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Florida Public Service Commission (FPSC) Workshop on a Renewable Portfolio Standard (RPS) -- Staff's Draft RPS Rules and FPL's Positions

FPL's Guiding Principles on a Clean Energy Portfolio Standard (CEPS) in Florida

- FPL strongly supports the development of a well-designed Clean Energy Portfolio Standard (CEPS) in Florida.

- We support a Florida CEPS for the following three reasons:
  - -- To reduce emissions of Greenhouse Gases from the production of electricity,
  - -- To increase the nation's and Florida's energy security, and
  - -- To reduce price volatility of electricity while maintaining reliable electric service for customers

- A Florida CEPS should foremost value clean/renewable energy sources that have the greatest effect on the above three objectives. Therefore, clean energy sources such as renewables and nuclear, as well as carbon reductions due to the modernization of power plants and energy efficiency, should be recognized and play prominent roles in meeting a Florida CEPS.

- To encourage the development of and investment in clean/renewable energy sources, up-front and expedited prudence determinations and cost recovery approvals with administrative finality are essential.

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FPL's Guiding Principles on a Clean Energy Portfolio Standard (CEPS) in Florida (cont.)

- Electric customers should be fully informed of their contribution to meeting a Florida CEPS.
- The Florida Public Service Commission (FPSC) should set and periodically (every 3 to 5 years) review all aspects of the CEPS and set targets and expenditure caps to ensure the targets can be met without imposing unacceptable costs or adverse reliability effects on customers.
- In order to prevent Florida from becoming economically disadvantaged by higher electricity costs, a Florida CEPS should be adjusted and harmonized with a Federal renewable portfolio standard or other similar standard should one become law.
- The methods and incentives for complying with a Florida CEPS need to be consistent with the objective to reduce emissions of Greenhouse Gases from the production of electricity, while increasing the nation's and Florida's energy security, and maintaining reliable electric service and reasonable, non-volatile electricity prices for customers.

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FPL's Views on FPSC Staff's Draft Rules on RPS

- **Currently proposed targets and long-term standards are not aggressive enough to promote sufficient amounts of new generation to meet the three goals of reducing emissions, increasing our energy security and reducing price volatility. Certain dates are too late, the target levels are too low, and the implementation plan is flawed.**
  - FPL supports CEPS percentage targets above those indicated in the current draft RPS rules, but with a reasonable period of time to allow each investor-owned utility (IOU) to develop an efficient strategy for developing clean / renewable assets in Florida.
  - FPL supports a framework which will allow the development of a robust set of CEPS targets, beginning in 2017, together with an appropriate annual expenditure cap.
  - Although the targets will ultimately depend, in part, on what resources will be included, we support a 5% target in 2017 and a 10% target in 2025. These targets, along with the ultimate goal of reaching a 20% CEPS target by 2030, can only be reasonably accomplished by fully utilizing all of our new, clean energy sources.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- A robust CEPS should require that at least 50% of the CEPS target be met through incremental, in-state energy and up to a maximum of 50% should be permitted to be met through the purchase of certified, U.S. generated RECs.
- The portion of the target (at least 50%) met through incremental, in-state energy should require that:
  - -- At least 67% of the requirement can be met using new renewable sources.
  - -- Up to 33% of the requirement can be met using incrementally built clean resources, such as new nuclear power.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- FPL firmly believes that the only renewable energy credit (REC) market that makes good environmental, economic, and public policy sense is a national REC market. A CEPS cannot realistically and practically look to RECs for CEPS compliance if there is not going to be a national REC platform as the mechanism to promote renewables.
  - A CEPS should not be parochial in its approach to CO_2 emissions reductions. A ton of carbon emitted (or avoided) in Maine or California or China has the same impact on global warming as a ton emitted in Florida. As a result, carbon knows no state boundaries. Global warming is a global issue.
  - It will be more expensive for customers to rely on in-state RECs for CEPS compliance rather than through national RECs. For the same reasons that Florida purchases its natural gas from Louisiana and Texas or its wine from California rather than grow grapes in-state, and just as Maine purchases its oranges from Florida, the use of the most efficient domestic renewable resources – whether in-state or out-of-state – is just smart economics. Forcing customers to pay more for in-state RECs is naturally inefficient.
  - National RECs (both in-state and out-of-state) allow Florida to properly disconnect the delivery of energy (which is a local issue) from the green attribute (which is the sole attribute of a REC).

FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- The Legislature has presently limited the draft rule from the Commission to in-state renewables to encourage investment in the state. However, an in-state REC market is not necessary to encourage the development of in-state renewables. In fact, an in-state REC market would be an artificial market that would take years to establish and would be costly to create and maintain. The reality is that the market in Florida would be too small to be efficient, and there would be too few players who would likely enter into large, private, multi-year, bilateral contracts.
- Moreover, the proposed REC price cap would set an artificial price ceiling and is too low to support development of new renewable assets in Florida. FPL believes that if the proposed REC price cap is adopted, there would be very few, if any, new megawatts of renewables developed in Florida. Nor would it be practical to attempt to create a "standard offer" for a Florida REC because a Florida-only REC market would be too small and not have enough liquidity to establish a rational, market-based price for a REC.
- Staff's proposed expenditure cap and periodic Commission review of CEPS costs and targets are better cost control options than establishing an artificial REC price ceiling or utilizing other similar market-limiting type structures.
- Accordingly, the proposed exclusive in-state REC market will be unnecessarily expensive for customers, inherently inefficient, and will fail to promote public policy objectives of capital investment in the state, job creation and job growth, and a strong state and national renewable market.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- FPL believes a good cost control option is to have an annual expenditure cap. We agree with Staff on this approach. However, the proposed expenditure cap of 1% is too low to promote the meaningful pursuit of clean/renewable projects while providing protection for the customers of IOUs. FPL supports more aggressive targets than presently proposed, with an increased expenditure cap to provide the necessary cost control.
  - FPL supports the use of an expenditure cap and believes that it provides the best mechanism to protect customers under a new CEPS paradigm.
  - FPL recommends that the expenditure cap be calculated as a specified percent of retail revenues in each year.
  - FPL recommends that a reasonable expenditure cap be 3% to 5% of annual retail revenues, increasing over time.
  - The expenditure cap should then be compared to the incremental cost to customers for CEPS compliance in that year (measured in terms of incremental levelized revenue requirements) above what cost customers would otherwise have incurred in that same year absent the CEPS requirement.

FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- In light of the dynamic and changing market for renewables and cost uncertainties, FPL agrees with Staff that periodic review of cost impacts and targets is essential to protect customers.
  - That said, the open-ended nature of Staff's current proposal for subsequent updating and review of the RPS is untenable and administratively impractical.
  - FPL recommends that a regular review of the CEPS every three to five years is appropriate given the dynamic and changing market for renewables and cost uncertainties, and allows set timeframes and proper planning for all involved.
- Generation qualifying under a CEPS should not limit itself to solar and wind, and compliance with the CEPS target should be measured in terms of delivered energy and the use of national RECs.
  - The primary objectives of a Florida CEPS should be to reduce emissions of Greenhouse Gases from the production of electricity, increase the nation's and Florida's energy security, and reduce volatility in electric prices while maintaining reliable electric service for customers.
  - Therefore, it is essential to include "clean resources" such as new nuclear megawatts, fossil plant modernizations, and energy efficiency measures in a CEPS. FPL intends to advocate for the inclusion of such "clean resources" in a CEPS during the 2009 Legislative Session.
  - The use of a "delivered energy" CEPS target of at least 50%, coupled with the ability to meet remaining CEPS requirements with certified, U.S. based RECs, eliminates the need for an inefficient, unworkable in-state REC market.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- Encouraging the aggressive development of renewables in Florida requires a CEPS that promotes speed to market and agility in the development of renewables assets. In order to encourage the fastest, most efficient and cost-effective development of and investment in renewable energy sources, up-front and expedited prudence determinations, and cost recovery approvals with administrative finality, are essential.
  - Florida's clean energy policy should be built on rules and policies that robustly promote the development of renewable assets in Florida and provide for annual cost recovery for utilities, subject to an expenditure cap that provides a layer of protection for customers of investor-owned utilities.
  - HB 7135 established an excellent framework for encouraging development of renewable energy and authorizing appropriate cost recovery.
    - -- The statute authorizes cost recovery for renewable energy projects, up to a total of 110 MW state-wide, "so long as the provider has used reasonable and customary industry practices in the design, procurement, and construction of the project in a cost-effective manner appropriate to the location of the facility."
    - -- The Commission recently unanimously approved three solar projects utilizing this framework.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- FPL proposes an exemption of the bid rule for utilities that develop renewable assets, and provisions for annual cost recovery through the Environmental Cost Recovery Clause similar to the way in which the Legislature has authorized cost recovery for the initial 110 MW of solar in Florida, as well as return-on-equity (ROE) incentive adders to encourage renewable investments that meet the standards set forth in HB 7135.
- A bid rule exemption will promote renewable resource development by removing the delay and expense of bid rule challenges and appeals, and the risk associated with low bidders who lack the financial, technical and operational capabilities and experience to ensure successful development, design, construction and long-term commercial operation and reliable service.
- In addition, a process for expedited cost recovery should be developed by Commission rule for solar and wind projects.
- A well-designed CEPS should include both penalties for non-compliance and rewards for compliance. Such penalties and rewards could be triggered based on whether the provider meets the applicable standard or target. Penalties could include an alternative compliance payment mechanism. Rewards could include an ROE adder as contemplated by HB 7135.

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FPL's Views on FPSC Staff's Draft Rules on RPS (cont.)

- In summary, a Clean Energy Portfolio Standard focused on the development and delivery of renewable energy and clean resource projects, as opposed to the purchase of in-state RECs, will quickly result in the real development of renewable resources in Florida and will best achieve the objectives of HB 7135 which include:
  - development of renewable energy;
  - diversity of fuel;
  - lessening dependence on natural gas and fuel oil for the production of electricity;
  - encouraging investment within the state;
  - improving environmental conditions; and
  - minimizing costs to electric utilities and their customers

- FPL's approach to Clean Energy Portfolio Standard in Florida would not only achieve these statutory objectives, but would raise the bar and shorten the timelines for meaningful development of clean/renewable generation in Florida compared with Staff's current strawman proposal.

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