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State of Florida

Public Service Commission

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

DATE: March 20, 2025

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Mason, Norris, Vogel) ALM
Division of Economics (Galloway, Wu) EJD
Division of Engineering (Davis, Ellis, King) LVK
Office of the General Counsel (Stiller, Crawford) JSC

RE: Docket No. 20240155-EI – Petition for approval of accounting treatment for the transfer of proportional share of Plant Daniel Units 1 and 2 to Mississippi Power Company, by Florida Power & Light Company.

AGENDA: 04/01/25 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On November 8, 2024, Florida Power & Light Company (FPL or the Company) filed a petition for approval to transfer FPL's 50 percent share of Plant Daniel Units 1 & 2 (Units 1 & 2) to Mississippi Power Company (MPC). This follows a 2019 acquisition of Gulf Power Company (Gulf) by NextEra Energy, Inc. (NextEra), where NextEra gained control of Gulf's 50 percent share of Units 1 & 2 and transferred ownership to FPL. After Gulf's acquisition, FPL announced it would continue with plans made by Gulf to retire its shares of Units 1 & 2 by January 2024. FPL has stated that while its shares of Units 1 & 2 have been retired, based on a 2022 operating agreement made between FPL and MPC, the Company is responsible for Common Facilities costs, related to common ownership, until MPC retires its shares in 2031. On November 8, 2024, FPL entered into a purchase and sale agreement (PSA) with MPC to transfer its shares of Units 1 & 2 to MPC and pay MPC $45 million (the Transaction), to alleviate FPL's ongoing Common Facilities costs. FPL has stated that this PSA will result in approximately $10 million in avoided costs per year for the years 2025 through 2031.

In the Petition, FPL also requested the Commission to authorize the Company to continue to accrue its proportional share of dismantlement costs in base rates.

FPL is not requesting a regulatory asset for the remaining net book value of its ownership share of Units 1 & 2 in the instant docket. Since FPL's retirement of the units, the Company has reflected the estimated remaining investment as a negative amount in the accumulated reserve for the respective plant accounts, and has continued its depreciation for the retirements using rates approved as part of its 2017 rate case settlement.[1]

In FPL's petition, the Company proposed the creation of a regulatory asset worth $39.3 million, representing the proportion of the transfer price associated with base rate components, to be collected over 10 years, beginning at FPL's next base rate adjustment. Until this adjustment, FPL has requested to continue recovering dismantlement and decommissioning costs related to Units 1 & 2 in base rates. FPL also proposed the creation of a regulatory asset worth $5.7 million representing the proportion of the transfer price associated with environmental costs, to be recovered through the Environmental Cost Recovery Clause (ECRC) over 10 years, beginning January 1, 2026. FPL has stated that it is still responsible for environmental costs for anything that occurred before the transfer, and has requested to continue recovering these costs through the ECRC. Until the balance on the regulatory assets has been fully recovered, FPL has requested that it receive a return based on the unamortized balances of the regulatory assets.

The Office of Pubic Counsel (OPC) intervened in this docket on March 17, 2025, and its intervention was acknowledged in Order No. PSC-2025-0083-PCO-EI, filed March 18, 2025.

The Commission has jurisdiction pursuant to Sections 366.04, 366.06, and 366.07, Florida Statutes.

[1]Order Nos. PSC-2021-0446-S-EI and PSC-2024-0078-FOF-EI, issued December 2, 2021, and March 3, 2025, respectively, in Docket No. 20210015-EI, *In re: Petition for rate increase by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Is FPL's proposed transfer of its 50 percent ownership in Units 1 and 2 to MPC reasonable and cost-effective?

Recommendation: Yes. The PSA between FPL and MPC transferring FPL's 50 percent ownership in Units 1 & 2 to MPC should be approved as the PSA appears cost-effective. (Davis)

Staff Analysis: FPL is requesting Commission approval of the PSA with MPC which transfers FPL's 50 percent ownership share of Units 1 & 2 to MPC. Such approval would alleviate FPL's share of ongoing cost responsibilities associated with the common facilities at Units 1 & 2. FPL is asking the Commission to determine that the PSA is in the best interest of its customers. To evaluate this, staff reviewed both the initial decision by FPL to retire its share of Units 1 & 2 and the PSA terms and conditions.

Ownership Interests in Plant Daniel Units 1 & 2

Gulf acquired 50 percent ownership in Units 1 & 2 by sharing in the construction and operating expenses with MPC in 1976. A subsequent Plant Operating Agreement was established in 1981 between the two parties. In 2019, Gulf's ownership in Units 1 & 2 was transferred to FPL following the acquisition of Gulf by NextEra Energy, Inc., the parent company of FPL. Following this transfer, FPL provided a notice to MPC that it intended to retire its share of Units 1 & 2 in January 2024. According to FPL's petition, Units 1 & 2 were not needed for reliability and were inefficient compared to the other generating units in FPL's fleet. In 2023, the average heat rate for Units 1 & 2 was 11,210 British thermal unit per kilowatt-hour (Btu/kWh) compared to an average of 7,032 Btu/kWh for the other FPL generating units. Therefore, FPL claims it was not feasible to consider using Units 1 & 2 for economic dispatch, and that FPL's retirement of Units 1 & 2 was reasonable since the units were not needed at the time by FPL for reliability purposes and the retirement was projected to result in a net present value (NPV) of $229 million for FPL's customers based on a cumulative present value of revenue requirements (CPVRR) analysis.

In 2022, FPL and MPC negotiated an amendment to the 1981 Plant Operating Agreement between Gulf and MPC. This negotiation resulted in the 2022 Second Amended and Restated Plant Daniel Operating Agreement (2022 Operating Agreement) which was used to adjust the cost allocation between FPL and MPC due to FPL's announced retirement of share of Units 1 & 2. MPC had an option to purchase FPL's 50 percent ownership of Units 1 & 2 for one dollar ($1.00) at any time 120 days prior to and including the retirement date of January 15, 2024, but did not exercise this option. In 2024, FPL engaged in discussions and negotiations with Southern Company, the parent company of MPC, to reduce or eliminate costs associated with FPL's share of Plant Daniel. These discussions and negotiations culminated in the PSA to transfer FPL's share of Units 1 & 2 to MPC.

Purchase and Sale Agreement

Under the 2022 Operating Agreement, FPL pays common facilities costs for ownership of Units 1 & 2 through MPC's proposed retirement of Units 1 & 2 in 2031. These costs are approximately $10 million per year regardless of whether Units 1 & 2 are providing service to FPL customers. The PSA required a $45 million payment by FPL to MPC, if the transaction closed on or before

December 31, 2024, and eliminated all ongoing common facilities expenses and capital costs, including ad valorem tax associated with Units 1 & 2. If the transaction occurred after December 31, 2024, the Ad Valorem liability for the accrual year 2025 would stay with FPL and the transfer payment would be reduced by the same amount. In response to a staff data request, FPL stated that if the Commission approves this petition in April 2025, the most probable closing date would be July 2025, resulting in a transfer payment to MPC of approximately $36.02 million.[2] Under the PSA, FPL will relinquish its 50 percent interest in Units 1 & 2 and MPC will assume FPL's share of certain operating costs and incremental liabilities created after the closing date.

PSA Cost-Effectiveness

While FPL has retired its share of the Plant Daniel Units, it is still responsible for maintaining the site and associated environmental concerns until Plant Daniel has been decommissioned as a whole, including MPC's ownership share. Operation and maintenance exposures and capital costs for projects such as security and water management are ongoing. FPL will not be obligated for most common facilities costs, but it will remain obligated for common costs related to coal combustion residuals produced prior to the closing and decommissioning of Units 1 & 2. In addition FPL is liable for 50 percent of the decommissioning costs both pre-closing and post-closing. FPL's petition asserted that the PSA results in an NPV savings to FPL's customers of $13.4 million based on a 2031 retirement date by MPC and the PSA closing before December 31, 2024. The actual savings could be impacted by FPL's future cost obligations identified above. Staff reviewed MPC's initial retirement date and reasons for subsequent retirement date extensions, which is discussed in greater detail below.

MPC Retirement Date of Remaining Ownership Interest in Units 1 & 2

At the time the 2022 Operating Agreement was approved, MPC's planned retirement date for its ownership share of Units 1 & 2 was 2027 based on its April 2021 Integrated Resource Plan (IRP) update. Subsequently, MPC's 2024 IRP revised this retirement date to 2028 to meet near-term and medium-term capacity needs while new generation was being built, with further changes possible if capacity needs arose. On January 9, 2025, MPC notified its regulator, the Mississippi Public Service Commission, that it had entered into two separate electric service agreements, totaling approximately 600 MW of load, that would require extending the retirement date for Units 1 & 2 beyond 2028 and into the mid-2030s. Without the PSA, a retirement date beyond 2031 would increase the cost obligation of FPL's customers, while consummation of the PSA would further increase the economic benefit to the same customers.

MPC's retirement of Units 1 & 2 in 2031 is currently the most probable scenario due to existing US Environmental Protection Agency (EPA) greenhouse gas (GHG) rules which were finalized in April 2024. The rules require coal plants to convert to 100 percent gas operation or to install carbon capture equipment in order to remain operational beyond 2031. These costly modifications would most likely require MPC to retire Units 1 & 2 in 2031. However, if the EPA GHG rules are repealed, it may be economical for MPC to continue operating the units beyond 2031. The NPV savings would increase and make a retirement beyond 2031 more beneficial for FPL's customers. Based on staff's review, it is reasonable to assume that MPC's share of Units 1

[2]Document No. 00416-2025 in Docket No. 20240155

& 2 will continue to operate until at least 2031 based on currently available information and regulatory filings.

Avoided Costs

The common facilities expense includes FPL's 50 percent allocation of common facilities O&M and capital expenses, such as Jackson County (Mississippi) Port Authority's Black Creek Cooling Facility maintenance projects, administrative and general expense, and property insurance. The Property/Ad Valorem Tax of $15.32 million NPV includes two years following retirement for decommissioning of Units 1 & 2. FPL assumes the transaction closing date takes place on July 31, 2025, which FPL identified as the expected closing date with an April 2025 Commission approval. These costs includes both expenses covered in base rates and the ECRC. Using this date and its preferred recovery of the regulatory assets beginning January 1, 2026, FPL projects the estimated net benefit to customers is $13.4 million, assuming a complete retirement of Units 1 & 2 by MPC in 2031. Table 1-1 outlines the annual and total NPV values by category.

Table 1-1
Cost-Effectiveness Analysis for PSA ($ Millions)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	SUM (NPV)
Avoidable Costs												
Common Facilities	(2.9)	(6.5)	(6.6)	(6.9)	(7.0)	(7.1)	(7.3)	0.0	0.0	0.0	0.0	(33.15)
Property/Ad Valorem Tax	-	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	-	-	(15.32)
Avoidable Costs	**(2.9)**	**(9.3)**	**(9.4)**	**(9.6)**	**(9.8)**	**(9.9)**	**(10.1)**	**(2.8)**	**(2.8)**	**-**	**-**	**(48.47)**
Regulatory Asset Costs												
Amortization of Reg Assets	-	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	23.09
Interest, ROE, Income Tax	1.4	2.8	2.5	2.2	1.9	1.6	1.4	1.0	0.7	0.5	0.1	11.98
Regulatory Asset Costs	**1.4**	**6.4**	**6.1**	**5.8**	**5.5**	**5.2**	**4.9**	**4.6**	**4.3**	**4.0**	**3.7**	**35.07**
Net Customer Costs/Savings	**(1.5)**	**(2.9)**	**(3.3)**	**(3.8)**	**(4.3)**	**($.7)**	**(5.1)**	**1.8**	**1.5**	**4.0**	**3.7**	**(13.40)**

Source: FPL's Response to Staff's Second Data Request

Conclusion

The PSA between FPL and MPC transferring FPL's 50 percent ownership in Units 1 & 2 to MPC should be approved as the PSA appears cost-effective.

Issue 2: Should the Commission approve FPL's request to create regulatory assets representing its payment to MPC?

Recommendation: Yes, the Commission should approve FPL's request to create a regulatory asset, in the amount of $31.04 million, representing the base rate portion of the transfer price and allow recovery to begin when base rates are next reset. The Commission should also authorize the creation of a separate regulatory asset, in the amount of $4.98 million, representing the portion that would have been recovered through the ECRC, to be recovered through the ECRC beginning January 1, 2026. Both regulatory assets should be amortized over a period of 10 years. Furthermore, staff recommends allowing FPL to begin recovery at its next base rate reset, which has been filed as Docket No. 20250011-EI, with a recovery period of 10 years, as well as earn a return on the unamortized asset balance at the Company's overall weighted average cost of capital. (Mason)

Staff Analysis: The amount originally requested by FPL to cover the portion of the transfer price related to otherwise recoverable base rate expenses was $39.3 million. The original amount requested by FPL related to environmental costs otherwise recovered through the ECRC was $5.7 million. FPL has proposed a recovery period of 10 years for both the base rate and ECRC regulatory assets, commencing at the resetting of base rates and January 1, 2026, respectively. On February 28, 2025, FPL filed a petition for a base rate increase, with new rates requested to be implemented January 1, 2026. In its petition, FPL highlighted previous Commission Orders approving settlements that established regulatory assets for the purpose of exiting unprofitable generation agreements and thereby creating customer savings.[3]

The Commission has cited Financial Accounting Standards Board's Accounting Standards Codification 980 Regulated Operations (FASB ASC 980) in previous decisions regarding the approval of regulatory assets. The recognition and establishment of regulatory assets are addressed in FASB ASC 980, which allows a regulated entity to capitalize all or part of an incurred cost, provided that: 1) it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes; and 2) based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. Based on staff's recommendation on the prudence of the transaction transferring ownership of Units 1 & 2 to MPC, as addressed in Issue 1, staff believes the recognition and recovery of each regulatory asset should be approved.

As FPL stated in its initial petition, due to the PSA approval going beyond the original requested date of December 31, 2024, the $45 million transfer price has been reduced to approximately $38.1 million to reflect the $6.9 million in property taxes that FPL was required to pay.

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[3]See Order No. PSC-15-0401-AS-EI issued September 23, 2015 in Docket No. 150075-EI, *In re: Petition for approval of arrangement to mitigate impact of unfavorable Cedar Bay power purchase obligation, by Florida Power & Light Company*; Order No. PSC-16-0506-FOF-EI issued November 2, 2016 in Docket No. 160154-EI, *In re: Petition for approval of a purchase and sale agreement between Florida Power & Light Company and Calypso Energy Holdings, LLC, for the ownership of the Indiantown Cogeneration LP and related power purchase agreement*, and Order No. PSC-2017-0415-AS-EI issued October 24, 2017 in Docket No. 20170123-EI, *In re: Petition for approval of arrangement to mitigate unfavorable impact of St. Johns River Power Park, by Florida Power & Light Company.*

Furthermore, FPL has stated that it is responsible for approximately $0.3 million in monthly operating costs, which will also reduce the transfer price. According to FPL in its response to staff's second request for data, if approved in April 2025, the PSA would have a price of $36.02 million, with $31.04 million being the new value for the portion of the transfer price that represents base rates and $4.98 million being the portion that represents the environmental costs that would otherwise be recovered through the ECRC. Staff agrees that the creation of regulatory assets worth $31.04 million and $4.98 million is the appropriate accounting treatment for recovery of the transfer price related to base rates and environmental costs, respectively. Furthermore, staff recommends allowing FPL to begin recovery at its next base rate reset, which has been filed as Docket No. 20250011-EI, with a recovery period of 10 years, as well as earn a return on the unamortized asset balance at the Company's overall weighted average cost of capital.

Issue 3: Should the Commission approve FPL's request to continue recovering eligible pre-closing environmental costs through the ECRC?

Recommendation: Yes, the Commission should approve FPL's request to continue recovering eligible environmental costs incurred through the closing date of the PSA through the ECRC. (Mason)

Staff Analysis: In its petition, FPL requested the Commission's authorization to continue recovery of eligible prudently incurred pre-closing environmental costs pertaining to FPL's proportionate share of Units 1 & 2 through the ECRC. While the PSA shifts most Common Facilities costs to MPC, FPL remains obligated to cover common costs related to Coal Combustion Residuals produced prior to the Transaction's closing date, as well as other environmental liabilities arising from pre-closing activities. As discussed in Issue 1, staff believes the transaction transferring ownership of the units is prudent. As such, obligated environmental costs incurred prior to the Transaction's closing date should be eligible for recovery through the ECRC. Those costs are still reviewed as part of the annual ECRC proceeding.

Issue 4: Should FPL be permitted to accrue Units 1 & 2 dismantlement costs in base rates until the annual accrual is next reset with the support of a dismantlement study?

Recommendation: Yes. Staff recommends approval of FPL's request to continue to accrue its proportionate share of dismantlement costs associated with Plant Daniel Units 1 & 2 in base rates. (Wu)

Staff Analysis: In its Petition, the Company stated that under the PSA, FPL will retain dismantlement and asset retirement obligations on the existing plant, including decommissioning liabilities related to dismantling Plant Daniel and restoration of the plant site. These obligations are calculated as a percentage of FPL's pre-closing ownership interest.[4] As such, FPL requests that it be permitted to continue to accrue Units 1 & 2 dismantlement costs in base rates until the annual accrual is next reset with the support of a dismantlement study. The Company claimed that this request is consistent with Paragraph 19 of FPL's 2021 rate case settlement agreement that was approved by the Commission.[5] Both Orders specify that the base rates, in which the dismantlement accrual amounts are incorporated, in effect at the beginning of the settlement's term will remain in effect until FPL's base rates are next reset in a general base rate proceeding.

On February 28, 2025, FPL filed a new petition for a general base rate proceeding.[6] With the rate case petition, the Company also submitted an updated dismantlement study which includes the updated dismantlement costs and accruals pertaining FPL's ownership share of Units 1 & 2 for Commission approval.[7]

Staff believes that FPL's request discussed in this issue is in accordance with Rule 25-6.04364(1), Florida Administrative Code, which provides that "[e]ach utility that owns a generating unit is required to establish a dismantlement accrual as approved by the Commission to accumulate a reserve to meet all expenses at the time of dismantlement." Further, the request is inline with Rule 25-6.04364(6), Florida Administrative Code, which specifies that "[a] utility shall not establish a new annual dismantlement accrual, revise its annual dismantlement accrual, or transfer a dismantlement reserve without prior Commission approval."

Based on the above, staff recommends approval of FPL's request to continue to accrue its proportionate share of dismantlement costs associated with Plant Daniel Units 1 & 2 in base rates.

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[4]Document No. 09846-2024, paragraph 12.
[5]Order Nos. PSC-2021-0446-S-EI and PSC-2024-0078-FOF-EI, issued December 2, 2021 and March 25, 2024, respectively, in Docket No. 20210015-EI, *In re: Petition for rate increase by Florida Power & Light Company.*
[6] Docket No. 2025011-EI, *In re: Petition for rate increase by Florida Power & Light Company.*
[7]Document No. 09846-2024, paragraph 21.

Issue 5: Should this docket be closed?

Recommendation: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Stiller)

Staff Analysis: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order