

BAL HARBOUR

- V I L L A G E -

OFFICE OF THE VILLAGE MANAGER

LETTER TO COUNCIL

NO. 082-2016

To: Mayor Martin Packer and Members of the Village Council
From: Jorge M. Gonzalez, Village Manager 
Date: April 22, 2016
Subject: FPL Petition for Rate Increase - Synopsis of Request

The purpose of this Letter to Council (LTC) is to transmit to you this synopsis of FPL's request following their Petition of Rate Increase that has been filed with the Florida Public Service Commission.

A copy of the petition was transmitted to you via LTC 064-2016 sent on March 25, 2016.

If you have any questions or need any additional information, please feel free to contact me.

JMG/AC



April 13, 2016

Dear Community Leader:

RE: Florida Power & Light Company Petition for Base Rate Increase (PSC Docket No. 160021)
Rule 25-22.0406(4), Florida Administrative Code

Recently I sent you a copy of Florida Power & Light Company's (FPL's) petition to the Florida Public Service Commission (PSC) for our four-year base rate request for 2017-2020, which we filed on March 15, 2016. The purpose of this letter is to provide you a synopsis of FPL's request, consistent with the above-referenced rule.

The rate proposal includes three base rate adjustments phased in during the four-year period that total about \$13.28 a month, or about 44 cents a day, on the base portion of a typical residential customer bill. Combined with current projections for fuel and other costs, we estimate that the total typical residential customer bill will grow at about 2.8 percent per year, roughly the expected rate of inflation, from now through 2020.

Our typical business bills are projected to grow about 2 to 6 percent per year on average from January 2016 through 2020. The impact of the proposed base rate adjustments for business customers varies depending on rate class and usage. Even with the base rate increase, we expect that our typical residential and typical business bills in 2020 will still be lower than they were in 2006.

Key elements underlying the company's request include:

- Significant incremental capital investment in our infrastructure that will improve electric service reliability, reduce emissions, enhance generation fuel efficiency, and strengthen our electric system to make it more resilient in severe weather;
- Increases in the cost of doing business, including inflation and costs associated with the projected addition of approximately 450,000 new customer accounts from 2013 through 2020;
- Increase in depreciation expense; and
- Resetting the company's return on equity.

Our four-year rate proposal will enable us to continue improving the electric service our customers depend upon to power their homes and businesses while keeping their costs down over the long term. The prices of many essential products and services have increased in recent years; however, FPL's typical customer bill has actually come down over the past decade while the service we provide today is cleaner and more reliable than ever before.

Copies of the enclosed synopsis, which includes quality of service and technical hearing dates, also are being distributed to each main county library in the areas served by FPL. Additional information on the base rate proposal is available at www.FPL.com/answers, including a calculator tool for residential customers to estimate the impact to their base rate based on their own energy usage.

As I said before, clean, low-cost, high-quality electric service is a competitive advantage for our customers and our state. As a community leader and FPL customer, your local stewardship and partnership mean a great deal to us. Please feel free to contact me, or your local FPL External Affairs manager, if you would like to discuss FPL's base rate proposal further.

Sincerely,

A handwritten signature in black ink that reads "Pamela Rauch".

Pamela Rauch
Vice President, External Affairs and Economic Development

Florida Power & Light Company

700 Universe Boulevard, Juno Beach, FL 33408

I. EXECUTIVE SUMMARY OF THE RATE CASE

On March 15, 2016, Florida Power & Light Company (“FPL”) initiated a general rate proceeding with the Florida Public Service Commission (“FPSC” or “Commission”) pursuant to Chapter 366, Florida Statutes. FPL seeks approval of a comprehensive four-year rate proposal, comprised of the following principal components: (i) an increase in rates and charges sufficient to generate additional total annual revenues of \$866 million to be effective January 1, 2017; (ii) a \$262 million subsequent year revenue increase to be effective January 1, 2018; (iii) a \$209 million limited scope adjustment for the new Okeechobee Clean Energy Center (the “Okeechobee Unit”) to be effective on its commercial in-service date, currently scheduled for June 1, 2019 (the “Okeechobee LSA”); (iv) the opportunity to earn an 11.0% rate of return on the Company’s common equity capital (“ROE”), and a 0.50% ROE performance adder to recognize FPL’s achievements in delivering superior customer value and to incentivize FPL to improve that value even further; (v) an equity ratio of 59.6% based on investor sources (45.13% based on all sources); and (vi) the tariff sheets, rate schedules and other Company adjustments set forth in the Minimum Filing Requirements (“MFRs”) submitted with FPL’s petition. If these requested increases are approved, FPL will not seek a general increase in base rates to be effective before January 2021, despite the likelihood that its costs and expenses will continue to increase through 2020.

FPL expects that the total proposed rate adjustment in this proceeding will increase the base portion of the bill for a typical residential customer using 1,000 kWh of electricity a month by \$8.56 in 2017, \$2.64 in 2018, and an estimated \$2.08 in June 2019 for the Okeechobee LSA. The total impact by 2020 is estimated to be \$13.28 a month, or 44 cents per day. The total typical residential 1,000-kWh monthly bill is projected to be \$101.18 in January 2017, \$104.45

in January 2018 and \$107.29 in June 2019. Even with the proposed increases, FPL's typical residential bill through 2020 is estimated to increase roughly in line with inflation, to remain well below the national average, and to be lower than it was in 2006.

FPL is currently operating pursuant to its Commission-approved 2012 Rate Settlement, which expires at the end of 2016. FPL proposes to adjust rates beginning January 1, 2017, upon expiration of the 2012 Rate Settlement. Therefore, FPL uses the projected period from January 1, 2017 through December 31, 2017 as the "test year" for calculating increased revenue requirements in 2017. The 2017 Test Year best represents expected future operations in the period immediately after the new base rates go into effect on January 1, 2017 and will best match projected revenues with the projected cost of service and the investment required for that period. For the same reason, FPL uses the projected period from January 1, 2018 through December 31, 2018 to calculate increased revenue requirements expected to result from future operations in the period immediately after the new base rates go into effect on January 1, 2018.

As described in the Company's testimony, the electric service that FPL provides today is cleaner and more reliable than ever before, and its typical residential and commercial/industrial customer bills are among the lowest in the state. Over the ten years since 2006, FPL's typical residential bill has declined by 14 percent. Over the same period, FPL's typical commercial/industrial customer bills have declined by 16 to 23 percent. In addition to keeping customer bills low, FPL is a leader in key industry categories such as reliability and low emissions. The ability to deliver such superior value is the result of, among other things, FPL's long-term strategy of sustained investment in modern, fuel-efficient technologies and its commitment to manage operating costs efficiently. As one example, FPL's generation fleet investments have resulted in improved operating characteristics that have saved customers an

estimated \$8 billion in fuel costs since 2001, and every dollar of those savings has been passed on to customers.

Financial strength has been essential to FPL's ability to make such customer-benefitting improvements over the years. And, to meet the energy needs of the future, FPL understands that it must continue to plan and invest for its customers. Through this filing, FPL requests a continuation of the financial policies currently in place, updated to reflect today's market conditions, in order to ensure that the foundation for its successful strategy remains in place.

The primary drivers of the change in FPL's 2017 revenue requirements are: (1) capital investment initiatives that support storm hardening, increased reliability, and system growth, providing long-term economic benefits to customers and ensuring regulatory compliance; (2) the increase resulting from FPL's 2016 depreciation study; (3) the unavailability of the depreciation and dismantlement reserve amortization mechanism authorized by the 2012 Rate Settlement; (4) the impact of inflation and customer growth; and (5) the change in the weighted average cost of capital ("WACC"). These increases are partially offset by projected productivity gains as well as projected growth in FPL's wholesale business which reduces the amount of revenues needed from retail customers.

The primary drivers of the incremental change in FPL's 2018 revenue requirements are: (1) continued investments in infrastructure designed to provide long-term economic or reliability benefits to customers and ensure regulatory compliance; (2) the impact of inflation and customer growth; and (3) an increase in the WACC. These increases are partially offset by projected revenue growth.

FPL also requests a limited scope adjustment of \$209 million to be effective when its Okeechobee Unit goes into service in June 2019. This adjustment represents the revenue

requirements associated with the first twelve months of the plant's operation. The Okeechobee Unit, for which the Commission unanimously granted an affirmative determination of need earlier this year, is an integral part of FPL's long-term infrastructure investment effort to meet customers' growing needs. It will employ state-of-the-art technology designed to generate low-emissions energy reliably and efficiently. The fuel savings associated with the Okeechobee Unit will begin flowing directly to FPL customers as soon as it enters service.

In return for the investment FPL makes to provide customers with affordable, reliable and clean electric service, shareholders must be provided with the opportunity to earn a reasonable and adequate return on their investment. The Supreme Court of the United States has determined that a reasonable and adequate return on investment is one which is commensurate with returns that would be earned on investments with corresponding risks and should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain and attract capital. Absent rate relief, the Company projects that it would earn ROEs of only 7.88% in 2017 and 6.95% in 2018, which fall below the level needed to assure confidence in FPL's financial integrity.

Accordingly, FPL now requests the opportunity to earn a fair rate of return, and that rates be based on an ROE of 11.5%, which includes an ROE performance adder of 50 basis points. With the proposed ROE of 11.5%, the Company's overall WACC will be 6.61%, well below the 7.57% average for U.S. electric utilities over the past three years. Customers benefit directly from this low cost of capital that helps to maintain FPL's low typical bill.

Other components of the four-year proposal include the transfer of cost recovery for FPL's West County Energy Center 3 from the Capacity Cost Recovery Clause to base rates; the transfer of FPL's Martin-Riviera gas lateral to its affiliate, Florida Southeast Connection; a \$2.00

increase to the customer charge for residential (RS-1) class and the non-demand General Services rate class (GS(T)) to account for a portion of fixed costs currently recovered through the variable energy charge; continuation of the existing framework for recovering prudently incurred storm costs; and adjustments resulting from FPL's 2016 depreciation and dismantlement studies. The impact of these components is reflected on the typical bill projections described above.

FPL recognizes that no increase in price is ever welcomed. The Company has worked hard to minimize the required increase and expects that, even with the requested increase, FPL's typical residential bill will remain among the lowest in the state of Florida compared to the current rates of the other utilities and would still be well below the national average. Indeed, while the cost of food and homeowners/renters insurance has increased by 28% and medical care has increased by 38% over the last decade, FPL's typical bills for residential, commercial and industrial customers have decreased. The four-year proposal will support continued investment in improving fuel efficiency, generating cleaner energy and enhancing system reliability while keeping customer bills low.

II. COMPARISON OF THE PRESENT AND PROPOSED RATES FOR CUSTOMER RATE CLASSES

Attached to this synopsis are:

- MFR Schedule A-3 for the 2017 test year, which provides a comparison of the present rates and proposed 2017 rates;
- MFR schedule A-3 for the 2018 subsequent year adjustment, which provides a comparison of the present rates and the proposed 2018 rates;
- Okeechobee Schedule A-3, which provides the estimated rates for the proposed Okeechobee LSA in June 2019.

III. ANTICIPATED MAJOR RATE CASE ISSUES

The issues listed below are those that are currently anticipated by the Company to be among the major areas considered:

1. What is FPL's rate base in the 2017 test year and 2018 subsequent year?
2. What are FPL's working capital amounts for the 2017 test year and 2018 subsequent year?
3. What is FPL's cost of capital for the 2017 test year and 2018 subsequent year?
4. What is FPL's net operating income for the 2017 test year and 2018 subsequent year?
5. What are FPL's revenue requirements for the 2017 test year and 2018 subsequent year?
6. What is the proper ROE for the 2017 test year and 2018 subsequent year?
7. What is the proper revenue requirement adjustment for the 2019 Okeechobee LSA?
8. Should the Commission award an ROE adder?

IV. DESCRIPTION OF THE RATEMAKING PROCESS

A. *What parties are involved in the ratemaking process?*

A particular utility's rate case can involve a number of different parties; however, the case always involves:

1. The FPSC Commissioners - The governing body of a utility rate case in Florida is the Florida Public Service Commission ("FPSC"). The FPSC is made up of five Commissioners who are all appointed by the Governor. Those commissioners preside over the rate case, and all decisions on the issues raised in the case will be made based on the evidence presented.
2. The FPSC Staff - The Commission is supported by a staff of professionals, including engineers who conduct inspections of various premises and equipment, accountants who conduct audits of utilities' relevant accounts, rate and financial analysts, consumer affairs specialists who investigate complaints filed against the utility, and attorneys who assist with legal issues. The FPSC staff plays an integral role in assisting the Commission in processing a rate case.
3. The Utility - As with any proceeding in front of the Commission, the utility itself plays a significant role in a rate case. Through the Officers and support staff, utilities provide critical information concerning operations, revenues, costs, and future

economic forecasts. The utility may call witnesses to testify and may employ independent professionals to serve as expert witnesses.

4. The Office of Public Counsel - The citizens of Florida are represented in every major rate case by the Office of Public Counsel (“OPC”). The OPC is staffed by attorneys, accountants, and rate and financial analysts. The Public Counsel, who is appointed by the state legislature, may also bring in outside consultants who will testify as expert witnesses during a rate case. The OPC analyzes the information a utility files, and may also present testimony from expert witnesses and citizens of the state who would like to testify during the course of the rate case.

5. The Intervenor - In a rate case, any party whose interests are substantially affected by the outcome of the case may file a petition with the FPSC to be an intervenor. As with any other party to a rate case, an intervenor may produce evidence, ask questions, and conduct direct and cross examinations of witnesses. Intervenor are most commonly customers or customer groups, including industrial or commercial organizations.

B. *What is involved in the ratemaking process? What information is considered?*

1. A rate case commences with the utility submitting a letter to the FPSC informing the Commission of its intention to request a rate increase. In this letter, the utility also sets forth the “test year” and filing date information.

2. The utility next files a formal request for a rate increase. In accordance with Commission Rules, this request must include properly completed Minimum Filing Requirements (“MFRs”). In conjunction with the filing of direct testimony of its witnesses, a utility’s MFRs provide all parties with information about the financial condition of the utility. The MFRs contain facts and figures about a utility’s costs, investments, and operations for the specified test year. As required by law, it is up to the utility to prove that the requested rate increase is necessary.

3. Florida law requires the Commission to make a decision on proposed new rates within eight months of the utility’s filing. If the Commission has not made its decision by that time, the new rates collected by the utility are held subject to refund, pending the Commission’s final decision. The Commission must issue its final order on the request within 12 months of the “commencement” date, which is the date that the Commission determines that the Company’s filing is complete. This period allows the Commission, along with FPSC Staff, the OPC, and any intervenor, time to compile all available information about the utility. Information requests may cover everything from what costs the utility incurs to how much it is charged in taxes. These requests may also ask for more information regarding a utility’s construction expenditures, or other operating and financial matters. Also during this period, the FPSC staff accountants will conduct an audit of the utility’s accounts and records. Additional testimony may be filed by FPSC Staff or any party pursuant to the schedule adopted by the Commission.

4. Before a utility can take any action concerning the rates it charges its customers, the matter must be presented to the Commission in hearing settings. These hearings are run in accordance with rules that are similar to those that courts employ. Information is presented through the use of testimony, and the witnesses are subsequently subject to cross-examination. When the final decision is reached, only information collected during the hearing may serve as a basis for this decision.

a. The first hearings in a rate case – called “service hearings” – generally commence a few months after filing and are scheduled by the FPSC. These service hearings take place throughout a utility’s service area and provide the utility’s customers an opportunity to discuss their experiences with the utility. These experiences, positive or negative, provide a basis for future issues that the Commission may choose to investigate prior to the resolution of the rate case.

b. The next hearing is much more technical. This hearing affords the parties who have formally intervened an opportunity to present witnesses and to cross-examine other parties’ witnesses. The information collected from the witnesses at this hearing is more focused on the financial issues that are being decided and testimony is usually quite extensive. It is not uncommon for this hearing to continue for a number of days. As information about various costs or expenditures is presented, the Commission is charged with determining which costs are necessary and prudent. Those that are not deemed to be necessary and prudent are excluded from the utility’s rate base and consequently not charged to the ratepayers.

c. Similar to what is done in court, the hearings are transcribed by a court reporter. The court reporters type out everything that is said during the hearings and create transcripts of each day’s events. In large cases, these transcripts can total hundreds, if not thousands, of pages.

5. When the hearings are over, the parties must file legal briefs summarizing their legal positions and arguments. The FPSC staff then evaluates these briefs in light of the evidence received at the hearings and develops formal recommendations that the Commission considers as it makes its final decision. All information filed with the Commission is made available to the public in Tallahassee except for information determined to be proprietary confidential business information that is exempt from public disclosure. The utility’s MFRs are made available to the public in the utility’s offices located in Juno Beach and Miami and at the locations listed in Section VI, below.

6. A vote on FPL’s revenue requirements is currently scheduled to occur at a Special Agenda on October 27, 2016 and a vote on FPL’s rates is currently scheduled to occur at a Special Agenda Conference on November 29, 2016. The final decisions are recorded on a vote sheet, which list the numerous issues that require a decision to be made by the Commissioners. Reviewing the information can be quite time consuming, and in large cases, this process may require several days’ work.

7. The final step in a rate case is for the Commission to issue an order that embodies the final decision reached by the Commissioners. The order will state the background of the rate case, the decisions made, and the basis for those decisions. This order will also discuss any changes in the utility's rates and charges, and the dates that any new rates and charges are to take effect. Upon the issuance of the order, any party may request that the FPSC reconsider any particular decision. Following this reconsideration, a dissatisfied party may appeal to the appropriate court.

V. TIME SCHEDULE

FPL 2016 General Rate Case Schedule

Service hearings:

June 2, 2016, 5 p.m.

Fort Myers

School Board of Lee County

Board Room

Lee County Education Center

2855 Colonial Boulevard

Ft. Myers, FL 33966

June 3, 2016, 9:30 a.m.

Sarasota

Sarasota City Commission Chambers

Sarasota City Hall

1565 1st Street

Sarasota, FL 34236

June 15, 2016, 6:00 p.m.

West Palm Beach

Solid Waste Authority of Palm Beach County

7501 North Jog Road

West Palm Beach, FL

June 16, 2016, 9:30 a.m.

Melbourne

Brevard County Governmental Center

Commission Room, Building C, 1st Floor

2725 Judge Fran Jamieson Way

Melbourne, FL 32940

June 16, 2016, 6:00 p.m.

Daytona

Museum of Arts and Sciences

352 S. Nova Road

Daytona Beach, FL 32114

June 27, 2016, 6:00 p.m.

Miami

Miami-Dade County Auditorium
2901 West Flagler Street
Miami, FL 33135-1300

June 28, 2016, 9:30 a.m.

Ft. Lauderdale

County Commission Chambers
Broward County Governmental Center
11 5 S. Andrews Avenue
Ft. Lauderdale, Florida

June 28, 2016, 5:00 p.m.

Pembroke Pines

South Regional/Broward College Library
7300 Pines Boulevard
Pembroke Pines, FL 33024

June 29, 2016, 9:30 a.m.

Miami Gardens

Florida Memorial University
Lou Rawls Auditorium
15800 N.W. 42nd Avenue
Miami Gardens, FL 33054

Pre-hearing Conference:

August 12, 2016
Florida Public Service Commission
4075 Esplanade Way
Betty Easley Conference Center, Room 148
Tallahassee, FL 32399-0850

Hearing:

August 22-26 and August 29-September 2, 2016
Florida Public Service Commission
4075 Esplanade Way
Betty Easley Conference Center, Room 148
Tallahassee, FL 32399-0850

Special Agenda to vote on FPL's revenue requirements: October 27, 2016
Florida Public Service Commission
4075 Esplanade Way
Betty Easley Conference Center, Room 148
Tallahassee, FL 32399-0850

Special Agenda to vote on FPL's rates: November 29, 2016
Florida Public Service Commission
4075 Esplanade Way
Betty Easley Conference Center, Room 148
Tallahassee, FL 32399-0850

VI. LOCATIONS AT WHICH COMPLETE MFRs ARE AVAILABLE FOR INSPECTION

1. FPL Juno Beach Headquarters
700 Universe Boulevard
Juno Beach, FL 33048
2. FPL Miami General Office
9250 West Flagler Street
Miami, FL 33174
3. Fort Myers Regional Library
2450 First Street
Ft. Myers, FL 33901
4. Selby Public Library
1331 First Street
Sarasota, FL 34236
5. Palm Beach County Library
3650 Summit Blvd.
West Palm Beach, FL 33406
6. Central Brevard Public Library
308 Forrest Avenue
Cocoa, FL 32922
7. Daytona Beach Regional Library
105 E. Magnolia Avenue
Daytona Beach, FL 32114

8. Miami-Dade County Main Public Library
101 W. Flagler Street
Miami, FL 33130
9. Broward County Main Library
100 S. Andrews Avenue
Ft. Lauderdale, FL 33301
10. South Regional/Broward College Library
7300 Pines Boulevard
Pembroke Pines, FL 33024
11. North Dade Regional Library
2455 NW 183 Street
Miami Gardens, 33056