BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear Cost Recovery Clause.	DOCKET NO. 130009-EI DATED: AUGUST 19, 2013

THE FLORIDA RETAIL FEDERATION'S POSTHEARING STATEMENT AND BRIEF

The Florida Retail Federation ("FRF" or "Federation"), pursuant to Order No. PSC-13-0333-PCO-EI, issued on July 23, 2013, hereby submits the Federation's Posthearing Statement and Brief. In summary, this Posthearing Statement addresses only one issue, Issue 13, which relates to Florida Power & Light Company's ("FPL") Turkey Point uprate project, which the FRF asserts has experienced such dramatic cost overruns as to render that project uneconomic to the degree that the Commission should disallow recovery of at least $200 million from FPL's customers. The issues relating to Duke Energy Florida were deferred by the Commission at the outset of the hearing in this docket on August 5, and the FPL issues, other than Issue 13, were addressed by a stipulation approved by the Commission at the hearing.

The Florida Retail Federation has consistently supported cost-effective nuclear power options for Florida's generating fleet, and in fact, in this docket, the Federation does not oppose either (a) FPL's approach to seeking a combined operating license for its proposed Turkey Point Units 6 & 7 (although this does not mean that the FRF agrees that that project is or will ultimately be cost-effective), or (b) FPL's recovery of the costs of its St. Lucie uprate project. However, with respect to FPL's Turkey Point uprate project, the FRF agrees with the Citizens of the State of Florida ("Citizens"), that, as demonstrated in their posthearing brief:

1. FPL failed to manage the Turkey Point uprate project in a reasonable and prudent manner, and in particular, that FPL consistently failed to accurately evaluate the costs of the Turkey Point project, with the ultimate result that the Turkey Point uprate project was

– avoidably – far over budget and significantly uneconomic for FPL's customers, whom FPL now asks to bear the burden of FPL's mistakes.

2. FPL's attempts to roll the Turkey Point uprate project costs into a combined analysis with the St. Lucie uprate project, in order to make the total costs appear reasonable, are fallacious and illogical.

3. The Commission should disallow at least $200 million in recovery by FPL for the Turkey Point project.

SUMMARY OF ISSUES AND POSITIONS

Issue 13: Should the Commission find, that for the year 2012, FPL's project management, contracting, accounting and cost oversight controls were reasonable and prudent for FPL's Extended Power Uprate project? If not, what action, if any, should the Commission take?

FRF: *The Florida Retail Federation agrees with the Citizens that FPL imprudently failed to consider and mitigate extreme uncertainty in its Turkey Point uprate project, resulting in the costs of that project being both dramatically over budget and significantly non-cost-effective for FPL and its customers. Accordingly, the Commission should disallow at least $200 million of the $975 million that FPL spent on the Turkey Point uprate project in 2012 alone.*

DISCUSSION

The results of FPL's management of its Turkey Point uprate project are not in dispute: that project wound up costing at least $2.2 billion ($8,100 per kilowatt for construction costs only; TR 466), nearly three times its original projected cost (TR 460, 463) and more than twice as expensive on a dollars-per-kW basis as the counterpart St. Lucie uprate project ($3,800 per kW; TR 466). In fact, the Turkey Point uprate project costs more, on a dollars-per-kilowatt basis, than (FPL's estimates of) brand new nuclear generating capacity, even though it will only have an operating life half as long as a new unit (20 years for the uprate vs. 40 or more years for a new unit). Moreover, the Turkey Point uprate project cost of $8,100 per kW (construction only) (TR 455-56, 469) vastly exceeds even FPL's breakeven point for new generation (between $4,217 and $6,640 per kW) (TR 466). The ultimate result of the Turkey Point uprate project cost overruns is to render FPL's whole uprate project uneconomic on a net present value basis: FPL has spent or will spend about $3.4 billion in current 2013 dollars (TR 455, 460) to save $3.4 billion in future fuel savings dollars (TR 689; EXH 28 (TOJ-16)). For this to represent a good deal for customers, using the Commission's conventional net present value analysis for generation additions, the discount rate would have to be zero or negative.

The Commission's role is to ensure that utilities, including FPL, recover sufficient funds to provide safe and reliable service at the lowest possible cost. This includes protecting customers from excessive costs that are incurred by utilities. Here, the Citizens' witness, Dr. William Jacobs, consistently warned that FPL was not adequately considering contingencies – i.e., that the Turkey Point uprate project costs would likely be greater than FPL was projecting – in its decision-making regarding that project. (See TR 457-59, 472-73.) Had FPL made adequate provision for this, it could have avoided the consequences of overspending on Turkey Point and completed the St. Lucie uprate project to the benefit of its customers. Alternately, had FPL been required to put some of its own "skin in the game," perhaps it would have been more careful and avoided meaningful amounts of the observed cost overruns. And FPL's insistence on treating the Turkey Point and St. Lucie uprate projects as a single project is simply false reasoning: they are projects at two separate sites, with obviously and vastly different costs. FPL's argument is analogous to suggesting that a utility, constructing 2 identical combined cycle units, should be allowed to "cover" cost overruns at one unit with successful cost management at the other. Of course, in this instance, the costs of both the St. Lucie and the Turkey Point uprate projects have increased over their original projections, but the St. Lucie uprate costs stayed low enough to render that project economic. (TR 466-67) The adverse, uneconomic result for customers has resulted from FPL's inability to control the costs of the Turkey Point uprate project.

Taking the difference between the currently estimated cost of the Turkey Point uprate project, $8,100 per kW, and the high end of FPL's own breakeven range, $6,640 per kW, indicates that FPL has spent, or will have spent, approximately $338 million more than economically justifiable on the Turkey Point uprate. A strong case could be made for disallowing that entire amount, if not more; and the Commission should note that this is conservative in light of the fact that the uprate project will have a life only half as long as a new unit.

The Commission should accordingly disallow at least $200 million of FPL's proposed recovery from its customers. FPL incurred costs of at least this amount imprudently, despite Dr. Jacobs' warnings that FPL was underestimating the Turkey Point uprate costs. This proposed disallowance will not remedy the ultimate problem, but it will at least partially protect customers from FPL's failure to control costs and to make appropriate decisions.

Submitted this 19th day of August, 2013.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the foregoing has been filed electronically with the Office of the Commission Clerk and that a copy has been furnished to the following by electronic mail on this 19th day of August, 2013.

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