

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition to determine need for Turkey Point Unit 5 electrical power plant, by Florida Power & Light Company. | DOCKET NO. 040206-EI  
ORDER NO. PSC-04-0609-FOF-EI  
ISSUED: June 18, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman  
J. TERRY DEASON  
LILA A. JABER  
RUDOLPH "RUDY" BRADLEY  
CHARLES M. DAVIDSON

APPEARANCES:

CHARLES A. GUYTON, ESQUIRE, Steel, Hector & Davis LLP, Suite 601, 215 S. Monroe St., Tallahassee, Florida 32301; R. WADE LITCHFIELD, ESQUIRE, and NATALIE F. SMITH, ESQUIRE, 700 Universe Boulevard, Juno Beach, Florida 33408-0420; SUSAN F. CLARK, ESQUIRE, Radey Thomas Yon & Clark, P.A., 313 North Monroe Street, Suite 200, Tallahassee, Florida 32301; and KENNETH HOFFMAN, ESQUIRE, Rutledge Law Firm, P. O. Box 551, Tallahassee, Florida 32302, appearing on behalf of Florida Power & Light Company.

STEPHEN C. BURGESS, DEPUTY PUBLIC COUNSEL, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

JENNIFER BRUBAKER, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission.

ORDER GRANTING DETERMINATION OF NEED

BY THE COMMISSION:

Pursuant to Section 403.519, Florida Statutes, and Rule 25-22.081, Florida Administrative Code, Florida Power & Light Company (FPL) filed a petition on March 8, 2004, for determination of need for a proposed electrical power plant located in Dade County. In support of its petition, FPL submitted a detailed Need Study and appendices that develop more fully the information required by Rule 25-22.081, Florida Administrative Code. Based on a detailed reliability assessment discussed in the Need Study, FPL projects that it will need 1,066

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megawatts (MW) of additional capacity to meet the needs of its customers and provide adequate reserve margins in 2007.

Consistent with the requirements in Rule 25-22.082, Florida Administrative Code, FPL developed a request for proposals (RFP), which was issued on August 25, 2003. FPL notified potential participants that it would evaluate the RFP proposals against or potentially in conjunction with a self-build option located at FPL's existing Turkey Point site in Dade County, Florida. On October 24, 2003, FPL received five capacity proposals from four entities offering resource options that differed in size, type, and economic terms. Although some proposals did not satisfy the RFP's minimum requirements, FPL evaluated all proposals received. Where proposals did not meet the minimum requirements, FPL provided notice of the nature and extent of the non-compliance and provided an opportunity for the respondents to make changes to bring the proposals into compliance. Final analysis of the proposals demonstrated that FPL's self-build option, Turkey Point Unit 5, offered the lowest generation and transmission cost of all alternatives.

Turkey Point Unit 5 is estimated to produce a summer net capacity of approximately 1,144 MW, and an approximate winter rating of 1,181 MW. The proposed plant is to be located adjacent to FPL's existing Turkey Point complex, approximately 8 miles east of Florida City and 4.5 miles east of the eastern boundary of the city of Homestead, in Dade County, Florida. The proposed unit consists of a new natural gas fired, four-on-one combined cycle facility, designed to utilize four combustion turbines, four heat recovery steam generators, and one steam turbine generator, and other related facilities. The proposed plant is estimated to commence commercial operation by June 2007.

In accordance with Section 403.519, Florida Statutes, this docket was established to determine whether the proposed Turkey Point Unit 5 meets the need for electric system reliability and integrity, the need for adequate electricity at a reasonable cost, whether the proposed plant is the most cost-effective alternative available, whether there are any conservation measures that can mitigate the proposed power plant, and any other matters within the Commission's jurisdiction that it deems relevant. By Order No. PSC-04-0325-PCO-EI, issued March 30, 2004, a procedural schedule was established for this docket and a hearing was set for June 2, 2004. By Order No. PSC-04-0432-PCO-EI, issued April 28, 2004, Calpine Energy Services, L.P. (Calpine) was granted intervention in this proceeding. The intervention of the Office of Public Counsel (OPC) was acknowledged by Order No. PSC-04-0506-PCO-EI, issued May 17, 2004. On May 21, 2004, Calpine filed a Notice of Voluntary Dismissal from this proceeding.

At the June 2, 2004, hearing, the parties presented a series of stipulations which serve to address each of the eight issues that had been identified for hearing. We have reviewed the stipulations proposed by the parties, and find that they are appropriate based on the record

development of this docket, and that they provide a reasonable resolution of the outstanding issues regarding FPL's petition. We therefore approve the stipulations, as set forth below:

1. FPL has complied with all aspects of Rule 25-22.082, Florida Administrative Code, "Selection of Generating Capacity." In a September 2003 preliminary RFP objections proceeding initiated by PACE [Partnership for Affordable Competitive Energy], the Commission concluded that PACE's objections to FPL's RFP did not demonstrate that FPL's RFP violated the Bid Rule [Rule 25-22.083, Florida Administrative Code]. The uncontested evidence filed by FPL in this docket shows FPL complied with the Bid Rule.
2. There is a need for the proposed Turkey Point Unit 5, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519, Florida Statutes. Absent the timely addition of Turkey Point Unit 5, FPL's summer reserve margins will fall to 14.7 percent in the summer of 2007, well below the Commission-approved 20 percent reserve margin planning criterion. Further, the addition of Turkey Point Unit 5 will enhance FPL's operating flexibility and system reliability in Southeast Florida by reducing the growing imbalance between generation and load in this region.
3. There is a need for the proposed Turkey Point Unit 5, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519, Florida Statutes. Turkey Point Unit 5 will be a highly efficient and reliable, state-of-the-art unit producing low-cost electricity for FPL's customers. It is the lowest cost option available to meet the 2007 needs of FPL's customers.
4. There are no additional conservation measures taken by or reasonably available to Florida Power & Light Company which might mitigate the need for the proposed Turkey Point Unit 5. In assessing its 2007 need, FPL assumed implementation of all reasonably achievable, cost-effective conservation and load management measures previously determined by the Commission to be available to FPL.
5. The proposed Turkey Point Unit 5 is the most cost-effective alternative available, as this criterion is used in Section 403.519, Florida Statutes. In evaluating its next planned generating unit, FPL quantified and evaluated each alternative's impact on FPL's system production costs and transmission-related costs. Ultimately, FPL selected the Turkey Point combined cycle option as the best, most cost-effective alternative and identified it as its next planned generating unit.

FPL also engaged in an extensive capacity solicitation process through its RFP in compliance with the Bid Rule. Proposals received in response to its RFP were used to develop candidate portfolios in configurations that satisfied the 2007 need. FPL's and the independent evaluator's extensive economic evaluations of these proposals included

quantifying and considering generation-related costs, transmission-related costs (including transmission interconnection and integration costs, energy and capacity losses and increased operational costs), as well as the impact of each portfolio on FPL's capital structure minus mitigating factors offered by purchased power options. FPL calculated each option's transmission-related costs by calculating the revenue requirements associated with transmission interconnection and integration for each option as well as each option's impact on FPL's transmission losses and costs of operating less efficient gas turbines in Southeast Florida.

The impact of purchased power portfolios on FPL's capital structure was recognized by an equity adjustment according to the methodology contained in the RFP. Because rating agencies treat a portion of a purchasing utility's firm capacity payment as an off-balance sheet obligation, the equity adjustment represents a real cost associated with purchasing power that must be recognized in assessing purchased power options. Purchased power options provide some mitigation, through completion and performance security, to potential costs the purchasing utility might otherwise incur through a self-build alternative. This mitigating value was estimated and factored into the evaluation. The value of the mitigation is applied in the equity adjustment calculation to offset the cost of portfolios containing purchased power options. The sum of each portfolio's generation costs, transmission costs, and cost impact on capital structure minus the mitigating factors represented the total system costs to FPL customers for the portfolio.

Final cost comparisons from the RFP evaluation demonstrated that Turkey Point Unit 5 offered a \$271 million (cumulative present value revenue requirements, CPVRR) advantage compared to the next most competitive proposal. An independent evaluation confirmed FPL's conclusions. Turkey Point Unit 5 is FPL's best, most cost-effective alternative for meeting the 2007 needs of FPL's customers.

6. Based on the resolution of the foregoing issues, and as more fully developed in FPL's Need Study and direct testimony, the Commission should grant Florida Power & Light Company's petition to determine the need for the proposed Turkey Point Unit 5.
7. If an affirmative determination of need is granted, FPL should be required to annually report the budgeted and actual cost compared to the \$580.3 million estimated total in-service cost of Turkey Point Unit 5. Although the Bid Rule does not require that a utility annually report budgeted and actual costs associated with a proposed power plant, FPL is amenable to providing such information on an annual basis. Some costs may be higher than estimated and other costs may be lower, but FPL agrees that providing this information on an annual basis will allow Commission Staff to monitor FPL's progress towards achieving its estimated total cost of \$580.3 million. The categories to be reported are: Major Equipment/EPC, Permitting, Transmission Interconnection and Integration, FGT Infrastructure Upgrades, Operations and Start-Up, Project Management,

Owners Costs, and AFUDC. In providing this information by category FPL wants to clarify that the capital cost used in the evaluation that resulted in selecting Turkey Point Unit 5 as the most cost-effective resource option to meet FPL's 2007 need is the total estimated cost of \$580.3 million and that any underruns in one category will be used to off-set any overruns in another category. Per the Bid Rule, FPL would need to demonstrate that costs in addition to the \$580.3 million were prudently incurred and due to extraordinary circumstances for such additional costs to be recoverable. If, on the other hand, the actual total cost is less than \$580.3 million, customers will receive the benefit of such cost underruns.

8. Following the issuance of an affirmative determination of need for Turkey Point Unit 5, this docket shall be closed.

We note that our approval of these stipulations is based on the stipulated record in this case, and that our decision herein is not intended to bind future Commissions to follow any particular methodology in evaluating future need applications.

Upon consideration of the evidence adduced at hearing and in light of the criteria set forth in Section 403.519, Florida Statutes, we grant the petition for a determination of need for Turkey Point Unit 5. This order constitutes our final agency action and report as required by Section 403.507(2)(a)2, Florida Statutes, and as provided for in Section 403.519, Florida Statutes.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations proposed at the June 2, 2004, hearing are approved as set forth in the body of this Order. It is further

ORDERED that Florida Power & Light Company's petition to determine need for Turkey Point Unit 5 electrical power plant is hereby granted. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all outstanding issues in this docket have been addressed as final agency action. With the issuance of this Order, no further action by this Commission is necessary, and this docket shall therefore be closed.

By ORDER of the Florida Public Service Commission this 18th day of June, 2004.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records

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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 Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) 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 Director, Division of the Commission Clerk and Administrative Services 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.