

REQUEST TO ESTABLISH DOCKET

(Please Type)

Date: 1/21/2005

Docket No.: 050045 - E1

2. OPR: ECR

3. OCR: GCL, RCA

4. Suggested Docket Title: Petition for rate increase by Florida Power & Light Company

5. Suggested Docket Mailing List (attach separate sheet if necessary)

A. Provide NAMES OR ACRONYMS ONLY if a regulated company.

B. Provide COMPLETE NAME AND ADDRESS for all others. (Match representatives to companies.)

1. Parties and their representatives (if any):

2. Interested persons and their representatives (if any):

Office Of Public Counsel	

6. Check one:

- Documentation is attached.
- Documentation will be provided with recommendation.

DOCUMENT NO.
00751-05
1/21/05



ORIGINAL

Florida Power & Light Company, P.O. Box 14000, Juno Beach, FL 33408-0420

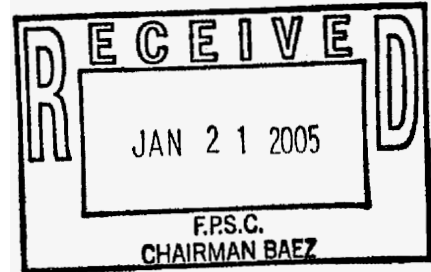
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January 21, 2005

COMMISSION CLERK



VIA HAND DELIVERY

The Honorable Braulio L. Baez, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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

Dear Chairman Baez:

As you know, it has been more than twenty years since Florida Power & Light Company ("FPL" or the "Company") last found it necessary to seek an increase in its retail base rates. During this period of time, FPL has met tremendous increases in customer growth with cost-effective, reliable electric service without requiring an increase in base rates. Instead, since 1999 FPL has been able to lower its retail base rates by \$600 million in annual revenue requirements and has provided refunds of more than \$220 million, which will result in a total of nearly \$4 billion in direct savings to customers through the end of the current revenue sharing agreement in 2005. Today, FPL's current retail base rates are 16% lower than they were in 1985, the last time its base rates were increased, while consumer prices as measured by the Consumer Price Index have increased over 80% during the same period.

Since 1985, FPL has improved efficiency and performance in all major areas of operations on an electric system that has experienced an increase in peak demand of 64%. FPL currently serves a peak load of more than 20,500 megawatts (MW) compared to 12,500 MW served in 1985. As Florida's population has grown, FPL has expanded its system to meet those needs. Today, FPL serves more than 4.2 million customers, approximately 1.6 million or 61% more customers than in 1985. Excluding FPL, there are only 12 electric utilities in the United States that have 1.6 million or more customers. Essentially, since 1985, FPL has added to its system the equivalent of another large electric utility, constructing the necessary infrastructure and making the corresponding investment, while at the same time having decreased retail base rates.

Customer growth in Florida is expected to continue. In the face of such steady growth, and based on its current financial projections, FPL does not believe that further productivity efficiencies alone will be sufficient for the Company to continue to effectively and reliably meet the electric needs of existing and new customers at current

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FPSC-COMMISSION CLERK

base rates. Consequently, it is FPL's intent to file for an increase in its retail base rates effective January 1, 2006, coincident with the end of the current revenue sharing plan approved by the Commission in Docket 001148-EI. Accordingly, this letter is provided to you pursuant to the requirements of Rule 25-6.140, Florida Administrative Code ("F.A.C."). FPL intends to file its request in March 2005. For purposes of its request, FPL proposes to use the projected twelve month period ending December 31, 2006 as the test year. In furtherance of this proposal, and consistent with the requirements of Rule 25-6.140, F.A.C., FPL submits the following information:

Test Year

As noted below, one of the major factors underlying the need for a change in base rates is the addition of needed generating resources. Martin unit No. 8 and Manatee unit No. 3, although determined to be the lowest cost resources to meet customers' needs, will add incremental costs to the FPL system when they are placed in service in 2005.

Additionally, more than \$210 million in new plant associated with essential upgrades to FPL's nuclear units will have been placed in service during 2004 and 2005. Using the projected twelve-month period ending December 31, 2006 as the test year will reflect the first full year of service for all of these new capital additions and will provide a more accurate representation of these and other increasing costs for the purposes of setting rates effective January 1, 2006. Although FPL proposes 2006 as the test year, FPL also will request an additional base rate increase for 2007 to ensure that rates continue to be just and reasonable beyond the initial year rates are in effect, taking into account further significant incremental costs relating to the generation addition at Turkey Point in 2007 that the Commission recently approved. For these reasons, a projected test year will be more representative than a historical test year.

Major Factors Necessitating a Rate Increase

The Company has added significant generating resources to its system since 1985 without the need for any retail base rate increases and despite having implemented \$600 million in annual base rate reductions in recent years. However, to meet the needs of our customers, the Company will be adding generation resources at a much faster rate over the next several years. The Company cannot continue to absorb future capacity additions under its current rate structure without incremental revenues to cover the associated capital and non-fuel O&M requirements. From 1986 through 2007, FPL has added or will have added approximately 8,000 MW of generation. During the first seventeen years of this period (1986 – 2002), FPL added 4,000 of the 8,000 MW, representing an average of only 235 MW per year. Customer demand grew at a higher rate during this time, but the Company was able to meet incremental load requirements through productivity, reliability and capacity improvements in its existing generation fleet (resulting in real savings to customers) and through purchased power, the costs of which were immediately reflected in incremental fuel and purchased power clause rates. FPL will not be able to continue meeting such a large portion of its incremental load requirements through such

measures. Indeed, FPL will add nearly 4,000 MW of low cost generating capacity during the five-year period following 2002, the year in which base rates were last set. This represents an average addition of nearly 800 MW per year, or more than three times the rate of the prior seventeen years. FPL cannot continue to add such significant generating capacity at existing base rate levels.

FPL is facing other substantial capital requirements as well. Significant investment will be required to maintain FPL's nuclear units in top shape, ensuring the continued operation of these important, base-load generating units and the provision of low-cost energy through the end of their current operating licenses, and preserving the option to extend such operations into the future. Specifically, by the end of 2007 FPL will have incurred more than \$520 million in capital expenditures in connection with the replacement of a steam generator and reactor vessel heads at the St. Lucie and Turkey Point nuclear power plants. More than \$210 million of that amount is expected to be placed in service during 2004 and 2005. Similarly, significant investments in new transmission and distribution ("T&D") infrastructure will be required for FPL to continue to meet its obligation to serve at the high degree of reliability customers expect. Excluding storm restoration expenditures associated with Hurricanes Charley, Frances, and Jeanne, annual T&D capital expenditures are anticipated to be on the order of approximately \$700 million, which by comparison is similar in magnitude to the investment required to add a new power plant each and every year.

For years, FPL has been either reducing or holding the line on O&M expenditures despite steady growth in demand and the number of customers served, and while achieving and maintaining high levels of service reliability. Strong customer growth remains a constant on FPL's system, while further opportunities to realize economies of scale or other operational efficiencies are more limited than in the past. Also, like most companies, FPL is facing external cost pressures in a number of areas, particularly from the healthcare and insurance sectors. These factors began to manifest themselves in 2001 and were reflected in FPL's forecasted non-fuel O&M projections during its last rate case. Actual non-fuel O&M expenditures for 2002 were generally on target and were over \$143 million higher than 2001, representing the first significant increase in non-fuel O&M in over 10 years. FPL's costs continue to increase, and it is anticipated that there will be continued upward pressure on O&M over the next several years due to the cumulative effects of inflation, customer growth and operational requirements.

As you know, Hurricanes Charley, Frances, and Jeanne inflicted extensive damage throughout a large portion of FPL's service territory. Hurricane Charley left 874,000 FPL customers without power across twenty-two counties. As a result of the severity of the storm, portions of FPL's infrastructure have had to be completely rebuilt, --a time, labor, and materials-intensive effort. An immense storm, Hurricane Frances left 2.8 million FPL customers without power across all thirty five counties in the Company's service territory, requiring a restoration effort of unprecedented scale. Hurricane Jeanne, a more intense but slightly smaller storm than Frances, traveled virtually the same path as

Frances, leaving 1.7 million customers without power, again requiring a mammoth effort to repair and restore service. The restoration costs associated with these three hurricanes have exceeded the Company's Storm Reserve balance and, at current accrual levels, the Storm Reserve balance would not be expected to reach adequate levels for some time, if ever.

To address FERC transmission independence issues, the Commission issued Order No. PSC-01-2489-FOF-EI in Docket 001148-EI, directing Florida investor-owned utilities to participate in an Independent System Operator (ISO) structure. Compliance costs will be significant.

Though only a partial listing of incremental costs the Company will face over the next few years, the estimated revenue requirement impacts of the major factors described above are substantial. For example, the impact of adding new generating facilities alone will result in incremental revenue requirements of approximately \$200 million in 2006, the first full year of operation for Martin unit 8 and Manatee unit 3, and an additional \$65 million in 2007 representing only a partial year of operation for Turkey Point unit 5 (approximately \$130 million on an annualized basis). The 2006 revenue requirement reflecting the nuclear reactor vessel head replacements placed in service through 2005 will be nearly \$40 million. Regarding the Storm Reserve balance, FPL projects the need to increase the annual accrual by approximately \$100 million in order to rebuild and maintain a reasonable reserve. This projection does not include recovery of the current deficit balance in the Storm Reserve. Finally, FPL estimates that annual incremental costs associated with participation in an ISO structure will average approximately \$100 million. Although FPL has not finalized the 2006 revenue requirements, it appears that an increase in the range of \$400 to \$450 million will be necessary as a result of the significant cost increases referenced above.

Actions and Measures Implemented to Avoid a Retail Base Rate Increase

As noted, over the past twenty years FPL has not only avoided a retail base rate increase but has actually lowered its retail base rates substantially despite having made massive capital investments to meet the needs of a customer base that is now more than 1½ times its size in 1985. Such investments have included more than \$3 billion in the construction of new generating capacity and more than \$8 billion in the expansion of FPL's transmission and distribution system. During this same period of time, FPL was able to lower its retail base rates by 16%, while the Consumer Price Index increased by over 80%. These accomplishments are attributable to a number of efforts and factors, including a regulatory climate and framework that generally have been conducive to such cost-savings initiatives.

The performance of FPL's generating units has been a major contributor to FPL's ability to control its base rates. Since 1985, the Company has substantially improved the performance and availability of its existing generating units, thus deferring the need for

new capacity. Some of these improvements have provided, in effect, additional generation at a relatively low cost compared to the costs of constructing new units. Indeed, FPL's operating performance consistently has exceeded industry averages, and frequently is within the top quartile of the industry. FPL's fossil generation availability and reliability performance frequently has been Best-In-Class among the largest fossil generating companies. When generating capacity has been added, it has been through competitive solicitation or other appropriate means to ensure cost-effectiveness.

Another key to lower base rates has been the initiative and effort of FPL's management and employees to control the Company's non-fuel O&M expenses. Since 1985 the Company has succeeded in lowering its non-fuel O&M expenses per kWh by approximately 29%, while the number of customers served through 2003 increased by 57%. During the decade of the 1990s, FPL actually reduced total annual non-fuel O&M by over 15%. In fact, FPL's 2003 O&M expenditures are nearly \$1 billion below the Commission's benchmark amount when compared to 1988 O&M levels, reflecting long term cost-savings initiatives.

Since agreeing to a \$250 million base rate decrease in 2002, FPL has continued to pursue efficiency improvements and cost reductions in all aspects of its operations. For example, FPL's annual rate of increase in healthcare costs has been held to well below the national average of 14% in 2003 and 2004. While FPL has been successful in maintaining its rate of increase below the national average, we expect total annual healthcare costs in 2005 and beyond to increase at a rate nearer to that of the forecasted national trend, which is currently 13% per year.

These and other measures, though part of FPL's continual focus to achieve top quality performance at below industry average costs, are not sufficient to avoid the need for an increase in base rates. In reality, but for all of these measures, FPL's base rates would have had to increase long before now. Instead, FPL's customers will have realized direct savings of almost \$4 billion as of December 31, 2005, as a result of the two rate reductions and associated refunds implemented by the Company.

Other Matters

As noted above, FPL will request that a change in retail base rates not take effect until January 1, 2006, consistent with the revenue sharing agreement approved by the Commission in Order No. PSC-02-0501-AS-EI, dated April 11, 2002.

In connection with its request for a change in retail base rates, FPL plans to address the imbalance in rate parity that currently exists among several rate classes where the rates of return ("ROR") are either under or over the Company's overall jurisdictional ROR.

Finally, 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 its annual sales exceed 500 gigawatt hours, FPL is not eligible under Section 366.06(4) to make such a request.

Conclusion

FPL has worked very hard to establish itself as a low-cost provider of high quality electric service. Its accomplishments reflect the efforts of a strong management team and a quality-driven work force, efforts that have been facilitated through progressive and responsible regulation. Collectively, these efforts have succeeded in delaying as long as possible increases in FPL's retail base rates while keeping pace with Florida's rapid growth and demand for power. Although price increases routinely are seen in insurance, healthcare, and other sectors of the economy, the Company has managed its operations in a way that has resulted in significant actual price decreases and substantial customer savings. After many years, an increase in retail base rates now is necessary to ensure that FPL can continue to provide reliable, cost-effective electric service at the levels its customers have come to expect and that are consistent with the Company's past record of performance.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando J. Olivera". The signature is fluid and cursive, with a large loop at the end of the last name.

Armando J. Olivera
President

cc: Florida Public Service Commission (via Hand-Delivery)
Hon. J. Terry Deason, Commissioner
Hon. Rudolph "Rudy" Bradley, Commissioner
Hon. Charles M. Davidson, Commissioner
Hon. Lisa P. Edgar, Commissioner
Dr. Mary A. Bane, Executive Director
Richard D. Melson, General Counsel
Charles Hill, Deputy Executive Director
Timothy J. Devlin, Director of Economic Regulation
Blanca S. Bayo, Director of the Commission Clerk and Administrative Services

Office of Public Counsel (via Hand-Delivery)
Harold A. McLean, Public Counsel