The Business Model of Florida Power and Light Company

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Company Background

Florida Power and Light Company is currently serving 4.9 million customer accounts. It is one of the three largest electric utilities in the USA. The company is serving an estimated 10 million people across almost half of the state of Florida. A typical 1000 Kwh residential customer bill is nearly 25% lower than the national average bill. This is mainly because FPL has a highly fuel-efficient power plant and also due to the company's reliability services, which are more than 99.98%. The company has been ranked at the top in the Southern US. More than 8900 employees are working in the organization. Florida Power & Light is a subsidiary company of NextEra Energy Inc., based in Juno Beach and listed on the New York Stock Exchange (NYSE); it's a company that is widely recognized for its sustainability ethics and diversity and has been ranked no 1 in the Fortune Magazine 2017. The primary focus of the company is to generate, distribute, transmit and sell electric energy (www.fpl.com).

A utility holding company, American Power and Light, purchased electricity firms around Florida from March 1924 till December 1925 and tied them together as Florida Power and Light. It was established in December 1925. FPL replaced Miami Electric Company in January 1926. The Hurricane of 1926 destroyed all the power lines in Miami. FPL, with the help of its parent company, generated two new plants to overcome the results of the Hurricane. By the end of spring 1927, FPL had more than 115,000 customers. Concerning the congressional act that limited utility companies, American Power and Light became an independent public corporation that was listed on the NYSE. The holding company FPL Group Inc. was incorporated in 1984. FPL received the Deming Prize from the Union of Japanese Scientists in 1989, and it was the first non-Japanese company to win such an award. FPL purchased Georgia Power Company based in Atlanta in 1990. In June 2005, FPL acquired Houston-based Gexa Energy Company (www.fpl.com).

Major Management Decisions

Two major decisions that the company made in the past were related to the purchase of a Georgia power company based in Atlanta in 1990. In June 2005, FPL acquired Houston-based Gexa Energy company. These two decisions were based on the fact that the company was focused on the

generation of more and more power and wanted to establish a high number of plants to cater to the increasing demand for power. In the past, many of FPL's plants encountered many problems that even led the company to incur high losses. One of the major decisions that the management made was changing its management style; this new style was based on the Japanese style of management. FPL began stressing quality control, keeping a record of all the problems that the company faced in its power plants and creating special quality control teams. This decision was crucial because after this decision, the company started earning profits and now is the third largest energy provider. In 2001, FPL decided to install a high number of wind power plants to meet the demand for electricity; in this regard, the company installed new plants in Kansas, Texas, Wisconsin, Washington, and Oregon.

The total capacity of these plants was 844 megawatts. This installation greatly helped the farmers. Another important decision that management made was related to establishing the country's largest solar plus storage system with the help of advanced batteries. 10 MW of batteries are connected to 74.5 MegaWatt FPL solar energy centers (www.prnewswire.com). The function of the battery was to store the energy from the sun into the batteries, which could be used when needed. Management made a plan that explains that by 2019, the company is looking to establish four new solar energy centers in different locations in the country (Debora Lima). These decisions help the company to generate affordable, clean energy for customers. These centers will result in net savings for FPL customers over time. The latest management decision made by the company is related to a 10-year power plant site that presents the company's efforts towards increasing the electric generation capacity and meeting the projected incremental resources needed for the period between 2018 and 2027. The company already has one of the cleanest emission profiles among any electric utility in the USA.

Current Trends In Electric Utility Business

Looking back at the year 2017, several changes have been made. For instance, these include a changing fuel mix, increased demand for renewable energy, a deepening commitment to cybersecurity and the proliferation of distributed energy resources. These changes have come unevenly in the USA. Driven by technological progress, reduced costs and the involvement of societal and consumer preferences, the market presence of renewable distributed energy has accelerated.

The industry is facing complex challenges related to managing a revenue downturn while meeting the demands of its technology-conscious consumers. The electric power and utility sector is found everywhere being pulled toward innovation and economizing. According to the Energy Information Administration (EIA) report, it has been shown that the electricity sales growth rate has hovered around 1% since 2002. Demand for electricity has also been reduced in the past five years. This growth rate is steeply down from the growth rate, which was more than this back in the 1980s and 1990s. The report also showed that the rising demand for electricity has come down consistently (www.eia.gov).

The EIA report explained different causes of this downturn by mentioning that older equipment is replaced by new materials, efficiency standards have changed and technological changes have occurred. This trend is mainly due to the slow population growth and the shifting of the economy towards less energy-intensive industries. Innovations in the power technology industry, such as new storage battery options and smartphone-based apps, are advancing at a pace that has surprised developers and adopters (www.eia.gov).

Company Business Model

In billing and payment options, the company provides ways to make payments, ways to manage the electricity account and means to receive the bills. This head deals with all the things that a customer might have to go through. In the industry resources head, the company provides information to make smart decisions related to buying a new air conditioner. One can purchase the equipment owned by the company by way of auctions conducted in the company. Underways to save the head, the company provides necessary information regarding how a business or person can protect most of its electricity cost. The programs offered by the company help one's business to take control of its energy expenses so one can reduce its costs and keep its operation running smoothly and efficiently.

The company also provides information needed to make a smart decision related to the use of efficient, practical application of the electricity supplied by the company. A company always looks for things to be changed for the better. A company uses sustainable and cleaner fuels to offset its fossil fuel use. Other businesses operating in the Florida industry can buy the company's products so that they can also use them and make the business effective and efficient. The benefits associated with the use of biodiesel blends are cost-effectiveness, no trade-offs in engine performance and safety for all diesel engines. For services that the company offers, the company charges for them. These are the ways by which a company makes money. The primary function of the company is to generate and transfer energy to businesses, which it charges, thereby making money (www.fpl.com).

Market Structure For Utility Companies

The USA electric industry contains over 3000 private, public and cooperative utilities. The sector also includes more than 1000 independent power generators. Given below is the diagram that shows the revenue share from end-users of electricity in 2014. The report was published by the Energy Information Administration (EIA) of the USA (www.eia.gov).

Investor Owned Utilities

IOUs are privately owned companies and are subject to state regulations. A combination of bondholder debt and shareholder equity finances the IOUs. It has been observed that most of the IOUs are large. Most of them have multi-fuel electricity and natural gas. Exelon Corporation, Duke

Energy, and Dominion Resources are some of the largest IOUs in the USA.

Publicly Owned Utilities

Those IOUs that are owned by the government or municipally owned are publicly owned utilities (POUs). These are exempted from the regulations by the state regulatory commission. It is assumed that POUs keep the customers in mind while setting rates and standards.

Cooperative Utilities

Those utilities that are owned by the customers are cooperative utilities. These utilities are regulated by the board of directors. There are ten members of the committee. Mostly these utilities are formed in rural areas of the country where the customer base is meager.

Federal Power Agencies

These agencies consist of four power marketing agencies. The central role of these agencies is in transmission and electric power systems. Most of the federal agencies own their power plants.

Power Marketers

There are hundreds of companies that are registered as wholesale power suppliers in the industry. None of these companies have their power plants. Mostly, they buy power from other suppliers on a long-term basis and then resell it. These companies have their brokers who arrange the transactions, but they never take ownership of the electricity (Matt Philips).

The Impact Of Regulation

Florida Public Service Commission aims to ensure that customers receive the most essential services they need in their lives safely and reliably. These services include water, power, gas, and telephone. Regulations from the government dominate the utility sector of the USA. Most of the services related to utilities received by Americans are from private companies. These companies are regulated at the state level by the Public Service Commission. More significant state and federal power utilities are run directly by the government (Kenneth L Wiseman). There are no areas where the government does not impose regulations. Currently, five primary federal laws affect the electric industry.

PURPA

The Public Utility Regulatory Policy Act (PURPA) was passed in 1978 as a part of the National Energy Conservation Policy Act. This act encourages environmentally conscious and energy-efficient production. The primary purpose of this act was to promote the efficiency of electric utility facilities, help maintain affordable rates and promote conservation of energy. In this act, two classes of energy producers are explained: first are those who are small-scale producers and those who generate electricity as a by-product of any other activity.

Federal Power Act

This act deals with the development of hydroelectric projects in the USA. The action was incorporated in 1920. Federal Power Commission was established for this act as the licensing authority for the acquisitions of plants. This commission regulates the interstate activities of natural gas and electric power. Now, FPC is governing nonfederal hydropower projects.

EPAct

There are two versions of EPAct established; the first was in 1992, and the second was in 2005. An act of 1992 amended the federal law of 1935. This addresses most of the aspects of energy policies like the creation of exempt, energy efficiency and natural gas imports and exports. The act also provides regulations for the building of a particular fuel vehicle on federal and state grounds.

FERC Order 888

FERC issued order 888 in 1996; this order played a crucial role in the opening of the competition in energy markets in the USA. The order required transmission providers to offer open access transmission to wholesale transmission customers on a nondiscriminatory basis. The law also gives rights to recover the standard cost that a company has incurred from energy customers.

FERC Order 1000

It is a proposal by FERC to reform the electric transmission planning with the hope of removing barriers to the development of transmission facilities. The requirement of this order for public utility transmission providers is to improve the transmission planning process and allocate costs for new transmission facilities. It is mandatory that every public utility transmission provider participates in the regional transmission process.

FERC also issued order 2000 that encourages the creation of ISOs and RTOs. All the PUTPs

participating in an ISO/RTO must relinquish control other than ownership. Central control of the transmission facilities is intended to provide benefits to all the stakeholders with the help of regional coordination of transmission. Both ISOs and RTOs have their tariffs on file with FERC, which establishes the rules and regulations. Each of the RTOs/ISOs operates in the organized energy market. This will act as a clearinghouse for the sale of products. There are many ISOs/RTOs found in the organized capacity markets. At the distribution level, regulations vary by state. In some countries, they offer a retail choice in which a local authority will provide distribution services in a franchised territory. However, electric energy commodities are offered for sale to the end users by competitive suppliers. The remaining states use the traditional regulatory method in which each utility sells and distributes the energy to the end users as a bundled product.

Economic Analysis Of Utilities Pricing

Public utilities typically provide goods and services using a physical or virtual network infrastructure. These utilities can be privately owned, government-owned or customer-owned. Most of the products provided by public utility companies are water, electricity, gas, telecommunication and postal delivery services. In the USA, different forms of ownership can be found in the same industry. For instance, in the case of the electricity supply industry, there are privately owned utilities, publicly owned utilities and government-owned services as well. Mostly the argument made on these utilities is related to the fact that they have a monopoly in their industry. Although one firm may be able to meet the current demand of the market by cutting or reducing its costs, in the future, this may not be the case as the number of customers and their purchasing power grow. There has been a debate going on regarding what price a company should charge for a product that is affordable and reasonable as well.

The amount that recovers the firm’s operating cost and which will meet the legal standards of a fair price is known as a cost-effective price and is sometimes referred to as a cost of service regulation. When the regulatory process of the cost of service begins, it sets a rate that allows the public utility to recover its operating expenses. In the case where the company makes higher profits at this price, then the company has the right to keep all the revenue. If a company earns a lower rate of return on this price, then, in this case, the shareholder should accept a lower rate of return. Utilities typically require substantial investments in a network infrastructure. One cannot predict the demand for a product in the future, so it is possible that it might not need to serve the needs of the market.

Price Of Residential Services

Investor-Owned Utility	Minimum Bill $	100Kw $	250Kw $	500Kw $	750Kw $	1000Kw $	1500Kw $

Florida Power & Light Company	5.90	14.58	27.58	49.29	70.95	92.63	146.02
Florida Public Utility Company	12.00	25.90	46.74	81.47	116.20	150.93	220.40
Gulf Power Company	10.00	21.30	38.27	66.52	94.77	123.02	179.54
Progress Energy Florida	8.76	20.25	37.51	66.26	94.77	123.73	196.63
Tampa Electric Company	10.50	20.46	35.39	60.26	85.13	110.00	159.76

Source: FPSC Comparative Rate Statistics

The above figure explains the rate price charged by the Florida Power and Light Company, along with other companies in the same domain, in 2015. One can see that the price charged by the company is relatively lower than that of other companies. This is mainly because of the long-term management decisions where they anticipated how to meet the demand of the market and also due to the excellent services provided by the company to its customers. However, now the company is trying to change its base rates. Every customer pays the same customer charge price of $ 7.87 every month. Now, FPL is trying to increase it by 27%, to $10. These stats are obtained from the documents that the company filed with the Florida Public Service Commission. This $10 will cover the cost of billing, meter, and customer service. In the documents, it is mentioned that residential customers would see a base energy charge of 4.9 cents in the first year, then 6.959 cents in the coming year, and it will go on. In the current year (2016), residential customers will pay 6.038 cents for each kilowatt-hour above 1000 kW, and FPL wants to charge 6.7 cents in 2017, 6.95 in 2018 and 7.16 cents in 2019 (Susan Salisbury).

FPL Controversies And Lawsuits

A lawsuit was filed against Florida Power and Light and Duke Energy Florida alleging that the monopoly electricity providers force millions of Florida people to pay criminal charges concerning the connection with their electricity rates to aid the companies (Robert Trigaux). Another suit was filed by the environmentalists against the fact that the plant had violated the Clean Water Act by leaking dirty water from its Turkey Point cooling canals into Biscayne Bay. The city of Coral Gables has threatened

legal action in a letter to FPL by claiming that the company has been slow to act after Hurricane Irma knocked out the power in Coral Gables (Jenny Staletovich).

Current Issues With Florida Power And Light

One of the most significant issues that the company is facing is related to the after-effects of Hurricane Irma. There are many places where there's no power, and they are continuously approaching and asking FPL when they will get their power back (Amanda Batchelor). Coral Gables has also filed a case against the company alleging that it hasn't done anything regarding the power matter, and people are striving for the power (Jenny Staletovich). This issue is one of the most prominent ones that the company is facing right now. It has been said in one of the reports that nearly 2 million people woke up in the morning without having power in their houses.

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