

BEFORE THE PUBLIC SERVICE COMMISSION

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

DOCKET NO. 060225-EI  
ORDER NO. PSC-06-0555-FOF-EI  
ISSUED: June 28, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
J. TERRY DEASON  
ISILIO ARRIAGA  
MATTHEW M. CARTER II  
KATRINA J. TEW

APPEARANCES:

R. WADE LITCHFIELD, ESQUIRE, BRYAN S. ANDERSON, ESQUIRE, and NATALIE F. SMITH, ESQUIRE, Florida Power & Light Company, 700 Universe Blvd., Juno Beach, FL 33408  
On behalf of Florida Power & Light Company (FPL).

KATHERINE E. FLEMING, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
On behalf of the Florida Public Service Commission (Staff).

FINAL ORDER GRANTING PETITION FOR DETERMINATION OF NEED  
FOR PROPOSED ELECTRICAL POWER PLANT

BY THE COMMISSION:

Background

On March 13, 2006, Florida Power & Light Company (FPL) filed a petition for determination of need for a proposed electrical power plant pursuant to Section 403.519, Florida Statutes, and Rules 25-22.080 and 25-22.081, Florida Administrative Code. The proposed electrical power plant consists of two natural-gas fired, combined cycle units to be located in Palm Beach County. Each unit is expected to have an approximate total rated peak capacity of 1,219 MW in summer and 1,335 MW in winter. FPL proposes to place West County Units 1 and 2 in service by June 2009 and June 2010, respectively.

This matter was set for a formal administrative hearing held June 8, 2006. No persons intervened in this docket; however, public testimony was presented. At the hearing, after taking

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all evidence, we considered the agreement between our staff and FPL regarding the appropriate resolution of all issues identified for this proceeding. We approved the agreed positions by a bench decision, thereby resolving all issues in this docket and granting FPL's petition for determination of need. This Order reflects our decision and serves as our report under the Power Plant Siting Act, as required by Section 403.507(2)(a)2, Florida Statutes.

### Standard of Review

Section 403.519, Florida Statutes, sets forth those matters that we must consider in a proceeding to determine the need for an electrical power plant:

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, 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.

### Findings

#### *Compliance with Rule 25-22.082, Florida Administrative Code*

We find that FPL has complied with all aspects of Rule 25-22.082, Florida Administrative Code, "Selection of Generating Capacity." FPL met the notice requirements of the rule by disseminating the Request for Proposals (RFP) to the public and the electric industry at large. The RFP identified FPL's next planned generating units, West County Units 1 and 2, which would be evaluated against potential bids. The RFP also provided a detailed description of the next planned generating units, including the data and information required by Rule 25-22.082, Florida Administrative Code. The RFP included the schedule of critical dates for solicitation, evaluation, screening of proposals, and any subsequent contract negotiations. A description of price and non-price attributes to be addressed by each bidder, as well as a description of FPL's planned evaluation methodology, including the use of the EGEAS model for economic screening, was included in the RFP.

#### *Need for Electric System Reliability and Integrity*

We find that there is a need for FPL's proposed West County Units 1 and 2, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519, Florida Statutes. Without completing West County Unit 1 by June 2009, FPL's and Peninsular Florida's electric system reliability and integrity would be significantly reduced. FPL would also fail to meet its 20 percent reserve margin planning criterion. Without the unit, FPL's summer reserve margin for 2009 would decrease to 15.5% and decrease further in each following year.

FPL's analysis conducted in preparation for its RFP showed that a minimum of 2,371 MW of additional supply resources would be needed to supply customers' needs reliably during the 2009-2011 time frame based upon satisfying the summer reserve margin criterion. FPL's most recent forecasts show that FPL's capacity needs are even higher than those shown in the forecasts at the time of the issuance of the RFP, further confirming the need for 2010 capacity resources. FPL's capacity planning process took into account reasonably available purchased power (as well as Demand Side Resources "DSM", discussed below), which resources are insufficient to meet customers' needs for capacity beginning in 2009 and 2010, thus further demonstrating the need for West County Units 1 and 2.

Without completing West County Unit 2 by June 2010 (assuming that West County Unit 1 is completed), FPL's summer reserve margin would be reduced to 17.4% in 2010 and 14.8% in 2011, which is below FPL's 20 percent reserve margin planning criterion. West County Unit 2 is therefore needed to maintain the electric system reliability and integrity of FPL and Peninsular Florida.

*Need for Adequate Electricity at a Reasonable Cost*

We find that there is a need for West County Units 1 and 2, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519, Florida Statutes. West County Units 1 and 2 will be highly efficient and reliable, state-of-the-art units producing electricity for FPL's customers at a reasonable cost. The cost estimates, heat rate, and equivalent availability parameters for West County Units 1 and 2 are reasonable.

The addition of West County Units 1 and 2 will improve FPL's system average heat rate by about 4 percent. This means that in general, FPL's generating system will use 4 percent less natural gas to produce the same amount of electricity, thus helping mitigate the effect of high gas prices.

*No Mitigating Conservation Measures*

We find that there are no conservation measures taken by or reasonably available to FPL which could avoid or defer the need for the proposed West County Units 1 and 2. The need for West County Units 1 and 2 takes into account implementation of all reasonably achievable, cost-effective conservation and load management measures previously determined by the Commission.

FPL is committed to continuing to assess and is working to identify additional cost-effective demand-side management programs (DSM). On March 27, 2006, FPL petitioned the Commission to modify two of its existing DSM programs.<sup>1</sup> On May 19, 2006, FPL petitioned the Commission for approval of modification to seven other DSM programs. In that same petition, FPL also petitioned for approval of two new DSM programs, thereby increasing the

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<sup>1</sup> This petition has been assigned Docket No. 060286-EG.

participation in DSM programs in the 2006 through 2014 time period.<sup>2</sup> The proposed modifications to FPL's DSM plan are designed to meet, in part, the increased capacity needs that resulted from the revised peak load forecast.

*Most Cost-Effective Alternative Available*

We find that the proposed West County Units 1 and 2 are the most cost-effective alternative available, as the criterion is used in Section 403.519, Florida Statutes. In evaluating its next planned generating units, FPL quantified and evaluated each alternative's impact on FPL's system production costs and transmission-related costs. Ultimately, FPL selected the West County Unit 1 combined cycle option as the most cost-effective alternative and identified it as its next planned generating unit.

FPL recognizes the need for fuel diversity on its system. However, coal-fired generation cannot be constructed to provide service on FPL's system to replace West County Units 1 and 2. FPL will accelerate its actions to install advanced technology coal capacity and purchases from renewable generators to provide electricity for FPL's customers.

On May 26, 2006, FPL petitioned the Commission for an exemption from Rule 25-22.082, Florida Administrative Code, with respect to its proposed advanced technology coal plant, thereby helping to expedite the benefits of fuel diversity to FPL's customers, including projected reductions in the level and volatility of fuel costs.<sup>3</sup>

As ordered by the Commission on May 16, 2006 in Docket No. 050806-EQ, FPL is preparing an additional standard offer contract for the consideration of renewable providers based on FPL's proposed 2012 advanced technology coal plant. FPL is also actively encouraging development of renewable energy, consistent with the direction of the Florida legislature and the Commission, by (i) negotiating and being continuously available for negotiation of custom purchased power contracts with renewable energy providers; and (ii) having continuously available a standard offer contract for renewable generation, including the contract approved by the Commission on May 16, 2006 for use beginning June 1, 2006, which implements input received from renewable providers that participated in the Commission's renewable energy workshops; and (iii) filing with the Commission, no later than August 21, 2006, additional standard offer contracts for consideration of renewable energy providers as directed by the Commission in Docket No. 050806-EQ. FPL will also maintain its pursuit of additional coal-based power purchase contracts in order to provide additional fuel diversity for the benefit of FPL's customers.

As discussed above, FPL fully complied with Rule 25-22.082, Florida Administrative Code. Proposals received in response to its RFP were used to develop candidate portfolios in configurations that satisfied the 2009-2011 need. FPL's and the independent evaluator's extensive economic evaluations of these proposals included quantifying and considering

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<sup>2</sup> FPL agreed to make this filing, which has been assigned Docket No. 060408-EI, pursuant to the stipulation.

<sup>3</sup> FPL also agreed to make this filing pursuant to the stipulation. This petition has been assigned Docket No. 060426-EI.

generation-related costs, transmission-related costs (including transmission interconnection and integration costs, energy and capacity losses), upstream gas pipeline costs as well as the impact of each portfolio on FPL's capital structure minus mitigating factors offered by purchased power options. To determine the magnitude of this impact on its capital structure, FPL applied an equity adjustment. In past need determination cases, the Commission stated that any application of an equity adjustment should be evaluated on a case-by-case basis. In the instant case, the equity adjustment does not materially affect the overall cost effectiveness of West County Units 1 and 2. The sum of each portfolio's generation costs, transmission costs, upstream gas pipeline costs and cost impact on capital structured minus the mitigating factors represented the total system costs to FPL customers for the portfolio.

Final cost comparisons from the RFP evaluation demonstrated that West County Units 1 and 2 offered more than a \$750 million cumulative present value of revenue requirements (CPVRR) benefit compared with the closest alternative portfolio that did not include both West County Units 1 and 2. Furthermore, that portfolio did not offer any non-economic, fuel diversity, or other advantages over West County Units 1 and 2. An independent evaluation confirmed these conclusions. West County Units 1 and 2 are therefore the most cost-effective alternative available for meeting the needs of FPL's customers.

#### Conclusion and Additional Requirements

Based on the foregoing, we grant FPL's petition for determination of need for its proposed West County Units 1 and 2. FPL shall continue to monitor the cost-effectiveness of West County Units 1 and 2 prior to committing substantial capital dollars.


In addition, FPL shall annually report budgeted and actual costs associated with a proposed power plant. FPL shall provide us with such information on an annual basis with the understanding that some costs may be higher than estimated and other costs may be lower. Providing this information on an annual basis will allow us to monitor FPL's progress for West County Units 1 and 2. In providing this information, it should be understood that the costs used in the evaluation that resulted in selecting West County Units 1 and 2 as the most cost-effective resource option to meet FPL's needs is the total estimated cost and that any under-runs in one category may be used to off-set any overruns in another category.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that Florida Power & Light Company's petition for determination of need for its proposed West County Units 1 and 2 is granted. It is further

ORDERED that this docket shall be closed if no appeal is filed within the time permitted for filing an appeal of this Order.

By ORDER of the Florida Public Service Commission this 28th day of June, 2006.

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

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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 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 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.