BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY & EXHIBITS OF:

MORAY P. DEWHURST

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JULY 31, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Moray P. Dewhurst. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to capital structure and return on equity ("ROE") claims made by the Office of Public Counsel's ("OPC") witnesses O'Donnell, Woolridge, and Lawton; the Federal Executive Agencies' ("FEA") witness Gorman; and the South Florida Hospital and Healthcare Association's ("SFHHA") witnesses Baudino and Kollen. In doing so, I also address related claims made by Florida Retail Federation ("FRF") witness Chriss and other intervenors. I also respond to witnesses Schultz's and Kollen's oppositions to the requested storm cost recovery mechanism and respond to OPC witness Schultz's position on Directors and Officers ("D&O") liability insurance. Finally, I respond to the inaccurate representations and clear misunderstandings of several intervenor witnesses related to the proposed ROE performance adder for Florida Power & Light Company's ("FPL" or "the Company") superior performance.

II. SUMMARY

Q. Please summarize your rebuttal testimony.

A. FPL's approach to managing its capital structure, supported by the Florida Public Service Commission ("FPSC" or "Commission") for decades, has served customers extremely well as manifest by the Company's low cost access to debt markets, its ability to quickly fund major liquidity needs such as storm restoration efforts and fuel under-recoveries, its highly reliable service, and its low cost position overall. A fair rate of return, acknowledging the true cost of equity has been equally important over the years. As described in my direct testimony, the Settlement Agreement's provisions enabling FPL to earn 11% on its equity investment helped to bridge the poor result of the last case through the end of 2012, with the ability to have the Commission reassess the appropriate equity cost rate in this proceeding.

Now, however, with the expiration of the Settlement Agreement, the intervenors are recommending an even more extreme result – an ROE lower than the 10% ROE which prompted downgrades of FPL's debt *and*, in the case of OPC, a dramatically weakened capital structure. The only logical result of accepting such recommendations would be further downgrades, higher costs of borrowing, and renewed concern over the regulatory environment in Florida.

It defies reason for the intervenors to recommend such a drastic result, particularly when FPL's balance sheet strength and opportunity to earn a fair ROE have served customers so well for so long. It is no coincidence that FPL historically has been able to deliver *both* superior value to customers and adequate returns to investors. These objectives are not mutually exclusive. Indeed, cursory examination of our industry shows that utilities that are generally perceived as delivering excellent customer value are also commonly the ones with strong financial positions and financial returns.

For context, the intervenors' recommended ROE rates are: (1) lower than the 10% ROE ordered by the prior Commission in the last case, which was the lowest return authorized by the Commission for any electric, gas, or telecommunications utility in Florida in over 50 years; (2) lower than the ROE the Commission approved as recently as April 2012 for Gulf Power; (3) lower than the ROE incorporated in the Progress Energy Florida settlement approved in March 2012; (4) lower than any other ROE for a Florida investor owned utility ("IOU"); (5) the lowest among major electric IOUs in the Southeast United States; and (6) in the bottom third of ROEs awarded for electric utilities in the United States within the last two years. For intervenors to suggest that their recommended ROEs, if adopted, will not have any negative consequences for FPL as it attempts to compete in capital markets defies reason.

In spite of basement-level ROE recommendations for the Company, OPC and other intervenors actually contend that FPL would *not* be downgraded. Astonishingly, OPC takes this position not simply if OPC's ROE recommendation is accepted, but if the Commission also were to dramatically alter FPL's capital structure by as much as a $3 billion difference in debt versus equity capital. Beyond incredible, OPC's position is demonstrably wrong. The analysis supporting this position contains elementary but serious errors and omissions that, if corrected, actually show that downgrades *would* follow such a decision. There simply is no credible basis for the intervenors to assert that FPL's financial strength and access to capital markets would not be adversely affected by such a drastic outcome. Their contentions reflect a clear lack of any practical experience in the financial markets or in managing the finances of a large electric utility. Based on my experience in the industry, I am convinced that the intervenors' recommendations would have significant detrimental impacts on the Company's financial strength, likely leading to a downgrade by the credit rating agencies and ultimately negatively impacting customer service.

I am responsible for managing the Company's financial integrity and ensuring that we have ready, sufficient and cost-effective access to capital markets to support the operations of FPL and to finance the major capital investments authorized by this Commission. In meeting these obligations, I regularly deal with both actual and prospective investors, equity and debt, the banks that support our short term credit needs, and the major credit rating agencies. I have practical experience in dealing with them over many years and in a variety of market environments. I know how they viewed the results of the last case, how they reacted when we entered into the Settlement Agreement, and what their expectations are going forward. The intervenors' recommendations on capital structure and ROE are, quite simply, out of line both with investor expectations and with the investment opportunities of similar risk readily available to investors elsewhere. If adopted, they would negatively impact FPL's standing with the investment community upon whom we rely so heavily to meet the financial needs of the Company and, ultimately, our customers. In the long run, the intervenors' recommendations would hurt FPL's ability to continue delivering superior customer value.

The intervenors' recommendations on storm cost recovery and D&O liability are short-sighted and misguided. With respect to storm costs, those intervenors opposing FPL's requested continuation of the mechanism approved in the Settlement Agreement fail to appreciate either FPL's real exposure to risk from tropical storms or the impact that adoption of their recommendations would have on FPL's risk profile – or both. With respect to D&O liability insurance, the intervenors' recommendations would disallow recovery of a legitimate cost of providing electric service to our customers without demonstrating any imprudence on the part of FPL. Accordingly, their recommendations should be rejected.

Finally, the intervenors fail to counter the good public policy reasons for authorizing FPL's requested incentive for superior performance. Their objections are simply irrelevant to the issue. The superior performance that FPL provides, for which it is seeking an incentive, is more than just its customers' low bills – it is the total package of low bills, high reliability, and excellent customer service. As long as management actions influence the delivery of customer value, there is logic in affording the prospect of a higher ROE to those utilities that deliver higher customer value. This type of superior service – which requires some risk taking to go "above and beyond" the minimally adequate level of service – should be encouraged for the benefit of all Floridians. An ROE incentive, such as that requested by FPL, provides the appropriate encouragement in a manner consistent with the Commission's previous use of ROE incentives as a mechanism to reward superior electric service.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following rebuttal exhibits:

- MD-3, Regional Comparison: ROE and Key Customer Metrics
- MD-4, Corrected DJL-3
- MD-5, S&P's PPA Guidance
- MD-6, Effect of OPC's Recommendations on S&P Metrics
- MD-7, Effect of OPC's Recommendations on Moody's Credit Rating Triggers
- MD-8, FPL ROE 1999-2012
- MD-9, Climatological Probability – Southeastern U.S.

- MD-10, Business Risk Comparison - Florida IOUs

III. IMPLICATIONS OF INTERVENOR RECOMMENDATIONS

Q. OPC recommends that the Commission decrease FPL's equity ratio, while OPC, SFHHA, and FEA all recommend that the Commission establish an ROE for FPL at a level even lower than that allowed by the Pre-Settlement Order in FPL's last rate case. Why should the Commission reject intervenors' recommendations?

A. The intervenors' recommendations would fail three key tests: (1) they would not serve customers' long-term interests; (2) they would not fairly compensate FPL's investors; and (3) they would constitute poor public policy.

Q. Why are the intervenors' recommendations not in customers' long term interests?

A. Contrary to their contentions, the intervenors' recommendations would weaken FPL's financial strength substantially, resulting in further degradation of credit and likely downgrades to ratings. Adoption of such recommendations also would revive and aggravate investor perceptions of regulatory risk and make it difficult to persuade investors to commit capital to the business. The cost of that capital would increase (not decrease, as the intervenors suggest) and capital availability would decrease. Over time this would lead to reduced electric system investment and, in due course, lower customer value. None of this is in our customers' long term interests.

It is no coincidence that FPL historically has been able to deliver *both* superior value to customers and adequate returns to investors. These objectives are not mutually exclusive. Indeed, cursory examination of our industry shows that utilities that are generally perceived as delivering excellent customer value are also commonly the ones with strong financial positions and financial returns. For example, the operating companies of The Southern Company are generally acknowledged as delivering good value. They do so with authorized ROEs as high as 13.75% (Alabama Power Company). Even the lowest allowed ROE for a Southern operating company (Gulf Power, at 10.25%) is 100-175 basis points higher than the intervenors are recommending for FPL. Virginia Electric & Power Company ("VEPCO") also is generally acknowledged within our industry as providing high customer value. VEPCO's currently authorized ROE is 11.4%. On the other hand, the Potomac Electric Power Company ("PEPCO"), a utility whose reliability and performance have been heavily criticized within the past year, has allowed ROEs of only 9.63% (District of Columbia) and 9.31% (Maryland), respectively. Historically, the rates of return and other forms of regulatory disallowance for PEPCO have been much worse compared to VEPCO, the Southern Subsidiaries, and, until 2010, FPL. I believe that strong long-term customer value goes hand in hand with strong financial performance, and FPL's historical results underscore this point.

Contrary to the intervenors' implicit assumptions, customers' interests are *not* best served by cutting ROE to a level lower than historical FPSC lows (and, with respect to OPC's recommendation, the lowest in the country) while simultaneously weakening FPL's financial integrity particularly in the midst of the largest capital spending wave in its history. It simply defies common sense and practical utility experience to suggest that this could be done without damaging customers' long term interests. The intervenors' recommended approach of cutting FPL's ROE as well as the amount of equity in its capital structure solely for the purpose of slashing revenue requirement, would be an extreme case of "penny wise and pound foolish," especially as FPL will still have the most affordable bill in the state if the Commission maintains FPL's financial integrity and provides it a reasonable ROE opportunity consistent with our request. It may be easy for a witness focusing only on the short term with no other accountability to propose such approaches, but it would be a serious mistake for the Commission to accept them.

Q. Why would the intervenors' recommendations be unfair to investors?

A. As discussed by FPL witness Avera in both his direct and rebuttal testimony, regulators must establish an ROE that: (1) fairly compensates investors for capital invested in the utility; (2) enables the utility to offer a return adequate to attract new capital on reasonable terms; and (3) maintains the utility's financial integrity. The intervenors' recommendations do not withstand even a cursory comparison with these three standards. Even the highest of the intervenor-recommended ROEs of 9.25% (recommended by FEA witness Gorman) would be far lower than investors can expect to earn on investments of comparable or even lower risk, and thus would self-evidently *not* fairly compensate investors.

Moreover, a drastic reduction in FPL's creditworthiness associated with a 100 basis points (based on authorized return) or 200 basis points (based on FPL's current ROE under the Settlement Agreement) reduction in ROE, *coupled with* an increase in debt of $1.5 billion (a consequence of OPC's witnesses' proposed new, weaker capital structure) would most certainly *not* maintain the utility's financial integrity. In the current environment, as my Exhibit MD-3 shows, the opportunities available to investors to commit capital to the utility business offer returns well in excess of what each intervenor witness is recommending. Finally, the intervenors ignore the specific business risks faced by FPL, which a fair ROE would reflect. These risks are discussed in detail in my direct testimony at pages 12-32. It defies common sense to assert that offering investors the prospect of a 9.25% or less ROE is consistent with the principle of fairly compensat[ing] investors.

Q. Why do the intervenors' recommendations reflect poor public policy?

A. The intervenors' recommendations, if adopted, would set up a perverse incentive: penalize superior customer value delivery and offer higher returns to utilities which deliver less value to their customers. This is the precise reverse of what a regulator should be wishing to encourage.

Whether or not the intervenors' witnesses think that their ROE recommendations fairly reflect FPL's true cost of capital, the practical implications of adopting their recommendations is that FPL – the utility that today delivers the best combination of low bills, high reliability, and excellent customer service in Florida – would see its allowed ROE *reduced* and reduced to a level that would be the lowest in the state, the lowest among major electric IOUs in the Southeast, and among the lowest established for any electric utility in the nation within the last two years. OPC's and SFHHA's proposed ROEs of 9% would be the absolute lowest in the nation in the last two years.

From a policy perspective, it is obvious that regulators should want to encourage regulated utilities to seek to improve their customer value delivery. In practical terms, the way to do this in electric utility regulation is offering the prospect of higher rewards to those who perform well. Higher ROE, all other things being equal, will clearly offer this prospect and will provide better long term customer benefits. To saddle the best performing utility with the lowest allowed ROE while simultaneously weakening its financial integrity (as OPC recommends) would achieve the precise opposite of this policy aim. The predictable result would be to send a message that customer value is irrelevant to regulatory outcomes (unless, perhaps, it is poor enough to warrant a penalty), which would only lead to utility conservatism and higher costs over time. No utility would ever see it to its advantage to take a step beyond the minimum needed to provide adequate service, as required by statute.

Q. Please provide some market and investor context for the intervenors' recommendations on ROE in this case.

A. The Commission's Pre-Settlement Order in FPL's last rate case and investors' reactions to that decision provides important context. In that order, the prior

Commission maintained FPL's actual equity ratio as requested (the same equity ratio maintained now), but authorized an ROE midpoint of only 10%. This ROE was the lowest return authorized by the Commission in Florida in over 50 years. It is also lower than the ROE the Commission approved as recently as April 2012 for Gulf Power and it is lower than the ROE incorporated in the Progress Energy Florida settlement approved in March 2012. Today, it remains among the bottom third of authorized ROEs for electric utilities in the nation and the lowest among major electric IOUs in the Southeast United States. Exhibit MD-3 provides the current authorized ROEs in the Southeast U.S. for major electric IOUs. It shows that FPL's current authorized ROE is the lowest in this region, even as its residential customer satisfaction score – according to a recent JD Power survey – is the highest and its typical 1,000 kWh residential bill is the second lowest. Exhibit MD-2, attached to my direct testimony, presented the ROEs established in Florida in the last 50 years. Each of these exhibits demonstrates FPL's comparatively low ROE position.

The results of the pre-settlement ROE decision in 2010 – a decision that lowered FPL's ROE but maintained its capital structure – were both immediate and sustained. Both Standard & Poor's ("S&P") and Moody's Investor Service ("Moody's") downgraded FPL. S&P noted that "…regulators [have] responded with decisions that reflect more intense political influence over the regulatory environment. Maintaining financial strength despite regulatory setbacks and a slowly improving economy in Florida will be challenging." (Standard & Poor's, "Research Update: FPL Group Inc. Downgraded to 'A-' from 'A,' Off Credit Watch; Outlook Stable" (March 11, 2010)). Moody's stated: "As a result of these developments, Moody's now views the Florida utility regulatory environment as substantially less constructive and predictable than it has been historically, increasing the level of risk to investors going forward." (Moody's, "Rating Action: Moody's Places FPL Group and Subsidiaries on Review for Downgrade" (Jan. 19, 2010)).

The investment community also expressed deep concerns, observing "FPL was hit with a harsh rate order earlier this year…Utilities almost never get everything they request, but it came as a shock when the Florida commission granted a tariff hike of just $74.5 million this year, based on an ROE in a range of 9%-11%." (Value Line, February 26, 2010).

Q. Given this context, what are the implications of the intervenors' recommendations on ROE in this case?

A. As I explained in my direct testimony, the Settlement Agreement that was entered into by the major parties in this case and subsequently approved by the Commission in the last case provided the Company with the ability to earn 11% in each year of that agreement. Now, however, with the expiration of the Settlement Agreement, the intervenors are recommending an even more extreme result – an even lower ROE than the 10% ROE which prompted the negative reactions and downgrades summarized above *and*, in the case of OPC, at the same time a dramatically weakened capital structure. The only logical result of accepting such recommendations would be further downgrades, higher costs of borrowing, and renewed concern over the regulatory environment in Florida.

Q. Can OPC's recommendations be adopted without consequence, as its witnesses contend?

A. No. It defies common sense and practical experience for OPC's witnesses to claim that the Commission can: (i) significantly weaken the capital structure of the Company; and (ii) approve one of the lowest ROEs in the country, and yet produce no negative impacts on the financial strength and credit rating of the Company. The presumption that FPL will remain as financially sound and competitive in the capital markets as it historically has been and that FPL will continue to be able to deliver the same superior service to customers with a significantly weakened balance sheet is simply wrong.

Q. OPC witness Lawton and FEA witness Gorman specifically claim that FPL's financial metrics would remain within the S&P and/or Moody ranges supporting FPL's credit rating if their recommendations are adopted. Do you agree?

A. No, I do not agree. OPC witness Lawton makes credit metric computations (see his DJL-3) in an attempt to illustrate that FPL would not suffer financial degradation and risk a credit downgrade. Unfortunately, these contain elementary but serious errors. I have not attempted a detailed re-analysis in an effort to uncover all possible errors, but, as shown in my Exhibit MD-4 "Corrected DJL-3," correcting just two glaring errors changes the results and his conclusions. His Moody's credit metrics analyses are similarly unreliable because he omits any reference to the most recent Moody's guidance specific to FPL's credit rating. When correction of these errors and omissions are taken into account, it is clear that OPC's claim that FPL's financial strength will not be harmed by its recommendations has no basis in reality. The computations provided by witness Gorman also indicate a decline in FPL's S&P financial risk profile and therefore similarly fail to support the proposition that FPL (and its customers) will be unharmed.

Q. Please describe the errors in OPC witness Lawton's Standard & Poor credit metric calculations.

A. First, witness Lawton omits FPL's short term debt of $446 million from his metric calculations. Short term debt is a portion of FPL's financing that is integral to FPL's operations as explained on MFR Schedule D-3, and is recognized by S&P in its evaluations. Second, he omits S&P's consideration of power purchase agreements ("PPAs") in evaluating the financial strength of a utility. S&P's guidance related to PPAs is included as Exhibit MD-5. Regardless of whether witness Lawton agrees with S&P's inclusion of short term debt and consideration of PPAs, he is purporting through his testimony and Exhibit DJL-3 to demonstrate how *S&P* would react to OPC's recommendations. Accordingly, these adjustments should be made. Properly considering, rather than completely ignoring, short term debt and S&P's current $922 million PPA adjustment would move the Company's financial risk profile from "intermediate" toward "aggressive" – two notches down and by itself a likely downgrade. To be clear, I have not conducted a detailed examination of witness Lawton's calculations, which may contain other errors. The two I have identified are glaring and elementary, and correcting them substantially changes the conclusions one would reasonably draw from such an analysis.

Q. What is the significance of OPC witness Lawton's financial errors?

A. OPC relies on its credit metrics testimony of witness Lawton to claim that the investment community would not react negatively or downgrade FPL's credit rating if OPC's position were accepted by the Commission. In contrast, when witness Lawton's financial errors are corrected, it is clear that FPL's credit rating with respect to S&P would deteriorate. This is shown in my Exhibit MD-6.

Even using his uncorrected calculations, the Financial Risk Indicative Ratios (per S&P) for FPL would be severely and negatively affected and would move the Company's financial risk profile from "intermediate" to "significant" and potentially even to "aggressive." These are not minor changes.

Q. Please describe the omission contained in OPC witness Lawton's testimony with respect to Moody's credit metrics.

A. OPC witness Lawton's testimony unaccountably omits any reference to the most recent Moody's guidance with respect to FPL, issued in April 2012. Because FPL is the company which is the subject of this proceeding, and this guidance is commonly available and relied upon by investors, it is difficult to understand how anyone could make such a critical omission in purporting to apply Moody's guidance and methodology.

In April 2012, Moody's stated what key factors would lead Moody's to consider downgrading FPL:

> "A downgrade could be considered if there is an adverse outcome to the company's pending rate case, if there are significant cost disallowances or other changes to the Florida's currently credit supportive cost recovery provisions, or if there is a sustained decline in cash flow coverage metrics, including CFO pre-working capital interest coverage below 5.0x and CFO pre-working capital to debt below 25%, or an increase in debt to capital above the 40% range."

(Moody's Investor Service, "Credit Opinion: Florida Power & Light Company" (April 10, 2012)). This is unmistakable and particularly clear for a credit rating agency, and while the phrase "could be considered" is of course conditional, my direct conversations with Moody's credit analysts leave me in no doubt as to what the outcome would be if OPC's recommendations were to be adopted.

Q. What is the significance of Public Counsel's failure to consider the most recent April 2012 Moody's guidance?

A. The Moody's April 2012 FPL credit analysis clearly identifies three credit metric triggers which could cause a further downgrade of FPL's credit rating. OPC's recommendations in this case would trip not just one, but *all three* of these triggers, meaning that a downgrade would more than likely result. This is demonstrated in Exhibit MD-7. It is clear that OPC's claim that Moody's ratings of FPL would be unaffected by accepting OPC's position is incorrect.

Q. Please respond to FEA witness Gorman's claim that his ROE recommendation would not harm the strength of the Company, based on his S&P metric calculations.

A. Witness Gorman does not propose changing FPL's equity ratio as OPC does. Nevertheless, his proposed ROE of 9.25% would be viewed as an extremely negative result from a credit perspective, and would reverse the emerging perception of a return to more constructive regulation in Florida. With respect to his credit metrics, witness Gorman himself admits that his proposal would drop FPL from its current S&P financial risk profile of "intermediate" to "significant" (p. 52). This degradation of financial risk position, combined with his exceedingly low and punitive ROE proposal, would likely lead to a credit downgrade by the rating agencies.

Q. Do factors other than these types of metrics influence the Company's credit rating?

A. Yes. Naively moving numbers in a matrix and suggesting that this would dictate the impact on credit reflects a fundamental lack of understanding of how credit analysis is conducted. S&P cautions that the indicative outcomes of these metrics "are not meant to be precise indications or guarantees of future rating opinions" and has stated "our assessment of financial risk is not as simplistic as looking at a few ratios." (S&P, "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded" (May, 2009)).

A major element in credit analysis for regulated utilities is the assessment of regulatory risk. OPC witness Lawton and FEA witness Gorman simply ignore the impact that adopting their recommendations would have on perceptions of regulatory risk. It could only be negative, and the only relevant question is: how negative? Investors and rating agencies are watching very carefully the regulatory process in Florida. The downgrade that followed the last rate case still negatively resonates with FPL's investors and the rating agencies. They remain optimistic that the regulatory climate has stabilized and may be returning to one that encourages investment and high quality service among utilities. Another unreasonable outcome, such as those recommended by the intervenors, would be a major setback in investors' view of the regulatory environment in Florida. Reaction to a negative decision in this case alone could be enough to prompt another credit rating downgrade – regardless of the metrics.

Q. Do the intervenor witnesses apply the correct standard in making its recommendations regarding ROE and capital structure?

A. No. The intervenors' positions indicate that they believe that the Commission's task is to determine what the lowest possible ROE and weakest capital structure for FPL could be without affecting FPL's ability to provide minimally adequate electric service. This is clearly not the appropriate standard.

The Commission's task, as I understand it, is to authorize an ROE that complies with the standards set forth in *Hope* and *Bluefield* to: (1) fairly compensate investors for capital invested in the utility; (2) enable the utility to offer a return adequate to attract new capital on reasonable terms; and (3) maintain the utility's financial integrity. Just as important, the Commission must consider how customers' long term interests would best be served. The intervenors' recommendations to slash short term costs (by reducing equity and lowering the Company's ROE) at the expense of the Company's financial strength is short-sighted and would at a minimum result in credit rating downgrades, higher debt costs, and investor concerns related to the regulatory environment in Florida.

In contrast, FPL's approach to maintaining financial strength, which includes maintaining the current, actual equity ratio by which the Company is managed and affording equity investors the opportunity to earn a fair ROE, has served customers well for decades and can be expected to continue to do so. The proof is in the low bills, high reliability, and excellent customer service to which our customers have become accustomed. FPL's customers enjoy the most affordable electric service in Florida today and will continue to do so if the Commission grants 100% of FPL's rate request in this proceeding.

Q. Do you have any other general observations about the intervenor witness positions regarding capital structure and ROE?

A. Yes. First, the intervenors fail to consider the total effect of FPL's request to maintain its capital structure and establish an ROE of 11.5% on FPL's rate case request – and therefore its effect on customers. Authorizing FPL's requested ROE would result in a weighted average cost of capital ("WACC") of 7.0%, which is below the average WACC of FPL's peer electric utilities. FPL's average bill will also remain below the average of FPL's peers and will remain the lowest in Florida. This emphasizes the "penny wise and pound foolish" nature of the intervenors' recommendations.

Second, it appears that the intervenor witnesses forget or overlook the 2010 Rate Settlement – a critical stop-gap measure put in place to mitigate the effects of the 2010 Pre-Settlement order. SFHHA witness Baudino, for example, states that "[s]ince its last rate proceeding before the Commission, the Company has had nearly unfettered and low cost access to capital markets for its construction program and for other corporate purposes." (p. 17). He then points to the rates obtained for FPL's June 2011 and December 2011 bond issuances as support. These bond issuances, however, occurred *after* approval of the Settlement. They reflect FPL's ability to consistently earn an 11% ROE, the ability to recover costs associated with West County Unit 3, and FPL's current capital structure (in addition to a variety of market influences outside of FPL's control) – not the 10% ROE upon which rates were set by the 2010 Pre-Settlement Order. It is the Settlement Agreement that has, albeit temporarily, helped support FPL's financial position.

As I discussed in my direct testimony, as a direct and contemplated result of the Settlement Agreement's provisions allowing FPL to flexibly amortize theoretical depreciation reserve surplus (effectively reversing depreciation) to provide earnings, albeit non-cash earnings, FPL projected to earn and did earn 11% in

2010 and 2011. Likewise, FPL expects to earn 11% in 2012 through the end of the Settlement Agreement. Contrary to the implications in Mr. Baudino's and others' testimony, the Settlement Agreement provided the additional elements missing from the initial rate order that were necessary to stabilize FPL's financial position and provide investors with comfort. Value Line summarized the results of the settlement as follows:

> "Earlier this year, Florida Power & Light was hit with a harsh rate order. There was some concern about the treatment FPL would get when it filed for recovery of the cost of a 1,220-megawatt gas-fired plant...The agreement allows the utility to recover the cost of the plant, next year, but only to the extent that lower fuel prices will offset the revenue requirement. Base rates will be frozen through the end of 2012. The allowed return on equity will remain in a range of 9%-11%."

(Value Line, November 26, 2010). Later, Value Line stated:

> "Florida Power & Light is benefiting from a rate settlement that was approved last year. This will enable FPL to earn a return on a generating facility that went into service in 2010. Also, the settlement allows the company to boost its profits by amortizing surplus depreciation."

(Value Line, February 25, 2011). The limited nature of the Rate Settlement and expectations for this rate case have also been expressed in the investment community. As Barclays Equity Research reported in July of this year,

> "An increase in cash earnings is an equally important issue for this rate case. Although FP&L has been earning an 11% ROE for the last 2 years,

and should earn at 11% again in 2012, it is doing so based on a reduction in depreciation expense as a result of having been found to have surplus depreciation in the last depreciation study. Consequently, FP&L's earnings have been lighter on cash than an 11% ROE implies, and the company must have some – and investors should expect – a notable increase in cash to be a part of this rate case, if the FL PSC seeks to be fair in its regulation."

(Barclays Equity Research, U.S. Utilities, Sector Update (July 16, 2012)).

As explained in my direct testimony, the Settlement Agreement expires at the end of this year. FPL's requested ROE and the maintenance of its actual capital structure, which has served customers so well for so long, will continue to support investor confidence and FPL's competitive access to capital.

IV. CAPITAL STRUCTURE

Q. Several intervenor witnesses claim that FPL's equity ratio is excessive compared to other utilities in the industry, particularly the proxy groups used by various witnesses in their ROE models. Please respond.

A. The intervenors disregard the relative business risk profile of FPL compared to those in the proxy groups. Every utility faces a unique risk profile, and these risk differences influence the capital structure that a prudent utility manager should seek to employ. This fact is recognized by witness O'Donnell when he states that "[p]rudent management practices attempt to ameliorate higher business risk with offsetting, lower financial risk." (p. 15). His application of this concept on a strictly regulated (not risky, according to this witness) versus unregulated (more risky, according to this witness) basis, however, is overly simplistic and ignores the many FPL-specific risk factors presented in this case. As described in my direct testimony at pages 12-32, there are very real business risks faced by FPL, such as miles of shoreline and therefore exposure to hurricanes, which support the reasonableness of a less-leveraged capital structure.

The reasonableness of FPL's current capital structure is not a theoretical or academic issue. FPL has repeatedly relied on its strong balance sheet to serve its customers. For example, solely with regard to the 2004 and 2005 hurricane seasons, FPL had to fund approximately $1.8 billion in storm restoration costs, a significant portion of which was over an indefinite period of time, with substantial uncertainty as to timing and amount of recovery. In addition, FPL has had to fund large fuel under-recoveries in times of increasing fuel prices in order to continue purchasing fuel for use in generating electricity (such as the $1 billion under-recovery in 2005). These actions – all of which are clearly in customers' interests – would have been impossible without FPL's strong balance sheet. Again, for a short-sighted purpose, the intervenors simply ignore the practical need for financial strength and the many ways that FPL's financial strength benefits customers.

Q. The intervenors also claim that FPL's equity ratio is excessive compared to NextEra Energy, Inc ("NEE"). Please respond.

A. Each intervenor comparison of FPL's capital structure to NEE's consolidated capital structure is grossly simplistic. NEE's consolidated capital structure is completely different from FPL's, in that it contains project (non-recourse) debt, hybrid securities, and equity units, among other instruments. Project debt, which totals about $6 billion, is secured solely by the particular asset financed and the cash flows generated by the project, with no obligation to repay in whole or in part from corporate funds. Hence, it is often called "non-recourse" (to the sponsoring company's credit) debt. Consequently, the rating agencies and investment community distinguish and largely exclude non-recourse project debt from NEE's capital structure in their credit evaluation. Hybrid securities and equity units have equity benefits to issuers. Therefore, the rating agencies assign equity credit for these types of instruments which equates to an adjustment to capital structure. These adjustments have a material effect on NEE's capitalization. Without accounting for these differences, one cannot compare the equity ratio of FPL and the consolidated equity ratio of NEE and reach any meaningful conclusions, as OPC witness O'Donnell attempts to do.

Q. OPC witness O'Donnell alleges that NEE can "lean on FPL" to take dividend payments for the benefit of affiliated companies, pointing to the varying level of dividends that have been paid as presented in KWO-10. Does KWO-10 support witness O'Donnell's alleged "linkage" between NEE's credit rating and FPL's capital structure?

A. No. In fact, it shows the very reverse of what OPC witness O'Donnell is suggesting. NEE carefully manages the capital structure of FPL so that it closely matches the capital structure last reviewed and approved by the FPSC. This means that, at times, FPL will pay a dividend to its equity owner (NEE) and, at other times, NEE will infuse equity into FPL. This is a function of the fluctuating cash flows of the business. The capital structure, as well as other financial information on a rolling twelve-month basis, is filed with the Commission each month in the Company's Earnings Surveillance Reports. Far from NEE being able to "lean on FPL," it is FPL that is able to lean on NEE when its investment needs exceed its capital generating abilities, as is the case currently. But FPL can only enjoy this benefit as long as shareholders have the prospect of earning a fair rate of return on their invested capital.

The dividend amounts will vary as the dividends are paid or equity is infused in order to meet the Company's target capital structure. Overall, however, from December 1989 to the end of 2011, FPL has increased its common equity balance from \$2.8 billion to \$10.9 billion, an increase of about \$8.1 billion, as it has increased its overall investment in the business and maintained a consistent equity ratio.

Q. Do rating agencies make adjustments to a utility's capital structure in evaluating its financial risk?

A. Yes. As discussed previously, S&P recognizes \$922 million in PPA obligations as debt-like in its evaluation of FPL. Credit rating agencies take these PPA obligations into account when evaluating the financial strength of FPL either explicitly (in the case of S&P) or as part of their overall credit evaluation (in the case of Moody's). S&P has explained that "[t]o better reflect the 'truth' of an issuer's financial position, we must make certain adjustments to these financial statements that affect metrics in a way we believe more completely reflects creditors' risks, rights, and obligations." (S&P, "Financial Adjustments Give a Clearer Picture of Credit Quality for U.S. Utility and Infrastructure Companies" (August, 2008), p. 2). With respect to PPAs specifically, S&P states "[w]e view PPAs as fixed, debt-like financial obligations that represent substitutes for debt-financed capital investments in electric generation capacity." (*Id.* at 6). For that reason, S&P considers $922 million in PPAs as debt when evaluating the financial strength and appropriate credit rating for FPL. (S&P, Ratings Direct, NextEra Energy, Inc. (April 6, 2012)). Regardless of whether the intervenors agree that it is an appropriate adjustment for the credit rating agencies to make, the fact of the matter is that the credit rating agencies *do* in fact take PPAs into account when evaluating the financial strength of FPL and considering the appropriate credit rating to assign.

Q. Do FPL's customers benefit from FPL's current capital structure?

A. Yes. No one can reasonably argue that FPL's approach to maintaining financial strength over the long term has not served customers well. FPL has been prudent in maintaining a capital structure that has enabled consistent and competitive access to the capital markets in times of economic turmoil, has been able to satisfy instant liquidity needs caused by unexpected events such as major storms, and has been able to competitively finance large investments to modernize and strengthen its infrastructure – all of which result in high reliability and low costs for customers.

Q. Has the Commission in the past acknowledged the customer benefits of a strong capital structure?

A. Yes. Even in the 2010 Pre-Settlement Order the Commission recognized the importance of financial strength, finding "FPL's position of financial strength has served it and its customers by holding down the Company's cost of capital." (Order No. PSC-10-0153-FOF-EI, p. 119). The Commission also acknowledged that while others were forced to issue debt at high rates during the financial crisis of 2008 and 2009, FPL was able to sell 30-year bonds at very reasonable rates "due to its strong financial position." (*Id.* at 119). Despite the fact that FPL's equity ratio was near the top of the range of equity ratios for its proxy group, the Commission agreed that FPL's actual capital structure, which it had maintained for over a decade, was reasonable.

Q. Please respond to OPC witness O'Donnell's recommendation that the Commission "impute" an equity ratio of 50% for purposes of ratemaking in this docket.

A. If witness O'Donnell is suggesting that the Commission set rates on an equity ratio of 50% but then expect FPL to maintain an actual equity ratio of 59.6%, he is effectively proposing that customers receive all the benefit of FPL's strong capital structure without paying for it. This certainly seems to be the implication of his recommendation.

In practice, of course, FPL could not reasonably continue operating the Company in a manner that is contrary to the Commission's determination on an appropriate equity ratio in this case. Accordingly, if witness O'Donnell's recommendation were to be accepted by the Commission, FPL would have to issue more than $1.5 billion in long-term debt and correspondingly reduce its equity by more than $1.5 billion – an over $3 billion swing in the relative amount of equity compared to debt in FPL. FPL would thus become far more leveraged and financially risky. Adoption of this recommendation would also reduce FPL's cash flow by approximately $214 million annually, according to OPC witness O'Donnell. As I have already discussed at length, these impacts would most likely translate into a credit rating downgrade and would certainly result in higher borrowing costs.

Further, regardless of any impacts associated with recapitalization of the Company, the $214 million reduction in revenues resulting from OPC's recommendation would be recognized by investors and credit rating agencies. This alone would negatively affect their opinions on the financial strength of FPL. To imply that investors and credit ratings agencies would overlook these cash impacts because the "actual" capital structure could theoretically remain unchanged demonstrates witness O'Donnell's lack of understanding of the practical consequences of his recommendations.

V. RETURN ON EQUITY

Q. Please respond to the intervenor witnesses' ROE recommendations.

A. Dr. Avera explains why the intervenors' recommendations are not supported by correct market-based analyses. My observations as to the intervenor recommendations are based on my experience and discussions with investors.

OPC witness Woolridge recommends an ROE of 9% (coupled with an arbitrary equity ratio of 50%, or an ROE of 8.5% if FPL's equity ratio is maintained), SFHHA witness Baudino recommends an ROE of 9%, and FEA witness Gorman recommends an ROE of 9.25%. Each of these recommendations falls woefully short of an ROE that would fairly compensate FPL's equity investors. A result in this case in line with these recommendations would likely be seen as punitive and would result in considerable, negative investment community and rating agency reaction. For example, Fitch has recently reported that "An adverse outcome in FPL's pending rate case would lead to a revision in Fitch's view that Florida regulatory environment has improved." (FitchRatings, "Fitch Affirms NextEra Energy, Inc. & NEE Capital Holdings' IDRS; Also Affirms Florida Power & Light" (April 27, 2012)). A consistent feature of the intervenors' witnesses' ROE recommendations is that they ignore this type of guidance and therefore ignore the investor perspective.

Q. Why do you think the investment community would view an ROE in line with the intervenors' recommendations as punitive?

A. As mentioned above, an ROE midpoint of 9% or 9.25% (or OPC's alternate recommendation of 8.5%) would be even lower than the ROE midpoint approved by the Commission in 2010 before the Settlement Agreement. Also, as shown on my Exhibit MD-3, it would be far below the 11.52% average ROE established for other major electric IOUs in the Southeastern U.S., despite FPL's demonstrably excellent performance. Finally, as demonstrated in Exhibit MD-8, such recommendations are far below the ROE levels that investors have realized over the last 14 years.

All witnesses agree that the Commission is required to set an ROE that is fair and compensatory. Yet, the intervenors' ROE proposals are neither fair nor compensatory and are in fact demonstrably punitive in nature. The Department of Public Utilities of Massachusetts, for example, recently established an ROE for Fitchburg Gas & Electric Company ("Fitchburg") of 9.2%. This was the lowest ROE established for any electric utility in the country in the last two years. Part of the Department's support for this low ROE was its finding that Fitchburg had "fail[ed] to meet its fundamental service obligation as a franchised utility." (DPU 11-01; DPU 11-02, Aug. 1, 2011, p. 424). PEPCO's ROE was also recently reduced, in part to "reflect the substandard reliability and service quality of PEPCO's distribution system." (Order 85028, Public Service Commission of Maryland, issued July 20, 2012, p. 108). PEPCO's ROE was set at 9.25%, plus six basis points for flotation costs. Fitchburg and PEPCO are distribution-only utilities, with lower risk profiles. The intervenors recommend applying a *similar or lower* ROE to FPL in this case, in spite of FPL's higher risk profile as an electric generation, transmission, and distribution utility; excellent reliability; excellent customer service; and low customer bills. It is hard to see how investors could not see this as punitive.

Q. **Witnesses Woolridge, Lawton, Baudino, and Gorman all spend time discussing the relative riskiness of the utility industry generally. Please respond.**

A. The relative riskiness of the utility industry *generally* is not at issue here. FPL acknowledges that in *some* respects, an investment in the utility industry is less risky than an investment in other industries. As FPL witness Avera concludes, however, disregarding other industries with which FPL competes for capital would fail to fulfill the relevant *Hope* and *Bluefield* standards for determining a fair ROE.

Moreover, these intervenors ignore – and would have the Commission ignore – the relative business risk profile of FPL *within* the utility industry. Evaluating FPL's relative business risk profile is a necessary step in determining the fair ROE for FPL's investors. FPL's business risk profile is discussed in detail in my direct testimony at pages 12-32.

Q. **FEA witness Gorman and OPC witness Woolridge discuss the impact of a utility's equity ratio on its financial risk and conclude generally that because**

FPL's equity ratio is higher than some of its peers, its ROE should therefore be lower than its peers. Please respond.

A. These witnesses focus on equity ratio to the exclusion of all other factors, as though FPL were identical to other utilities in all relevant respects. Again, the intervenors appear to rely on broad, general concepts rather than evaluate the very real business risk factors that, on balance, set FPL apart from other electric utilities. As explained in my direct testimony, FPL faces significant risks associated with FPL's location at the end of a peninsula and extensive use of nuclear generation. Additionally, while all Florida electric utilities are exposed to some storm damage and storm cost risks, including lost revenues, what makes FPL unique is the level and degree to which FPL is exposed to these risks. FPL is exposed to tropical storms and hurricanes along a much longer coastline that wraps from north of Fort Myers on Florida's west coast, down to the end of the peninsula and then up the Atlantic coast just to the south of Jacksonville. No other utility within or outside Florida has that kind of storm exposure. As shown on Exhibit MD-9, Florida has the greatest exposure to hurricane damage and FPL has the greatest exposure among the Florida electric IOUs. These are just a few examples, and the intervenors simply ignore these business risks.

Taken in the aggregate, FPL's business risk profile is somewhat greater than most utilities in the country and greater than other IOUs in Florida. FPL's relative riskiness among Florida IOUs is shown in Exhibit MD-10. This suggests that FPL should maintain a stronger financial position and that its investors should be compensated for this greater risk exposure – not that FPL should receive one of the lowest ROEs in the nation, the lowest ROE in the Southeast, and the lowest ROE in Florida. Again, FPL's strong capital structure and a fair rate of return on equity, buttressed by constructive regulation, have been key components to the long-term health and strength of the Company. The benefits of this for customers exist today; they are tangible, and they have been demonstrated repeatedly in the real world.

Q. Witness Baudino points out that FPL uses annual cost recovery clauses to recover some of its costs, stating that FPL "receives substantial benefits" from them, and implying that this reduces FPL's investment risk. Are these cost recovery clauses unique to FPL?

A. No. Adjustment mechanisms that enable utilities to implement rate changes to pass through fluctuations in costs are widely prevalent in the industry and already well understood by investors. Absent these cost recovery mechanisms, investors' required ROE would be significantly higher than FPL's requested ROE. Once again, he fails to examine the specifics of FPL's situation relative to other alternatives to which investors can commit capital.

The specific cost recovery clauses available to FPL are available to *all* Florida investor-owned electric utilities. Their availability, therefore, does not support the intervenors' recommendations that the Commission establish an ROE for FPL that is lower than that recently established for Gulf Power Company (Order No.

PSC-12-0179-FOF-EI, April 3, 2012) and approved for Progress Energy Florida (Order No. PSC-12-0104-FOF-EI, March 8, 2012).

Q. Does the presence of cost recovery clauses eliminate the risk to FPL and its investors that FPL will not timely recover all its prudently incurred costs?

A. No. Cost recovery clauses mitigate but do not eliminate the risk that FPL will not timely recover its prudently incurred costs. Certain disallowances advanced by the intervenors and approved by the Commission, for example, can apply to costs that FPL and its investors believe to be prudent. Additionally, clause under-recoveries, which can be significant, are reimbursed at FPL's commercial paper rate, not at FPL's weighted average cost of capital. This increases the risk that investors will not earn a return at the level authorized by the Commission.

Q. Several of the intervenor witnesses, such as FRF witness Chriss, cite concerns with FPL's requested ROE given the "current economic conditions" faced by the utility's customers (Chriss, p. 6). Please respond.

A. FPL acknowledges that these are difficult times for some of its customers – which is one of the reasons why we're pleased with our relative low-cost, low-bill position. But witness Chriss's concerns seem somewhat disingenuous, considering the fact that his employer, Wal-Mart, is realizing healthy returns far in excess of FPL's. In 2009, Wal-Mart's ROE was 19.94%, in 2010 it was 21.83%, and in 2011 it was 23.60% – growing each year, for a three year average of 21.79%, net of taxes. Moreover, based on his review, FPL witness DeRamus concludes that the impact of FPL's request on commercial customers is moderate, particularly in comparison to changes in prices for other goods and services over time.

Q. How would the impact of a weakened balance sheet and lower ROE affect the investment community?

A. As I have discussed, it is clear that these actions will degrade and likely downgrade the credit, financial strength, financial health, and financial resiliency of FPL. Financial markets remain weak and uncertain; global credit markets are vulnerable as is illustrated by the turmoil in Europe and in the banking sector. Since 2011, for example, Moody's has downgraded 807 banks, 74 of which are in the United States. That compares with the sparse number of upgrades of 119 worldwide and just 12 in the U.S. (and none so far in 2012). It is certain that the downgrades in the banking sector will continue to cause concern and increase the stress in the credit markets. It is unreasonable, particularly in this credit and economic environment, for OPC to propose a position that would purposely and unequivocally decrease the financial strength of one of the best performing, low cost utilities in the industry, thereby weakening its ability to serve its customers.

VI. STORM COST RECOVERY

Q. How does FPL propose to address storm recovery in this proceeding?

A. FPL proposes for the immediate future to continue to recover prudently incurred storm costs under the framework prescribed by the 2010 Rate Settlement. Specifically, if FPL incurs storm costs related to a named tropical storm or hurricane, the Company may begin collecting up to $4 per 1,000 kWh (roughly $400 million annually) beginning 60 days after filing a petition for recovery with the FPSC, subject to possible refund upon a subsequent prudence review. This interim recovery period will last up to 12 months.

Q. What was the Commission's approach to storm cost recovery before the 2010 Rate Settlement?

A. Prior to the 2010 Rate Settlement, the Commission had established and consistently endorsed an overall framework that acknowledges that the costs associated with restoring service after tropical storms and hurricanes are a necessary cost of doing business in Florida and as such are properly recoverable from customers. As I have indicated in previous testimony, this framework consisted of three main parts: (1) an annual storm accrual, adjusted over time as circumstances change; (2) a storm damage reserve adequate to accommodate most but not all storm years; and (3) a provision for utilities to seek recovery of costs that go beyond the storm reserve. These three parts act together to allow FPL over time to recover the full costs of storm restoration, while at the same time balancing competing customer interests: as small an ongoing impact as possible; minimal volatility in customer bills after a storm; and intergenerational equity.

The storm damage reserve is a substitute for insurance. If commercial insurance were reasonably available there would be no need for special treatment; FPL would simply include the insurance premiums in its cost structure and hence its base rates. However, the substantial losses associated with Hurricane Andrew in

1992 essentially eliminated the commercial market for transmission and distribution system insurance at the levels or amounts needed to provide adequate protection to FPL's extensive network of assets and its ability to quickly restore reliable service. Though FPL continues to explore the market for insurance for storm damage losses, it has been forced to seek other methods to ensure that it would have adequate available resources for the costs of repairing and restoring its system in the event of a hurricane, storm damage, or other natural disaster.

Intervenors in recent years have consistently challenged the Company's proposal to accrue a reasonable amount each year for deposit in the storm damage reserve. They have indicated their preference essentially to pay in arrears for storms. This carries certain risks and is not good long term public policy. It is the equivalent of carrying no insurance on one's house and then borrowing the money needed to rebuild after a tropical storm. No prudent consumer does this. But in the interest of eliminating that debate in this proceeding, FPL believes it makes sense for the Commission to simply approve an extension of the existing framework that most of the parties in this proceeding agreed to for the last few years and also have agreed to for Progress Energy Florida in connection with that recent settlement.

Q. Does it make any difference that this framework was the subject of a prior settlement agreement?

A. No, the fact that this framework was previously agreed to as one part of a settlement does not mean that the Commission cannot decide that it is an appropriate framework based on its own merits.

Q. Do you agree with the positions of witnesses Schultz and Kollen in response to FPL's storm cost recovery proposal?

A. No. First, it is not entirely clear why witnesses Schultz and Kollen oppose the proposed approach when this framework provides for no current storm reserve accrual and would avoid any impact to customer bills at this time. Both witnesses indicate that this recovery mechanism was part of a negotiated settlement agreement and therefore should not be continued. But, as I indicate above, this fact does not prohibit the Commission from considering whether the mechanism is appropriate and ordering its continuation.

Witness Schultz provides no reason for his position. In fact, his testimony is self-contradictory, since he argues simultaneously that "FPL should not be seeking an accrual" (p. 50) and that "storm cost recovery should follow past Commission practice for addressing the adequacy of FPL's storm reserve and the recovery of storm costs" (p. 51), which included the provision of an annual accrual.

Witness Kollen claims that it is "unnecessary [and] harmful to customers." (p. 54). He then advances a series of arguments, some of which misstate FPL's request and some of which fly in the face of the Commission's historical treatment of storm cost recovery. In particular, he argues that "the appropriate and least cost level [of the storm reserve] is $0." (p. 56). This is inconsistent with many years of Commission consideration and ruling on this subject.

In any case, as a practical matter, witness Kollen's position ignores the high likelihood of major tropical storms in FPL's expansive, largely coastal service area. Exhibit MD-9, presenting Colorado State University's Statistical Landfall Forecast, demonstrates that the probability of a hurricane landfall in Florida is higher than in any other southern state. History has shown us that even a $200 million storm reserve is not sufficient during active hurricane seasons, such as those that occurred in 2004 and 2005. S&P has even recognized that "...the $200 million storm reserve . . . is lower than the company requested [in 2006] and lower than past storm reserves, keeping the company dependent on future favorable regulatory actions." (S&P, "Storm Cost Recovery Does Not Affect Rating," *Bulletin* (May 16, 2006)). Witness Kollen's suggestion to maintain no storm reserve ignores its important insurance-like function and would also result in a substantial rate impact after a major storm, at a time when many customers affected by the storm would likely have a number of other additional expenses such as costs for repairing their homes.

Q. Does FPL's proposal in any way limit the Commission's ability to review the prudence of storm costs, or in a future proceeding to revisit how storm costs should be recovered?

A. Absolutely not. In lieu of re-litigating the necessity and appropriate amount of an annual storm accrual, FPL has requested approval of a simple recovery mechanism that has been in place since August 2010. A mechanism that provides for the timely and efficient recovery of substantial costs in excess of the Company's storm reserve provides greater access to liquidity when funds are needed to restore service following major events. FPL's proposal does *not* limit the Commission's ability to review prudently incurred storm costs as the intervenors imply, and it does *not* preclude any party from participating in any storm recovery proceeding. Finally, it does *not* presume that such framework would remain in place in perpetuity or that it could not be revisited by this or a future Commission in some future proceeding. As noted, FPL remains convinced that better public policy would be to properly accrue for such events and may seek in the future to re-institute such an accrual. In the meantime, FPL's proposal represents a reasonable compromise. To reject it out of hand, as certain intervenors suggest, would leave FPL and its customers without an accrual or a pre-defined mechanism for recovery of these essential costs and would certainly have an unfavorable impact on investor perceptions of FPL's risk.

Q. Is SFHHA witness Kollen correct that FPL has "virtually no risk exposure to storm damage costs" (p. 57)?

A. No. Witness Kollen is both wrong and incomplete in his treatment of risk. He is careful to limit his claim to "risk exposure to storm damage costs." This, however, ignores the substantial exposure that FPL and its investors have to revenue shortfalls (relative to the levels on which rates were based) that *inevitably* occur with tropical storms. In other words, statistically, FPL is assured of having rates set on a revenue forecast that is biased high, and the only question is how much – a questions that imposes significant risk on investors.

But even ignoring this critical omission, witness Kollen is simply wrong in his claim. FPL is at very substantial risk of incurring additional costs associated with storms, not all of which will be recoverable through a storm surcharge. This is evidenced in the Commission's treatment of the 2004-2005 storm cost recovery proceedings, which saw substantial disallowances. The practical effect was that FPL experienced a reduction in its earned ROE at that time.

Accordingly, witness Kollen's testimony ignores both the need to recognize storm cost exposure as an investment risk factor affecting the appropriate ROE and capital structure and, in the absence of establishing a target reserve level and accrual, the need to have some recovery mechanism clearly spelled out in advance, such as the one previously supported by OPC and the SFHHA, among others, and which FPL is proposing to continue in this instance. Ready access to funds in the immediate wake of a storm is simply too critical for the Company to go forward *without either approach*, which is what both witness Kollen and Schultz recommend.

VII. D&O LIABILITY INSURANCE

Q. What does OPC's witness Schultz recommend for D&O liability insurance?

A. Witness Schultz recommends that $2,781,173 of expense associated with D&O liability insurance be reduced by $1.391 million. He indicates the costs should be shared equally between customers and shareholders.

Q. Do you agree with OPC's witness Schultz recommendation that the cost associated D&O liability insurance should be shared equally between customers and shareholders?

A. No, I do not. D&O liability insurance is a necessary cost of providing service and as such should be reflected in FPL's base rates. Simply stated, by law a corporation must have directors and officers. In today's environment of increased scrutiny and exposure with respect to corporate governance, the risk of liability to directors and officers has increased substantially. A company could not attract competent, capable officers or directors without D&O liability insurance. Thus, D&O insurance is a cost of business for any corporation and no company of FPL's size would be without such coverage.

Q. Do you agree with OPC's witness Schultz's assertion that D&O costs should be disallowed since incurring D&O insurance is to protect shareholders?

A. No. The purpose of D&O insurance is to enable the Company to attract and retain qualified, capable directors and officers, without which FPL's performance would certainly not be as good as it is and without which it might literally be unable to function over time. This ensures proper management and oversight of the Company, which in turn benefits customers. This is a prudently incurred cost of doing business and should be included to calculate a company's revenue requirement.

Q. Should the Commission include FPL's requested $2,781,173 expense for D&O liability insurance in its revenue requirement calculation?

A. Yes. D&O liability insurance directly benefits customers and is a necessary and reasonable expense for the FPL to provide service to its customers. FPL witness Deason also support FPL's request in his rebuttal testimony.

VIII. COST OF LONG TERM DEBT

Q. Are you making any adjustments to the Company's projected cost of long term debt?

A. Yes. As FEA witness Gorman notes on page 21 of his testimony, one of the projected test year debt issuances at the time of FPL's rate case filing has now occurred, and FPL was able to obtain a lower interest rate than projected. Instead of issuing $400 million in 30-year first mortgage bonds at 4.85%, in May 2012, FPL issued $600 million in 30-year first mortgage bonds at 4.05%. Accounting for this known cost of debt would reduce FPL's long term debt cost for purposes of this case to 5.18%.

Q. Do you agree with witness Gorman that the interest rates associated with FPL's other projected debt issuances should be reduced?

A. No. Witness Gorman provides no support for his assumption that the May issuance accurately portrays future debt interest rates. Notably, witness Gorman has not identified other costs that have increased since the filing. Witness Gorman appears to be cherry-picking forecast changes that serve his purposes.

IX. PERFORMANCE INCENTIVE

Q. Are the objections of witnesses Gorman, Lawton, and Baudino to FPL's proposed ROE performance incentive well founded?

A. No. None of their objections addresses the basis for the performance incentive.

FEA witness Gorman claims the requested incentive is not needed because his recommended ROE of 9.25% "already awards FPL fair compensation." (p. 68). OPC witness Lawton takes the position that the incentive is "unnecessary for the efficient provision of electrical service" (p 5). And SFHHA witness Baudino claims that rather than acknowledging FPL's superior performance with an uptick to ROE, "[t]he Commission should base its allowed return on equity on market-based data and analysis" (p. 60). None of these objections is relevant, however, and each misses the point.

FPL does not contend that an additional 25 basis points is needed to ensure investors are fairly compensated or that it is needed for "efficient" electric service. Instead the basis for the performance adder is purely grounded in public policy considerations, as my direct testimony makes clear. If the Commission believes that, measured over the long haul, providing an incentive in the form of the 25 basis point adjustment will encourage all utilities (not just FPL) to strive to improve the value they deliver to their customers, then the Commission should approve FPL's request. The Commission has done so in the past and, I believe, should do so here. FPL's proposed incentive is to reward and encourage superior performance in terms of customer service, reliability, and maintaining the lowest bill in the state.

Q. How do you respond to the intervenors' claims that FPL's low bills are due to factors not within management's control, such as low natural gas prices?

A. Again, the intervenor witnesses miss the point. The fact that certain outcomes (such as low bills) are *in part* a function of variables beyond management's control, does not mean that *all* are. And as long as some factors are within management's control (which no one would reasonably deny), it makes sense to incentivize management to seek to improve performance That is what FPL's proposed performance adder does. In addition, the intervenor witnesses appear not to understand that the superior performance that FPL provides, for which it is seeking an incentive, is more than just its customers' low bills. Equally important is the excellent customer service and first quartile reliability that FPL works day in and day out to provide.

Thus, because the intervenors do not contend that FPL's superior performance has nothing whatever to do with actions that FPL has taken, they have not addressed the policy rationale for the performance adder. In fact, OPC witness Lawton inadvertently supports FPL's position when he states at page five that "differences in rate levels are to *some extent* attributable to factors other than management performance" (emphasis added). Implicit in this statement is the acknowledgment that FPL's low bills *are* the direct result (in part) of management decisions and actions. For example, FPL's decisions to modernize its fossil fleet and move away from fuel oil toward natural gas contribute to FPL's low bills. OPC witness Lawton inexplicably claims that the "vintage of equipment" used to serve customers is an example of something unrelated to management performance (p. 6), when clearly, the vintage of FPL's equipment is the direct result of these types of management decisions. Other management actions that have resulted in lower customer bills include: (i) continuous efforts in maintaining one of the lowest *non-fuel* O&M costs in the industry (see FPL witness Reed's direct testimony pages 6-7 and 24-25); and (ii) improving FPL's fossil fleet heat rate by 19% over the last ten years (see FPL witness Kennedy's direct testimony page 7). Furthermore, were gas prices to rise significantly in the future, FPL's decision to invest in highly efficient combined cycle generation would be even more beneficial to customers.

Finally, witness Lawton contends that the prior Commission's rejection of FPL's rate request in 2010 is a primary reason for FPL's low cost position. However, if OPC believes that the prior Commission's order accurately reflected FPL's cost position, then FPL must have done something to produce that low cost position relative to other utilities. Importantly, as witness Deaton notes in her direct testimony, FPL expects to remain the low cost provider even with the Commission granting the requested rate relief in this proceeding.

Q. Please respond to OPC witness Lawton's claim that FPL is seeking to change the regulatory structure, and FRF witness Chriss's recommendation to address FPL's request in a separate docket.

A. These positions overlook the fact that ROE rewards for superior performance or penalties for poor performance have routinely been addressed by the Commission within a utility's rate case based on the particular or unique circumstances of each utility. For example, the Commission awarded Gulf Power Company a 25 basis point adder in its rate case in 2002 (Order No. PSC-02-0787-FOF-EI). Additionally, the Commission recently reduced Aqua Utilities Florida's ROE by 50 basis points after finding that Aqua's quality of service was "marginal" (Order No. PSC-12-0102-FOF-WS, p. 55). There is nothing novel about FPL's request, as these two intervenors claim.

Witness Chriss's concern that the Commission's decision on this request would somehow impact the businesses of the other electric IOUs in Florida (p. 11), thereby requiring a separate docket in which those IOUs could participate, is misplaced. While the specific mechanism and applicability of the incentive *to FPL* would be monitored and measured by comparing FPL's average bill to the other average electric bills in the state, there is nothing to say that this approach would be the necessary or appropriate approach for other utilities in the state. What would be important and relevant for other utilities of course would be the message the Commission chooses to send in determining whether to reward or remain neutral with regard to good performance.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Regional Comparison: ROE and Key Customer Metrics

Southeastern Coastal States	Major Southeastern Investor-Owned Utilities	Authorized Return on Equity (ROE)	JD Power Residential Customer Satisfaction 2012	Typical Residential Customer Bill January 2012
Alabama	Alabama Power Co*	13.75%	652	$117.74
Florida	**Florida Power & Light Co.**	**10.00% (lowest)**	**655 (highest)**	**$94.62 (2nd lowest)**
Florida	Gulf Power Co.	10.25%	616	$125.80
Florida	Progress Energy Florida**	10.50%	611	$123.19
Florida	Tampa Electric Co.	11.25%	625	$106.90
Georgia	Georgia Power Co.	11.15%	639	$109.51
Mississippi	Entergy Mississippi	11.75%	644	$88.74
Mississippi	Mississippi Power Co.	12.88%	642	$112.84
North Carolina	Duke Energy Carolinas (NC)	10.50%	637	$99.11
North Carolina	Progress Energy Carolinas (NC)	12.75%	650	$102.67
South Carolina	Duke Energy Carolinas (SC)	10.50%	637	$97.03
South Carolina	Progress Energy Carolinas (SC)	12.75%	650	$103.18
South Carolina	South Carolina Electric & Gas	11.00%	652	$128.84
Virginia	Appalachian Power Co.	10.90%	583	$94.69
Virginia	Dominion Virginia Power	11.40%	636	$110.41
AVERAGE		11.42%	635	$107.68
AVERAGE EXCLUDING FPL		11.52%	634	$108.62

NOTES: *Alabama Power operates under a Rate Stabilization and Equalization framework that was set by the Alabama Public Service Commission, specifying an ROE range of 13.00% to 14.50%. **Progress Energy Florida's ROE will increase 20 bps to 10.70% when they complete nuclear plant repairs.

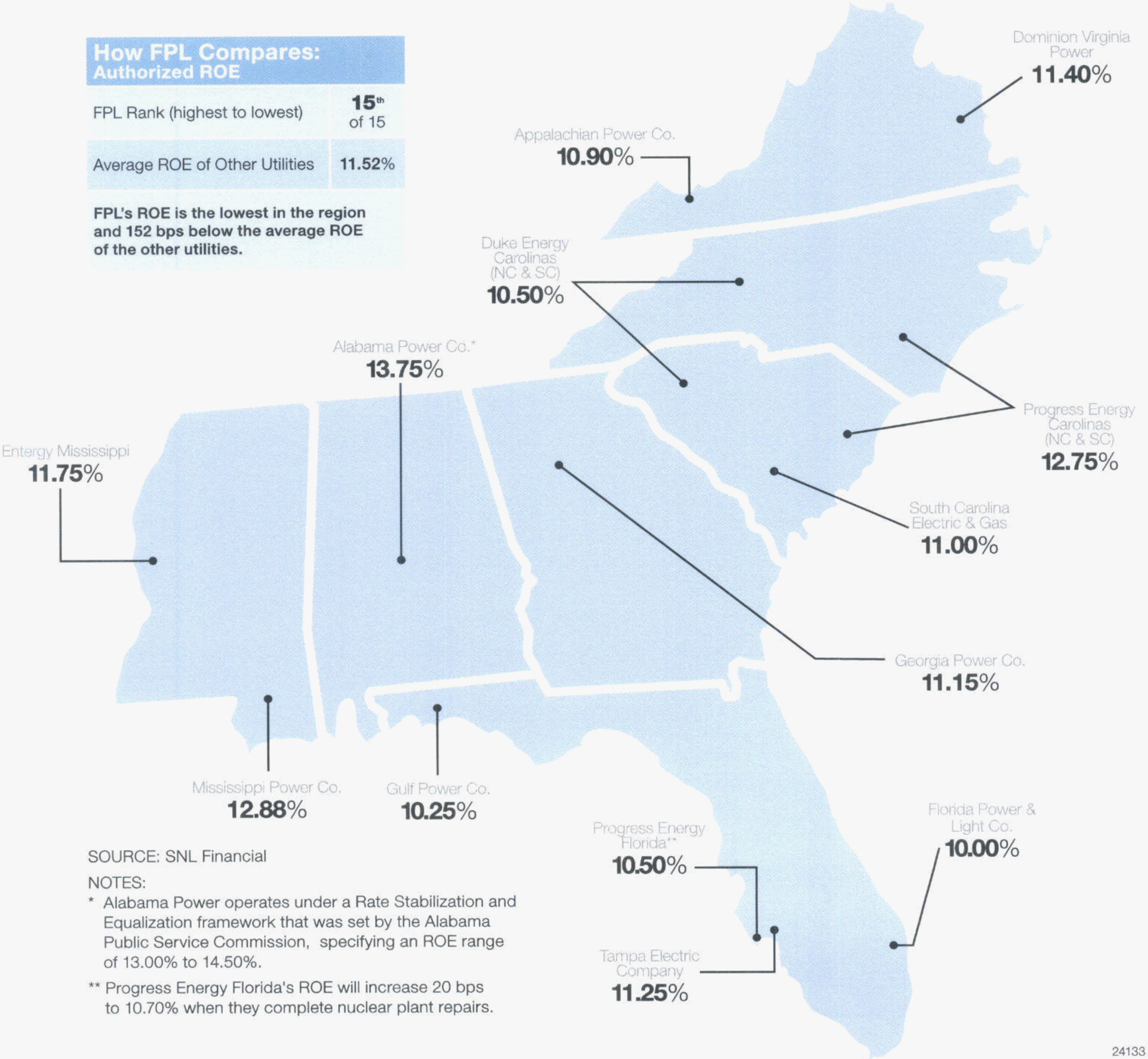
SOURCES: SNL Financial; JD Power & Associates 2012 Electric Utility Residential Customer Satisfaction Index, released July 2012; Edison Electric Institute Typical Bills and Average Rates Report for Winter 2012, rates effective January 2012.

Regional Comparison: ROE and Key Customer Metrics

Authorized Return on Equity

How FPL Compares: Authorized ROE	
FPL Rank (highest to lowest)	15th of 15
Average ROE of Other Utilities	11.52%

FPL's ROE is the lowest in the region and 152 bps below the average ROE of the other utilities.



SOURCE: SNL Financial

NOTES:

* Alabama Power operates under a Rate Stabilization and Equalization framework that was set by the Alabama Public Service Commission, specifying an ROE range of 13.00% to 14.50%.

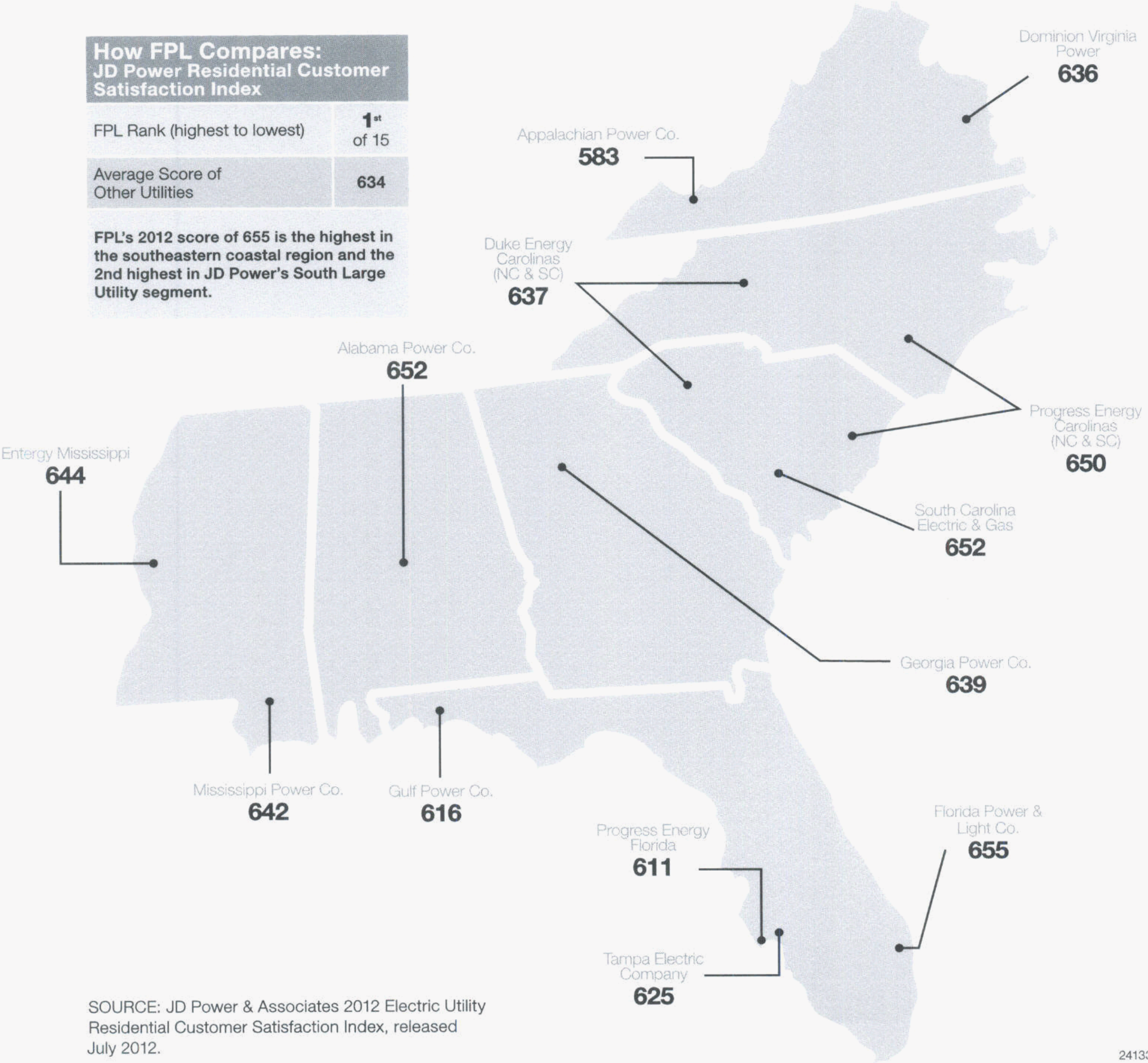
** Progress Energy Florida's ROE will increase 20 bps to 10.70% when they complete nuclear plant repairs.

Regional Comparison: ROE and Key Customer Metrics

JD Power Residential Customer Satisfaction

How FPL Compares: JD Power Residential Customer Satisfaction Index	
FPL Rank (highest to lowest)	1st of 15
Average Score of Other Utilities	634

FPL's 2012 score of 655 is the highest in the southeastern coastal region and the 2nd highest in JD Power's South Large Utility segment.



SOURCE: JD Power & Associates 2012 Electric Utility Residential Customer Satisfaction Index, released July 2012.

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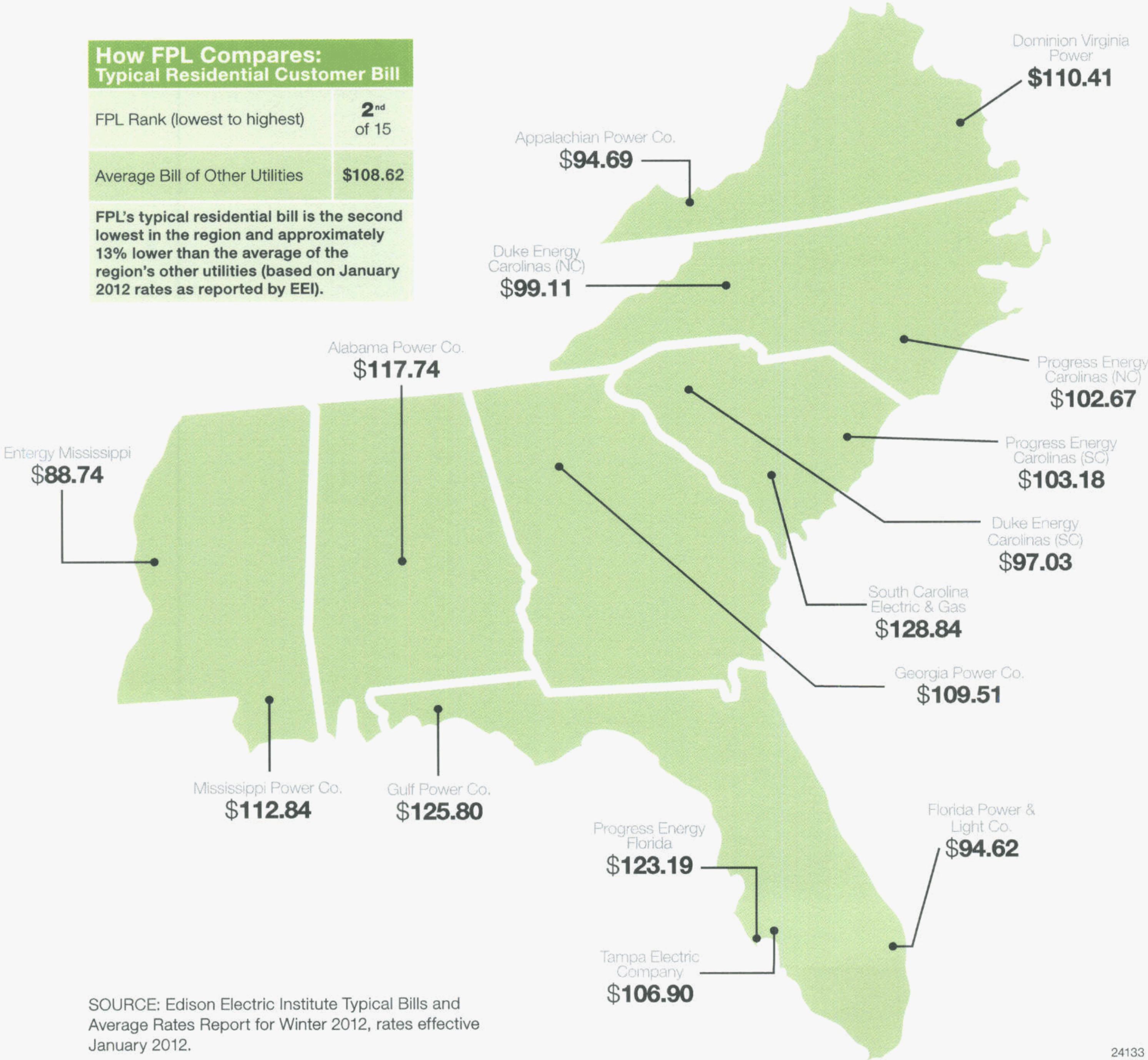
Regional Comparison: ROE and Key Customer Metrics

Typical Residential Customer Bill – January 2012

How FPL Compares: Typical Residential Customer Bill	
FPL Rank (lowest to highest)	2nd of 15
Average Bill of Other Utilities	$108.62

FPL's typical residential bill is the second lowest in the region and approximately 13% lower than the average of the region's other utilities (based on January 2012 rates as reported by EEI).



SOURCE: Edison Electric Institute Typical Bills and Average Rates Report for Winter 2012, rates effective January 2012.

Docket No 120015-EI
Corrected DJL-3
Exhibit MD-4

FINANCIAL METRICS ANALYSIS OPC PRIMARY RECOMMENDATION [1] - CORRECTED

LINE NO	DESCRIPTION	A CAPITAL AMOUNT ($000)	B RATIO	C COST RATE	D WEIGHTED COST RATE	E RETURN REQUESTED	SOURCES
			COMPANY REQUESTED RATE OF RETURN				
1	LONG TERM DEBT	$ 6,199,550	29.4700%	5.26%	1.5501%	$ 326,096	OPC EXHIBIT (KWO-1), PAGE 1OF1
2	CUSTOMER DEPOSITS	426,531	2.0275%	5.99%	0.1214%	25,549	OPC EXHIBIT (KWO-1), PAGE 1OF1
3	COMMON EQUITY	9,684,101	46.0340%	11.50%	5.2939%	1,113,672	OPC EXHIBIT (KWO-1), PAGE 1OF1
4	SHORT TERM DEBT	360,542	1.7139%	2.11%	0.0362%	7,607	OPC EXHIBIT (KWO-1), PAGE 1OF1
5	DEFERRED INCOME TAX	4,365,176	20.7502%	0.00%	0.0000%	-	OPC EXHIBIT (KWO-1), PAGE 1OF1
6	INVESTMENT TAX CREDITS	923	0.0044%	9.06%	0.0004%	84	OPC EXHIBIT (KWO-1), PAGE 1OF1
7	TOTAL	$ 21,036,823	100.0000%		7.0020%	$ 1,473,008	
8	FPL REQUESTED RATE BASE	$ 21,036,823					
9	RATE OF RETURN (ADJUSTED)				9.85%		
10		OPC PROPOSED RATE OF RETURN AND CAPITAL STRUCTURE PRIMARY RECOMMENDATION					
11							
12	DESCRIPTION	CAPITAL AMOUNT ($000)	RATIO	COST RATE	WEIGHTED COST RATE	RETURN REQUESTED	
13	LONG TERM DEBT	7,675,707	36.4870%	5.26%	1.919%	$ 394,122	OPC EXHIBIT (KWO-8), PAGE 1OF1
14	CUSTOMER DEPOSITS	426,531	2.0275%	5.99%	0.121%	24,940	OPC EXHIBIT (KWO-8), PAGE 1OF1
15	COMMON EQUITY	8,122,097	38.6090%	9.00%	3.475%	713,572	OPC EXHIBIT (KWO-8), PAGE 1OF1
16	SHORT TERM DEBT	446,390	2.1219%	2.11%	0.045%	9,194	OPC EXHIBIT (KWO-8), PAGE 1OF1
17	DEFERRED INCOME TAX	4,365,176	20.7502%	0.00%	0.000%	-	OPC EXHIBIT (KWO-8), PAGE 1OF1
18	INVESTMENT TAX CREDITS	923	0.0044%	7.18%	0.000%	65	OPC EXHIBIT (KWO-8), PAGE 1OF1
19	TOTAL	$ 21,036,824	100.0000%		5.561%	$ 1,141,893	
20	OPC PROPOSED RATE BASE	$ 20,535,584					OPC EXHIBT (DJL-3) PAGE 1 OF 2
21	RATE OF RETURN (ADJUSTED)				7.43%		
22						$ (331,115)	
23							

LINE	DESCRIPTION	COMPANY FILED CASE	CORRECTED	OPC RECOMMENDED	CORRECTED	DIFFERENCE CORRECTED	SOURCES
25	RATE BASE INVESTMENT	$ 21,036,823	$ 21,036,823	$ 20,535,584	$ 20,535,584	(501,239)	OPC EXHIBT (DR-2) PAGE 2 OF 11
26	RATE OF RETURN	7.00%	7.00%	5.56%	5.56%	-1.44%	
27	RATE OF RETURN W/ GROSS-UP	9.85%	9.85%	7.43%	7.43%	-2.42%	
28	RETURN	1,473,008	1,473,008	1,141,894	1,141,894	(331,115)	LINE 26*25
29	RETURN & TAXES	2,072,678	2,072,678	1,526,124	1,526,124	(546,553)	LINE 27*25
30	DEPRECIATION/AMORTIZATION	802,761	802,761	762,211	762,211	(40,550)	OPC EXHIBT (DR-2) PAGE 5 OF 11
31	FEDERAL INCOME TAXES	599,669	599,669	384,231	384,231	(215,438)	LINE 29-28
32	EBITDA CASH FLOW	2,875,439	2,875,439	2,288,335	2,288,335	(587,103)	LINES 29+30
33	EBIDA CASH FLOW	2,275,769	2,275,769	1,904,105	1,904,105	(371,665)	LINE 32-31
34	TOTAL DEBT[2]	6,199,550	$ 6,560,092	7,675,707	8,122,097	1,562,005	LINES 1+4, 13+16, COL. A
35	TOTAL INTEREST[3]	326,096	$ 333,704	394,122	403,317	69,613	LINES 1+4, 13+16, COL. E

LINE	FINANCIAL METRICS PER STANDARD & POOR'S	FPL FILED CASE	CORRECTED	OPC RECOMMENDED	CORRECTED	S&P BENCHMARKS	IMPACT[4]	COLUMN D - COLUMN A
36(A)	TOTAL DEBT (INCLUSIVE OF ST DEBT)	6,199,550	$ 6,560,092	7,675,707	$ 8,122,097	INTERMDEIATE	$ 1,922,547	
36(B)	POWER PURCHASE AGREEMENTS[5]	-	922,000	0	922,000	FINANCIAL RISK	922,000	
36(C)	S&P DEBT	6,199,550	$ 7,482,092	7,675,707	$ 9,044,097		$ 2,844,547	
37	FFO/DEBT (%)	36.71%	30.42%	24.81%	21.05%	20% TO 45%	-15.66%	LINE 33/LINE 36(C)
38	DEBT/EBITDA (X)			2.71				CALCULATION ERROR[6]
38(A)	DEBT/EBITDA (X)	2.16	2.60	3.35	3.95	2X TO 4X	1.80	LINE 36(C)/LINE 32
39	DEBT TO CAPITAL (%)	40.4%	43.6%	50.0%	52.7%	35% TO 50%	12.3%	COL. B =LINES 36(C)/36(C)+3,
40								COL. D=LINES 36(C)/36(C)+15
41	FINANCIAL METRICS PER MOODY'S					MOODY'S SINGLE "A" BENCHMARKS		
42	CFO/DEBT	36.71%	34.69%	24.81%	23.44%	22% TO 30%	-13.3%	LINE 33/LINE34
43	CFO/INTEREST	6.98	6.82	4.83	4.72	4.5X TO 6.0X	(2.26)	LINE 33/LINE 35
44	DEBT/CAPITAL	40.4%	40.4%	50.0%	50.0%	35% TO 45%	9.6%	COL. B = LINES 34/34+3, COL. D =LINES 34/34+15

SOURCES:
LINES 1-7, COLUMNS A-D: OPC EXHIBT KO-1; COL E COL D TIMES RATE BASE
LINES 13-19 COLUMNS A-D: OPC EXHIBIT OK 8; E IS COL D TIMES RATE BASE PER OPE EXHIBT DR-2 PAGE 2 OF 11
LINES 12-22. COLUMNS A-D & F-I PER OPC WITNESS O'DONNELL FOR CAPTIAL STRUCUTRE AND DR. WOOLRIDGE FOR ROE
S&P BENCHMARK METRICS PER S&P RATINGS DIRECT BUSINESS RISK/FINANCIAL RISK MATRIX EXPANDED (MAY 27, 2009) AT 4
S&P BENCHARMARK METRICS ARE THE CRITERIA FOR FIRMS WITH INTERDIATE AND SIGNIFICANT FINANCIAL RISK INDICATIVE RATIOS
MOODY'S BENCHARKS: MOODY'S GLOBAL INFRASTRUCUTRE FINANCE: REGULATED ELECTRIC AND GAS UTILITIES (AUGUST 2009)

CORRECTIONS:
1) FIGURES IN BLACK ARE PER EXHIBIT SCHEDULE (DJL-3) PAGE 1 OF 2
2) TOTAL DEBT INCLUDES BOTH SHORT TERM AND LONG TERM DEBT
3) TOTAL INTEREST IS COMPUTED BASED ON BOTH SHORT TERM AND LONG TERM DEBT
4) FULL IMPACT OF OPC'S PROPOSED RECOMMENDATION AND CORRECTIONS
5) S&P IMPUTES POWER PURCHASE AGREEMENTS IN DEBT, SEE AUGUST 13, 2008 REPORT. PPA=$922MM; PER S&P REPORT ON FPL DATED APRIL 24, 2012
6) CALCULATION ERROR STEMS FROM THE USE OF FPL FILED DEBT OF $6,199,550 AND NOT THE OPC DEBT FIGURES OF $7,675,707
THUS, $6,199,550/2,288,335 = 2.71X; CALCULATION SHOULD BE: $7,675,707/2,288,335 = 3.35X.

S&P's Inclusion of PPAs in Debt Calculations

FPL.

S&P RatingsDirect®: Financial Adjustments Give A Clearer Picture Of Credit Quality For U.S. Utility And Infrastructure Companies, Aug. 13,2008

STANDARD
&POOR'S

Financial Adjustments Give A Clearer Picture Of Credit Quality For U.S. Utility And Infrastructure Companies

"Financial statements, including the accompanying footnotes and disclosures, provide Standard & Poor's Ratings Services' analysts with critical information that we incorporates into our evaluation of credit quality and ratings determination. But financial statements (historical or projected) aren't necessarily the optimal depiction of the economic reality of an issuer's financial performance and strength. To better reflect the "truth" of an issuer's financial position, we must make certain adjustments to these financial statements that affect metrics in a way we believe more completely reflects creditors' risks, rights, and obligations. The adjustments also provide more meaningful peer and period-over-period comparisons, and facilitate more robust financial forecasts … " – p.2

"Power purchase agreements

We view PPAs as fixed, debt-like financial obligations that represent substitutes for debt-financed capital investments in electric generation capacity … " – p.6

Docket No. 120015-EI
S&P's PPA
Guidance
Exhibit MD-5, Page 1 of 1

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In direct contradiction to OPC Witness Lawton's claim, OPC's primary recommendation – when the errors are corrected – would result in a serious degradation of FPL's financial metrics.

S&P Financial Metrics	OPC Recommendations (OPC Calculations vs. Corrected Calculations)						Business Risk		Current
Financial Risk	FFO/Debt (%)		Debt/EBITDA (X)		Debt/Capital (%)		Excellent	Strong	FPL S&P Rating
	Metric	Rating	Metric	Rating	Metric	Rating			
Minimal	>60%		1.5<		25%<				
Modest	45-60		1.5-2.0		25-35				
Intermediate	30-45		2.0-3.0	2.7x	35-45		A	A-	A-
Significant	20-30	25% 21%	3.0-4.0	4.0x	45-50	50%	A-	BBB	
Aggressive	12-20		4.0-5.0		50-60	53%	BBB	BB	
Highly Leveraged	12<		>5.0		>60				

OPC FILED

Fundamental errors corrected

OPC CORRECTED

OPC Recommendation = Likely Downgrade

OPC also filed credit metrics purporting to represent FPL's filed position but containing the same significant errors. As shown on MD-4 and this exhibit, OPC's corrected recommendations would drop FPL's credit metrics almost two-full notches from "Intermediate" to "Aggressive" and also place downward pressure on FPL's Business Risk Profile.

Docket No. 120015-EI
Effect of OPC's Recommendations on S&P Metrics
Exhibit MD-6, Page 1 of 1

OPC's Recommendation Triggers Three Key Moody's Downgrade Metrics

Moody's Investors Service
Global Credit Research

"A downgrade could be considered if there is an adverse outcome to the company's pending rate case, if there are significant cost disallowances or other changes to Florida's currently credit supportive cost recovery provisions, or if there is a sustained decline in cash flow coverage metrics, including CFO pre-working capital interest coverage below 5.0x and CFO pre-working capital to debt below 25%, or an increase in debt to capital above the 40% range."

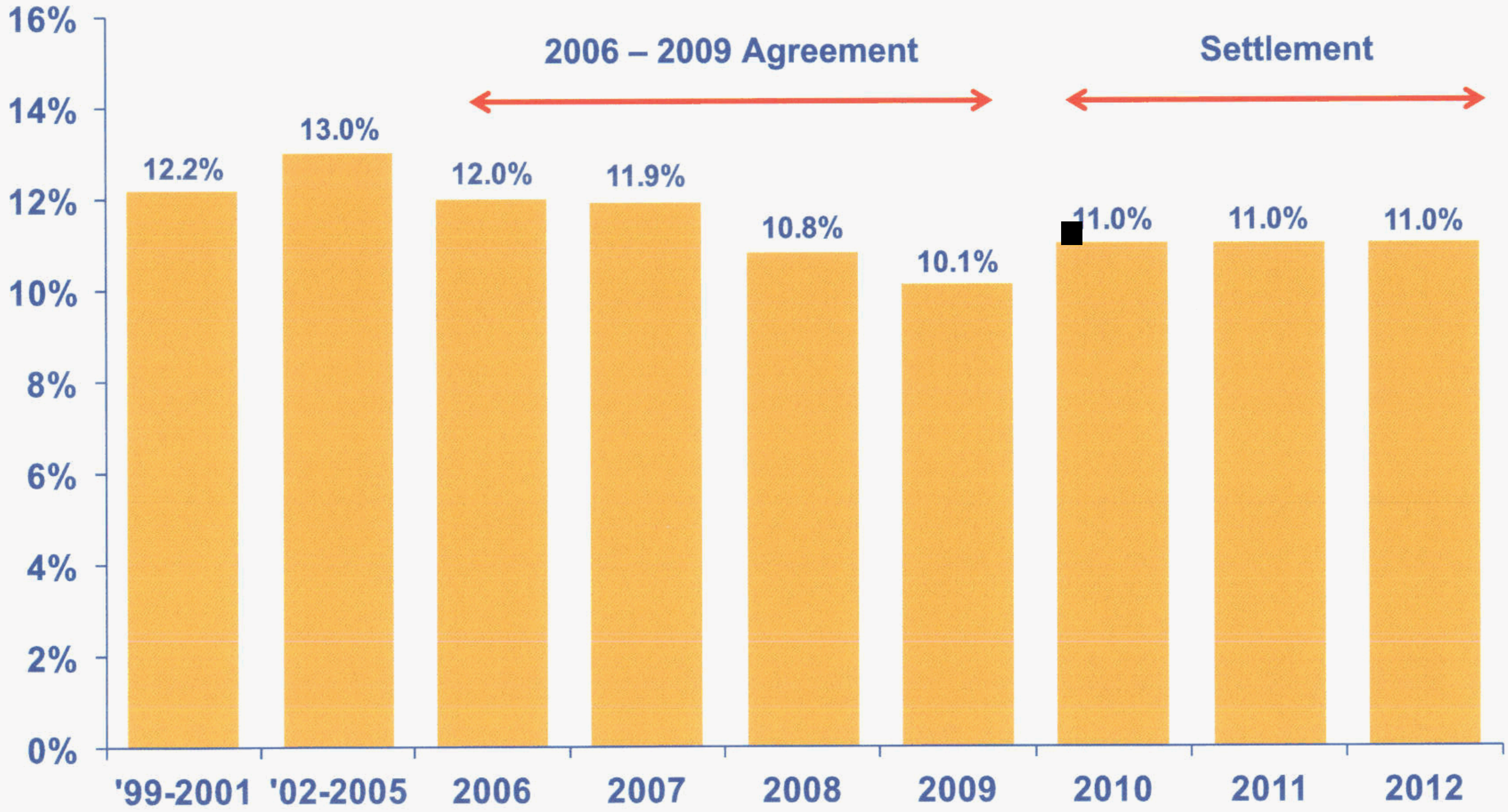
— **Moody's Investor Service Credit Opinion**:
Florida Power & Light Company;
Global Credit Research - April 10, 2012

Key Financial Metrics	OPC Witness Testimony[1] (including errors)	OPC Witness Testimony[2] (errors corrected)	Moody's Trigger Metrics for Downgrades	Ratings Impact
CFO pre-working capital to debt	24.81%	23.44%	≤ 25.00%	▼
CFO pre-working capital interest coverage	4.83x	4.72x	≤ 5.0x	▼
Increase in debt to capital	50.00%	50.00%	≥ 40.00%	▼

1) Filed amounts per OPC Exhibit (DJL-3) page 1 of 2, lines 42-44 column B.
2) The OPC calculations were corrected to include Short-Term Debt, which Moody's includes in its metric computations.

Since 1999, FPL's earned ROE has dipped below 11% only twice.

FPL Return on Equity 1999-2012



Docket No. 120015-EI
FPL ROE 1999-2012
MD-8, Page 1 of 1

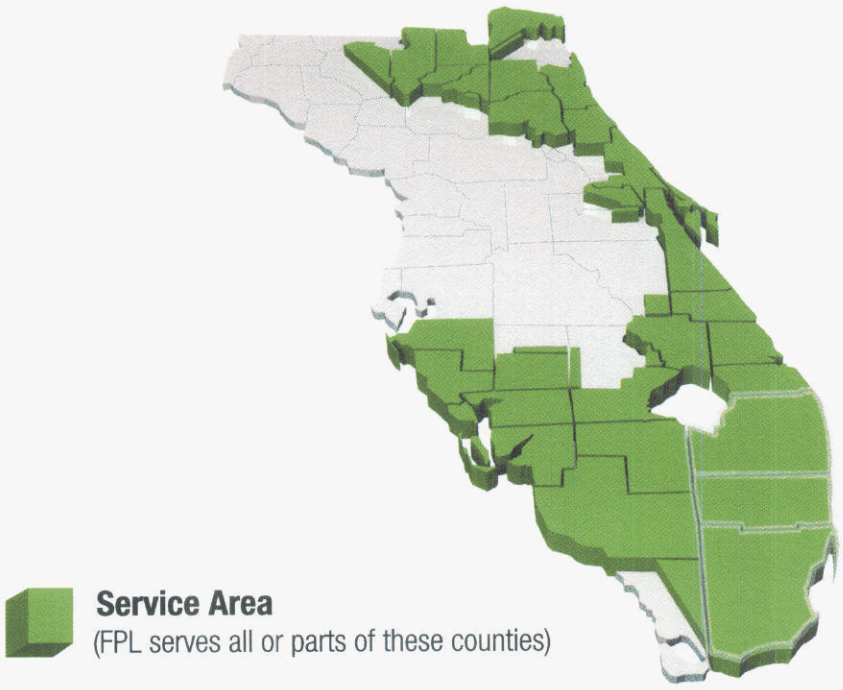
Florida (and FPL's Service Area) is Most Exposed to Hurricane and Major Hurricane Damage

Climatological Probability – Southeastern U.S.

Hurricane and major hurricane landfall probabilities in any given year derived from historical information:

State	Hurricane	Major Hurricane
Texas	33%	12%
Louisiana	30%	12%
Mississippi	11%	4%
Alabama	16%	3%
Florida	**51%**	**21%**
Georgia	11%	1%
South Carolina	17%	4%
North Carolina	28%	8%
Virginia	6%	1%

1) Climatological probability from Colorado State University's (CSU) Statistical Landfall forecast.
2) CSU is recognized as a leader in hurricane prediction modeling.



Business Risk Comparison

Florida's Investor-Owned Electric Utilities

Business Risk	Lowest Risk	Low-Medium Risk	Medium-High Risk	Highest Risk
Hurricanes			PEF/GULF/TECO	FPL
Large Capital Expenditures		GULF/TECO	PEF	FPL
Gas Price Volatility Fuel Mix		GULF/TECO	PEF	FPL
Dependence on Natural Gas		GULF/TECO	PEF	FPL
Existing Nuclear Generation	GULF/TECO			PEF/FPL
Developing Nuclear Generation	GULF/TECO			PEF/FPL
Florida Economy			All Florida IOUs	
Regulatory Risk*		All Florida IOUs		
Environmental Compliance Costs	FPL	PEF/GULF/TECO		

FPL - Florida Power & Light Company
PEF - Progress Energy
TECO - Tampa Electric Company
GULF - Gulf Power Company

*SOURCE: SNL Energy Division Regulatory Research Associates July 12, 2012 quarterly report.