State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: May 23, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Barrett) MCB ALM
Division of Economics (Guffey, Higgins) DH WBM JGH
Office of the General Counsel (Brownless) ESD MN

RE: Docket No. 20170231-EI – Petition for approval to transfer Martin-Riviera Lateral Pipeline to Florida Southeast Connection and implement associated rate adjustments, by Florida Power & Light Company.

AGENDA: 06/05/18 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On October 31, 2017, Florida Power & Light Company (FPL or the Company) filed a Petition for Approval to Transfer the Martin-Riviera Lateral Pipeline to Florida Southeast Connection, LLC (FSC) and Implement Associated Rate Adjustments (FPL Petition). Attached to the FPL Petition were declarations and attachments from FPL witnesses Robert E. Barrett, Jr., Renae B. Deaton, and Sam A. Forrest.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (Public Law No. 115-97) (New Tax Law), which became effective January 1, 2018. The New Tax Law provided, among other things, for the reduction in federal income tax rates from 35 percent to 21 percent.

On February 14, 2018, FPL filed an Amended Petition for Approval to Transfer the Martin-Riviera Lateral Pipeline to Florida Southeast Connection, LLC and Implement Associated Rate Adjustments (Amended Petition). In its Amended Petition, FPL recalculated the data from its original pleading to conform with lower federal income tax rates, and updated the declarations and attachments.

The pipeline and the related equipment at issue in this proceeding is owned and operated by FPL, and stretches roughly 38 miles between 2 natural gas-burning generating stations in Florida. The 20" diameter natural gas pipeline originates at the Martin Next Generation Clean Energy Center (Martin Plant) located in Martin County, Florida, and terminates at the Riviera Beach Clean Energy Center (Riviera Plant) in Palm Beach County, Florida. The Martin-Riviera lateral pipeline entered commercial service on April 1, 2014, and is solely dedicated to providing natural gas to the Riviera Plant. The associated revenue requirements for the Martin-Riviera lateral pipeline are currently being recovered through FPL's base rates.

FSC is a FERC-regulated natural gas company that owns and operates a 126-mile interstate natural gas pipeline network in Florida. The Houston, Texas-based company is a wholly-owned subsidiary of NextEra Energy, Inc., and the proposed transfer would essentially extend FSC's current pipeline network from Osceola County, Florida, to the Riviera Plant in Palm Beach County, Florida.

By the original and amended petitions, the Company is implementing Paragraph 17 of the comprehensive Stipulation and Settlement Agreement that resolved the Company's 2016 rate case.[1] The Company seeks Commission approval to do the following:

1. Transfer ownership of the pipeline assets and related equipment from FPL to FSC; and

2. Implement base and cost recovery factor adjustments stated in Paragraph 17(b) of the Stipulation and Settlement Agreement and approve the associated tariff sheets, effective September 1, 2018.

The Commission's jurisdiction to consider this matter derives from the Commission's authority to set fair and reasonable rates, found in Section 366.05, Florida Statutes.

[1]The 2016 Stipulation and Settlement Agreement was approved by Order No. PSC-2016-0560-AS-EI (Settlement Order), issued December 15, 2016, in Docket No. 20160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*.

Discussion of Issues

Issue 1: Should the Commission approve FPL's Amended Petition for approval to transfer the Martin-Riviera lateral pipeline to Florida Southeast Connection and implement the associated rate adjustments?

Recommendation: Yes. The Commission should approve FPL's Amended Petition to transfer the Martin-Riviera lateral pipeline to Florida Southeast Connection. The associated rate adjustments should become effective with the September 2018 billing cycle, which begins on September 1, 2018. The Commission should give staff authority to administratively approve the tariff sheets implementing the approved rate adjustments. (Barrett, Guffey, Higgins)

Staff Analysis: In early October 2016, FPL entered into a comprehensive Stipulation and Settlement agreement with certain parties in its rate case docket, Docket No. 20160021-EI. At that time, FPL proposed a conceptual framework for transferring the Martin-Riviera lateral pipeline to FSC which identified four conditions that needed to be met in order to implement the asset transfer:

1. FPL must seek the necessary regulatory approvals that would authorize it to transfer the pipeline asset with all related equipment and inventory to its affiliated FERC-regulated natural gas company, FSC, upon a showing that this transfer will result in customer savings on a cumulative present value revenue requirement (CPVRR) basis pursuant to FPL’s negotiated contractual terms with FSC for firm gas transportation;
2. The Martin-Riviera pipeline assets are to be transferred at their net book value as of the transaction date;
3. FPL is to request approval to implement simultaneous changes to lower base rates and adjust fuel rates to reflect the projected transportation charges; and
4. FPL is to implement the base rate adjustment as a percentage reduction in base rates for every rate class.

FPL contends that it has met these conditions, and requests the Commission acknowledge September 1, 2018, as the effective date for all purposes.

Purchase and Sale Agreements

In his original and amended declarations, witness Forrest explained that in addition to the principle sales agreement between FPL and FSC, a number of associated agreements were needed related to the provision of firm natural gas transportation service.[2] The principle sales agreement was signed and executed on October 27, 2017. An Amendment to this agreement was signed on February 9, 2018, setting the net book value and purchase price at $167,415,732.

Showing of CPVRR Cost Savings

Under the terms of the long-term natural gas transportation and service agreement between FPL and FSC, FSC will provide firm gas transportation service to FPL under a negotiated rate based

[2] A total of four agreements are included in Attachment SAF-1, which accompanied the Amended Declaration of Sam A. Forrest. Staff notes that some information contained in Attachment SAF-1 is confidential.

on the maximum daily quantity of 300,000 dekatherms, which equals the quantity of natural gas FPL has available to it through its original ownership of the pipeline. In Attachment REB-1, witness Barrett provided an annualized summary of the CPVRR analysis FPL performed, which shows Net Customer Savings of $4.4 million, based on using a natural gas transportation and service agreement with a total term of 40-years (2018-2057).[3] The 40-year term is based on an initial 24-year term for the contract, followed by three successive 5-year extensions. In its Response to Staff's First Data Request, the Company stated:

> A term of 24 years was chosen so that the FPL contract with the Florida Southeast Connection (FSC) pipeline for gas transportation on the Riviera Lateral would sync up with FPL's existing contract for gas transportation on FSC's existing pipeline from the central Florida hub to the Martin Plant. The term of FPL's existing central Florida hub to Martin Plant agreement with FSC is 25 years effective July 1, 2017. If the Riviera Lateral transfer is effective on July 1, 2018, both of these contracts would have identical remaining terms. In addition, both contracts include the right for FPL to exercise up to three successive five year extensions resulting in the possibility a total of 40 years for the existing contract and 39 years for the Riviera Lateral contract.

In another response, FPL stated that the 40-year term is consistent with the current useful life of the divested pipeline asset.

As reflected in Attachment REB-1, the estimated depreciation expense (savings) of approximately $65 million on a CPVRR basis, or approximately $160 million on a nominal basis, is assumed to be generated by transferring the Martin-Riviera Lateral Pipeline. Staff verified that these amounts were appropriately calculated using currently-approved depreciation rates.[4] The Company's current depreciation rates were ordered as part of its 2016 Stipulation and Settlement Agreement.[5] The projected depreciation expense includes amounts related to both the Martin-Riviera Lateral, and a relatively small amount of forecasted capital expenditures in support of the pipeline.

Rate Impacts for Customers and Notification

In her original and amended declarations, witness Deaton explained that simultaneous rate changes will impact customer bills for the period September through December 2018. As noted previously, FPL is currently recovering the revenue requirements for the Martin-Riviera pipeline lateral through the Company's base rates. Upon approval of the FPL Petition, the Company will no longer own this asset, and the lower revenue requirement will be reflected as a $0.22 per

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[3]Staff notes that certain information contained in Attachment REB-1 is confidential. Although year-by-year data is provided in Attachment REB-1, this information is confidential, FPL acknowledged, however, that the Net Customer Savings result for individual years would show that in its CPVRR analysis is "front-end loaded with net savings in the initial years followed by net costs in the outer years."

[4]Order No. PSC-2016-0560-AS-EI, issued December 15, 2016, in Docket No. 20160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*; Docket No. 20160061-EI, *In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company*; Docket No. 20160062-EI, *In re: 2016 depreciation and dismantlement study by Florida Power & Light Company*; and Docket No. 20160088-EI, *In re: Petition for limited proceeding to modify and continue incentive mechanism, by Florida Power & Light Company*.

[5] Id.

month reduction to the Base Charge component of the bill for a residential customer using 1,000 kilowatt-hours of electricity. This reduction is coupled with an elevated Fuel Cost Recovery charge of $0.20, which reflects the incremental amount of cost recovery necessary for FPL to recoup the cost of the natural gas transportation and service agreement it entered into with FSC, as shown in Column 6 of Table 1-1. No other billing components change, and the net difference is shown as a reduction of $0.02/month, as illustrated in Table 1-1 below:[6]

[6]The proposed changes for the instant petition are shown in Columns 5 and 6 of Table 1-1. For informational purposes, the billing changes that are proposed in FPL's Petition for Mid-Course Corrections to its 2018 Capacity and Environmental Cost Recovery Factors are shown in Columns 3 and 4 of Table 1-1. Also, the data in Table 1-1 does not reflect any of the storm-related charges attributable to named storms that impacted FPL's service territory in the 2017 hurricane season.

Table 1-1
FPL Typical 1,000-kWh Residential Customer Bill Comparison
for the period July-December, 2018

(1)	(2)	(3)	(4)	(5)	(6)
Component	Current April 2018	Proposed[7] July-August 2018	Net Difference[8]	Proposed[9] September-December 2018	Net Difference[10]
Base Charge	$67.10	$67.10	$0.00	$66.88	($0.22)
Fuel Cost Recovery	$22.73	$22.73	$0.00	$22.93	$0.20
Energy Conservation Cost Recovery	$1.53	$1.53	$0.00	$1.53	$0.00
Capacity Cost Recovery	$2.57	$2.34	($0.23)	$2.34	$0.00
Environmental Cost Recovery	$1.58	$1.22	($0.36)	$1.22	$0.00
Storm Restoration Surcharge	$1.38	$1.48	$0.10	$1.48	$0.00
Interim Storm Restoration Surcharge	$0.00	$0.00	$0.00	$0.00	$0.00
Subtotal	$96.89	$96.40	($0.49)	$96.38	($0.02)
Gross Receipts Tax	$2.48	$2.47	(0.01)	$2.47	$0.00
Totals	**$99.37**	**$98.87**	($0.50)	**$98.85**	($0.02)

Source: Attachment RDB-5, Page 1 of 1, filed February 14, 2018.

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[7] Reflects approval of the Mid-Course corrections to Capacity and Environmental Cost Recovery Clause amounts, and a true-up adjustment in storm charges, as filed in Docket Nos. 20180001-EI and 20180007-EI.

[8] The Net Difference shown in Column 4 of Table 1 reflects the true-up adjustment in storm charges effective June 1, 2018, and the Mid-Course Corrections to Capacity and Environmental Cost Recovery Clause amounts, effective July 1, 2018. It does not reflect the instant petition (the Martin-Riviera Natural Gas Pipeline transfer), which is proposed to become effective September 1, 2018.

[9] Reflects approval of the proposed Martin-Riviera pipeline lateral transfer effective September 1, 2018, as filed in Docket No. 20170231-EI.

[10] The Net Difference shown in Column 6 of Table 1 reflects the true-up adjustment in storm charges effective June 1, 2018, the Mid-Course Corrections to Capacity and Environmental Cost Recovery Clause amounts, and the Martin-Riviera Natural Gas Pipeline transfer petition that is pending in this docket.

In FPL's Response to Staff's Fourth Data Request, the Company stated that it initially notified customers with bill inserts regarding this matter at about the time the petition was filed. The Company stated that:

> . . . [as] is standard for all petitions that result in a change to customer bills, FPL will include a very short bill message on all customer bills 30 days in advance of the rates taking effect, and will provide updated rates schedules on its website (www.FPL.com/rates) at the same time that will reflect all rate changes taking effect the following month.

Physical restrictions on bill inserts limit the amount of detail that can be included in such notifications, but FPL's customers can access detailed billing information from links on the Company's website.[11]

Summary and Conclusion

As part of its consideration of the 2016 Stipulation and Settlement Agreement, the Commission evaluated and approved the conceptual framework for the transfer and simultaneous rate impacts described above. Staff has reviewed FPL's original and amended petitions, the original and amended declarations and attachments, and FPL's responses to Commission staff's four sets of data requests, and believes FPL's calculations are correct and the materials are reasonable.

Staff recommends that the Commission approve FPL's Amended Petition to transfer the Martin-Riviera lateral pipeline to Florida Southeast Connection. The associated rate adjustments should become effective with the September 2018 billing cycle, which begins on September 1, 2018. The Commission should give staff authority to administratively approve the tariff sheets implementing the approved rate adjustments.

[11]Staff reviewed the customer notification materials used for residential and business customers, and believes they are appropriate.

Issue 2: Should this docket be closed?

Recommendation: This docket should be closed upon issuance of a consummating order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the Commission's Proposed Agency Action Order. (Brownless)

Staff Analysis: This docket should be closed upon issuance of a consummating order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the Commission's Proposed Agency Action Order.