FPL.

January 17, 2012

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COMMISSION
CLERK

The Honorable Ronald A. Brisé
Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

120015-EI

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

Dear Chairman Brisé:

Florida Power & Light Company is providing its customers with typical bills that are the lowest out of the state's 55 electric utilities and 25 percent lower than the national average[1], while at the same time delivering service reliability that is among the best in the country. This exceptional value proposition helps to make Florida a more affordable place to live and to run a business – benefits that are even more important in today's uncertain economy. Our superior performance is largely the result of FPL's strategy of investing in new, fuel-efficient, low-emissions generation technologies and managing operating costs effectively.

As you are aware, FPL is operating under a settlement agreement that addresses base rates through the end of 2012. The agreement has effectively frozen base rates since 2010[2] and therefore does not adequately address items such as inflationary cost pressures that unfortunately increase our cost of doing business. In addition, over the three-year period from 2011 to 2013, FPL plans to invest approximately $9 billion to strengthen and improve Florida's electric generation and delivery system. These investments, which are funded directly from base rates and the capital markets, will contribute to the continued high reliability our customers expect and deserve and should help keep customer bills low over the longer term through the use of fuel-efficient generation technologies. They are an investment in Florida's future, yet the current settlement does not address how to pay for them.

Accordingly, as required, we are providing notification that we intend to seek an increase in base rates to be effective on the first cycle day of January 2013, as well as a base rate step adjustment effective when the new, highly efficient power plant currently under construction at Cape

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[1] Sources: Average of typical 1,000-kWh July through September monthly bill data compiled from the Florida Public Service Commission, Florida Municipal Electric Association, Reedy Creek Improvement District, Florida Electric Cooperatives Association and Jacksonville Electric Authority; Edison Electric Institute (EEI) July, 2011 national electric utility bill survey.

[2] The only exception is an increase authorized under the new nuclear development law adopted by the Florida Legislature and approved by the PSC. The increase has added a total of $0.25 to the typical monthly residential customer bill over the term of the settlement agreement.

Florida Power & Light Company
700 Universe Boulevard, Juno Beach, FL 33408

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Canaveral becomes operational. We know there is never a good time for an increase, and we are particularly mindful of the difficult economy and its impact on our customers and the state. We made the decision to seek rate relief only after a very thorough review of financial projections, which are discussed below, and we have worked hard to minimize the financial impact to customers.

Our preliminary request, including the full step-up to pay for the new Cape Canaveral Next Generation Clean Energy Center later in 2013, would increase the base rate portion of a typical residential customer bill by an estimated total of $6.80 per month, or just 23 cents per day[3]. Based on current projections of fuel pricing and other aspects of the bill, the total typical residential bill is projected to actually increase only by about $3.00 per month, or 10 cents per day[4]. Importantly, even with this requested base rate increase, FPL expects that customers' bills would remain the lowest in the state based on currently available comparisons of the state's 55 utilities. Customers' bills would also still be well below the national average.

The amount of the 2013 base rate request has not been finalized; however, our preliminary estimate is that we will request a general base revenue increase of approximately $525 million effective in January 2013, as well as a base rate step adjustment of approximately $170 million effective when the new Cape Canaveral plant becomes operational in June 2013. It is important to note that, over the life of this plant, the fuel savings are expected to pay for the entire facility and result in hundreds of millions of dollars of additional net savings for customers.

In furtherance of FPL's request, and consistent with the requirements of Rule 25-6.140 of the Florida Administrative Code, FPL submits the following additional information:

Test Year

FPL proposes to use the projected 12-month period ending December 31, 2013, as the test year. FPL's proposed use of a projected test period is consistent with current Commission practice and prior Commission and Florida Supreme Court precedent.

Using the projected 12-month period ending December 31, 2013, as the test year will provide an accurate representation of costs for the purposes of setting rates effective January 2013, excluding the costs associated with the new Canaveral plant scheduled to enter service on June 1, 2013. As previously mentioned, FPL proposes 2013 as the test year; FPL also will request a base rate step adjustment for the additional costs of the new Canaveral plant, effective once the facility is in commercial operation, to better match the costs with the projected benefits. This will help ensure that rates continue to be fair and reasonable in 2014.

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[3] Based on the company's preliminary estimates, a 1,000-kWh monthly base rate would increase $5.03 in January 2013 and $1.77 in June 2013, when FPL's Cape Canaveral Next Generation Clean Energy Center enters service. These figures do not include fuel savings or adjustments to clauses.

[4] The estimated 1,000-kWh base rate increase of $6.80 would be partially offset by fuel savings and anticipated reductions in clauses, resulting in a net increase of about $3.00 on the overall customer bill, based on current projections.

Major Factors Necessitating a Rate Increase and Estimate of Impact on Revenue Requirements
The major factors necessitating this requested increase are as follows:

- The accelerated amortization of the non-cash depreciation surplus that was ordered by the previous Commission in 2010, and implemented through the settlement agreement, contributed substantially to the need for a base rate increase today.

- To ensure Florida's energy future, FPL must continue to make capital investments in its current infrastructure. For example, we expect to add nearly 100,000 new customer accounts from the end of 2010 through the end of 2013. This will require a significant investment on the part of the company to construct the poles, wires and transformers needed to serve these new customers. As a result, FPL's rate base will grow from the end of 2010 through the end of 2013.

- We at FPL have been working aggressively to tighten our belts and keep operating and maintenance (O&M) expenses down. In fact, the company's O&M performance ranks in the top 10 percent of utilities nationwide[5]. Nevertheless, since 2010 the company has experienced inflation in many of the materials and products that we must purchase to maintain our ability to provide affordable, reliable power. Additionally, we expect to add nearly 100,000 new customers from the end of 2010 through the end of 2013. This combination of inflation and customer growth is the primary driver leading to higher expected O&M costs in 2013. Even with this increase in O&M expense, we expect that FPL's O&M costs in 2013 will continue to be significantly better than the industry average performance.

- As mentioned previously, FPL will request a base rate step adjustment for the revenue requirements associated with the first year of the new Canaveral plant, not to be effective until the in-service date of the unit. This project is expected to save customers hundreds of millions of dollars in fuel costs, will significantly reduce greenhouse gas emissions, and was unanimously approved by the Commission in 2008. By mid-2013, FPL will have invested approximately $1 billion to complete the plant. Nevertheless, customer bills have not been impacted throughout the multi-year development and construction process, and our request for cost recovery for the plant would not take effect until the day the facility goes into operation and begins delivering its significant benefits to customers. Our latest analyses estimate that, over the operating lifetime of the plant, customers will receive a net savings of about $600 million on their electric bills due to the dramatically increased fuel efficiency. In other words, FPL customers will benefit from much cleaner energy and actually save money on their bills.

- In addition to the major cost drivers described above, FPL will propose to reset the company's approved return on common equity (ROE) to 11.25 percent. FPL's proposed

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[5] Source: 2010 FERC Form 1 for investor-owned electric utilities with more than 100,000 customers.

ROE is approximately the average of the currently allowed return for Florida's other investor-owned electric utilities. While we provide our customers with performance that significantly exceeds state and national averages, our current allowed ROE is the lowest of all Florida investor-owned electric utilities and is among the lowest nationally. While the financial markets and credit rating agencies recognize that the allowed ROE is not a guarantee of profit, an adjustment to a more competitive level would be consistent with maintaining a good credit rating and encouraging and attracting investment with FPL and within the state of Florida. A key element in a constructive regulatory environment is an appropriate ROE that allows a utility to attract capital necessary to make long-term investments that maintain and improve the quality of service and lower costs to customers over time. Constructive rate regulation also recognizes superior quality of service and cost reductions, allowing higher ROE to utilities that have superior performance. Accordingly, FPL will also propose a 0.25 percent ROE performance adder, which would only be granted and retained for maintaining the lowest customer bill in the state – a win for all FPL customers.

Actions and Measures Implemented to Avoid a Retail Base Rate Increase

In 2010, FPL negotiated a base rate settlement agreement with the Office of Public Counsel, the Florida Attorney General, the Florida Retail Federation, the Florida Industrial Power Users Group, the Federal Executive Agencies, the South Florida Hospital and Healthcare Association, and the Associated Industries of Florida. This agreement, as approved by the Commission by Order No. PSC-11-0089-S-EI, was designed to benefit FPL customers by effectively freezing base rates until 2013.

Unfortunately, FPL continues to experience inflationary cost increases in a number of areas that have an upward impact on overall O&M costs. However, as outlined earlier, all FPL business units have worked diligently to aggressively manage costs and reduce overhead.

The performance of FPL's generating units over time continues to be a major contributor to controlling base rates. Indeed, not only has FPL's fossil operating performance improved over time, it has consistently exceeded national industry averages and has frequently been among the top 10 percent, or even best-in-class, when compared to other large fossil fuel-generating fleets in the industry.

In its last rate case, FPL was shown to be one of the top performers among comparable companies, both in Florida and on a national basis. FPL's performance was particularly strong in controlling non-fuel O&M expenses year after year and, in 2007 alone (the last year for which data was available at the time), this performance saved our customers between $700 million and $1.3 billion as compared to costs that customers would have incurred if FPL's O&M costs had been merely average based on the comparable peer group. FPL has continued this impressive performance based on an update through 2010 of the benchmarking conducted for FPL's last rate case, which reflects that FPL's performance continues to surpass that of the peer group companies. In fact, over the past quarter-century, FPL's industry-leading performance and drive for excellence has resulted in base rates that are lower today than in 1985. Put another way, FPL customers pay 58 percent less than they would have if we simply managed our cost to be "average" and kept the bill in line with inflation. Even accounting for fuel costs and all other charges, on an inflation-adjusted basis, FPL customers pay 46 percent less today than they did in 1985. We have succeeded on behalf of our customers, and we intend to continue providing the residents and businesses of our service area the best possible reliability while keeping customer bills low.

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 Section 366.06(4) to make such a request.

Conclusion
We feel fortunate to serve Florida, and we want this state to be the most competitive for business, as well as the best place to reside, in the entire United States. We renew this commitment every day, and we are proud to have delivered on our promises.

As a result of our investments in fuel-efficient generation technology, innovative practices and relentless focus on operating efficiently, FPL's customers receive service reliability that is among the best in the country for a price that is the lowest in the state and 25 percent lower than the national average. An increase of 23 cents per day on the base portion of the typical residential customer bill will allow FPL to continue to deliver exceptional service reliability and to invest in advanced technologies that will benefit our customers and our state's economy for many years to come.

We plan to continue delivering the most affordable, reliable energy possible, and we look forward to demonstrating how we will put these new rates to work for our customers and Florida's future.

Sincerely,

A J Olivera

Armando J. Olivera
Chief Executive Officer

Eric Silagy
President

cc: Florida Public Service Commission (via Hand-Delivery)
Hon. Lisa Polak Edgar, Commissioner
Hon. Art Graham, Commissioner
Hon. Eduardo E. Balbis, Commissioner
Hon. Julie Imanuel Brown, Commissioner
Braulio Baez, Executive Director
S. Curtis Kiser, General Counsel
Charles H. Hill, Deputy Executive Director
Marshall Willis, Director of Economic Regulation
Ann Cole, Director of the Commission Clerk and Administrative Services

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J. R. Kelly, Public Counsel