the customer charge billing determinants are 52,194,132 + 1,404 = 52,195,536. Increasing the customer charge from $10/month to $12/month (as asserted by Ms. Deaton), would collect an additional $104,391,072 in revenues (52,195,536 X $2 = $104,391,072). From MFR E-1, Test Year Attachment 2, page 4, line 7, the Residential class Revenue Requirement Deficiency at the proposed equal rate of return is shown to be $413,182,000 using the 12 CP & 25% class cost of service study. From Baron Ex. 275, page 4, the Target Revenue Requirement Deficiency at the proposed equal rate of return is shown to be $488,112,000 using Mr. Baron's 12 CP & 25% with MDS class cost of service study. The dollar difference in the calculated Residential class revenue increase (before adjustments for mitigation) between these two cost of service studies is $74,930,000 ($488,112,000 - $413,182,000 = $74,930,000). This is $29.5 million less than the $104,391,072 in higher customer charge revenue that Ms. Deaton has asserted as the MDS impact.

implementation of MDS would be $74.9 million, not $104.4 million as is implicit in Ms. Deaton's assertion. *Id.*

However, there is no requirement that the full $74.9 million in residential rate class revenue be recovered in the customer charge. Rather, it could be recovered in both the customer charge and the kWh charge of the residential rate. The overall impact on residential class operating revenues of an additional $74.9 million revenue allocation would be approximately 2%.[30] The incremental impact of the MDS method using the 12 CP & 1/13th method would be about the same.[31] However, in both instances, the $74.9 million increase assumes FPL is granted the entirety of its requested rate increase. Accordingly, whatever the outcome of this proceeding, the incremental impact on residential ratepayers of adopting MDS is certainly less than 2%.

As SFHHA has advocated here, all ratepayers' rates should be reduced because that is what a cost-based analysis dictates. However if the Commission grants FPL any increase in revenues, any impact of MDS on the residential rate class can be allocated between the customer and kWh components of residential rates as the Commission deems fit.

ISSUE 140: How should the change in revenue requirement be allocated to the customer classes?

POSITION: FPL's revenue requirement, as determined in this case, should be allocated among customer classes consistent with SFHHA's recommendations as set forth in Ex. 280, thereby based on 12 CP and 1/13, MDS, restoration of $23 million in CILC/CDR credits and application of the 1.5 times average increase cap.

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30 MFR E-8, Test Year, line 13, column 4, shows Residential class operating revenues of $3,652,240,000; an MDS related increase of $74.9 million would amount to a Residential rate class impact of an additional 2.1% increase ($74,900,000/$3,652,240,000).

31 MFR E-1, Test Year Attachment 2, page 4, line 7 shows the Residential Target Revenue Requirement Deficiency is $437,789.000 using a 12 CP & 1/13th cost study; Baron Ex. 273, page 4, shows the Residential Target Revenue Requirement Deficiency is $512,705,000 using a 12 CP & 1/13th plus MDS method. The difference is $74.9 million, the same difference as shown with the 12 CP & 25% method.

DISCUSSION:

The discussions of Issue Nos. 136, 137, and 138 above demonstrate that FPL's projected revenues from sales of electricity by rate class are inappropriate and that FPL's method of allocating costs to rate classes are inconsistent with the way it operates, and plans the development of, its system, as well as with basic ratemaking principles.

SFHHA has demonstrated above why continuation of the 12 CP and 1/13 method for allocating the cost of production plant, and the MDS method for allocating the costs of poles, transformers and conductors, would be appropriate. SFHHA addresses below FPL's further argument in support of its proposed allocation methodologies.

FPL states that "the allocation of any revenue increase should be assessed in terms of its impact on the parity index for the respective rate classes." Tr. 2811:7-9 (Cohen). To that end, FPL alleges, "FPL has set the target revenue by rate class to improve parity among the rate classes to the greatest extent possible." Tr. 2811:9-10 (Cohen). FPL's assertions are incorrect. FPL improperly developed its target rate class revenue increases by: (1) ignoring its proposed $23 million reduction of the current CILC/CDR credit offsets; and (2) applying the Commission's 1.5 times average retail increase mitigation limitation to both present base revenues and clause revenues. Tr. 4233:5-4234:7 (Baron).

In the process of representing proposed base revenue increase by rate class, FPL first adjusted the level of the increase for CILC and CDR customers by subtracting the decrease in the CILC/CDR credit from FPL's calculation of those classes base rate increases. Tr. 4225:16-20 (Baron). In other words, even though the "reset" of the CILC/CDR credit actually results in a $23 million base rate *increase* for CILC and CDR customers, as discussed in Issue No. 6 above, FPL improperly removed that increase from its parity analysis. Tr. 4225: 9-12 (Baron). FPL repeated this omission in determining that its proposed rates for the CILC and CDR classes meet

the 1.5 times average increase test, systematically ignoring a significant part of the rate increases it is actually proposing for CILC and CDR customers from the Commission's mitigation method (the "1.5 times" limit). Tr. 4225:17-4226:4 (Baron). For example, Rate Schedule CILC-1D is receiving a base revenue increase (without clauses) of 38.7% and an increase calculated on base revenues plus clauses of 17.32%, ***which is more than 2.0 times the average increase***. Tr. 4226:10-12, 4227:1-2, 4227 at Table 11 (Baron). However, when both the present and proposed level of CILC/CDR credits are included, CILC-1D base rates ***increase by 57%***, and that is simply the increase for 2017 alone, which ignores FPL's multiple additional proposed increases.

FPL also admits that the total bill impact of FPL's 2017 rate proposal alone for FPL's hospital customers will be increases in the 18-20% range. Tr. 2860:6-14 (Cohen). At the same time, FPL is estimating that the average total bill increase among all rate classes under its 2017 rate proposal will be 2-4%, a fraction of that for hospitals and other high load factor employers. Tr. 2859:12-16 (Cohen). Moreover, FPL acknowledged that it includes fuel charges in its calculation of total bill impacts when performing its parity and "1.5 times" test analyses. Tr. 2838:22-2839:5 (Cohen); 324:10-23 (Silagy). FPL's growing reliance on natural gas-fueled generation resources, Tr. 289:17-21 (Silagy), means however, as FPL's President's admits, that a $1 increase in the price of natural gas would add approximately $600 million to FPL's revenue requirement through its proposed fuel clause. Tr. 276:18-25 (Silagy). Thus, an increase in the historically low level of natural gas prices would significantly increase the total bill impact estimates stated by FPL.

Although the Commission has included "clause revenues" in the calculation of the "1.5 times" maximum increase limitation in prior cases, the Commission should modify this

mitigation protocol to exclude clause revenues in the determination of whether the increase to any rate schedule is excessive and would constitute rate shock.

As admitted by Ms. Cohen, "[t]he percent increase methodology FPL utilized mitigates the impact of rate increases on low load factor customers." Tr. 5314:2-4 (Cohen)). However, by stating the impact of the base rate increase in terms of total bills, FPL appears to be trying to restate and thereby dilute the impact on high load factor customers. This is because most clause revenues reflect recovery of fuel charges, and higher load factor customers necessarily bear a higher proportion of fuel charges, and thus receive a smaller level of mitigation protection under FPL's method. Tr. 4235:13-17 (Baron). In other words, FPL's proposed mitigation protocol is being used to mute the impact of FPL's proposed rate increase by virtue of clause revenues that are unrelated to this proceeding and are independent of base rates.

SFHHA also would point out that FPL's parity results are misleading for another reason and do not provide a basis to adopt FPL's proposed allocation methodologies. As FPL witness Deaton admitted, the parity results for a rate class will differ dependent upon the allocation methodology used to measure parity. Tr. 2950:20-2951:8 (Deaton). As she also admitted, the CILC-ID, GSLD (T)1, 2 and 3 rate classes all are shown as being further away from parity under FPL's newly proposed 12CP and 25% allocation as compared to FPL's traditional 12CP and 1/13 allocator. Tr. 2953:6-24 (Deaton). The opposite directional relationship is shown for the residential class. Tr. 2955:9-22 (Deaton).

But in the parity studies, the sales of electricity and the revenues from sales to a rate class do not change based upon the use of one methodology or another. Tr. 2957:6-18 (Deaton). The only thing that changes is that the revenues are allocated differently between rate base and energy dependent upon which methodology is used. Tr. 2958:3-23 (Deaton).

The point is that if an allocation methodology is used that is inconsistent with actual cost causation, the results will not change the revenues a rate class is projected to provide to FPL but it will send distorted signals in terms of contribution to return and parity relative to each rate class. That is exactly why FPL's parity results are inaccurate and un-useable. As to production costs, the measure that would properly evaluate return and parity would be a 1 CP allocator that would reflect returns on the basis of contributions of each rate class to FPL's addition of capacity to meet the summer reserve requirement. As to distribution costs, the allocator properly used to evaluate returns and parity would include the MDS method to reflect poles, transformers and conductors installed based on the number of customers served. Because FPL's parity study reflects neither of those measures, its parity results are thoroughly unreliable.

Accordingly, the Commission should adopt the recommendations of SFHHA to continue the use of a 12 CP and 1/13th methodology and implement an MDS methodology. The Commission also should apply the 1.5 times test on the bases of base rates, excluding clauses. The Commission also should reject FPL's proposal to reset CILC/CDR credits. Should the Commission accept FPL's proposal to "reset" the CILC and CDR credits, the Commission should adopt the cost of service methodology reflected in Mr. Baron's Ex. 260. Alternatively, if the Commission adopts FPL's proposal to utilize a 12 CP and 25% methodology, it should further include an MDS cost of service study, as demonstrated in Ex. 275.

Should the Commission approve FPL's proposal for a subsequent year 2018 test year, the Commission should use the results of SFHHA's 2018 12 CP and 1/13th methodology, as presented in Ex. 274. The corresponding rate schedule increases should be based on the results of SFHHA's 2018 12 CP and 1/13th MDS class cost of service study using the same revenue distribution methodology used to develop 2017 rates. Ex. 280.

ISSUE 141: What are the appropriate service charges (initial connection, reconnect for nonpayment, connection of existing account, field collection)

A. Effective January 1, 2017?

POSITION: No position at this time.

B. Effective January 1, 2018?

POSITION: No position at this time.

ISSUE 142: Is FPL's proposed new meter tampering penalty charge, effective on January 1, 2017, appropriate?

POSITION: No position at this time.

ISSUE 143: What are the appropriate temporary construction service charges

A. Effective January 1, 2017?

POSITION: No position at this time.

B. Effective January 1, 2018?

POSITION: No position at this time.

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?

POSITION: No position at this time.

B. Effective January 1, 2018?

POSITION: No position at this time.

ISSUE 145: What is the appropriate monthly credit for Commercial/Industrial Demand Reduction (CDR) Rider customers effective January 1, 2017?

POSITION: Given the cost effectiveness of the current level of credits, there is no basis for FPL's proposal to eliminate $23 million in credits. Moreover, FPL has contended in the past that proceedings such as these are not the forum for changing the level of credits. *See* SFHHA discussion of Issue Nos. 6 and 140. The current level of the CILC and CDR credits, which are cost effective under the Rate Impact Measure test, should be maintained.

ISSUE 146: What are the appropriate customer charges

A. Effective January 1, 2017?

POSITION: The appropriate customer charges should be based on the methodology set forth in Mr. Baron's Ex. 280. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs. *See* SFHHA discussion of Issue No. 138.

B. Effective January 1, 2018?

POSITION: The 2018 rates should be computed in accordance with the methodology reflected in Ex. 280 for 2017. *See* SFHHA discussion of Issue No. 138.

ISSUE 147: What are the appropriate demand charges

A. Effective January 1, 2017?

POSITION: The appropriate demand charges should be based on the methodology set forth in SFHHA's Ex. 280. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs. *See* SFHHA discussion of Issue No. 138.

B. Effective January 1, 2018?

POSITION: The 2018 rates should be computed in accordance with the methodology reflected in Ex. 280 for 2017. *See* SFHHA discussion of Issue No. 138.

ISSUE 148: What are the appropriate energy charges

A. Effective January 1, 2017?

POSITION: The appropriate energy charges should be based on the methodology set forth in SFHHA's Ex. 280. The Commission should further adopt SFHHA's recommendation to implement MDS for the allocation of distribution costs. *See* SFHHA discussion of Issue No. 138.

B. Effective January 1, 2018?

POSITION: The 2018 rates should be computed in accordance with the methodology reflected in Ex. 280 for 2017. *See* SFHHA discussion of Issue No. 138.

ISSUE 149: What are the appropriate charges for the Standby and Supplemental Services (SST-1, ISST-1) rate schedules

A. Effective January 1, 2017?

POSITION: No Position at this time.

B. Effective January 1, 2018?

POSITION: No Position at this time.

ISSUE 150: What are the appropriate charges for the Commercial Industrial Load Control (CILC) rate schedule

A. Effective January 1, 2017?

POSITION: The appropriate charges for rate CILC-1D should be calculated, at a minimum, consistent with the methodologies set forth at Tr. 4220-4224 and exhibits, and Exs. 273-280.

B. Effective January 1, 2018?

POSITION: The appropriate charges for rate CILC-1D should be calculated, at a minimum, consistent with the methodologies set forth at pp. 49-53 of SFHHA witness Baron's Direct Testimony and exhibits, Exs.274-281.

ISSUE 151: What are the appropriate lighting rate charges

A. Effective January 1, 2017?

POSITION: No Position at this time.

B. Effective January 1, 2018?

POSITION: No Position at this time.

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?

POSITION: No Position at this time.

ISSUE 153: Is FPL's proposal to close the current Traffic Signal (SL-2) rate schedule to new customers appropriate?

POSITION: No Position at this time.

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?

POSITION: No Position at this time.

B. Effective January 1, 2018?

POSITION: No Position at this time.

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?

POSITION: No Position at this time.

B. Effective January 1, 2018?

POSITION: No Position at this time.

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?

POSITION: No. The Okeechobee LSA should be subject to the same allocation and rate design method recommended by SFHHA witness Baron for FPL's 2017 and 2018 test years, as discussed above. *See* SFHHA discussion of Issue Nos. 136-138.

DISCUSSION:

As discussed in Issue Nos. 136, 137, and 138, the Okeechobee "limited scope adjustment," if approved by the Commission, should be subject to the same allocation and rate design methodology recommended by SFHHA for the 2017 and 2018 test years. Specifically, any adjustment should reflect: (1) FPL's traditional 12 CP and 1/13th class cost of service study as opposed to FPL's flawed proposed 12 CP and 25% energy methodology; (2) the MDS methodology for classifying certain distribution costs; (3) maintenance of FPL's existing level of CILC and CDR incentives; and (4) the application of the 1.5 times average increase mitigation only to present base revenues and exclude clause revenues.

Furthermore, if the LSA is approved, FPL's proposed cost allocation methodology should be rejected. FPL failed to conduct any forecasts for the parity index and class rate of return, as evidenced by the omission of any such study in MFR E-1, as admitted by FPL Witness Deaton. Tr. 2949:15-25 (Deaton). Accordingly, the Commission should reject FPL's proposal as to Okeechobee because FPL has not produced any evidence to demonstrate that its allocation of the

cost would be just and reasonable or would produce reasonable parity results or further the principles of gradualism.

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?

POSITION: No. *See* SFHHA discussion of Issue No. 124.

ISSUE 158: Should the Commission approve the following modifications to tariff terms and conditions that have been proposed by FPL:

a. Close relamping option for customer-owned lights for Street Lighting (SL-1) and Outdoor Lighting (OL-1) customers;

POSITION: No Position at this time.

b. 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;

POSITION: No Position at this time.

c. 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;

POSITION: No Position at this time.

d. Remove the minimum 2,000 Kw demand from transmission–level tariffs;

POSITION: No Position at this time.

e. 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

POSITION: No Position at this time.

f. 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.

POSITION: No Position at this time.

ISSUE 159: Should the Commission require FPL to develop a tariff for a distribution substation level of service for qualifying customers?

POSITION: No Position at this time.

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)?

POSITION: The Commission should not give staff administrative authority to approve tariffs proposed by the company for 2017, 2018 or thereafter. The Commission should give staff administrative authority to approve tariffs reflecting Commission approved rates that adopt the recommendations herein effective January 1, 2017. The Commission should not provide staff authority for adjustments other than for January 1, 2017.

ISSUE 161: What are the effective dates of FPL's proposed rates and charges?

POSITION: FPL's rates should be adjusted effective January 1, 2017 by reducing them as proposed herein.

ISSUE 162: Should the Commission approve FPL's proposal to transfer the Martin-Riviera pipeline lateral to Florida Southeast Connection (FSC)?

POSITION: The Commission should only approve the transfer of the Martin-Riviera ("MR") pipeline lateral to FSC on the condition that FPL commence a Section 5 action regarding rates for affiliated pipeline services where FPL is a shipper, when earnings reported in FERC Form 2 by the affiliated pipeline exceeds the last FERC-determined median ROE applicable to interstate pipelines. As part of that condition, FPL would be obligated to cooperate fully with the FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in the pipeline's rates.

DISCUSSION:

FPL has failed to provide any information regarding the consequences of the proposed transfer of the Martin-Riviera pipeline lateral to FSC upon which the Commission could or should approve the transfer. In fact, FPL cost analysis shows the transfer will become more expensive for FPL's customers in 2028. Tr. 1544:13-18 (Barrett); Ex.92. There is no need to transfer the lateral, especially at this time, Tr. 1538:10-23, 1542:23-25 (Barrett), customers have paid for it for years, and the benefits belong to them. FPL, including its witness Dewhurst, are touting in investor presentations and speeches the additional revenue FPL's owner will receive from pipelines outside of FPL's ownership (Ex. 700) and noting that pipelines have the

characteristics that lend themselves to ownership by NextEra Energy Partners. *Id.*; Ex. 699 at pp. 6, 46-47; *see also* Tr. 4115:4-4116:4 (Dewhurst). If rates are fixed by a negotiated rate agreement between FPL and its affiliate, then scale economies associated with capacity expansions will be captured by FPL's affiliates that own the pipeline, not FPL ratepayers who to date have funded the lateral. Changing pipeline configurations such as adding compression can reduce unit rates by 33%.[32] FPL is thus offering a 1% reduction in existing cost levels (*see* Ex. 92 ($3 million CPVRR reduction for $272 million total cost) to strip customers of potentially a 33% cost reduction. This is not a fair trade or a good deal from the customers' perspective. Uncompressed scale economies of compression once transferred will go to FPL's affiliates that own the pipeline, not FPL as a shipper, when rates are fixed as FPL proposes and the lateral is transferred to a new owner that adds compression.

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?

POSITION: *The Commission should only approve the transfer of the Martin-Riviera pipeline lateral to FSC on the condition that FPL to commence a Section 5 action regarding rates for affiliated pipeline services where FPL is a shipper, when the pipeline's earnings reported in FERC Form 2 exceed the last FERC-determined median ROE applicable to interstate pipelines. As part of that condition, FPL would be obligated to cooperate fully with the FPSC Staff and/or outside counsel and other advisors to the Staff to attain a reduction in the pipeline's rates. *See* Discussion of Issue 162.*

ISSUE 164: Did FPL's Third Notice of Identified Adjustments remove the appropriate amount associated with the Woodford project and other gas reserve costs?

POSITION: No position at this time.

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?

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[32] *See, e.g., ANR Pipeline Co.*, 101 FERC ¶ 61,376, at P8 (2008).

POSITION: Yes.

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?

POSITION: Yes. The Commission should adopt a merger savings surcredit rider, and direct the Company to make an initial filing and annual filings thereafter that quantify the expected savings and to provide those annual savings to customers through the rider within 90 days after the consummation of any such acquisition or merger. Alternatively, the Commission should use those savings to reduce the 2018, Okeechobee, or other rate increases if and when they are implemented.

ISSUE 167: Should this docket be closed?

POSITION: No position at this time.

Respectfully submitted this 19th day of September, 2016.

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Attorneys for the South Florida Hospital and Healthcare Association

ATTACHMENT A

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2017
($ MILLIONS)

		Amount
Base Rate Change per FP&L Filing		$866.354
Less: FPL Identified Adjustments		(40.142)
Jurisdictional Base Rate Change After FPL Identified Adjustments	**$**	**826.212**
Operating Income Adjustments:		
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years		($4.723)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissiong		(41.649)
Increase Depreciation Expense to Remove Identified Depreciation Study Date Adjustment		21.824
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates		(195.412)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency		(4.378)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River		(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years		(22.574)
Restate STD Commitment Fees as Operating Expense		3.973
Remove Rate Case Expense Amortization		(1.233)
Levelize Return on Dismantlement Reserve Amortization		(0.214)
Rate Base Adjustments:		
Remove Nuclear Fuel in Process From Rate Base		(40.176)
Increase Accum Depreciation to Remove Identified Depreciation Study Date Adjustment		(1.054)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction		9.609
Reduce Accumulated Fossil Dismantling to Reflect Dismantling Expense Reductions		0.263
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs		1.114
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years		0.243
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years		2.055
Remove Accrued Revenues from Cash Working Capital		(22.578)
Eliminate Unamortized Rate Case Expense		(0.426)
Correct Company Admitted Error for Balance of Deferred Pension Debit		-
Capital Structure and Rate of Return Adjustments:		
Adjust ADIT for Rate Base Adjustments		(4.474)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)		(5.974)
Restate STD Commitment Fees as Operating Expense		(3.973)
Adjust STD Rate to 0.56%		(3.793)
Adjust LTD Rate to 4.1% for New Issues		(12.984)
Remove 0.50% Return on Equity Incentive		(117.386)
Set Return on Equity at 9.0%		(469.542)
Adjust Capital Structure - 55% Common Equity		(135.850)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice		-
Total SFHHA Adjustments		**($1,050.274)**
SFHHA Recommendation for Base Rate Change		**($224.062)**

ATTACHMENT B

FLORIDA POWER AND LIGHT
REVENUE REQUIREMENT RECOMMENDED BY SFHHA
DOCKET NO. 160021-EI
TEST YEAR ENDING DECEMBER 31, 2018
($ MILLIONS)

	Amount
Base Rate Change from Present Rates per FP&L Filing - Includes YTD Costs	$ 1,133.593
Less: FPL Identified Adjustments	$ (33.029)
Jurisdictional Base Rate Change After FPL Identified Adjustments	**$ 1,100.564**
Operating Income Adjustments:	
Reduce Injuries and Damages Expense	(1.298)
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	(4.726)
Reflect End of Life Nuclear Fuel and Materials and Supplies in Decommissiong	(41.652)
Increase Depreciation Expense to Remove Identified Depreciation Study Date Adjustment	23.660
Remove Depreciation Expense Increase Based on Depreciation Study Proposed Rates	(198.548)
Reduce Fossil Dismantlement Expense to Remove 20% Contingency	(4.381)
Reduce Fossil Dismantlement Expense to Extend Lives for Scherer 4 and St. Johns River	(0.962)
Extend Capital Amortization Period for Retired Plant Costs to 10 Years	(22.592)
Restate STD Commitment Fees as Operating Expense	4.733
Remove Rate Case Expense Amortization	(1.233)
Levelize Return on Dismantlement Reserve Amortization	(0.469)
Rate Base Adjustments:	
Remove Nuclear Fuel in Process From Rate Base	(41.125)
Increase Accum Depreciation to Remove Identified Depreciation Study Date Adjustment	(3.373)
Reduce Accumulated Depreciation to Reflect Depreciation Expense Reduction	29.361
Reduce Accumulated Fossil Dismantling to Refect Dismantling Expense Reduction	0.798
Increase Rate Base to Reflect Extended Amortization of Capital Recovery Costs	3.375
Amortize Injuries and Damages Excess Reserve Balance Over 4 Years	0.706
Amortize End of Life M&S Inv and Nuclear Last Core Excess Reserve Balance Over 4 Years	6.226
Remove Accrued Revenues from Cash Working Capital	(22.930)
Eliminate Unamortized Rate Case Expense	(0.307)
Correct Company Admitted Error for Balance of Deferred Pension Debit	-
Capital Structure and Rate of Return Adjustments:	
Adjust ADIT for Rate Base Adjustments	(14.017)
Correct Company's Allocation Methodology for ADIT - Treasury Reg 1.67(l)-1(h)(6)	(4.884)
Restate STD Commitment Fees as Operating Expense	(4.733)
Adjust STD Rate to 0.56%	(2.001)
Adjust LTD Rate to 4.1% for New Issues	(34.673)
Remove 0.50% Return on Equity Incentive	(122.884)
Set Return on Equity at 9.0%	(491.537)
Adjust Capital Structure - 55% Common Equity	(156.374)
Correct ADIT for Woodford Project and Other Gas Reserves - FPL Third Notice	-
Total SFHHA Adjustments	**($1,105.843)**
SFHHA Recommendation for Base Rate Change Based on 2018 Test Year	**($5.279)**
SFHHA Recommendation for Base Rate Change Based on 2017 Test Year	**(224.062)**
SFHHA Recommendation for Base Rate Change (Incremental to 2017 Recommendation)	**$218.784**

ATTACHMENT C

D. TABLE II-A - STANDARD FE LOADS (IN KVA) DIVERSIFIED FOR 1 THROUGH 20 CUSTOMERS

Num. of Cust.	Diversity Factor (D)		1 Ton			1.5 Ton			2 Ton			2.5 Ton		
	FE	A/C	FE	A/C	Total	FE	A/C	Total	FE	A/C	Total	FE	A/C	Total
1	1.00	1.00	3.53	1.26	4.79	3.71	1.89	5.60	3.89	2.53	6.42	4.09	3.16	7.25
2	0.85	0.85	6.00	2.14	8.14	6.31	3.21	9.52	6.61	4.30	10.91	6.95	5.37	12.33
3	0.74	0.83	7.84	3.14	10.97	8.24	4.71	12.94	8.64	6.30	14.94	9.08	7.87	16.95
4	0.66	0.80	9.32	4.03	13.35	9.79	6.05	15.84	10.27	8.10	18.37	10.80	10.11	20.91
5	0.61	0.77	10.77	4.85	15.62	11.32	7.28	18.59	11.86	9.74	21.61	12.47	12.17	24.64
6	0.57	0.75	12.07	5.67	17.74	12.69	8.51	21.19	13.30	11.39	24.69	13.99	14.22	28.21
7	0.54	0.73	13.34	6.44	19.78	14.02	9.66	23.68	14.70	12.93	27.63	15.46	16.15	31.61
8	0.52	0.72	14.68	7.26	21.94	15.43	10.89	26.32	16.18	14.57	30.76	17.01	18.20	35.21
9	0.50	0.71	15.89	8.05	23.94	16.70	12.08	28.77	17.51	16.17	33.67	18.41	20.19	38.60
10	0.49	0.70	17.30	8.82	26.12	18.18	13.23	31.41	19.06	17.71	36.77	20.04	22.12	42.16
11	0.47	0.70	18.25	9.70	27.95	19.18	14.55	33.73	20.11	19.48	39.59	21.15	24.33	45.48
12	0.46	0.69	19.49	10.43	29.92	20.48	15.65	36.13	21.47	20.95	42.42	22.58	26.16	48.74
13	0.45	0.69	20.65	11.30	31.95	21.70	16.95	38.66	22.76	22.69	45.45	23.93	28.35	52.27
14	0.43	0.68	21.25	12.00	33.25	22.33	17.99	40.33	23.42	24.09	47.50	24.62	30.08	54.71
15	0.42	0.68	22.24	12.85	35.09	23.37	19.28	42.65	24.51	25.81	50.32	25.77	32.23	58.00
16	0.41	0.67	23.16	13.51	36.66	24.34	20.26	44.60	25.52	27.12	52.64	26.83	33.88	60.71
17	0.39	0.67	23.40	14.35	37.76	24.60	21.53	46.12	25.79	28.82	54.61	27.12	35.99	63.11
18	0.38	0.66	24.15	14.97	39.11	25.38	22.45	47.83	26.61	30.06	56.66	27.98	37.54	65.52
19	0.38	0.66	25.49	15.80	41.29	26.79	23.70	50.49	28.09	31.73	59.81	29.53	39.63	69.16
20	0.37	0.65	26.12	16.38	42.50	27.45	24.57	52.02	28.79	32.89	61.68	30.27	41.08	71.35

USE OF TABLE

The load for one customer is the base load and is taken from TABLE I. The total load (L_n) for n identical customers is L_n=n (base A/C load D_n (A/C) + (base other load) D_n (other). For strip heating load, substitute strip heater kVA for base A/C load. Use A/C diversity factor ($D_{A/C}$) for all cooling and heating. "Base other load" may be FE, PE, or other customer load not including heating and cooling. Using this formula, the total load for 10 mobile homes in the example under TABLE I would be L_{10}=10 (2.53) (0.70) = (3.11) (0.49) = 32.9 kVA.

E. TABLE II-B - STANDARD LOADS (IN KVA) DIVERSIFIED FOR 1 THROUGH 20 CUSTOMERS

Num. of Cust.	Diversity Factor (D)		3 Ton			3.5 Ton			4 Ton			5 Ton		
	FE	A/C	FE	A/C	Total	FE	A/C	Total	FE	A/C	Total	FE	A/C	Total
1	1.00	1.00	4.29	3.79	8.08	4.93	4.42	9.35	5.67	5.05	10.72	7.50	6.32	13.82
2	0.85	0.85	7.29	6.44	13.74	8.38	7.51	15.90	9.64	8.59	18.22	12.75	10.74	23.49
3	0.74	0.83	9.52	9.44	18.96	10.94	11.01	21.95	12.59	12.57	25.16	16.65	15.74	32.39
4	0.66	0.80	11.33	12.13	23.45	13.02	14.14	27.16	14.97	16.16	31.13	19.80	20.22	40.02
5	0.61	0.77	13.08	14.59	27.67	15.04	17.02	32.05	17.29	19.44	36.74	22.88	24.33	47.21
6	0.57	0.75	14.67	17.06	31.73	16.86	19.89	36.75	19.39	22.73	42.12	25.65	28.44	54.09
7	0.54	0.73	16.22	19.37	35.58	18.64	22.59	41.22	21.43	25.81	47.24	28.35	32.30	60.65
8	0.52	0.72	17.85	21.83	39.68	20.51	25.46	45.97	23.59	29.09	52.68	31.20	36.40	67.60
9	0.50	0.71	19.31	24.22	43.52	22.19	28.24	50.43	25.52	32.27	57.78	33.75	40.38	74.13
10	0.49	0.70	21.02	26.53	47.55	24.16	30.94	55.10	27.78	35.35	63.13	36.75	44.24	80.99
11	0.47	0.70	22.18	29.18	51.36	25.49	34.03	59.52	29.31	38.89	68.20	37.78	48.66	86.44
12	0.46	0.69	23.68	31.38	55.06	27.21	36.60	63.81	31.30	41.81	73.11	41.40	52.33	93.73
13	0.45	0.69	25.10	34.00	59.09	28.84	39.65	68.49	33.17	45.30	78.47	43.88	56.69	100.57
14	0.43	0.68	25.83	36.08	61.91	29.68	42.08	71.76	34.13	48.08	82.21	45.15	60.17	105.32
15	0.42	0.68	27.03	38.66	65.69	31.06	45.08	76.14	35.72	51.51	87.23	47.25	64.46	111.71
16	0.41	0.67	28.14	40.63	68.77	32.34	47.38	79.72	37.20	54.14	91.33	49.20	67.75	116.95
17	0.39	0.67	28.44	43.17	71.61	32.69	50.34	83.03	37.59	57.52	95.11	49.73	71.98	121.71
18	0.38	0.66	29.34	45.03	74.37	33.72	52.51	86.23	38.78	59.99	98.78	51.30	75.08	126.38
19	0.38	0.66	30.97	47.53	78.50	35.59	55.43	91.02	40.94	63.33	104.26	54.15	79.25	133.40
20	0.37	0.65	31.75	49.27	81.02	36.48	57.46	93.94	41.96	65.65	107.61	55.50	82.16	137.66

USE OF TABLE

The load for one customer is the base load and is taken from TABLE I. The total load (L_n) for n identical customers is L_n=n (base A/C load D_n (A/C) + (base other load) D_n (other). For strip heating load, substitute strip heater kVA for base A/C load. Use A/C diversity factor ($D_{A/C}$) for all cooling and heating. "Base other load" may be FE, PE, or other customer load not including heating and cooling. Using this formula, the total load for 10 mobile homes in the example under TABLE I would be L_{10}=10 (2.53) (0.70) = (3.11) (0.49) = 32.9 kVA.

F. TABLE III - TRANSFORMER LOADING - FE CUSTOMERS

TRANSFORMER SIZE	NUMBER OF FULL ELECTRIC HOMES							
	1 Ton	1.5 Ton	2 Ton	2.5 Ton	3 Ton	3.5 Ton	4 Ton	5 Ton
25 kVA	1-12	1-9	1-7	1-6	1-5	1-4	1-3	1-2
37.5 kVA	13-21	10-16	8-12	7-10	6-9	5-7	4-6	3-4
50 kVA	22+	15-23	13-19	11-15	10-13	8-11	7-9	5-6
75 kVA	-	-	20+	16-20+	14-20+	12-18	10-15	7-11
100 kVA*	-	-	-	-	-	19-20+	16-20+	12-16

USE OF TABLE III

For FE customers, use this table to select transformer size after designing transformer - secondary arrangements. For example, what size transformer is required for five FE customer with 3 ton A/C's? Enter the chart under "3 Ton" and move downward to the row which has 5 customers, in this case "1-5". Move left to "25 kVA".

This table is for standard FE loads based on A/C size. Transformer sizes for PE loads or loads determined by strip heating must be calculated as shown under Tables I and II.

Note that initial loading of transformers is to be kept to 120% of transformer nameplate for homes less than 2500 ft^2. 100% initial loading for homes greater than 2500 ft^2. (Based on summer load).

CERTIFICATE OF SERVICE
DOCKET NO. 160021-EI, *et al.*

I HEREBY CERTIFY that a copy of the foregoing has been furnished by electronic mail, U.S. Mail or Federal Express, this 19th day of September, 2016 to the following:

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