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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's Petition for Approval of Arrangement To Mitigate Unfavorable Impact of St. Johns River Power Park	Docket No. 20170123-EI Filed: August 18, 2017

FLORIDA POWER & LIGHT COMPANY'S PREHEARING STATEMENT

Pursuant to Florida Public Service Commission ("FPSC" or the "Commission") Order Nos. PSC-2017-0270-PCO-EI and PSC-2017-0214-PCO-EI, Florida Power & Light Company ("FPL" or the "Company") hereby submits its Prehearing Statement regarding the issues to be addressed at the hearing scheduled for September 13, 2017.

1. WITNESSES

WITNESS	SUBJECT MATTER	ISSUES
Scott Bores	Economic and strategic benefits to customers	2, 3, 5 and 10
Keith Ferguson	Accounting treatment, regulatory reporting and ratemaking treatment	7, 8 and 9
Sam Forrest	Details of the SJRPP Transaction, customer benefits and cost savings	2, 3, 4 and 6

2. EXHIBITS

Witness	Subject Matter	Exhibit No.
Scott Bores	Summary CPVRR Analysis for Retirement of SJRPP	**SRB-1**
Keith Ferguson	Proposed Journal Entries	**KF-1**
Keith Ferguson	SJRPP Capital Recovery Schedules	**KF-2**
Sam Forrest	Asset Transfer and Contract Termination Agreement between FPL and JEA, dated May 17, 2017	**SF-1**

3. STATEMENT OF BASIC POSITION

FPL seeks Commission approval of a series of requests that will allow FPL and JEA to shut down the jointly owned St. Johns River Power Park Coal Units #1 and #2 ("SJRPP"), a 1322 megawatt coal-fired, electric generating plant located in Jacksonville, Florida, as early as January 5, 2018, which will facilitate early termination of FPL's obligation to purchase energy and capacity from SJRPP (the "SJRPP Transaction"). FPL projects that, if approved by the Commission, the SJRPP Transaction will produce $183 million (CPVRR) in customer savings, starting in Year 1 and continuing thereafter. Commission approval of the SJRPP Transaction will also have a positive impact on Florida's emission profile which will be reduced annually by almost 5.6 million tons of carbon dioxide ("CO_2"), 10.3 tons of nitrogen oxides ("NOx") and 2.8 tons of sulfur dioxide ("SO_2") based on the projected unit dispatch. Once SJRPP is shut down, FPL will generate 97% of its electricity from clean sources.

Background

In 1981, the Commission approved the application of FPL and JEA for a determination of need for SJRPP. FPL and JEA thereafter entered into a Joint Ownership, Construction and Operation Agreement of SJRPP (the "JOA") in 1982, with JEA owning an 80% interest and FPL owning the remaining 20% interest. Pursuant to the JOA, FPL takes its 20% share of the generation capacity of SJRPP and has an obligation to purchase an additional 30% of SJRPP's generation capacity from JEA. FPL therefore controls 50% of SJRPP's dispatch (subject to a megawatt-hour cap) and is responsible for 50% of the operating costs through the term of the existing power purchase agreement with JEA that is contained in Article 8 of the JOA (the "Article 8 PPA") and, thereafter, 20% of such costs. The Commission thereafter approved recovery through the Capacity Cost Recovery ("CCR")

Clause the capacity payments to JEA under the Article 8 PPA. See Order Nos. PSC-1994-1092-FOF-EI and PSC-2010-0153-FOF-EI.

SJRPP was designed as a base-load asset when it entered service in 1988, and although it has operated effectively and reliably since that time, its contributions to FPL's generation stack have been largely displaced by cleaner and more fuel-efficient natural gas–fired combined cycle units. Today, SJRPP is one of the highest cost units FPL operates, and it makes sense both economically and environmentally to retire the unit from service.

The Asset Transfer and Contract Termination Agreement

On May 17, 2017, FPL signed the Asset Transfer and Contract Termination Agreement (the "ATA") with JEA to terminate the JOA of SJRPP. Under the ATA, FPL would pay to JEA a $90.4 million Shutdown Payment. In return, JEA would shut down SJRPP as early as January 5, 2018, which would have the effect of terminating the above market capacity payments and FPL's other obligations under the Article 8 PPA. FPL and JEA will also enter into contracts, with third parties, for the dismantlement and remediation of the facility and will share the costs of this work in accordance with their respective equity ownership percentages, with FPL currently having reserved $22 million for its portion. Following dismantlement and remediation, FPL will transfer to JEA at zero cost FPL's interest in the SJRPP facilities that JEA has chosen to retain (*i.e.,* land, the electric switchyard, certain railway assets). This transfer will constitute the closing of the transaction.

Benefits of the SJRPP Transaction

The early termination of the JOA and shutdown of SJRPP is projected to yield approximately $183 million in CPVRR savings for customers over the analysis period of January 1, 2018 through December 31, 2052. FPL calculated these projected savings by comparing FPL's total system costs assuming the SJRPP Transaction is approved and closes, versus FPL's total system costs absent approval of the Transaction (*i.e.*, with the Article 8 PPA remaining in place through the end of its term and the JOA remaining in place until the projected retirement of SJRPP in 2052). In addition, the SJRPP Transaction is expected to yield substantial environmental benefits. The SJRPP coal units are high emitters of CO_2 and other pollutants such as SO_2 and NO_x. FPL anticipates that the shutdown of the SJRPP facility will reduce CO_2 emissions in Florida by over 5.6 million tons per year, NOx emissions by 10.3 tons and SO_2 emissions by 2.8 tons, based on the projected unit dispatch. Once SJRPP is shut down, FPL will generate 97% of its electricity from clean sources.

Proposed Regulatory Accounting Treatment for the SJRPP Transaction

FPL proposes recovery through the establishment of three separate regulatory assets, recovery in the shutdown year for remaining fuel inventory, and refunds to customers for the suspension liability, deferred interest liability and the dismantlement accrual related to the Article 8 PPA. Each of those forms of regulatory accounting is addressed below, specifically in FPL's position on Issue 7.

Expedited Treatment

FPL requests that the Commission consider this matter and issue an order on this Petition by no later than December 1, 2017, in order to allow for SJRPP to be shut down as early as January 5, 2018 and thus fully realize the projected customer savings. Closing the SJRPP Transaction is contingent upon a final, non-appealable Commission order approving the requests set forth in this Petition and the accompanying testimony. The $183 million (CPVRR) in customer savings projected to result from the SJRPP Transaction are premised on shutting the plant down as early as January 5, 2018. Customer savings will diminish if the closing is delayed, because FPL has ongoing payment obligations under the existing Article 8 PPA as well as continuing co-owner obligations until SJRPP is shut down.

4. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1A: **Contested** Does the request by FPL to defer amortization of the Early Retirement Regulatory Asset and the Asset Transfer Regulatory Asset until the next time FPL's base rates are adjusted in a rate case violate the terms of the October 6, 2016 Stipulation and Settlement between FPL, OPC, the South Florida Hospital and Healthcare Association and the Florida Retail Federation, including but not limited to, paragraphs 4 and 7 of said Stipulation and Settlement? (OPC Proposed Issue)

ISSUE 1B: **Contested** Does the request by FPL to defer amortization of the Early Retirement Regulatory Asset and the Asset Transfer Regulatory Asset until the next time FPL's base rates are adjusted in a rate case violate the terms of the October 6, 2016 Stipulation and Settlement between FPL, OPC, the South Florida Hospital and Healthcare Association and the Florida Retail Federation, in particular paragraphs 4 and 7 of said Stipulation and Settlement? (FPL Proposed Alternative Language)

FPL: No.

ISSUE 2: Did the existing JOA provide FPL with any reasonable, lower cost alternatives to the proposed SJRPP Transaction? If so, did FPL take reasonable steps to evaluate such alternatives, if any, in selecting the proposed SJRPP Transaction?

FPL: No. Operating the plant pursuant to the JOA has become uneconomic. This is a consequence of the fundamental characteristics of the plant, which could not be addressed effectively through adjustments to the way that it is operated. SJRPP was designed as a base-load asset when it entered service in 1988. Although it has operated effectively and reliably since that time, its contributions to FPL's generation stack have been largely displaced by cleaner and more fuel-efficient natural gas–fired combined cycle units. Therefore, FPL approached bi-lateral discussions with JEA knowing that the best option for FPL's customers was to exit SJRPP and the JOA. As this dialogue progressed, JEA arrived at the same conclusion with respect to its customers, and the decision was jointly made to retire the unit. (Forrest, Bores)

<u>ISSUE 3</u>: If the Commission approves FPL's proposed SJRPP transaction, how will existing contracts between third party providers and the co-owners (JEA and FPL) be handled, what are the projected costs of fulfilling or terminating such contracts, and how should these costs be recovered?

FPL: There are two contracts with third parties as described in Schedule 1.01(c) to the ATA that will be terminated if the Commission approves the SJRPP Transaction as proposed by FPL. FPL expects no costs associated with the termination of the contracts so there should be no need for FPL to seek any recovery related to these contracts. FPL and JEA are currently involved in two disputes related to coal transportation, one with the rail car lessor and the other with the railway used to deliver the rail cars to SJRPP. These pending disputes arise out of contracts that have already expired, and the disputes are independent of the SJRPP transaction. Consistent with current practice for fuel-related costs, FPL proposes to recover its share of the cost of resolving those disputes through the FCR Clause. (Forrest, Bores)

<u>ISSUE 4</u>: What are the operational and regulatory risks associated with FPL's proposed SJRPP transaction, and has FPL appropriately accounted for these risks under the transaction?

FPL: The operational and regulatory risks associated with SJRPP will be reduced as a result of the SJRPP Transaction; therefore, there is no need to account for them separately in the transaction. (Forrest)

<u>ISSUE 5</u>: Is the proposed SJRPP Transaction reasonably expected to be cost-effective?

FPL: Yes. The SJRPP Transaction is projected to produce $183 million (CPVRR) customer savings over the analysis period of January 1, 2018 through December 31, 2052. The SJRPP Transaction will also result in substantial reductions in SO_2, NO_x and CO_2 emissions. (Bores)

<u>ISSUE 6</u>: Is FPL's proposal to enter into the Asset Transfer and Contract Termination Agreement and terminate the existing JOA (including the power purchase agreement with JEA) prudent? If so, should the Commission approve the proposed SJRPP transaction?

FPL: Yes, the proposal to enter into the ATA and terminate the existing JOA (including the Article 8 PPA) is prudent and should be approved by the Commission. Although SJRPP has operated effectively and reliably during its years of operation, its contribution to FPL's generation stack have been largely displaced by cleaner and more fuel-efficient natural gas–fired combined cycle units. Operating the plant pursuant to the JOA has become uneconomic. FPL is proposing to shut down an uneconomic plant, which is projected to produce $183 million (CPVRR) in customer savings starting in year one and continuing thereafter, while also having a positive impact on Florida's emissions profile. (Forrest)

<u>ISSUE 7</u>: If the Commission approves FPL's proposed SJRPP transaction, what is the proper accounting treatment for the transaction?

FPL: The proper accounting treatment for the SJRPP Transaction is as follows: (1) establishment of a regulatory asset of approximately $90.4 million for the Shutdown Payment (the "Shutdown Payment Regulatory Asset"), with recovery through the CCR Clause of (a) amortization of the regulatory asset over the remaining Article 8 PPA term, which expires in October 2021 and (b) a return on the unamortized balance calculated at FPL's weighted average cost of capital ("WACC") that is used for adjustment clause proceedings; (2) establishment of a second regulatory asset for FPL's unrecovered investment associated with the SJRPP assets owned by FPL that are being retired early (the "Early Retirement Regulatory Asset"), with amortization to begin when base rates are next set in a general FPL rate case and continuing over a 10 year period, consistent with the capital recovery schedules approved in FPL's most recent rate case (recovery of the base portion of the retired assets would be amortized to base rates, while the Environmental Cost Recovery ("ECR") Clause portion would be amortized in the ECR Clause with a return on the unamortized balance at FPL's WACC); (3) establishment of a third regulatory asset for the loss resulting from FPL's transfer to JEA of FPL's ownership share in SJRPP assets that JEA chooses to retain (the "Asset Transfer Regulatory Asset"), with amortization through base rates to begin when FPL base rates are next set in a general rate case and continuing over the same 10 year period; (4) recovery of the loss resulting from FPL's transfer to JEA of FPL's ownership share in fuel inventory remaining at the time of shutdown (the "Inventory Transfer Recovery") through the Fuel and Purchased Power Cost Recovery ("FCR") Clause in the year when SJRPP is shut down (expected to be 2018); and (5) refund to FPL customers of the suspension liability, deferred interest liability and the dismantlement accrual related to the Article 8 PPA over the remaining term of the Article 8 PPA, as set forth in Exhibit KF-1, page 2 to the prepared direct testimony of FPL witness Keith Ferguson. (Ferguson)

ISSUE 8: When should the amortization of the Shutdown Payment Regulatory Asset begin?

FPL: Amortization of the Shutdown Payment Regulatory Asset should begin at the time the plant is shut down (expected to be in January 2018) and to continue over the remaining term of the Article 8 PPA, or approximately four years. (Ferguson)

ISSUE 9: When should the amortization of the Early Retirement Regulatory Asset and the Asset Transfer Regulatory Asset begin?

FPL: Amortization of the Early Retirement Regulatory Asset and the Asset Transfer Regulatory Asset should begin when base rates are next set in a general base rate case and continue over a 10 year period, consistent with the capital recovery schedules approved in FPL's most recent rate case. (Ferguson)

ISSUE 10: If the Commission approves FPL's proposed SJRPP transaction, what is the proper rate of return on the associated regulatory assets and liabilities?

FPL: The proper rate of return to be applied to FPL's unrecovered regulatory assets and liabilities recovered through the CCR Clause is FPL's WACC that is used for adjustment clause proceedings. (Bores)

ISSUE 11: Should this docket be closed?

FPL: Yes, this docket should be closed once a final order is issued approving the SJRPP Transaction and associated regulatory accounting.

5. STIPULATED ISSUES

FPL: None at this time.

6. PENDING MOTIONS

FPL: None at this time.

7. PENDING REQUESTS FOR CONFIDENTIALITY

1. FPL's request for confidential classification of certain information provided in response to Staff's 1st Request for Production of Documents (No. 1), dated July 11, 2017. [DN 05808-2017]

2. FPL's request for confidential classification of certain information provided in response to Staff's 1st Request for Production of Documents (No. 11), dated July 11, 2017. [DN 05808-2017]

8. OBJECTIONS TO WITNESS QUALIFICATIONS AS AN EXPERT

FPL: None at this time.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

There are no requirements of the Order Establishing Procedure with which FPL cannot comply.

Respectfully submitted this 18th day of August 2017.

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CERTIFICATE OF SERVICE

Docket No. 20170123-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service on this 18th day of August 2017 to the following:

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