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FPL doesn't need rate hike

BY RICK MCALLISTER

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Customers of Florida Power & Light Company should take advantage of the upcoming opportunity to make their voices heard on the company's request for higher electricity rates. They have a chance to make a direct impact on lowering electricity rates by attending the Public Service Commission's hearings on Aug. 7 and 8 in Miami-Dade and Broward counties.

The Florida Retail Federation is representing utility customers opposing the increase, and we do not believe a \$690 million rate hike for FPL is necessary. The current base rates will allow FPL to continue providing the safe and reliable service we have come to expect, and will allow customers to benefit from any reduction in fuel costs.

Because FPL is entitled to recover its fuel costs dollar-for-dollar through its "fuel charge," any reduction in fuel costs must be passed back to customers. So, if the PSC were to deny the requested base rate hike, customer bills would go down by the amount of the lower fuel costs. Fuel costs go up and down, but a base rate increase is very likely forever.

The company argues that its average bills have been decreasing in recent years. They have been going down, and that's good. In fact, we think rates could be even lower.

According to its own filings, FPL's present rates, without any increases, give the company at least \$10.4 billion a year in revenue, even assuming a pessimistic sales outlook. That estimate includes about \$1.2 billion in profit, which is one of the key issues at stake in the rate case.

During these hearings, the term that ratepaying customers should be paying particular attention to is "return on equity," which is another way of saying profit. FPL is seeking an "adjustment" to its return on equity. This adjustment is, in fact, a request for a substantial increase in the percentage of profit FPL is allowed to take from its captive customers.

We believe that FPL is asking for an excessive profit — 11.5 percent after taxes, which is about 18.7 percent before taxes. Allowing FPL an after-tax return of 9 percent is more than enough, and probably generous considering it is a monopoly provider of electricity. By maintaining FPL's return on equity at a reasonable 9 percent, we would reduce the requested increase by nearly half, about \$340 million a year.

Of course, FPL will make even more money if it sells more electricity. In Florida, most other utilities are expecting their sales to go up. In contrast, FPL has based part of its requested rate hike on projections that it will sell less electricity in 2013 than in 2011.

The sales projections in this case matter. We estimate that a 1 percent increase in FPL's annual sales generates about \$44 million in additional base rate revenue. That means their "need" for a base rate increase would be reduced by a comparable amount.

To put the proposed rate increase in perspective, let's look back to FPL's last rate case, filed in 2009. FPL asked regulators for rate increases of more than \$1.25 billion a year. Then, as now, the Florida Retail Federation challenged the request on behalf of FPL customers among our members, and for the benefit of all the ratepaying customers of FPL.

The Public Service Commission ultimately determined that FPL was entitled to increases of only \$76 million a year, a small fraction of what it had been seeking. Since then, FPL has continued to enjoy very high profits as well as substantial increases in the company's stock price.

As a monopoly provider of electricity in some of the nation's largest consumer markets, FPL has a good thing going. As a regulated utility, it has a duty to offer safe and reliable service at the lowest possible cost. FPL's captive customers, both residential and commercial, should not be asked to pay more.

Rick McAllister is president and CEO, Florida Retail Federation. A list of the times and places for the public hearings in Miami-Dade and Broward counties can be found online at miamiherald.com/opinion.

The Public Service Commission will hold the following hearings on FPL's request for a rate hike:

9 a.m. Tuesday, Aug. 7, Miami-Dade County Auditorium, 2901 W. Flagler St., Miami

4 p.m. Tuesday, Aug. 7, Florida Memorial University, Lou Rawls Auditorium, 15800 NW 42nd Ave., Miami Gardens

9 a.m. Wednesday, Aug. 8, Plantation City Council Chambers, 400 NW 73rd Ave., Plantation

4 p.m. Wednesday, Aug. 8, South Regional/Broward College Library, 7300 Pines Blvd., Pembroke Pines