



January 15, 2016

The Honorable Julie Imanuel Brown  
Chairman  
Florida Public Service Commission  
2450 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

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2016 JAN 15 AM 8:15  
COMMISSION  
CLERK

Re: Test Year Notification Pursuant to Rule 25-6.140, F.A.C.

Dear Chairman Brown:

Florida Power & Light Company ("FPL" or "the Company") provides electric service to more than 4.8 million customer accounts, or about half of our state's population. Our long-term strategy of effectively managing operational costs and making smart investments to maintain and improve our infrastructure helps us deliver exceptional service reliability, highly efficient clean generation, and customer bills that are consistently among the lowest in the state and nation. Indeed, today we provide electric service that is cleaner and more reliable than ever before, while our typical residential 1,000 kWh customer bill is more than 10 percent lower than it was 10 years ago. We provide outstanding value to our fellow Floridians, supporting the strength and stability of Florida's economy while preparing responsibly to ensure we can meet the energy needs of the future.

Over a period of the last 17 years, FPL has entered into five multi-year settlement agreements that have provided customers with a degree of rate stability and certainty, while at the same time ensuring that FPL continues to have a strong credit rating and balance sheet that enable us to consistently raise capital on very attractive terms. This financial stability provides the necessary platform for the Company to continue to meet customer needs, from day-to-day operations and customer service to major storms or financial market disruptions. The agreements generally have worked well in meeting those objectives.

At the end of the terms of the last three of these multi-year agreements, it has been necessary to review rate levels relative to the investments that had been made and were planned to be made on behalf of customers. As a result of these reviews, the Company has needed to petition for new rates moving forward, taking into account the rising costs of operating expenses as well as the efficiencies and cost reductions that the Company was able to realize during the term of each settlement. As described more fully below, during the term of the current settlement agreement, FPL has been able to make major strides in further improving its operations. This has been one of the key benefits of a multi-year rate solution, allowing management to focus on continuing to improve the Company's already strong performance in service delivery and realizing additional efficiencies in its operations.

The Company is currently operating under a four-year rate settlement agreement that began in January 2013 and expires at the end of December 2016. As with prior agreements, the Company has determined it will be necessary to file a request for a base rate increase to take effect following the final year of the current rate agreement. This anticipated proposal will lay out a multi-year solution for base rate increases designed to further improve on the value FPL provides its customers and enhance rate certainty and stability, including: an increase in base rates to be effective on the first day of January 2017; a subsequent year base rate adjustment to be effective on the first day of January 2018; and a limited scope base rate increase to be effective in mid-2019 when the new, highly efficient FPL Okeechobee Clean Energy Center recently approved by this Commission begins generating clean power for customers.

FPL's base rate proposal – encompassing 2017 through 2020 – will build on the success of the current four-year settlement agreement with the goal of providing longer-term cost certainty for customers. We are mindful of the potential impact on customers of any increase – even for a company such as FPL with bills that are projected to remain among the lowest in the state and nation – and so we have made the decision to seek rate relief only after a very thorough review of financial projections, which are discussed below. The amount of the base rate request has not been finalized; however, our preliminary estimate is a general base revenue adjustment of approximately \$860 million effective in January 2017; a subsequent year adjustment of approximately \$265 million effective in January 2018; an adjustment of approximately \$200 million effective when the new Okeechobee Clean Energy Center enters service in mid-2019; and no base increase in 2020. The total request over the four-year period beginning in 2017 and extending through 2020 would reflect an estimated average increase in total revenue of less than 3 percent per year. For the typical residential 1,000 kWh bill, we estimate that the 2017 base rate adjustment would be about \$8.50 per month. The subsequent year base rate adjustment in 2018 would be about \$2.50 per month, and the Okeechobee Clean Energy Center limited scope base rate adjustment would add about \$2.00 per month in 2019. FPL's typical residential bill today is about 20 percent lower than the state average and about 30 percent lower than the national average, and we expect it will continue to be among the lowest even with these proposed adjustments. Based on current projected changes in fuel and other clauses, we believe that FPL's current typical bill for January 2016 will grow at about 2.8 percent per year through the end of 2020, or about the same as the expected rate of inflation as measured by the Consumer Price Index ("CPI"), and would continue to remain lower than 2006 levels at least through the year 2020 – a tremendous value to our customers and for the state of Florida.

In furtherance of FPL's request, and consistent with the requirements of Rules 25-6.140, 25-6.0425, and 26-6.0431 of the Florida Administrative Code, FPL submits the following additional information.

#### Test Years

For its 2017 base rate request, FPL proposes to use the projected 12-month period ending December 31, 2017, as the test year. FPL's proposed use of a projected test period is consistent with current Commission practice and prior Commission and Florida Supreme Court precedent.

Furthermore, using the projected 12-month period ending December 31, 2017, as the test year will provide an accurate representation of costs for the purposes of setting rates effective January 1, 2017.

For the proposed 2018 subsequent year adjustment, FPL will use the projected 12-month period ending December 31, 2018, as the test year with the adjusted rates to be effective upon the first day of January 2018. For the proposed limited scope base rate adjustment, the Company will use the projected costs of the new and highly efficient Okeechobee Clean Energy Center's first 12 months of operation, currently projected to be June 1, 2019, to May 31, 2020, with the adjusted rates to be effective upon the first day of its commercial operation.

#### Major Factors Necessitating a Rate Increase and Estimate of Impact on Revenue Requirements

The major factors necessitating this requested increase are as follows:

- Incremental capital investment: Since 2013, to better serve our customers, we will have invested \$15.8 billion in smart, efficient infrastructure including \$6.7 billion on new and upgraded transmission and distribution facilities. The total estimated impact of these investments on the 2017 revenue requirement is approximately \$800 million. We have continued to invest in our infrastructure in areas that provide near- and long-term benefits to our customers, or that we are required to make, as illustrated by the examples listed below.
  - Electric service reliability: Our customers consistently tell us that the reliability of their electric service is a top priority. We are committed to building a stronger, smarter grid that customers can count on in good weather and bad. While our service reliability is excellent – as recognized by numerous awards and demonstrated by our performance – we must continue to invest in order to make the grid stronger, smarter, more responsive and more resilient to outage conditions.
  - Capital requirements for growth: Since our last settlement agreement was approved, the State of Florida has made substantial investments in, and dedicated significant resources to, economic development and growth of the State. These economic development initiatives continue to benefit Florida's residents and businesses. FPL, which serves more than half of the State of Florida, has similarly experienced growth in our customer base and we expect to add approximately 220,000 new service accounts from 2013 through the end of 2017. While this growth has a positive impact by spreading fixed costs over a larger customer base, there are capital costs for facilities that FPL must build to meet the needs of these additional customers, including poles, wires, transformers and other components of our electric infrastructure.
  - Generation advancements: FPL's high-efficiency fleet of power plants has one of the cleanest emission profiles among comparable utilities nationwide, and we continue to invest in cleaner, more fuel-efficient generation, including the modernization of aging peaking units and the addition of three new large-scale solar energy centers. Although these investments are supported by base rates, they are expected to generate substantial savings for customers by reducing fuel and

other costs, resulting in net customer savings over their operating lives. FPL's track record of making smart generation improvements is strong. For example, since 2001, FPL's investments in high-efficiency natural gas energy have saved customers more than \$8 billion on fuel – fuel that did not have to be purchased as a result of our cleaner, more efficient fleet – and prevented 95 million tons of carbon dioxide emissions, equivalent to removing more than 18 million cars from the road for one year.

- Increase in depreciation expense: The depreciation study to be filed contemporaneously with this case reflects the changing mix of assets and their associated recoverable life spans. The resulting impact on annual depreciation expense is an increase of approximately \$200 million. This increased expense primarily reflects the investments FPL has made in its generation fleet on behalf of customers since the last depreciation study was filed in 2009.
- In addition to the major cost drivers described above, FPL will propose to set the Company's approved return on common equity ("ROE") midpoint at 11.5 percent, which reflects an estimated cost of equity of 11 percent and a performance adder of 50 basis points. The 11 percent estimated cost of equity reflects the effects of capital market expectations looking forward over the next several years and is expected to enable the Company to continue to access capital on competitive terms through 2020. While the financial markets and credit-rating agencies recognize that a utility's regulatory ROE is not a guarantee of profit, a utility's ability to earn a fair rate of return is crucial to obtaining capital under dynamic market conditions for investing in infrastructure improvements. Also, constructive rate regulation can reward and incentivize quality of service by setting ROE higher for utilities that demonstrate superior performance for customers. Compared with peer utilities in the southeastern coastal U.S., FPL has the cleanest carbon emission rate, the most cost-efficient operations, the highest reliability and the lowest typical customer bills; however, the Company's current allowed ROE midpoint is average. To better reflect this performance and encourage continued future strong performance, FPL's proposed ROE midpoint includes a 50 basis point performance adder.

#### Actions and Measures Implemented to Avoid a Retail Base Rate Increase

The 2013 settlement agreement benefitted customers by eliminating the need for a general base rate increase for four years, while at the same time providing stability and certainty around the level of customer bills. Throughout the term of the agreement, FPL has continued its diligence in working to keep costs low while continuing to deliver outstanding reliability and superior performance in all areas of operations.

In fact, a key element in FPL's ability to avoid the need for a base rate increase since 2013 has been our aggressive focus on controlling non-fuel operating and maintenance ("O&M") costs. In 2013, FPL's non-fuel O&M cost per kWh was top-decile and among the best in the U.S. electric industry. The Company has continued to find innovative ways to build on its industry-leading performance, and is currently best-in-class for this important cost performance measure.

We are committed to our responsibility to prudently manage costs, and are proud of our employees' efforts to do so without sacrificing the quality of service. While non-fuel base O&M expenses would be more than \$80 million higher in 2017 than they were in 2013 if they increased at the general rate of inflation, in fact FPL's projected 2017 expenses are even *lower* than in 2013 due to the aggressive "belt tightening" measures that we are taking. This extraordinary achievement provides real and substantial savings for our customers. FPL's work to identify opportunities for increased efficiencies in our business has taken FPL from an already impressive top-decile cost position to being the best-in-class utility in non-fuel O&M cost management in 2014 (the last year for which data is available). As further evidence of our success in this area, FPL customers are saving nearly \$2 billion each and every year compared with what our O&M costs would be were FPL just an average electric company with average O&M. This is a savings to a typical FPL residential customer of about \$17 a month.

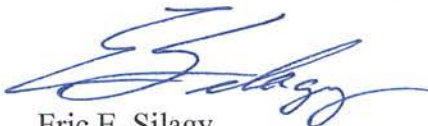
#### Other Matters

Rule 25-6.140 requires the Company to indicate in this letter whether it will request that its petition be processed pursuant to Section 366.06(4), Florida Statutes. Because our annual sales exceed 500 gigawatt-hours, FPL is not eligible under this Section to make such a request.

#### Conclusion

FPL provides Floridians with cleaner, more reliable power than ever before, for a price that is about 30 percent lower than the national average. In fact, while the prices paid by our customers for many essential products and services have increased during the past decade, their electric bills have actually decreased. Improved service at a lower cost is a direct result of the smart investments we have made on behalf of our customers and an aggressive focus on controlling O&M costs. Consistent with this approach, we intend to propose a four-year plan that will continue to build on our proven performance and successful platform of high reliability, low bills, clean energy leadership, and overall outstanding service for the more than ten million Floridians we serve.

Sincerely,



Eric E. Silagy  
President and CEO

cc: Florida Public Service Commission (via Hand-Delivery)  
Hon. Lisa Polak Edgar, Commissioner  
Hon. Art Graham, Commissioner  
Hon. Ronald A. Brisé, Commissioner  
Hon. Jimmy Patronis, Commissioner

Chairman Brown

January 15, 2016

Page 6 of 6

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