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September 4, 2003

VIA HAND DELIVERY

Ms. Blanca Bayó, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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**Re: Florida Power & Light Company's
Addendum One to 2003 Capacity Request for Proposals**

Dear Ms. Bayó:

Today, Florida Power & Light Company ("FPL") issued Addendum One (Guidance for Submission of Annual Cost Data) to its 2003 capacity Request for Proposals ("RFP") issued and filed on August 25, 2003. Since Addendum One is part of FPL's RFP, FPL is enclosing a copy for filing with the Commission.

If you or your Staff have any questions regarding this transmittal, please contact me at (850) 222-2300.

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FPSC-BUREAU OF RECORDS

Respectfully,



Charles A. Guyton
Attorney for Florida Power
& Light Company

CAG/sem

Enclosure

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Guidance for Submission of Annual Cost Data

Background

FPL's 2003 RFP requires potential Proposers to provide annual values for Capacity Payments (that inherently may include a fixed O&M component), Variable O&M Payments, and Startup Payments. These annual values may reflect assumed escalation over the term of a proposed contract. Proposers may either submit fixed annual values or have components of their proposal prices be subject to escalation. In the former instance, the Proposer would be guaranteeing the actual prices for each year (i.e., those are the set annual prices that would be incorporated directly into a PPA if the Proposer were selected by FPL). In so doing, a Proposer would be choosing to assume the risk/benefit of costs deviating from the annual values provided. In the latter case, a Proposer may submit prices that are subject to future adjustment based on a formula that includes one or more of three approved indices (described below). For example, a Proposer might propose a Variable O&M charge that entails a 2007 starting value that escalates thereafter at some portion or all of the actual change in a specific index. In summary, Proposers can choose the level of risk they would assume by applying a formulaic approach (similar to FPL) or guaranteeing specific annual values.

The latter indexed approach was the process employed by FPL in developing the forecasted annual values for Variable O&M, Capital Replacement and Fixed O&M for its self-build options in the RFP. The numeric values shown in FPL's self-build options are not guaranteed, rather they reflect FPL's best estimate of what its formulaic cost estimate will yield. Over time, actual values would be substituted for these forecasted values.

The following describes how this can be accomplished by Proposers in response to FPL's 2003 RFP and the method employed by FPL in constructing its values.

Process

The following is provided to clarify requirements for data submitted in response to FPL's 2003 Request for Proposal (RFP) as pertains to proposal pricing components that may be either fixed or subject to escalation. The approach offers Proposers the opportunity to declare the annual values that will be used to evaluate their proposal and (if the proposal is subject to escalation) the method of applying three FPL authorized indices to develop the values to be evaluated.

A Proposer must submit payment values, not formulae, for all years for Capacity Payment and Variable O&M Payment as described in Florida Power & Light's 2003 RFP. Thus, even if a Proposer decides to base a price component on a formula/index, the Proposer must still calculate and populate the RFP Form #5 with specific annual values (so that the proposal evaluation team can verify its understanding of the Proposer's formula).

Fixed Price Procedure

If the values on Form #5 represent fixed, guaranteed payment values, then simply completing the RFP forms as described in the RFP is sufficient. These firm, guaranteed annual payment values would be used in the evaluation and then included unchanged in the PPA should the proposal be selected.

Formulaic/Indexing Procedure

If a Proposer chooses to develop payment values based on the use of FPL authorized indices, and desires this method to be the basis of the evaluation and a potential PPA with FPL, the Proposer must use the following approach.

Only the indices in Table 1 are authorized for use in submitting formulaic/indexed prices in response to the FPL 2003 RFP. The three authorized indices are:

- The Global Insight escalation index for Producer Price Index – All Commodities (PPI).
- The Global Insight escalation index for Compensation Per Hour – Non-Farm Business Sector (CPH).
- The Global Insight escalation index for Consumer Price Index – All Urban Consumers (CPI).

One of these escalation indices may be used by itself or in combination with any or all of the other indices.

The only price values that a Proposer may choose to index are those for Capacity Payments (and inherently any fixed O&M portion of those payments), Variable O&M Payments, and Startup Payments – all of which are to be provided on Form #5. The formula(e) applied by the Proposer to develop the payment values must be provided and fully described at the bottom of the relevant page(s) of Form # 5 or included on an attached page to the form if more room is needed. This formula, combined with future actual values for each index used in the formula, will be the basis for payments that the Proposer would receive if the proposal is selected.

A Proposer may also deem that some portion of a payment is not indexed, while another segment of the payment is. For example, a Proposer's Capacity Payment may entail one portion that is fixed (or that escalates at a set percentage) throughout the term of the contract while another portion (i.e., a fixed O&M component) may be subject to annual adjustment based on a formula that includes one or more of the authorized indices.

In addition to a thorough description of the formula/indexing process that is proposed, a Proposer must fill out the annual values for every year of the proposed transaction – based on the forecast of the authorized index values contained in Table 1. Note that the Proposer will not be bound by these specific annual values – only the formula/indexing

process behind them. However, the annual values are essential and will be used to confirm that the proposal evaluation team understands and correctly applies the Proposer's formula/indexing process.

Example

The following is an example of how a forecasted annual Capacity Payment (CP) value could be developed using a formulaic combination of two FPL authorized indices. Formula (1) represents the equally weighted combination of the CPI and PPI. Additionally, the PPI is discounted representing the Proposer's assumption that the PPI overstates future escalation by 5%. This allows the Proposer to adopt an assumption in its pricing proposal, be evaluated on that assumption, and have that same assumption reflected in the pricing provision of the PPA. The starting value for the Capacity Payment in 2007 (CP_{2007}) is \$5/kW-mo. The proposed Capacity Payment for 2012 (CP_{2012}) would be determined as follows:

$$(1) \quad CP_{2012} = CP_{2007} \times \left[0.5 \times \frac{CPI_{2012}}{CPI_{2007}} + 0.5 \times \frac{0.95 \times PPI_{2012}}{PPI_{2007}} \right]$$

$$(2) \quad CP_{2012} = 5 \times \left[0.5 \times \frac{229.96}{200.01} + 0.5 \times \frac{0.95 \times 148.42}{139.39} \right] = \$5.4032/\text{kW-mo}$$

Values for other years would be developed in the same manner, substituting the appropriate index value in the numerator for each index. The actual Capacity Payment to be made in the future under a PPA would apply the same formula with actual values of the CPI and PPI.

FPL's Methodology

- 1) FPL used the Producer Price Index (directly) to escalate an initial value for the Variable O&M and Capital Replacement values shown in Tables V-2 and V-5 of the RFP.
- 2) FPL used the CPH index (directly) to escalate initial Fixed O&M values shown in Tables V-2 and V-5 of the RFP.
- 3) FPL did not use Global Insight's Consumer Price Index, but this may be used by Proposers.

**Table 1. Global Insight Indices for use in response to FPL's 2003 RFP
(The U.S. Economy The 25-Year Focus, Winter 2003; Global Insight)**

| <u>Dates</u> | <u>Consumer Price Index (All Urban Consumers)</u> | | <u>Producer Price Index (All Commodities)</u> | | <u>Compensation Per Hour (Nonfarm Business Sector)</u> | |
|--------------|---|-----------------|---|-----------------|--|-----------------|
| | <u>Value</u> | <u>% Change</u> | <u>Value</u> | <u>% Change</u> | <u>Value</u> | <u>% Change</u> |
| 1990 | 130.75 | 5.4% | 116.28 | 3.6% | 90.55 | 5.5% |
| 1991 | 136.17 | 4.1% | 116.53 | 0.2% | 94.98 | 4.9% |
| 1992 | 140.31 | 3.0% | 117.20 | 0.6% | 100.00 | 5.3% |
| 1993 | 144.48 | 3.0% | 118.92 | 1.5% | 102.18 | 2.2% |
| 1994 | 148.23 | 2.6% | 120.45 | 1.3% | 104.35 | 2.1% |
| 1995 | 152.38 | 2.8% | 124.75 | 3.6% | 106.55 | 2.1% |
| 1996 | 156.86 | 2.9% | 127.67 | 2.3% | 109.83 | 3.1% |
| 1997 | 160.53 | 2.3% | 127.59 | -0.1% | 113.08 | 3.0% |
| 1998 | 163.01 | 1.5% | 124.43 | -2.5% | 119.13 | 5.4% |
| 1999 | 166.59 | 2.2% | 125.48 | 0.8% | 124.35 | 4.4% |
| 2000 | 172.19 | 3.4% | 132.75 | 5.8% | 132.98 | 6.9% |
| 2001 | 177.06 | 2.8% | 134.20 | 1.1% | 136.63 | 2.7% |
| 2002 | 179.88 | 1.6% | 131.10 | -2.3% | 140.58 | 2.9% |
| 2003 | 183.60 | 2.1% | 135.03 | 3.0% | 146.61 | 4.3% |
| 2004 | 187.05 | 1.9% | 135.33 | 0.2% | 152.65 | 4.1% |
| 2005 | 190.94 | 2.1% | 136.39 | 0.8% | 159.13 | 4.2% |
| 2006 | 195.16 | 2.2% | 137.80 | 1.0% | 165.40 | 3.9% |
| 2007 | 200.01 | 2.5% | 139.39 | 1.2% | 172.02 | 4.0% |
| 2008 | 205.45 | 2.7% | 141.07 | 1.2% | 179.44 | 4.3% |
| 2009 | 211.27 | 2.8% | 142.82 | 1.2% | 187.42 | 4.5% |
| 2010 | 217.32 | 2.9% | 144.63 | 1.3% | 195.76 | 4.4% |
| 2011 | 223.60 | 2.9% | 146.53 | 1.3% | 204.53 | 4.5% |
| 2012 | 229.96 | 2.8% | 148.42 | 1.3% | 213.83 | 4.5% |
| 2013 | 236.56 | 2.9% | 150.47 | 1.4% | 223.53 | 4.5% |
| 2014 | 243.45 | 2.9% | 152.53 | 1.4% | 233.98 | 4.7% |
| 2015 | 250.45 | 2.9% | 154.20 | 1.1% | 244.49 | 4.5% |
| 2016 | 257.63 | 2.9% | 155.83 | 1.1% | 255.15 | 4.4% |
| 2017 | 265.45 | 3.0% | 158.07 | 1.4% | 266.21 | 4.3% |
| 2018 | 273.98 | 3.2% | 160.81 | 1.7% | 278.10 | 4.5% |
| 2019 | 283.10 | 3.3% | 163.79 | 1.9% | 290.62 | 4.5% |
| 2020 | 292.75 | 3.4% | 166.88 | 1.9% | 303.92 | 4.6% |
| 2021 | 302.78 | 3.4% | 169.89 | 1.8% | 317.70 | 4.5% |
| 2022 | 313.22 | 3.4% | 173.12 | 1.9% | 331.23 | 4.3% |
| 2023 | 324.06 | 3.5% | 176.49 | 1.9% | 345.64 | 4.4% |
| 2024 | 335.30 | 3.5% | 179.86 | 1.9% | 360.81 | 4.4% |
| 2025 | 347.05 | 3.5% | 183.42 | 2.0% | 377.17 | 4.5% |
| 2026 | 359.40 | 3.6% | 187.34 | 2.1% | 394.34 | 4.6% |
| 2027 | 372.19 | 3.6% | 191.34 | 2.1% | 412.30 | 4.6% |
| 2028 | 385.43 | 3.6% | 195.44 | 2.1% | 431.08 | 4.6% |
| 2029 | 399.14 | 3.6% | 199.62 | 2.1% | 450.71 | 4.6% |
| 2030 | 413.34 | 3.6% | 203.88 | 2.1% | 471.23 | 4.6% |
| 2031 | 428.05 | 3.6% | 208.24 | 2.1% | 492.69 | 4.6% |