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July 9, 2025

VIA ELECTRONIC FILING

Adam Teitzman, Commission Clerk
Division of Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20250011-EI
Petition by Florida Power & Light Company for Base Rate Increase

Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket are the rebuttal testimony and exhibit of FPL witness Scott R. Bores.

Please let me know if you have any questions regarding this submission.

Sincerely,

s/ Maria Jose Moncada

Maria Jose Moncada
Assistant General Counsel
Florida Power & Light Company

(Document 2 of 16)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Electronic Mail to the following parties of record this 9th day of July 2025:

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s/ Maria Jose Moncada

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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 20250011-EI**

**FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF SCOTT R. BORES**

Filed: July 9, 2025

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Scott R. Bores. My business address is Florida Power & Light Company,
4 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

5 **Q. Have you previously submitted direct testimony in this proceeding?**

6 A. Yes.

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

8 A. Yes. I am sponsoring the following rebuttal exhibit:

- 9
 - Exhibit SRB-9: Credit Spreads During Market Volatility

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to respond to intervenors' positions on the
12 following Florida Power & Light Company ("FPL" or the "Company") issues:

- 13
 - FPL's Four-Year Rate Plan [Office of Public Counsel ("OPC") Schultz,
14 Lawton, Devlin; Florida Industrial Power Users Group ("FIPUG") Pollock;
15 Florida Rising, Environmental Confederation of Southwest Florida, League of
16 United Latin American Citizens of Florida ("FEL") Rábago; Florida Retail
17 Federation ("FRF") Georgis]
 - Financial strength [OPC Lawton; Federal Executive Agency ("FEA") Walters]
 - Capital structure and cost of debt [OPC Lawton; FEA Walters; FEL Rábago;
20 Floridians Against Increased Rates ("FAIR") Bryant; FIPUG Pollock]
 - Return on equity ("ROE") [OPC Lawton; Walmart Perry; FEA Walters; FIPUG
22 Pollock, FAIR Bryant; FEL Rábago]
 - FPL's risk profile [OPC Lawton and Schultz; FEA Walters; FEL Rábago]

- 1 • Tax Adjustment Mechanism (“TAM”) [OPC Devlin, Schultz; FIPUG Pollock;
2 FRF Georgis; FAIR Bryant, FEL Rábago]
- 3 • Solar and Battery Base Rate Adjustment (“SoBRA”) [OPC Schultz,
4 Dauphinais; FRF Georgis]
- 5 • Storm Cost Recovery Mechanism (“SCRM”) [OPC Schultz]

6 **Q. Please summarize your rebuttal testimony.**

7 A. FPL has consistently demonstrated that its performance over multi-year rate periods
8 has benefitted customers. Intervenor testimony does not dispute this. Instead,
9 intervenors take issue with the various elements upon which those benefits are based,
10 ostensibly because investors also benefit, and therefore, by their logic, customers must
11 be harmed. Intervenor never assert that the weakened financial strength and increase
12 in regulatory uncertainty resulting from their recommendations will allow FPL to
13 maintain the current level of service it delivers and that its customers have come to
14 expect. Neither evidence nor logic would support such a backwards notion.

15
16 FPL delivers the best customer value proposition in the industry. This unmatched value
17 proposition is built upon a foundation of financial strength. Customers have benefitted
18 and will continue to benefit from a stronger than average capital structure that provides
19 access to capital at reasonable rates even during the most uncertain times. Similarly,
20 FPL has provided appropriate returns for investors that have caused them to continue
21 to commit capital to the Company to pursue its customer value proposition. The
22 intervenors, taking largely the same positions they have taken in past cases, completely
23 miss the comprehensive nature of FPL’s strategy and ignore the results that approach

1 has produced for customers. The intervenors are missing the point that the successful
2 strategy depends on each of the elements working together to provide superior value
3 for customers. FPL seeks a continuation of the same core elements in this case.

4
5 FPL's successful performance would not have been possible if it had been constrained
6 to filing more frequent rate cases. As I stated in my direct testimony, FPL's multi-year
7 commitment, including limited cash rate increases, is not possible without a non-cash
8 mechanism: the TAM, which has been modeled after the Reserve Surplus Amortization
9 Mechanism ("RSAM") utilized in several prior periods. The flexibility afforded by
10 such mechanisms enables FPL to "stay out" for several years by deferring cash revenue
11 increases to customers. The result of those multi-year periods of focusing on running
12 the business, improving operating cost performance and making strategic investments
13 have allowed FPL to deliver much lower-than-average customer bills and significantly
14 higher than average reliability.

15
16 Intervenor witnesses have engaged in a speculative exercise of cost of capital
17 minimization through over-generalization and arbitrary reductions in equity ratio and
18 ROE. FPL, by contrast, focuses on results. Intervenor implicitly deny, or explicitly
19 minimize, the real-world consequences of the implementation of their
20 recommendations. Some intervenors string together a slate of recommendations that
21 would send FPL back to the most non-constructive period in the last generation. If
22 those recommendations were accepted, rating agencies would react swiftly (with
23 results lasting many years), and investors would redirect their capital toward more

1 constructive opportunities. FPL would be unable to attract capital at reasonable costs,
2 and as a result, customers would bear the consequence.

3

4 OPC witness Schultz and FRF witness Georgis also oppose FPL’s proposed SoBRA
5 mechanism – another core component of FPL’s Four-Year Rate Plan. Mr. Schultz
6 opposes because the future costs of solar and batteries are uncertain, and Mr. Georgis
7 opposes because he believes solar installations should be curtailed. The SoBRA
8 mechanism does not, however, pre-approve any particular project. All parties will be
9 free to address the need and costs of the planned generation additions at a future date.

10

11 Finally, contrary to Mr. Schultz’s suggestion, my direct testimony explains that the
12 modest increase in FPL’s storm reserve amount is intended to reflect more closely the
13 restoration costs FPL has incurred in recent storm seasons.

14

15

II. FOUR-YEAR RATE PLAN

16 **Q. OPC witness Schultz suggests that FPL’s four-year commitment cannot be**
17 **enforced by the Florida Public Service Commission (“Commission”). How do you**
18 **respond?**

19 A. Mr. Schultz misunderstands the nature of FPL’s commitment. FPL’s commitment to
20 “stay out” through 2029 is unilateral and in no way hampers the Commission’s
21 oversight and regulatory authority. FPL will continue to file the required earnings
22 surveillance reports on a monthly basis. And, as mentioned in the rate order cited by

1 Mr. Schultz, the Commission retains its “obligation to monitor utility earnings and, if
2 circumstances warrant, require additional proceedings.”

3

4 This process has efficiently and effectively served to protect customers and the
5 Company during FPL’s prior multi-year rate plans and “stay outs.” Mr. Schultz does
6 not argue otherwise. The instant proposal does not differ.

7 **Q. OPC witness Schultz posits that FPL’s four-year stay out commitment has no
8 value unless FPL can demonstrate it would underearn the last two years. Has
9 FPL made such a showing?**

10 A. Yes. As calculated by FPL witness Laney and shown on Exhibit IL-13 (Errata), FPL
11 estimates that its revenue requirements will increase by \$661 million in 2028 and an
12 additional \$577 million in 2029, totaling an incremental \$1.899 billion by the final year.
13 As a result, FPL projects to fall outside of the reasonable ROE range in 2028 even if
14 the Company’s 2026 and 2027 Projected Test Year revenue requirements are granted
15 in full.

16 **Q. OPC witnesses Schultz and Devlin, FEL witness Rábago and FRF witness Georgis
17 recommend that the Commission reject FPL’s Four-Year Plan in favor of one- or
18 two-year plans with interim rate relief if needed. Will customers benefit from
19 shorter rate periods?**

20 A. No, the intervenors’ fondness for annual base rate proceedings is puzzling, at best.
21 Although the Company can theoretically file another case in 2026 for rates to be
22 effective in 2027, and then repeat the exercise in 2027 and 2028, the Company will
23 expend significant time, money and resources in developing and defending that filing –

1 time that could be spent focusing on its operations and how to improve the service
2 customers receive. Furthermore, the cost in time and resources will not only be borne
3 by FPL, but also the Commission, its staff, and all other interested parties. Among the
4 multiple intervenor witnesses who recommend shorter rate periods, none provided a
5 single example of how utilities that are subject to pancaked rate cases have delivered
6 better customer value than FPL.

7 **Q. As a matter of regulatory policy, should the Commission consider FPL's Four-**
8 **Year Rate Plan to be good for customers and in the public interest?**

9 A. Yes. FPL has operated under multi-year plans for more than two decades and the
10 results for customers are undeniable. Multi-year plans have provided customers rate
11 predictability and stability, and importantly they allow the Company the opportunity to
12 continue to improve the value delivered to customers during a period of regulatory
13 stability. By approving the Four-Year Plan, the Commission allows FPL's
14 management to focus on long-term operational improvements, innovation, and system
15 enhancements that directly benefit customers. Longer periods between rate cases
16 provide the certainty necessary to efficiently execute the Company's capital investment
17 program. This longer-term view enables more strategic scheduling of projects, better
18 supply chain management, and improved resource allocation – all of which lead to
19 greater cost-effectiveness than would be possible with a shorter planning horizon.
20 Over these many multi-year periods, FPL has driven its performance to the top of the
21 industry across the metrics that matter most to customers – low bills, high reliability,
22 operational cost-effectiveness and good customer service. The implicit assumption
23 underpinning intervenor witnesses' arguments – that FPL would be delivering the exact

1 same performance today if it had been required to submit annual rate cases – is
2 unsupported by any evidence. It is just plain wrong.

3 **Q. According to FRF witness Georgis, the Four-Year Plan should be rejected because**
4 **it is highly contingent. Is this a reasonable basis to reject FPL’s proposal?**

5 A. No, as I will explain in Section VII of my testimony, the uncertainty regarding future
6 conditions favors customers and is precisely why the TAM is a sensible and necessary
7 feature of FPL’s proposal.

8 **Q. OPC witness Colton maintains that the Commission should account for the**
9 **affordability impact associated with FPL’s rate request when it decides issues**
10 **ranging from a reasonable return on equity, to appropriate cost allocations, to**
11 **appropriate capital expenditures. How should the Commission evaluate**
12 **affordability in its review of FPL’s Four-Year Plan?**

13 A. The Commission recently explained that it considers whether a utility’s rates are
14 affordable within the confines of its “fair, just, and reasonable” rates standard in Section
15 366.06(1), F.S. *In re: Petition for rate increase by Tampa Electric Company*, Order
16 No. PSC-2025-0038-FOF-EI (p. 183) issued Feb. 3, 2025 in Docket No. 20240026-EI.
17 The factors that comprise fair, just and reasonable rates differ from case to case. We
18 fully expect that the Commission will review the factors applicable in this case and
19 make an appropriate determination in this proceeding that fairly balances the interests
20 of customers and the utility.

1 **III. IMPLICATIONS OF INTERVENOR RECOMMENDATIONS**
2 **REGARDING CAPITAL STRUCTURE, ROE AND TAM**

3 **Q. What is your overall conclusion and response to the intervenor witnesses’**
4 **arguments against FPL’s continuation of a stronger than average financial**
5 **position, particularly in terms of their capital structure and ROE**
6 **recommendations?**

7 A. The intervenor witnesses take positions that epitomize what it means to miss the forest
8 through the trees. They challenge the components of FPL’s financial profile, often with
9 little to no basis, and turn a blind eye to the tangible and significant value FPL has
10 delivered for customers which result from FPL’s comprehensive strategy founded on
11 financial strength. FPL’s strategy consistently has delivered superior performance for
12 customers through low bills, high service reliability, low cost of operations and high
13 customer satisfaction.

14 **Q. Are the various intervenor recommendations on ROE, equity ratio and TAM**
15 **based on a common set of assumptions?**

16 A. The recommendations differ in various ways, but at least one fundamental flaw was
17 common to all witnesses: each witness presumes that one can isolate and reduce capital
18 structure or ROE without any detriment to FPL’s overall delivery of customer value.
19 That is not real-world thinking. A strategy that is focused on having an overall low
20 cost does not mean trying to be low cost in each individual element. It is the total
21 package that counts. Intervenors want to focus on one piece of the cost structure,
22 arguing that it could be lower – but conveniently ignoring the interactions with other
23 parts of the cost structure noted in more detail in my direct testimony and, most

1 importantly, ignoring the actual industry leading value that customers receive in the
2 form of low bills, strong customer service and high reliability.

3

4 Anchored on that assumption, intervenors formulaically attempt to solve for an
5 arithmetic lowest cost of capital in isolation of all other factors. This theory might have
6 simplistic appeal, but it is purely an academic exercise that is neither appropriate nor
7 directly applicable to how a real business sets its financial policies based upon the
8 business risks that it faces. And it is not how FPL approaches its comprehensive view
9 of customer value. Intervenors' witnesses have the luxury of ignoring financial and
10 operational dependencies, the vast intricacies and considerations unique to each
11 company, as well as the circumstances of a company's specific known and unknown
12 risks. FPL does not have that same luxury. Management is responsible for consistently
13 securing the financial means with which to meet the obligations associated with
14 running the largest electric utility in the country in whatever industry or economic
15 conditions it finds itself. Changes to a Company's financial position will lead to
16 unintended and potentially severe consequences over the long term.

17 **Q. Please generally describe the intervenor witnesses' recommendations and the**
18 **attendant consequences.**

19 A. I will address specific ROE and capital structure recommendations in the next sections
20 of my testimony. In general, intervenors recommend ROEs ranging from 9.2% to
21 10.5% and equity ratios as low as 50.52%. The lower end of the midpoint ROEs
22 recommended by intervenors is 140 basis points lower than the ROE approved by the
23 Commission in 2021 before interest rates began to rise and the lower end of the

1 recommended capital structure reduces FPL's equity financing by more than 15%.
2 Combined with OPC's and FEL's suggestion that the Commission should not approve
3 any incremental revenue in 2026, these results would harken back to and be more
4 punitive than the rate case result rendered in 2010, a result that led to a credit
5 downgrade that was tempered only by a settlement agreement reached a few months
6 later. But the fallout lingered for nearly a decade, and the consequences would have
7 been far worse if the original 2010 rate case order had survived absent the settlement
8 agreement.

9

10 If the intervenor witnesses' recommendations are adopted, FPL's financial strength
11 would be meaningfully undermined and over time the Company's ability to continue
12 delivering superior customer value would erode. Investors that have long supported
13 the Company would direct their capital elsewhere as they assess the opportunity to earn
14 a fair risk-adjusted return and surmise that FPL's winning strategy is no longer
15 supported. Intervenors fail to consider that their demand for industry average equity
16 ratios and industry average ROEs would likely lead to industry average levels of
17 performance. They also fail to consider that FPL has become the premier utility in the
18 country in the metrics that matter to customers by following a superior strategy.

19 **Q. OPC witness Colton, Walmart witness Perry and FEL witness Rábago ask the**
20 **Commission to consider affordability and customer impacts when setting FPL's**
21 **ROE in this case. Do you agree?**

22 A. The Commission considers a host of factors in order to reach a balanced decision for
23 customers and the utility. As expressed in its recent TECO rate case order, one of those

1 factors is whether “the proposed rate of return [is] reasonable in light of legal standards
2 and all the evidence presented.” FPL fully expects the Commission to make this
3 determination in the proceeding.

4 **Q. Is there other evidence the Commission can look to in considering the implications
5 of FPL’s request versus the intervenors’ recommendations?**

6 A. Ultimately, the litmus test for the Commission is whether the overall value proposition
7 delivered by FPL results in customer rates that are fair, just and reasonable and service
8 quality that is adequate. Unequivocally, FPL’s filing reflects fair, just and reasonable
9 rates and service quality that is superior in the industry. The intervenors’ positions on
10 capital structure tend to be the industry average, while their recommendations on ROE
11 are absurdly low and ignore current economic conditions. As can be seen in Table 1
12 below, historically when the 10-year U.S. Treasury yield was greater than 4%, the
13 Company’s awarded mid-point ROE tended to reflect that economic condition. This
14 filing should not be viewed any differently, as the 10-year U.S. Treasury yield was in
15 excess of 4% at the time FPL filed its case in February and continues to exceed that
16 level today. Tellingly, intervenors give no credible consideration to the consequences
17 of their recommendations on service quality other than a short-term arithmetic
18 supposition that FPL can run the business with diminished financial resources.

| Table 1. Historical 10-Year Treasury Yield and Awarded ROE | | |
|---|-------------------------------|--------------------|
| Docket No. | 10-Year Treasury Yield | Awarded ROE |
| 990067 | 4.76% | 11.00% |
| 001148 | 4.63% | 11.00% |
| 050045 | 4.63% | 11.75% |
| 080677 | 2.51% | 10.00% |
| 120015 | 2.39% | 10.50% |
| 160021 | 1.97% | 10.55% |
| 20210015 | 1.64% | 10.60% |

1 IV. CAPITAL STRUCTURE

2 **Q. Please respond generally to intervenor witnesses' contentions regarding FPL's**
3 **proposed capital structure.**

4 A. Intervenor witnesses' positions on capital structure continue their theme that the
5 Commission's task is to determine what the lowest possible ROE and the weakest
6 capital structure for FPL could be without affecting FPL's ability to provide minimally
7 adequate electric service. As I have explained, this is not an appropriate benchmark,
8 and I strongly caution the Commission against adopting a standard that encourages a
9 "race to the bottom." Intervenors' recommendations would undermine FPL's financial
10 position and will ultimately undermine its business position, to the detriment of long-
11 term customer interests. Intervenors' positions implicitly assert the way in which FPL
12 has financed its operations over the years has had nothing to do with the benefits that
13 customers realize today.

14 **Q. Please describe FPL's approach to managing its capital structure.**

15 A. FPL's approach to managing its capital structure has been consistent for decades. Core
16 to that approach is maintaining a "stronger-than-average" financial position to account
17 for the Company's above average risk position. This approach has been supported by
18 this Commission and has served customers extremely well as manifest by the
19 Company's low-cost access to debt markets even when volatile, its ability to quickly
20 fund major liquidity needs such as storm restoration efforts and fuel under-recoveries,
21 as well as fund its capital investment program while delivering highly reliable service.

1 **Q. What would be the consequences of implementing the intervenors’**
2 **recommendations?**

3 A. The consequences of implementing the intervenors’ recommendations would be
4 numerous and include the following:

- 5 • Immediate negative reactions from debt investors, the rating agencies and
6 equity investors, as the perception of regulatory risk would be radically
7 increased. Ironically, this would promptly undermine the very arguments
8 intervenor witnesses have made for lowering the ROE and decreasing the equity
9 ratio;
- 10 • Likely downgrades, whether immediate or over time, and lasting multiple
11 years;
- 12 • Restrictions on FPL’s ability to support its liquidity needs;
- 13 • Erosion of FPL’s relative cost position;
- 14 • Higher financing costs in the long-term; and
- 15 • Reduction in supportable investments.

16

17 Over time, these cascading consequences would compound and hamstring FPL’s
18 ability to deliver on the value proposition that has served customers well for a long
19 time. Intervenors’ conclusion that the total cost of capital would decrease fails to
20 account for the fact that while costs might decline initially, the long-term impact of
21 degradation and heightened risk perception remains unknown and could result in
22 significant future consequences. As with their unreasonable ROE recommendations,

1 none of the intervenor witnesses point to real world examples illustrating that a
2 weakened capital structure would lead to lower overall costs over the long term.

3 **Q. If intervenors' positions in this case were accepted, would the negative impacts be**
4 **experienced only by FPL?**

5 A. No. The effects would be focused on FPL at first but, as we saw in 2010, the effects
6 of a downgrade linger for multiple years, and it is customers who bear the consequence
7 in the form of higher borrowing costs. The effects would also likely extend to other
8 Florida utilities regulated by the Commission. Both debt and equity investors would
9 view such a change as very negative to risk and as a significant change in the regulatory
10 environment. Such a large departure from past practice in Florida would be considered
11 indicative of the broader regulatory environment and cause great concern.

12 **Q. Please summarize and respond to the capital structure recommendations of FAIR**
13 **witness Bryant, FIPUG witness Pollock and FEL witness Rábago.**

14 A. FAIR, FIPUG and FEL recommend equity ratios of 54.0%, 53.2% and 50.52%,
15 respectively. These intervenor witnesses claim that FPL's equity ratio is excessive
16 compared to other utilities in the industry, but they disregard the relative business risk
17 profile of FPL compared to those in the proxy groups. Every utility faces a unique risk
18 profile, and these risk differences influence the capital structure that a prudent utility
19 manager should seek to employ. In my direct testimony, I described the very real
20 business risks faced by FPL. Intervenors' recommendations are based on an overly
21 simplistic averaging method that ignores the evidence of FPL-specific risk factors and
22 the benefits that customers have received over numerous years from FPL's strong
23 financial position.

1 **Q. OPC witness Lawton and FEA witness Walters recommend no change to FPL’s**
2 **equity ratio but argue that FPL’s ROE should be lowered to reflect the stronger**
3 **capital structure. Do you agree with this approach?**

4 A. No, here again intervenors ignore FPL’s specific above average risk position and
5 strategies, which call for and depend upon maintaining a “stronger-than-average”
6 overall financial position that does not sacrifice one element of its financial profile for
7 another. The Company has delivered a superior value proposition to its customers year
8 after year. Witnesses Lawton and Walters reach conclusions that would seriously
9 undermine FPL’s financial position and its ability to continue to attract capital and
10 deliver value for customers.

11 **Q. OPC witness Lawton questions how much credit quality customers can afford and**
12 **have reasonable electric rates. Is there a specific formula that answers this**
13 **question?**

14 A. No, Mr. Lawton seems to be searching for the “optimal” level at which overall cost of
15 capital is minimized, and capital structure should be set. The quest for that
16 mathematical precision is, again, an academic exercise that falters when reality sets in.
17 As the proportion of debt in the capital structure approaches the supposed optimal level,
18 the level of risk in the business increases and that can begin to have a negative impact
19 on the overall cost of capital. Calculating Mr. Lawton’s elusive theoretical figure not
20 only presumes a company can pinpoint how close it can approach financial distress
21 without crossing the wire, but it also improperly assumes there would be no
22 consequences to operating on the brink. It likely would be impossible for the regulatory
23 environment to be able to adequately respond to business volatility and correct a

1 company's financial metrics before it plunged into financial distress. Ironically, equity
2 investors would seek a *higher* return on any capital invested in a company that operates
3 such a risky proposition. Mr. Lawton's criticism is ultimately self-defeating.

4 **Q. OPC witness Lawton points to Commission precedent that suggests a converse**
5 **relationship between capital structure and ROE in the context of setting rates for**
6 **water and wastewater utilities. Is this precedent applicable?**

7 A. No. Mr. Lawton presents no analysis that informs FPL, or the Commission for that
8 matter, why that order applies to FPL's request in any way, shape or form. He omitted
9 any description of the similarities between either (i) water and wastewater utilities and
10 electric utilities, generally or (ii) FPL's risk profile as compared to the utilities
11 governed by that order, specifically. Speaking as a non-lawyer who has participated in
12 rate cases before the Commission, I find it curious that this formula-based precedent
13 has not been applied to electric utilities in prior rate cases and would surmise there is
14 good reason behind that.

15 **Q. FEA witness Walters likewise argues for an inverse relationship between ROE**
16 **and capital structure, referring to an Arkansas Public Service Commission order**
17 **establishing cost of capital for Southwestern Electric Power Company. Does this**
18 **citation overcome the shortcomings of OPC witness Lawton's reliance on the**
19 **water and wastewater industry?**

20 A. No, witness Walters fails to explain how Arkansas' utilities are similar to FPL, or how
21 application of Arkansas' policy would deliver better results for customers or this
22 Commission. First, compared to FPL's six million customers, the four Arkansas
23 investor-owned utilities serve approximately 739,000; 126,000; 70,000; and 6,000,

1 suggesting a far lesser need for capital. More specific risks and circumstances of those
2 utilities were not mentioned by Mr. Walters.

3

4 Three of the four Arkansas utilities had higher 1,000 kWh residential bills compared to
5 FPL, notwithstanding their lower ROE and weaker capital structure. Perhaps most
6 notable, the 2023 SAIDI for independently owned electric utilities in Arkansas was
7 188.4¹, or more than 191% higher (worse) than Florida's IOU average of 64.7¹, even
8 without miles of coastline or a subtropical climate that produces significant
9 thunderstorms and lightning. In fact, the very order cited by Mr. Walters points out
10 that Southwestern Electric Power Company's reliability was in decline. These results
11 should clearly send a message to this Commission that adopting the Arkansas policy
12 would be a mistake and take Florida backwards.

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

15 A. Yes. As recently as last year, the Commission entered an order that commented
16 favorably on FPL's capital structure – the same capital structure it has maintained for
17 25 years and seeks to continue as part of its Four-Year Plan:

18 The preponderance of the evidence demonstrates that the Company's
19 overall capital structure has contributed to its ability to provide
20 customers reliable service at reasonable rates while weathering tropical
21 and financial storms. Continuing this strong capital structure can assure
22 investors that the utility is financially sound, which in turn benefits all
23 customers by attracting capital on reasonable terms.

¹ SAIDI as reported by the U.S. Energy Information Administration ("EIA"). Does not include Oklahoma Gas & Power in Arkansas average or Florida Public Utilities Company in Florida average as this is not reported through the EIA.

1 *In re: Petition for rate increase by Florida Power & Light Co.*, Order No. 2024-0078-
2 FOF-EI (p. 14) issued March 25, 2024 in Docket No. 20210015-EI. Even in the 2010
3 Pre-Settlement Order the Commission recognized the importance of financial strength,
4 finding “FPL’s position of financial strength has served it and its customers by holding
5 down the Company’s cost of capital.” (Order No. PSC-2010-0153-FOF-EI, p. 119).
6 The Commission also acknowledged that while others were forced to issue debt at high
7 rates during times of financial crisis, FPL was able to sell 30-year bonds at very
8 reasonable rates “due to its strong financial position.” (*id.*). Despite the fact that FPL’s
9 equity ratio was near the top of the range of equity ratios for its proxy group, the
10 Commission agreed that FPL’s actual capital structure was reasonable and provided
11 numerous benefits to customers.

12 **Q. Please elaborate on how FPL’s customers benefit from FPL’s current capital**
13 **structure.**

14 A. FPL’s capital structure has enabled consistent and competitive access to capital markets
15 in times of economic turmoil, and one need look no further than the events of the last
16 four years. FPL was able to provide for customers and satisfy its liquidity needs when
17 faced with a significant increase in natural gas costs (resulting in an under-recovery of
18 about \$2 billion in 2022) as well as a series of hurricanes that inflicted severe damage
19 that necessitated a major restoration (over \$1.2 billion in a single season). This is
20 nothing new – FPL’s capital structure has been able to satisfy instant liquidity needs
21 caused by unexpected events of the past such as major storms and has been able to
22 competitively finance large investments to modernize and strengthen its infrastructure
23 – all of which result in high reliability and low costs for customers. No one can

1 reasonably argue that FPL’s approach to maintaining financial strength over the long
2 term has not served customers well.

3 **Q. FEA witness Walters claims that all utilities had adequate access to capital over**
4 **the last several years. Does this refute FPL’s position that it needs a stronger-**
5 **than-average capital structure?**

6 A. No. Mr. Walters’s statement is simultaneously too general and too narrow. It is too
7 general in the sense that not all “access to capital” is created equal and has the same
8 end impact on customers. The terms associated with the capital are tied to each issuer’s
9 financial profile, including its credit score. Utilities and other market participants with
10 stronger financial profiles access their debt at lower costs, typically measured by the
11 difference, or “spread,” between the issuer’s cost rate and the risk-free U.S. treasury
12 rate. FPL has consistently issued its debt at tighter spreads compared to others.

13
14 Mr. Walters’s statement is too narrow in the sense that he limits his observation to “the
15 last several years.” FPL does not disagree that capital markets have been liquid since
16 2022, and, over the same period, the spreads have been historically tight. It would be
17 dangerous, however, for FPL or the Commission to assume that this market condition
18 is permanent.

19
20 Potential market volatility surrounding tariff policies, deficit/tax-bill uncertainties, and
21 geopolitical risks suggest that spreads may widen in the forthcoming period compared
22 to current levels. FPL will be better positioned to continue to issue debt on favorable

1 terms compared to participants with weaker financial profiles who suffer when markets
2 are constrained.

3 **Q. Please provide examples of constrained market conditions.**

4 A. Exhibit SRB-9 plots investment grade bond spreads over the last 25 years. This broader
5 historical view provides the Commission better information regarding risks that capital-
6 intensive participants like FPL must be prepared to face at any given moment. As
7 shown in Exhibit SRB-9, the spread differential between strong issuers and those with
8 less financial strength is significant during periods of market volatility.

9

10 Compared to today's 36 basis-point differential, the basis spread has spiked to as high
11 as 250 basis points, a nearly 600% difference. The graph also illustrates that bouts of
12 constrained markets are unpredictable yet not uncommon. Over the 25-year period
13 examined, the market contracted four times, with each bout varying in duration and
14 spread level: the dot-com bubble of the early 2000s, the 2008 economic crisis, the 2014
15 to 2016 oil price crash and the COVID pandemic, which began in 2020 and endured
16 well into 2021.

17

18 FPL cannot predict when these crises will occur or how long they will last. As a public
19 utility, it does not have the luxury of waiting for a liquidity crunch to resolve. FPL
20 must provide reliable electric service regardless of market conditions. FPL's financial
21 strength has allowed the Company to raise the capital it needs to continue delivering
22 excellent service to its customers even when access to markets is limited.

1 **Q. Is more expensive debt the only consequence that could result from a weakened**
2 **capital structure?**

3 A. No. Exhibit SRB-9 depicts the spread differentials only for those participants who were
4 able to issue debt. Those results exclude participants who withdrew their issuances
5 either after launch due to unfavorable terms or those that planned to issue debt but
6 elected to cancel before announcement due to constrained markets. Not being able to
7 issue debt because of a weak credit rating could significantly hamper a utility's ability
8 to provide reliable and safe electric service to its customers.

9

10

V. RETURN ON EQUITY

11 **Q. Do you agree with the ROE recommendations made by intervenor witnesses as set**
12 **forth in Table 2 below?**

13

Table 2. Recommended ROE by Intervenor Witness

14

| Party | ROE Midpoint |
|--------------|---------------------|
| FPL Proposed | 11.9% |
| OPC | 9.2% |
| FAIR | 10.5% |
| FIPUG | 10.5% |
| FEA | 9.5% |
| FEL | 9.6% |
| Walmart | 9.78% |

15

16

17

18

19

20 A. Not at all. While each intervenor witness employs different means, they all work
21 toward achieving the same end. The recommendations of OPC, FEA, FEL and
22 Walmart would result in reducing FPL's ROE to the bottom or lower than the bottom
23 of the peer group that FPL witness Coyne presented in his direct testimony. FIPUG

1 and FAIR recommend that FPL's ROE should be reduced to the level awarded to
2 Tampa Electric Company, but they take aim at FPL's capital structure.

3

4 None of the recommendations appropriately account for FPL's individual risk profile
5 and circumstances. And none of the intervenors consider the consequences to FPL's
6 ability to continue to attract capital so that it can continue delivering superior levels of
7 performance and low customer bills.

8 **Q. The intervenor witnesses raise the appealing notion that lower ROEs will result**
9 **in lower bills for customers, even if all of FPL's projected capital investments and**
10 **expenditures are approved. How do you respond?**

11 A. If lowering costs without impairing quality of service could be achieved by simply
12 reducing its ROE, FPL would already be doing it. Intervenors have not discovered a
13 magic bullet. While appealing, intervenors' recommendations are unrealistic.

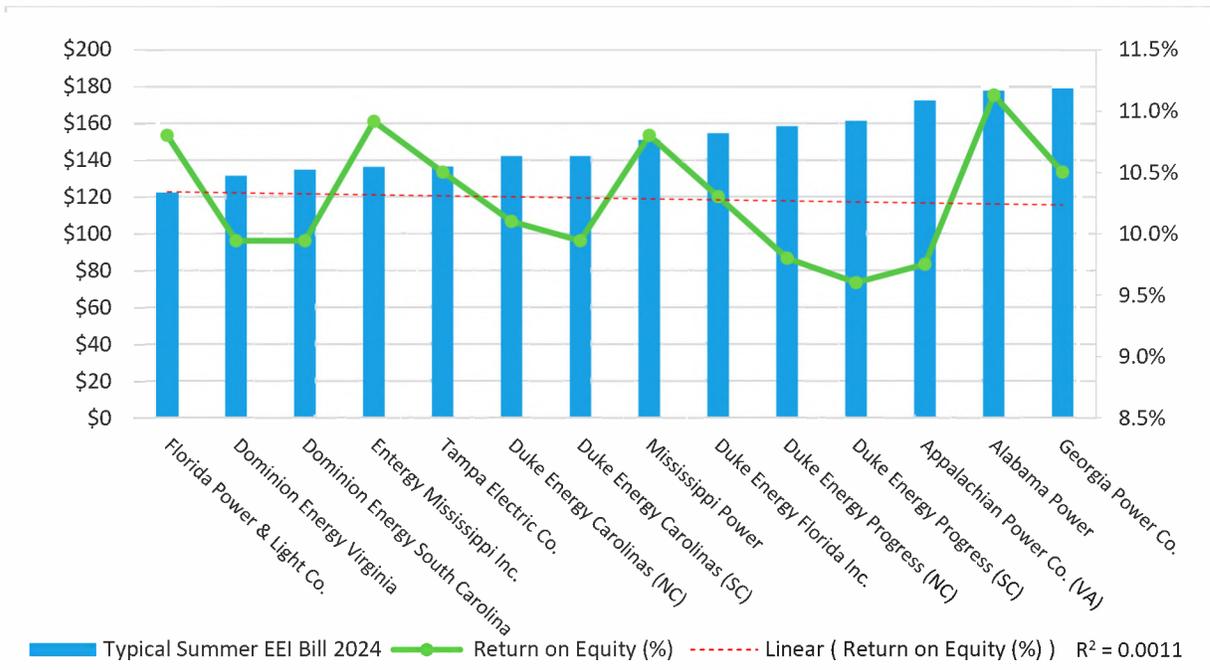
14

15 While it may be possible that bills could be lowered immediately by slashing the
16 Company's ROE, the reactions to such an action would be swift and profound and long-
17 lasting. All financial stakeholders would reassess the Company's financial strength
18 and recalibrate the view of the Florida regulatory environment, leading investors to
19 reevaluate their willingness to provide capital that is necessary to run such a large utility
20 with an above average risk profile. Ultimately, customers' bills will increase and
21 access to financial resources that enable the Company's strategy would be constrained.
22 It would be extremely short-sighted to view ROE as merely a "lever" to reduce the
23 revenue increase as seems to be the motivation behind the intervenor recommendations.

1 **Q. Did the intervenor witnesses support their positions with any real-world evidence**
 2 **establishing a direct link of lower bills to lower ROEs?**

3 A. No. The relationship between a low ROE and a low bill is spurious, and intervenors’
 4 arguments in this regard are illusory and comprise nothing more than theoretical
 5 arithmetic. A comparison of ROE versus bill position among southeastern utilities
 6 refutes the purported correlation advanced by intervenors. Table 3 below would look
 7 vastly different if intervenors’ theoretical arguments produced actual results in the real
 8 world. Among the utilities, FPL has the highest awarded ROE but the lowest bill, and
 9 utilities with the lowest ROEs do not consistently rank among the lowest bills. This
 10 highlights the point that customers pay a total bill, not an ROE, and that FPL’s
 11 customers benefit from the strong ability to attract capital.

12 **Table 3. Average Customer Bill Compared to Approved ROE in Southeast**



13

1 **Q. Please address the analysis the intervenor witnesses employed to develop their**
2 **ROE recommendations.**

3 A. The modeling employed by OPC witness Lawton and FEA witness Walters is
4 addressed in detail by FPL witness Coyne. FEL witness Rábago, FIPUG witness
5 Pollock, FAIR witness Bryant and Walmart witness Perry undertook no credible
6 analysis. Instead, they present different comparisons of authorized ROEs for electric
7 utilities, with each intervenor witness pointing to different time periods and different
8 proxy groups and basing their recommendation on a mathematical average or a single
9 data point.

10 • FEL witness Rábago and Walmart witness Perry, for example, rely on ROEs
11 authorized throughout the country. Curiously, FEL witness Rábago confined
12 his review to utility commission decisions from 2023 through the first half of
13 2024, offering no explanation regarding why he omitted the most recent 12
14 months of data.

15 • Walmart witness Perry does not expressly provide a specific ROE calculation
16 but points to national averages hovering around 9.72% and recommends that
17 the Commission reject FPL's request. Ms. Perry's approach is somewhat
18 disingenuous considering Walmart's healthy returns. In 2024, Walmart's
19 earned ROE was greater than 20% – far in excess of FPL's earned returns and
20 the ROE it requests in this proceeding.

21 • FIPUG witness Pollock and FAIR witness Bryant chose to simply point to the
22 ROE this Commission awarded Tampa Electric Company.

23

1 None of these witnesses provide evidence on FPL’s specific situation. Nothing about
2 these recommendations would help this Commission apply the *Hope* and *Bluefield*
3 standards.

4 **Q. Is there also a qualitative reason the Commission should dismiss the**
5 **recommendations from FEL, FIPUG, FAIR and Walmart?**

6 A. Yes. Intervenors’ demand for industry average equity ratios and industry average
7 ROEs may lead to industry average levels of performance and customer bills. FPL is
8 not now and has no interest in becoming an average utility. We are proud to deliver
9 excellent value and have presented a plan that will allow us to continue to live up to
10 the high standards customers have come to expect from us. A balanced approach from
11 the Commission is not one that discourages above-average service.

12 **Q. How would investors and rating agencies view a decrease in the allowed ROE to**
13 **the levels recommended by intervenor witnesses?**

14 A. Reactions are likely to be reminiscent of the aftermath of the adverse decision in PSC
15 Order No. PSC-10-0153-FOF-EI. Investors and rating agencies all tend to view
16 allowed ROE as an important indicator of the broader regulatory environment, and such
17 a large discontinuity relative to past practice in Florida would be perceived as a
18 deterioration in the regulatory environment. Increased regulatory risk and their
19 assessment of business risk would be significantly higher. A downgrade could happen
20 either immediately or over time due to the compounded effect of FPL’s eroded financial
21 position, liquidity position and cost position to customers. Investors value predictability
22 and stability – regulatory decisions are an important consideration of regulatory
23 environment.

1 **VI. RISK PROFILE**

2 **Q. Intervenors generally characterize FPL as “low risk.” How do you respond?**

3 A. Intervenors generally dismiss the important distinction between (i) the risks faced by a
4 utility given its unique environment and assets, and (ii) the results produced by that
5 utility which are determined largely by management’s ability to mitigate those risks.
6 As described in detail in direct testimony, relative to the utilities proxy group, FPL
7 faces heightened risk through its ownership of nuclear generating assets, peninsula
8 location, increased storm exposure, and a large capital expenditures program.

9
10 Through strategic execution and vigilance, FPL’s management team has sustained solid
11 performance. Management has been well-positioned to execute its risk mitigation
12 strategy due to FPL’s stronger than average financial position, driven in large part by
13 its strong equity ratio. Using FPL’s effective management of risk and the Company’s
14 current financial strength as a predicate to support the notion that FPL is “low risk” and
15 thereby support the intervenors’ recommendations would unequivocally and
16 counterproductively increase FPL’s riskiness and weaken the Company.

17 **Q. FEA witness Walters cites FPL’s strong credit ratings as an indication that FPL
18 is a low-risk utility warranting a lower ROE. Is this an appropriate correlation?**

19 A. No. I agree that FPL’s risks are considered by credit rating agencies, but they are
20 considered alongside FPL’s financial policies. In other words, FPL’s strong credit
21 ratings are arrived at despite FPL’s risk factors, thanks to the strong financial policies
22 it has consistently employed, including an appropriate ROE. Moreover, while credit
23 ratings are a material driver of fixed income security pricing, they only represent a

1 partial view of investor perceptions. Rating agencies often view investment horizons,
2 risks and exposure differently than equity investors.

3 **Q. Do you agree with the implication OPC witnesses Schultz and Lawton, FEL**
4 **witness Rábago, FAIR witness Bryant, FEA witness Walters, and FIPUG witness**
5 **Pollock that FPL's access to clause recovery mechanisms mitigates FPL's**
6 **regulatory risk?**

7 A. No. The Commission should not lose sight of the fact that investors measure risk on a
8 relative basis. Cost recovery clauses are not unique to FPL; mechanisms that allow
9 utilities to implement rate changes for pass through fluctuations in certain types of costs
10 are common within the industry. Specifically, the same cost recovery mechanisms
11 available to FPL also are available to the other investor-owned electric utilities in
12 Florida and similarly, variations of these clause recovery mechanisms, unique to each
13 state commission or regulatory jurisdiction, are available to the other U.S. investor-
14 owned electric utilities outside the state of Florida.

15
16 Notably, the presence of these clauses only helps to mitigate, not eliminate the risk to
17 the company and its investors that the utility will not recover all its costs. The mere
18 existence of a clause recovery mechanism is not a guarantee that a utility will be able
19 to recover its costs. Nor does it eliminate the underlying risks and varying exposures
20 of the costs and cash flows the clauses are designed to recover; FPL still bears the
21 burden of demonstrating recoverability. While Florida has proven to be a constructive
22 regulatory environment, the Company still bears the risk of future disallowances.

1 **Q. Please address FEL witness Rábago’s claim that FPL’s proposal to include the**
2 **TAM and a mechanism to address tax law changes eliminates all risk.**

3 A. Including TAM and the tax law change mechanism certainly does not eliminate all risk,
4 nor does it render FPL less risky than peer utilities. It could potentially ameliorate a
5 small part of the additional risk that FPL will shoulder by virtue of committing to a
6 Four-Year Plan, but as I have explained, the vast majority of the risk remains with the
7 Company. The tax law change mechanism essentially places FPL on equal footing
8 with Duke Energy Florida and Tampa Electric Company, both of which have authority
9 to initiate a similar process, as well as any other utility in the country that is not subject
10 to an unqualified rate freeze. It is also important to recall that this mechanism is
11 symmetrical; it applies whether FPL’s tax obligations increase or decrease.

12
13 The TAM is likewise risk neutral. By design, the TAM is sized to allow FPL to achieve
14 earnings at the mid-point during 2028 and 2029 when the Company will not petition
15 for general base rate increases. If approved, FPL would have flexibility to use the TAM
16 to address business or market conditions in the first two years. Exercising this
17 flexibility will shrink the TAM amount available in the last two years, however, leaving
18 FPL to manage its business without base rate increases and with less non-cash available
19 to cover incremental revenue requirements. Thus, while use of the TAM may *shift* the
20 risk during the four-year period, the risk persists. And it continues to be shouldered by
21 FPL, not customers. I address other aspects of the TAM below.

1 **Q. If the Commission does not approve the proposed TAM, what would occur?**

2 A. The result would be simple and clear-cut. FPL cannot commit to its Four-Year Plan.
3 FPL's request for new base rates for 2026 and 2027 would remain, and, if approved,
4 would require FPL to file another base rate petition in 2027 for new cash-based rates
5 effective in 2028, and if a one-year-at-a-time approach is adopted, another petition in
6 2028 for cash rates effective in 2029.

7 **Q. Please describe the consequences customers are likely to experience if the**
8 **Commission limits FPL's relief to only 2026 and 2027.**

9 A. It is not possible to predict all of the consequences with precision, but I can confidently
10 make two observations. First, without TAM and the associated commitment of a four-
11 year plan, there would not be a SoBRA mechanism in place. The costs associated with
12 these projects would instead be included in the necessary cash increases. Based on the
13 best estimate, it is projected that customers would experience a cash increase of
14 approximately \$957 million in 2028 and an incremental \$843 million in 2029. These
15 cash increases in each respective year amount to approximately \$7.66 per month on the
16 typical 1,000 kWh residential customer bill and an incremental \$6.75 per month for a
17 total of more than \$14 per month in the second year. This increase is approximately
18 220% greater than what customers would experience in 2028 and 2029 under a four-
19 year plan that includes the SoBRA and the use of a non-cash mechanism.

20

21 Second, in all four years (2026 through 2029) customers would miss out on the benefits
22 that management could have delivered if it were able to focus on improving operations

1 and value instead of planning for and preparing a rate case in each year. While the
2 dollar value cannot be measured, the opportunity loss is very real and long-lasting.

3

4 Additionally, customers would bear all of the unknown risk when FPL files another
5 rate case for new rates to be effective in 2028 and 2029. FPL has committed to
6 managing that risk as part of its four-year rate proposal – from interest rates, tariffs,
7 global conflict and any resulting market impact. From the time FPL prepared its
8 forecasts in late 2024, FPL’s revenue requirements over the four-year period have
9 already increased by more than \$250 million due to higher than projected interest rates,
10 further highlighting the risk FPL is undertaking in committing to a Four-Year Plan.
11 These are incremental costs that will be borne by customers in 2028 without the
12 approval of the TAM. FPL’s four-year rate proposal, enabled by the TAM, would
13 lower the customer bill impact over the period and create savings for customers over
14 the longer-term.

15 **Q. Please identify a few of the more significant benefits that customers have realized**
16 **over the course of the last few multi-year plans that have included the RSAM.**

17 A. In addition to the already mentioned deferral of cash rate increases enabled by prior
18 multi-year plans, the extended period of rate certainty has enabled FPL to continue to
19 improve its customer value proposition through lower operating costs, improved
20 service reliability and an excellent customer service experience. Examples include:

- 21 • Non-fuel operating costs that are roughly \$2.9 billion lower than industry-average
22 performance would have produced (equivalent to about \$300 annual savings on a
23 residential customer’s bill);

- 1 • Annual fuel charges that are \$838 million lower than industry average;
- 2 • Avoidance of approximately \$1.7 billion of storm surcharges for customers over
- 3 the last ten years; and
- 4 • Customer interruptions duration as measured by Distribution SAIDI that was 59%
- 5 better than the national average in 2023 and best among Florida’s investor-owned
- 6 utilities in 2023 and 2024.

7

8 These figures are instructive of the opportunity costs present and future customers may

9 bear if intervenor recommendations to reject the TAM and move FPL to an “average”

10 ROE and capital structure are accepted. Compared to the cost of recovering the

11 \$1.7 billion TAM amount over 30 years, FPL customers will lose the opportunity to

12 have FPL create incremental benefits on top of those that already amount to \$3.7 billion

13 annually in fuel and non-fuel O&M.

14 **Q. Several intervenors base their opposition of the TAM on the contention that it**

15 **virtually ensures earnings for FPL at the top of the range. Is this an accurate**

16 **representation?**

17 A. No. Intervenors mischaracterize both the function and the purpose of the TAM.

18 Similar to the RSAM approved pursuant to the 2021 Settlement, the TAM is sized to

19 afford FPL the ability to earn at the mid-point ROE in 2028 and 2029 in lieu of cash

20 rate increases. To ensure earnings at the top of the range, even based on intervenors’

21 math, FPL would need a TAM amount that is at least \$2 billion greater than the

22 \$1.7 billion it is requesting, or a total of at least \$3.7 billion.

1 As I alluded to earlier in my testimony, in committing to a four-year proposal, FPL is
2 undertaking significant risk and uncertainty. The purpose of the TAM is to allow FPL
3 to manage the risk and the volatility within the authorized ROE range, while continuing
4 to deliver safe, reliable service and low bills for its customers.

5 **Q. FRF witness Georgis claims there is too much uncertainty regarding sales growth,**
6 **new large loads, solar investments, and federal incentives to approve a four-year**
7 **rate plan with the TAM, while OPC witness Devlin recommends a 50-basis point**
8 **reduction to ROE for risk reduction if the TAM is approved. Please respond to**
9 **these two seemingly contradictory intervenor positions.**

10 A. FPL agrees with Mr. Georgis's observation that future uncertainties abound. The
11 existence of future uncertainties is precisely why the TAM is valuable. The TAM
12 provides flexibility to manage these uncertainties while maintaining rate stability for
13 customers. Rather than requiring frequent rate cases to address emerging issues, the
14 TAM allows FPL to respond to changing conditions within a Commission-approved
15 framework. This approach has proven successful with the RSAM for many years.
16 Additionally, FPL has thoroughly analyzed future trends in sales growth, load patterns,
17 and investment needs in developing our Four-Year Plan, and we have a strong track
18 record of accurate forecasting. Mr. Devlin's claim that the TAM warrants a 50-basis
19 point reduction is ironic, to say the least. FPL will shoulder the risks of these
20 uncertainties over four years, with no incremental cash with which to compensate
21 investors. Under Mr. Devlin's theory, FPL would be better served coming back for a
22 rate case in 2027 (for new rates in 2028 and 2029) to the detriment of customers.

1 **Q. Intervenor**s base their contention on FPL's performance under the RSAM
2 **approved as part of the 2021 Settlement. How was FPL able to earn at or near**
3 **the top of its authorized ROE range over the entire four-year period?**

4 A. The RSAM was not the primary driver behind FPL's ability to earn at or near the top
5 of its authorized ROE range over the course of 2021 Settlement period. In fact, the
6 majority of the Reserve Amount associated with the RSAM was needed just to cover
7 the unanticipated, if not historic, increases in interest expense and inflation as well
8 supply chain cost pressures. Over the 2022 through 2025 period, those economic
9 factors increased FPL's cost of doing business above forecasted amounts by about
10 \$1.1 billion. In other words, about 75% of the RSAM Reserve Amount was necessary
11 to get FPL back to the mid-point, without accounting for the increased capital
12 expenditures associated with the unexpected increase in customer growth as a result of
13 the migration to Florida.

14

15 Earning at or near the top of the authorized ROE range required more. A significant
16 driver was the Company's focus on continually driving productivity improvements in
17 its cost structure, which was only possible because FPL was not toiling with rate case
18 preparation. Having multi-year periods during which the Company can focus its efforts
19 on cost and service quality improvements, rather than filing and defending rate cases,
20 has been pivotal in improving all aspects of the business for the benefit of customers
21 as well as continuing to provide investors with a competitive return. During the current
22 2022-2025 settlement period, FPL's cost management performance produced a
23 cumulative \$534 million in non-fuel O&M savings – savings that are now lowering

1 FPL's current ask in this rate case. Those savings coupled with some good luck in the
2 form of favorable weather that is not presumed to be the norm contributed to FPL's
3 ability to earn above the mid-point, exceeding the RSAM contributions, which, as I
4 explained above, largely served to cover economic headwinds.

5 **Q. Does FPL's use of a non-cash mechanism to earn near the top of range render the**
6 **mid-point meaningless?**

7 A. No. The midpoint ROE is and will remain the basis upon which FPL's rate of return
8 is calculated for use in base rates, clauses and AFUDC. Achieving base rate earnings
9 above the mid-point provides an incentive for FPL to effectively manage the business
10 while allowing for additional book returns for investors in the near-term but creating
11 long-term value for customers in the form of lower operating expenses.

12 **Q. OPC witness Devlin and FAIR witness Bryant argue that use of the TAM, if**
13 **approved, should be limited to the mid-point ROE, and it should be used only in**
14 **2028 and 2029. Does FPL agree with these limits?**

15 A. No. These proposed limitations ignore history and real-world context. Since 2011,
16 FPL has had authority to use its non-cash mechanism flexibly over the subject period.
17 This has allowed FPL to manage risks and fluctuations in the business while also
18 planning over a multi-year horizon, armed with the knowledge that it had access to a
19 certain level of reserve and has the continued obligation to stay within the authorized
20 range over the full term with no incremental cash in the latter half.

21

22 Longer-term planning by a utility may involve such things as accelerating certain
23 investments when the economics make sense for customers, or shifting the timing of

1 certain expenditures when population growth booms unexpectedly, or covering the cost
2 of historic storms so that customers can avoid surcharges. Flexibility, not constraints,
3 allows management to develop these value-added plans within the range of reasonable
4 ROE as approved by the Commission. The results speak for themselves, which
5 explains why the intervenor witnesses ignore them.

6

7 Additionally, limiting use of the TAM to achieving FPL's approved mid-point ROE
8 fundamentally misunderstands the purpose of establishing an ROE range. The
9 Commission establishes a range, not just a mid-point, recognizing that utilities need
10 flexibility to manage operations within changing economic environments. The mid-
11 point is not, as FAIR witness Bryant suggests, the only "reasonable rate of return."

12

13 The TAM is designed to work within the authorized range established by the
14 Commission and provides FPL with the flexibility needed to commit to a four-year rate
15 plan while managing various risks and uncertainties. Restricting the TAM in the
16 manner intervenors suggest would undermine its effectiveness and potentially
17 compromise FPL's ability to attract capital and maintain financial stability throughout
18 the four-year period.

19 **Q. OPC witness Devlin also recommends that, if the TAM is approved, FPL should**
20 **use the TAM to offset revenue requirements in 2026 and 2027. Does FPL agree**
21 **to utilize the TAM in this manner?**

22 A. No, that would not be feasible and ignores the balance of FPL's carefully constructed
23 Four-Year Plan. That balance includes ensuring FPL receives adequate cash to

1 maintain its credit metrics and strong financial position over the term of the four-year
2 proposal. Reducing the level of cash revenues and replacing it with non-cash would
3 do more harm than benefit for customers.

4
5 FPL has been and will continue to make investments for customers, particularly for
6 unforeseen growth in new service accounts, with no incremental cash revenue outside
7 of the SoBRA. FPL's debt and equity investors understand the benefits of the TAM,
8 but it is still *non-cash*. As I explained in my direct testimony, this is a bridge between
9 revenue adjustments. In this case, FPL has presented the calculation of the incremental
10 revenue it will need in order to maintain its financial strength over the period. Mr.
11 Devlin's recommendation to reduce the revenue even in the first two years by
12 approximately \$580 million would impair FPL's credit metrics and could stretch
13 investors' tolerance for non-cash to a breaking point.

14 **Q. How do you respond to FRF witness Georgis's characterization that the TAM**
15 **would allow FPL to "manipulate" deferred tax liabilities to manage its regulatory**
16 **earnings?**

17 A. Mr. Georgis's characterization grossly misrepresents how the TAM would function.
18 The TAM is not a manipulation but rather a Commission-authorized mechanism that
19 would provide transparent and clearly defined parameters for managing the timing of
20 tax benefits. As detailed in my direct testimony, the TAM would allow FPL to forgo
21 cash rate increases in 2028 and 2029 while at the same time respond to changes in
22 revenues and expenses to maintain an ROE within the authorized range – just as the
23 RSAM has successfully done for many years. Moreover, the TAM would be subject

1 to Commission oversight through regular surveillance reporting, ensuring that its use
2 is transparent and consistent with the Commission’s authorization.

3 **Q. How do the benefits of the TAM compare to the concerns raised by the witnesses?**

4 A. The benefits of the TAM far outweigh the concerns raised. The TAM will provide
5 customers with rate stability through at least January 2030, avoiding the need for
6 general base rate increases in 2028 and 2029. This approach reduces regulatory lag and
7 costs associated with more frequent rate cases. Furthermore, the TAM allows FPL to
8 continue its successful approach to providing base rate stability while maintaining the
9 financial strength needed to continue delivering superior service and reliability. The
10 concerns raised by the various intervenor witnesses are based on mischaracterizations
11 of how the TAM would function and overlook the substantial customer benefits that
12 would result from its implementation.

13 **Q. What are your conclusions regarding the intervenors’ arguments against FPL’s
14 proposed TAM?**

15 A. The intervenors’ opposition to FPL’s proposed TAM is based on their ill-conceived
16 view that FPL has benefitted at the expense of customers, as if it is inconceivable that
17 the Company can create complementary value for both customers and shareholders.
18 Their opinion necessarily requires intervenor witnesses to ignore metrics that matter
19 most to customers. Results matter, and the Commission should not disregard them.

20 **Q. OPC witness Devlin characterizes the TAM as unprecedented and claims a
21 generic docket applicable to all utilities is therefore required. Do you agree?**

22 A. Whether a generic docket is necessary is a question perhaps best answered by attorneys.
23 My non-legal opinion is that the TAM requested by FPL is similar to the treatment that

1 has been authorized for unprotected accumulated excess deferred income taxes. As
2 there is no IRS regulation governing their treatment, the Commission has the discretion
3 to dictate the treatment that they see best for customers. Likewise, the function and
4 purpose of a non-cash mechanism as a tool to enable multi-year stay-outs is well-
5 understood by this Commission.

6

7 **VIII. SOLAR AND BATTERY BASE RATE ADJUSTMENT**

8 **Q. What is your general response to OPC witness Schultz’s and FRF witness**
9 **Georgis’s opposition to the SoBRA requested by FPL?**

10 A. I will address each of their stated bases for opposition, but it is worth emphasizing a
11 fundamental aspect of the SoBRA that witnesses Schultz and Georgis missed. FPL is
12 not asking for recovery of the costs associated with 2028 or 2029 solar and battery
13 facilities in this case. It only seeks to establish the applicable framework that would
14 govern a future limited proceeding. The Commission will retain the same oversight it
15 has exercised under SoBRAs of the past.

16

17 Although FPL witness Whitley has identified a need and cost-effective resource
18 selection in those years, the SoBRA mechanism requires FPL to refresh both its
19 resource and its economic analyses and demonstrate in a separate proceeding that
20 selected resources would be necessary to meet a need or that the selected resources
21 would reduce overall system costs for customers. The results of the resource plan
22 presented in this proceeding are not binding or pre-approved.

1 **Q. OPC witness Schultz asserts that the SoBRA should be denied because it depends**
2 **on solar and battery tax credits that could be cancelled by the current**
3 **administration. Does the SoBRA mechanism account for this possibility?**

4 A. Yes. The updated economic analyses required under the SoBRA mechanism must
5 incorporate the tax laws that would be in effect at that time.

6 **Q. OPC witnesses Schultz and Dauphinais and FRF witness Georgis assert that the**
7 **SoBRA should be denied because FPL may not need to construct solar projects in**
8 **2028 or 2029. Does the SoBRA mechanism account for this possibility?**

9 A. Yes, the SoBRA addresses this possibility as well. As described above and in my
10 Exhibit SRB-7, FPL bears the burden of demonstrating either a resource need or an
11 economic need. If FPL's updated analysis fails to demonstrate a resource need, the
12 Company must demonstrate that adding the resources would reduce customer costs
13 (i.e., an "economic need") based on then-current assumptions including tax laws.
14 Under the mechanism, if neither showing is made no SoBRA could be approved.

15 **Q. Please respond to OPC witness Schultz's statement that the SoBRA provides FPL**
16 **"automatic recovery of costs without the ability for consumer advocates to**
17 **properly evaluate the need for adding solar facilities."**

18 A. Nothing could be further from the truth. The cost-recovery procedure under the
19 SoBRA is well-established and far from automatic. The Commission, consumer
20 advocates and any other party with standing may participate in the SoBRA proceeding
21 and would be permitted to probe FPL's analyses and take positions on whether FPL
22 demonstrated a resource or economic need.

1 **IX. STORM COST RECOVERY MECHANISM**

2 **Q. Does any intervenor witness oppose the approval of the Storm Cost recovery**
3 **Mechanism proposed by FPL?**

4 A. Not in principle. No intervenor recommends against allowing FPL to continue the
5 storm cost recovery mechanism, which is modeled after the mechanism contained in
6 each of its last four settlement agreements and has worked well for customers. In fact,
7 OPC witness Schultz states that “the current framework can work well and should be
8 continued.” However, he recommends that the Commission reject FPL’s request to
9 increase the storm reserve component of the mechanism from \$220 million to
10 \$300 million, stating that the current level, which is actually set at \$150 million, is
11 adequate and that other jurisdictions do not have a similar mechanism.

12 **Q. Please respond to Mr. Schultz’s claim that the existing reserve component of the**
13 **Storm Cost Recovery Mechanism is adequate.**

14 A. OPC witness Schultz ignores the importance of having ready access to funds in the
15 immediate wake of a storm. Neither Mr. Schultz nor any other intervenor denied FPL’s
16 recent storm loss history or Florida’s unique exposure to hurricane risk. As I detailed
17 in my direct testimony, FPL faces more hurricane risk than any other utility in the
18 country, and our service area includes major metropolitan areas at the tip of the Florida
19 peninsula that are highly susceptible to severe weather events.

20
21 Over the last four-years, FPL has experienced two hurricane seasons that have each
22 caused greater than \$1 billion in storm restoration costs, well beyond the current level
23 of the storm reserve. This history demonstrates that FPL’s request for a \$300 million

1 reserve is reasonable, yet likely still not adequate in comparison to FPL's storm
2 exposure.

3 **Q. Please respond to OPC witness Schultz's statement that other jurisdictions do not**
4 **have a similar storm cost recovery mechanism.**

5 A. Mr. Schultz's purported rationale is unhelpful and vague. It fails to provide a proper
6 basis of comparison to the unnamed jurisdictions or utilities to which he generally
7 refers. He makes no showing that the Commissions in other jurisdictions have
8 considered instituting a similar mechanism. Nor does he demonstrate that the other
9 utilities he references have experienced storm damage events similar to those impacting
10 the FPL service area, let alone that they were able to achieve similar restoration results
11 with no liquidity concerns or consequences. He simply offers nothing that will help
12 the Commission evaluate the reasonableness of FPL's request for a \$300 million storm
13 reserve.

14 **Q. Does the Storm Cost Recovery Mechanism proposed by FPL in this petition**
15 **reduce the Company's risk related to storm cost recovery as suggested by FEA**
16 **witness Walters?**

17 A. No. FPL has greater risk exposure to tropical storms and hurricanes than any other
18 company in the country. The Mechanism does provide interim cash flow to the
19 Company; however, FPL retains greater relative risk than other utilities despite this
20 temporary liquidity measure. To be clear, the Storm Cost Recovery Mechanism
21 provides interim cash flow for the Company following a restoration event that is capped
22 as to amount and duration of recovery. The Company still must finance the total
23 restoration effort and still bears all the prudence risk when the restoration costs are

1 reviewed many months after the restoration is complete. Further, neither the Storm Cost
2 Recovery Mechanism nor the Commission's Storm Rule 25-6.0143, F.A.C., provide
3 any recovery of revenues lost during the restoration event.

4 5 X. CUSTOMER IMPACTS

6 **Q. OPC witness Colton, Walmart witness Perry, and FEL witness Rábago suggest**
7 **that the Commission should account for affordability impacts due to inflation**
8 **when considering FPL's rate request. How does your proposal address customer**
9 **affordability concerns?**

10 A. We recognize that customers have faced challenges due to inflation, which is precisely
11 why FPL has worked diligently to improve operational efficiencies and minimize rate
12 impacts. In this regard, FPL's 2021 Settlement illustrates that multi-year plans provide
13 value for customers. Customers were not faced with general base rate increases during
14 2024 or 2025, even though FPL had also been subject to the same inflationary pressures
15 affecting our customers. As detailed in my direct testimony, during the current
16 settlement period, FPL experienced significant cost increases in materials, labor, and
17 equipment that exceeded our forecasts. The Company's strong financial position in
18 concert with the flexibility of the RSAM enabled us to absorb these impacts while
19 continuing to provide reliable service without seeking additional rate relief.

20
21 Our proposed Four-Year Plan is designed to continue this approach, providing rate
22 stability over an extended period while supporting the investments necessary to
23 maintain our high service standards. FPL's bills remain well below the national

1 average, demonstrating our commitment to affordability even while making necessary
2 investments in our system.

3

4 Moreover, based on her review, FPL witness Powers concludes that customer bills will
5 remain affordable by objective standards.

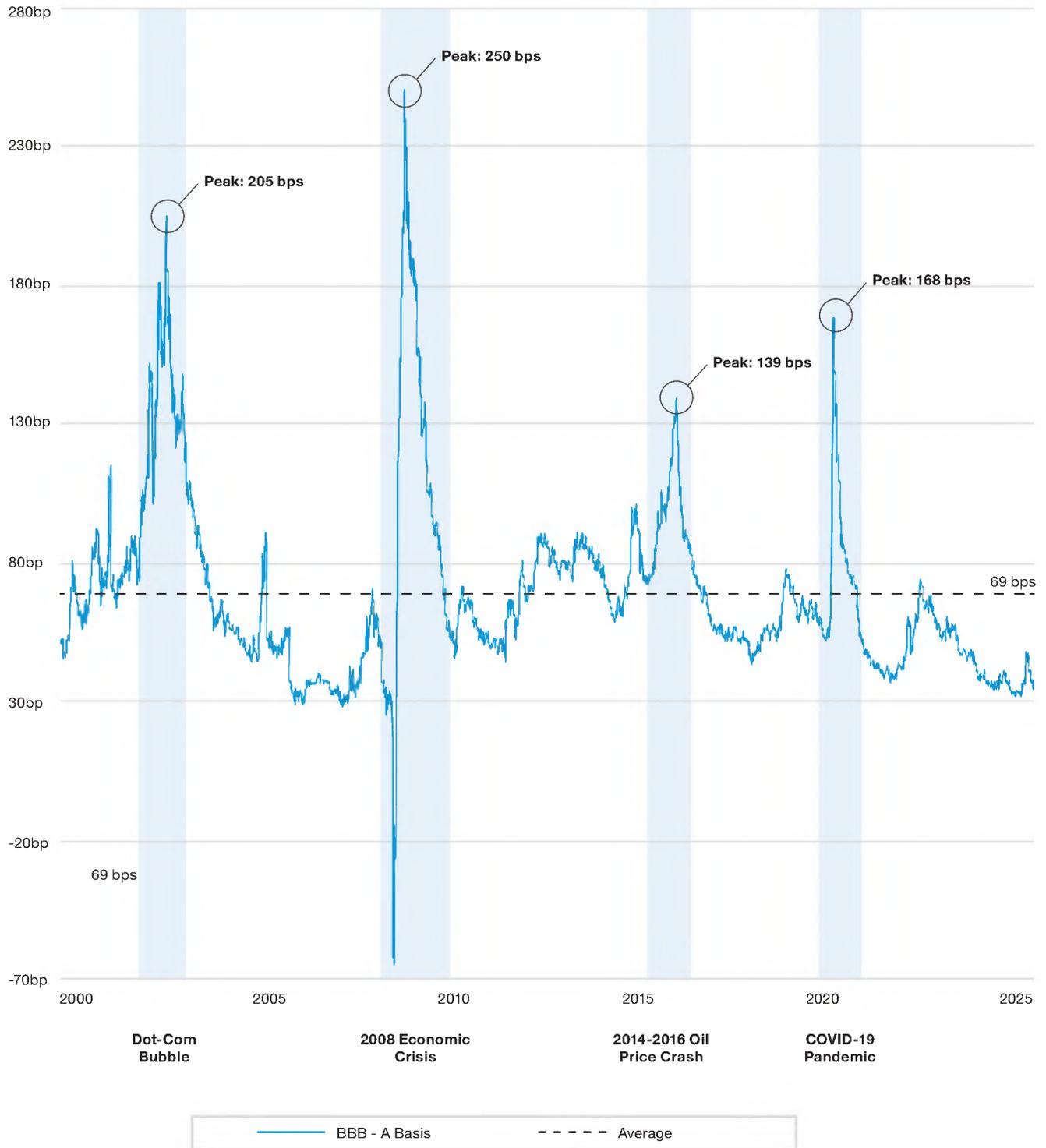
6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.



BBB-A Credit Spreads Widen During Market Volatility

Capital-intensive utilities like FPL must prepare for unpredictable market constraints



Source: Mizuho Financial Group.