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Is FPL's \$690 million proposed rate hike really needed?

Consumer groups question key parts of the request

By [Julie Patel](#), Sun Sentinel

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Does Florida Power & Light really need to boost base rates \$690 million a year?

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Opponents of the increase, including consumer groups and advocates, are gearing up to fight the proposal at hearings next month. They said FPL's annual profit increased nearly 30 percent since 2009, even though regulators approved just 6 percent of the utility's last base rate hike request.

FPL, the state's largest utility with 4.5 million customers, said the increase would pay for inflation-related costs, grid improvements and a new power plant, among other things, and it would allow the company to earn a fair profit. "Even with the increase, we expect our customer bills to be the lowest in the state and below the national average," said FPL Spokeswoman Alys Daly.

The increase would amount to \$7.09 more a month on the base part of a monthly bill for customers who use 1,000 kilowatt-hours a month. FPL predicts lower fuel costs will offset most of the increase, resulting in an increase of \$1.41 a month on the total bill. Most of the increase would take effect in January, and the rest would start in June.

Regulators have scheduled hearings on the request over 10 days starting Aug. 20, with a vote expected in November. Customers can weigh in on the request at meetings next month in South Florida.

Some key questions raised about the request so far include:

Why does FPL want to charge customers for a \$1 billion power plant it's rebuilding in Brevard County? FPL built about a third of its generating fleet from 1985 to 2005 without any base rate hikes and actually decreased base rates by \$600 million over that time, according to the Florida Retail Federation, which represents more than 9,000 business customers.

As part of its rate proposal, FPL would collect about \$173 million a year for the plant starting in June.

Mike Sole, FPL's vice president of state governmental affairs, said it's not comparable to look at plants during those two decades because FPL was getting so many new customers then, which helped pay expenses for new power plants. He said the new, energy-efficient Cape Canaveral plant will effectively pay for itself: It is projected to save customers more than \$1 billion over its 30-year-life.

Why does FPL want an effective profit on shareholders' investment of 11.5 percent? The national average approved for utilities requesting base rate increases in 2011 was 10.25, and the average the utilities requested was 10.92 percent, according to the Edison Electric Institute.

FPL is requesting an 11.25 percent profit and an additional quarter-percent as a reward if it continues having the lowest typical bill in Florida.

Public Counsel J.R. Kelly, the state's advocate for utility customers, said that's not a good reason. "They may be the lowest but they're also the biggest," he said. "That's certainly too high."

Kelly's office recommends a 9 percent profit and a reduction in base rates by \$253 million.

FPL's profit "seems very generous particularly when you consider FPL's financial history," said Schef Wright, an attorney for the Florida Retail Federation. "They've done just fine."

In early 2010, regulators approved a 10 percent midpoint profit on shareholders investment, or a range of 9 percent to 11 percent, as part of their decision on FPL's base rate request. The utility warned of dire financial consequences for the company, its investors and customers. The predications haven't been realized, and in fact, its parent company reported dividends of 60 cents per share in February, up 27 percent from 47.25 cents per share in late 2009 — before the regulators' decision. FPL's net profit last year was \$1.07 billion, up from \$945 million in 2010 and \$831 million in 2009. The utility and its parent company, NextEra Energy, will report their latest profits Thursday.

FPL said its approved profit margin is the lowest of all five major electric utilities in the state, even though its typical bill is the cheapest.

Sole said a deal FPL struck with consumer groups after the PSC decision helped the utility earn a profit on shareholders' investment of about 11 percent in recent years but the agreement expires in 2013. "You'll hear a lot of folks refer to the last rate case and be magically silent on the settlement agreement," he said.

Why does FPL project lower electricity use this year and next? Most large Florida utilities are projecting an increase in sales, according to consumer advocates. If utilities sell less power, they typically have to spread fixed costs over fewer people, requiring rate hikes.

FPL predicts the average residential customer will use about 13,000 kilowatt-hours of energy in 2012 and 2013 — down from about 14,000 in 2010 and 2011 and a low in the past decade of 13,333 in 2008, according to Wright and a 10-year plan FPL's submitted to regulators in April.

Sole said he can't confirm those figures, but FPL predicts the power needed to meet its highest demand will be higher in 2012 than 2011.

Why does FPL want to charge customers \$502 million in construction costs upfront through base rates?

The South Florida Hospital & Healthcare Association, another major group of utility customers, recommends half of those costs be charged over the life of the equipment. If regulators approved that idea, it would reduce FPL's requested increase by \$26 million, said Ken Wiseman, an attorney for the association.

Sole said FPL has been charging customers that way for "years on end" in accordance with PSC rules.

Why does FPL project having more employees next year? FPL based its payroll costs on having 10,312 employees in 2012 and 10,147 in 2013 when it had 9,921 employees as of May 2012, according

to Kelly's office. "We don't think that's reasonable," he said.

FPL is still preparing a response to that criticism for regulators but its overhead expenses are relatively low, Daly said. "FPL ranks in the best 10 percent of utilities nationwide for keeping operating expenses low, all while providing national recognized reliability and customer service, and the lowest bill in the state," she said.

The state's Public Service Commission will hold meetings to get input from customers Aug. 7 at 9 a.m. in the Miami-Dade County Auditorium, 2901 West Flagler St., Miami; Aug. 7 at 4 p.m. at Florida Memorial University's Lou Rawls Auditorium, 15800 NW 42nd Ave., Miami Gardens; Aug. 8 at 9 a.m. in the Plantation City Council Chambers, 400 NW 73rd Ave., Plantation; and Aug. 8 at 4 p.m. at the South Regional/Broward College Library, 7300 Pines Blvd., Pembroke Pines.

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