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Electronic Filing

a. Person responsible for this electronic filing:

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b. Docket No. 130007 - EI  
In RE: Environmental Cost Recovery Clause

c. The Document is being filed on behalf of Florida Power & Light Company.

d. There are a total of 11 pages

e. The document attached for electronic filing is Florida Power & Light Company's Prehearing Statement

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost )  
Recovery Clause )

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DOCKET NO. 130007-EI  
FILED: OCTOBER 7, 2013

FLORIDA POWER & LIGHT COMPANY'S  
PREHEARING STATEMENT

Pursuant to Order No. PSC-13-0070-PCO-EI, issued February 4, 2013, Order No. PSC-13-0115-PCO-PU, issued on March 7, 2013, and Order No. PSC-13-0165-PCO-PU issued on April 22, 2013 establishing the prehearing procedure in this docket, Florida Power & Light Company, ("FPL") hereby submits its Prehearing Statement.

A. APPEARANCES

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B. WITNESSES

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
T.J. KEITH	ECRC Final True-up for January 2012 through December 2012	1

T.J. KEITH	ECRC Actual/Estimated True-up for January 2013 through December 2013	2
T.J. KEITH	ECRC Projections and Factors for January 2014 through December 2014	3 - 8
R.R. LABAUVE	Approval of Supplemental Clean Air Interstate Rule (CAIR), Mercury and Air Toxics Standards (MATS) and Clean Air Visibility Rule (CAVR)/ Best Available Retrofit Technology (BART) Filing	9
DEBOCK DOMENECH ENJAMIO KEITH LABAUVE YEAGER	Approval of NO <sub>2</sub> Compliance Project	10
LABAUVE	Regulatory Requirement – NO <sub>2</sub> Compliance Project	10A – 10B
ENJAMIO YEAGER	Cost Effective Alternatives – NO <sub>2</sub> Compliance Project	10C
KEITH	Allocation of Costs - NO <sub>2</sub> Compliance Project	11

**C. EXHIBITS**

<u>EXHIBITS</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
(RRL-1)	R.R. LABAUVE	FPL Supplemental CAIR/MATS/CAVR Filing
(RRL-2)	R.R. LABAUVE	U.S. Environmental Protection Agency (“EPA”) Fact Sheet for the new 1-hour National Ambient Air Quality Standard (“NAAQS”) for Nitrogen Dioxide (“NO <sub>2</sub> ”)

(RRL-3)	R.R. LABAUVE	Florida Department of Environmental Protection (“DEP”) Correspondence with EPA regarding Air Program State Implementation Plan Infrastructure Submittal for 2010 Revised NAAQS for NO <sub>2</sub>
(RRL-4)	R.R. LABAUVE	FPL Correspondence with DEP regarding air quality impacts from operation of existing peaking GTs
(RRL-5)	R.R. LABAUVE	SFWMD’s Notice to FPL
(RRL-6)	R.R. LABAUVE	Permit Application for the Lauderdale Plant Site
(RRL-7)	R.R. LABAUVE	Permit Application for the Fort Myers Plant Site
(RRL-8)	R.R. LABAUVE	Additional Clarification Regarding Applicability of Appendix W Modeling Guidance for the 1-hour NO <sub>2</sub>
(TJK-1)	T.J. KEITH	Appendix I Environmental Cost Recovery Final True-up January 2012 - December 2012 Commission Forms 42-1A through 42-9A
(TJK-2)	T.J. KEITH	Appendix I Environmental Cost Recovery Actual/Estimated Period January 2013 - December 2013 Commission Forms 42-1E through 42-9E
(TJK-3)	T.J. KEITH	Appendix I Environmental Cost Recovery Projections January 2014 - December 2014 Commission Forms 42-1P through 42-8P
(TJK-4)	T.J. KEITH	Appendix II Revised Environmental Cost Recovery Actual/Estimated Period January 2013 - December 2013 Commission Forms 42-1E through 42-9E

(TJK-5)	T.J. KEITH	Revised Commission Forms 42-1E, 42-2E, 42-3E, 42-6E and 42-7E January 2013 - December 2013
		Revised Commission Forms 42-1P, 42-3P, and 42-7P January 2014 - December 2014
(JEE-1)	J.E. ENJAMIO	List of Transmission Improvements Required for Retire Plan
(JEE-2)	J.E. ENJAMIO	Resource Plans
(JEE-3)	J.E. ENJAMIO	Reserve Margins
(JEE-4)	J.E. ENJAMIO	Results of Economic Analysis
(JEE-5)	J.E. ENJAMIO	Average System Bill Impacts
(JEE-6)	J.E. ENJAMIO	Updated Results of the Economic Evaluation
(MD-1)	M. DEBOCK	Typical CT Unit Process Diagram
(MD-2)	M. DEBOCK	CT Operating Characteristics
(MD-3)	M. DEBOCK	FPL Operational Combustion Turbine Units
(MD-4)	M. DEBOCK	Aerial View of PFL Facility
(MD-5)	M. DEBOCK	Construction Cost Components for PFL
(MD-6)	M. DEBOCK	Aerial View of PFM Facility
(MD-7)	M. DEBOCK	Construction Cost Components for PFM
(WLY-1)	W.L. YEAGER	Initial Draft Terms and Conditions from LS Power (Confidential)
(WLY-2)	W.L. YEAGER	Revised Draft Terms and Conditions from LS Power (Confidential)



**D. STATEMENT OF BASIC POSITION**

FPL's 2014 Environmental Cost Recovery factors, including the prior period true-ups reflected therein, are reasonable and should be approved. The Commission should approve FPL's Supplemental Clean Air Interstate Rule (CAIR), Mercury and Air Toxics Standards (MATS) and Clean Air Visibility Rule (CAVR)/ Best Available Retrofit Technology (BART) Filing as reasonable. The Commission also should approve the proposed NO<sub>2</sub> Compliance Project involving the retirement and installation of peaking generating units for cost recovery through the ECRC, with such costs allocated to the rate classes on an average 12 CP demand basis and 1/13th energy basis.

**E. STATEMENT OF ISSUES AND POSITIONS**

**GENERIC ENVIRONMENTAL COST RECOVERY ISSUES**

**ISSUE 1:** What are the final environmental cost recovery true-up amounts for the period January 2012 through December 2012?

FPL: \$1,227,750 over-recovery. (Keith)

**ISSUE 2:** What are the estimated/actual environmental cost recovery true-up amounts for the period January 2013 through December 2013?

FPL: \$ 3,614,555 under-recovery. (Keith)

**ISSUE 3:** What are the projected environmental cost recovery amounts for the period January 2014 through December 2014?

FPL: \$ 218,223,346. (Keith)

**ISSUE 4:** What are the environmental cost recovery amounts, including true-up amounts for the period January 2014 through December 2014?

FPL: The total environmental cost recovery amount, including true-up amounts and adjusted for revenue taxes, is \$ 220,768,991. (Keith)

**ISSUE 5:** What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery amounts for the period January 2014 through December 2014?

FPL: The depreciation rates used to calculate the depreciation expense should be the rates that are in effect during the period the allowed capital investment is in service. (Keith)

**ISSUE 6: What are the appropriate jurisdictional separation factors for the projected period January 2014 through December 2014?**

FPL: Retail Energy Jurisdictional Factor 95.56846%  
 Retail CP Demand Jurisdictional Factor 95.20688%  
 Retail GCP Demand Jurisdictional Factor 100.00000% (Keith)

**ISSUE 7: What are the appropriate environmental cost recovery factors for the period January 2014 through December 2014 for each rate group?**

FPL:

RATE CLASS	Environmental Cost Recovery Factor (\$/KWH) <sup>(1)</sup>
RS1/RTR1	0.00230
GS1/GST1/WES1	0.00196
GSD1/GSDT1/HFT1	0.00190
OS2	0.00178
GSLD1/GSLDT1/CS1/CST1/HFT2	0.00189
GSLD2/GSLDT2/CS2/CST2/HFT3	0.00165
GSLD3/GSLDT3/CS3/CST3	0.00160
SST1T	0.00178
SST1D1/SST1D2/SST1D3	0.00172
QILC D/QILC G	0.00159
QILC T	0.00151
MET	0.00187
CL1/SL1/FL1	0.00072
SL2, GSOU1	0.00155
Total	0.00209
(Keith)	

**ISSUE 8: What should be the effective date of the new environmental cost recovery factors for billing purposes?**

FPL: The factors should be effective beginning with the specified environmental cost recovery cycle and thereafter for the period January 2014 through December 2014. Billing cycles may start before January 1, 2014 and the last cycle may be read after December 31, 2014, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

These charges should continue in effect until modified by subsequent order of this Commission. (Keith)

## **COMPANY-SPECIFIC ISSUES**

### **Florida Power & Light (FPL)**

**ISSUE 9.** **Should the Commission approve FPL's Supplemental Clean Air Interstate Rule (CAIR), Mercury and Air Toxics Standards (MATS) and Clean Air Visibility Rule (CAVR)/ Best Available Retrofit Technology (BART) Filing as reasonable?**

**FPL:** Yes. Completion of the compliance activities discussed in FPL's Supplemental CAIR/MATS/CAVR Filing of April 1, 2013, is required by existing federal and state environmental rules and regulatory requirements for air quality control and monitoring; and the associated project costs appear reasonable and prudent. FPL will continue to file, as part of its annual ECRC final true-up testimony, a review of the efficacy of its CAIR/MATS/CAVR compliance plans, and the cost-effectiveness of its retrofit options for each generating unit in relation to expected changes in environmental regulations and ongoing state and federal CAIR legal challenges. The reasonableness and prudence of individual expenditures, and FPL's decisions on the future compliance plans made in light of subsequent developments, will continue to be subject to the Commission's review in future ECRC proceedings on these matters. (LaBauve)

**ISSUE 10.** **Should the Commission approve FPL's Petition for approval of the proposed NO<sub>2</sub> Compliance Project involving the retirement and installation of peaking generating units for cost recovery through the ECRC?**

**FPL:** Yes. The United States Environmental Protection Agency ("EPA") created a new 1-hour human National Ambient Air Quality Standard ("NAAQS") for NO<sub>2</sub> that became effective on April 12, 2010. The EPA has delegated authority to the Florida Department of Environmental Protection ("DEP") to implement the NAAQS in Florida. On January 22, 2013, DEP confirmed to EPA its authority to implement the new 1-hour NO<sub>2</sub> Standard.

The new 1-hour NO<sub>2</sub> Standard has a particular impact on the operation of electric utilities' peaking generating units, which operate only at certain times to serve peak demands and do not operate continuously throughout the entire year. FPL has a total of 48 peaking gas turbines ("GTs") at the Lauderdale, Fort Myers and Port Everglades plant sites. In early 2013, FPL determined through stack testing, dispersion modeling, and other data analysis that emissions from the GTs that are allowed under applicable permits nonetheless will cause or contribute to ambient concentrations in excess of the 1-hour NO<sub>2</sub> Standard at the property boundaries. Due to their quick-start capability, these GTs are extremely important reliability resources for serving load in the South Florida area. FPL has agreed to a plan with DEP that allows FPL to continue operating the GTs until the end of 2016, in



exchange for FPL's commitment to meet the 1-hour NO<sub>2</sub> Standard at the plant property boundaries by that time.

FPL identified and investigated three compliance alternatives to meet the new 1-hour NO<sub>2</sub> Standard at the least cost to FPL's customers: retrofitting the GTs with emission control equipment; retiring all of the GTs and accelerating the next planned generating unit; and retiring all of the GTs and changing out the combustion technology at the Lauderdale and Fort Myers sites in favor of highly efficient combustion turbines ("CTs") that have much lower NO<sub>2</sub> emissions. FPL determined that the third alternative is the most cost-effective, with a cost to customers that is \$56 million lower on a cumulative present value of revenue requirements ("CPVRR") basis than the next-best FPL alternative. FPL also evaluated the potential to purchase the DeSoto facility or purchase power from that facility as proposed by LS Power, but FPL's preferred alternative is at least \$48 million more favorable for customers on a CPVRR basis than any alternative that relies upon the DeSoto facility.

The cost for retiring the GTs and installing highly efficient and clean CTs at the Lauderdale and Fort Myers sites qualifies for ECRC recovery because the project meets the three established Commission criteria for cost recovery. In order to ensure that project costs are prudently incurred, FPL will use competitive bidding to select the vendors for the CTs, generator step-up transformers and engineering, procurement and construction contracts that comprise the majority of those costs. FPL also will draw on its years of experience in building and operating combustion turbines in both simple-cycle and combined cycle configurations. (DeBock, Domenech, Enjamio, Keith, LaBauve, Yeager)

**ISSUE 10A. Is FPL required by current environmental regulations to reduce NO<sub>2</sub> emissions at the Lauderdale, Port Everglades and Ft. Myers sites and if so, when must the emissions be reduced?**

**FPL:** Yes. DEP agreed with FPL's conclusion that measures need to be taken to avoid off-site exceedances of the 1-hour NO<sub>2</sub> standard at the Lauderdale, Fort Myers and Port Everglades sites. DEP accepted FPL's proposal to modify the existing peaking unit technology with the installation of high-efficiency, low-emitting CTs as an appropriate means of reducing the NO<sub>2</sub> emissions, and agreed to allow FPL until December 31, 2016 to complete its implementation of that proposal. (LaBauve)

**ISSUE 10B. Is FPL's proposed installation of combustion turbines at the Lauderdale and Ft. Myers plants required by current environmental regulations?**

**FPL:** As is typically the case with environmental regulations, DEP requires that the 1-hour NO<sub>2</sub> Standard be met but does not attempt to specify a particular

technical approach to meeting it. FPL evaluated available alternatives and concluded that retiring the GTs and replacing the combustion technology at the Lauderdale and Fort Myers sites with high-efficiency, low-emitting CTs is the most cost-effective alternative to comply with the 1-hour NO<sub>2</sub> Standard. (LaBauve)

**ISSUE 10C. Do more cost effective alternatives exist as compared to FPL's proposed installation of combustion turbines at the Lauderdale and Ft. Myers plants?**

**FPL:** No, FPL has thoroughly searched for feasible alternatives that would allow FPL to comply with the 1-hour NO<sub>2</sub> Standard. It has conducted economic evaluations of all such alternatives, including the potential to purchase the DeSoto facility or purchase power from that facility as proposed by LS Power. This process has not identified any alternative that is more cost-effective for customers than FPL's proposal to retire all of the GTs and change out the combustion technology at the Lauderdale and Fort Myers sites in favor of highly efficient, low emission CTs. The results of the economic evaluation show that FPL's Combustion Technology Change Option is the lowest cost option for FPL and its customers by wide margins, when compared to all the other alternatives. (Enjamio, Yeager)

**ISSUE 11. How should the costs associated with the NO<sub>2</sub> Compliance Project be allocated to the rate classes?**

**FPL:** Capital and O&M Costs for FPL's proposed NO<sub>2</sub> compliance project should be allocated to the rate classes on an average 12 CP demand basis and 1/13th energy basis. Allocation on this basis is especially appropriate for the NO<sub>2</sub> Compliance Project. The primary purpose of the peaking facilities that are the subject of this project is to serve peak demand, not energy requirements. The 1-hour NO<sub>2</sub> Standard, which is the environmental regulatory requirement of the project, is directed at short-term emissions that can contribute to acute exposures such as those that occur during peak operations. Cumulative emissions that occur over a lengthy averaging period have been the target of prior environmental regulations to address long-term chronic exposures to air pollutants. The new standard, by contrast, may be triggered irrespective of the amount of energy that the peaking facilities serve. (Keith)

**F. STATEMENT OF POLICY ISSUES AND POSITIONS**

**FPL:** None at this time.

**G. STIPULATED ISSUES**

**FPL:** None at this time.

**H. PENDING MOTIONS**

FPL has no pending motions at this time.

**I. PENDING REQUEST FOR CONFIDENTIALITY**

To date, FPL has the following requests for confidentiality pending:

- Florida Power & Light Company's request for confidential classification of Audit No. 13-015-4-1, DN 03519-13, dated June 24, 2013.

**J. OBJECTIONS TO A WITNESS'S QUALIFICATION AS AN EXPERT**

FPL: None at this time.

**I. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE**

There are no requirements of the Order Establishing Procedure with which FPL cannot comply.

Respectfully submitted,

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/s/ John T. Butler  
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**CERTIFICATE OF SERVICE**

**Docket No. 130007-EI**

**I HEREBY CERTIFY** that a true and correct copy of Florida Power & Light Company's Prehearing Statement has been furnished by electronic delivery on October 7, 2013 to the following:

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