FPL.

Eric E. Silagy
President and
Chief Executive Officer

January 11, 2021

The Honorable Gary F. Clark
Chairman
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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

Dear Chairman Clark:

Florida Power & Light Company ("FPL" or "the Company") provides electric service to more than 5.6 million customer accounts, or more than half of our state's population across 43 counties, including portions of Northwest Florida. Our long-term strategy of effectively managing operational costs and making smart investments to maintain and improve our infrastructure remains central to FPL's success in delivering the best energy value in America. Indeed, today we provide electric service that is cleaner, more fuel efficient and more reliable than ever before, while our typical residential 1,000 kWh customer bill continues to be well below the national average. We provide outstanding value to our fellow Floridians, supporting the strength and stability of Florida's economy while preparing responsibly to ensure we meet our state's future energy needs.

Over the last 22 years, the Florida Public Service Commission ("FPSC" or the "Commission") has approved six multi-year rate plans for FPL that have provided customers with a framework for rate stability and certainty, while at the same time enabling FPL to maintain a strong credit rating and balance sheet which allows us to consistently raise capital on attractive terms. This financial stability provides the necessary platform for the Company to continue to meet the fundamentals of day-to-day operations and customer service, the exigencies of responding to major storms or financial market disruptions and the challenges of making and executing on long-term investments, all of which provide important benefits to our customers. Multi-year rate plans have worked exceptionally well in meeting those objectives.

The Company currently is operating under a multi-year rate plan that began in January 2017 and had a minimum term through the end of December 2020. However, by aggressively controlling expenses and using the benefits of both the Tax Cuts and Jobs Act of 2017 and the current agreement's Reserve Surplus Amortization Mechanism, FPL was able to extend the rate stability offered under the current multi-year plan for an unprecedented fifth year (i.e., through the end of December 2021), and also was able to avoid additional customer charges for the restoration costs associated with Hurricanes Irma, Dorian, Isaias and Eta, which totaled in aggregate more than $1.7 billion.

In 2019, FPL's parent NextEra Energy acquired Gulf Power Company ("Gulf") from the Southern Company. Soon after the acquisition, the benefits of merging and integrating Gulf's operations into FPL for the mutual benefit of the existing FPL and Gulf customers became clear. The merger of the two companies was approved by the Federal Energy Regulatory Commission on October 15, 2020. FPL and Gulf currently are engaged in the process of integrating operations in a manner that maximizes the benefits for the unified company. Gulf formally merged into FPL in January 2021, with operational consolidation to be essentially complete by January 2022.

The consolidated company will be well positioned to continue to improve the level of service for all customers, while maintaining rates that are significantly below the national average. Consolidation offers numerous benefits over operating the FPL and Gulf systems separately, including: better optimization of generating assets, increased fuel diversity, reduced emissions, increased siting flexibility with the opportunity to improve firm capacity values for solar, improved reliability and resilience, improved asset management, improved opportunity for coordinated storm response, and opportunities for regulatory and administrative efficiencies that benefit both the Company and the Commission, including the elimination of intercompany charges, affiliate transactions and the need for intercompany agreements and related audits. As one example of the benefits of consolidation, FPL is building the North Florida Resiliency Connection ("NFRC"), a 176-mile transmission line that will strengthen Florida's transmission system as well as connect Gulf directly to FPL. The NFRC will enhance reliability and resiliency for all customers and allow customers to benefit from greater diversity in solar output from sites spread out across the state's vast peninsula spanning two time zones. In the short time since acquisition, as referenced below, significant improvements already have been realized on the Gulf system through lower cost operations and better reliability. Moreover, our joint storm preparation and response to Hurricanes Sally and Zeta resulted in faster than anticipated restoration of more than 285,000 customers, representing nearly 63% of Gulf's customers. We are excited about the prospects for further improvements in all facets of the combined set of operations.

As with the conclusion of prior multi-year rate plans, it will be necessary to file a request for a base rate increase to take effect at the end of the current FPL rate settlement agreement in December 2021. By the time new rates are approved to take effect in January 2022, four and four and a half years, respectively, will have elapsed since FPL's and Gulf's last general base rate increases. FPL's base rate proposal for the consolidated utility system – encompassing 2022 through 2025 – will build on the success of the current FPL settlement agreement, with the goal of providing longer-term cost certainty for customers. We are mindful of the potential impact of any increase – even for a low-cost provider such as FPL – and, thus, continue to work aggressively to find ways to deliver better, more efficient and more reliable service to ensure we are providing exceptional value to our customers.

Consistent with the consolidation of FPL and Gulf operations, FPL's base rate proposal reflects a consolidated cost of service and provides for unified rates that apply to all customers throughout the former FPL and Gulf service areas.[1] Unified rates are the natural and logical result of fully consolidating the operations of these two previously separate utility systems. FPL's proposal also

[1] In recognition of initial cost to serve differences between the existing FPL and Gulf service areas, FPL will propose a transition rider/credit mechanism to address those differences equitably for customers in the respective service regions. The transition rider/credit would decline to zero over a five-year period and would be reflected through a rider rather than as changes to unified base rates.

reflects a four-year plan that will continue to promote rate stability while allowing the Company to continue focusing on improving its performance for the benefit of customers. The amount of the base rate request has not been finalized; however, our preliminary estimate is a general base revenue adjustment of approximately $1,100 million, effective in January 2022; and a subsequent year adjustment of approximately $615 million, effective in January 2023.[2] The proposal also includes requested authority for a Solar Base Rate Adjustment ("SoBRA") mechanism to recover, subject to Commission review, the revenue requirements of up to 900 MW of cost-effective solar projects in 2024 and up to 900 MW in 2025, and no other base rate increases effective before January 2026. If the full amount of new solar capacity allowed under the SoBRA proposal were constructed, FPL's preliminary estimate is that it would result in base rate adjustments of approximately $140 million in 2024 and $140 million in 2025. Of course, the SoBRA adjustments would be offset, in part, by a reduction in FPL's fuel costs, a benefit that would flow through directly to customers via the fuel adjustment clause on customer bills.

The total of these base rate increase requests over the four-year period from 2022 through 2025 would result in an estimated average increase in total revenue of less than 3.7 percent per year. If the full amount of the requests were granted and assuming other utilities experience bill increases at only their historical rates of increase, FPL's typical customer bills would remain well below the national average. Based on current projected changes in fuel and other clauses, FPL's typical bills for January 2022 would be nearly 22 percent *less* in real terms than in 2006. Even in nominal terms, FPL's bills would be only about three and a half percent higher than in 2006 – a fraction of the nominal increases of 25-75 percent in the cost of groceries, medical care, health insurance and housing from 2006 through 2020. Significantly, through the consolidation of the two utility systems, even with the requested increase, by the end of FPL's proposed four-year rate plan, a typical residential customer in Northwest Florida in fact will see a bill *decrease* compared to today's bill. At the same time, FPL is delivering exceptional value:

- High reliability (FPL was presented with the ReliabilityOne® National Reliability Excellence Award, for the fifth time in six years, and FPSC Transmission and Distribution ("T&D") System Average Interruption Duration Index ("SAIDI") has been best among Florida investor-owned utilities for the last 14 years in a row. In addition, both FPL and Gulf achieved their best ever T&D SAIDIs in 2019 and improved upon that performance again in 2020).
- Clean and efficient power generation (FPL is one of the cleanest utilities in the country, with a best-in-class heat rate for its fossil generating fleet, rapidly expanding solar fleet, and an industry-first second nuclear license renewal).
- Award-winning customer service.

The premium value of FPL's service is driven home for our customers through industry-leading storm preparation and response, an attribute that has become increasingly critical to our customers and to Florida's economy as we've witnessed a dramatic increase over the last two decades in major storms impacting a state that is naturally and extraordinarily exposed to significant tropical

[2] Among other benefits provided through FPL's four-year rate proposal, customers will see significantly lower revenue requirements and base rate increases for 2022 and 2023 compared to what would be needed if the four-year proposal is not accepted.

storm and hurricane activity. This combination of value and affordability continues to be unparalleled anywhere in the country.

FPL's four-year base rate proposal will be similar to the multi-year rate plans that previously have been approved by the Commission, providing the necessary framework for FPL to continue to deliver top quality service while ensuring rate stability.

FPL is mindful of the many challenges caused by the COVID-19 pandemic, and we have taken extraordinary steps to help mitigate the economic effects of the pandemic on particular groups of customers, including the implementation of specific relief programs for low income and small business customers. Among these measures:

- Residential and small business customers past due on two or more FPL bills were eligible for up to a $200 credit;
- FPL's Main Street Recovery Credit Program, approved by the Commission, will help rebuild Florida's economy by providing financial relief to qualifying small businesses in the form of a 10 percent discount on their monthly energy consumption;
- FPL implemented shareholder funded low income initiatives that included: providing a credit of up to $20 each month on qualifying customer bills; additional advertising to enhance awareness of LIHEAP, Care To Share and weatherization programs; and a $3.25 million donation to Care To Share;
- FPL received Commission approval to fast-track annual fuel savings, providing customers a one-time decrease in May 2020 of nearly 25 percent on the typical residential bill;
- During the height of the pandemic, FPL suspended disconnects for nonpayment, waived late fees, offered payment extensions, refunded deposits after 12 months of prompt payment (versus 24 months under the tariff), and suspended service charges;
- FPL, its sister NextEra Energy companies, and their shareholders and employees have donated nearly $5 million in emergency funding to partner organizations on the frontlines providing assistance to those affected by the COVID-19 pandemic; and
- Throughout the pandemic, FPL has significantly increased customer outreach efforts to educate customers on energy efficiency measures, available aid resources and payment options.

It is important to keep in mind that FPL's continued investments are necessary to maintain the strong value proposition that customers expect today as well as in the future. Moreover, FPL's customer growth and general cost increases also have not abated during the pandemic. It is precisely because FPL provides highly reliable service at rates that are below the national average that our customers benefit in all economic conditions, good and bad, including during the pandemic.

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

Test Years

For its 2022 base rate request, FPL proposes to use the projected 12-month period ending December 31, 2022 as the test year with the adjusted rates to be effective upon the first day of January 2022. FPL's proposed use of a projected test period is consistent with current Commission practice and prior Commission and Florida Supreme Court precedent. Furthermore, using the projected 12-month period ending December 31, 2022 as the test year will provide an accurate representation of costs for the purposes of setting rates effective January 1, 2022.

For the proposed 2023 subsequent year adjustment, FPL will use the projected 12-month period ending December 31, 2023 as the test year, with the adjusted rates to be effective upon the first day of January 2023.

Because Gulf will be integrated into FPL by the beginning of 2022, the minimum filing requirements ("MFR") that FPL will file for both the 2022 and 2023 test years will reflect full consolidation of the companies' operations.[3]

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

Over the 2019-2022 period, to better serve our customers, we will have invested more than $29 billion in smart, efficient infrastructure. The total estimated impact of these investments on the 2022 revenue requirement is approximately $1.9 billion, substantially offset by operating and maintenance ("O&M") productivity improvements, revenue growth, and the lower depreciation expense associated with FPL's four-year proposal referenced below, among other factors, resulting in a net revenue requirement increase of $1.1 billion. Similarly, our 2023 subsequent year adjustment reflects continued investment in infrastructure growth and improvements reflecting a net revenue requirement increase of $615 million.

Examples of incremental investments include the following:

- Capital requirements for growth: Since FPL's last settlement agreement was approved, the State of Florida has made substantial commitments to economic development and growth in the state. These economic development initiatives continue to benefit Florida's residents and businesses. FPL, which serves more than half of the state, similarly has experienced growth in our customer base and we expect to add approximately 498,000 customers from 2018 through 2025. While this growth has a positive impact by spreading existing fixed costs over a larger customer base, it also means that FPL must invest significant additional capital to meet the needs of these additional customers in building out infrastructure, including poles, wires, transformers and other components.

- Generation additions: FPL's high-efficiency fleet of power plants has one of the cleanest emission profiles among comparable utilities nationwide, and we continue to invest in

[3] FPL also will include with its filing a set of pro forma MFR schedules that project 2022 and 2023 results if FPL and Gulf were operated as separate ratemaking entities in their respective service areas, in support of standalone rates that should be approved if the Commission did not approve FPL's proposed unified rates.

cleaner, more fuel-efficient generation. Over the 2019-2022 period, FPL (including Gulf) will have added 2,722 MW of generation for which cost recovery is not provided under existing generation base rate adjustment or SoBRA mechanisms. These investments are expected to generate substantial savings for customers by reducing fuel and other costs. FPL's track record of making smart generation improvements, which are completed on time and on budget, is strong. For example, since 2001, the retirement of older, less efficient generation and FPL's investments in high-efficiency natural gas energy power plants and technology, along with new solar energy, are estimated to have saved customers nearly $11 billion on fuel – fuel that did not have to be purchased as a result of our cleaner, more efficient fleet – and have prevented more than 145 million tons of carbon dioxide emissions, equivalent to negating the emissions output of every registered vehicle in Florida for nearly the next four years.

- <u>Electric service reliability</u>: Our customers consistently tell us that the reliability of their electric service is a top priority. In fact, reliability of service is becoming even more important as our homes and businesses are increasingly digitally based and as more customers are working remotely. Moreover, beyond customer expectations, reliability-related regulatory requirements for physical and cyber security have increased substantially during the last five years. The North American Electric Reliability Corporation ("NERC") currently enforces approximately 100 reliability standards, containing more than 1,600 requirements and sub-requirements that govern the operation, maintenance, planning and security of the bulk electric system, requiring FPL to make significant investments to comply. Additionally, in October 2020, NERC began enforcing a new standard that addresses the supply chain risk management associated with cyber assets. We remain committed to building a stronger, smarter grid that customers can count on in good weather and bad. While FPL's service reliability is excellent – as recognized by numerous awards and demonstrated by our performance – we must continue to invest to make the grid stronger, smarter, more responsive and more resilient to outage conditions and to comply with new federal standards and requirements. Some investment is recoverable through the recently enacted Storm Protection Plan cost recovery mechanism; however, significant investment necessary to meet compliance obligations and maintain or improve day-to-day reliability for customers remains recoverable through base rates.

The depreciation study to be filed contemporaneously with this case reflects the changing mix of assets and their associated recoverable life spans. At the depreciation rates proposed by the Company in the four-year plan, annual depreciation expense is expected to be lower by approximately $240 million in 2022.

In addition to the major cost drivers described above, FPL will propose to set the Company's approved return on common equity ("ROE") midpoint at 11.5 percent, which reflects an estimated cost of equity of 11.0 percent and an ROE performance incentive of one-half percent. The 11.0 percent estimated cost of equity reflects capital market expectations looking forward during the term of the proposed four-year rate plan and will enable the Company to continue to access capital on competitive terms through 2025. The ability for a utility to earn a fair rate of return is crucial in obtaining capital under dynamic market conditions, enabling us to continue to meet customer needs and expectations at all times in all financial climates. Our performance is best in class or top decile across a number of key metrics and FPL is widely regarded as the top overall performer in the industry, bringing exceptional value to customers. To better reflect this performance and encourage continued future strong performance, FPL's proposed ROE midpoint includes a one-half percent performance incentive.

Actions and Measures Implemented to Avoid a Retail Base Rate Increase

As referenced earlier, with the effective date of new rates in January 2022, it will have been four, and four and a half years, respectively, since the last general base rate increase for FPL and Gulf. The multi-year plans approved for each company thus have provided stability and certainty around the level of customer bills. Throughout the term of its 2016 settlement agreement, FPL has worked aggressively to keep costs low while continuing to deliver outstanding reliability and superior performance in all areas of operations. A key element in FPL's ability to avoid the need for a base rate increase since 2018 has been our aggressive focus on controlling non-fuel O&M costs. Since 2010, FPL's non-fuel O&M cost per kWh has been the very best in the U.S. electric industry. Despite this achievement, FPL has continued to find innovative ways to build on its industry-leading performance for this important cost measure. To underscore these efforts, FPL's 2022 non-fuel O&M (the level to be reflected in FPL's upcoming filing) is projected to be lower than FPL's 2018 best-in-class level. As an example, FPL's Project Accelerate, an annual program designed to find new ways to improve efficiency and lower costs, will produce more than $390 million of annual run rate savings for customers reflected in our 2022 test year cost of service.

Another significant cost-saving measure that FPL has taken during the current rate plan is its merger and consolidation with Gulf. FPL estimates that consolidation is resulting in approximately $82 million per year in O&M savings for the combined companies. FPL also projects system benefits of approximately $1.5 billion as a result of generation upgrades already underway, the NFRC interconnection mentioned previously, and the ability to dispatch from, and plan for, a common fleet of generation resources. These are real savings for customers totaling more than $2.8 billion.[4]

These creative and aggressive cost-control measures have provided – and continue to provide – demonstrable customer benefits. As noted above, FPL currently projects that even with the requested 2022 base rate increase, typical bills for January 2022 would be nearly 22 percent less in real terms than in 2006.

Other Matters

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

[4] This figure represents the cumulative present value of lower revenue requirements of $1.3 billion resulting from annual O&M savings and $1.5 billion of system benefit savings over a 30-year period. Nominal savings would be much greater.

Conclusion

No electric service provider in the country offers better overall value to its customers. We have worked extremely hard over many years to achieve this outcome. Better, more reliable service at low cost is a direct result of the smart investments we have made on behalf of our customers and our aggressive focus on controlling O&M costs. Consistent with this approach, we intend to propose a four-year plan that will allow us to continue to improve upon our performance, meet the increasing expectations of our customers and maintain the successful platform of high reliability, low bills, clean energy leadership, and overall outstanding service for the more than 11 million Floridians we serve. We look forward to presenting our proposal to the Commission for its review and consideration.

Sincerely,

Eric E. Silagy
President and CEO

cc: Florida Public Service Commission
Hon. Julie Imanuel Brown, Commissioner
Hon. Art Graham, Commissioner
Hon. Andrew Giles Fay, Commissioner
Hon. Michael LaRosa, Commissioner
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