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BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 070098-EI
FLORIDA POWER & LIGHT COMPANY

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IN RE: FLORIDA POWER & LIGHT COMPANY'S
PETITION TO DETERMINE NEED FOR
FPL GLADES POWER PARK UNITS 1 AND 2
ELECTRICAL POWER PLANT

DIRECT TESTIMONY & EXHIBIT OF:

ARMANDO J. OLIVERA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ARMANDO J. OLIVERA

DOCKET NO. 07____-EI

JANUARY 29, 2007

Q. Please state your name and business address.

A. My name is Armando J. Olivera. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL or the Company) as President.

Q. Please describe your duties and responsibilities in that position.

A. I have overall responsibility for the operations of the Company.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree in electrical engineering from Cornell University and a Master of Business Administration from the University of Miami. I am also a graduate of the Professional Management Development program of the Harvard Business School. I was named President of FPL in 2003. My professional background is described in more detail in Document No. AJO-1.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring an exhibit consisting of one document, AJO-1, which is attached to my direct testimony.

Q. What is the purpose of your testimony?

A. FPL is requesting Commission approval to construct two solid fuel coal-fired generating units each having summer net capacities of approximately 980 MWs for a combined net capacity of 1,960 MWs. If approved, FPL Glades Power Park ("FGPP") will provide the best, most cost-effective alternative for maintaining fuel diversity within FPL's generation portfolio, providing greater system reliability, mitigating the effect of volatility in natural gas prices, and taking a positive step toward achieving greater U.S. energy independence from reliance on middle east fuel sources. FGPP will be constructed on a 4,900-acre site located in unincorporated Glades County. The site is located west of Lake Okeechobee, approximately four miles northeast of the town of Moore Haven in an unincorporated area of Glades County.

My testimony provides an overview of FPL's request, describing some of the significant challenges we face in meeting the growing demand for electricity in the state of Florida, addressing the need for system fuel diversity, discussing the economic uncertainties associated with this project compared to projects in previous need determination proceedings, and explaining how such uncertainties and other unique circumstances should affect the selection of the best resource option and the Commission's approach to this proceeding. Also in light of these issues, and the magnitude of the financial commitment this project will require of FPL and its customers, I summarize some of the specific findings and determinations that FPL is asking the Commission to make in connection with the

determination of need, prior to FPL undertaking the project. Such determinations include the institution of an annual review of the projected and actual costs to enable the Commission annually to determine the prudence of actual costs and the feasibility of continuing the project.

Q. Have any governmental policy makers in the state recognized the need to encourage fuel diversity?

A. Yes. Various actions have been taken recently at the state government level to endorse and encourage the development of a more diverse mix of fuel sources and technologies to be used in Florida's energy future.

- Florida's Energy Plan, issued on January 17, 2006, addresses the importance of fuel diversity and avoiding a reliance on any one fuel type such as natural gas.
- The Florida Legislature recently highlighted the importance of fuel diversity in House Bill 888, which was signed into law on June 18, 2006. While this Commission has always taken fuel diversity into account in approving new generation in the state of Florida, the bill amended Section 403.519, Florida Statutes, and now requires this Commission to explicitly consider "the need for fuel diversity and supply reliability" when making its determination of need for new electricity generating capacity.
- This Commission on August 29, 2006 moved to speed FPL's fuel diversity efforts when it granted the company an exemption from a process that allows parties to bid to provide the additional power we need. In its news release that day explaining its decision, this Commission specifically cited FPL's efforts

to construct a coal-fired power plant, stating that "a diversified fuel portfolio insulates ratepayers from high-cost fuels and enhances long-term stability of Florida's economy."

Q. Please describe the challenges FPL faces in planning for and constructing new generation in the state of Florida.

A. Florida, one of the most populated states in the nation, also continues to be one of the fastest growing. Over the past decade, FPL added an average of about 85,000 new customers each year. FPL is projecting an annual average increase of more than 88,000 new customers for the next ten years. In addition, electric usage per FPL customer has increased by approximately 30 percent over the past 20 years. As FPL witness Dr. Green explains in his testimony, FPL also projects continued significant growth in energy usage per customer over the next decade. Despite administering one of the most successful energy conservation programs in the country, and a focus on developing renewable energy, this growth in demand for electricity has necessitated and will continue to necessitate that, on average, FPL build one large (i.e., 650 megawatt) power plant, or purchase an equivalent amount every year, along with constructing the transmission and distribution infrastructure needed to deliver the power to customers. This effort requires a massive commitment of financial and other resources. Indeed, to meet the additional demand for electricity, FPL's capital expenditures are expected to average about $2 billion annually over the next four years.

Siting electric infrastructure also is a continuing challenge. Very early on in our planning and siting process the Company makes considerable effort to listen to the concerns of members of the community regarding the location of electric infrastructure. It is not uncommon for us to hear that people do not want power plants, poles or lines near where they live, work or play. Overcoming these challenges is very difficult, especially in such a high growth environment as Florida, with development occurring throughout much of the state and with fewer and fewer sites and corridors from which to serve that growth.

Similarly, many people continue to have concerns about the impact of power plant emissions, despite the fact that FPL has invested billions of dollars in clean sources of energy such as natural gas and in power plant emissions control equipment, and has emissions rates of CO_2, NO_x and SO_2 that are among the lowest in the electric utility industry.

Florida, of course, has no natural fossil fuel resources for the production of electricity, which further exacerbates the challenges described above, because it necessitates the development or expansion of fuel delivery systems into the state.

I know of no utility in the country that must plan for the rate and scale of growth we have in Florida under such challenging circumstances.

Q. How have these factors affected FPL's fuel mix?

A. As indicated in Mr. Silva's testimony, in 2005 FPL's fuel mix was as follows:

Natural gas (42%)

Nuclear (19%)

Coal (18%)

Fuel oil (17%)

Other sources (about 4%).

However, if only natural gas-fueled generation were added to FPL's system in the future, by 2016 the proportion of natural gas-fired produced electricity would increase to about 71% of total electricity delivered to FPL's customers, while the contribution of coal would decrease to 7%.

Nuclear power, a safe, emissions-free source of electric power with low operating costs, has been an important part of our company's fuel mix, today accounting for about one-fifth of the power FPL generates. Nuclear power, however, presents its own set of challenges, as a result of which no new order for a nuclear power plant in the United States ("U.S.") has been placed for almost 30 years, and no new nuclear plant in the U.S. has received an operating license from the NRC in the past 11 years.

For many years now, natural gas has been the fuel of choice for both peak and new base load power generation projects in the U.S. The fuel itself is clean and has been readily available; the power generation technology is well understood, proven reliable and thermodynamically efficient; and the typical combined cycle plant has relatively short development and construction times, allowing for

flexibility in planning and the ability to meet changing demand forecasts. Thus, for many years, highly efficient natural gas-fired combined cycle plants have dominated all others in economic comparisons. As Mr. Silva indicates, choosing a new generation project from among such gas-fired units, at least in terms of comparing self-build options, has largely come down to choosing which plant site offers the best system-integrated economics, taking into account technical and economic considerations such as transmission issues and line losses. FPL has taken full advantage of these favorable characteristics and has added approximately 5,700 megawatts of clean, efficient natural gas-fired capacity in the last seven years. With the completion of West County 1 and 2, approximately 64% of our fuel will be natural gas.

Q. Please discuss the need for and advantage of fuel diversity.

A. An investment in greater fuel diversity helps mitigate the effects of delivery disruptions or price spikes of any one fuel. The use of a more varied array of fuel sources thus enhances the reliability and reduces the cost volatility of electric power. FPL witnesses will testify that:

- If FPL were limited to adding natural gas-fired generation exclusively in the future, about 71% of the electricity delivered to FPL customers in 2016 would be generated using natural gas.
- The existing natural gas pipeline infrastructure into peninsular Florida is comprised of two pipelines from the Gulf Coast region. While this infrastructure has provided a high level of reliability over the years, the demands on both pipelines have continued to grow. In fact, by mid-2009,

these pipelines will be fully subscribed. Therefore, the addition of incremental natural gas-fired generation will require an expansion of one or both pipelines and/or a new interstate pipeline into Florida.

- Expansion of the existing pipelines to meet additional demand will not help reduce the vulnerability to production curtailments due to natural disasters such as hurricanes.
- As more natural gas-fueled generation is added, the need to consider alternatives to maintain reliability will become imperative. These alternatives could include the addition of a new interstate pipeline, additional underground natural gas storage, on-site LNG storage facilities, and identifying alternate supply sources, including access to new producing regions as well as the addition of LNG. Currently, LNG supply accounts for approximately 2.7% of the total U.S. natural gas supply. By 2020, as demand for natural gas grows, it is projected that LNG will account for approximately 20% of the total U.S. natural gas supply. However, it is important to note that to the extent LNG supply imported from the oil producing regions of the middle east becomes a greater percentage of total U.S. natural gas supply in the future, the risks associated with foreign supply fuel sources will become more prevalent.
- Though no one can predict price cycles of fuels, based on current fuel price forecasts the exclusive addition of natural gas-fueled generation in the future would likely result in more volatile and higher fuel costs over time.

- Achieving a more balanced mix of fuel sources will mitigate the effect of a rise in the price of any single fuel on the cost of producing electricity, and thus help stabilize the price of electricity paid by FPL's customers.
- Coal-based generation is a practical way to avoid such an overdependence on natural gas in the future.

Q. Why is FPL proposing to construct a coal plant at this time?

A. As I indicated earlier, FPL is proposing FGPP in the interest of fuel diversity and the associated benefits for our customers. Until fairly recently, natural gas was a relatively inexpensive fuel. Unfortunately, the relative price of natural gas has increased significantly over the last several years, and the fundamentals of supply and demand suggest that it is likely to increase further. On the demand side, some of the very factors that have made natural gas attractive as a fuel – especially the public's perception that gas provides a relatively clean emissions profile – are likely to become more rather than less significant, while the supply side is relatively constrained and does not appear likely to respond proportionately to the increase in prices. Perhaps even more important, with fundamentally strong demand and modest responsiveness of supply to prices, the future path of natural gas prices is likely to be volatile, as it has been in the recent past.

FPL and its customers have already seen how significant the impact of price volatility can be. FPL purchases the fuel used to produce electricity and bills customers for the fuel directly at cost – with no profit added. FPL customers saw the latest spike in natural gas prices reflected in their bills beginning in January

2006. At that time, a residential 1,000 kWh bill increased by approximately $17 or 18.5% over the 2005 bill, an increase of $204 per year, primarily due to an increase in fuel costs. Based on FPL's 2007 projected gas consumption as filed in the Fuel Cost Recovery Docket No. 060001-EI, each one dollar per MMBtu increase in the cost of natural gas translates to an increase in FPL's fuel costs of approximately $430 million. Additionally, as recent hurricanes have shown, natural gas supplies to Florida, which originate in the Gulf of Mexico region, are vulnerable to interruptions. It is quite clear that customers dislike volatility in their bills and there is real value to them in reducing price volatility, just as there is value to customers in enhancing service reliability. FGPP can play an important role in reducing FPL's and its customers' exposure to natural gas price volatility and to potential interruptions in the availability of natural gas supply, which might otherwise lead to temporary power curtailments. To address these issues of natural gas price volatility and supply reliability, FPL is expanding its pursuit of alternative fuel sources to generate power.

Q. Please elaborate on some of FPL's considerations in proposing to construct FGPP.

A. While the capital costs of any solid-fuel plant such as FGPP are higher than those for a natural gas-fired plant, the fuel costs are projected to be substantially lower. Thus, upon its commercial operation FGPP will provide substantial fuel savings. Significantly, as Dr. Sim and Mr. Silva indicate in their testimonies, under a significant number of the fuel price scenarios considered in their analysis, FGPP will prove to be the most cost-effective alternative on a long term basis.

However, the primary reason FPL is proposing to construct an advanced technology coal power plant is to establish a more diversified fuel portfolio that will, in turn, enhance the reliability of FPL's power supply and mitigate the price volatility of natural gas.

Coal, of course, is unique among fossil fuels in that the U.S. has an abundant supply. For example, in his testimony Mr. Schwartz notes estimated domestic coal reserves of approximately 230 years based on current demand. Coal, therefore, is an important component of any plan to move to greater energy independence from foreign sourced fossil-fuels, something that I believe most people in this country would agree is imperative for our energy future.

As Mr. Silva explains, FPL has considered and will continue to consider other options that could contribute to fuel diversity, including renewables such as solar and wind technologies. However, nothing else, not even the significant amount of demand side management in FPL's system, either individually or in the aggregate, would provide the desired fuel diversity in sufficient amounts at the required time. In an effort to stabilize prices and make use of an abundant, readily available fuel source, and after extensive analysis of all available options, FPL proposes to maintain its fuel diversity by adding state-of-the-art advanced technology coal generation to its portfolio of generating plants. As explained in more detail by Mr. Hicks in his testimony, this power plant will produce steam at very high temperatures and pressures which results in producing electricity with higher

efficiency and fewer emissions than previous generations of coal-fired power plants. This highly efficient generating technology will be complemented by installation of a comprehensive, state-of-the-art suite of environmental quality control systems, as described by Mr. Hicks.

Q. You described some of the challenges in constructing a coal-fired power plant in the state of Florida. Have those challenges abated?

A. In some respects yes, and in others no.

Q. What conditions or factors have changed favorably for the construction of a coal-fired unit?

A. There are several major developments that have occurred or are now occurring that we considered in arriving at our decision to pursue this advanced technology coal plant.

The first is the emergence of a viable clean coal technology commercially available on the scale required that will enable FGPP to meet or exceed Florida's stringent environmental regulations.

In addition to these major advances in technology that will be incorporated into our new power plant, the recent high market prices for natural gas, which FPL uses to generate a significant percentage of its electricity, and the potential that, going forward, natural gas prices may increase at a much higher rate than coal, makes coal particularly attractive for FPL in the future. Also of equal

importance, coal is an abundant and readily available fuel in America, thus making it a more secure source of fuel.

Q. What conditions or factors present particular challenges for the construction of a coal-fired unit?

A. FGPP will help meet the need in Florida for reliable, cost-effective power in an environmentally responsible way, and will serve as a strong economic engine in an area of the state that would benefit from the plant's effect on the local economy. FGPP has the support of most local governmental and economic development agencies, as well as many community supporters who welcome the opportunities the plant will provide. Even with all the good support the proposed plant has received, we understand that other stakeholders may raise concerns about the Company's plans and we realize that legal challenges are a potential part of the process of developing a major project. But debate is healthy -- and as the process goes forward, FPL will continue to consider the views of those whose views differ from ours.

In addition, as discussed in more detail by Mr. Yeager, significant uncertainties in the market for labor and materials may affect the schedule of the Project and may present construction challenges.

Q. Given these challenges, why pursue a coal plant?

A. As I have indicated, pursuing an advanced technology coal plant will provide customers with reduced fuel price volatility, enhanced system reliability and help provide more stable prices – and do so in a way that is consistent with FPL's long

history of respect for the environment. In addition, using a fuel that is so abundant domestically, in contrast to other fossil fuels, is consistent with the critical public policy initiatives in this country to achieve greater energy independence from foreign sourced fossil-fuels.

As presented by FPL witnesses, after extensive analysis of a wide range of market conditions, risk factors, technology and environmental issues and community concerns -- and the impacts of all of these on safely providing reliable electric service at a reasonable cost to meet growing demand -- we have concluded that adding coal generation to FPL's portfolio is the right choice for our customers as we plan today for tomorrow's needs.

We also believe that the proposal to construct FGPP is consistent with our strong environmental record. Specifically, FPL will continue to be among the very cleanest generating utilities in the nation and will continue to have the lowest CO_2 emissions rate of any major utility in the state of Florida. First, FGPP will employ a series of state-of-the-art advanced pollution control technologies. Second, the proposed project will be scrutinized by numerous state and federal agencies to ensure that it meets all applicable environmental and other requirements. Third, FGPP will be an extremely efficient power plant, meaning it will burn less fuel to generate the same amount of electric energy relative to other coal units in the state and, in fact, in the nation.

Q. Why was an advanced technology coal plant selected?

A. As I explained earlier, the need to diversify FPL's fuel sources necessitates the addition of a power plant fueled by something other than natural gas. Wind and solar power, on the scale that is needed, are not viable options in Florida at this time. Nuclear power, while re-emerging as a possible resource option to provide base load generation in the future, also faces significant hurdles and, in any event, successful completion of such a plant would be well beyond our needed time frame. And, as stated by Dr. Sim, energy savings through demand side management, although expected to remain sizable and even growing, will not be enough to meet FPL's future additional power needs. This is despite the fact that, between 2006 and 2015, FPL will add 637 MW of load management and 729 MW of conservation for a total of 1,366 MW of incremental demand side management. This will avoid the need for another 1,639 MW of new generation capacity in those years.

Advanced technology coal is the right choice, and FGPP will be much different from traditional coal-fired plants in terms of efficiency and environmental impact. The type of coal that would be used at FGPP is abundant in the U.S. As Mr. Schwartz indicates, there is roughly a 230-year domestic supply unburdened by the geopolitical issues (e.g., energy dependence and terrorism) presented by oil imported from the Middle East -- issues that may also arise in the future with imported liquefied natural gas ("LNG"). In addition, as I mentioned, FGPP will

be much more efficient than conventional coal technology currently used in Florida and the rest of the U. S.

Further, each of the units will use proven air pollution control technologies to maintain an emission level that will be among the lowest in the country for similar new facilities. Not only will these units minimize air emissions to the greatest extent practicable, but we are designing the facilities with the aim that certain emissions control technologies currently in development may, when proven, be retrofitted into these units. Critics, on the other hand, will suggest that FGPP is the wrong solution because it does not immediately address the issue of carbon dioxide emissions. As other FPL witnesses show, this notion is misguided. FGPP's technology and integrated gasification combined cycle (IGCC) would both produce about the same amount of carbon dioxide emissions. Neither of these technologies, nor other available solid fuel technologies, currently allows carbon dioxide emissions to be captured and sequestered on a cost-effective basis. And, as Mr. Yupp and Mr. Silva explain, because natural gas is likely to remain the marginal fuel for the foreseeable future, it is likely that a regulatory environment that factors carbon dioxide into the price of power will also put additional upward pressure on natural gas prices, thus diluting any disadvantage that a coal-fired project would otherwise have. In fact, Mr. Kosky notes that depending on the type of emission, IGCC is actually worse.

I want to be clear that FPL and others in the industry recognize that there likely will be legislative action in the future aimed at reducing CO_2 emissions. As FPL's witnesses explain, we have taken that into account in our planning for FGPP, actually modeling a range of possible outcomes. We expect that the Commission, in determining whether to grant a determination of need for FGPP, certainly would accept the fact that such costs to some extent are likely to be imposed on FGPP and other power plants in the future, although the precise amount is unknown at this time. This is one of the key uncertainties associated with this project that I discuss below in reference to the specific request we are making regarding prudence and future cost recovery, and is discussed at length by Mr. Kosky and other FPL witnesses.

I would also note that FPL and its parent company FPL Group, Inc. (FPL Group) have been recognized as environmental leaders in the utility industry. FPL Group earned the #1 ranking in environmental performance for the fourth straight time by Innovest, a Wall Street investment research company. As I stated earlier, our emissions rates for NO_x, SO_2 and CO_2 are among the lowest of our peer companies nationwide. The U.S. Department of Energy has ranked our energy conservation efforts #1 among electric utilities nationwide. And our affiliate company, FPL Energy, is the world's largest renewable energy provider. It is the largest generator of wind energy in the U.S. and the world, and also is the largest producer of solar generation in the U.S.

So while some may question the effect on our clean energy reputation of bringing on-line a coal-fired power plant, I would note that after the addition of FGPP an advanced coal technology, FPL will continue to be among the very cleanest generating utilities in the nation and will continue to have the lowest CO_2 emissions rate of any major utility in the state of Florida.

Q. FPL has indicated its public support for various efforts to address climate change and curb greenhouse gas emissions. Are these actions consistent with FPL's proposal to construct FGPP?

A. Yes. FPL's central view on this matter is that it is time for this nation to move forward with a mandatory, economy-wide, market based carbon dioxide reduction program. Our industry and its investors need certainty on this matter in order to plan accordingly. Once a national policy is in place, individual companies could then make decisions on existing and new generation consistent with the program's overall requirements. While FPL may not agree with every aspect of every bill, proposal or white paper being discussed on this matter in the public domain, we want to be a part of constructive efforts to further the dialogue and reach our goal. Going forward, we fully expect that coal-fired generation will continue to be an essential part our fuel mix, nationally and at FPL, as it will continue to be important for fuel diversity, reliability and price stability. At FPL, we have built a portfolio of assets that includes low and non-emitting generation that places FPL in a better position to face stricter environmental requirements. In fact, as Mr. Ken Kosky states in his testimony, even with the addition of FGPP, FPL's average rate of CO_2 emissions would be trending downward. The average rate of

CO_2 emissions per MWH for the period 2015 through 2020 is expected to be 17.4% lower than the previous period from 2000 through 2005.

Q. Did FPL consider other coal technologies?

A. As other FPL witnesses explain, FPL evaluated four coal technologies as part of the selection process. The four technologies were sub-critical pulverized coal (PC), integrated gasification combined cycle (IGCC), circulating fluidized bed (CFB), and ultra-supercritical pulverized coal (USCPC) -- the technology proposed for FGPP. A discussion of these technologies was provided in FPL's Report on Clean Coal Generation, which was provided to the Commission on March 10, 2005. To summarize that report, FPL carefully assessed each technology according to a number of factors -- unit output, heat rate, availability, capital cost and O&M costs. Based on a thorough analysis, FPL concluded that USCPC is the best overall choice to provide the benefits of fuel diversity in the 2013 time frame. As discussed in the testimony of Dr. Sim and Mr. Hicks, these results have been confirmed by subsequent studies.

This technology coupled with a complete suite of emissions control equipment, and an innovative plant design, will allow the major byproducts of the combustion and emissions control processes to be recycled into useful commercial products. The bottom line is that the use of USCPC will provide our customers with the best mix of capital and operating costs, high efficiency, high demonstrated reliability and environmentally responsible conversion of coal to electricity from among the available coal generation alternatives. Messrs. Yeager and Hicks will go into further detail on these coal technologies, and Mr. Jenkins will specifically address

why IGCC would not be a viable solution at this time at the scale and efficiency that would be required to meet FPL's fuel diversity goals.

Q. Please summarize the economic uncertainties associated with the project and how it affects the decision-making process in selecting the best alternative.

A. As Mr. Silva and others explain, there are three key areas of economic uncertainty associated with FPL's analysis: (1) the future fuel price differential between natural gas and coal; (2) costs of compliance with future environmental requirements or unanticipated Site Certification conditions; and (3) the actual capital cost and schedule of completing FGPP and placing it in commercial operation.

First, we know the capital and operation and maintenance ("O&M") costs of FGPP will be greater than those of a similarly-sized natural gas-fueled generating plant. But, it is likely that a significant differential between natural gas and coal prices will help to offset the capital and O&M cost differential – though it is difficult to project far into the future what that fuel price differential may be during the plant's 40-year life. However, even if actual natural gas prices in the future are lower, our customers will still benefit because a significant portion of FPL's generation will continue to utilize natural gas.

Second, FPL's economic analysis also indicates significant uncertainty from the possibility of additional legislative or regulatory requirements, especially in the area of emissions standards. Complying with these potential additional

requirements could involve supplementary control equipment, higher emission allowances costs, higher taxes, increased fuel expenditures, or a combination of some or all of these measures that may result in substantial added costs. These prospective requirements, which could be very large, would be part of the cost of electricity borne by FPL's customers. As I indicated earlier, although we expect such requirements to be imposed in the future, the timing and amount is not known at this time. Similarly, unanticipated conditions that may be adopted as part of the Site Certification could impose additional capital or O&M costs on FGPP.

The third major economic uncertainty results from the much longer lead time that is required – about five to six years from the date of this need filing - for development, permitting and construction of the first FGPP unit and the potential for delays during this process. Again, any delay in the process of obtaining a final Site Certification for FGPP, or delays from any number of potential sources such as vendors, suppliers, and contractors, will cause the plant's capital costs to escalate. Any of these factors, which would be outside the control of FPL, could cause the capital costs of FGPP to be higher than projected.

Despite these key economic uncertainties, I believe that FPL's proposal to undertake the addition of FGPP at this time is the best, most cost-effective alternative for maintaining fuel diversity within FPL's generation portfolio. FGPP will provide greater system reliability, will help to dampen the effect of volatility in natural gas prices, and be a step forward in the efforts to achieve

greater energy independence. The decision to grant a determination of need for this addition to FPL's portfolio should be based on similar findings that these units are the best, most cost-effective alternative for preserving fuel diversity, thereby providing greater reliability and lower fuel-cost volatility for FPL's customers than would be achieved by adding gas-fueled generation at this time.

Q. Given some of the factors and issues you have described above, how does this request for a determination of need differ from the most recent requests for determinations of need filed by FPL and granted by the Commission?

A. FPL's request that the Commission grant a determination of need for FGPP and approve the related cost recovery methodology proposed by FPL is predicated on several key factors that are different from those associated with the requests for recent determinations of need submitted in connection with Martin Unit 8 and Manatee Unit 3, Turkey Point Unit 5, and the West County Energy Center: specifically, as discussed above and elsewhere by FPL witnesses, (a) an overarching objective to maintain fuel diversity on FPL's system, (b) the very large capital costs associated with this project, and (c) the significant uncertainties associated with construction and other costs, as well as the project timetable.

Q. How are you suggesting the Commission approach this proceeding and FPL's request given the uncertainties you describe above, and the differences you have highlighted between this and past requests for a determination of need?

A. While the Commission should consider all of the factors set forth in the Florida Power Plant Siting Act ("PPSA"), particular emphasis and weight should be

placed on the need for fuel diversity consistent with the recent amendments to Section 403.519, Florida Statutes, as I have discussed, and as supported by other witnesses for FPL. This is especially important given the number of significant variables involved in assessing the actual economics of FGPP. The Commission must recognize that there can be no guarantee that the future state of the world will always make FGPP's overall economics the least cost as compared to those of additional natural gas-fired capacity. Clearly, if real relative natural gas prices declined and remained low after FGPP was completed – admittedly an unlikely scenario but not an impossible one – customers would have been better off had they and FPL "bet" on natural gas. But that would be a bet that few rational customers would want to make. With the addition of FGPP, customers gain protection: if natural gas prices are relatively low, then bills are relatively low because the existing natural gas-fired units in the fleet offer even better economics than was expected when they were built; on the other hand, if natural gas prices are relatively high then the economics of FGPP look even better and provide some offset to the impact of those higher gas prices.

Other economic uncertainties will come into play as well, as noted above, and described in more detail by Messrs. Yeager, Damon and others. For example, natural gas-fired units are more easily sited, involve shorter construction lead times, and require smaller capital investments. But, as I have indicated, and other FPL witnesses discuss in more detail, a coal plant brings important benefits of fuel diversity.

Because of these uncertainties, and given the very large capital commitment the Company and its customers will need to make in order to pursue the benefits of fuel diversity, FPL is requesting clear and unwavering direction from the Commission on these significant policy choices regarding fuel selection and the prudence of FGPP and its costs.

Q. Please summarize the specific requests FPL is making with regard to establishing the prudence of FGPP and its costs.

A. FPL is requesting that, in connection with granting a determination of need for FGPP, the Commission also specifically find that, based on the projected installed costs of FGPP and the associated facilities, as well as the other projected costs and assumptions, the decision to build the project is prudent and, subject to an annual review process that Mr. Silva describes, that the proposed costs, including additional costs that are imposed pursuant to subsequent environmental legislation or regulatory requirements, likewise are prudent. Further, in light of the dynamic nature of key factors upon which this project is predicated, we are requesting an annual review of actual costs incurred and projected costs, as well as the continued feasibility of the project. In addition, we are also requesting that the Commission approve a mechanism for the recovery of costs incurred should the project not be completed due to a subsequent Commission determination or is otherwise precluded from being completed.

Q. Why does FPL feel that it is necessary to make these requests in the context of its request for a determination of need?

A. By stating the applicable cost-recovery principles and providing for annual reviews, the Commission's need determination order will provide a certain measure of assurance to investors who will be asked to finance the project. For example, affirming in the need determination order that prudently incurred costs will be recoverable whether the project is ultimately completed or not will, all other things equal, help maintain a more favorable credit risk profile for the Company and help offset some of the negative impact that such a large, complex and uncertain project would otherwise have.

FPL believes that the decision to construct FGPP is in the long-term interest of our customers, but recognizes that the capital costs for the project are very large, requiring a significant financial commitment on the part of FPL and its customers. Moreover, the market forces and public policy issues that influence this decision are highly fluid and dynamic, and there are many risks outside of FPL's and this Commission's control that affect the feasibility of the project. FPL's witnesses describe these risks in considerable detail.

FPL believes that the interests of all stakeholders in this proceeding are well served by a careful delineation of the regulatory processes and procedures applicable to this project. The findings and affirmations that FPL is asking be included in the Commission's need determination Order, while perhaps striking

some as regulatory truisms (e.g., all prudently incurred costs should be recoverable or that costs associated with environmental compliance will be recoverable through the Environmental Cost Recovery Clause), are valuable precisely because of the clarity they will bring to the regulatory treatment of costs associated with a project such as FGPP.

While the time for charging FGPP costs to customers in rates will not occur for several years, the benefits of providing clear cost-recovery and regulatory direction for FGPP begin sooner.

Q. How will the addition of FGPP affect customer bills?

A. While the capital costs of FGPP are high relative to comparable sized gas-fired generating units, these capital costs are offset to a large extent by fuel savings. Using the example in Mr. Silva's testimony, the estimated net effect on a residential 1,000 kWh monthly bill for both FGPP units is $3.96. The estimated increase in the 1,000 kWh residential base bill for the first year revenue requirements for both FGPP units is $9.41, and the corresponding projected fuel savings for both units, compared to not adding FGPP or any new generation, is $5.45 for a net effect of $3.96. This $3.96 per month or $47.52 per year for FGPP compares very favorably to the bill increases experienced by our customers in 2006 due to spikes in natural gas prices.

Q. Should the Commission grant FPL's request for a determination of need for FGPP?

A. Yes. Adding FGPP to FPL's power plant portfolio is the best, most cost-effective solution FPL can pursue to maintain fuel diversity and system reliability for our customers. Specifically, this addition is needed to preserve a balanced, fuel diverse generation portfolio, as well as to maintain an adequate level of generation reserve margin.

SUMMARY

Q. Please summarize your testimony.

A. FPL believes this advanced technology coal project is needed in Florida to maintain FPL's fuel diversity – a goal shared by the Florida legislature and this Commission. Greater fuel diversity, in turn, will enhance the reliability of our power supply and help stabilize electricity prices. Further, the advanced technology design and state-of-the-art pollution controls at FGPP will minimize emissions, enabling FPL to continue its tradition of sound environmental management. Building this state-of-the-art, advanced technology coal-fired power plant is the right choice for FPL and its customers. In light of the magnitude of the financial commitment that FPL and its customers will need to make to construct FGPP, and the significant public policy issues associated with the choice of fuel for this generating unit, FPL is requesting a determination from the Commission relative to the prudence of the project and the means by which

such costs would be reflected in rates, including the establishment of an annual review process by which the prudence of actual costs incurred could be assessed and the continued feasibility of the project considered.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power & Light Company

Biographical
Information

Armando J. Olivera
President

Armando Olivera is president of Florida Power & Light Company (FPL), the principal subsidiary of FPL Group, Inc., and one of the largest investor-owned electric utilities in the nation with more than four million customer accounts. He was appointed president in June 2003.

During Mr. Olivera's leadership, FPL has invested heavily in ensuring reliable service and meeting strong current and projected growth in demand for electric power in its vast service territory. FPL has the most efficient power plant fleet in the nation and has taken a number of additional actions to mitigate high fuel costs. The company is now implementing an industry-leading program to harden its electric system against future hurricanes.

Mr. Olivera joined FPL in 1972 and has served in a variety of management positions in the areas of transmission and distribution operations, fuels management, and strategic planning and resource allocation. Most recently he served as senior vice president of Power Systems.

During his leadership of Power Systems, FPL significantly increased service reliability, placing its performance within the top 20 percent of the industry. At the same time, the company's operations and maintenance costs per kilowatt-hour were well below the industry average. Over that five-year period, FPL added 350,000 new customers, and Mr. Olivera oversaw a multi-billion dollar capital expansion program to meet that growth and enhance overall system reliability.

Mr. Olivera holds a bachelor of science degree in electrical engineering from Cornell University and a master of business administration degree from the University of Miami. He also is a graduate of the professional management development program of the Harvard Business School.

Mr. Olivera is chairman of the Florida Reliability Coordinating Council (FRCC) Executive Board, a member of the Board of the Southeastern Electric Exchange and Enterprise Florida, and a member of Cornell University Engineering Council and Cornell University Council.