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Florida Power & Light Company
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March 6, 2015

-VIA ELECTRONIC FILING -

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Florida Power & Light Company's Petition for Approval of Arrangement To Mitigate Impact of Unfavorable Cedar Bay Power Purchase Obligation

Dear Ms. Stauffer:

I enclose for electronic filing in the above docket (i) Florida Power & Light Company's ("FPL") Petition for Approval of Arrangement To Mitigate Impact of Unfavorable Cedar Bay Power Purchase Obligation, (ii) the prefiled testimony of FPL witness Robert Barrett, (iii) the prefiled testimony and exhibits of FPL witness Tom Hartman, (iv) the prefiled testimony and exhibits of FPL witness Kim Ousdahl and (v) the prefiled testimony and exhibits of FPL witness David Herr.

Exhibit TLH-2 to Mr. Hartman's testimony and Exhibit DH-3 to Mr. Herr's testimony are confidential. Contemporaneous herewith, FPL will file via hand-delivery a Request for Confidential Classification for those exhibits.

If there are any questions regarding this transmittal, please contact me at (561) 304-5639.

Sincerely,

s/ John T. Butler
John T. Butler

Enclosures
cc: Counsel for Parties of Record (w/encl.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's Petition for Approval of Arrangement To Mitigate Impact of Unfavorable Cedar Bay Power Purchase Obligation	Docket No.15___________ Filed: March 6, 2015

FLORIDA POWER & LIGHT COMPANY'S PETITION FOR APPROVAL OF ARRANGEMENT TO MITIGATE IMPACT OF UNFAVORABLE CEDAR BAY POWER PURCHASE OBLIGATION

Florida Power & Light Company ("FPL") hereby petitions the Florida Public Service Commission ("FPSC" or the "Commission") for approval of an arrangement by which FPL would be able to mitigate the impact on customers of a power purchase obligation that has become economically unfavorable. Contingent on FPSC approval, FPL has entered into a Purchase and Sale Agreement ("Agreement") to assume ownership of the Cedar Bay generating facility ("Cedar Bay Facility" or the "Facility") through a stock purchase and terminate its existing Power Purchase Agreement ("PPA") with Cedar Bay Generating Company, Limited Partnership ("Cedar Bay Genco"). The Cedar Bay Transaction is projected to produce $70 million in savings for FPL customers on a cumulative present value revenue requirements ("CPVRR") basis ($156 million nominal savings).

Consummation of the Agreement and attainment of the benefits for FPL customers are contingent on the FPSC's determination that entering into the Agreement is prudent and FPSC approval of two principal elements of the proposed accounting treatment for the Agreement: (a) establishment of regulatory assets for the purchase price of $520.5 million and associated income tax gross up of $326.9 million, and (b) recovery through the Capacity Cost Recovery Clause ("CCR Clause") of (i) amortization of the regulatory assets over the remaining PPA period, roughly 10 years and (ii) a return on the unamortized balance of the purchase price regulatory asset calculated at FPL's weighted average cost of capital ("WACC") that is used for adjustment clause proceedings.

FPL further requests that the Commission consider this matter and issue an order on this Petition by July 31, 2015, in order to realize the projected customer savings. In support of this Petition, FPL states:

1. FPL is a corporation with headquarters at 700 Universe Boulevard, Juno Beach, Florida 33408. FPL is an investor-owned utility operating under the jurisdiction of this Commission pursuant to the provisions of Chapter 366, Florida Statutes. FPL provides generation, transmission, and distribution service to more than 4.7 million retail customers.

2. Any pleading, motion, notice, order or other document required to be served upon FPL or filed by any party to this proceeding should be served upon the following individuals:

Kenneth A. Hoffman
Vice President Regulatory Affairs
ken.hoffman@fpl.com
Florida Power & Light Company
215 S. Monroe Street, Ste 810
Tallahassee, FL 32301
(850) 521-3919
(850) 521-3939 (fax)

John T. Butler
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Maria J. Moncada
Principal Attorney
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Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408
(561) 304-5639
(561) 691-7135 (fax)

3. This Petition is being filed consistent with Rule 28-106.201, Florida Administrative Code. The agency affected is the Florida Public Service Commission, located at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399. This case does not involve reversal or modification of an agency decision or an agency's proposed action. Therefore, subparagraph (c) and portions of subparagraphs (b), (e), (f) and (g) of subsection (2) of that rule are not applicable to this Petition. In compliance with subparagraph (d), FPL states that it is not known

which, if any, of the issues of material fact set forth in the body of this Petition may be disputed by any others who may plan to participate in this proceeding.

Existing Cedar Bay PPA

4. The Cedar Bay Facility is a 250 megawatt coal-fired, qualifying co-generation facility located in Jacksonville, Florida that produces electricity using three circulating fluidized bed boilers and a single steam turbine. The Facility is indirectly and wholly owned by CBAS Power, Inc. ("CBAS"), and its operations are managed by Cedar Bay Operating Services, LLC. Cedar Bay Genco, also wholly owned by CBAS, sells the electricity produced by the Facility to FPL and sells steam to an adjacent linerboard facility.

5. FPL's payments to Cedar Bay Genco for the purchase of electricity are made pursuant to a long-term PPA, which the parties originally executed and the FPSC approved under its Qualifying Facility rules in 1988. The current PPA expires December 2024. Pursuant to the existing PPA, FPL's annual capacity payments to Cedar Bay Genco increase each year until the contract terminates.

6. FPL's energy prices under the PPA are based on a fixed heat rate multiplied by the St. Johns River Power Park ("SJRPP") cost of coal, not the Facility's higher actual energy costs. In contrast, pursuant to the Commission's rules governing qualifying facilities, FPL's fixed O&M and capacity payments to Cedar Bay Genco were determined based on the Florida's avoided unit at the time the parties entered the PPA, an integrated coal gasification combine cycle unit. As a consequence, the fixed O&M and capacity payments are above today's current and projected market prices and well above FPL's current avoided costs. To illustrate, FPL's 2014 average avoided cost is $27 per MWh compared to Cedar Bay Genco's "all in" price under the PPA of more than $178 per MWh.

7. The Cedar Bay Facility is dispatchable by FPL within the operating limits of the Facility. In recent years, because the energy charge that FPL pays under the PPA is competitive, FPL has dispatched the Cedar Bay Facility at an annual capacity factor of about 50 percent.

The Purchase and Sale Agreement

8. FPL and CBAS Power Holdings, LLC recently reached mutually agreeable terms, memorialized in the Agreement attached as Exhibit TLH-2 to the testimony of FPL witness Tom Hartman. Under the Agreement, FPL would purchase 100 percent of the equity ownership interest in CBAS at a price of $520.5 million, and FPL would become sole owner of the Cedar Bay Facility.

9. Upon closing on the Agreement, FPL (as both the Cedar Bay Facility owner and the PPA counterparty) would consensually cancel the existing PPA, thereby terminating the out-of-market capacity payments. FPL would own the existing generation facility and be responsible for all existing contracts. Pursuant to the terms of the Agreement and consistent with current operations, FPL will contract with Cedar Bay Operating Services, LLC to operate the Facility.

10. As owner, FPL would continue to be entitled to economically dispatch the Cedar Bay Facility as needed to meet its system needs. Based on the Facility's projected true energy costs (as compared to the energy charges that FPL pays pursuant to the existing PPA), FPL anticipates that it will dispatch the Cedar Bay Facility until at least 2016, but at a substantially lower capacity factor (approximately 5 percent). FPL projects that it will retire the Facility due to the availability of the new interstate natural gas pipeline system to fuel its natural-gas fired units in early 2017. If the economics of FPL's system dispatch were to change such that the Cedar Bay Facility once again becomes viable, however, FPL would have the option to continue operating the Facility to produce even greater customer savings.

11. Final closing of the Cedar Bay Transaction is conditioned upon the FPSC's approval of both the Agreement and FPL's request for the regulatory accounting treatment as described in this Petition and the accompanying testimonies.

Benefits of the Cedar Bay Transaction

12. At least three benefits result from the Cedar Bay Transaction. *First*, the purchase of the Cedar Bay Facility, together with the termination of the PPA, is projected to produce $70 million in savings for customers on a CPVRR basis ($156 million nominal savings). FPL calculated these projected savings by comparing FPL's total system costs assuming the Agreement is in place (and the PPA is terminated) versus FPL's total system costs without the Agreement (and the PPA remains in place through the end of its term). Absent the Agreement, FPL must continue to make capacity payments to Cedar Bay Genco under the existing PPA. In the long term, termination of the PPA avoids $993.4 million (CPVRR) in above-market capacity payments, which FPL customers would otherwise pay through the CCR Clause.

13. FPL analyzed the economic benefits of the Cedar Bay Transaction under alternate scenarios in which the anticipated fuel and emissions costs were 20 percent greater than and 20 percent less than forecasted. Under each of these scenarios, the Cedar Bay Transaction is expected to produce customer savings, in amounts ranging from $3 million to $106 million.

14. *Second*, FPL maintains for its customers the option of continued fuel supply reliability and diversity by keeping the Cedar Bay Facility in service. The Facility is well-run and dependable, and there is every reason to believe it will remain operable into the foreseeable future. Having the ability to dispatch a coal-fired unit provides FPL an important near-term alternative to natural gas, which is particularly important in the years before Florida's third natural gas pipeline system's anticipated 2017 commercial operation date. While FPL currently

anticipates retiring the Cedar Bay Facility at the end of 2016, the Company can continue to operate the Facility if economic conditions change. Under that scenario, customer savings would be greater than currently estimated.

15. *Third*, the Cedar Bay Transaction is expected to yield environmental benefits. The Cedar Bay Facility is a very high emitter of carbon dioxide ("CO_2"). FPL anticipates that reducing the annual capacity factor from 50 percent to 5 percent once it assumes control of the Facility will, in turn, reduce CO_2 emissions in Florida by over a million tons per year. Further, FPL's anticipated retirement of the Facility at the end of 2016 is many years before it likely would be retired under the current PPA structure. This may be a particularly important benefit depending on the scope and timing of implementing the EPA's Clean Power Plan regarding CO_2 emissions.

Proposed Regulatory Accounting Treatment for the Cedar Bay Transaction

16. FPL proposes to record the operating costs of the Cedar Bay Facility in base rates and treat the investment required to effectuate the Cedar Bay Transaction as a regulatory asset recovered through the CCR Clause that would be amortized over the remaining term of the PPA, roughly 10 years, with a return on the unamortized balance of the purchase price at the Company's overall WACC that is used for clause investments. More specifically:

Base Rates

17. As described in detail by witness David Herr of Duff & Phelps, LLC, the Cedar Bay Facility does not have positive fair value. The value that the Cedar Bay Facility would have to market participants stems exclusively from the PPA with FPL, which will be canceled at closing. Accordingly, FPL will not include any portion of the purchase price in base rates.

18. The operation and maintenance costs of the Facility will be recorded in base O&M as they are incurred, as explained in greater detail by FPL witness Ousdahl. Consistent with FPL's Settlement Agreement approved by Order No. PSC-13-0023-S-EI, FPL will not seek an increase in base rates at this time. Rather, the costs associated with plant operations will be absorbed until base rates are reset in FPL's next base rate proceeding.

CCR Clause

19. FPL proposes to establish a regulatory asset for the CBAS purchase price in the amount of $520.5 million, essentially equivalent to the fair value of the PPA as determined by Duff & Phelps.

20. FPL also proposes to establish a regulatory asset and an offsetting deferred tax liability for $326.9 million which represents the income tax gross up associated with the CBAS purchase price. The purchase results in a permanent tax difference, not deductible for income tax purposes, and FPL must recover the associated income taxes in order to recover the full cost of the PPA termination.

21. *Amortization*. FPL proposes to amortize $90.3 million per year comprised of the regulatory assets for the CBAS purchase price and associated income tax gross up.[1] FPL requests recovery of the regulatory assets through FPL's CCR Clause over the remaining PPA period, which is roughly 10 years. Recovery through the CCR Clause is appropriate because that is where FPL currently is recovering the cost of the PPA whose termination results in the regulatory assets. In addition, the amortization of the regulatory assets and associated

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[1] The annual amortization of $90.3 million has been reduced by the amortization of the regulatory liability established for the income taxes associated with the book/tax difference in the Cedar Bay Facility as described by FPL witness Ousdahl in her direct testimony.

unrecovered balance will be removed from retail base ratemaking and FPL's earnings surveillance report.

22. *Return*. FPL seeks an appropriate return on the $520.5 million regulatory asset established for the CBAS purchase price through the CCR Clause. No return is required on the associated income tax gross up, as explained by FPL witness Ousdahl.

23. Because the payment to CBAS Power Holdings, LLC in exchange for terminating the PPA represents a long-term investment, FPL anticipates financing it using the Commission-approved regulatory adjusted investor sources of capital. To fairly recognize the investment made by its equity and debt investors, FPL requests a return on the unamortized balance of this regulatory asset calculated based on FPL's WACC used for clause recovery. The $70 million of projected customer savings fully account for FPL's WACC.

24. This methodology is consistent with Order No. PSC-12-0425-PAA-EU, in which the Commission approved a stipulation and settlement agreement entered into by the Florida IOUs, OPC and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments. Through that order, the Commission confirmed that utilities should be permitted to earn their current, approved WACC on clause-recoverable investments.

Fuel Cost Recovery Clause ("FCR Clause")

25. FPL proposes to recover the fuel costs associated with the Cedar Bay Facility through FPL's FCR Clause, including the rail car lease payments and fuel transportation costs associated with delivering coal to the Facility. This treatment is consistent with the Commission's decision in Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B. In order to avoid double recovery, these fuel-related costs will not be included in retail base ratemaking or FPL's earnings surveillance report.

Expedited Treatment

26. Finally, FPL requests expedited consideration of this Petition. Closing the Cedar Bay Transaction is contingent upon a final, non-appealable Commission order approving the requests set forth in this Petition and the accompanying testimony. The $70 million (CPVRR) in customer savings projected to result from the Cedar Bay Transaction are premised on a closing date of August 31, 2015, which would necessitate a final order from the Commission by July 31, 2015. Customer savings will diminish if the closing is delayed, because FPL has ongoing payment obligations under the existing PPA until closing. Conversely, a decision from this Commission that is early enough to facilitate closing before August 31, 2015 would generate customer savings in excess of the $70 million projected due to earlier termination of those payment obligations. To facilitate and support the Commission's expedited processing of this Petition, both FPL and Cedar Bay will expedite responses to any data requests or discovery propounded by Commission Staff or other parties to the proceeding.

WHEREFORE, FPL requests that the Commission enter an order approving the proposed Agreement between FPL and CBAS Power Holdings, LLC as prudent and specifically authorizing FPL to (a) establish regulatory assets for the purchase of CBAS in the amount of $520.5 million and the associated income tax gross up of $326.9 million, and (b) recovery through the CCR Clause of (i) amortization over a ten-year period of the regulatory assets and (ii) a return on the unamortized balance of the CBAS purchase price regulatory asset calculated at FPL's WACC that is used for adjustment clause recovery.

FPL requests that the Commission consider this Petition and issue an order by no later than July 31, 2015 so that the parties may move expeditiously toward closing and realize the projected customer savings described herein.

Respectfully submitted,
R. Wade Litchfield
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s/ John T. Butler
John T. Butler
Florida Bar No. 283479

1572670

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ROBERT E. BARRETT, JR.

DOCKET NO. 15____________-EI

MARCH 6, 2015

Q. Please state your name and business address.

A. My name is Robert E. Barrett, Jr. 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 Vice President of Finance.

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

A. I am responsible for FPL's financial forecast, analysis of financial results, corporate budgeting, resource assessment and planning, and load forecast activities.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Business Administration degree from the University of Miami, 1982, with a major in Finance. I received a Master of Business Administration from Florida International University in 1985. I have been employed by FPL, or its affiliate NextEra Energy Resources, since 1982 and have held a variety of positions of increasing responsibility including: Financial Analyst; Manager of Financial Forecasting; Director of Quality, Planning and

Analysis; Director of Corporate Planning; Director of Investor Relations; Vice President of Business Development for NextEra Energy Resources; and my current position as Vice President of Finance for FPL.

Q. What is the purpose of your testimony?

A. My testimony provides an overview of the transaction that FPL is asking the Commission to approve; describes the economic and strategic benefits to FPL's customers; and, discusses the appropriate rate of return on FPL's investment on this transaction.

Q. Please provide an overview of the Cedar Bay Transaction.

A. As described in greater detail by FPL witness Hartman, FPL has entered into a definitive agreement to purchase 100% of the equity interest in CBAS Power, Inc. ("CBAS"), subject to FPSC approval. The transaction, upon financial closing, will transfer the ownership to FPL of the Cedar Bay power generation facility ("the Cedar Bay Facility" or "the Facility") and the Power Purchase Agreement ("PPA") between Cedar Bay Generating Company ("Cedar Bay Genco") and FPL for a total purchase price of $520.5 million (referred to as the "Cedar Bay Transaction"). As a consequence of the Cedar Bay Transaction, FPL will no longer be obligated to make payments under the existing PPA for the Cedar Bay Facility and will own the Facility with full discretion to operate and retire it in the manner that best meets the needs of our customers.

Q. Please describe the Cedar Bay Facility and the associated PPA.

A. The Cedar Bay Facility is a 250 MW circulating fluidized bed coal unit located in Jacksonville, Florida. It has been selling all of its capacity and energy to FPL under a long term contract during its operation. The Cedar Bay Facility is a Qualifying Facility ("QF") under the Public Utility Regulatory Policy Act ("PURPA") of 1978. The PPA was based on Florida's avoided unit at the time, which was based on an Integrated Gasified Combined Cycle (coal) plant. FPL witness Hartman will provide more details regarding the Facility and the existing PPA contract.

Q. Please describe the benefits of the Cedar Bay Transaction to customers.

A. The Cedar Bay Transaction provides FPL's customers an estimated economic benefit of $70 million in cumulative present value revenue requirements ("CPVRR"), ($156 million nominal savings) primarily as a result of canceling the PPA which currently is priced above market and is projected to remain above market for the balance of the agreement term. The Cedar Bay Transaction is expected to provide CPVRR benefits for customers under a range of sensitivities for key assumptions. FPL witness Hartman will provide more information regarding the economic analysis including the various sensitivities that were evaluated.

Q. Are there strategic benefits provided to customers by the Cedar Bay Transaction beyond the economic benefits?

A. Yes. The Cedar Bay Transaction provides key strategic benefits to FPL's customers through acquisition of the Facility that would not be available through a buy-out of the PPA. For instance, by acquiring control of the asset, rather than simply buying out the PPA, FPL obtains for our customers an option for continued fuel supply diversity and reliability by keeping the Cedar Bay Facility in service, but without the obligation of being locked in to the remaining term, roughly 10 years, of the existing PPA. FPL, at its sole discretion, can determine how to operate, and how long to operate the Facility.

Q. Please explain why retaining this fuel supply reliability option is an important benefit for customers.

A. FPL is undergoing an expansion of its natural gas-fired generating fleet and projects that by 2017, roughly 70% of its energy will be generated by natural gas-fired resources. Currently, FPL's gas transportation needs are met with two gas transportation pipelines, Florida Gas Transmission and Gulfstream. To mitigate the risk of loss of gas availability FPL entered into an agreement with a new pipeline system for deliveries beginning in the spring of 2017, before that year's summer peak season. Until the commercial operation of the third pipeline system is certain, the Cedar Bay Facility, a coal-fired unit, provides an important fuel supply reliability hedge in the near term. Longer term, FPL will evaluate the economic merits of the Facility to determine when it is no longer advantageous to the system. Currently, FPL estimates that the Facility would no longer be needed after December 2016, when the third pipeline system is expected to be in its final testing stages, but we will have no obligation to retire the Facility until we have confirmed that it is the proper time to do so.

Q. Are there other benefits to ownership of the Facility?

A. Yes. Through its ownership of the Facility, FPL will have sole discretion to make environmental decisions, including early retirement or repurposing of the Facility. For instance, once the PPA is canceled, the dispatch of the Facility is expected to drop significantly thereby substantially reducing emissions as the facility will be dispatched on its true cost of operation, instead of being dispatched on the energy price determined pursuant to the PPA. FPL witness Hartman will describe this distinction in more detail. If the current PPA were to remain in effect, the economic incentives embedded in it ensure that the Facility would continue operating through the contract period despite its environmental profile. By canceling the PPA, <u>and</u> acquiring the asset, FPL will be able to control all economic and environmental decisions regarding the Facility.

Q. Are there economic benefits for customers from FPL's approach of purchasing the Cedar Bay Facility rather than just buying out the PPA?

A. Yes. Structuring the Cedar Bay Transaction as the purchase of CBAS followed by the cancelation of the PPA will result in the revenue requirements recovered from customers through the Capacity Cost Recovery Clause ("CCR Clause") being significantly lower in the early years than would have been the case with a straight buy-out of the PPA. Consequently the overall value of the economic benefit to customers is more favorable under the proposed transaction.

Q. How is the Company proposing to recover the costs of the Cedar Bay Transaction?

A. FPL witness Ousdahl's testimony discusses the requested recovery of the Cedar Bay Transaction in detail, but generally the Company proposes to treat the investment as a regulatory asset that would be amortized over the remaining term of the PPA, roughly 10 years, with a return on the unamortized balance of the investment at the Company's overall weighted cost of capital that is used for clause investments. Because the payments under the PPA currently are recovered through the CCR Clause, the annual amortization and return on the regulatory asset likewise should be recovered through the CCR Clause. This is consistent with the 2012 Stipulation and Settlement Agreement's provision, as approved in Order No. PSC-13-0023-S-EI, that clause recovery is limited to items that are traditionally and historically recovered through cost recovery clauses.

Q. Why is the average embedded overall cost of capital used for clause investments the appropriate rate of return for this investment?

A. The Company is proposing to use the same rate of return for this investment as is used for all other investments that are made in cost recovery clauses. The investment is long term in nature – roughly 10 years – and will be funded with a mixture of long term debt and common equity, collectively, FPL's investor provided sources of capital. It is important that this investment be funded in line with the Company's current capital structure, which matches the capital structure last reviewed and approved by the FPSC, so that it remains credit neutral. Because the Company will use long term debt and common equity to fund the transaction, it is appropriate that it receive an overall cost of capital return that adequately compensates both debt and equity investors. The expected net economic benefits to customers take full account of, and fully reflect, this overall cost of capital.

Q. Could some different capital structure, or other cost of capital be considered appropriate for a transaction of this nature?

A. No. This proposed rate of return on this long term investment is consistent with the return used for all other long term investments in the Company's cost recovery clauses. As previously stated, it also is consistent with the Company's plans to finance the investment to remain credit neutral. Therefore, a return that does not reflect the cost of both equity and debt capital consistent with the Company's overall capital structure will not fully compensate the Company for the investment it has made.

Q. Is there a Commission standard or precedent regarding the use of the weighted average cost of capital ("WACC") for clause investments?

A. Yes. The Commission has a history of authorizing utilities to earn their WACC on investments that are recovered through the various adjustment clauses. Recently, the Commission issued Order No. PSC-12-0425-PAA-EU approving a stipulation and settlement agreement entered into by the Florida IOUs, OPC and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments. In so doing, the Commission confirmed its position that utilities should be permitted to earn their current, approved WACC on clause-recoverable investments.

Q. The Commission previously approved a different rate of return on the unamortized balance of regulatory assets established for the PPA buyouts at the Okeelanta and Tiger Bay facilities. Should the Commission follow that treatment here?

A. No. The terms for the Okeelanta and Tiger Bay PPA buyouts were the result of settlements that were specific to the circumstances of those cases. Furthermore, Order No. PSC-12-0425-PAA-EU, which I discuss above, was issued subsequent to both of those cases. The Cedar Bay Transaction is an investment by FPL to generate savings for our customers by eliminating above-market payment obligations under the Cedar Bay PPA, and the unrecovered portion of that investment should earn FPL's current, approved WACC consistent with Order No. PSC-12-0425-PAA-EU and the treatment for all of FPL's other clause-recoverable investments.

Q. Is FPL contractually obligated to proceed with the Cedar Bay Transaction if its cost recovery proposal were not approved by the Commission?

A. No. At the same time FPL is proposing a solution to the above market costs of the Cedar Bay PPA that will benefit customers, FPL must also ensure that investors are fully compensated for the investment that will be made. Therefore, the Cedar Bay Transaction provides as a Condition Precedent to Close that the Commission approve cost recovery substantially as FPL has proposed, including a return on the unamortized balance of the regulatory asset at the full WACC.

Q Will FPL's purchase of CBAS, and recovery of the associated costs as proposed in FPL's petition, be in the interests of FPL's retail customers?

A. Yes. The Cedar Bay Transaction provides significant savings to FPL's customers of approximately $70 million and provides savings under all of the sensitivities analyzed. The Cedar Bay Transaction provides for control of the 250 MW Cedar Bay Facility which provides an important fuel diversity and reliability option for customers in the near term, will reduce emissions immediately once the unit is dispatched on true economics, and gives FPL control of the environmental attributes of the Facility in the long term including the ability to retire the unit early.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF THOMAS L. HARTMAN

DOCKET NO. 15____________ -EI

MARCH 6, 2015

Q. Please state your name and business address.

A. My name is Thomas L. Hartman. My business address is 700 Universe Blvd., Juno Beach, FL 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 the Director - Business Development in Energy Marketing and Trading.

Q. What are your present job responsibilities?

A. My current responsibilities include: providing analyses and support to assist the Company in determining whether and on what terms to extend or replace expiring purchase power contracts; evaluating and identifying improvement opportunities and negotiating amendments to existing long term power purchase agreements; negotiating new power purchase agreements; and assisting in the development of draft purchase power agreements for future generation capacity purchases.

Q. Would you please give a brief description of your educational background and professional experience?

A. I received a Bachelor of Science Degree in Mechanical Engineering and Aerospace Sciences in 1974, and a Master's Degree in Mechanical Engineering in

1975 from Florida Technological University. I received a Masters of Business Administration degree from Georgia State University in 1985. I have been employed at FPL since July 2003, first in Resource Assessment and Planning, and currently in Energy Marketing and Trading. From 1994 until joining FPL, I was employed by FPL's unregulated affiliate, FPL Energy, LLC and its predecessor company. Throughout my employment at FPL Energy I held a number of positions in Business Management, where I had responsibility for various unregulated power projects, including responsibility for administering, negotiating, and modifying power purchase agreements. Prior to joining FPL Energy, I was with a number of consulting firms, providing management and technical consulting.

Q. What is the purpose of your testimony?

A. My testimony is provided to support FPL's request for approval of the acquisition of CBAS Power Inc. ("CBAS") and its subsidiaries from CBAS Power Holdings, LLC., for purposes of cost recovery through the Capacity Cost Recovery Clause ("CCR Clause") as well as base rates. My testimony supports the proposed transaction to purchase CBAS ("the Cedar Bay Transaction"), including a description of the Cedar Bay generating unit ("the Cedar Bay Facility" or "the Facility"), a summary of the CBAS acquisition contract ("the Purchase and Sale Agreement" or "the Agreement"), identification of the principal benefits, and quantification of the projected cost savings for customers resulting from the transaction.

Q. Have you prepared, or caused to be prepared under your direction, supervision, or control, exhibits in this proceeding?

A. Yes. They consist of the following exhibits:

- Exhibit TLH-1 Existing Contract Capacity and Operation & Maintenance (“O&M”) Payment Obligations
- Exhibit TLH-2 Purchase & Sale Agreement (Confidential)
- Exhibit TLH-3 Cedar Bay Ownership Structure
- Exhibit TLH-4 Results of FPL’s Economic Evaluation

Q. Can you provide some background on the Cedar Bay Facility?

A. The Cedar Bay Facility is a 250 Megawatt (“MW”) coal fired cogeneration unit located in Jacksonville, Florida, using three circulating fluidized bed boilers and a single steam turbine. Limestone injection into the bed is used for Sulfur Dioxide (“SO_2”) control. Steam is sold to an adjacent linerboard facility, so it is eligible for Qualifying Facility (“QF”) status as a co-generator. All of the Facility’s electrical energy and capacity are sold to FPL pursuant to a long term Power Purchase Agreement (“PPA”).

The original PPA was executed in 1988 and approved by the Commission in Order No. 21468, issued June 28, 1989 in Docket No. 881570-EQ. The terms of the PPA were negotiated consistent with the Commission’s rules for QFs. Therefore, FPL was obligated to make capacity payments to Cedar Bay based on the approved “avoided unit,” which at the time was assumed to be an integrated coal gasification combined cycle unit. The PPA was last amended in 2002, and the amendment was approved by the Commission in Order No. PSC-03-0157-PAA-EI, in Docket No. 020995-EI issued on January 30, 2003. The PPA expires at the end of 2024.

Capacity and O&M payments are fixed in the contract and escalate yearly, as shown in Exhibit TLH-1. Additionally, if the Facility's availability performance meets the contractual threshold, the Facility is eligible for a bonus capacity payment of up to an additional 5%.

As noted by the Commission in Order No. 21468, Commission rules at the time required the use of a state-wide 500 MW coal unit as the avoided unit in a required standard offer contract. The present value of the revenue requirements of the PPA were less than those in the standard offer contract, and therefore approved by the Commission.

The Cedar Bay Facility is dispatchable by FPL within the operating limits of the Facility. When FPL dispatches the Facility, FPL compensates Cedar Bay Generating Company, Limited Partnership. ("Cedar Bay Genco") for energy delivered to FPL based on the unit cost for coal at the Saint Johns River Power Park ("SJRPP"), as reported to the FPSC in what is currently Schedule A4, times a fixed heat rate. This results in an energy cost to FPL's customers very similar to the costs of SJRPP and a similar dispatch rate, currently about 50% per year. When the Cedar Bay Facility is operating, under current economic conditions, it produces energy at a net loss (to Cedar Bay Genco) – that is, the fuel for the Facility costs more than FPL pays for the energy output. However, the very high capacity and O&M fixed payments result in the PPA being profitable for Cedar Bay Genco.

When FPL elects to decommit the Facility, Cedar Bay Genco retains the right to continue to operate the Facility, delivering energy to FPL. During such periods, payment to Cedar Bay Genco is limited to the lower of the energy price as calculated in the preceding paragraph, or 99% of FPL's avoided cost. In recent years, when FPL has elected to decommit the Facility, Cedar Bay Genco normally has elected to shut down.

Conversely, while energy costs under the existing PPA are competitive, the high fixed O&M and capacity costs in today's market make the output of this PPA very expensive for FPL's customers. As a reference, the "all in" price of energy from the Cedar Bay Facility in 2014 was over $178/MWh, compared to an average FPL avoided cost of $27/MWh.

Q. Is the Cedar Bay Facility technically and financially viable for the remainder of the PPA term?

A. Yes. The Facility is very well run and dependable, with consistent capital expenditures by the owner to keep it in good operating condition. There is every reason to believe that the equipment and facilities will remain operable through the end of the PPA with regular maintenance and recurring capital improvements.

Financially, operating the Facility under the PPA is profitable for Cedar Bay Genco, and the cash flows adequately support the debts, operations and needed recurring capital.

This is further supported by the fact that the debt was refinanced in 2013 which indicates that the lenders believed the Facility remained viable at that time, largely due to the contractual payments from FPL.

Q. Can you briefly summarize the Cedar Bay Transaction?

A. Yes. The complete details of the proposed Cedar Bay Transaction are provided in the Purchase and Sale Agreement, attached as Exhibit TLH-2.

Briefly, FPL will purchase 100% of the equity interests in CBAS from CBAS Power Holdings, LLC for a fixed payment of $520.5 million. As shown in Exhibit TLH-3, CBAS owns the Cedar Bay Facility indirectly through a series of wholly owned subsidiary companies.

At closing of the Cedar Bay Transaction, all of the third party debt of the acquired entities will be canceled. Additionally, FPL will purchase the working capital of the Cedar Bay Facility (fuel inventory, spare parts, tools, etc.) and record it at fair value.

Immediately after closing, FPL will cancel the existing PPA. Cedar Bay Genco will contract with Cedar Bay Operating Services to operate the Facility under FPL's direction. FPL currently anticipates that the Facility will be economically dispatched no more than about 5% of the time. Additionally, FPL anticipates operating the Facility through the end of 2016. In early 2017, before the summer peak season, the new interstate natural gas pipeline into Florida is expected to enter commercial operation and FPL believes presently that at that time the Facility may no longer be economic to dispatch and would be retired under those circumstances.

Q. Why is the Cedar Bay Facility owned and operated through multiple CBAS subsidiaries?

A. The subsidiaries are predominantly a result of the initial financing structure of the project and then the impact of multiple changes in ultimate ownership and control during the life of the project. Cedar Bay Genco holds all of the assets for the project, including operating contracts. At the time of closing, the remaining subsidiaries of CBAS will have only intercompany assets and liabilities, holding no third party liabilities.

Q. What are the customer benefits of the proposed Cedar Bay Transaction?

A. FPL's customers will receive at least three benefits. First, as discussed above, the capacity payments under the PPA in today's market are very high as shown on Exhibit TLH-1. The negotiated Cedar Bay Transaction will terminate FPL's obligation to make those payments, thereby saving substantial costs for our customers.

Second, FPL maintains for its customers the option of continued fuel reliability and diversity by keeping the Cedar Bay Facility in service, without the obligation to continue the existing PPA. While FPL currently anticipates retiring the Facility at the end of 2016, if economic conditions change we can continue to operate. In that case, customer savings would be higher than our current estimate.

Third, the Cedar Bay Facility is a very high emitter of Carbon Dioxide ("CO_2"). FPL anticipates that changing the rate of dispatch from 50% to 5% per year will reduce CO_2 emissions in Florida by nearly a million tons per year once FPL takes control of the Facility and dispatches based on its true energy costs. This reduction in CO_2 equates to removing approximately 182,000 vehicles from the roads. This may be a particularly important benefit depending on the scope and timing of implementing the EPA's Clean Power Plan regarding CO_2 emissions.

Q. What is FPL's estimate of customer savings as a result of the proposed Cedar Bay Transaction, and how were those savings estimated?

A. Customer savings are estimated to be $70 million cumulative present value revenue requirements ("CPVRR"), ($156 million nominal savings) as shown in Exhibit TLH-4. This estimate is the result of an economic evaluation of the revenue requirements to customers under the current PPA structure versus the proposed Cedar Bay Transaction. The UPLAN production costing model was used to quantify the system impacts of the Cedar Bay Transaction as well as the impact of various alternative fuel and emission sensitivities. The key components of this estimate are the elimination of fixed-cost payments under the PPA, compared to the impact on FPL's system costs if the PPA is no longer in place.

Exhibit TLH-1 shows the two types of fixed-cost payments that FPL is obligated to make under the PPA: capacity and fixed O&M. While there are performance standards that Cedar Bay Genco must meet in order to qualify for these payments, Cedar Bay Genco reliably achieves those standards and, recent years, has consistently earned the potential performance bonus. Over the remaining life of the PPA, the Net Present Value ("NPV") of the standard payments is $993.4 million. The NPV of potential performance bonus payments is another $44.3 million. Thus, the NPV of the total amount of payments that FPL customers are obligated to make for the Cedar Bay Facility over the remaining life of the PPA is expected to be $1,038 million.

The PPA currently provides both capacity and energy to our customers. The PPA is dispatchable by FPL at favorable PPA energy prices, thereby dispatching more often than its actual production costs would warrant. Consequently, loss of the PPA would require the dispatch of other FPL units that are more costly than the PPA energy cost to replace the output of the Facility. This impact in differential production costs is estimated through FPL's system cost analysis. FPL's production cost model is run with and without the Cedar Bay Facility and PPA attributes. The difference in CPVRR of the two simulations represents the system cost impact of canceling the PPA as proposed in the Cedar Bay Transaction. The system cost impact is estimated at $86 million, meaning that customers would incur an additional $86 million in costs of dispatching other units on FPL's system to replace the Cedar Bay Facility's energy.

In addition to the system impacts of the Cedar Bay Transaction, other components of the economic evaluation include operating costs and fees while FPL operates the Facility, costs of working capital acquired as part of the transaction, the costs associated with dismantlement of the facility at the end of its economic life, costs associated with various contracts assumed as part of the Cedar Bay Transaction (including land lease, steam sales agreements, rail car lease etc.), and the revenue requirements associated with the purchase price (and its associated financing costs) for the Cedar Bay Transaction itself.

Q. Were customer impacts analyzed under a range of sensitivities to the key assumptions?

A. Yes. Two sensitivities for natural gas prices and two sensitivities for emissions costs were developed and used to analyze the Cedar Bay Transaction. Natural gas prices were varied by plus and minus 20% -- Low Fuel Case of -20% and High Fuel Case of +20% relative to the Base Case forecast. This is a sufficiently broad range in expected natural gas prices to deliver a meaningful range of expected results. Similarly, two environmental sensitivities were developed: a Low Environmental Case of -20% and a High Environmental Case of +20% relative to the Base Case forecast of emissions costs. The expected impact of these sensitivities on the overall customer benefit of the Cedar Bay Transaction is shown in the table below:

CPVRR Net Cost/ (Net Benefit) of Transaction

$ Millions (2015)

	Low Case Fuel	Base Case Fuel	High Case Fuel
Low Case Emissions	$(106)	$(72)	$(9)
Base Case Emissions	$(105)	$(70)	$(6)
High Case Emissions	$(104)	$(69)	$(3)

Q. What is the significance of this range of projected benefits?

A. First, under the Base Case set of assumptions, the net benefit of $70 million is a significant savings for customers relative to the status quo of continuing to receive capacity and energy under the existing PPA. Second, it is noteworthy that for all of the sensitivities analyzed, the Cedar Bay Transaction is expected to provide customer savings.

Q. What will happen to the Facility if the Commission approves this transaction?

A. The Cedar Bay Facility will be added to FPL's fleet, available to meet customers' needs for capacity and energy. We anticipate the Facility will run much less frequently, 5% capacity factor versus 50% currently because it will be dispatched based on its true energy costs. Additionally, as a result of the reduced dispatch, the environmental impact of the Facility on Florida will be greatly reduced.

FPL anticipates operating the Cedar Bay Facility at least through 2016. With the new gas pipeline coming into service in early 2017, FPL believes it will be uneconomic to operate the Facility. If, however, it is shown to be economic at the time, operations could be continued if it would provide additional customer benefits. When FPL determines that the Cedar Bay Facility is no longer needed to meet customers' needs, the Facility will be sold or dismantled.

Q. Does that conclude your testimony?

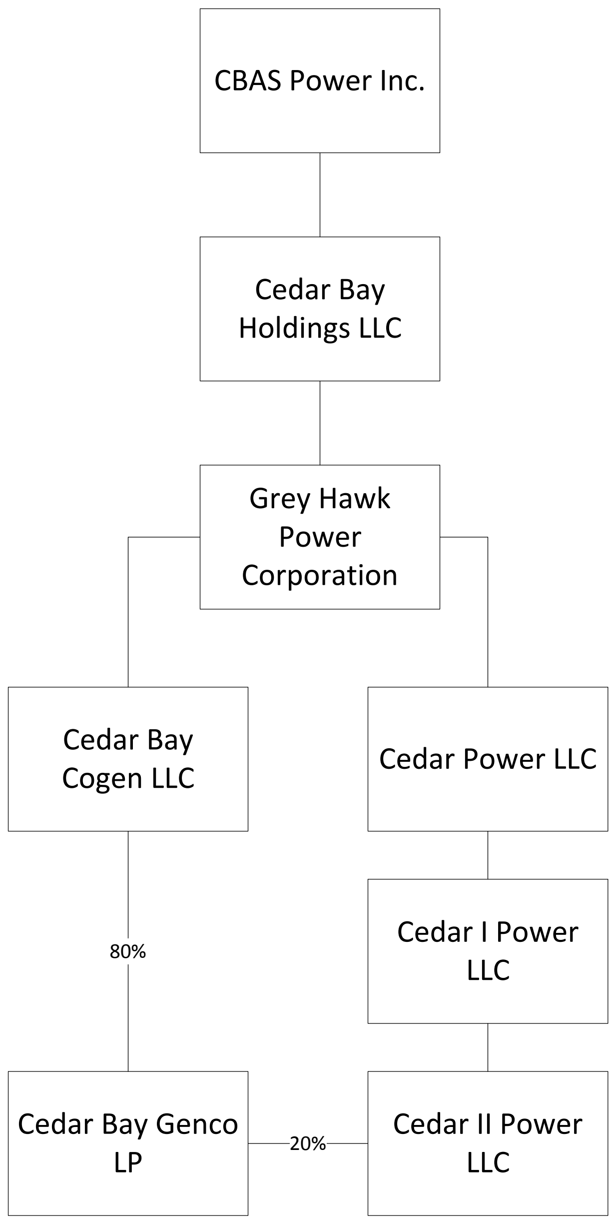
A. Yes

Fixed Payment Obligations under Existing Contract:

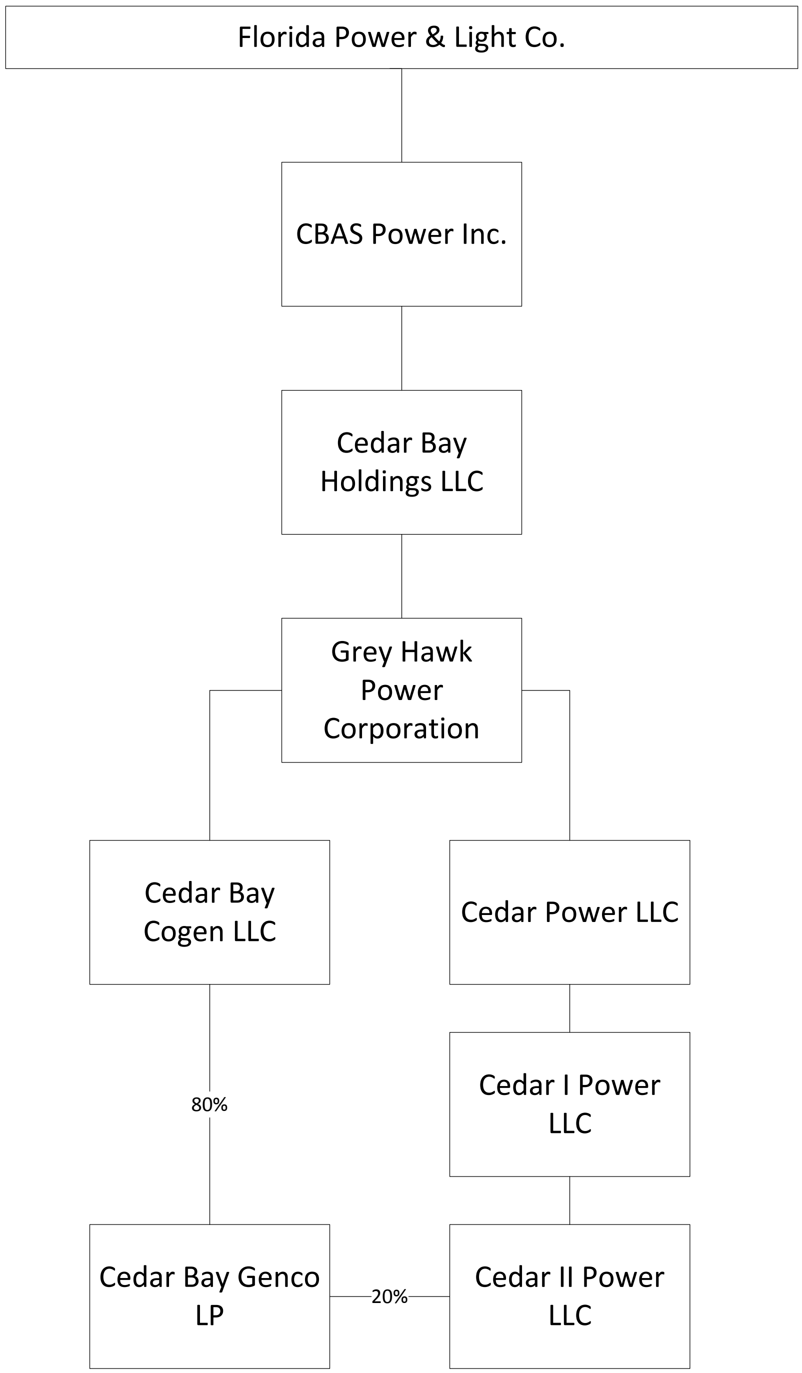
Year	Capacity Payment	Capacity Bonus at 98% C.F.	O&M Fixed
	($/MW-mo)	($/MW-mo)	($/MW-mo)
2015	$ 37,130	$ 1,857	$ 4,430
2016	$ 38,490	$ 1,925	$ 4,610
2017	$ 39,890	$ 1,995	$ 4,800
2018	$ 41,340	$ 2,067	$ 5,000
2019	$ 42,840	$ 2,142	$ 5,210
2020	$ 44,410	$ 2,221	$ 5,420
2021	$ 46,030	$ 2,302	$ 5,640
2022	$ 47,710	$ 2,386	$ 5,870
2023	$ 49,450	$ 2,473	$ 6,110
2024	$ 51,260	$ 2,563	$ 6,360

Exhibit TLH-2 is confidential in its entirety.

Florida Power and Light Company
Cedar Bay Transaction
CBAS Legal Structure
Pre-Acquisition



Florida Power and Light Company
Cedar Bay Transaction
CBAS Legal Structure
Post-Acquisition



Results of FPL's Economic Evaluation[1]

	(dollars in millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Nominal Total	Present Value[9]
A	Discount Factor[2]	0.99	0.94	0.88	0.81	0.76	0.70	0.66	0.61	0.57	0.53		
B	Amortization[3]	$ 30	$ 90	$ 90	$ 90	$ 90	$ 90	$ 90	$ 90	$ 90	$ 90	$ 842	$ 612
C	Operating Expenses[4]	8	17	1	1	1	1	1	1	1	1	30	27
D	Asset Retirement Obligation[5]	1	3	-	-	-	-	-	-	-	-	4	4
E	Interest Expense[6]	3	10	8	7	6	5	4	3	2	1	49	40
F	Return on Equity[7]	10	30	26	23	19	16	12	9	5	2	151	121
G	Income Tax	6	19	16	14	12	10	8	5	3	1	95	76
H	Total Cost of Acquiring CBAS	58	169	142	135	128	121	115	108	101	94	1,171	881
I	FPL System Impact[8]	3	9	3	15	11	9	15	18	22	22	127	86
J	Capacity Payment	(42)	(129)	(134)	(139)	(144)	(149)	(155)	(161)	(167)	(173)	(1,393)	(993)
K	Capacity Bonus	(2)	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(8)	(62)	(44)
L	Total Avoided Costs of PPA	(43)	(135)	(140)	(145)	(151)	(156)	(162)	(168)	(174)	(181)	(1,455)	(1,038)
M	Net Customer Costs/(Savings)	$ 17	$ 43	$ 5	$ 5	$ (11)	$ (25)	$ (32)	$ (42)	$ (51)	$ (64)	$ (156)	$ (70)

1) Totals may not sum due to rounding
2) Discount Factor is based on weighted average cost of capital of 7.51% discounted to September 1, 2015
3) Reflects amortization of regulatory asset associated with $520.5 MM PPA and respective $326.9 MM tax gross up, less the $4.9 MM regulatory liability associated with the plant book/tax difference
4) Operating Expenses include operations and maintenance, land lease, rail lease, and change in net working capital
5) Reflects amortization of ARO Asset and accretion of ARO Liability
6) Interest expense assumes cost of debt of 5.05%
7) Assumes after-tax return on equity of 10.5%
8) Includes incremental system fuel costs, start-up costs, variable O&M, environmental compliance costs, and short-term purchases
9) Present value is calculated as the sum the annual values multiplied by the respective discount factor

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF KIM OUSDAHL

DOCKET NO. 15____________ -EI

MARCH 6, 2015

Q. Please state your name and business address.

A. My name is Kim Ousdahl, and 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 Vice President, Controller and Chief Accounting Officer.

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

A. I am responsible for financial accounting, as well as internal and external financial reporting for FPL. In these roles, I am responsible for ensuring that the Company's financial reporting complies with requirements of Generally Accepted Accounting Principles ("GAAP") and multi-jurisdictional regulatory accounting requirements.

Q. Please describe your educational background and professional experience.

A. I graduated from Kansas State University in 1979 with a Bachelor of Science Degree in Business Administration, majoring in Accounting. That same year, I was employed by Houston Lighting & Power Company in Houston, Texas. During my tenure there, I held various accounting and regulatory management positions. Prior to joining FPL in June 2004, I was the Vice President and Controller of Reliant Energy. I am a Certified Public Accountant ("CPA") licensed in the State of Texas and a member of the American Institute of CPA's, the Texas Society of CPAs and the Florida Institute of CPAs.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring Exhibit KO-1 – Proposed Journal Entries.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present to the Florida Public Service Commission ("FPSC" or "Commission") the appropriate accounting under both GAAP and the Federal Energy Regulatory Commission Uniform System of Accounts ("USOA") requirements that have been adopted by this Commission, and regulatory reporting and ratemaking associated with FPL's proposed acquisition of the Cedar Bay generating facility ("the Cedar Bay Facility" or "the Facility") through a stock purchase and termination of the Cedar Bay Power Purchase Agreement ("PPA") (known collectively as the "Cedar Bay Transaction"). Specifically, my testimony addresses the following:

1. Purchase accounting for the Cedar Bay Transaction; and
2. Regulatory reporting and ratemaking treatment associated with the Cedar Bay Transaction.

Q. Please summarize your testimony.

A. I will provide the required journal entries that FPL intends to record as a result of the Cedar Bay Transaction in order to comply with GAAP and the USOA along with an explanation for each entry. In addition, I will describe the regulatory reporting and ratemaking for all costs, including regulatory assets and liabilities, associated with the Cedar Bay Transaction. As described by FPL witnesses Hartman and Barrett in their direct testimonies, FPL has demonstrated the benefits of the Cedar Bay Transaction for its customers and, therefore, the proposed accounting and regulatory treatment for this transaction should be approved by the Commission in order to effectuate this beneficial transaction.

Q. Please provide an overview of the Cedar Bay Transaction from an accounting perspective.

A. As described by FPL witness Hartman in his direct testimony, FPL is acquiring the equity of CBAS Power, Inc. ("CBAS"), the first tier legal entity and its wholly owned subsidiaries, including Cedar Bay Generating Company, Limited Partnership ("Cedar Bay Genco"), which holds the Cedar Bay Facility and the PPA. Immediately prior to closing, all outstanding third party debt will be defeased and intercompany debt will be canceled. Upon acquisition of the shares of these entities, FPL will terminate the Cedar Bay PPA. CBAS will retain ownership, including all rights and obligations, of the Facility through its wholly owned subsidiary.

Q. Does FPL intend to hold its interest in the Cedar Bay Facility directly or through a subsidiary?

A. Yes. As reflected on Exhibit TLH-3 in FPL witness Hartman's direct testimony, FPL intends to continue to hold its interest in the Facility in the same legal entities it will acquire.

Q. Why is FPL proposing to retain the subsidiary structure?

A. There is a benefit associated with retaining the acquired legal entities. This structure may protect FPL customers from any unforeseen contingent losses that could arise from the prior operation of CBAS. Any potential claimants should be limited to the assets of the subsidiary rather than having a remedy against the parent FPL.

Q. Please provide an overview of the required accounting for the Cedar Bay Transaction.

A. Under Accounting Standards Codification 805 – Business Combinations ("ASC 805"), the acquirer in a business acquisition is required to recognize all assets and liabilities at fair value as of the acquisition date. The Cedar Bay Transaction meets the definition of a business acquisition as defined by GAAP because FPL is acquiring the shares of legal entities, which along with their assets and contractual obligations, constitute a business for accounting purposes. For GAAP purposes, a valuation of the acquired electric plant assets along with other acquired assets and liabilities is required in order to allocate the purchase price to the assets acquired and liabilities assumed.

Q. Has FPL or a third party performed that valuation?

A. Yes. Duff & Phelps, LLC ("Duff & Phelps") performed a valuation of the assets acquired and the liabilities assumed. FPL witness Herr's direct testimony describes that valuation, and a copy of the valuation report is attached as an exhibit to his testimony.

Q. Why isn't FPL recording the acquired assets at net book value?

A. The USOA requires that acquired *electric utility* property plant and equipment be recorded at net book value (Electric Plant Instruction 5, *Electric Plant Purchased or Sold*, in 18 Code of Federal Regulations ("C.F.R.") Part 101). The Cedar Bay Facility is a qualifying facility under the definitions prescribed by FPSC Rule No. 25-17.080, *Definitions and Qualifying Criteria*, which requires that the unit "is not owned by a person primarily engaged in the generation or sale of electricity." As such, because FPL is acquiring plant from CBAS, an entity that is not primarily engaged in the generation or sale of electricity, then Electric Plant Instruction 5 is not applicable and the USOA does not require FPL to record the assets at net book value. In the absence of such direction, recording the assets at fair value is appropriate and consistent with both GAAP and the USOA.

Q What is the fair value of the Facility that FPL seeks to acquire in this transaction?

A. As provided in FPL witness Herr's direct testimony, this coal plant has no economic value to a market participant that would seek to sell power from it on a merchant basis into today's power market. The only value CBAS had for this plant was associated with FPL's PPA, which will be canceled upon effective date of the transaction. Therefore, FPL will take title to the asset and will record no book basis for the facility. This is not to say that the plant will not have residual value to FPL in the first few years, before the Sabal Trail/Florida Southeast Connection pipelines are in service. However, as Mr. Herr explains, that value is unique to FPL and should not be considered in determining the fair value of the Cedar Bay Facility on the open market.

Q. What other assets or liabilities must be recognized associated with the Facility on day one of the transaction?

A. FPL must recognize an estimate of the dismantlement cost (represented as an asset retirement obligation) of the forecasted retirement of the unit at the end of 2016, which is estimated to be $4.2 million on a net present value basis, along with the inventory and working capital on that effective date. The estimate for dismantlement cost is based on the requirements set forth in the lease agreement, net of salvage.

Q. What are the journal entries that FPL plans to record as a result of the Cedar Bay Transaction?

A. Page 1 of Exhibit KO-1 provides the estimated journal entry to be recorded by FPL that will be required upon the stock purchase of CBAS. The entry booked at closing will be based on actual working capital paid/received.

Q. Please describe the assets and liabilities FPL will record as a result of the Cedar Bay Transaction.

A. FPL will record various assets and liabilities, all of which will be recorded on the subsidiary's books at fair value at the date of acquisition. Apart from the coal plant, which will be recognized at zero cost, FPL will also acquire related inventory and the working capital. Additionally, each of the contracts acquired by FPL had to be analyzed to determine if the rights or obligations inherent in those agreements represented current market prices for those products and services. To the extent contracts represent obligations that are greater than or less than current market prices, those differences would also be recorded on the day one purchase accounting balance sheet as assets or liabilities. FPL determined that the rail car lease, coal supply and coal transportation agreements are either at market today or subject to 2015 reopeners, which would cause them to be reset to market. The steam sales agreement provides for effective cancelation as there is no requirement for steam to be provided when the plant does not operate. The ground lease is currently $1.7 million per year, but is reset to market beginning in 2015.

Q. Please describe the income tax entry associated with the acquired plant carryover tax basis.

A. The facility has a carryover tax basis of approximately $8.0 million at the acquisition date as compared to zero book basis. In accordance with ASC 805, FPL is required to record the tax effect of this book/tax difference as a deferred tax asset. The income taxes on the difference would be recorded as a credit to a regulatory liability (FERC Account 254 – Other Regulatory Liabilities) and be amortized over the remaining life of the PPA (the amortization period proposed to be used for all recoveries) to FERC Account 557, Other Expenses. The regulatory liability and associated amortization would be recorded on Cedar Bay Genco's books and records.

Q. How will future fuel and operating costs associated with the Cedar Bay Facility be recorded?

A. All fuel and operating costs associated with the Facility will be recorded on Cedar Bay Genco's books and records in the appropriate electric operation and maintenance FERC accounts and will be included in FPL's consolidated financial statements.

Q. Will FPL record a loss associated with the termination of the PPA with Cedar Bay Genco? If so, how was it calculated?

A. Yes. Per ASC 805-10-25 (Q&A 13), because the PPA represents a preexisting contractual relationship between FPL and the acquired entity, Cedar Bay Genco, FPL must recognize the loss associated with terminating the preexisting contractual relationship. As discussed in the direct testimony of FPL witness Herr, this unit contingent PPA would have a fair value of approximately $520 million to a market participant today. This is primarily because of the large capacity and fixed O&M payments to which the PPA owner would be entitled to receive from FPL. Therefore, termination of the PPA upon purchase of CBAS results in an equivalent loss to FPL as purchaser. As such, the amount FPL is recording for the loss on the PPA is $520.5 million.

Q. How does FPL propose to record the loss associated with the termination of the PPA?

A. Consistent with ASC 980, the loss would be recorded as a regulatory asset in recognition of FPL's proposal to defer and recover that specific cost in future rates. The recognition of the loss will not be deductible for income tax purposes; therefore, the amount set up for the regulatory asset will represent the after tax loss. The loss would be recorded as a debit to a regulatory asset (FERC Account 182.3 – Other Regulatory Assets) and be amortized on a straight-line basis to

FERC Account 557, Other Expenses, over the remaining term of the PPA. The regulatory asset and amortization will be recorded on FPL's books and records.

Q. Is there any specific regulatory book/tax treatment associated with recording the loss on the termination of the PPA?

A. Yes. Because FPL will not be able to recognize a tax benefit for the $520.5 million purchase price paid for the Cedar Bay Transaction, the loss on the PPA results in a book/tax difference which will not be recognized in FPL's income tax provision. FPL, therefore, must collect income taxes associated with the future revenues related to the recovery of the loss in order to recover the full cost associated with the termination of the PPA. Accordingly, FPL will record a debit to a regulatory asset (FERC Account 182.3 – Other Regulatory Assets) and credit to a deferred tax liability to recognize the future revenues for the income tax gross up associated with the loss. For regulatory purposes, FPL will amortize the regulatory asset over the same period as its associated after-tax regulatory asset as described above to FERC Account 557, Other Expenses. This regulatory asset and amortization will also be recorded on FPL's books and records.

Q. How does FPL propose to recover the regulatory assets and liabilities described above?

A. As reflected on Page 2 of Exhibit KO-1, FPL proposes to net all the regulatory assets and liabilities and recover the net regulatory asset through FPL's capacity cost recovery clause ("CCR Clause") over the remaining PPA period. Recovery through the CCR Clause is appropriate because that is where FPL is currently recovering the cost of the unfavorable PPA whose termination will lead to the net regulatory asset. In addition, the amortization of the net regulatory asset and associated unrecovered balance will be removed from retail base ratemaking and FPL's earnings surveillance report.

Q. Does FPL propose to earn a return on the unrecovered regulatory assets and liabilities described above?

A. Yes. Except for the income tax related regulatory assets and liabilities, FPL proposes to earn a return on the unrecovered net regulatory asset balance at FPL's overall weighted average cost of capital through FPL's CCR Clause. FPL witness Barrett explains why this is a fair and appropriate rate of return for the regulatory asset. The return exclusion associated with the income tax related regulatory assets and liabilities is consistent with how regulatory assets and liabilities are treated for ASC 740 adjustments applicable to the gross-up of the equity component of AFUDC, excess deferred income taxes, and investment tax credits.

Q. How does FPL propose to recover the fuel costs associated with the Cedar Bay Facility?

A. FPL proposes to recover the fuel costs associated with the Cedar Bay Facility through FPL's fuel cost recovery clause ("FCR Clause"). Included along with the fuel costs, FPL recommends recovery of all associated rail car lease payments and fuel transportation costs record on Cedar Bay Genco's books through FPL's FCR Clause. This treatment is consistent with the Commission's decision in Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B. In order to avoid double recovery, these fuel related costs will not be included in retail base ratemaking or FPL's earnings surveillance report.

Q. Will Cedar Bay Genco be consolidated for retail base ratemaking and reporting purposes?

A. Yes. FPL will include all Cedar Bay Genco amounts in retail base ratemaking and FPL's earnings surveillance reporting excluding fuel expense, fuel transportation and rail car lease costs discussed above. In accordance with FPL's current retail base rate settlement, FPL is not proposing to revise its base rates at this time and will absorb the costs associated with plant operations until base rates are set in FPL's next base rate proceeding.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power and Light Company
Cedar Bay Transaction
Proposed Journal Entries

Line No	Description	FERC Account	Amount ($ Millions)	
1	Asset Retirement Cost	101	$ 4.2	
2	Regulatory Asset - Loss on PPA	182	520.5	
3	Regulatory Asset - Tax Gross-Up	182	326.9	
4	Deferred Tax Asset - Book/Tax Diff on Acquired Plant	190	4.9	
5	Asset Retirement Obligation	230		$ 4.2
6	Cash	131		520.5
7	Regulatory Liability - Def Tax on Plant Book/Tax Diff	254		4.9
8	Deferred Tax Liability - Loss on PPA	283		326.9
9				
10				
11	*To record Cedar Bay stock purchase.*			
12				
13				
14				
15				

Florida Power and Light Company
Cedar Bay Transaction
Proposed Journal Entries

Line No	Description	FERC Account		Amount ($ Millions)		
1	Regulatory Asset - Loss on PPA	182	$	520.5		
2	Regulatory Asset - Tax Gross-Up	182		326.9		
3	Regulatory Liability - Deferred Taxes on Plant Book/Tax Diff	254		(4.9)		
4						
5	Net Regulatory Asset		$	842.4		
6	Remaining Months of PPA Contract as of August 31, 2015			112		
7	Monthly Amortization to be Collected through FPL's Capacity Clause[1]		$	7.5		
8						
9	Annual Amortization to be Collected through FPL's Capacity Clause[1]		$	90.3		
10						
11						
12	**Annual Amortization**					
13						
14	Other Expenses	557	$	90.3		
15	Regulatory Liability - Def Tax on Plant Book/tax Diff	254		0.5		
16	Regulatory Asset - Loss on PPA	182			$	55.8
17	Regulatory Asset - Deferred Taxes on Loss	182				35.0
18						
19						
20	*To record annual amortization of the net regulatory asset on FPL's books and records.*					
21						
22						
23						
24						
25						
26						
27						
28	Notes:					
29	(1) Retail jurisdictional amount to be recovered through the capacity clause will be based on the retail					
30	separation factor approved by the FPSC in each year of amortization.					

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF DAVID W. HERR

DOCKET NO. 15____________-EI

MARCH 6, 2015

Q. Please state your name and business address.

A. My name is David Herr. My business address is 2000 Market Street, Suite 2700, Philadelphia, PA 19103.

Q. By whom are you employed and what position do you hold?

A. I am a Valuation Consultant for Duff & Phelps LLC ("D&P"). I am a Managing Director, the Philadelphia City Leader, and the Energy and Mining Industry Leader for D&P.

Q. Please describe your educational background and professional experience.

A. I am in my twentieth year in the Valuation Advisory Services (or "VAS") group of D&P including its predecessors, Standard & Phelps Corporate Value Consulting, PricewaterhouseCoopers LLP and Coopers & Lybrand LLP. In my role within the VAS group, I have been focused on power and utility valuation for fifteen years, during which time I have led more than 250 valuations of power plants and related assets. I have been the D&P Energy and Mining Industry Leader since 2008. I hold a Bachelor of Science Degree in Finance from Villanova University where I graduated with a 4.0 GPA. I am a Chartered Financial Analyst charterholder and am Series 63 and Series 79 Certified, certifications needed to provide Investment Banking Mergers & Acquisitions services.

Q. For whom are you appearing as a witness?

A. I am appearing as a witness for Florida Power & Light Company ("FPL").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the analysis of the Fair Value (as defined below) pursuant to US Generally Accepted Accounting Principles ("GAAP") of the assets to be acquired by FPL in connection with its proposed acquisition of CBAS Power Inc. ("CBAS") prepared by D&P to assist FPL Management with its accounting for the proposed transaction.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring the following exhibits:

- Exhibit DH-1, which is my curriculum vitae
- Exhibit DH-2, which is a Summary Report prepared by Duff & Phelps entitled "Valuation of Certain Tangible and Intangible Assets of CBAS Power Inc." (the "Report")
- Exhibit DH-3 (Confidential), which is a more detailed form of the Report providing supplemental, proprietary information about the manner in which D&P performed its valuation.

Q. Please summarize your testimony.

A. FPL engaged D&P to assist with its determination of the Fair Value pursuant to US GAAP of the assets (the "Subject Assets") to be acquired in connection with the proposed transaction with CBAS. Specifically, we assisted Management with the estimation of the Fair Value of the Cedar Bay coal-fired power plant (the "Cedar Bay Facility" or the "Facility") and the Power Purchase Agreement ("PPA") between FPL and Cedar Bay Generating Company, Limited Partnership ("Cedar Bay Genco"). We concluded that the Facility has a $0 Fair Value because, while FPL can derive unique short-term benefits from ownership of the Facility, it would be uneconomic to operate as a merchant plant in the current environment of fuel prices and emissions regulation. On the other hand, we determined that the PPA has a Fair Value of $520 million, representing the value that it could bring to an owner of the Facility who was entitled to continue selling power to FPL under the terms of the PPA for its remaining term. We also considered other contracts as listed in the Report which were determined to have negligible or $0 Fair Value as part of our analysis.

Q. Please summarize the relevant US GAAP standards pursuant to which your analysis was prepared.

A. There are several standards that are relevant to our analysis. Accounting Standards Codification ("ASC") 805, *Business Combinations*, provides guidance on the requirements related to accounting for a purchase such as FPL's acquisition of CBAS and ASC 820, *Fair Value Measurements and Disclosures* provides the relevant definition of Fair Value. While FPL will account for CBAS pursuant to ASC 980, *Regulated Operations* subsequent to the acquisition, this guidance which should be applied by management after consideration of ASC 805 requirements.

In addition to guidance on the accounting for the transaction, ASC 805 also includes specific guidance in paragraphs ASC 805-10-55-20 through 805-10-55-23 regarding measurement of the gain or loss on the effective settlement of the pre-existing relationship, in this case, the PPA between the Cedar Bay Genco and FPL.

ASC 820 defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" ("Fair Value"). ASC 820 states that a Fair Value measurement assumes the highest and best use of the asset by market participants, which is defined as the most likely group or categories of buyers that would establish a sale (or "exit") price for FPL in a sale of CBAS.

Q. Please summarize how these standards were considered and applied to this specific proposed transaction.

A. In ascribing Fair Value, we assumed that a Market Participant, which would likely be either an independent power producer ("IPP") or a private equity ("PE") firm, would need to continue to operate the Cedar Bay Facility through the remaining term of the PPA in order to receive the contracted payments. This is consistent with the terms of the PPA, which is unit-contingent. In estimating the Fair Value of the PPA, which represents the loss on net settlement as provided for in ASC 805, the relevant comparison is the PPA contract pricing to a replacement, unit-contingent (i.e., the power must be sourced from the Cedar Bay Facility) contract at pricing that would provide the owner the ability to cover all variable and fixed operating costs (including maintenance capital). Absent observable, comparable benchmark contracts, the cost to procure fuel and operate / maintain the Facility provides an appropriate indicator of a replacement "market" contract.

While the Subject Assets will be accounted for pursuant to ASC 980 after the acquisition, the Fair Value should exclude any impact of rate regulation. Only FPL could demonstrate that the acquisition of the Subject Assets provides benefits to customers by terminating the PPA and continuing to operate the Cedar Bay Facility only for so long as it remains beneficial from an economic and/or reliability perspective. ASC 820 and related guidance explicitly indicate that unique benefits, or "buyer specific synergies", should not be included in the Fair Value of assets.

Q. Please describe your analysis of the Facility.

A. To estimate the Fair Value of the Facility, we considered the Cost Approach, which is based on the premise that an asset's value is based on the cost of replacing it with an asset with similar functionality (in this case, the ability to generate 250 MW of power). However, given that there is currently not a market for its capacity, especially in light of the Cedar Bay Facility's small size and the prevalence of relatively inexpensive natural gas, a power plant of similar functionality would not be constructed, as its profitability would not justify its construction cost. In cases such as this where economic obsolescence is indicated, a Discounted Cash Flow ("DCF") is the appropriate approach to estimate Fair Value.

We prepared a DCF for the Cedar Bay Facility that reflected seasonal, on-peak operations consistent with the power production over the past 3 years and on-peak monthly power price forecasts for Florida Reliability Coordinating Council ("FRCC") prepared by IHS CERA ("IHS"), an independent energy consulting firm, and published as of January 2015. Fuel and operating costs were estimated based on the Cedar Bay Facility's actual results over the past several years and 2014 budget. Adjustments were made to the coal price incorporating IHS's Central Appalachian coal price outlook as well as historical delivery costs to the Cedar Bay Facility as reported by SNL Energy.

Based on the low forecasted power prices in FRCC and the Facility's high operating costs (as a relatively small coal plant), the Cedar Bay Facility would not generate positive cash flow in any year. Specifically, because the annual net energy margin that Cedar Bay Genco could generate from selling power at expected merchant power prices is less than the annual fixed costs to maintain and operate the Facility, a merchant owner of the Cedar Bay Facility would likely retire the Facility to avoid future expected operating losses.

Q. Please describe your analysis of the PPA.

A. To estimate the Fair Value of the PPA, we also used a DCF analysis. Based on its unit-contingent nature, the PPA was analyzed with the same operating costs that were used to value the Facility, but the merchant pricing was replaced with the contracted energy, capacity, bonus and operating and maintenance pricing through the end of 2024. Alternatively stated, the Fair Value of the PPA reflects the expected stream of payments that the PPA would provide for its remaining term, less the costs of owning, operating and maintaining the Cedar Bay Facility as required to fulfill the PPA unit-contingent obligation in order to qualify for those payments.

Q. Are there any other differences between the DCF analysis for the PPA and the DCF analysis for the Facility?

A. Yes. The other major difference was in developing the discount rates for the two analyses. In both cases, we developed a weighted average cost of capital ("WACC") appropriate for IPPs and PE firms (not regulated utilities) based on an estimated cost of debt and a cost of equity developed based on the Capital Asset Pricing Model ("CAPM"). We used predicted betas as published by BARRA for IPPs in the CAPM for both discount rate computations. Primary differences include: (i) the merchant plant cash flows were discounted at a WACC that reflected less financial leverage (as merchant cash flows are more volatile and therefore can support less debt); (ii) the CAPM included a greater size premium (appropriate due to its negligible indicated Fair Value and marginal cash flows); and (iii) a higher cost of debt consistent with sub-investment grade yields typically charged to merchant plant owners for project specific debt.

Overall, the WACC used in the DCF for the PPA was 7% and the WACC used to estimate the Fair Value of the Facility (absent the benefit of a PPA with a high credit-quality offtaker) was 11%.

Q. Please describe your conclusions.

A. Based on the DCF analysis reflecting the PPA pricing and the costs to operate the Cedar Bay Facility in order to fulfill the PPA (unit contingent) requirements, the Fair Value of the PPA can be reasonably estimated at $520 million. This indicates that substantially all of the price being paid for CBAS is related to the net settlement of the PPA.

The Fair Value conclusion for the PPA correlates well with the conclusion that the Fair Value of the Cedar Bay Facility is $0. Specifically, absent the benefit of the (favorable) PPA, the annual net energy margin that Cedar Bay Genco could generate from selling power at forecasted merchant power prices is less than the annual fixed costs to maintain and operate the Facility. Accordingly, an IPP or PE firm (as the likely Market Participant) would likely retire the Cedar Bay Facility to avoid future expected operating losses (absent the favorable PPA). While FPL may ultimately end up recording and incurring a liability related to the dismantlement and restoration cost net of salvage, it is common that Market Participants (IPPs and PE firms) ascribe a Fair Value of $0 on a net basis when bidding for businesses such as CBAS, as they generally believe they can defer costs and accelerate salvage proceeds to effectively minimize the net value impact of retirement costs, and the ultimate net cost of retirement to a Market Participant is generally viewed as immaterial to the overall transaction price (of approximately $520 million).

We also considered other contracts to identify whether any intangible assets exist with a material Fair Value, but all other contracts were deemed to either be "at market" or have a negligible Fair Value. Specifically, contracts such as the ground lease have reset provisions whereby, the pricing is reset to "market" terms resulting in a $0 Fair Value. In other cases such as the coal supply contract with Nally & Hamilton and the coal transport contract with CSX, it is understood that these contracts expire within six months of the anticipated effective date of the acquisition so any differences between contract and "market" terms will only persist for a short period of time (and therefore have a negligible Fair Value).

In summary, the ASC 805 allocation of purchase price related to FPL's acquisition of CBAS can be reasonably stated as $520 million related to the termination of the PPA, net book value (on a dollar for dollar basis) assigned to the acquired working capital, and $0 related to the Facility.

Q. Does this conclude your testimony?

A. Yes, it does.

David Herr Resume

David Herr is a managing director in the Philadelphia office and part of the Valuation Services Advisory business unit, for which he is the global leader of the Energy and Mining industry group. He is also the Duff & Phelps Philadelphia city leader. David is in his twentieth year with the firm, starting with the Valuation Services Group within Coopers & Lybrand LLP.

David has substantial energy experience focused on fossil and renewable power as well as electric and water utilities. David has led purchase price allocations for eight transactions in excess of $5 billion over the last five years, including four announced power and utility transactions with purchase prices in excess of $10 billion. David has extensive experience in advising and assisting clients with application of Accounting Standards Codification ASC 820, Fair Value Measurements and Disclosures, ASC 805, Business Combinations and ASC 350, Intangibles-Goodwill and Other. Additionally, David has experience assisting global companies with preparation of purchase accounting pursuant to IFRS 3R, Business Combinations. David has substantial experience performing both single-entity tax valuations and complex multi-tier entity rollups for energy, mining and other industrial products companies.

David has instructed numerous internal courses on topics, such as valuation theory and fair value accounting and participated in an intensive training program in decision analysis, simulation and real option valuation. Additionally, David has been a speaker at numerous industry conferences, including Platt's Global Power Markets conference and Infocast's Solar Power Finance & Investment Summit.

David received his B.S. in finance from Villanova University, where he graduated first in his class. David is a chartered financial analyst ("CFA") charterholder, a member of the CFA Institute and the Financial Analysts of Philadelphia. David also is FINRA Series 7 and 63 certified. Prior to his valuation career, David was a pitcher in the Montreal Expos organization.

DUFF & PHELPS

Valuation of Certain Tangible and Intangible Assets of CBAS Power Inc.

March 4, 2015

Prepared For:

Florida Power & Light Company

This document and the accompanying schedules have been prepared for the limited purpose of evaluating the procedures to be employed, including the methods for verifying the underlying assumptions to be used, in a final report to be issued at a later date with respect to the Fair Value ("FV") of the properties described herein as of the date specified in that subsequent report. This document is not an appraisal or expression of opinion with respect to the FV of any of the properties described herein and should not be used or relied upon, in whole or in part, for any such purpose. The information contained herein is preliminary and subject to revision.

March 4, 2015

Ms. Kimberly Ousdahl
Florida Power & Light Company
Vice President, Controller and Chief Accounting Officer
700 Universe Blvd.
Juno Beach, FL 33408

Subject: Valuation of Certain Tangible and Intangible Assets of CBAS Power Inc.

Dear Ms. Ousdahl:

Duff & Phelps, LLC ("Duff & Phelps"), having been retained by Florida Power & Light Company ("FPL" or the "Purchaser"), has completed the services (the "Services") set out below in connection with the estimation of the Fair Value of certain tangible and intangible assets (the "Subject Assets") in connection with the contemplated acquisition ("the "Acquisition") of CBAS Power, Inc. ("CBAS") as of an expected transaction close on August 30, 2015 (the "Valuation Date"). Collectively, this arrangement is the "Engagement."

Scope of Services

It is understood that the Services provided will be used to assist FPL management ("Management") with financial reporting requirements in accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations* and ASC 980, *Regulated Operations* and regulatory filing requirements as part of the transaction approval process from Florida Public Service Commission ("FPSC") and the Federal Energy Regulatory Commission ("FERC" or together with FPSC, the "Regulators"). Specifically, we have assisted Management with the: (1) Estimation of the Fair Value of the Business Enterprise Value ("BEV") of CBAS as well as certain assets and liabilities of CBAS (altogether, the "Subject Assets"). Specifically, we have estimated the Fair Value of the following Subject Assets:

- Plant & Equipment ("P&E") of the Cedar Bay Generation Facility ("Cedar Bay" or the "Facility") – 250 MW coal-fired cogeneration plant in Florida.
- Power Purchase Agreement (the "PPA").

The Services assume that the PPA between CBAS and FPL is terminated at closing of the Acquisition, that all CBAS debt is extinguished and that the existing Management Services and Operating & Maintenance ("O&M") Agreement are terminated immediately prior to closing. It is also our understanding that the Fair Value of the PPA will be used by Management to determine the gain or loss on the effective settlement of the pre-existing relationship between CBAS and FPL, pursuant to the guidance in paragraphs ASC 805-10-55-20 through 805-10-55-23.

The PPA between Cedar Bay and FPL was entered into in 1988, and the Avoided Cost calculations were based on a very expensive Integrated Gasification Combined Cycle ("IGCC") coal fired power plant that FPL had projected for resource planning purposes at the time but was never built. The PPA provides FPL the right (or option) to call power from the Facility for 30 years at a price based on the parameters provided for in the contract, even if the cost to Cedar Bay of generating the power is greater than the contract price. In exchange for that option, FPL is required to make above market fixed capacity, bonus (for availability) and O&M payments to Cedar Bay that were established based upon the IGCC "avoided unit." It is important to note that the PPA is unit contingent, and that Cedar Bay must generate the power from the Facility, even if cheaper power is available from other sources.

Based on guidance noted above, FPL will effectively settle the PPA based on the difference between the estimated Fair Value of the PPA and FPL's existing basis in the PPA (which is $0). Because the PPA is unfavorable to FPL, it will record a loss on the settlement, and the net purchase price used to prepare the accounting for the CBAS acquisition within FPL's consolidated financial statements will be reduced accordingly.

During the Engagement, we also worked with Management to confirm that there are no additional assets (including contingent assets) or liabilities that meet the separation criteria in ASC 805. In addition to the Subject Assets, we assessed certain contracts, including but not limited to the Cedar Bay Ground Lease, the Coal Supply agreement, the Steam Offtake contract and the newly signed O&M Agreement, but all other contracts of CBAS were deemed to be at market (and therefore have negligible Fair Value). Our analysis incorporated Management's determination of the Fair Value or other amounts of any assets and liabilities excluded from the identified Subject Assets ("Excluded Assets and Liabilities"), which included the following:

- Current Assets; and
- Current Liabilities.

In the course of our valuation analysis, we used and relied upon financial and other information, including prospective financial information and the Fair Value or other amounts of the Excluded Assets and Liabilities, obtained from Management and from various public, financial, and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects. We will not accept responsibility for the accuracy and completeness of such provided information.

Procedures

The procedures that we followed in estimating the Fair Value of the Subject Assets included, but were not limited to, the following:

- Analysis of general market data, including economic, governmental, and environmental forces;
- Analysis of conditions in, and the economic outlook for the electric utility industry and specifically the Florida Reliability Coordinating Council ("FRCC") electricity market;
- Discussions concerning the history, current state, and future operations of CBAS with Management;
- Discussions with Management to obtain an explanation and clarification of data provided;
- Analysis of financial and operating projections including revenues, operating margins (e.g., earnings before interest and taxes), working capital investments, and capital expenditures based on Cedar Bay's historical operating results, industry results and expectation, and Management representations;
- Development of discounted cash flow models, a form of the Income Approach, based on information received from and discussions with Management regarding the projected financial results of Cedar Bay;
- Estimation of an appropriate weighted average cost of capital ("WACC") for use in the Income Approach based on analysis of financial data for publicly traded companies engaged in the same or similar business activities as the Subject Assets;
- Estimation of the Fair Values of the Subject Assets, primarily through the application of the Income Approach; and
- Analysis of other facts and data considered pertinent to estimating the Fair Value of the Subject Assets as of the Valuation Date.

Definition of Value

ASC 820, *Fair Value Measurements and Disclosures* defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" ("Fair Value").

ASC 820 states that a Fair Value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible and financially feasible at the measurement date. In broad terms, highest and best use refers to the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used. Moreover, the highest and best use is based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

The highest and best use of the asset by market participants establishes the valuation premise used to measure the Fair Value of the asset: 1) in-use, if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group, installed or otherwise configured for use; or, 2) in-exchange, if the asset would provide maximum value to market participants principally on a standalone basis.

In ascribing Fair Value to the Subject Assets, we assumed that a Market Participant purchaser would continue to operate Cedar Bay through the remaining term of the PPA, in order to receive the payments to which the purchaser would be entitled under the favorable terms of the unit-contingent PPA. This is not to suggest that FPL would or should continue operating Cedar Bay once the PPA is terminated, but rather reflects the perspective of a Market Participant around which the Fair Value determination is structured. It is also important to note that, while the Subject Assets will be accounted for pursuant to ASC 980 after the acquisition, the Fair Value should exclude any impact of regulation, as only FPL could demonstrate that the Acquisition of the Subject Assets provides benefits to customers by terminating the PPA and continuing to operate Cedar Bay only for so long as it remains beneficial from an economic and/or reliability perspective. ASC 820 and related guidance explicitly indicates that unique benefits, or "buyer specific synergies" should not be included in the Fair Value of assets, and the ability to cancel the PPA, avoid approximately 7 to 10 years of operating the plant at a loss and obtaining rate recovery of the cancellation is clearly unique to FPL.

Valuation Approaches

We considered the following approaches when estimating the Fair Value of the Subject Assets: the Income Approach, the Market Approach, and the Cost Approach.

Income Approach: The Income Approach is a valuation technique that provides an estimation of the Fair Value of an asset based on market participant expectations about the cash flows that an asset would generate over its remaining useful life. The Income Approach begins with an estimation of the annual cash flows a market participant would expect the subject asset (or business) to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) or the business at the end of the discrete projection period to arrive at an estimate of Fair Value. For uncertain assets and liabilities, contingent consideration and contingencies, it may be necessary to consider the expected cash flows taking into consideration probabilities of future events and/or future cash flow scenarios..

Market Approach: The Market Approach is a valuation technique that provides an estimation of Fair Value of a business, business ownership interest, security, or asset by using one or more methods that compare and correlate the subject to similar businesses, business ownership interests, securities, or assets that have been sold. Considerations such as time and condition of sale and terms of agreements are analyzed and adjustments are made, where appropriate, to arrive at an estimation of Fair Value.

Cost Approach: The Cost Approach is a valuation technique that uses the concept of replacement cost as an indicator of Fair Value. The premise of the Cost Approach is that, if it were possible to replace the asset, from the perspective of a market participant (seller), the price that would be received for the asset is estimated based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence.

In developing the conclusions of Fair Value for the Subject Assets, we primarily relied on the Income Approach in reaching our valuation conclusion. The Income Approach incorporates the unique operating characteristics of the Subject Assets that cannot specifically be captured in the Market and Cost Approaches. As mentioned above, the DCF measures future cash flows and converts these cash flows to their present value using an appropriate cost of capital. The Income Approach includes Market Participant assumptions and continued existence of the PPA, and it does not reflect of the potential regulatory recovery received by FPL in connection with the Acquisition, assumptions specific to FPL.

The Cost Approach was considered in our analysis but ultimately not utilized as a prudent indicator of value. The primary reason for exclusion was that the power and capacity market forecast for FRCC as of the Valuation Date does not fully support the replacement cost of newly built merchant plants, nor is it expected to for the next 5 to 10 years. Accordingly it is likely that significant economic obsolescence will be prevalent within power plants within FRCC, including Cedar Bay (which is typically quantified through an Income Approach).

The Market Approach was also considered in our Fair Value conclusion for the P&E, but given the specific facts regarding the PPA as well as the economics of Cedar Bay (absent the PPA), no precedent transactions exist that would provide comparable metrics that would allow us to establish a Fair Value for the Subject Assets.

Summary Conclusion

Based on our analysis detailed in the accompanying report, we estimate the Fair Value of the Subject Assets as of the Valuation Date can be reasonably stated as follows (please see Exhibit A for further information):

Subject Asset	Fair Value ($000s)
Plant & Equipment (P&E)	$0
Power Purchase Agreement (PPA)	$520,000

In general terms, these Fair Value estimates reflect the following perspectives on the Subject Assets:

- The P&E valuation reflects the value of Cedar Bay as a merchant asset, without the benefit of the existing PPA. Specifically, because the annual net energy margin that Cedar Bay could generate from selling power at expected merchant power prices is less than the annual fixed costs to maintain and operate the Facility, a merchant owner of the Facility would likely retire Cedar Bay to avoid future expected operating losses. In general, Market Participants typically assume that the salvage value (for scrap metal, etc.) approximately offsets dismantlement costs, resulting in a de minimis Fair Value conclusion for the P&E.
- It is important to also note that the reliability value of Cedar Bay to FPL is a buyer specific consideration which should not be included in the Fair Value of an asset, as a Market Participant bidder for Cedar Bay (which would likely include independent power producers and power private equity firms) could not know whether and to what extent FPL would be willing to make reliability payments.
- The Fair Value of the PPA reflects the expected stream of payments that the PPA would provide for its remaining term, less the costs of owning, operating and maintaining Cedar Bay in the manner required to

fulfill its PPA obligations in order to qualify for those payments. This Fair Value is impacted by the unit-contingent requirement to deliver power from Cedar Bay despite the Facility's unfavorable economic profile.

- The Fair Value of the PPA also does not represent the avoided cost or value of the PPA termination to FPL, as this is also a buyer specific value. ASC 805-10-55-20 through 805-10-55-23 provides for recognition by FPL of the loss computed as the difference between the Fair Value of the PPA to a Market Participant and its basis in the PPA (which is $0). The fact that the avoided costs (for FPL and its customers) exceed the Fair Value is a buyer specific synergy which should be excluded from the Fair Value.

Based on the foregoing, it is reasonable to conclude that the $520 million proposed purchase price for CBAS relates entirely (from an ASC 805, Business Combinations perspective) to the buyout of the PPA, that the Fair value of the Facility is $0, and that FPL's ability to retire the Facility prior to the PPA expiration and avoid the obligation to run the Facility despite unfavorable economics represents a buyer specific synergy (and customer benefit) not shared with the current owners of CBAS.

Limiting Conditions

These conclusions are subject to the Assumptions & Limiting Conditions attached hereto, those set forth in our statement of work ("SOW") dated December 19, 2014 as well as the facts and circumstances as of the Valuation Date.

Any advice given or report issued by us is provided solely for your use and benefit and only in connection with the services that are provided hereunder. Except as required by law, this report shall not be provided to any third party, except that it may be provided to FPL's legal advisors and the Regulators and parties to any proceeding with the Regulators regarding the CBAS acquisition. Except as it relates to proceedings with the Regulators: (i) you shall not refer to us either directly by name or indirectly as an independent valuation service provider (or by any other indirect reference or description), or to the services, whether in any public filing or other document, without our prior written consent, which we may at our discretion grant, withhold, or grant subject to conditions, and (ii) in addition to the foregoing prohibitions and requirements with respect to all third parties, submission of our report or any portion thereof to, or responding to any comment letter issued by, the Securities and Exchange Commission or its staff, or any written or verbal references to us, this report or to the services in such a response is subject to you providing us with prior notice, and allowing us to provide input as to the content of such response. In no event, regardless of whether consent or pre-approval has been provided, shall we assume any responsibility to any third party to which any advice or report is disclosed or otherwise made available.

While our work has involved an analysis of financial information and accounting records, our Engagement does not include an audit in accordance with generally accepted auditing standards of CBAS's existing business records. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of you and Management.

Budgets, projections, and forecasts relate to future events and are based on assumptions that may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results of CBAS will correspond to those projected or forecast by Management.

In accordance with our agreement, this report is limited to estimating the Fair Value of certain tangible and intangible assets of CBAS. Additional issues may exist that could affect the tax treatment of FPL or CBAS. This report does not consider or provide a conclusion with respect to any of those issues. With respect to any significant local jurisdiction tax issue outside the scope of this report, this report was not written, and cannot be used, by anyone for the purpose of avoiding local jurisdiction tax penalties.

The valuation of companies and businesses is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value and we normally express our opinion on the value as falling within a likely range. However, if purpose requires the expression of specific values, we will adopt values that we find to be both reasonable and defensible based on the information available.

If you have any questions or need any additional information, please do not hesitate to contact David Herr, Managing Director, at (215) 430-6039 or Lee Tourscher, Director, at (215) 430-6051.

Yours sincerely,

Duff & Phelps LLC

Duff & Phelps, LLC
David Herr
Managing Director

CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- We have no present or prospective interest in the business or property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- The Engagement was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- The analyses and conclusions are limited only by the reported assumptions and limiting conditions, and represents our unbiased professional analyses and conclusions.
- This analysis and report was prepared under the direction of David Herr, CFA, with significant professional assistance provided by Lee Tourscher, CFA, Payal Parikh and Caroline Neiley.

By: David Herr, CFA
Managing Director

Exhibit DH-3 is confidential in its entirety.