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December 21, 2007

Ms. Ann Cole, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**Re: FPL's Responses to Staff's Questions from the December 6, 2007 Renewable Portfolio Standard Staff Workshop**

Dear Ms. Cole:

At the Renewable Portfolio Standard (RPS) Workshop held on December 6, 2007, Commission Staff invited interested parties to submit responses to Staff's questions posed in its presentation regarding: (1) methods to encourage specific renewables, (2) methods to encourage compliance, and (3) compliance verification and tracking. Attached please find FPL's responses to Staff's questions.

If you or other members of Commission Staff have any questions regarding this submission, please contact me at (561) 304-5253.

Very truly yours,

/s/ Bryan Anderson

Bryan Anderson  
Senior Attorney  
Authorized House Counsel #219511

cc: Mark Futrell  
Judy Harlow  
Bob Trapp  
Martha Brown

Attachment:

FPL's Responses to Staff's Questions from the December 6, 2007 Renewable Portfolio Standard Staff Workshop

December 21, 2007

**FPL's Responses to Staff's Questions from the December 6, 2007 Renewable Portfolio Standard Staff Workshop**

Florida Power & Light Company (FPL) appreciates this opportunity to provide its views in response to the questions posed by the Florida Public Service Commission's (Commission's) Staff on December 6, 2007. As requested by Staff, FPL's thoughts have been organized in a manner responsive to each of Staff's questions.

FPL believes the primary objective of a Renewable Portfolio Standard (RPS) should be to reduce emissions of greenhouse gases (GHG) from the production of electricity, with a focus on solar and wind, while increasing energy security, and maintaining reliable electric service and reasonable prices for customers.

**1) What, if any, policies are needed to encourage specific types of renewables?**

**a. Which resources should be eligible?**

The Governor's Executive Order specified that a focus should be placed on wind and solar. Wind and solar are zero emission sources, but they are intermittent in nature and much more expensive than other renewable options and therefore require a subsidy in order to compete with other renewable options.

**b. What approach - multipliers or tiered goals?**

In order to encourage the development of wind and solar, a multiplier, not set-asides, tiers, or carve-outs, should be used. Tiers / carve-outs limit flexibility and may close out options for other more economic technologies. Tiers / carve-outs also artificially drive up demand and increase prices. The costs of RECs are much higher in states with tiers / carve-outs (e.g., Evolution Markets October 2007 REC Monthly Market Update reports NJ Solar REC at \$270/MWh and the National Voluntary Solar Offers at \$17/MWh).

**Issues under a multiplier approach:**

**c. How should a multiplier be set?**

A multiplier of 3.5 should be applied to each MWh of energy produced from eligible sources for purposes of complying with a Florida RPS. The multiplier will help to levelize the RECs available from solar and wind compared to other renewable resources with higher capacity factors.

**d. Will using a multiplier conflict with reaching the goal?**

No. The primary objective of the RPS is to reduce greenhouse gas emissions from the production of electricity with a focus on solar and wind while increasing energy security, and maintaining reliable electric service and reasonable electricity prices for customers. While even with the proposed multiplier, solar and wind generation may result in a cost increase to

customers, the increase will be much less than would result with tiers / carve-outs. The RPS rules must be set to achieve all aspects of this goal, not just the focus on wind and solar. Including a multiplier set to equalize energy production from wind and solar with other RPS options, while still allowing competition from all sources that can contribute to the broad objective of an RPS, will achieve the goal to focus on wind and solar in the most cost effective manner possible.

**Issues under a tiered goal (set asides) approach:**

**e. How should the tiers be determined?**

Tiers should not be used, as they are less flexible and more expensive than multipliers.

**f. Can excess compliance in “policy preferred” tier be used to meet goals in other tiers?**

Tiers should not be used, as they are less flexible and more expensive than multipliers. If tiers are used, excess compliance in “policy preferred” tiers should be eligible to meet targets in other tiers.

**2) What policies are needed to encourage compliance?**

Rules should be developed such that compliance is economically achievable.

**a. What financial compliance mechanisms are needed?**

Utilities should be permitted to achieve compliance with a Renewable Portfolio Standard (RPS) through the provision of clean / renewable energy (including new nuclear additions and uprates), energy efficiency, and the purchase of RECs produced in Florida, as well as outside Florida. Utilities should be deemed in compliance if either the RPS target or expenditure cap is reached (e.g., an expenditure cap of 1% of revenues from the sale of electricity) excluding expenditures for nuclear and energy efficiency. An Alternative Compliance Payment (ACP) should also be authorized.

Subject to a force majeure provision, if compliance is otherwise unachievable, utilities may make an ACP. An ACP is not a penalty for non-compliance, but an additional means of compliance with an RPS. However, the ACP should not exceed an avoided cost of carbon of \$20/MWh.

Implementing an ACP and an expense cap together works to mitigate potential renewable power price shock to customers in a supply-constrained environment, as well as limit the total cost impact to customers.

**b. How should financial compliance mechanisms be set (i.e., multiple of REC price, \$/MWh, or absolute value)?**

Utilities should be deemed in compliance if they have met their expense cap set as a percent of revenues from the sale of electricity (1% initially, rising to 2% over a 5 year period) towards the purchase or production of clean /

renewable energy and the purchase of RECs excluding expenditures for nuclear and energy efficiency.

**Cost recovery for IOUs:**

**c. How should compliance costs for RECs or renewables be recovered?**

Cost recovery should be accomplished through existing mechanisms as follows:

- i. New, i.e., post 2006, Nuclear generation, including uprates – consistent with the FPSC rule for cost recovery of new nuclear generating units
- ii. Energy Efficiency – Energy Conservation Cost Recovery Clause (ECCR) as specified by existing FPSC rules, expanded to recover all costs associated with such programs, in order to remove disincentives and thereby maximize energy efficiency penetration and program development.
- iii. Self-build clean resource projects, other than new nuclear, nuclear uprates, and energy efficiency – Capacity Cost Recovery Clause (CCRC) with a higher return for investments, i.e., a return on equity adder of 2% above the utility’s authorized return on equity.
- iv. Sunshine energy program – Recovered from participating customers, consistent with existing FPSC rules
- v. Cost of RECs, other environmental attributes, and offsets (inside and outside of Florida)– Fuel Clause
- vi. Recovery for research and development project cost – CCRC

**d. Should ACPs or penalties be recovered?**

Penalties are not necessary in an RPS structure designed to allow maximum flexibility for compliance. An ACP should be used rather than penalties. An ACP is not a penalty for non-compliance, but an additional means of compliance with an RPS.

ACP funds used for research and development and/or investment in renewable/clean energy sources should be recovered through the appropriate recovery clause mechanism, e.g., research and development and self-build of clean resource projects, other than new nuclear, nuclear uprates, and energy efficiency should be recovered through the capacity clause.

**e. How should funds be used?**

Each utility should administer and use ACP funds for research and development and/or investment in renewable / clean energy sources with the oversight of the FPSC.

**f. Are financial incentives beyond ACP/penalties needed?**

Yes, to encourage the development of and investment in clean/renewable energy sources, up-front and expedited prudence determinations and cost recovery approvals with administrative finality are essential.

In order to expedite the development of wind and solar and to encourage utilities to invest in wind and solar projects, recognizing the significant siting and permitting challenges, the FPSC should issue an order for these projects within 60 days of receiving the utility's filing. Additionally, there should be no requirement for a site certification application, and the utilities should be allowed a return on equity adder of 2% above the utility's authorized return on equity for these projects.

Approvals should be final with no re-evaluation of past decisions applying 20/20 hindsight.

### **3) How should compliance be tracked and verified?**

#### **REC tracking and verification issues:**

##### **a. How are eligible facilities certified and audited?**

A third party is usually hired to certify the RECs in conformance with the PSC's RPS rules.

##### **b. Who administers the REC system?**

Verification of compliance should be administered by a third party, with auditing by and reporting to the FPSC.

##### **c. How is double counting prevented?**

Third party verification would prevent double counting.

##### **d. How should multi-fuel facilities be treated?**

Regarding multi-fuel facilities, a third party should verify the amount of energy produced from renewable fuel for the purposes of the RPS.

##### **e. Should line losses be considered?**

No.

#### **Self-service generation issues:**

##### **f. Is metering required?**

Not for small facilities (10kW or less).

##### **g. How can small systems be included?**

Engineering estimates with statistical auditing may be used to estimate the energy production from a small (10kW or less) system.

Self-service generation and provisions for net metering result in cross-subsidization by customers who do not receive the benefit of the generation.

Renewable Energy Credits (RECs) associated with such generation should be retained by the utility for the benefit of all customers.

**h. Should total energy generated be counted, or excess to grid?**

Total energy generated should be counted.

**Energy efficiency issues:**

**i. Should energy efficiency count towards goals?**

Yes, all energy efficiency should count towards targets.

**j. If so, how should savings be estimated?**

Savings can be based on utility's DSM goals reports to the PSC.

**k. Should existing programs be included?**

Yes.

**l. What is the role of the PSC in ensuring compliance?**

The FPSC should carefully study all aspects of an RPS in order to develop rules that allow utilities to achieve RPS compliance in a manner consistent with the primary objective to reduce Greenhouse gas emissions from the production of electricity with a focus on solar and wind while increasing energy security, maintaining reliable electric service and reasonable electricity prices for customers.

The FPSC should set and periodically review the RPS targets, without setting interim targets, to ensure they can be met without imposing unacceptable costs or adverse reliability effects on customers.

Utilities should report to the FPSC annually regarding progress towards achieving the RPS targets and provide updated views regarding the availability and cost of clean/renewable energy resources and ability to meet the targets.

The targets and the schedule for compliance should be re-evaluated every three years and modified as appropriate to account for changes in load growth, technology, costs, and other factors that affect the availability and cost of clean/renewable sources of energy. This re-evaluation should be used to adjust the targets, if necessary.