

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for determination of need for
Glades Power Park Units 1 and 2 electrical
power plants in Glades County, by Florida
Power & Light Company.

DOCKET NO. 070098-EI
ORDER NO. PSC-07-0557-FOF-EI
ISSUED: July 2, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN
NATHAN A. SKOP

ORDER DENYING PETITION FOR DETERMINATION OF NEED

BY THE COMMISSION:

BACKGROUND

On February 1, 2007, Florida Power & Light Company (FPL) filed its petition for a determination of need for the proposed Glades Power Park Units 1 and 2 (FGPP) electrical power plants in Glades County, pursuant to Section 403.519, Florida Statutes (F.S.), and Rule 25-22.080, Florida Administrative Code (F.A.C.). FPL proposed two ultra-supercritical pulverized coal (USCPC) generating units, each having summer net capacities of approximately 980 megawatts (MW) for a combined net capacity of 1,960 MW, with proposed in-service dates of 2013 and 2014. A 4,900-acre site located west of Lake Okeechobee, approximately four miles northeast of the town of Moore Haven in an unincorporated area of Glades County is the proposed location of the units.

In its petition, FPL sought an affirmative determination of need as well as cost recovery for the FGPP. We bifurcated the proceeding and took up the need determination in this docket, by Order No. PSC-07-0232-PCO-EI, issued March 14, 2007. The related issues of prudence of construction, recovery of environmental costs through the environmental cost recovery clause, and establishment of an annual review process were set aside to be heard in a different proceeding.

The following parties intervened: (1) Office of Public Counsel; (2) the Sierra Club, Inc., Save Our Creeks, Florida Wildlife Federation, Environmental Confederation of Southwest Florida, Ellen Peterson, and the Natural Resources Defense Counsel; (3) Associated Industries of Florida; and (4) Bob and Jan Krasowski.

We had a formal administrative hearing on April 16-17, 25-26, and 30, 2007. At the start of the hearing, we heard from 31 public witnesses. The witnesses stated their positions of

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interest and whether they supported or opposed the FGPP. We also heard cross-examination of expert witnesses who prefiled testimony.

We have jurisdiction over the subject matter in this proceeding pursuant to Sections 366.04(2)(c) and (5), 403.507(4), and 403.519, F.S.

DECISION TO DENY PETITION FOR DETERMINATION OF NEED

Florida's Electrical Power Plant Siting Act, Sections 403.501 – 403.518, F.S., recognizes that the selection of sites and the routing of associated transmission lines will have a significant impact upon the welfare of the population, the location and growth of industry, and the use of the natural resources of the state. Section 403.502, F.S. To that end, the Act is designed so that a permit application is centrally coordinated and all permit decisions can be reviewed on the basis of standards and recommendations of the deciding agencies. Id. Further, it is the intent of the Act to seek courses of action that will fully balance the increasing demands for electrical power plant location and operation with the broad interests of the public. Id.

Pursuant to Section 403.519, F.S., this Commission is the sole forum for the determination of need for major new power plants. Section 403.519(3), F.S., sets out the factors we are to consider:

In making its determination, the Commission shall take into account the need for electric system reliability and integrity, the need for adequate electricity at a reasonable cost, the need for fuel diversity and supply reliability, and whether the proposed plant is the most cost-effective alternative available. The Commission shall also expressly consider the conservation measures taken by or reasonably available to the applicant or its members which might mitigate the need for the proposed plant and other matters within its jurisdiction which it deems relevant.

The Legislature did not assign the weight that this Commission is to give each of these factors. The power plant siting process is designed so that final decisions will be rendered within certain statutory time frames based on the best information and evidence available at the time.

To support the cost-effectiveness of its FGPP proposal, FPL performed sixteen economic scenarios combining four different fuel and four different environmental compliance cost projections. Each scenario calculated the cumulative present value revenue requirement for two generation expansion plans, one with coal and one without coal. The difference between the two plans was intended to demonstrate each plans' relative cost-effectiveness compared to available alternatives. The four fuel price forecasts are ongoing, long-range estimates of the price differential between coal and natural gas. The four price estimates included a low, medium, and high price differential between coal and natural gas, as well as a "shocked" differential which was developed to show the impact of what a significant price increase in oil or natural gas may have on the value of adding FGPP to FPL's portfolio of assets. The relative price differential between coal and natural gas is the driving force behind the system revenue requirement calculations. FPL projected a net present value impact between the low and high cost differentials of approximately \$72 billion.

FPL also provided four different environmental cost projections. These projections addressed environmental costs for three currently regulated emissions – sulfur dioxide, nitrogen oxides, and mercury – combined with various scenarios of future carbon allowance costs. The projected carbon costs were based upon Federal legislation under current debate before Congress. FPL projected the net present value impact between the low and high environmental costs to be approximately \$22 billion. If more stringent regulations are enacted in the future, environmental costs will have an even greater impact on the overall cost-effectiveness of the FGPP.

The following table summarizes FPL’s 16 economic scenarios combining the four different fuel forecasts and four different environmental cost projections:

Total Cost Differentials
 (Plan with coal vs. Plan without coal)

		1 High Differential	2 Shocked Differential	3 Medium Differential	4 Low Differential
Environmental	A	(2,792)	(873)	(219)	1,912
Compliance Cost	B	(2,045)	(113)	537	2,670
Forecasts	C	(1,127)	804	1,466	3,604
	D	(666)	1,278	1,930	4,037

A negative value indicates that the plan with coal is more cost-effective than the plan without coal for a specific scenario. FPL’s cost-effectiveness analyses showed that the FGPP was the most cost-effective alternative for only 7 out of the 16 projected scenarios. Significantly, FPL did not advocate one scenario over another, and assigned equal weight to each of the scenarios.

As with any capital-intensive project, an increase in total costs will occur until lower fuel costs overcome the higher capital costs. FPL estimated that the FGPP would not show a positive net present value benefit until the year 2022. Even after this length of time, only the two most optimistic scenarios projected ratepayer savings. FPL acknowledged that the FGPP was not a clear winner from a cost standpoint; rather, the need for the FGPP was driven by the need for increased fuel diversity on FPL’s system. Such a strategic benefit is difficult to quantify.

As noted above, the Commission’s decision on a need determination petition must be based on a case-by-case review of facts with underlying assumptions tested for reasonableness and certainty. Taking into account each of the factors referenced in Section 403.519, F.S., we

find it is in the public interest to deny FPL's petition for determination of need. Our decision is based upon our analysis of the record, our deliberation at the June 5, 2007, Agenda Conference, and our determination that FPL has failed to demonstrate that the proposed plants are the most cost-effective alternative available, taking into account the fixed costs that would be added to base rates for the construction of the plants, the uncertainty associated with future natural gas and coal prices, and the uncertainty associated with currently emerging energy policy decisions at the state and federal level. This Commission recognizes the need for fuel diversity. Section 403.519, F.S., in fact, was amended in 2005 to expressly authorize the Commission to consider fuel diversity as a factor in determining need. Nuclear and other generating technologies, as well as the use of solid fuels, may play an appropriate part in a utility's generation mix for promoting fuel diversity and affordable supply reliability. We further recognize the need for additional generation to meet current and future growth. Finally, we recognize that, in light of the inherent variability of necessary assumptions about fuel costs, capital costs, and other resource planning matters, uncertainty about cost-effectiveness alone will not necessarily control the outcome of every need determination decision. We find in this case, however, that the potential benefits regarding fuel diversity offered by FPL in support of the FGPP fail to mitigate the additional costs and risks of the project, given the uncertainty of present fuel prices, capital costs, and current market and regulatory factors.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power & Light Company's petition for determination of need for Glades Power Park Units 1 and 2 electrical power plants in Glades County is denied. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 2nd day of July, 2007.



ANN COLE
Commission Clerk

(S E A L)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within five (5) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.