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March 15, 2016

**VIA HAND DELIVERY**

Ms. Carlotta S. Stauffer  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

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2016 MAR 15 PM 4:05  
COMMISSION CLERK

**Re: Docket No. 160021-EI**

Dear Ms. Stauffer:

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

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

A Request for Confidential Classification of certain information contained in MFR D-2 is being filed under separate cover. 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

COM	
AFD	9 full sets +
APA	2 extra copies of
ECO	MFRs
ENG	2
GCL	6 (R. Nettles)
IDM	1
TEL	1
CLK	1

Testimony only

Enclosures

cc: Parties of Record (w/encl.)

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for base rate increase by Florida  
Power & Light Company

Docket No. 160021-EI  
Filed: March 15, 2016

**FLORIDA POWER & LIGHT  
COMPANY'S PETITION FOR BASE RATE INCREASE**

Florida Power & Light Company ("FPL" or "the Company"), pursuant to the provisions of Chapter 366, Florida Statutes (2016), and Rules 25-6.0425, 25-6.043 and 25-6.0431, Florida Administrative Code (2016) ("F.A.C."), respectfully petitions the Florida Public Service Commission ("FPSC" or "Commission") for approval of a multi-year rate plan that will enable FPL to continue to deliver strong customer value, support investments in smarter, cleaner and more efficient technology and maintain typical residential and commercial/industrial customer bills through 2020 that are among the lowest in the state and nation, and even lower than they were at FPL in 2006.

This multi-year plan consists of: (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 subsequent year revenue increase of \$262 million to be effective January 1, 2018; and (iii) a \$209 million limited-scope adjustment for the Okeechobee Clean Energy Center ("the Okeechobee Unit"), to be effective on its commercial in-service date, currently scheduled for June 1, 2019 (the "2019 Okeechobee LSA"). 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 base revenue requirements will continue to increase.

FPL continues to invest in customer-focused projects that promote system reliability, fuel efficiency and cleaner energy, as well as in infrastructure to accommodate customer growth. The requested increase will support these investments and provide the Company a reasonable

opportunity to earn a fair rate of return. FPL's proposal includes an 11.50 percent rate of return on the Company's common equity capital ("return on equity" or "ROE"), consisting of a base cost of equity of 11.0 percent and a 0.50 percent performance adder to reflect FPL's accomplishments in delivering superior customer value and to incent FPL to improve the customer value proposition even further.

FPL expects that the proposed rate adjustment in this proceeding will increase the base portion of the bill for a typical residential customer by \$8.56 in 2017, \$2.64 in 2018, and an estimated \$2.08 for the 2019 Okeechobee LSA,<sup>1</sup> for a total impact by 2020 of an estimated \$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 ten years ago in 2006 (i.e., \$108.61).

This filing will enable FPL to continue its successful long-term strategy to improve value and service for customers. The details driving the need for rate relief are more fully reflected in the testimony and exhibits of FPL's witnesses and in the minimum filing requirements ("MFRs") and schedules accompanying this Petition, which are incorporated herein by reference. In support of this Petition, FPL states as follows:

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<sup>1</sup> As detailed in this Petition and the accompanying testimony, the bill impact of the 2019 Okeechobee LSA will be updated to reflect the sales forecast to be presented with FPL's 2019 projections, which FPL plans to file as part of the 2018 Fuel and Capacity Cost Recovery Clause proceeding.

**Background and 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:

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2. 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, paragraph (c) and portions of paragraphs (e), (f) and (g) of Rule 28-106.201(2), F.A.C., are not applicable to this Petition. It is not known which, if any, of the material facts set forth in the body of this Petition, or in the testimony, exhibits, MFRs and schedules 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, F.A.C., have been met in the body of this Petition.

3. FPL is a corporation with its headquarters located at 700 Universe Boulevard, Juno Beach, Florida, 33408-0420. A wholly-owned subsidiary of NextEra Energy, Inc., FPL is an investor-owned utility operating under the jurisdiction of this Commission pursuant to the provisions of Chapter 366, Florida Statutes (2016). FPL currently provides generation, transmission and distribution service to more than 4.8 million retail customer accounts across the state of Florida, representing over 10 million people across half the state of Florida.

4. FPL's long-term strategy of sustained investment in modern, fuel-efficient technologies and its commitment to manage operating costs efficiently has positioned the Company to rank consistently among the very best companies in the electric utility industry. Today, FPL provides electric service that 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 (1,000-kWh) bill has declined 14 percent. Over the same period, FPL's typical commercial/industrial customer bills have declined by 16 to 23 percent. As the electric service provider for about half of the state's population, FPL takes seriously its responsibility to provide safe, affordable and reliable service and is proud to support the strength and stability of Florida's economy. Likewise, FPL understands that continuous planning and other sustained efforts are necessary for it to meet the energy needs of the future.

5. FPL did not achieve its superior level of service and low bills by happenstance. Rather, these achievements are the result of smart investment decisions and the execution of numerous system-improvement initiatives. FPL's improvements in the areas of transmission, distribution and generation fleet performance have facilitated superior reliability, saved billions of dollars for customers and avoided millions of tons of carbon dioxide ("CO<sub>2</sub>") emissions.

6. *Transmission and distribution reliability.* For more than a decade, FPL has attained the best overall transmission and distribution system reliability among all Florida investor-owned utilities ("IOU"), as measured by the System Average Interruption Duration Index ("SAIDI"). For 2015, the Florida major IOU SAIDI average was 50 percent higher than FPL's. Additionally, FPL's 2014 performance ranked 44 percent better than the national average.

7. *Fossil fleet performance.* FPL's exceptional level of fossil fleet performance and reliability helps keep customer bills low. From 2001 through 2014, the heat rate of FPL's fossil fleet improved nearly 22 percent, as compared with an approximate six percent average improvement for the industry. This improvement in heat rate produced more than \$500 million in fuel savings for customers in 2015 alone. With its best-in-class heat rate, since 2001 FPL's customers have saved an estimated \$8 billion in fuel costs, avoided burning 400 million barrels of oil, and avoided emitting more than 95 million tons of CO<sub>2</sub>.

8. FPL's fossil fleet also significantly outperforms other fossil fleets in the electric industry in terms of equivalent forced outage rate ("EFOR"), ranking either top decile or best-in-class in nine of the last 10 years through 2014. This excellent fossil fleet EFOR performance means more opportunity to run highly-efficient facilities, which reduces customers' fuel and emissions costs.

9. *Emissions profile.* The progressive transformation of FPL's fossil fleet has resulted in it having one of the cleanest generation emissions rates of all large U.S. utilities. FPL's CO<sub>2</sub> emissions rate already is cleaner today than the U.S. Environmental Protection Agency's ("EPA") Clean Power Plan's 2030 goal for Florida. FPL is the only utility in the state, and likely one of few in the nation, to be so favorably positioned. Not only does this mean cleaner air for Florida, but it also means that FPL's customers should have a major economic advantage in the coming years, avoiding billions of dollars in compliance costs that might otherwise be necessary.

10. *Customer service.* FPL is equally proud of the outstanding level of customer service it provides. As detailed more fully in the accompanying testimony, FPL was recognized as a "Utility Customer Champion" in 2015, ranking second nationally based on residential

customer ratings. Further, FPL's customer satisfaction for both residential and business customers is among the highest in the region based on the average of the scores from JD Power's 2015 Electric Utility Residential Customer Satisfaction Survey and its 2016 Electric Utility Business Customer Satisfaction Survey. FPL also received the ServiceOne Award for an unprecedented tenth consecutive year in 2013, the last year that particular benchmarking program was offered. These are just a few examples of the superior customer service that FPL has achieved through continuous and deliberate process improvement.

**FPL's Cost Control Activities Have Mitigated the Requested Base Rate Increase**

11. FPL ranks highest in productive efficiency compared with all Florida utilities and large utilities (at least two million customers) nationwide since 2007. This exceptional performance has mitigated FPL's need for base rate increases and delivered outstanding value to customers over a sustained period of time. Indeed, FPL is particularly strong in controlling total non-fuel operating and maintenance expenses ("O&M"), a metric that covers all primary operating functions – generation, transmission, distribution and customer service – and also includes all administrative and general functions. Already a top performer during the time period examined in its last rate case, FPL nonetheless has continued to focus on controlling expenses. Beginning in 2013, FPL incorporated into the budget process a step specifically focused on generating and evaluating productivity and efficiency improvement ideas submitted Company-wide – an initiative known internally as Project Momentum. Every FPL business unit is engaged in developing and implementing ideas that provide customer benefits, primarily through streamlining processes and deploying technology to enable automation and other actions that are focused on improvements in operating efficiency.

12. As a result of the efforts undertaken by the Company in 2013, 2014 and 2015, FPL now is best-in-class in controlling non-fuel O&M among 27 electric-only utilities that have at least 500,000 customers and own generating resources. The Company's efforts in this regard have produced significant non-fuel O&M savings that directly reduced this request. Had FPL's O&M performance been merely average, the Company's non-fuel O&M for 2014 alone would have been \$1.9 billion higher than actual costs, or about \$17 a month (over \$200 per year) on a typical residential bill. And for 2017, FPL expects that its non-fuel O&M actually will be lower than it was in 2013.

**Maintaining FPL's Financial Strength  
Will Continue To Support Superior Performance**

13. FPL has been successful over a sustained period of time in executing its strategy of making continuous, incremental improvements for customers. FPL's financial strength and the Commission's constructive regulation have been essential to this success. Through this filing, FPL requests a continuation of the financial policies currently in place, updated to reflect today's market conditions, ensuring that the foundation upon which this successful strategy has been based remains in place. Specifically, FPL requests the (i) continued use of its historical capital structure, (ii) provision of an allowed ROE consistent with current capital market conditions, and (iii) provision of a suitable mechanism for the prompt recovery of prudently-incurred storm restoration costs. These are three major elements that will continue to support FPL's ability to improve its already excellent customer value proposition.

14. The Supreme Court of the United States has determined that a reasonable and adequate ROE is one that 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 7.88 percent in 2017 and 6.95 percent in 2018. These ROEs are well below the level needed to “assure confidence in [FPL’s] financial integrity . . . so as to maintain and attract capital” and thus fail the test prescribed in *Hope*.

15. FPL’s four-year rate proposal, described in more detail below, 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 10.5 percent to 12.5 percent, with a midpoint of 11.5 percent. This ROE range reflects a base ROE of 11.0 percent and a requested ROE performance adder of 50 basis points (“bps”), which recognizes FPL’s record of superior performance and will encourage superior performance from FPL (and potentially other electric IOUs) moving forward. FPL’s track record demonstrates that maintaining a strong financial position and appropriate investor returns go hand-in-hand with excellent customer value and service.

#### **Four-Year Rate Proposal**

16. Over the last 17 years, FPL has operated under five multi-year settlement agreements that each provided value to customers through bill stability and certainty. Multi-year agreements also advance regulatory efficiency by avoiding the need to devote resources to more frequent rate cases. FPL currently is operating pursuant to the most recent of those multi-year settlements, the Stipulation and Settlement that was approved in Order No. PSC-13-0023-S-EI (the “2012 Rate Settlement”). The 2012 Rate Settlement addressed four years of base rates, thus allowing FPL to focus on improving service and value for its customers while preserving Commission oversight through the earnings surveillance process.

17. Building on the success of the 2012 Rate Settlement and the multi-year settlement agreements before it, FPL submits a four-year rate proposal that includes an increase in total annual revenues of \$866 million beginning January 2017 (the "2017 Base Rate Increase") and \$262 million in annual revenues beginning January 2018 (the "2018 Subsequent Year Adjustment" or "2018 SYA"). FPL also requests a limited scope adjustment in an amount that would cover the first twelve months of revenue requirements for the approved Okeechobee Unit, coincident with its commercial operation date. Approval of these requests would allow FPL to commit to no general base rate increase until 2021 at the earliest, despite the likelihood that FPL's base revenue requirements will continue to increase. Collectively, these rate adjustments and FPL's commitment to forgo a further base rate increase in 2020 are referred to as FPL's "four-year rate proposal."

18. The four-year rate proposal offers customers base rate stability and certainty at least until January 2021 and is expected to produce a typical 1,000-kWh residential customer bill that increases roughly in line with inflation through 2020 while remaining among the lowest in the state and below the national average (at current rates). As with the 2010 and 2012 Rate Settlements, customers would remain protected through the Commission's earnings surveillance process. Additionally, the four-year period of certainty allows FPL management and employees to focus on continuing to improve the Company's service delivery and realizing further operational efficiencies, rather than devoting significant resources to more frequent base rate cases. By requesting only the revenue requirements for the Okeechobee Unit and forgoing general base rate increases in 2019 and 2020 to recover the additional cost increases FPL expects to face during those years, customers will benefit from continued low and stable rates.

19. *Test years.* FPL has provided forecasts of 2016, 2017 and 2018 for use in this proceeding. Based upon the expiration of the term of the 2012 Rate Settlement on December 31, 2016, the Company proposes that new rates be effective January 1, 2017, at a level sufficient to cover the Company's projected revenue requirements in 2017. Accordingly, FPL proposes that 2017 be the Test Year for FPL's 2017 Base Rate Increase, in order to best reflect the Company's revenues, costs and investment during the year in which those new rates are proposed to go into effect. Pursuant to Section 366.076(2), Florida Statutes and Rule 25.06425, F.A.C., the Commission "may in a full revenue requirements proceeding approve incremental adjustments in rates for periods subsequent to the initial period in which the new rates will be in effect." FPL proposes that the rates resulting from the 2018 SYA be effective January 1, 2018. Accordingly, FPL proposes that 2018 be the Test Year for the 2018 SYA.

20. Prepared according to FPL's rigorous, established planning process, the 2017 and 2018 MFRs show the Company's projected financial positions for those years. FPL relied on inputs from internal and external subject matter experts and processed that data through financial models widely used in the industry. This forecasting and planning process involves the level of scrutiny necessary to ensure reliability for use in setting rates.

21. FPL's use of the 2017 and 2018 Test Years is fully consistent with Commission rule, Commission precedent, and Florida law. Rule 25-6.140(1)(a), F.A.C., 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).

22. The Court “long ago recognized that rates are fixed for the future and that it is appropriate for [the Commission] to recognize factors which affect future rates and to grant prospective rate increases based on these factors.” *Citizens v. Fla. Public Serv. Comm’n*, 146 So. 3d 1143, 1157 n.7 (Fla. 2014) (quoting *Floridians United for Safe Energy, Inc. v. Pub. Serv. Comm’n*, 475 So. 2d 241, 242 (Fla. 1985)).

23. In addition to the 2017 and 2018 Test Years, FPL includes the 2016 forecast as the Prior Year consistent with the Commission’s filing requirements. FPL also has submitted 2019 Okeechobee LSA Schedules in support of FPL’s requested limited scope adjustment for the Okeechobee Unit.

#### **2017 Base Rate Increase**

24. In 2013 through 2015, FPL was able to earn above the midpoint ROE of 10.5 percent authorized in the 2012 Rate Settlement largely through significant reductions in O&M costs generated by Project Momentum, extraordinary weather that has resulted in higher sales and hence revenues, and the amortization of the depreciation and dismantlement reserves pursuant to the terms of that Settlement. These elements were, however, specific to that time period: the reserve amortization mechanism authorized by the 2012 Rate Settlement will terminate when the Settlement expires at the end of 2016; extraordinary weather cannot be counted on for unanticipated revenues and rates are set on the expectation of normal weather. Additionally, as should be expected, FPL has experienced diminishing incremental levels of savings from each Project Momentum cycle since 2013, primarily because many of the highest-impact opportunities for savings already have been identified and are being implemented.

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

25. FPL's proposed 2017 Base Rate Increase is needed to address increased revenue requirements since 2013, the test year last used for establishing base rates. The primary drivers of the change in revenue requirements are: (1) capital investment initiatives that support storm hardening, increased reliability, and system growth, which provide long-term economic benefits to customers, and ensure regulatory compliance; (2) the increase resulting from FPL's 2016 depreciation study; (3) the impact of the amortization of the Reserve Amount authorized by the 2012 Rate Settlement not being available in the 2017 Test Year; (4) the impact of inflation and customer growth; (5) the change in the weighted average cost of capital ("WACC"); (6) revenue growth that partially offsets the growth in base revenue requirements; (7) productivity gains that also partially offset the growth in base revenue requirements; and (8) growth in FPL's wholesale business, which reduces the amount of revenues needed from retail customers.

26. *Capital initiatives* (\$829 million). FPL's retail rate base is projected to increase approximately \$6.5 billion from 2014 through 2017, primarily as a result of capital investments that support system growth, generation upgrades and reliability improvements, and that ensure regulatory compliance.

a. *Power delivery reliability and storm hardening* (\$407 million). From 2014 to 2017, FPL will invest about \$1.9 billion (\$232 million revenue requirements) for infrastructure investments and improvement programs to continue to provide superior reliability for our customers in a cost-efficient manner. These programs use innovative technology on FPL's existing smart grid to prevent outages and reduce restoration time, thereby improving reliability and increasing customer satisfaction. Additionally, FPL will invest approximately \$1.7 billion (\$175 million revenue requirements) from 2014 to

2017 to harden its transmission and distribution infrastructure in compliance with FPSC storm hardening orders. Additional information regarding these investments is contained in FPL's 2016-2018 storm hardening plan filed contemporaneously with this Petition.

b. *Generation upgrades* (\$188 million). FPL is investing nearly \$1.65 billion in three generation upgrades that lower costs and improve reliability for customers. These upgrades include the following:

i. Investment of nearly \$800 million (\$92 million revenue requirements) in new combustion turbine technology to upgrade its 1970s era gas turbine peaking fleet to improve its reliability in light of declining parts availability. The new technology will improve FPL's industry-leading emissions profile and its heat rate efficiency is projected to produce \$203 million in net customer savings (cumulative present value revenue requirement or "CPVRR") over the operating life of the units.

ii. From 2015 to 2017, FPL will have invested more than \$450 million (\$46 million revenue requirements) to upgrade the compressors on 26 combustion turbines in FPL's highly efficient combined cycle fleet. This upgrade will produce more megawatts with greater fuel efficiency, resulting in approximately \$57 million (CPVRR) of customer savings over the compressors' operating life.

iii. During 2015 and 2016, investment of approximately \$400 million in three large scale solar projects totaling 224 MW (nameplate) of zero-emissions generation that will result in significant fuel savings (\$50 million revenue requirements). These large scale solar projects advance FPL's clean energy goals

while keeping customers' bills low. FPL competitively bid components of the projects and leveraged land that was already owned or under option at locations that are near existing transmission and substation infrastructure. With a 30 percent investment tax credit, these solar projects are projected to provide customer savings in the amount of \$26 million CPVRR.

Altogether, it is expected that in 2017 these generation upgrades will increase FPL's 2017 revenue requirements by \$188 million, which will be partially mitigated by total projected reductions in fuel revenue requirements of \$66 million in that year.

c. *Capital requirements for growth* (\$184 million). Capital requirements for growth represents a \$184 million increase to 2017 revenue requirements associated with the power delivery infrastructure needed to support the addition of nearly 220,000 new service accounts to the system. This includes investing more than \$1.7 billion to expand the transmission and distribution infrastructure to serve the growth in new service accounts. FPL also must invest in the network technologies to support system growth and changing load patterns.

d. *Regulatory compliance* (\$50 million). Regulatory compliance commitments refer to investments and activities undertaken in 2014 to 2017 as required by state and federal governmental and regulatory bodies. These include \$325 million of expenditures related to increased compliance costs for North American Electric Reliability Corporation and Federal Energy Regulatory Commission reliability matters, as well as requirements of this Commission to keep the transmission infrastructure serviceable and reliable. In addition, FPL will expend \$136 million to comply with Nuclear Regulatory Commission mandates.

27. *Impact of 2016 depreciation study* (\$187 million). FPL's current depreciation rates are based on a 2009 study and approved as part of Order No. PSC-10-0153-FOF-EI. The significant customer-benefitting investments made since depreciation rates were last set require an adjustment to FPL's current depreciation rates that results in a \$195 million increase in revenue requirements. This increase in rates also results in a modest reduction in rate base, providing a small offset to 2017 revenue requirements in the amount of \$8 million.

28. *Discontinuation of reserve amortization* (\$175 million). The 2012 Rate Settlement allowed FPL to amortize up to \$400 million of reserves, comprised of \$224 million of depreciation reserve surplus remaining from the 2010 Rate Order and \$176 million of dismantlement reserves (collectively, the "Reserve Amount"). Amortization of the Reserve Amount is recorded as a credit to depreciation expense and a debit to the accumulated depreciation reserve (i.e., an increase to rate base). Thus, amortization of the Reserve Amount during the 2013 to 2016 settlement period affects the 2017 revenue requirements in two ways: (i) the \$155 million that was available to FPL for amortization in 2013 (the last test year) will not be available in 2017; and (ii) FPL expects to amortize about \$370 million through 2016, which will add to rate base and result in an additional revenue requirement of \$20 million in 2017.

29. *Inflation and customer growth* (\$145 million). Inflation represents the increased costs for goods and services in 2017 compared with the cost of the same goods or services in 2013. The period 2014 through 2017 can be characterized as moderately inflationary. Based on cumulative changes to the CPI since 2013 and the forecast through 2017, inflation will have added 6.3 percent to the cost of goods and services in 2017 relative to 2013. And FPL projects 6.3 percent cumulative growth in customers during the period 2014 through 2017, which will result in additional O&M to support this growth. FPL calculates the impact of inflation and



customer growth over that period to be \$145 million, which conservatively quantifies only the impact on non-fuel base O&M, omitting the inflationary impact on capital goods and services.

30. *Change in weighted average cost of capital* (\$36 million). The 2017 requested rate of return is 6.61 percent or 0.04 percent higher than the 6.57 percent actual earned rate of return reflected in the December 2013 Earnings Surveillance Report. The increase in WACC is a function of the requested increase in ROE to 11.5 percent and a modest decrease in customer deposit balances. This increase in WACC also is partially offset by a higher level of deferred taxes (0 percent cost) in FPL's capital structure due to the continued availability of bonus depreciation on eligible new investments in infrastructure.

31. *Revenue growth* (\$217 million decrease). FPL is projected to have higher retail sales and other base revenues in 2017 than 2013, resulting in an increase in retail base revenues and a corresponding decrease in revenue requirements.

32. *O&M productivity* (\$175 million decrease). FPL projects a net reduction in revenue requirements of \$175 million, largely attributable to the success of Project Momentum in lowering FPL's operating costs since the last base rate case. These cost savings will allow FPL to continue to provide superior service to its customers in 2017 at a cost that is lower than the cost to perform those same activities in 2013, adjusted for inflation and customer growth. The productivity improvements that support this reduction in revenue requirements span the entire FPL organization.

33. *Wholesale cost allocation* (\$126 million decrease). The volume of FPL's wholesale sales has increased from 2014 through 2017. FPL's ability to increase its wholesale sales is beneficial to retail customers as FPL is able to spread its costs over a larger customer base and thereby reduce the percentage of costs allocated for cost recovery to its retail

jurisdiction. This allows FPL to optimize the use of its assets and reduce the cost of the facilities that are primarily constructed, operated and maintained (including associated overheads) for the benefit of retail customers. As a result of the increase in wholesale sales, a higher percentage of rate base, revenue and operating expenses will be allocated to wholesale customers in 2017 as compared to 2013. This higher allocation is projected to reduce the 2017 revenue requirements by \$126 million.

**B. Resulting Revenue Deficiency and Bill Impact**

34. *Resulting deficiency.* FPL's requested base revenue increase for 2017 is \$866 million. Absent a rate increase in 2017, FPL's projected earned return on equity ("ROE") falls to 7.88 percent, substantially below its cost of equity.

35. *Bill impact.* Even with the proposed rate increase, FPL's typical residential bill is expected to remain among the lowest in the state as compared with the current prices of the other utilities. The base component of the typical residential bill is estimated to increase by \$8.56, from \$57.00 in December 2016 to \$65.56 in January 2017. Based on current forecasts, FPL projects that the total January 2017 typical residential 1,000-kWh bill, accounting for base charges, fuel and other components, will be approximately \$101.18 per month.

**2018 Subsequent Year Adjustment**

36. FPL's retail rate base is projected to increase by approximately \$1.3 billion from 2017 to 2018. Even assuming the Commission grants FPL's 2017 Base Rate Increase in full, FPL's 2018 ROE is expected to drop more than 100 bps absent the 2018 SYA, putting it below the bottom of the authorized ROE range.

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

37. FPL's proposed 2018 SYA reflects the increase in revenue requirements from 2017 to 2018. The primary drivers of this increase 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; (3) an increase in the WACC; and (4) revenue growth that partially offsets the increase in revenue requirements. These investments include:

38. *Capital initiatives* (\$223 million). During 2018, FPL will continue to invest in projects that support system growth, improve reliability and efficiency, and comply with regulatory requirements.

a. *Capital requirements for growth* (\$76 million). FPL projects to add approximately 74,000 new service accounts within its territory during 2018. To support this growth, FPL projects that it will incur \$570 million of capital expenditures to expand its transmission and distribution infrastructure.

b. *Reliability and storm hardening improvements* (\$138 million). During 2018, FPL will invest approximately \$1.15 billion in Power Delivery infrastructure investments and improvement programs in order to continue to provide superior, reliable service to its customers. Approximately \$870 million (\$95 million revenue requirements) of this amount is related to investments FPL will make to improve the storm resilience of its infrastructure. FPL also will incur about \$280 million (\$43 million revenue requirements) for the continued use of innovative technologies to reduce outages and improve restoration time.

c. *Regulatory compliance* (\$9 million). FPL also projects an increase in base revenue requirements of \$9 million for the period 2017 to 2018 related to investments and activities undertaken as required by state and federal governmental and regulatory bodies.

39. *Inflation and customer growth* (\$47 million). Inflation represents the increased cost of goods and services in 2018 as compared with 2017. The CPI for goods and services is expected to increase costs in 2018 by 2.6 percent over 2017. In addition, FPL projects a 1.5% growth in customer base in 2018. The impact of inflation and customer growth in 2018 results in a \$47 million increase in revenue requirements.

40. *Change in weighted average cost of capital* (\$31 million). The 2018 WACC is projected to be 0.10 percent higher than the 2017 WACC. The difference is attributable primarily to an increase in the long-term cost of debt.

41. *Revenue growth* (\$39 million decrease). Retail base revenue resulting from increased sales reflects modest growth resulting in a decrease in revenue requirements of \$38 million. Other base revenues also increase by \$1 million. The overall impact results in a reduction in 2018 revenue requirements of \$39 million.

**B. Resulting Revenue Deficiency and Bill Impact**

42. *Resulting deficiency*. FPL's requested base revenue increase for 2018 is \$262 million. Without an increase in revenue requirements in 2018, FPL's earned ROE is projected to fall more than 100 bps (compared with 2017), below the bottom of the authorized ROE range. With no rate increase in 2017 and 2018, FPL's ROE in 2018 is projected to be 6.95 percent, substantially below an appropriate return.

43. *Bill impact.* Even with the 2018 SYA, FPL's typical residential bill is expected to remain among the lowest in the state as compared with the current prices of the other utilities. The base component of the typical residential bill is estimated to increase by \$2.64 from \$65.56 in December 2017 to \$68.20 in January 2018. Based on current forecasts, FPL projects that the total January 2018 typical residential 1,000-kWh bill, accounting for base charges, fuel and other components, will be approximately \$104.45 per month.

**Okeechobee Limited Scope Adjustment**

44. FPL requests that, in conjunction with approving the 2017 Base Rate Increase and 2018 SYA, the Commission consider and approve FPL's 2019 Okeechobee LSA pursuant to Section 366.06(1), Florida Statutes.

45. By Order No. PSC-16-0032-FOF-EI dated January 19, 2016 in Docket No. 150196-EI, the Commission unanimously approved FPL's petition determination of need for the Okeechobee Unit. The Okeechobee Unit is an integral part of FPL's long-term infrastructure investment effort to meet its customers' growing resource needs. Consistent with FPL's commitment to superior performance and excellent value, the Okeechobee Unit will employ state-of-the-art technology designed to generate low-emissions energy reliably and efficiently.

46. FPL requests a limited scope adjustment in the amount of \$209 million to recover the first twelve months of revenue requirements for the Okeechobee Unit, calculated consistent with the cost assumptions reflected in the Commission's approval order. The base revenue requirements reflect the return on and of the capital investment in the Okeechobee Unit along with all operating costs and taxes. The method for calculating the base revenue requirements reflected in the 2019 Okeechobee LSA is the same as used in the 2013 Cape Canaveral, 2014 Riviera Beach and 2016 Port Everglades Generation Base Rate Adjustments ("GBRA").

47. FPL proposes to implement the 2019 Okeechobee LSA by adjusting base charges, non-clause recoverable credits, and CDR credits by an equal percentage based on the ratio of jurisdictional revenue requirement and retail base revenues for the first 12 months of operation. Based on the sales forecast used in this proceeding, FPL calculates a revenue requirement of \$209 million and an estimated \$2.08 impact to the base portion of the mid-2019 typical residential 1,000 kWh bill. FPL proposes to update the applicable rates to reflect the sales and revenue forecast that will be used for its Capacity Cost Recovery Clause (“CCRC”) 2019 Projection filing. Updated rates and associated tariff sheets will be submitted to the Commission for approval in the 2018 CCRC proceeding.

48. The requested 2019 Okeechobee LSA would become effective only when the Okeechobee Unit begins commercial operation, currently projected to be June 1, 2019. The associated fuel savings will begin flowing directly to FPL customers through the fuel clause as soon as the Okeechobee Unit enters service. 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 after the effective date of new rates. *See, e.g.*, 2013 Settlement Order; *In re Tampa Elec. Co.*, 273 P.U.R.4th 177 (Fl. P.S.C. April 30, 2009) (Order No. 09-0283-FOF-EI).

49. A limited proceeding is appropriate for consideration of this rate relief because the sole purpose of the 2019 Okeechobee LSA is to recover the costs associated with a single facility, the Okeechobee Unit. As a result, FPL’s testimony, exhibits and schedules needed to support the 2019 Okeechobee LSA are limited in scope, are appropriate for purposes of a limited scope proceeding, and can be efficiently addressed as part of this proceeding. Although FPL expects that other cost increases and additional investment during the period following the in-

service date of the Okeechobee Unit will exert downward pressure on earnings, the 2019 Okeechobee LSA does not seek a rate increase to recover any of those costs. Rather, FPL will calculate the new charges as described above and explained in greater detail in the accompanying testimony.

50. Moreover, FPL's ROE would not need to be reexamined for purposes of the 2019 Okeechobee LSA. As established in FPL's last rate case, GBRA's such as this one are by definition "midpoint seeking," meaning that the adjustment mathematically cannot drive the Company's ROE above its authorized midpoint.

51. As required by Rule 25-6.0431, FPL's testimony, exhibits and Okeechobee LSA schedules, incorporated herein by reference, include: (i) a schedule showing the specific rate base components for the 2019 Okeechobee LSA, on both a system and jurisdictional basis; (ii) a detailed description of the 2019 Okeechobee LSA expenses on both a system and jurisdictional basis; and (iii) a schedule showing how the utility proposes to allocate any change in revenues to rate classes.

#### **Return on Equity and Capital Structure**

52. Financial strength is critical to a utility and its customers. Unlike companies operating in other industries, a public utility is obligated to serve everyone in its territory whether the financial markets are booming or constrained. When the market is strong, a utility exhibiting financial strength can attract capital on more favorable terms. When market conditions are depressed, only those utilities with a strong credit rating are able to attract capital. Thus, the flexibility afforded by financial strength is necessary to protect the Company's ability to meet challenges in either of these capital market conditions, as well as in emergency situations, such as the potential devastation of a strong hurricane.

53. The financial policies FPL has employed for well over a decade have emphasized the importance of a strong financial position and credit rating and the benefits it provides customers. To that end, and recognizing its many unique challenges, FPL's capital structure and strong financial position have allowed it to make significant investments on behalf of its customers and to maintain sufficient liquidity. The Commission's support of this strategy has enabled FPL to achieve a lower overall cost of capital and the financial flexibility necessary to respond to unplanned needs such as storm restoration. FPL's customers have benefited appreciably. FPL's financial policies have contributed to the success of the Company's overall strategy to continuously improve its value proposition by continuing to improve the service it provides and drive down the cost its customers pay.

54. *Capital structure.* FPL proposes an equity ratio of 59.6 percent based on investor sources (45.13 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 in its 2010 Rate Order. FPL's capital structure has supported its financial strength and ability to deploy capital for the benefit of its customers, as summarized above. There is no reason to change FPL's equity ratio in this proceeding.

55. FPL's requested capital structure also is consistent with Commission precedent, which provides that the capital structure used for ratemaking purposes should bear an appropriate relationship to the utility's actual sources of capital. *See e.g., Order No. 850246-EI, Petition of Tampa Electric Company for Authority to Increase its Rates and Charges.*

56. *Return on equity.* In this case, FPL requests that it be allowed the opportunity to earn an ROE range of 10.5 percent to 12.5 percent, with a midpoint of 11.50 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. Any combination of events could adversely impact FPL's ability to serve customers if its financial strength is jeopardized.

57. The above range and midpoint are inclusive of FPL's request that the Commission recognize the superior electric service it provides to its customers by awarding it an incremental 50 bps on the authorized ROE established in this case. As explained above, FPL's exemplary operational service is demonstrated by achieving the lowest SAIDI among all Florida IOUs, an emissions profile that already complies with the U.S. EPA's Clean Power Plan state target for 2030, fossil fleet EFOR and heat rates that have regularly been top-decile or best-in-class nationally, and award winning customer service. The superior value is evident in FPL's customer bills that are approximately 30 percent below the national average and 20 percent below the Florida state average, as well as best-in-class non-fuel O&M performance that avoids \$1.9 billion annually compared with average utility performance.

58. 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 (emphasis added). In Docket No. 010949-EI, for example, the Commission rewarded Gulf Power Company ("Gulf") with a 25 basis point adder to the midpoint 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 50 basis point performance incentive to FPL's ROE.

59. A 50 bps 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, the Commission's willingness to recognize performance and service achievements in establishing a utility's rates would encourage other utilities to pursue innovative practices and superior results.

60. *Weighted average cost of capital.* FPL projects a long-term debt cost of 4.62 percent in the test year and projects a short-term debt cost of 1.85 percent in the test year. When combined with the requested 11.5 percent ROE and other, smaller components of the capital structure (customer deposits, etc.), FPL's total WACC would be 6.61 percent, which falls below the 7.57 percent average WACC approved for electric utilities in the U.S. over the past three years. This 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 and capital structure would allow FPL to continue its program of capital investment that is designed to ensure that bills remain affordable far out into the future.

### West County Energy Center 3

61. Pursuant to the terms of the 2010 and 2012 Rate Settlements, the revenues associated with West County Energy Center 3 ("WCEC3") are being collected through FPL's CCRC. Because the O&M and return on investment for WCEC3 are base rate components, however, the WCEC3 revenues collected through CCRC are reclassified on FPL's books and records to base revenues. FPL's monthly earnings surveillance reports currently reflect this base treatment.

62. As contemplated in the 2012 Rate Settlement, FPL requests approval to begin recovering WCEC3 revenue requirements in base rates and to discontinue recovery of those

revenues through the CCRC. The transfer from CCRC to base will require no accounting adjustment to the test year MFRs. The transfer would simply move these costs that are currently recovered through the CCRC to recovery through base rates.

**Transfer of Martin-Riviera Gas Lateral**

63. FPL proposes to transfer the Martin-Riviera ("MR-RV") Lateral natural gas pipeline to its FERC-regulated affiliate, Florida Southeast Connection ("FSC"). Providing natural gas to FPL's Riviera Beach plant, the MR-RV Lateral is 20 inches in diameter and approximately 38 miles long, originating at FPL's Martin plant and ending at Riviera Beach. The MR-RV Lateral was included in the total cost of the Riviera Beach plant that went into commercial operation on April 1, 2014. Accordingly, the associated base revenue requirements were included in the Commission-approved GBRA for Riviera Beach and are currently being recovered through base rates.

64. FPL proposes to transfer the MR-RV Lateral and all related equipment, working capital and operations to FSC at the net book value on the transaction date, currently contemplated to be May 1, 2017. FSC is the owner and operator of the natural gas pipeline that originates in Osceola County and terminates at the Martin plant. FPL has a long-term gas transportation agreement with FSC commencing on May 1, 2017, and, under the proposal, would contract with FSC to also provide firm gas transportation from the Martin plant to the Riviera Beach plant in the quantities currently available to FPL through its ownership of the MR-RV Lateral.

65. This arrangement is estimated to save FPL customers \$3 million (CPVRR) over the life of the contract, as compared with continued FPL ownership. Moreover, because the tariff reflects declining revenue requirements, FPL customers also will benefit from the annual

adjustments of fuel clause factors to reflect that decline. Finally, the transaction provides risk mitigation for FPL's customers, because FSC will bear responsibility for all operating costs while FPL is guaranteed a fixed tariff rate.

66. FPL requests that the Commission approve the conceptual framework for the transfer of ownership of the MR-RV Lateral. FPL would then file a petition in early 2017 to confirm the cost-effectiveness of the transaction based on updated analyses, and seek approval to implement a simultaneous change to lower base rates and adjust fuel rates to reflect the transportation charges. FPL would implement the base rate adjustment as a percentage reduction in base rates for every rate class consistent with how FPL has implemented GBAs. If the updated analyses failed to show savings, however, FPL would notify the Commission and would terminate the transaction to transfer the MR-RV Lateral.

#### Depreciation Rates

67. The depreciation rates used in the calculation of FPL's multi-year request are based on the rates approved by Order No. PSC 10-0153-FOF-EI. Contemporaneous with this Petition, FPL is also filing an updated depreciation study as required by Rule 25-6.0436(8)(c), F.A.C. A Company adjustment has been made reflecting the effects of this updated depreciation study. FPL's four-year rate proposal includes this proposed Company adjustment. Should the Commission make any adjustments to FPL's updated depreciation study and depreciation rates, it should recognize the effects of any adjustments on the 2017 and 2018 rate relief. Additionally, FPL's fossil dismantlement accrual also reflects that which was approved by the Commission by PSC-10-0153-FOF-EI. FPL has filed an updated fossil dismantlement study contemporaneous with this filing, and has made a company adjustment reflecting the updated results. Should the

Commission make any adjustments to FPL's updated fossil dismantlement study, it should recognize the effects of any adjustments on the 2017 and 2018 rate relief.

**Customer Charges and Commercial Customer Credits**

68. *Customer charge.* Under traditional ratemaking principles, costs that vary with the amount of electricity used, i.e., variable costs, are generally recovered through variable demand and energy charges. By contrast, costs that do not vary with the amount of electricity used, i.e., fixed costs, are recovered through fixed charges. Currently, only 26 percent of FPL's fixed costs are recovered through a fixed charge. In order to more closely align recovery of fixed costs with fixed charges, FPL proposes a \$2.00 increase to the residential (RS-1) monthly customer charge to account for a portion of fixed distribution costs currently being recovered through the variable energy charge. FPL also proposes a \$2.00 increase to the customer charge for the non-demand General Service rate class (GS(T)). This amount is reflected in the typical bill projections provided earlier in this Petition.

69. *Commercial customer credits.* FPL also resets the credits provided under the 2012 Rate Settlement for Commercial Industrial Load Control ("CILC") and Commercial Demand Rider ("CDR") customers to pre-settlement levels.

**Storm Cost Recovery**

70. FPL proposes to continue to recover prudently incurred storm costs under the framework prescribed by the 2010 Rate Settlement, and continued by the 2012 Rate Settlement. Specifically, if FPL incurs storm costs related to a named tropical storm, the Company may begin collecting up to \$4 per 1,000 kWh (roughly \$400 million annually) beginning 60 days after filing a petition for recovery with the FPSC. This interim recovery period will last up to 12 months. If costs to FPL related to named storms exceed \$800 million in any one year, the

Company can also request that the Commission increase the \$4 per 1,000 kWh charge accordingly.

71. This cost recovery mechanism also will be used to replenish the Company's storm reserve in the event that it was fully depleted by storm costs. Any cost not recovered under this mechanism is deferred on the balance sheet and recovered beyond the initial 12 months as determined by the Commission.

#### **Supporting Documents**

72. Simultaneous with the filing of this Petition, FPL is filing and hereby incorporates by reference: (i) the supporting testimony and exhibits of FPL's witnesses; (ii) MFRs for the 2017 Test Year and the 2018 Subsequent Year containing the information required by Rule 25-6.043(1)(b), F.A.C.; and (iii) the 2019 Okeechobee LSA schedules required by Rule 25-6.0431, F.A.C. 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.

73. Attached to MFR 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 2017 and January 2018. FPL respectfully requests that the Commission consent to these rate schedules going into operation beginning on the first billing cycle of January 2017 and January 2018.

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 15, 2016, i.e., within eight months of the filing of this Petition, so as to render the final decision in time to make rates effective by January 1, 2017 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 January 1, 2017;
- (5) Authorize the Company to revise and increase its base rates and charges to generate additional gross revenues of \$866 million on an annual basis beginning January 1, 2017, 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;
- (6) Find and determine that the Company's 2017 rates are insufficient to yield a fair rate of return beginning January 1, 2018, even if the full 2017 Base Rate Increase is approved;
- (7) Authorize the Company to revise and increase its base rates and charges to generate additional gross revenues of \$262 million on an annual basis beginning January 1, 2018 or such other amount as would be needed to provide FPL with an opportunity to earn a fair overall rate of return, including a rate of return of 11.50 percent on common equity capital;


- (8) Find and determine that the 2019 Okeechobee LSA is necessary and appropriate to recover the \$209 million revenue requirements associated with the Okeechobee Unit; and allow FPL to revise and increase its retail base rates and charges to generate additional incremental gross revenues effective upon the commercial in-service date for the Okeechobee Unit (projected to be June 1, 2019), to recognize the cost impacts associated with the addition of that unit;
- (9) Approve an equity ratio of 59.6 percent based on investor sources (46.0 percent based on all sources);
- (10) Approve the transfer of WCEC 3 cost recovery from the CCRC to base rates;
- (11) Approve the proposed framework for the transfer of ownership of the MR-RV Lateral;
- (12) Approve continuation of the storm cost recovery mechanism set forth in the 2010 and 2012 Rate Settlements;
- (13) Approve FPL's 2016 dismantlement study and associated adjustments;
- (14) Approve FPL's 2016 depreciation study and associated adjustments;
- (15) Approve the other Company adjustments set forth in the MFRs submitted with this Petition;
- (16) Approve the relevant tariff sheets and rate schedules included herein and made part hereof; and
- (17) 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

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**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished  
by Hand Delivery\* and/or electronic delivery this 15th day of March 2016 to the following:

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