FPL

R. Wade Litchfield
Vice President and General Counsel

March 19, 2012

-VIA HAND DELIVERY –

Ms. Ann Cole, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

Re: Docket No. 120015-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket is an original and 21 copies of the following:

1. FPL's Petition for Rate Increase;
2. Direct Testimony and Exhibits of FPL witnesses Avera, Barrett, Deaton, Dewhurst, Ender, Hardy, Kennedy, Miranda, Morley, Ousdahl, Reed, Santos, Silagy, Slattery, and Stall; and
3. Minimum Filing Requirements ("MFRs") and Schedules.

A Request for Confidential Classification of certain information contained in MFRs D-2 and F-4 is being filed under separate cover. Also enclosed is a CD containing an electronic file of FPL's Petition. Please contact me should you or your Staff have any questions regarding this filing.

Sincerely,

Wade Litchfield
Vice President and General Counsel
Florida Power & Light Company

RWL:ec
Enclosures
cc: Parties of Record (w/encl.)

DOCUMENT NUMBER-DATE
01606 MAR 19 ≌
FPSC-COMMISSION CLERK

Florida Power & Light Company
700 Universe Boulevard, Juno Beach, FL 33408
Florida Authorized House Counsel / Admitted NY, LA

FPL

R. Wade Litchfield
Vice President and General Counsel

March 19, 2012

RECEIVED-FPSC
12 MAR 19 AM 8:31
COMMISSION CLERK

-VIA HAND DELIVERY –

Avera-01607-12 Ms. Ann Cole, Director
Barrett-01608-12 Division of the Commission Clerk and Administrative Services
Deaton-01609-12 Florida Public Service Commission
Dewhurst-01610-12 2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

Ender-01611-12 Re: Docket No. 120015-EI

Hardy-01612-12 Dear Ms. Cole:

Kennedy-01613-12

Miranda-01614-12 Enclosed for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket is an original and 21 copies of the following:

Morley-01615-12

1. FPL's Petition for Rate Increase; DN 01606-12
2. Direct Testimony and Exhibits of FPL witnesses Avera, Barrett, Deaton, Dewhurst, Ender, Hardy, Kennedy, Miranda, Morley, Ousdahl, Reed, Santos, Silagy, Slattery, and Stall; and
3. Minimum Filing Requirements ("MFRs") and Schedules.

Ousdahl-01616-12
Reed-01617-12
Santos-01618-12
Silagy-01619-12
Slattery-01620-12
Stall-01621-12

A Request for Confidential Classification of certain information contained in MFRs D-2 and F-4 is being filed under separate cover. Also enclosed is a CD containing an electronic file of FPL's Petition. Please contact me should you or your Staff have any questions regarding this filing.

MFR's Volume - 1 - 01622-12
2 - 01623-12
3 - 01624-12
4 - 01625-12
5 - 01626-12
6 - 01627-12
7 - 01628-12

Sincerely,

Wade Litchfield
Vice President and General Counsel
Florida Power & Light Company

Schedules - DN 01629-12

COM ____
APA 1
ECR 16 + CD of testimony + petition
17 copies of MFRs - no CD
GCL 1
RAD 1
SRC 1
ADM ____
OPC ____
CLK ____

RWL:ec
Enclosures
cc: Parties of Record (w/encl.)

DOCUMENT NUMBER-DATE
01606 MAR 19 12
FPSC-COMMISSION CLERK

Florida Authorized House Counsel / Admitted NY, LA

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Power & Light Company	Docket No. 120015-EI Filed: March 19, 2012

PETITION

Florida Power & Light Company ("FPL" or "the Company"), pursuant to the provisions of Chapter 366, Florida Statutes (2012), and Rules 25-6.0425 and 25-6.043, Florida Administrative Code, respectfully petitions the Florida Public Service Commission (the "Commission") for approval of a permanent increase in rates and charges sufficient to generate additional total annual revenues of $516.5 million to be effective January 2, 2013 (the first billing cycle day of January 2013), and for approval of a base rate step adjustment of $173.9 million for the new, highly efficient generation facility currently under construction at Cape Canaveral (the "Canaveral Modernization Project"), concurrent with its commercial in-service date (currently scheduled to be June 1, 2013).

FPL provides its residential customers with typical (1,000 kWh) bills that are the lowest of Florida's 55 electric utilities and 25 percent lower than the national average, while at the same time delivering excellent service and reliability. To maintain the level of service and reliability that FPL's customers expect and deserve, FPL must continue investing in system reliability, fuel efficiency and cleaner energy. The requested increase will support these investments that benefit customers, and will provide the Company a reasonable opportunity to earn a fair rate of return, including an 11.25 percent rate of return on the Company's common equity capital ("return on equity" or "ROE"), and a 0.25 percent ROE performance adder, which FPL proposes would remain in effect only if it continues to maintain the lowest typical residential customer bill in the state. FPL expects that the total proposed rate adjustment in this proceeding will increase the base portion of the bill for a typical residential customer by \$6.97, or about 23 cents per day. Due to fuel efficiency savings, lower fuel costs and other reductions that will be reflected on customer bills, the total bill for a typical residential customer is projected to increase by a much smaller amount: \$2.48 per month, or about 8 cents per day. This means that FPL's typical residential bill will remain the lowest in the state of Florida as compared to the current rates of the other utilities and would still be well below the national average. In fact, even with the requested increase, FPL's typical residential bill in 2013 is projected to be 10 percent below the level in 2006, which was prior to the recent economic downturn. In support of this Petition, FPL states as follows:

Introduction

1. Any pleading, motion, notice, order or other document required to be served upon FPL or filed by any party to this proceeding should be served upon the following individuals:

R. Wade Litchfield
Vice President and General Counsel
wade.litchfield@fpl.com
John T. Butler
Assistant General Counsel-Regulatory
john.butler@fpl.com
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, Florida 33408-0420
(561) 691-7101
(561) 691-7135 (fax)

Kenneth A. Hoffman
Vice President Regulatory Affairs
ken.hoffman@fpl.com
Florida Power & Light Company
215 South Monroe Street
Suite 810
Tallahassee, Florida 32301
(850) 521-3900
(850) 521-3939 (fax)

2. FPL is a corporation with its headquarters located at 700 Universe Boulevard, Juno Beach, Florida, 33408-0420. FPL is an investor-owned utility operating under the jurisdiction of this Commission pursuant to the provisions of Chapter 366, Florida Statutes (2012). FPL is a wholly-owned subsidiary of NextEra Energy, Inc., a registered holding

company under the federal Public Utility Holding Company Act and related regulations. FPL currently provides generation, transmission and distribution service to more than 4.5 million retail customers across the state of Florida.

3. For years FPL has consistently ranked among the very best in the electric utility industry, and it continues to do so. FPL is a leader in key categories such as reliability, low emissions and conservation. FPL delivers clean and highly reliable electric service to its customers, while maintaining the lowest typical residential bill in the state. This 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. FPL customers receive exceptional value as a result of FPL's long-term planning and the effective implementation of those plans by FPL management.

4. FPL's low bills and high reliability help make Florida a more affordable and desirable place to live and run a business. This is especially important as the state emerges from a challenging economic climate. Even with the requested base rate increase, FPL expects that its typical residential bill will remain the lowest in the state, based on currently available comparisons of the state's 55 utilities, and will still be well below the national average.

5. FPL provides extremely affordable service. The Company also recognizes that no increase in price is ever welcomed. It is important to note that while the costs of other everyday goods and services have been rising considerably, FPL's typical residential bill actually has gone down. The cumulative increase in inflation from 2006 to 2012 was 14.2 percent as measured by the Consumer Price Index ("CPI"). Some specific goods and services have experienced even more substantial price increases. For instance, over the same time period, the prices of groceries

and healthcare have risen by about 20 percent and 24 percent, respectively, while the price of a gallon of gas has gone up by more than 41 percent. At the same time, FPL's total typical residential bill has gone down by 13 percent. And while the impact of the rate increase on the *base* bill would be an increase of 16 percent over 2012, the *total* residential bill would increase by a net of only 3 percent due to fuel savings, lower fuel costs and other reductions – resulting in a total bill that will be 10 percent lower than it was in 2006.

6. While FPL's focus on efficiency and productivity has lessened the impact of inflation, the costs of many materials and products that the Company must purchase in order to provide affordable, reliable power have risen significantly over the past few years. These cost pressures contribute to our need for rate relief. Nevertheless, because of FPL's strong record and continued commitment to cost control and efficiency, the Company expects to maintain its position among the top utilities nationally in operating and maintenance ("O&M") expense performance. The requested rate relief will allow FPL to continue to provide exceptional value at affordable prices.

A. FPL's Cost Control Activities and Strong Fossil Fleet Performance Have Mitigated the Need for a Base Rate Increase

7. FPL has set a high standard for itself in productivity, efficiency, output and reliability. FPL's ability to maximize output and minimize costs has ranked highest among all Florida electric utilities over the past ten years. This exceptional performance has mitigated FPL's need for base rate increases and has resulted in an outstanding value proposition for customers over a sustained period of time. This value is reflected in a combination of low rates, superior reliability and customer service, and a significantly improved emissions profile.

8. *Productive Efficiency.* FPL ranks highest in productive efficiency compared to all Florida utilities and to comparable large utilities nationwide since 2001. FPL management and employees work diligently to control expenses despite escalating costs, continued customer growth, and increased reliability requirements. One of the best indicators of the Company's cost control achievements is FPL's total non-fuel O&M expense performance, which covers all primary operating functions – generation, transmission, distribution and customer service – and also includes all administrative and general functions. Had FPL's performance under this metric been average, the Company's O&M costs for 2010 alone would have been $1.6 billion higher than actual costs. This means the typical base bill in 2010 would have been higher by about $16 – about 37 percent over the current level.

9. *Operational Efficiency.* FPL's success in controlling O&M expense has been achieved while maintaining the Company's exceptional level of fleet performance, system reliability and customer service. In eight of the last ten years, FPL's fossil fleet performance has ranked top-decile or best in class among comparable companies in terms of availability and forced outages. In that decade, FPL's fossil fleet averaged more than a 92 percent equivalent availability factor and an approximate 2 percent equivalent forced outage rate. The addition of highly efficient generating units and improvements in the operating characteristics of FPL's existing generating fleet have reduced FPL's system average heat rate by 19 percent over the ten years from 2001 through 2011. As a result, the Company has been able to cut fuel costs by a cumulative $5.5 billion over that same period, and every dollar of those savings has been passed on to customers through the fuel adjustment factors on their bills.

10. Likewise, FPL's investments in transmission and distribution system infrastructure have contributed to a reduction in the duration and frequency of outages at the distribution level. FPL's Distribution 2006-2010 System Average Interruption Duration Index ("SAIDI") performance ranks in the first quartile in a reliability benchmarking study that was recently completed by Davies Consulting Inc. and included 31 utilities in approximately 30 states, each of which serves between 300,000 and 5 million customers. FPL's average Transmission SAIDI was already the best among Florida investor-owned utilities for 2006 - 2010, yet FPL was able to achieve a 21 percent improvement over that average in 2011. These impressive reliability results have been achieved despite the handicaps of rapid vegetation growth and the highest incidence of lightning strikes in the nation.

11. FPL is equally proud of its customer service performance. The Company has received the PA Consulting Group's ServiceOne Award, an award for exceptional customer service, for an unprecedented eight consecutive years. FPL is the only utility in the nation to have earned that honor.

12. The high availability and reliability of FPL's fossil fleet have helped FPL avoid or defer the need to add capacity to the system. These accomplishments are a product of a strong commitment to excellence and efficient operations, which is carried forward by a quality-driven work force.

13. Reduced emissions, too, benefit FPL customers and all Floridians not only today, but for years to come. FPL has one of the lowest emissions profiles among major U.S. utilities in terms of carbon dioxide, sulfur dioxide and nitrogen oxides. Maintaining low emissions enables FPL to pass environmental compliance costs savings along to its customers. FPL has achieved

this exceptional fleet performance through the outstanding performance of its employees and the addition of new, highly efficient generating technology.

14. These achievements do not occur by accident. They are the product of a coherent long-range management strategy, a positive work environment, appropriately structured compensation, and a team of talented and dedicated employees. These factors make possible the exceptional value proposition the Company offers to its customers, measured by low bills, service reliability, customer service, cost containment, financial efficiency, productivity, safety, and environmental stewardship.

B. FPL Must Maintain the Financial Strength Necessary To Invest in the Future

15. FPL has a long history of helping to power Florida through both boom times and economic challenges, building and adapting an electrical infrastructure that grows in concert with the state's needs. The current outlook for Florida, as forecasted by independent economic firms, indicates that the state is emerging from the last few years of a sluggish economy, and is projected to experience positive economic growth. As the electric service provider for close to half of Florida's residents, FPL shoulders the responsibility to plan and invest on a long term basis to ensure that the Company will cost-effectively meet customers' needs not just this year or next, but many years into the future. By the same token, because FPL serves commercial and industrial customers, it must have the ability to continue to deliver the type of value that makes Florida an attractive and competitive place to do business. FPL has done so in the past, and is positioning itself to continue doing so going forward.

16. Notwithstanding rising costs, FPL must plan ahead and make sound investments in smarter, cleaner and increasingly efficient infrastructure to ensure it can continue to satisfy

customers' expectations for reliable, affordable, clean energy now and in the future. From 2011 through 2013, FPL will have invested approximately $9 billion in infrastructure, or an average of approximately $3 billion annually. FPL continues to be the single largest investor in the state of Florida year after year, annually reinvesting in Florida infrastructure at levels well above the Company's net income. To sustain this level of investment and to do so cost effectively, it is crucial that FPL recover through base rates its prudently incurred costs, including the appropriate cost of equity capital, or ROE.

17. In return for the investment FPL makes to provide customers with reliable, clean and affordable 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." *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944). Absent rate relief, the Company projects that it would earn a substandard ROE of only 7.7 percent in 2013. This ROE is well below the level needed to "assure confidence in [FPL's] financial integrity … so as to maintain and attract capital" and thus fails the test prescribed in *Hope.* As Florida's largest private investor, it is essential that FPL be given the opportunity to compete effectively for capital.

18. For these and other reasons detailed in the testimony and exhibits of FPL's witnesses, FPL respectfully requests rate relief that will produce an increase in total annual revenues of $516.5 million beginning January 2013, and an additional step increase of $173.9

million in annual revenues beginning when the Canaveral Modernization Project is placed in service (the "Canaveral Step Increase"), which currently is projected to occur on June 1, 2013. The decision to meet customers' 2013 need for power with the Canaveral Modernization Project is projected to save customers about $600 million over the life of the project. However, to achieve these savings for our customers, it is necessary that FPL's investors be adequately compensated for the use of their capital.

19. FPL's currently authorized ROE mid-point is only 10 percent, the lowest authorized by this Commission for an electric utility in 50 years and clearly inadequate for a company with FPL's risk profile and investment requirements. The requested rate increases will provide FPL with a reasonable opportunity to earn a fair rate of return on the Company's investment in property used and useful in serving the public, including an ROE range of 10.25 percent to 12.25 percent, with a midpoint of 11.25 percent. FPL also requests an ROE performance adder of 25 basis points, which recognizes FPL's outstanding performance and service. FPL proposes that it would continue to be allowed the opportunity to earn this adder so long as its typical residential bill remains the lowest in the state, but would reduce its base rates to reflect the removal of the adder for the calendar year following a relevant prior twelve-month period in which this is not the case.

20. It is important to recognize that ROE is only one component of a company's overall cost of capital. FPL's proposed overall cost of capital in the test year is 7.0 percent, which is very low. That low cost of capital is passed directly on to customers and helps to maintain FPL's low typical bill level. Approving FPL's requested ROE is fully consistent with maintaining customer affordability. An appropriate ROE will allow FPL to continue the

extensive program of capital investment that is designed to ensure that bills remain affordable far out into the future.

21. The details of the rate base, O&M expenses, costs of capital and other factors driving the need for rate relief are more fully reflected in the testimony and exhibits of FPL's witnesses and the minimum filing requirements ("MFRs") and schedules accompanying this Petition, which are incorporated herein by reference.

2013 Base Rate Increase

22. *Current Rates.* FPL is currently operating pursuant to the Stipulation and Settlement that was approved in Order No. PSC-11-0089-S-EI (the "2010 Rate Settlement"). The 2010 Rate Settlement, which expires at the end of 2012, addressed base rates through the end of 2012 and permitted FPL to offset rising costs through the amortization of non-cash depreciation surplus credits. Order No. PSC-10-0153-FOF-EI (the "2010 Rate Order") directed FPL to use accelerated amortization of these depreciation credits in lieu of cash earnings; the 2010 Rate Settlement has permitted FPL to vary the amount of the credits taken each year to address rising costs. Amortization of depreciation credits simply reverses depreciation that previously had been taken, thus lowering the Company's expenses for the period in which the credits are used but actually increasing FPL's future costs as rate base is added back to the Company's books. This mechanism has served as a temporary financial bridge, providing some level of reassurance to investors by allowing FPL to maintain its ROE at 11 percent during the term of the 2010 Rate Settlement. However, it is not a sustainable approach to meeting actual cost increases and investment needs going forward.

23. *Test Year*. The projected period from January 1, 2013 through December 31, 2013 serves as the test year upon which FPL has calculated its revenue deficiency in this case (the "2013 Test Year"). The test year in a rate case provides an appropriate period of utility operations to analyze so the Commission can set reasonable rates for the period the new rates will be in effect. The 2013 Test Year has been used to prepare this case because it best represents expected future operations in the period immediately after the new base rates go into effect in January 2013. The 2013 Test Year will best match projected revenues with the projected cost of service and investment required for the period after the new rates become effective.

24. FPL's use of a 2013 Test Year is also fully consistent with Commission rule, Commission precedent, and Florida law. Rule 25-6.140(1)(a), Florida Administrative Code, requires that a company notify the Commission of its selected test year and expressly contemplates that a utility may use a projected test year. Moreover, the Commission has approved the use of projected test years for decades, and the Supreme Court of Florida has recognized that the Commission has the authority to do so. *See, e.g., Southern Bell Tel & Tel. Co. v. Public Serv. Comm'n*, 443 So. 2d 92, 97 (Fla. 1983).

A. Major Factors Necessitating a Rate Increase and Estimate of Revenue Requirements

25. FPL's need for 2013 rate relief can be best understood by contrasting conditions in 2012 and 2013, and by looking at the major drivers of increased revenue requirements in 2013 versus the 2010 test year that was used in FPL's last base rate case.

i. Changed conditions from 2012 to 2013

26. FPL's ability under the 2010 Rate Settlement to vary the amount of depreciation surplus that it amortizes each year has provided needed flexibility to allow the Company to maintain an 11 percent ROE over the settlement term. At the same time, that flexibility has masked the substantial and growing cost pressures FPL faces. FPL projects that it will have to amortize $526 million of depreciation surplus as non-cash earnings in 2012 to offset those cost pressures. For 2013, however, FPL expects to have $335 million less depreciation surplus available to amortize. Together with the impact of the increase to rate base resulting from the amortization in 2010-2012, this creates a need for $367 million of additional revenues in 2013 compared to 2012.

27. Furthermore, the 2010 Rate Settlement only permits FPL to earn up to an 11 percent return on equity. This is below an appropriate equity return for FPL of 11.5 percent. As part of the give and take of settlement negotiations, FPL agreed to accept this lower return on equity for the limited duration of the 2010 Rate Settlement. The additional revenue requirements associated with allowing FPL an opportunity to earn an appropriate equity return is $80 million.

28. Finally, FPL will be adding the Canaveral Modernization Project in mid-2013, which will increase revenue requirements by about $173.9 million compared to 2012. Other net revenue requirements of approximately $70 million also contribute to FPL's need for rate relief in 2013.

29. In short, while the 2010 Rate Settlement has allowed FPL to consistently maintain an 11 percent return on equity during its 2010 – 2012 term, it does not and cannot provide any solution to FPL's need for additional revenues beyond that term. FPL's requested base rate

increase is necessary to allow FPL to meet cost pressures and sustain investment in a way that will continue to produce superior value for customers.

ii. Major drivers increasing FPL's revenue requirements since the last rate case

30. FPL's proposed 2013 base rate increase is needed to address increased revenue requirements since 2010, the test year last used for establishing base rates. The primary drivers of the change in January 2013 revenue requirements are: (1) the impact of inflation; (2) a difference in the weighted cost of capital due to the necessary increase in the authorized return on equity partially offset by decreases in other elements; (3) investments in infrastructure that provide long-term economic and/or reliability benefits to customers; (4) the cumulative impact of the accelerated depreciation surplus amortization required by the 2010 Rate Order and effected through the 2010 Rate Settlement; (5) system growth; and (6) increased expenditures required for regulatory compliance. The increase is partially offset by productivity gains as well as projected revenue increases. As noted above, FPL also will be bringing the Canaveral Modernization Project into service in mid-2013, which will add $173.9 million of revenue requirements that had no counterpart in the 2010 test year of FPL's last base rate case.

31. *System growth* ($65 million). The system growth driver addresses the revenue requirements associated with new service accounts and customer growth, excluding the Canaveral Modernization Project and West County Energy Center Unit 3 ("WCEC 3"). From 2010 through 2013, FPL estimates that it will add nearly 100,000 new service accounts. Revenue requirements to support this growth include the costs of expanding the transmission and distribution infrastructure and the corresponding increase to the costs associated with operating and maintaining those facilities and serving those accounts. By way of example, investment in

distribution infrastructure to support new service accounts is projected to add approximately $20 million in revenue requirements. To meet forecasted growth and changing load patterns, FPL will incur costs that will add $14 million of revenue requirements to perform growth-related upgrades to the transmission system. The Bobwhite-Manatee transmission expansion project is a significant example of this type of needed infrastructure expansion.

32. *Long Term Infrastructure Investments* ($116 million). The Company has made and continues to make investments that provide direct O&M expense savings, increase system efficiency, provide fuel and emission savings, and enable the Company to maintain or improve system reliability. A few examples include:

a. From 2011 through 2013, the Company will have invested more than $250 million in upgrading the hot gas path parts of its combustion turbine ("CT") fleet. In addition, other overhaul-related expenditures of more than $750 million from 2010 to 2013 will be performed on the CT sites in order to continue to provide cleaner and more efficient energy production customer benefits over the period. These initiatives will immediately improve system efficiency and reduce the overall fuel consumption rate, with the savings passed directly to FPL customers through the fuel clause.

b. During 2011-2013, FPL will have invested more than $400 million to complete its Advanced Meter Infrastructure, or "smart meter," initiative. This initiative will provide customers with the opportunity to better understand and manage their energy use and realize savings through the use of the smart meter tools while further improving service and reliability for FPL's more than 4.5 million customers.

c. FPL has invested approximately $190 million in transmission substation equipment replacement and refurbishment and reliability improvement programs. Likewise, approximately $730 million has been invested in distribution improvements to continue to strengthen FPL's distribution system. These investments minimize customer interruptions, significantly improve restoration time and extend the lives of assets.

33. *Regulatory Commitments* ($56 million). This driver reflects the growth in revenue requirements (associated with both increased investment and O&M expenses) from 2011 to 2013 related to FPL's commitments to state and federal governmental and regulatory bodies. During this period, FPL expects to incur $315 million in storm-related commitments to this Commission, $116 million in increased compliance costs for North American Electric Reliability Corporation and Federal Energy Regulatory Commission reliability matters and $36 million in Nuclear Regulatory Commission mandates.

34. *Inflation* ($162 million). Inflation represents the increased costs for goods and services in 2013 compared to the same goods and services in 2010. The Consumer Price Index ("CPI") projection through 2013 indicates that inflation will have added approximately a cumulative 7.2 percent to the cost of goods and services in 2013 relative to 2010. Additionally, some of FPL's costs have escalated at rates much faster than CPI despite FPL's efforts to mitigate these cost increases. The Company's 2013 revenue requirements reflect the increased cost of providing electric service due to three years of cost escalation.

35. *Amortization of Depreciation Reserve Surplus* ($104 million). In the 2010 Rate Order, the Commission directed FPL to amortize $894 million of depreciation reserve surplus as a credit over the four-year period ending 2013. The 2010 Rate Settlement gave the Company

flexibility in the timing of that amortization during the 2010-2012 settlement term, so long as FPL's ROE did not exceed 11 percent. Thus, through 2012, the amortization mechanism allowed the Company to offset rising costs with non-cash earnings, but the cumulative impact of the accelerated depreciation surplus amortization on 2013 revenue requirements amounts to $104 million and is comprised of two items, described below.

a. *Reduced Amortization Credit in 2013 Test Year*. As a result of the actual and projected amortization of surplus depreciation in 2010-2012, FPL projects to have only $191 million to amortize in the 2013 Test Year as compared to the $223.5 million reflected in the Commission's 2010 Rate Order. This reduction in the reserve surplus credit represents a $33 million increase in revenue requirements.

b. *Increased Rate Base Due to Accelerated Reversal of Reserve surplus*. The 2013 Test Year also includes an increase in average rate base of approximately $687 million compared to 2010, as a direct result of the prior Commission's accelerated amortization requirement. This increase in rate base must be supported by additional revenues in 2013. The revenue requirement associated with this incremental rate base is $71 million.

36. *Difference in Weighted Average Cost of Capital* ($122 million). The 2013 weighted average cost of capital ("WACC") is 0.76 percent higher than the WACC that was approved in the 2010 Rate Order. The difference is primarily driven by the required increase in ROE from 10 percent to 11.5 percent, partially offset by a reduction due to a higher level of deferred taxes. WACC also is affected to a lesser extent by a decrease in customer deposit balances. FPL's projected 2013 equity ratio remains consistent with the ratio approved in the

2010 Rate Order. In total, the increase in authorized ROE offset by the other capital structure changes results in increased revenue requirements of $122 million.

37. *Productivity Gains* (-$76 million). FPL's productivity initiatives have resulted in lower 2013 costs for certain activities compared to the costs to perform those same activities in 2010, adjusted for inflation and customer growth. These gains stem from efforts across FPL's enterprise – including Customer Service, Customer Care, Information Management and Nuclear management – to keep operating and maintenance expenses down in order to save customers money without sacrificing service. FPL projects a reduction in revenue requirements of $76 million related to these productivity gains.

38. *Revenue Growth* (-$32 million). Retail base revenue resulting from increased sales reflects modest growth resulting in a decrease in revenue requirements of $55 million. However, other base revenues decrease by $23 million, resulting in a corresponding increase to revenue requirements due to lower service charges. The net effect of this projected change in revenues results in a $32 million decrease of FPL's 2013 revenue requirements.

39. *Resulting Revenue Deficiency*. The estimated revenue requirement impacts of these major factors are substantial. The Company's jurisdictional 13-month average rate base for the period ended December 31, 2013 is projected to be $21 billion. FPL's jurisdictional net operating income for the same period is projected to be $1.2 billion using the Company's rates currently in effect. The total resulting base revenue deficiency in 2013 is $516.5 million. Furthermore, absent rate relief, the resulting adjusted jurisdictional rate of return on average rate base is projected to be 5.50 percent, while the ROE is projected to be only 7.7 percent for the test year. Thus, FPL requests a total revenue requirements increase of $516.5 million beginning in

January 2013, with a separate step increase of $173.9 million for the Canaveral Step Increase, to be effective upon the commercial in-service date of that project currently scheduled to be June 1, 2013.

40. *Bill Impact.* Even with the proposed rate increase, FPL's typical residential bill is expected to remain the lowest in the state as compared to the current prices of the other utilities. The base component of the typical residential bill is estimated to increase from $43.26 in December 2012 to $48.49 in January 2013 and then to $50.23 in June 2013 as a result of the increases FPL is requesting in this proceeding. This is an increase of $5.23 in January 2013 and an additional $1.74 for the Canaveral Step Increase in June 2013 resulting in a total impact of $6.97 per month or 23 cents per day. Based on current forecasts, FPL projects a concurrent reduction in fuel costs and other bill impacts that would reduce the total bill impact in 2013 to approximately $2.48 per month, or about 8 cents per day.

B. Return on Equity and Capital Structure

41. The 2010 Rate Order set the mid-point of FPL's authorized ROE at 10 percent, the lowest ROE authorized by this Commission for an electric utility in the past 50 years and in the bottom third of ROEs allowed nationally. A substandard ROE places FPL at a competitive disadvantage in seeking to attract capital at a time when it is engaged in the largest capital investment program in the Company's history. The investment community took notice: on March 11, 2010, shortly after the 2010 Rate Order was issued, S&P downgraded FPL's corporate credit rating and Moody's followed suit on April 9, 2010. The 2010 Rate Settlement enabled FPL to earn 11 percent through 2012, albeit through the use of a mechanism that relied upon

non-cash earnings. While closer to FPL's true cost of equity, an ROE of 11 percent remains substandard for a company with FPL's risks and investment requirements.

42. In this case, FPL requests that it be allowed the opportunity to earn an ROE range of 10.25 percent to 12.25 percent, with a midpoint of 11.25 percent. This range is fair and reasonable, and it is appropriate to assure that FPL has the financial strength to continue providing enhanced value to its customers and to respond to unforeseen financial impacts that FPL may experience in the future. A strong credit rating is necessary to protect the Company's ability to absorb challenges in capital markets as well as potential shocks associated with devastating hurricanes, volatile fuel pricing, and disruptions in energy supply. Any combination of events could adversely impact FPL's ability to serve customers if its financial strength is jeopardized.

43. FPL also seeks an ROE performance adder of 25 basis points, which recognizes FPL's outstanding operational performance and is contingent upon FPL maintaining the lowest typical residential bills in Florida among the state's 55 utilities.

44. If FPL does not maintain the lowest typical residential bill in the state, based on a 12 month average, FPL would reduce rates to remove the ROE performance adder for the following calendar year. Likewise, rates would be increased prospectively on a calendar year basis at such time as FPL's rates were again the lowest in Florida. Specifically, each September, in conjunction with FPL's annual fuel filing, FPL will prepare and submit to the Commission a comparison of its typical residential bill to the other Florida utilities for the prior 12 months. The comparison will be based on publicly available data from the Commission's web site, the Florida Municipal Electric Association bill survey, the JEA bill survey, and the Reedy Creek

Improvement District web site. If the annual comparison shows that FPL's typical residential bill is not the lowest on average over the past 12 months, FPL's proposal would reduce rates by 0.040¢ per kWh effective January 1 of the following year. If, in subsequent years, FPL's typical residential bill is again the lowest on average for the prior 12 months, FPL's proposal would reinstate the ROE Performance adder and increase rates by the same amount per kWh effective January 1 of the following year.

45. FPL's proposal for an ROE performance adder is consistent with the Commission's authority and also its past policy and practice. In setting rates, the Commission may "give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service *and the value of such service to the public*." Section 366.041(1), Florida Statutes (2012) (emphasis added). In Docket No. 010949-EI, for example, the Commission rewarded Gulf Power Company ("Gulf") with a 25 basis point adder to the mid-point ROE in recognition of Gulf's past performance and as an incentive for Gulf's future performance. Similarly here, consideration of the statutory factors supports adding a 25 basis point performance incentive to FPL's ROE.

46. A 25 basis points ROE performance adder would serve as an appropriate positive incentive for FPL to continue its pursuit of outstanding performance and service that results in keeping rates low for customers. At the same time, this incentive to FPL would be an important signal to other companies as to the importance of, and the Commission's willingness to recognize, performance and service achievements in establishing a utility's rates.

47. FPL proposes an equity ratio of 59.6 percent based on investor sources (46.0 percent based on all sources). This is consistent with the capital structure that FPL has

maintained for many years and with the equity ratio approved by the Commission and deemed appropriate in the 2010 Rate Order. FPL's requirements for financial strength have in no way diminished in the past three years (if anything, the requirements have increased), so there is no reason to reduce FPL's equity ratio in this proceeding. Because FPL has maintained essentially the same capital structure for many years, any change in this proceeding likely would raise questions in investors' minds and would be viewed as a negative departure from past practice.

Canaveral Step Increase

48. The Commission made a unanimous affirmative determination of need for the Canaveral Modernization Project in Order No. PSC-08-0591-FOF-EI, issued September 12, 2008, in Docket No. 080246-EI. The Canaveral Modernization Project is projected to save customers hundreds of millions of dollars in fuel costs and significantly reduce greenhouse gas emissions. The current estimated construction cost for the Canaveral Modernization Project is $976 million, which is $139 million lower than the estimate of $1.115 billion reflected in the Final Order.

49. FPL expects to bring the Canaveral Modernization Project into commercial operation in June 2013. The 2013 test year results that form the basis for FPL's requested increase in January 2013 exclude the Canaveral Modernization Project's impact on rate base and operating expenses. Instead, FPL requests a Canaveral Step Increase of $173.9 million for the revenue requirements associated with the first twelve months of the Canaveral Modernization Project's commercial operation, which adjustment would be effective on the commercial in-service date. FPL will request that its 2013 fuel cost recovery factors be reduced as of June 1, 2013 to reflect the fuel savings resulting from the facility's highly efficient gas-fired combined

cycle technology. This rate change synchronization is consistent with past Commission action in proceedings that addressed the additional costs associated with power plants scheduled to be placed in service shortly after the effective date of new rates. *See, e.g.*, *In re Tampa Elec. Co.*, 273 P.U.R.4th 177 (Fl. P.S.C. April 30, 2009) (Order No. 09-0283-FOF-EI).

<u>Transfer of West County Energy Center Unit 3 to Base Rates</u>

50. Pursuant to the terms of the 2010 Rate Settlement, the revenues associated with WCEC 3 are being collected through FPL's Capacity Cost Recovery Clause. FPL currently records all WCEC 3 costs to base rate accounts in its books and records. The revenues collected for WCEC 3 through the Capacity Cost Recovery Clause are initially recorded as clause revenues and are then reclassified on FPL's books and records to base rate recovery via a monthly journal entry, in order to properly match the reporting of costs and associated revenues. FPL's monthly earnings surveillance reports currently reflect this treatment, and FPL's 2013 Test Year MFRs will continue to do so.

51. The 2010 Rate Settlement envisions transfer of recovery for WCEC 3 costs to base rates concurrent with FPL's next base rate proceeding. FPL requests such transfer in this proceeding. Based on the above-described accounting treatment, transferring recovery of WCEC 3's costs to base rates will not require any change in treatment for costs or revenues associated with WCEC 3. Furthermore, the transfer will require no accounting adjustment to the test year MFRs. The transfer would simply move these costs that are currently recovered through the Capacity Cost Recovery Clause to recovery through base rates.

Storm Cost Recovery

52. FPL's latest comprehensive Storm Loss and Reserve Performance Analysis was performed in 2009 and showed that FPL can expect to incur, on average, approximately $150 million per year in storm restoration costs. FPL is not requesting an accrual to its storm reserve at this time, however. Rather, FPL proposes for the immediate future to continue recovering prudently incurred storm costs under the framework prescribed the 2010 Rate Settlement. If FPL incurs storm costs related to a named tropical storm, FPL may collect up to $4 per 1,000 kWh (roughly $400 million), beginning 60 days after filing a petition for recovery with the Commission, without the application of any form of earnings test or measure and irrespective of previous or current base rate earnings or level of theoretical depreciation reserve. This interim period may last up to 12 months. If FPL's costs related to named storms exceed $800 million in any one year, the Company also may request that the Commission increase the $4 per 1,000 kWh accordingly. This cost recovery mechanism may also be used to replenish the Company's storm reserve. Any storm costs not recovered under this mechanism are deferred on the balance sheet for recovery beyond the initial 12-month period as determined by the Commission. The specific details of the recovery mechanism are spelled out in Paragraph 3 of the 2010 Rate Settlement.

Supporting Documents

53. FPL is filing simultaneously with this Petition, and incorporates by reference, MFRs containing the information required by Rule 25-6.043(1)(b), Florida Administrative Code. FPL compiled the MFRs by following the policies, procedures and guidelines prescribed by the Commission in relevant rules and/or in the Company's last rate case. Also included with this Petition are schedules (the "Canaveral Step Increase Schedules") showing FPL's proposed

adjustment to reflect the addition of the Canaveral Modernization Project in June 2013, and FPL's calendar year 2013 forecast results with the Canaveral Step Increase. Additionally, the supporting testimony and exhibits of FPL's witnesses are being pre-filed contemporaneously with this Petition.

54. Attached to MFR No. E-14 and to Canaveral Step Increase Schedule No. E-14 are appropriate tariff sheets, including new rate schedules designed to produce the additional revenue sought by this Petition and needed to give the Company a fair opportunity to earn a reasonable rate of return beginning January 2013, and again, upon the commercial in-service date of the Canaveral Modernization Project (projected to be June 1, 2013). FPL respectfully requests that the Commission consent to these rate schedules going into operation beginning on the first billing cycle of January 2013, and upon the commercial in-service date of the Canaveral Modernization Project, as applicable.

Disputed Issues of Material Fact

55. FPL states that this Petition seeks to initiate proceedings that may involve disputed issues of material fact. This case does not involve reversal or modification of an agency decision or an agency's proposed action. Therefore, subparagraph (c) and portions of subparagraphs (b), (e), (f) and (g) of Rule 28-106.201(2) are not applicable to this Petition. It is not known which, if any, of the issues of material fact set forth in the body of this Petition, or in the testimony, exhibits and minimum filing requirements filed herewith, may be disputed by others planning to participate in the proceeding initiated by this Petition. All other requirements for petitions filed under Rule 25-106.201, Florida Administrative Code, have been met in the body of this Petition.

WHEREFORE, for the above and foregoing reasons, Florida Power & Light Company respectfully petitions the Florida Public Service Commission to:

(1) Accept this filing for final agency action;

(2) Set an early hearing in order to reduce the risk of possible delays that may be occasioned by hurricane season;

(3) Enter a final decision approving rates on or before November 19, 2012, i.e., within 8 months of the filing of this Petition, so as to render the final decision in time to make rates effective by January 2, 2013 following 30 days' notice to customers;

(4) Find and determine that the Company's present rates are insufficient to yield a fair rate of return beginning in January 2013;

(5) Authorize the Company to revise and increase its base rates and charges to generate additional gross revenues of $516.5 million on an annual basis beginning January 2, 2013, so that FPL will have an opportunity to earn a fair overall rate of return, including a rate of return of 11.50 percent on common equity capital, which includes a .25 percent ROE performance adder that recognizes FPL's outstanding operational performance and is contingent upon FPL maintaining the lowest typical residential bill in Florida. This ROE would permit the Company to maintain its financial integrity and ability to serve the public adequately and efficiently;

(6) Approve the following mechanism for applying the ROE performance adder:

i. Each September, in conjunction with FPL's annual fuel cost recovery filing, FPL will prepare and submit to the Commission a comparison of its typical residential bill to the other Florida utilities for the prior 12 months.

ii. If FPL maintained the lowest typical residential bill in the state based on an average of those prior 12 months, no adjustment would be made to FPL's rates for the following calendar year.

iii. If FPL did not maintain the lowest typical residential bill in the state based on an average of those prior 12 months, FPL would reduce its base rates by 0.040 cents per kWh to remove the effect of the ROE performance adder on a prospective basis, starting at the beginning of the following calendar year.

iv. FPL's base rates would remain at the reduced level until FPL established in a subsequent fuel cost recovery filing that it once again had the lowest typical residential bill in the state based on an average of the prior 12 months, at which time FPL's base rates would be increased by 0.040 cents per kWh at the beginning of the following calendar year to restore the effect of the ROE performance adder.

(7) Approve an equity ratio of 59.6 percent based on investor sources (46.0 percent based on all sources);

(8) Find and determine that the Canaveral Step Increase is necessary and appropriate to recover the additional revenue requirements associated with the Canaveral

Modernization Project; and allow FPL to revise and increase its retail base rates and charges to generate additional incremental gross revenues of $173.9 million effective upon the commercial in-service date for the Canaveral Modernization Project (projected to be June 1, 2013), to recognize the cost impacts associated with the addition of that unit;

(9) Approve the transfer of WCEC 3 cost recovery from the Capacity Cost Recovery Clause to base rates;

(10) Approve continuation of the storm cost recovery mechanism set forth in Paragraph 3 of the 2010 Rate Settlement;

(11) Approve the other Company adjustments set forth in the MFRs submitted with this Petition;

(12) Approve the relevant tariff sheets and rate schedules included herein and made part hereof; and

(13) Grant to the Company such other and further relief as the Commission may find to be reasonable and proper pursuant to the authority granted to the Commission under Chapter 366 of the Florida Statutes.

Respectfully submitted,

FLORIDA POWER & LIGHT COMPANY

By:____________________
Armando J. Olivera
Chief Executive Officer
700 Universe Boulevard
Juno Beach, Florida 33408-0420

By:____________________
Eric Silagy
President
700 Universe Boulevard
Juno Beach, Florida 33408-0420

By:____________________
R. Wade Litchfield
Vice President and General Counsel
John T. Butler
Assistant General Counsel-Regulatory
700 Universe Boulevard
Juno Beach, Florida 33408-0420

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Hand Delivery* and/or U.S. Mail this 19th day of March 2012, to the following:

Caroline Klancke *
Keino Young
Martha Brown
Office of the General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-1400

J. R. Kelly, Public Counsel*
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

K. Wiseman, M. Sundback, L. Purdy,
W. Rappolt, J. Peter Ripley
Andrews Kurth LLP
1350 I Street NW, Suite 1100
Washington, DC 20005
Attorneys for South Florida Hospital and Healthcare Association

Robert Scheffel Wright *
John T. LaVia, III
Gardner, Bist, Wiener, Wadsworth, Bowden,
Bush, Dee, LaVia & Wright, P.A.
1300 Thomaswood Drive
Tallahassee, FL 32308
Attorneys for the Florida Retail Federation

Jon C. Moyle, Jr. *
Vicki Gordon Kaufman
Keefe Anchors Gordon & Moyle, PA
118 North Gadsden Street
Tallahassee, FL 32301
Attorneys for Florida Industrial Power Users Group

By: ______________________
R. Wade Litchfield
Authorized House Counsel No. 0062190