BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Determination of Need for Citrus County Combined Cycle Power Plant, by Duke Energy Florida, Inc. In re: Petition for Determination of Cost Effective Generation Alternative to Meet Need Prior to 2018, by Duke Energy Florida, Inc.	Docket No. 140110-EU Docket No. 140111-EI Submitted: August 1, 2014

NRG FLORIDA LP'S PREHEARING STATEMENT

NRG Florida LP (NRG), pursuant to Order Nos. PSC-14-0274-PCO-EI and PSC-14-0275-PCO-EI, hereby files the following Prehearing Statement:

Appearances:

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On behalf of NRG Florida LP (NRG).

(a) NRG's known witnesses and the subject matter of their testimony.

Direct Testimony	Subject Matter	Issues
Jeffry Pollock	Reasons Acquisition 1 is a better choice to meet Duke's capacity needs than Duke's proposed self-build projects	9, 10, 13, 14, 15
Jim Dauer	Inaccurate assumptions in Duke's cost-effectiveness analysis regarding natural gas supplies	10, 11, 13, 14, 15
John F. Morris	Flaws in Duke's market power analysis	13, 14

NRG additionally reserves the right to call witnesses to respond to any Florida Public

Service Commission inquiries not addressed in direct and rebuttal testimony; to address new matters that may be introduced in Duke's rebuttal testimony, which has not yet been received; and to address issues not presently identified that may be designated by the Prehearing Officer at the Prehearing Conference in this docket.

(b) NRG's exhibits:

Witness	Exhibit	Title
Jeffry Pollock	JP-1	Appearance List
	JP-2	Load Growth Sensitivity
	JP-3	Capacity Requirement Sensitivity
	JP-4	2013 Settlement
	JP-5	Bill Comparison – Winter 2014
	JP-6	Bill Comparison – Summer 2013
John F. Morris	JRM-1	Resume – Dr. John R. Morris
	JRM-2	Revised DPT Results – Long-Term Contract With Osceola
	JRM-3	Revised DPT Results – Other Comparable Capacity

(c) NRG's statement of basic position in Docket No. 140110-EI:

NRG: Duke's proposed plans for its generation fleet as described in this Docket, as well as in parallel Docket No. 140111, represent an "extreme makeover" of its generation portfolio. Duke appears intent on building its rate-base and substantially increasing its retail rates. In addition to recovering the $2.1 billion cost of retiring existing facilities, Duke seeks to recover another $1.9 billion of capital to – in the end – supply less than 200 MW of additional generation capacity.

Duke's load forecast may indicate a need for additional capacity, but given the uncertainties associated with electric use and load forecasts, Duke's plan exposes itself and its customers to unnecessary risks by committing large amounts of capital over a long period of time. Duke's forecast is largely driven by a projection that wholesale and peak loads will increase by more than 1000 MW in 2014-2015. Because this is far more peak load growth than Duke has experienced

in any two consecutive years since 2005, there is significant risk that load growth could be less than Duke projects. If the projected load growth fails to materialize, Duke's already high retail rates could rise even further because the costs of Duke's extreme makeover would be spread over a lower kWh sales base, thus creating the potential for further constrained load growth, and increasing the probability that rates could spiral even higher.

For these reasons and others, the Commission should carefully evaluate the significant risks associated with Duke's proposed plans in determining whether Duke's request for a determination of need in this Docket, as well as Duke's request for a determination of cost-effectiveness in parallel Docket No. 140111-EI, are in the best interests of Duke and its customers. If the Commission determines that Duke does in fact need additional generation capacity beginning in the 2018 timeframe, it should direct Duke to give further consideration to significantly reducing the cost of the needed capacity. Keeping capital investment costs down, and using capital toward projects that mitigate construction and load forecast risk is the single best way to ameliorate the risk to ratepayers and the Commission should think carefully about whether to authorize commitment of the enormous, long-term, capital expenditures required for the proposed Citrus County combined cycle plant.

(d) Issues and positions in Docket No. 140110-EI:

Issue 1: Is the proposed Citrus County combined cycle plant needed, taking into account the need for electric system reliability and integrity?

NRG: No. Duke's load forecast may indicate need, but given the uncertainties associated with electric use and load forecasts, Duke's plan exposes itself and its customers to unnecessary risks by committing large amounts of capital over a long period of time.

Issue 2: Is the proposed Citrus County combined cycle plant needed, taking into account the need for adequate electricity at a reasonable cost?

NRG: No. Duke's need for capacity is primarily driven by a more than 1,000 MW forecasted increase in both wholesale and peak demand in 2014-2015. Because this is more load growth than Duke has experienced in any two consecutive years since 2005, it introduces a significant element of forecast risk. There is evidence in this docket that there may be viable alternatives to Duke that would provide less risky and less costly means of supplying generation.

Issue 3: Is the proposed Citrus County combined cycle plant needed, taking into account the need for fuel diversity and supply reliability?

NRG: No, Duke has not met its burden of proving that the Citrus County plant is needed to increase fuel diversity and supply reliability.

Issue 4: Are there any renewable energy sources and technologies or conservation measures taken by or reasonably available to Duke Energy Florida that might mitigate the need for the proposed Citrus County combined cycle plant?

NRG: The Commission should defer a finding on this issue until it reaches a decision on Duke's conservation goals in Docket No. 130200-EI, Commission review of numeric conservation goals (Duke Energy Florida, Inc.).

Issue 5: Is the proposed Citrus County combined cycle plant the most cost-effective alternative available to meet the needs of Duke Energy Florida and its customers?

NRG: No, Duke has not met its burden of proving that the proposed Citrus County combined cycle plant is the most cost-effective alternative available to meet the asserted need.

Issue 6: Did Duke Energy Florida reasonably evaluate all alternative scenarios for cost effectively meeting the needs of its customers over the relevant planning horizon?

NRG: No position at this time.

Issue 7: Based on the resolution of the foregoing issues, should the Commission grant the requested determination of need for the proposed Citrus County combined cycle plant?

NRG: No. Duke failed to meet its burden of proving its asserted need, or that its proposed Citrus County combined cycle plant is the most cost-effective alternative to meet that need.

Issue 8: Should this docket be closed?

NRG: Yes.

(e) NRG's statement of basic position in Docket No. 140111-EI:

NRG: The NRG Osceola facility, identified in Duke filings as "Acquisition 1", meets Duke's capacity needs prior to 2018 at far less than the capital cost of Duke's proposed Suwannee Simple Cycle and Hines Chiller Uprate projects. However, Duke refused to seriously consider Acquisition 1, citing questionable market power concerns, as discussed below. The facts are clear:

- NRG Osceola's 465 MW would provide more incremental capacity at a far lower cost than Duke's proposed self-build projects.

- Osceola would provide sufficient capacity to meet Duke's forecasted capacity needs prior to 2018.

- As an existing generating facility, NRG Osceola reduces the risk to ratepayers by eliminating construction and performance risk and better managing potential risk from load forecast error.

- The substantially lower acquisition price will restrain the steadily increasing upward pressure on Duke's already high electricity rates that would be further exacerbated by the proposed self-build projects.

- Duke's own analysis shows that the 30-year cumulative net present value revenue requirement (NPVRR) of acquiring NRG Osceola is $49 million less than Duke's self-build projects.

- In fact, the Osceola acquisition would be even more cost-effective if Duke had included incremental natural gas delivery or service costs in its analysis of its own self-build projects.

After determining that NRG Osceola was the least-cost alternative, Duke unreasonably rejected NRG's superior project based on inflated FERC market-power concerns. As explained by Dr. John Morris, Duke incorrectly applied FERC's Competitive Analysis (market power) Screen to NRG Osceola, and – although NRG continued to offer alternatives through June, 2014 – refused to consider other potential means of mitigating any market power concerns.

Moreover, Duke's cost-effectiveness analysis is further flawed because it attributed unjustified equity costs to alternative purchased power agreement by imputing additional debt to the projected cost of a power purchase agreement with NRG, thereby favorably skewing economics toward the Duke self-build projects. Collectively, these analytical flaws and errors result in a substantial and unjustifiable bias in the evaluation process that highly favors the self-build projects and, in turn, Duke's attempt to build its rate base.

The NRG Osceola acquisition is less risky than Duke's self-build projects for at least two reasons. First, NRG Osceola is an existing, operational facility of similar technology and fuel supply that has the capacity to satisfy Duke's energy needs, and that can be acquired for a known price. By contrast, Duke will seek recovery of the entire cost of constructing the Suwannee and Hines projects, whatever that may end up being. Even though Duke is now estimating a total construction cost of $197 million for the Suwannee CTs and $160 million for the Hines Chiller Uprate, the potential for cost overruns remain.

Second, Duke's load forecast error is a risk that must be managed to avoid harm to Duke's customers. Duke's need for capacity prior to 2018 is largely driven by a more than 1,000 MW increase in both wholesale and peak demand in 2014-2015. The Osceola acquisition provides a better method of managing load forecast error because it provides more capacity at a lower cost than the Suwannee/Hines projects. If the load growth materializes above Duke's projections, Duke can defer retirement of the existing Suwannee units. If the projected load growth fails to materialize, Duke's customers would not be saddled with paying the estimated $357 million of additional capital costs over the remaining lives of the self-build facilities.

Because the proposed self-build projects (including Citrus County) will exacerbate the significant upward pressure on Duke's already high electricity rates, they should be evaluated in broad terms - not just in terms of the impact on rates associated with the self-build projects. The Commission also must consider the broader rate impacts and potential consequences of exacerbating what are already among the highest electric rates in Florida and the Southeast. The extreme nature of Duke's proposed generation fleet makeover *will require retail electric rates to support more than $4 billion of capital to supply less than 200 MW of additional generation capacity*. Duke's strategy should be rejected.

For these reasons and others the Commission should reject Duke's determination of Cost Effective Generation Alternative in this Docket, and should direct Duke to resume negotiations with NRG Florida LP.

(f) Issues and positions in Docket No. 140111-EI:

Issue 9: Are the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project needed, taking into account the need for electric system reliability and integrity?

NRG: No. Duke's load forecast may indicate need prior to 2018, but given the uncertainties associated with electric use and load forecasts, Duke's plan exposes itself and its customers to unnecessary risks by committing large amounts of capital over the near term. Duke's need for capacity prior to 2018 is largely driven by a more than 1,000 MW forecasted increase in both wholesale and peak demand in 2014-2015. Because this is more load growth than Duke has

experienced in any two consecutive years since 2005 it introduces a significant element of forecast risk. NRG's Osceola facility is an existing, operational facility of similar technology and fuel supply that provides for needed electric system reliability and integrity while managing load forecast error. It provides more capacity at a lower cost than the Suwannee/Hines projects, with increased flexibility resulting from its three generating units, and without the uneconomic duplication of generating facilities that would result from Duke's self-build projects. By contrast, the Suwannee/Hines self-build projects would commit ratepayers to paying an estimated $357 million of additional capital costs over the estimated 35 and 29-year lives, respectively, of these facilities. (Pollock)

Issue 10: Are the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project needed, taking into account the need for adequate electricity at a reasonable cost?

NRG: No. Duke's need for capacity prior to 2018 is largely driven by a more than 1,000 MW forecasted increase in both wholesale and peak demand in 2014-2015. Because this is more load growth than Duke has experienced in any two consecutive years since 2005, it introduces a significant element of forecast risk. NRG's Osceola facility is an existing, operational facility of similar technology and fuel supply that provides for adequate electricity at a cost that – by Duke's own acknowledgement – is the most cost-effective alternative to the Suwannee and Hines projects. Moreover, its three generating units offer increased operating and planning flexibility, without the uneconomic duplication of generating facilities that would result from Duke's self-build projects. (Pollock, Dauer)

Issue 11: Are the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project needed, taking into account the need for fuel diversity and supply reliability?

NRG: No. Other alternatives, including NRG Osceola - which is an existing, operational facility of similar technology and fuel supply - can provide the same attributes in a less risky and cost effective manner, without the construction risk and unnecessary duplication of generating facilities that would result from the Duke self-build projects. Osceola's dual-fuel capability allows it to operate on both natural gas and oil, enhancing fuel diversity over a natural-gas only alternative. (Dauer)

Issue 12: Are there any renewable energy sources and technologies or conservation measures taken by or reasonably available to Duke Energy Florida, Inc. that might mitigate the need for the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project?

NRG: The Commission should defer a finding on this issue until it reaches a decision on Duke's conservation goals in Docket No. 130200-EI, Commission review of numeric conservation goals (Duke Energy Florida, Inc.)

Issue 13: Are the proposed Suwannee Simple Cycle Project in 2016 and Hines Chillers Power Uprate Project in 2017 the most cost-effective alternatives available to meet the needs of Duke Energy Florida, Inc. and its customers?

NRG: No. The NRG Osceola facility, identified in Duke filings as "Acquisition 1", is the better and more cost-effective choice for meeting Duke's capacity needs prior to 2018 when fairly and non-discriminatorily evaluated against Duke's proposed Suwannee Simple Cycle and Hines Chiller Uprate self-build projects. Osceola is far more cost-effective than Duke's proposed self-build projects; its 465 MW generating capacity can meet Duke's projected capacity needs prior to 2018; it is much less risky for Duke's customers; and, it will restrain the steadily increasing upward pressure on Duke's already high electricity rates as compared to the proposed self-build projects. (Pollock, Dauer, Morris)

Issue 14: Did Duke Energy Florida, Inc. reasonably evaluate all alternative scenarios for cost effectively meeting the needs of its customers over the relevant planning horizon?

NRG: No. According to Duke's own analysis, the 30-year cumulative net present value revenue requirement (NPVRR) of acquiring NRG Osceola is $49 million less than Duke's self-build projects. In fact, the Osceola acquisition would be even more cost-effective if Duke had included incremental natural gas delivery or service costs in its analysis of its own self-build projects. Duke's analysis also erred in eliminating NRG Osceola as a viable alternative to its self-build projects by incorrectly applying FERC's Competitive Analysis (market power) Screen to NRG Osceola. Moreover, Duke's cost-effectiveness analysis is further flawed because it attributed unjustified equity costs to alternative purchased power agreement by imputing additional debt to the projected cost of a power purchase agreement with NRG, thereby favorably skewing economics toward the Duke self-build projects. Collectively, these analytical flaws and errors result in a substantial and unjustifiable bias in the evaluation process that highly favors the self-build projects and, in turn, Duke's attempt to build its rate base. (Pollock, Dauer, Morris)

Issue 15: Based on the resolution of the foregoing issues, should the Commission grant the requested determination that the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project are the most cost-effective generation alternatives to meet Duke's needs prior to 2018?

NRG: No. The Commission should find that the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate self-build projects are not the most cost-effective; and should further determine that acquisition of NRG Florida LP's Osceola plant is the most cost-effective generation alternative to meet the need asserted by Duke in Docket 140111-EI. (Pollock, Dauer)

Issue 16: Should this docket be closed?

NRG: No. The Commission should require Duke to engage in further negotiations with NRG and to report the results to the Commission within 90 days.

(g) Stipulated issues:

None at this time.

(h) Pending motions or other matters requiring Commission action:

NRG proposes the following legal issue in Docket No. 140111-EI:

Legal Issue 1: Does the Commission have jurisdiction in this docket to grant Duke's request for a determination that the proposed Suwannee Simple Cycle Project and Hines Chillers Power Uprate Project are the most cost-effective generation alternatives to meet Duke's needs prior to 2018?

NRG: No. The Legislature granted authority for the Commission to pre-determine whether a need exists for a proposed power plant and pre-approve a proposed plant as the most cost-effective alternative to meet that need in Section 403.519, Florida Statutes, which applies only to power plants subject to the Florida Electrical Power Plant Siting Act, Sections 403.501 – 403.518, Florida Statutes. Neither the Suwannee Simple Cycle Project nor the Hines Chillers Power Uprate Project is subject or eligible for review under the Florida Electrical Power Plant Siting Act.

(g) NRG's pending requests or claims for confidentiality.

NRG's First Notice of Intent to Claim Confidential Classification, filed on July 22, 2014 in both dockets.

(h) Objections to a witness's qualifications as an expert.

None.

(k) Requirements of the Order Establishing Procedure with which NRG cannot comply:

None at this time.

Respectfully submitted this 1st day of August, 2014.

/s/ Marsha E. Rule

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished to the following by electronic mail this 1st day of August, 2014:

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/s/ Marsha E. Rule

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