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080677-EI

November 17, 2008

VIA HAND DELIVERY

The Honorable Matthew M. Carter, II
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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

Dear Chairman Carter:

Floridians expect affordable, reliable, clean energy solutions that contribute to a better quality of life, now and in the years to come. The Florida Public Service Commission ("FPSC") itself expects no less on behalf of Floridians. That is why Florida Power & Light Company ("FPL" or the "Company") has been working aggressively to make its infrastructure stronger, smarter, cleaner, more efficient and less dependent on any single fuel source, all of which requires substantial ongoing investment. Even in the difficult economy that we all currently face, FPL must plan ahead and make sound investments to ensure customers' expectations for service are met now and in the future. This is the right path to secure Florida's energy future and, in addition to meeting the expectations of our customers, is consistent with directives and policy guidance of the Legislature and the Commission.

One of today's most important public policy objectives in Florida is providing reliable electric service through clean (i.e., low or no-emitting) sources of generation. FPL's emissions rates make us one of the cleanest electric utilities in the country. We have met new electricity demands with more efficient, state-of-the-art generating facilities that produce less carbon dioxide and other emissions per megawatt hour, and by helping customers reduce electricity usage through conservation and demand-side management programs that further reduce emissions.

FPL's overall performance continues to be excellent, and the service value received by customers remains high. FPL has continued to deliver high quality electric service at below national average costs over an extended period of time, despite cost pressures generally and the significant investments FPL has made in conservation and cleaner generating sources. In fact, FPL bills are 13 percent lower than the average electric bill in Florida and 17 percent lower than the national average, according to the most recent data available from the Florida Municipal Electric Association and the Edison Electric

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Institute. Even with necessary increases to its base rate charges, FPL would expect to maintain its position as a low-cost provider of reliable electric service. FPL is one of the industry leaders in controlling costs in the face of rising costs for the entire industry.

At the same time, FPL's performance also continues to rank among the very best in the industry in many key categories, including fossil generation availability, low emissions, and electrical grid reliability. Such performance provides real value to FPL's customers; however, significant capital and other expenditures will be required to maintain those benefits, improve on other aspects of our performance, and to continue meeting customers' expectations, particularly in today's challenging cost environment.

Over the last few years, the entire electric industry has been facing, and continues to face, major cost pressures. Indeed, many electric utilities in the country and in Florida recently have filed or will soon need to file for an increase in base rates. At FPL, we take pride in having been able to manage costs even in the face of rising costs. Prior to FPL's last base rate proceeding in 2005, it had been more than 20 years since the Company found it necessary to seek an increase in its retail base rates. In fact, during the several years prior to 2005, FPL actually lowered its retail base rates by $600 million in annual revenue requirements and had provided refunds of more than $220 million, resulting in a total of approximately $6 billion in direct savings to customers through the end of 2008. It is noteworthy that FPL achieved these base rate reductions when other utilities around the country continued to require periodic base rate increases or, at best, kept their rates level.

The result of FPL's last base rate proceeding in 2005 was a settlement agreement entered into by all parties to the proceeding and approved by the Commission, following the submission of all direct and rebuttal testimony, months of discovery, and the review of thousands of pages of information by Commission Staff, the Office of Public Counsel and the other parties. That agreement held FPL's base rates flat, but provided for necessary and limited increases to accommodate the large planned capital expenditures associated with the development of generation to meet Florida's expanding requirements (the "Generation Base Rate Adjustment").

The 2005 settlement agreement has served our customers and the Company well. It has provided an appropriate and efficient ratemaking framework, balancing customer needs for reliable and reasonably priced electric service with the Company's need to attract substantial amounts of investment from the equity and debt markets at a reasonable cost during a period in which large capital expenditures are required to continue to reliably meet the electric power needs of Floridians. Conditions, however, have changed dramatically since 2005.

One of the fundamental assumptions underlying the ratemaking and regulatory framework instituted under the 2005 settlement agreement is that base costs, other than those covered by the Generation Base Rate Adjustment, would grow generally at a rate consistent with the growth in the Company's energy sales, thus enabling the Company to cover the rising costs of operating and maintaining the existing infrastructure and building out new infrastructure. That assumption is no longer valid. While the average number of customers on FPL's system has increased by approximately 190,000 since 2006 (the test year in the last base rate proceeding), sales growth has been relatively flat. Thus, we have continued to spend significant amounts of capital to build out an infrastructure that meets the needs of new customers, but there has been no corresponding growth in sales to cover those costs. Additionally, the rising cost trends that FPL had identified in the 2005 base rate proceeding occurred at much higher rates than projected, resulting in dramatic increases in the cost of skilled labor, and commodities and other materials, and most recently, significant increases in the cost of capital. Without growth in sales, these costs are unable to be covered through existing base rates as they have been in the past. At the same time, as noted above, FPL must continue to make substantial investments to preserve the high quality of service our customers justifiably expect.

Given these conditions, we will need to request an increase in retail base rates effective January 1, 2010. FPL intends to file its request in March 2009. Accordingly, this letter is provided pursuant to the requirements of Rule 25-6.140, Florida Administrative Code ("F.A.C.").

We are mindful both of the difficult economy and also of our responsibility to make long-term investments that ensure our ability to deliver affordable, reliable, clean energy in the years ahead. Therefore, FPL will be proposing a targeted, step-wise approach to resetting rates, phasing in the necessary base rate increases. Key elements of FPL's request will include extending certain aspects of the existing regulatory framework -- specifically the Generation Base Rate Adjustment which, as noted above, provides an appropriate and efficient ratemaking framework during a period of intensive capital investment by the utility. This mechanism will be even more important over the coming years given the current turbulent state of the capital markets. FPL also will propose a subsequent year adjustment for 2011 designed to maintain just and reasonable rates into the following year, avoiding the need for back-to-back, expensive, and time- and resource-consuming base rate proceedings. In addition, FPL expects to propose changes to its service charges, which have not been updated since at least 1985. FPL's filing also will propose to evaluate the existing share of costs being borne by the various rate classes, to promote rate parity among, for example, residential and commercial customers.

Additionally, FPL will strongly urge the Commission that maintaining the Company's strong capital structure and overall credit quality will continue to be critical in today's credit-constrained and turbulent financial markets. Indeed, based on recent market events, it is clear that a strong FPL financial position benefits customers by ensuring that the Company has access to debt and equity markets and that such access is at a reasonable cost. Our customers also have benefited from FPL's strong balance sheet during periods of rapid fuel increases and following major hurricanes. FPL's balance sheet, liquidity position and strong credit position have enabled the Company to weather the significant storm seasons we experienced in 2004 and 2005, as well as the current turmoil in the financial markets, without compromising our ability to continue to provide reliable, cost-effective service to our customers. Many lesser rated companies do not have the same flexibility and were forced to draw on their credit facilities for additional liquidity or issue long term debt in unfavorable markets, negatively impacting customers for years to come. Additionally, since September 2005, FPL has issued $2.2 billion of debt with coupon rates that average 5.8% and maturities in excess of thirty years to retire higher cost debt and fund future capital requirements. Our credit spreads (the additional cost FPL pays in excess of U.S. Government securities) are among the lowest in the industry. Customers will benefit from these attractive debt financings for many years to come.

As to the amount of the proposed increase, we continue to finalize our cost studies. However, the 2010 bill increase for a typical residential customer is expected to be in the range of 6 to 9 percent relative to 2006, the year in which FPL's current base rate settlement became effective. Compared to the Jan. 1, 2006, typical 1,000 kilowatt-hour residential customer bill of $108.61, a typical 2010 bill would increase in the range of 6 to 9 percent to approximately $115 to $118, which is well below the cumulative estimated impact of inflation of 12 percent for the period. This bill is based on current fuel price projections and could increase or decrease based on actual fuel prices.

FPL understands the impact any bill increase has on customers and, for that reason, works very hard to keep costs low. We discuss some of those initiatives below in the section of this letter describing the major initiatives to avoid a base rate increase. With that in mind, there are important perspectives from which to consider the proposed base rate increase.

It is significant that the last time FPL was granted a general base rate increase was 1985. Since then FPL has improved efficiency and performance in all major areas of operations on an electric system that has experienced an increase in peak demand of more than 68 percent. FPL currently serves a peak load of 21,077 megawatts ("MW") compared to 12,500 MW served in 1985. As Florida's population has grown, FPL has expanded its system to meet those needs. Today, FPL serves more than 4.5 million customers, approximately 1.9 million or 72 percent more customers than in 1985. Excluding FPL, there are only eleven electric utilities in the United States that have 1.9 million or more customers. Essentially, since 1985 FPL has added to its system the equivalent of another large electric utility, constructing the necessary infrastructure and making the corresponding investment. But despite this massive investment, and taking into account all of the total bill increases due to rising fuel costs, FPL's base rates today are lower than they were more than 20 years ago. Since 1985, consumer prices as measured by the Consumer Price Index have increased 107 percent during the same period. Thus, in inflation-adjusted or real terms, even with the proposed increase, FPL's base rates in 2010 would be 34 percent lower than they were 25 years ago.

As discussed more fully below, while FPL has achieved and will continue to drive for productivity efficiencies in all aspects of its operations, these efforts will only mitigate, but not eliminate, the need for an increase in the current base rate. In furtherance of this proposal, and consistent with the requirements of Rule 25-6.140, F.A.C., FPL submits the following information:

Test Year

For purposes of its request, FPL proposes to use the projected 12-month period ending December 31, 2010 as the test year. As noted above, FPL also intends to request a subsequent year adjustment based on the projected 12-month period ending December 31, 2011 to reflect further cost increases, exclusive of generation costs that FPL proposes to be recovered through the Generation Base Rate Adjustment. FPL's proposed use of projected test periods is consistent with current Commission practice. The projections are based on established forecasting and budgeting systems that are an integral part of the financial controls that FPL uses to manage its operations in the regular course of business. Projected data provide a more representative view of FPL's expected financial condition during the period when new rates would be in effect, and thus for ratemaking purposes are superior to basing new rates on historical data.

Major Factors Necessitating a Rate Increase

We have discussed in general terms the factors that are driving the need for a base rate increase. We describe some of the major factors in more detail below.

To meet the long-term expectations of our customers for affordable, reliable and clean energy, the Company plans to add significant amounts of highly efficient generation resources over the next several years. FPL will propose that the Commission approve the Generation Base Rate Adjustment as an appropriate and efficient regulatory and ratemaking mechanism to handle the large capital expenditures associated with the construction of new generation. But beyond the cost of new generation, the Company will be incurring substantial capital expenditures in several other areas. Specifically, the Company will continue to reinforce and strengthen its transmission and distribution system, increase the efficiency of its nuclear and fossil generation, and add new technology to continue to enhance reliability and bring new benefits to customers. From 2007 through 2010 (the period following the 2006 test year for the last base rate proceeding, through the proposed test year), FPL will incur $5.5 billion in capital investment not recovered through other legislative or regulatory mechanisms resulting in a significant increase in rate base since 2006, the test year for the last base rate proceeding. A significant portion of this capital investment is being driven by new federal and state regulatory requirements, such as material replacement costs to comply with new Nuclear Regulatory Commission rules and expenditures to meet FPSC's electrical infrastructure strengthening requirements.

Significant ongoing investments are required to maintain FPL's nuclear units which are now nearing the end of their originally-licensed operating lives. This maintenance will help ensure the continued efficient operation of these important, clean base-load generating units and the provision of low-cost energy through the end of their extended operating licenses, thus continuing to displace higher cost fossil fuel for the benefit of customers and Florida in general. Of the $5.5 billion in capital expenditures referenced above, more than $1 billion will be incurred on FPL's existing nuclear units, exclusive of the capital expenditures associated with uprates. Similarly, FPL will have incurred more than $900 million of capital expenditures on our existing fossil fleet to maintain our industry-leading performance, also resulting in lower fuel costs for customers. While adding capital in the near term increases the base rate charge, customers benefit through lower fuel costs where such additions preserve or improve efficiencies of the system. In this regard, the impact of FPL's request for a base rate increase will be offset to an extent by lower fuel costs. These same initiatives can lessen the impact of volatile fuel prices over the long term.

Significant investments in new transmission and distribution infrastructure also will be required for FPL to continue improving its electric delivery system to serve at the high degree of reliability customers expect, as well as to meet the FPSC's requirements to strengthen the electrical infrastructure. From 2007 through 2010, FPL will have incurred more than $3 billion of transmission and distribution capital expenditures, a significant portion of the $5.5 billion referenced above.

In addition, FPL is proposing to make a major investment in technology to create a smarter and more efficient delivery system through an advanced metering infrastructure or "AMI." This investment, totaling more than $600 million over the next few years, will provide customers with important information about their energy usage, help customers to better manage their energy costs, and open the door for new potential energy efficiency programs.

As noted earlier, the cost of capital to fund these or any such investments also has recently increased, reflecting the turmoil in the financial markets.

The initiatives we have summarized above represent the commitments that we have made to customers and to our regulators to provide an electric system that is stronger, smarter, cleaner, and more efficient, and to position FPL to meet these needs and expectations now and into the future. Understandably, these efforts require a significant financial commitment that does result in an initial incremental cost to customers. However, our customers and the state of Florida will be well served by the benefits of these initiatives and an electrical infrastructure that is among the most reliable and most cost-effective in the nation and which will continue to support the economic growth and quality of life for Floridians.

As indicated earlier, for years FPL has been either reducing or holding the line on operations and maintenance ("O&M") expenditures despite steady growth in demand and the number of customers served, and while achieving and maintaining high levels of service reliability. Since 2006, FPL, as well as the rest of the industry, experienced significant increases in costs due to: general inflation, cost escalation of commodities and materials, increases in uncollectible accounts, increased regulatory compliance costs, and investment in initiatives necessary to ensure the reliable provision of electric service and to provide long term benefits to customers. Despite the recent downturn in certain commodity price markets, there will be continued upward pressure on O&M over the next several years due to the cumulative effects to date of inflation, customer growth and operational requirements. While FPL maintains a culture of continuous improvement and will aggressively seek additional economies of scale and other operational efficiencies, these opportunities are more limited than in the past and will only mitigate, not eliminate, the need for a retail base rate increase.

Storm restoration costs are a part of the cost of providing electric service in hurricane-prone Florida. Insurance for such losses is not available. Currently, customers only pay for storm restoration costs through a surcharge after the fact. This places an additional cost burden on customers when they may already be incurring costs to repair their homes from storm damage, and also produces potentially greater rate volatility for customers. Perhaps most important, in volatile and constrained credit markets where financial institutions' ability to meet lending commitments can be compromised, such exclusive reliance may be misplaced. Thus, the Company must have the immediate liquidity on hand to ensure it can access resources without any question of its ability to pay for those resources on a timely basis, promoting timely restoration of electric service. These objectives can be met by including in FPL's cost of service an amount reflecting an average annual expected loss (or storm restoration costs). Subject to completion of a detailed loss analysis, FPL is estimating such amount to be on the order of $175 million. Surcharges still play an important role in handling the restoration costs for large storms that exceed the annual expected loss values; but the Company's base rates should be adjusted to include as a natural element of the cost of electric service in Florida an expected level of storm restoration costs.

Although FPL has not finalized the 2010 revenue requirements, excluding the potential impact of a change in depreciation rates pending completion of the detailed study, it appears that an increase in the range of $800 to $950 million will be necessary as a result of the significant cost increases and other factors referenced above.

Actions and Measures Implemented to Avoid a Retail Base Rate Increase

As noted earlier, over the past 20 years FPL has actually lowered its retail base rates, totaling more than $600 million in annual reductions, despite having made substantial capital investments to meet the needs of a customer base that today is more than 1.7 times its size in 1985. Such investments have included more than $5 billion in the construction of new generating capacity and more than $11 billion in the expansion of FPL's transmission and distribution system. Yet today, FPL's total bill, including all of the increases in the cost of fuel, is only 33 percent higher than in 1985, while the Consumer Price Index has increased by 107 percent over that same period. During this same time, FPL has significantly improved overall performance and system reliability. These accomplishments are attributable to a number of efforts and factors, including a regulatory climate and framework that generally have been conducive to such cost-savings initiatives. A few of these achievements are discussed below.

The performance of FPL's generating units has been a major contributor to FPL's ability to control its base rates. As a result of the performance and availability of the Company's existing generating units over an extended period of time, FPL has been able to defer the need for new capacity, resulting in significant benefits and cost savings to customers. Some of the improvements to FPL's generating resources have provided, in effect, additional generation at a relatively low cost compared to the costs of constructing new units. Indeed, FPL's operating performance generally has exceeded industry averages, and frequently is within the top quartile of the industry. FPL's fossil generation availability and reliability performance frequently has been best-in-class among the largest fossil generating companies. FPL's fossil fleet efficiency, as measured by net heat rate (Btu/kWh), has continued to improve when compared to the overall fossil generating industry. In 2007, the heat rate of FPL's fossil fleet was 17 percent better than the industry average, providing lower cost generation to FPL customers. Substantial capital expenditures are necessary to maintain this excellent performance and also to obtain further efficiencies from our existing fleet.

Another key to lower base rates has been the initiative and effort of FPL's management and employees to control the Company's non-fuel O&M expenses. Since implementing a $350 million base rate decrease in 1999 and another $250 million decrease in 2002, and foregoing a larger requested increase in 2005 in favor of a mechanism for more limited increases associated with the addition of certain large capital-intensive projects, FPL has continued to pursue efficiency improvements and cost reductions in all aspects of its operations. In fact, since 1985, the last time the Company was granted a general base rate increase, the Company has succeeded in lowering its non-fuel O&M expenses per kWh by more than 22 percent, while the number of customers served through 2007 increased by 72 percent. Based on the latest available FERC Form 1 data, FPL's total non-fuel O&M expense per customer in 2007 was less than half of the industry average, and O&M per kWh sold was more than 45% lower than the industry average.

Part of FPL's success at controlling costs has been its ability to plan for and respond to changing external factors. For example, in 2008 FPL has aggressively responded to the recent market downturn by revising its expenditure plans. The result of those actions has been a reduction in its planned capital expenditures of nearly $500 million in 2008 and $400 million in 2009. These reductions reflect the drastic slowdown in customer growth that began to manifest itself in late 2007, after the 2008 budget had already been established. This effort will result in a reduction in projected rate base for 2010 of almost $1 billion and the associated revenue requirements.

Such accomplishments, although successful results of FPL's continual focus to achieve top quality performance at below industry average costs, in many cases mean only that we are able to defer and reduce, not totally eliminate, cost increases. In reality, but for all of these initiatives, FPL's base rates would be much higher, perhaps closer to or even exceeding the national average.

Other Matters

As noted above, FPL will request that a change in retail base rates and revised service charges not take effect until January 1, 2010, consistent with the revenue sharing agreement approved by the Commission in Order No. PSC-05-0902-S-EI, dated September 14, 2005.

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

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

Conclusion

Floridians expect affordable, reliable, clean energy solutions now and in the future. FPL has a plan of action to continue to deliver on meeting this expectation.

Our customer bills are among the lowest in the state and well below the national average today, and we're working hard to keep them that way by making smart investments. While these investments in the near term increase base rates, they help to reduce the impact of volatile fuel prices over the longer term, which in turn keeps customer bills lower over the long term as well.

We are mindful of the difficult economy, but we are also responsible for making prudent, long lead-time investments in the electrical infrastructure. Accordingly, we're investing to make our infrastructure stronger every day, in good weather and bad. We're investing in smart technology that gives customers more control and improves reliability. We're doing our part to fight climate change by investing in even cleaner energy. And we're investing to increase fuel efficiency and reduce our reliance on any single source of fuel.

Through these actions, which we believe to be consistent with the vision and policies of the Governor, Legislature and Florida Public Service Commission, we are helping to secure Florida's energy future, its economic competitiveness, and our quality of life.

Sincerely,

AJ Olivera

Armando J. Olivera
President & Chief Executive Officer

cc: Florida Public Service Commission (via Hand-Delivery)
Hon. Lisa P. Edgar, Commissioner
Hon. Katrina J. McMurrian, Commissioner
Hon. Nancy Argenziano, Commissioner
Hon. Nathan A. Skop, Commissioner
Dr. Mary A. Bane, Executive Director
Michael G. Cooke, General Counsel
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