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June 20, 2016

VIA ELECTRONIC FILING

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

RE: **Florida Power & Light Company's Petition for Approval of Arrangement to Mitigate Impact of Unfavorable Indiantown Cogeneration 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 Indiantown Cogeneration Power Purchase Obligation, (ii) the prefiled testimony of FPL witness Robert E. Barrett, Jr., (iii) the prefiled testimony and exhibits of FPL witness Thomas L. Hartman; (iv) the prefiled testimony and exhibits of FPL witness Liz Fuentes; and (v) the prefiled testimony and exhibits of FPL witness David W. 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) 304-5253.

Sincerely,

s/ Bryan S. Anderson

BRYAN S. ANDERSON

Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's Petition for Approval of Arrangement To Mitigate Impact of Unfavorable Indiantown Cogeneration Power Purchase Obligation	Docket No.16___________-EI Filed: June 20, 2016

FLORIDA POWER & LIGHT COMPANY'S PETITION FOR APPROVAL OF ARRANGEMENT TO MITIGATE IMPACT OF UNFAVORABLE INDIANTOWN COGENERATION 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 Indiantown Cogeneration L.P. ("ICL") facility ("ICL Facility" or "the Facility") and the related Power Purchase Agreement ("PPA") between FPL and ICL through a transaction ("the ICL Transaction") with ICL's upstream owner, Calypso Energy Holdings, LLC ("Calypso"). The ICL Transaction is projected to produce $129 million in savings for FPL customers on a cumulative present value revenue requirements ("CPVRR") basis ($205 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 a regulatory asset of $451.5 million for the loss on the ICL investment, and (b) recovery through the Capacity Cost Recovery Clause ("CCR Clause") of (i) amortization of the regulatory asset over the remaining PPA period, approximately nine years, and (ii) a return on the unamortized balance of the regulatory asset calculated at FPL's weighted average cost of capital ("WACC") that is used for adjustment clause proceedings before the Commission.

FPL further requests that the Commission consider this matter and issue an order on this Petition prior to December 31, 2016, 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 approximately 4.8 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
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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 at this time 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 Indiantown Facility and PPA

4. The ICL Facility is an approximately 330 megawatt coal-fired, qualifying co-generation facility located on a 215 acre site in Indiantown, Florida. Commercial operation of the Facility began in 1995. The ICL Facility is deemed a Qualifying Facility ("QF") under the Public Utility Regulatory Policy Act of 1978.

5. The Facility is owned by ICL, with 100% of the partnership interests held directly and indirectly by two Calypso affiliates: Palm Power, LLC and Toyan Enterprises, LLC ("ICL Ownership"). These entities represent the upstream ownership of the ICL Facility and are graphically depicted in Exhibit TLH-3.

6. The Facility's operations are managed by U.S. Operating Services Company, LLC, a wholly-owned subsidiary of Calypso, pursuant to an operation and maintenance agreement. ICL sells the electricity produced by the Facility to FPL and sells steam to a citrus processing facility sited adjacent to the ICL Facility.

7. FPL's payments to ICL for the purchase of electricity are made pursuant to a long-term PPA, which the parties originally executed on May 21, 1990, and the FPSC approved that contract under its QF rules in 1991. The current PPA expires in December 2025. The pricing structure provides for both capacity and energy payments. Annual capacity payments are fixed under the contract and slowly reduce each year until the end of 2025. If the Facility's availability performance meets the contractual threshold, the Facility is eligible for a bonus capacity payment of up to an additional 10%.

8. FPL's energy prices under the PPA are based on the unit cost for coal, priced at a published index times a fixed heat rate. In contrast, pursuant to the Commission's rules governing qualifying facilities, FPL's fixed operations and maintenance expense ("O&M") and capacity payments to ICL were determined based on the approved "avoided unit" at the time the parties entered the PPA, an integrated coal gasifier combined 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, in 2015 the "all in" price of energy from the ICL Facility was over $264/MWh, compared to an average FPL avoided cost of $18/MWh in that same year.

9. The ICL Facility is dispatchable by FPL within the operating limits of the Facility. FPL dispatched the ICL Facility at an annual capacity factor of about 24% in 2015.

The Purchase and Sale Agreement

10. FPL and Calypso 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% of the ownership interests of ICL Ownership from Calypso at a price of $451 million (including existing debt), thereby making FPL sole owner of the ICL Facility.

11. Since existing bonds financing the project are not callable or defeasible before 2020, the debt must remain in place following the closing of the ICL Transaction and remain for FPL's subsequent ownership until that time. Also, the PPA must be maintained due to the fact that the bond covenants effectively require that it remain in place.

12. Upon closing on the Agreement, FPL would acquire the existing PPA as both the ICL Facility owner and the PPA counterparty. FPL would also be responsible for existing

contracts pertaining to the Facility. In addition, the existing operating agreement with the contracted third party operator will remain and that party will operate the Facility under FPL's direction. Once the ICL Facility is purchased, FPL plans to maintain the QF status of the Facility.

13. As owner, FPL would continue to be entitled to economically dispatch the 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 continue to dispatch the ICL Facility, but at a substantially lower capacity factor (approximately 5%). FPL will own the Facility with full discretion to operate or retire it in the manner that best meets the needs of customers. With FPL's Ten Year Site Plan showing a modest need for a capacity purchase in 2018, the continued availability of the ICL Facility at that time will be a useful resource option. If the economics of FPL's system dispatch were to change such that the ICL Facility becomes viable following that time, FPL would have the option to continue operating the Facility to produce even greater customer savings. Currently, FPL anticipates operating the facility through the end of 2018 to meet FPL's capacity needs.

14. Final closing of the ICL 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 ICL Transaction

15. At least three benefits result from the ICL Transaction. First, the purchase of the ICL Facility, together with the termination of the PPA, is projected to produce $129 million in savings for customers on a CPVRR basis ($205 million nominal savings). As further described in FPL witness Hartman's testimony, FPL calculated these projected savings by evaluating the

revenue requirements to customers under the current PPA structure versus those proposed under the ICL Transaction. In the long term, the ICL Transaction avoids $594 million (Net Present Value) in above-market payments under the PPA, which FPL customers would otherwise pay through the CCR Clause.

16. FPL analyzed the economic benefits of the ICL Transaction under alternate scenarios in which the anticipated fuel and emissions costs were 20% greater than and 20% less than forecasted. Under each of these scenarios, the ICL Transaction is expected to produce customer savings, in amounts ranging from $100 million to $151 million.

17. Second, FPL maintains for its customers the option of continued fuel supply reliability and diversity by keeping the ICL 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 this existing 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 and the addition of the Okeechobee Clean Energy Center in 2019.

18. Third, the ICL Transaction is expected to yield environmental benefits. The ICL Facility is a very high emitter of carbon dioxide ("CO_2"). FPL anticipates that it will decrease the annual capacity factor from 24% (in 2015) to 5% once it assumes control of the Facility, thereby reducing CO_2 emissions in Florida by over 657,000 tons per year. By acquiring the PPA and the Facility, FPL will be able to control all economic and environmental decisions regarding the ICL Facility. Further, should the Facility be retired before the PPA's end date, it may be years in advance of when it could 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 ICL Transaction

19. FPL will record all acquired assets and liabilities on the Indiantown subsidiary's books at fair value at the date of acquisition. FPL proposes to treat the investment required to effectuate the ICL Transaction as a regulatory asset recovered through the CCR Clause that would be amortized over the remaining term of the PPA, approximately nine years, with a return on the unamortized balance of the purchase price at the Company's overall WACC that is used for clause investments. As described in FPL witness Barrett's testimony, FPL proposes to collect the operating costs of the ICL Facility that are traditionally base revenue requirements through the capacity clause on an interim basis. FPL proposes to recover the fuel costs associated with the ICL Facility through FPL's Fuel Cost Recovery ("FCR") Clause, including rail car lease payment and fuel transportation costs.

Investment Resulting from ICL Transaction

20. Per ASC 805-10-25, because the PPA represents a preexisting contractual relationship between FPL and the acquired entity, ICL, FPL must recognize the loss associated with the preexisting contractual relationship. As discussed in the direct testimony of FPL witness Herr, the PPA for the ICL Facility would have a fair value of approximately $450 million because of the large capacity and fixed O&M payments to which the PPA owner would be entitled to receive from FPL. Therefore, FPL's purchase of the PPA counterparties results in an equivalent loss to FPL as the purchaser.

21. As reflected on Exhibit LF-1, the amount FPL proposes to record for the loss on investment in the acquired entities is $451.5 million (excluding inventory and other working

capital), which includes the fair value of acquired assets and liabilities. Consistent with ASC 980, the loss would be recorded on FPL's books and records as a regulatory asset and amortized on a straight-line basis over the remaining term of the PPA in recognition of FPL's proposal to defer and recover that specific cost in future rates. As reflected in the testimonies of FPL witnesses Barrett and Fuentes, FPL proposes to recover the regulatory asset through FPL's CCR Clause over the remaining PPA period (approximately nine years) in an amount of $50.2 million per year. Recovery through the CCR Clause is appropriate because that is where FPL is currently recovering the cost of the unfavorable PPA giving rise to the regulatory asset, consistent with the 2012 Stipulation and Settlement Agreement's provision, as approved by the Commission in Order No. PSC-13-0023-S-EI. In addition, the amortization of the regulatory asset and associated unrecovered balance will be removed from retail base ratemaking and FPL's earnings surveillance report.

22. Further, as explained by FPL witness Barrett, FPL proposes to earn a return on the unrecovered regulatory asset balance at FPL's overall WACC through FPL's CCR Clause, consistent with Commission precedent on FPL's similar Cedar Bay Transaction, Order No. PSC-15-0401-AS-EI, Docket No. 150075-EI. Because the payment to Calypso in exchange for acquiring 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 $129 million of projected customer savings fully account for FPL's WACC.

23. 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

investor-owned utilities, the Office of Public Counsel, and the Florida Industrial Power users Group to specify the methodology for calculating the WACC applicable to clause-recoverable investments. Through that order, the Commission provided for FPL to earn its current, approved WACC on clause-recoverable investments. Like the Cedar Bay Transaction, the ICL Transaction involves the acquisition of a coal generating facility in order to alleviate an unfavorable power purchase obligation. Moreover, the Commission found in the Cedar Bay Order that the agreed-upon accounting and recovery treatment created customer savings, and stated that the transaction served to "mitigate the impact on customers of the Cedar Bay power purchase obligation, and [was] reasonable, cost-effective, and prudent."

Operating Costs of ICL Facility

24. The operating costs of the ICL Facility are typically recovered through base rates. Because these base revenue requirement increases were not contemplated in FPL's current base rate filing (Docket No. 160021-EI) and since the cost recovery clause savings are projected to be greater than the base revenue requirements, FPL seeks interim CCR clause recovery of these traditional base rate components. FPL proposes to file forecasted base revenue requirements for the Indiantown subsidiary for each subsequent year on an annual basis for recovery in its projection filing for FPL's CCR Clause since these particular base rate revenue requirements were not contemplated in FPL's recent base rate filing (Docket No. 160021-EI). This would continue until FPL's next base rate proceeding when FPL would request to discontinue recovery of the base revenue requirements through the CCR Clause and instead, request recovery through base rates.

Fuel Costs of ICL Facility

25. FPL proposes to recover the fuel costs associated with the ICL 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.

Consolidation of the Indiantown Subsidiary for Retail Base Ratemaking and Reporting

26. FPL will include all Indiantown subsidiary amounts in retail base ratemaking and FPL's earnings surveillance reporting including the reclassified revenues collected through CCR clause but excluding fuel expense, fuel transportation, and rail car lease costs discussed above.

Expedited Treatment

27. Customer savings will diminish if the closing is delayed, because FPL has ongoing payment obligations under the existing PPA until closing. The $129 million (CPVRR) in customer savings projected to result from the ICL Transaction are premised on a closing date of January 1, 2017, which would necessitate a final order from the Commission prior to December 31, 2016. Accordingly, FPL requests expedited consideration of this Petition. Closing the ICL Transaction is contingent upon a final, non-appealable Commission order approving the requests set forth in this Petition and the accompanying testimony. To facilitate and support the Commission's processing of this Petition, FPL 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 Calypso as prudent and specifically authorizing FPL to (a) establish a regulatory asset for the loss on the ICL investment in the amount of $451.5

million, and (b) recovery through the CCR Clause of (i) amortization over a nine-year period of the regulatory asset and (ii) a return on the unamortized balance of the regulatory asset calculated at FPL's WACC as discussed in FPL witness Barrett's direct testimony.

FPL requests that the Commission consider this Petition and issue an order prior to December 31, 2016 so that the parties may move expeditiously toward closing and realize the projected customer savings described herein.

Respectfully submitted,
Bryan S. Anderson
Fla. Auth. House Counsel No. 219511
William P. Cox
Fla. Bar No. 0093531
Joel T. Baker
Fla. Bar No. 0108202

s/ Bryan Anderson
Bryan S. Anderson
Fla. Authorized House Counsel No. 219511
Admitted in IL, Not Admitted in FL

4250267(2)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ROBERT E. BARRETT, JR.

DOCKET NO. 16___________-EI

JUNE 20, 2016

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, supports the interim recovery of ICL facility costs, and discusses the appropriate rate of return on FPL's investment for this transaction.

Q. Please provide an overview of the Indiantown Cogeneration LP ("ICL") Transaction.

A. As described in greater detail by FPL witness Hartman, FPL has entered into a definitive agreement for the acquisition of Palm Power, LLC and Toyan Enterprises, LLC ("ICL Ownership") and their subsidiaries from Calypso Energy Holdings, LLC, subject to FPSC approval. The transaction, upon financial closing, will transfer the ownership to FPL of the ICL power generation facility ("the ICL Facility" or "the Facility") and the Power Purchase Agreement ("PPA") between ICL and FPL for a total purchase price of $451 million (referred to as the "ICL Transaction"). As a consequence of the ICL Transaction, the economic obligation under the existing PPA for the ICL Facility will be mitigated, and FPL 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 ICL Facility and the associated PPA.

A. The ICL Facility is a 330 MW coal-fired unit located in Indiantown, Florida. It has been selling all of its capacity and energy to FPL under a long term contract during its operation. The ICL Facility is a Qualifying Facility ("QF") under the Public Utility Regulatory Policy Act ("PURPA") of 1978 and the Federal Energy Regulatory Commision rules implementing PURPA. The PPA was based on Florida's avoided unit at the time, which was 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 ICL Transaction to customers.

A. The ICL Transaction provides FPL's customers an estimated economic benefit of $129 million in cumulative present value revenue requirements ("CPVRR") ($205 million nominal savings), primarily as a result of acquiring the entities that own the ICL Facility and thereby the related PPA with FPL, which currently is priced above market and is projected to remain above market for the balance of the agreement term. The ICL Transaction is expected to provide CPVRR benefits for customers under a range of sensitivities for fuel price and emission costs 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 ICL Transaction beyond the economic benefits?

A. Yes. The ICL 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 ICL Facility in service, but without the obligation of being locked into the remaining term of the existing over-market PPA, approximately nine years. 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 estimates 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 ICL 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 for fuel supply reliability after mid-2017 but FPL will have no obligation to retire the Facility until FPL has confirmed that it is the proper time to do so.

Q. Are there other reliability benefits of the ICL Facility for FPL's customers?

A. Yes. FPL's 2016 Ten Year Site Plan shows a need for a capacity purchase in 2018 with the ICL Facility continuing as a resource option. After the addition of the Okeechobee Clean Energy Center in mid-2019, the ICL Facility would not be needed for system reliability.

Q. Are there other benefits associated with ownership of the Facility?

A. Yes. Through its ownership of the Facility, FPL will have sole discretion to make operational and environmental decisions, including early retirement or repurposing of the Facility. For instance, although this coal unit has no real economic value to the FPL system as demonstrated by its very low capacity factor, the site is suitable for future gas or solar generation given the transmission infrastructure and proximity to a natural gas pipeline. By acquiring 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 FPL customers from FPL's approach of purchasing the ICL Facility rather than just buying out the PPA?

A. Yes. Structuring the ICL Transaction as the purchase of the ICL Ownership will result in immediate savings in revenue requirements recovered from customers through the Capacity Cost Recovery Clause ("CCR Clause"), as would a PPA buyout; however, structuring the transaction as an acquisition provides control of the Facility and the site. Buying out the PPA would not have had that important benefit for customers.

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

A. FPL witness Fuentes' testimony discusses the requested recovery of the ICL Transaction in detail, but generally the Company proposes to treat the loss on the investment as a regulatory asset that would be amortized over the remaining term of the PPA, roughly nine years, with a return on the unamortized balance of the regulatory asset at the Company's overall weighted cost of capital that is used for clause investments. Because the non-energy 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, approved by the Commission 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.

There also are projected revenue requirements that are not traditionally and historically recovered through cost recovery clauses (plant operations and maintenance, return of and on property, plant and equipment and associated income taxes) that are properly recovered through base rates. These items are projected to increase revenue requirements while the cost recovery clause items are projected to decrease revenue requirements by a greater amount. Since the base revenue requirement increases were not contemplated at the time of FPL's current base rate filing (Docket No. 160021-EI), and since the cost recovery clause savings are projected to be greater than the base revenue requirement increases in every year, FPL proposes to collect an amount necessary to cover the base revenue requirements through the capacity clause. The net impact on customers is projected to be zero in the first year and lower in every year following the closing of the transaction. This proposed treatment is identical to how FPL collects base rate recoverable costs and expenses associated with its

West County Unit 3 which was approved by the Commission in Order No. PSC-13-0023-S-EI, Docket No. 120015-EI. The West County Unit 3 revenue requirements are collected through FPL's CCR clause and transferred to base rates in order to align the revenues collected with facility costs and expenses.

Q. Please describe how FPL proposes these traditional base rate revenue requirements associated with the Indiantown Facility be presented to the Commission for approval on an ongoing basis.

A. FPL proposes to file forecasted base rate revenue requirements for the Indiantown Facility for each subsequent year on an annual basis in its projection filing for FPL's CCR Clause. This would continue until FPL's next base rate proceeding when FPL would request to discontinue recovery of the base rate revenue requirements through the CCR Clause and instead, request recovery through base rates.

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 9 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. For the economic analysis of the transaction, FPL used the weighted average cost of capital requested for the 2017 Test Year in FPL's 2016 base rate filing, Docket No. 160021-EI.

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 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. Recently, the Commission approved this treatment for the Cedar Bay Transaction, Order No. PSC-15-0401-AS-EI. The ICL Transaction is substantially similar to the Cedar Bay Transaction. In so doing, the Commission's order provided that FPL should be permitted to earn their current, approved WACC on clause-recoverable investments.

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

A. No. While FPL has proposed a solution to the above market costs of the ICL PPA that will benefit customers, FPL must also ensure that investors are fully compensated for the investment that will be made. Therefore, the ICL 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 the ICL Ownership, and recovery of the associated costs as proposed in FPL's Petition for Approval of Arrangement to Mitigate Impact of Unfavorable Indiantown Cogeneration Power Purchase Obligation, be in the best interest of FPL's customers?

A. Yes. The ICL Transaction provides significant present value savings to FPL's customers of approximately $129 million CPVRR and provides savings under all of the sensitivities analyzed. The ICL Transaction provides for control of the 330 MW ICL Facility, which provides an important fuel diversity and reliability option for customers in the near term, and gives FPL control of the environmental attributes of the Facility in the long term including the ability to retire the unit early and potentially repurpose the site for the benefit of FPL's customers.

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. 16_______ -EI

JUNE 20, 2016

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 Palm Power, LLC and Toyan Enterprises, LLC ("ICL Ownership") and their subsidiaries from Calypso Energy Holdings, LLC, for purposes of cost recovery through the Capacity Cost Recovery Clause ("CCR Clause"). My testimony supports the proposed transaction to purchase the ICL Ownership ("the ICL Transaction"), including a description of the ICL generating unit ("the ICL Facility" or "the Facility"), a summary of the ICL Ownership 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 ICL 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 ICL Corporate Structure
- Exhibit TLH-4 Projected Customer Savings Calculation

Q. Could you describe the ICL Facility?

A. Yes. The ICL Facility is a 330 Megawatt ("MW") coal fired cogeneration unit located in Indiantown, Florida, using a single pulverized coal boiler and a single steam turbine. Steam is sold to an adjacent citrus processing 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").

Q. What is the status of the original PPA and what are its terms?

A. The original PPA was executed in 1990 and approved by the Commission in Order No. 24269-A, issued April 5, 1991 in Docket No. 900731-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 ICL 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 2001, and the amendment was approved by the Commission in Order No. PSC-01-1614-PAA-EQ, in Docket No. 010821-EQ issued on August 8, 2001. The PPA expires at the end of 2025.

Capacity payments are fixed in the contract and change yearly, and O&M costs escalate from a fixed payment, 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 10%.

Q. Is the ICL Facility dispatchable by FPL and what are the associated energy and capacity costs?

A. Yes. The ICL Facility is dispatchable by FPL within the operating limits of the Facility, but with limits on the number of starts allowed under the contract. When FPL dispatches the Facility, FPL compensates Indiantown Cogeneration Limited Partnership ("ICLP") for energy delivered to FPL based on the unit cost for coal based upon a published index (and trued up from time to time if the actual cost of coal is substantially different from the index based pricing), times a fixed heat rate. While the actual cost of energy from the facility is relatively high, the limitation on the number of starts results in the plant often operating out of merit order, that is, the plant is kept on line while lower cost units would be more effective. This results in projected capacity factors higher than pure economics would dictate, and a higher cost of energy than would otherwise be the case for FPL's customers.

When FPL elects to decommit the Facility, ICLP retains the right to continue to operate the Facility at an output level not greater than the minimum operating level of the Facility. During such periods, energy is paid for at the base unit energy cost defined in the previous paragraph without multipliers. When FPL elects to decommit the facility, it is normally because the Facility energy cost is above FPL's current avoided cost. If ICLP elects to continue operating, it will increase customers' cost for energy. In recent years, when FPL has elected to decommit the Facility, ICLP normally has elected to shut down.

Conversely, while energy costs under the existing PPA are sometimes 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 ICL Facility in 2015 was over $264/MWh, compared to an average FPL avoided cost of $18/MWh.

Q. Is the ICL 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 no reason to believe that the equipment and facilities cannot last until the end of the PPA with regular maintenance and recurring capital improvements.

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

Q. Can you briefly summarize the ICL Transaction?

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

Briefly, FPL will purchase 100% of the equity interests in ICL Ownership from Calypso Energy Holdings, LLC ("Seller") for a fixed payment of $451 million, including existing debt. Since the existing bonds financing the project are not callable or defeasible before 2020, the debt has to remain in place. As shown in Exhibit TLH-3, ICL Ownership owns the ICL Facility indirectly through a series of wholly owned subsidiary companies.

In addition to the purchase of the equity interest, FPL will purchase the working capital of the ICLP (fuel inventory, spare parts, tools, etc.) and record it at fair value.

Since the existing bond covenants effectively require that the PPA cannot be cancelled, it will remain in place. The existing operating agreement with the contracted third party operator will also remain, and they will 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. While the Facility will be available to operate through the life of the bonds, FPL does not expect to need the capacity after 2018, and the Facility is not anticipated to operate after that time.

Q. If the PPA remains in place, how do the customers save money?

A. As stated above, upon acquisition of the ICL Ownership, FPL will continue to make payments under the PPA and retain ownership of the Facility, including all rights and obligations, through its ownership in the acquired entities. That is, FPL will still make the PPA payments to the ICL Ownership to satisfy the bond requirements. The ICL Ownership interests, however, will consolidate into FPL, as discussed in the testimony of witness Fuentes. Since FPL is effectively on both sides of the PPA, the PPA disappears from FPL's customers' perspective after consolidation. While the PPA remains in place from the standpoint of the existing bond holders, economically it will appear as if the PPA has been cancelled for FPL's customers.

Q. Why is the ICL Facility owned and operated through multiple ICL Ownership 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. ICLP holds all of the assets for the project, including operating contracts.

Q. What are the customer benefits of the proposed ICL 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. While the PPA will remain in place after the transaction closing, consolidation will effectively eliminate the PPA cost for FPL's customers. Additionally, FPL can manage the operations of the Facility for the benefit of FPL's customers, rather than the equity owners. For example, this may allow us to lower the minimum operating capacity and increase the maximum operating capacity as well as allowing more frequent cycling of the Facility. This will reduce energy costs of the Facility.

Second, FPL maintains for its customers the capacity of the Facility and the option of continued fuel reliability and diversity by keeping the Facility capable of operating through 2020. While FPL currently anticipates that it will no longer need to dispatch the Facility after 2018, it will be maintained in a condition capable of operating until the debt is retired. If economic conditions change, we can continue to dispatch. In that case, customer savings would be higher than our current estimate.

Finally, since the Facility is not anticipated to operate after 2018, CO_2 emissions from the Facility will be eliminated.

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

A. Customer savings are estimated to be $129 million cumulative present value revenue requirements ("CPVRR"), ($205 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 ICL Transaction. The U-Plan production costing model was used to quantify the system impacts of the ICL Transaction as well as the impact of various alternative fuel and emission sensitivities. The key components of this estimate are the net cost of the PPA, after accounting for amortization, operating expenses, asset retirement, debt costs, equity cost, taxes, and the impact on FPL's system costs.

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 ICLP must meet in order to qualify for these payments, ICLP reliably achieves those standards and, in recent years, has consistently earned the potential performance bonus. Over the remaining life of the PPA, the Net Present Value ("NPV") of these payments is $594 million.

The PPA currently provides both capacity and energy to our customers. Under the PPA, the unit is dispatchable by FPL, however, there are limitations on the number of starts that are permitted, minimum run times, and minimum down times between starts, as well as limits on the minimum capacity at which the unit may be operated. As a result of these limitations, the Facility operates much more than its actual production costs would warrant. As a result of FPL's efficient system and the current low price of natural gas, the Facility is often running out of merit order, *i.e.*, its output is displacing the output of lower cost units. Consequently, reduced dispatch of the Facility will result in the dispatch of other FPL units that are less 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 ICL Facility and PPA attributes. The difference in CPVRR of the two simulations represents the system cost impact of not running the Facility as a result of the ICL Transaction. The system cost analysis indicates that customers would save an estimated $80 million (CPVRR) through dispatching other units on FPL's system to replace the ICL Facility's energy.

In addition to the system impacts of the ICL 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 ICL Transaction, and the revenue requirements associated with the purchase price (and its associated financing costs) for the ICL 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 ICL 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 ICL Transaction is shown in the table below:

CPVRR Net Cost/ (Net Benefit) of Transaction

$ Millions (2016)

	Low Case Fuel	Base Case Fuel	High Case Fuel
Low Case Emissions	(151)	(129)	(101)
Base Case Emissions	(150)	(129)	(101)
High Case Emissions	(150)	(128)	(100)

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

A. First, under the Base Case set of assumptions, the net benefit of $129 million (CPVRR) is a significant savings for customers relative to the status quo. Second, it is noteworthy that for all of the sensitivities analyzed, the ICL Transaction is expected to provide customer savings.

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

A. The ICL 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 24% in 2015 because it will be dispatched based on its true energy costs and actual operating restrictions. Additionally, as a result of the reduced dispatch, the environmental impact of the Facility on Florida will be greatly reduced.

FPL anticipates operating the ICL Facility at least through 2018. With the new gas pipeline coming into service in early 2017 and the addition of the Okeechobee Clean Energy Center in 2019, FPL believes it will be uneconomic to operate the Facility after 2018. 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 ICL Facility is no longer needed to meet customers' needs, and the debt has been retired or defeased, the Facility will be sold or dismantled.

Q. Does that conclude your testimony?

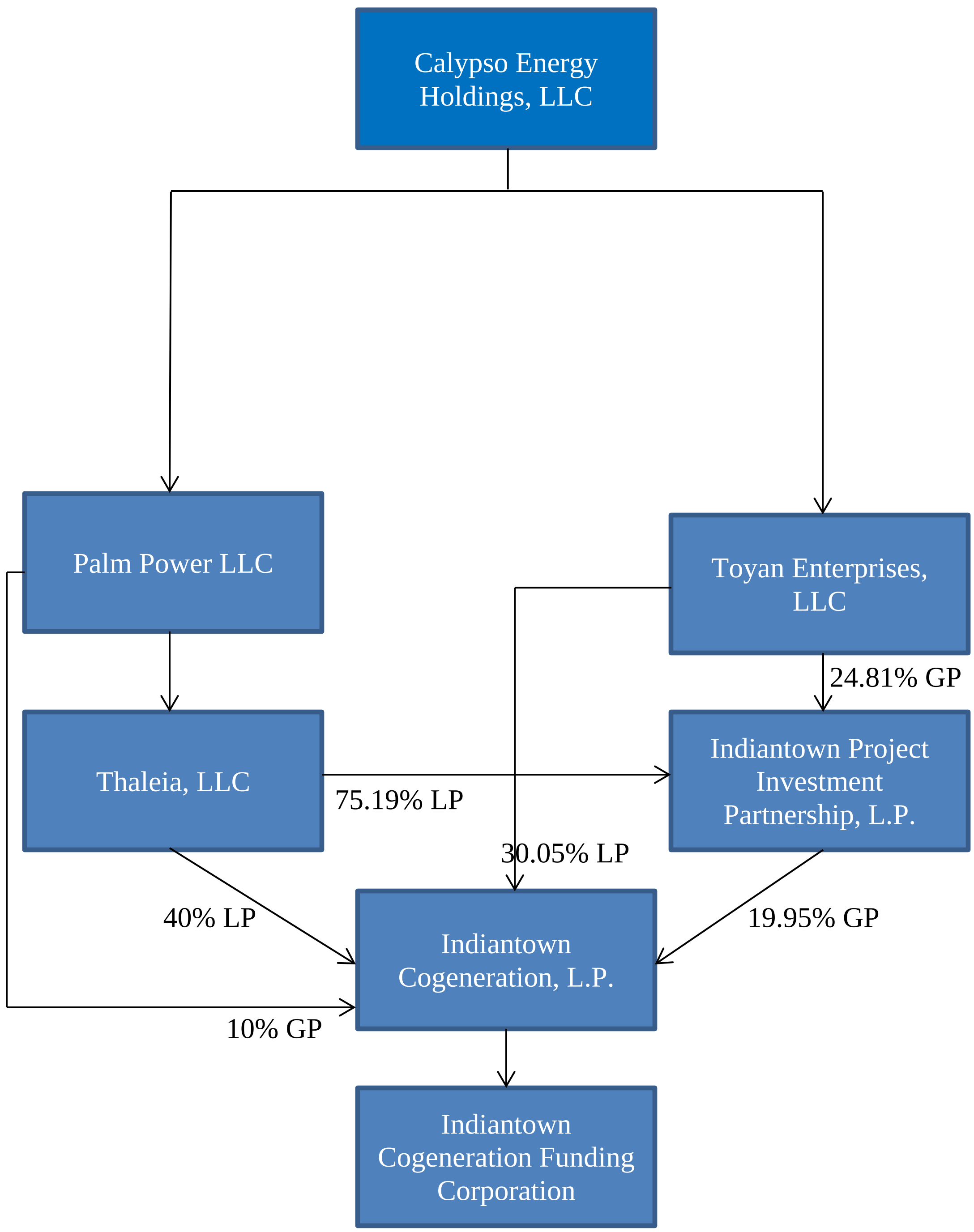
A. Yes.

Fixed Payment Obligations under the Existing Contract

Year	Capacity Payment ($/MW-mo)	Capacity Bonus at 98% ACF	O&M (escalated at 2.0%)	Total ($/kW-Mo)
2016	$ 12,500	$ 2,152	$ 9,024	$ 23.68
2017	$ 12,220	$ 2,142	$ 9,205	$ 23.57
2018	$ 11,940	$ 2,133	$ 9,389	$ 23.46
2019	$ 11,670	$ 2,125	$ 9,577	$ 23.37
2020	$ 11,390	$ 2,116	$ 9,768	$ 23.27
2021	$ 11,110	$ 2,107	$ 9,963	$ 23.18
2022	$ 10,820	$ 2,098	$ 10,163	$ 23.08
2023	$ 10,560	$ 2,093	$ 10,366	$ 23.02
2024	$ 10,280	$ 2,085	$ 10,573	$ 22.94
2025	$ 10,000	$ 2,078	$ 10,785	$ 22.86

Exhibit TLH-2 is confidential in its entirety.

ICL Corporate Structure



Indiantown Cogeneration $451 MM Enterprise Value

Results of FPL's Economic Evaluation[1]

	(dollars in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	Nominal Total	Present Value[9]
A	Discount Factor[2]	0.96	0.89	0.82	0.76	0.70	0.65	0.60	0.56	0.51		
B	Amortization[3]	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 451	$ 324
C	Operating Expenses[4]	11	13	2	2	1	1	1	1	1	34	29
D	Asset Retirement Obligation[5]	3	3	3	3	0	-	-	-	-	11	9
E	Interest Expense[6]	4	4	3	1	3	2	2	1	0	20	16
F	Return on Equity[7]	29	27	23	20	9	7	5	3	1	125	103
G	Income Tax	19	17	15	12	6	4	3	2	1	78	64
H	Cost of Transaction	116	113	97	89	69	65	61	57	53	720	546
I	FPL System Impact[8]	(22)	(24)	(18)	(10)	(8)	(7)	(0)	(4)	(4)	(98)	(80)
J	Capacity Payment and Bonus	(57)	(56)	(55)	(53)	(52)	(51)	(50)	(49)	(48)	(471)	(342)
K	O&M Payment	(36)	(37)	(38)	(39)	(39)	(40)	(41)	(42)	(43)	(356)	(253)
L	Total Avoided Costs of PPA	(93)	(93)	(93)	(92)	(92)	(91)	(91)	(91)	(91)	(827)	(594)
M	Net Customer Costs/(Savings)	$ -	$ (4)	$ (14)	$ (14)	$ (31)	$ (33)	$ (30)	$ (38)	$ (41)	$ (205)	**$ (129)**

1) $451 MM acquisition value includes $233 MM equity price and $218 MM of acquired debt
2) Discount Factor is based on weighted average cost of capital of 8.15% discounted to January 1, 2017
3) Reflects amortization of regulatory asset
4) Operating Expenses include operations and maintenance and expensed portion of rail lease. Estimates of Net Working Capital are not reflected in the model.
5) Reflects amortization of ARO Asset and accretion of ARO Liability
6) Interest expense assumes 2.90% market rate on acquired debt and 5.21% on incremental FPL debt, and 40.4% debt to capital ratio
7) Assumes after-tax return on equity of 11.5% and 59.6% equity to capital ratio
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 LIZ FUENTES

DOCKET NO. 16____________ -EI

JUNE 20, 2016

Q. Please state your name and business address.

A. My name is Liz Fuentes, and my business address is Florida Power & Light Company, 9250 West Flagler Street, Miami, Florida, 33174.

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 Senior Director, Regulatory Accounting.

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

A. I am responsible for planning, guidance, and management of all regulatory accounting activities for FPL. In this role, I manage the accounting of FPL's cost recovery clauses and ensure that the Company's financial books and records comply with multi-jurisdictional regulatory accounting requirements. In addition, I manage the preparation and filing of FPL's monthly earnings surveillance report with the Florida Public Service Commission ("FPSC" or "Commission").

Q. Please describe your educational background and professional experience.

A. I graduated from the University of Florida in 1999 with a Bachelor of Science Degree in Accounting. That same year, I was employed by Florida Power & Light Company. During my tenure here, I have held various accounting and regulatory positions with the majority of my career focused in regulatory accounting and ratemaking. I am a Certified Public Accountant ("CPA") licensed in the Commonwealth of Virginia and a member of the American Institute of CPAs.

Q. Are you sponsoring an exhibit in this case?

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present to the Commission the appropriate accounting under both Generally Accepted Accounting Principles ("GAAP") and the Federal Energy Regulatory Commission ("FERC") 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 Indiantown generating facility ("the ICL Facility" or "the Facility") through an equity purchase (referred to as the "ICL Transaction"). Specifically, my testimony addresses the following:

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

Q. Please summarize your testimony.

A. I will provide the required journal entries that FPL intends to record as a result of the ICL 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 associated with the ICL Transaction. As described by

FPL witnesses Hartman and Barrett, FPL has demonstrated the benefits of the ICL 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 ICL Transaction from an accounting perspective.

A. As described by FPL witness Hartman in his direct testimony, FPL is acquiring the interests in Palm Power, LLC and Toyan Enterprises, LLC ("ICL Ownership") and their subsidiaries from Calypso Energy Holdings, LLC ("Calypso"). These entities collectively represent the upstream ownership of the ICL Facility and the associated Power Purchase Agreement ("PPA") with FPL. Upon acquisition of the ICL Ownership, FPL will continue to make payments under the PPA and retain ownership of the Facility, including all rights and obligations associated with the Facility, through its ownership in the acquired entities.

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

A. FPL plans to record its interest in the acquired entities in a new, wholly owned subsidiary (referenced herein as the "Indiantown subsidiary"). The Indiantown subsidiary will form the legal parent to the entities FPL will acquire from Calypso as shown on Exhibit TLH-3 in FPL's witness Hartman's direct testimony.

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

A. FPL must retain the subsidiary structure in order to preserve the carryover book basis required due to the existing debt holdings and associated covenants of the acquired entities. Additionally, there are advantages to retaining the subsidiary structure in that it may help protect customers from any unforeseen contingent liabilities or losses that could arise from the prior operation of the ICL Facility.

Q. Please provide an overview of the required accounting for the ICL 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 ICL 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 a third party performed that valuation?

A. Yes. Duff & Phelps, LLC ("Duff & Phelps") performed a valuation of the substantial assets acquired. 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 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). However, as noted above, the ICL Transaction is a business combination, not a direct purchase of electric plant. Moreover, the ICL Facility is a Qualifying Facility ("QF") under the definitions prescribed by FPSC Rule No. 25-17.080, *Definitions and Qualifying Criteria*, and, as such, is not subject to the FERC USOA. Once purchased, FPL plans to maintain the QF status of the ICL Facility. Given these circumstances, recording the acquired assets at fair value is consistent with GAAP and certain transactions approved by the FERC where electric utilities have purchased QFs.

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. 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 value to FPL, however, as Mr. Herr explains, that value is unique to FPL and should not be considered in determining the fair value of the ICL Facility on the open market.

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

A. FPL must recognize the land value for the ICL Facility site, which is estimated to have a fair value of $8.5 million as discussed in FPL witness Herr's testimony. In addition, FPL must recognize an estimate for ash removal and the dismantlement cost of the forecasted retirement of the unit at the end of 2018 (represented together as an asset retirement obligation), which is estimated to be $9.9 million (2016 current costs).

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

A. Page 1 of Exhibit LF-1 provides the estimated journal entry to be recorded by FPL that will be required upon the equity purchase of the ICL Ownership. The entry booked at closing will include actual working capital paid/received.

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

A. FPL will record all acquired 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 itself, which will be recognized at zero value, FPL will also acquire debt obligations, inventory, and other 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 only contract that does not represent an obligation at market price is the rail car lease. As reflected on FPL witness Herr's Exhibit DH-3, the estimated fair value of the rail car lease liability is $9.0 million, which represents the excess amount of rail cars over the optimal amount forecasted for the future operations of the ICL Facility.

Q. Will FPL record a loss associated with the acquisition of the legal entities? If so, how was it calculated?

A. Yes. Per ASC 805-10-25, because the PPA represents a preexisting contractual relationship between FPL and the acquired entity, Indiantown Cogeneration, L.P., FPL must recognize the loss associated with 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 $450.0 million. 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, purchase of the PPA counterparties results in an equivalent loss to FPL as purchaser.

As reflected on Exhibit LF-1, the amount FPL proposes to record for the loss on investment in the acquired entities is $451.5 million (excluding inventory and other working capital) and is calculated as shown below:

Purchase Price	$451.0M
Plus: FV of Rail Car Lease Liability	9.0M
Less: FV of Land	(8.5M)
Loss on Investment	$451.5M

This calculation takes into account the fair value of acquired assets and liabilities resulting in an amount to be recovered from customers.

Q. How does FPL propose to record the loss associated with the investment?

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 loss would be recorded as a debit to a regulatory asset (FERC Account 182.3 – Other Regulatory Assets) and 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. How does FPL propose to recover the regulatory asset described above?

A. As reflected on Page 2 of Exhibit LF-1, FPL proposes to recover the 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 giving rise to the regulatory asset. In addition, the amortization of the 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 asset described above?

A. Yes. FPL proposes to earn a return on the unrecovered 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.

Q. Has the recovery of similar regulatory assets through the CCR Clause been approved by the Commission in the past?

A. Yes. The Commission recently approved a stipulation and settlement agreement in a similar transaction, FPL's Cedar Bay Transaction, in Order No. PSC-15-0401-AS-EI, Docket No. 150075-EI, where FPL acquired the Cedar Bay QF through an equity purchase and terminated the related PPA. In this order, FPL was authorized to establish and recover a net regulatory asset associated with the transaction through its CCR Clause and earn a return on the unamortized balance at its overall weighted average cost of capital.

Q. What is the income tax accounting required to properly reflect this acquisition?

A. Since the acquired entities are all disregarded for income tax purposes, the purchase of these entities by FPL will be treated as an asset acquisition for tax purposes. FPL will take the ICL facility with a stepped up tax basis, and will claim accelerated depreciation deductions for this basis (with any remaining basis being deducted at the time of decommissioning). Therefore, FPL will record a deferred tax asset in recognition of the step up in tax basis of the facility and a deferred tax liability to reflect the timing differences associated with the loss on the investment.

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

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

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

A. FPL proposes to recover the fuel costs associated with the ICL 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 the Indiantown subsidiary's books through FPL's FCR Clause. 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. How does FPL propose to recover all the remaining costs and expenses recorded in the Indiantown subsidiary books and records?

A. FPL would typically recover all remaining costs and expenses recorded in the Indiantown subsidiary through base rates. This includes plant operating and maintenance costs, and a return on working capital. In this case however, FPL witness Barrett supports the Company's request for interim CCR clause recovery of these traditional base rate components due to the immediacy of FPL's pending base rate request.

Q. Will the Indiantown subsidiary be consolidated for retail base ratemaking and reporting purposes?

A. Yes. FPL will include all Indiantown subsidiary amounts in retail base ratemaking and FPL's earnings surveillance reporting, including the reclassified revenues collected through CCR clause but excluding fuel expense, fuel transportation, and rail car lease costs discussed above.

Q. Does this conclude your direct testimony?

A. Yes.

Florida Power and Light Company
Indiantown Transaction
Proposed Journal Entries

Line No	Description	FERC Account	Amount ($ Millions)	
1	Electric Plant Purchased or Sold [1]	102	$ 18.4	
2	Regulatory Asset - Loss on Investment[2]	182	451.5	
3	Deferred Tax Asset - Step up basis	190	174.2	
4	Asset Retirement Obligation [3]	230		9.9
5	Bonds	221		217.8
6	Cash	131		233.2
7	Deferred Tax Liability - Loss on Investment	283		174.2
8	Other Deferred Credits - Rail Car Lease Liability[4]	253		9.0
9				
10	*Purpose: To record Indiantown equity purchase.* [5]			
11				
12				
13	Asset Retirement Cost [3]	101	$ 9.9	
14	Land	101	8.5	
15	Electric Plant Purchased or Sold	102		$ 18.4
16				
17	*Purpose: To clear account 102, Electric Plant Purchased, and record the acquired assets on FPL's books and records.*			
18				
19				
20				
21				
22				
23				
24				

25 **<u>Notes:</u>**

26 (1) The Indiantown Facility has a fair value of zero. In accordance with GAAP and FERC precedent, FPL will record no book basis for the facility.

27 (2) Represents the amount of the ICL transaction purchase price plus the fair value of acquired assets and liabilities.

28 (3) Represents the present value of the estimated amount of dismantlement costs for the Indiantown facility, which is expected to be retired no earlier than December 31, 2018.

29 (4) Represents the amount of rail car contractual obligation which exceeds the fair value of the optimal amount forecasted for the future operations of the ICL Facility.

30 (5) Does not include the purchase of working capital, which will take place at closing.

Florida Power and Light Company
Indiantown Transaction
Proposed Journal Entries

Line No	Description	FERC Account	Amount ($ Millions)	
1	Regulatory Asset - Loss on Investment	182	$ 451.5	
2				
3	Remaining Months of PPA Contract as of January 1, 2017		108	
4	Monthly Amortization to be Collected through FPL's Capacity Clause[1]		$ 4.2	
5				
6	Annual Amortization to be Collected through FPL's Capacity Clause[1]		$ 50.2	
7				
8				
9	**Annual Amortization**			
10				
11	Other Expenses	557	$ 50.2	
12	Regulatory Asset - Loss on Investment	182		$ 50.2
13				
14	*Purpose: To record annual amortization of the regulatory asset on FPL's books and records.*			
15				
16	Deferred Tax Liability - Loss on Investment	283	19.4	
17	Current Income Tax Expense	409.1	19.4	
18	Provision for Deferred Income Taxes—Credit	411.1		19.4
19	Taxes Accrued	236		19.4
20				
21	*Purpose: To record current and deferred income taxes associated with the amortization of the regulatory asset.*			
22				
23	Provisions for Deferred Income Taxes	410.1	6.5	
24	Taxes Accrued	236	6.5	
25	Deferred Tax Asset - Step up basis	190		6.5
26	Current Income Tax Expense	409.1		6.5
27				
28	*Purpose: To record current and deferred income taxes associated with the tax depreciation of the step up*			
29	*basis on the acquired plant (20 year MACRS).* [2]			
30				
31				
32	**Notes:**			
33	(1) Retail jurisdictional amount to be recovered through the capacity clause will be based on the retail			
34	separation factor approved by the FPSC in each year of amortization.			
35	(2) For illustrative purposes only, the first year of activity has been provided. The actual annual activity			
36	will vary based on the tax depreciation rate utilized for each period.			
37				

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF DAVID W. HERR

DOCKET NO. 16_____-EI

JUNE 20, 2016

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 twenty-first 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 over 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 and certain liabilities to be assumed by FPL in connection with its proposed acquisition of Indiantown Cogeneration LP ("ICL") prepared by D&P to assist FPL management ("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 Assets of Indiantown Cogeneration LP." (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 and certain liabilities (together, the "Subject Assets") to be acquired in connection with the proposed acquisition of ICL. Specifically, we assisted Management with the estimation of the Fair Value of the Indiantown coal-fired power plant (the "Indiantown Facility" or the "Facility"), owned real estate surrounding and under the Facility (the "Land"), the Power Purchase Agreement ("PPA") between FPL and ICL and the Railcar Lease Agreement between ICL and Wells Fargo Rail Corporation (the "RLA"). 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. The Fair Value of the Land was estimated to be $8.5 million based on analysis performed by D&P personnel licensed to appraise Real Estate in Florida. We determined that the PPA has a Fair Value of approximately $450 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 with the exception of the RLA. The RLA was determined to be a liability with a Fair Value of $9 million, as FPL will be required to make lease payments for approximately 188 railcars more than necessary to transport the coal needed for Facility operations.

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 ICL and ASC 820, *Fair Value Measurements and Disclosures* provides the relevant definition of Fair Value. While FPL will account for ICL pursuant to ASC 980, *Regulated Operations* subsequent to the acquisition, this guidance 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 ICL 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 ICL.

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 a private equity ("PE") firm, would need to continue to operate the 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 Indiantown 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 Indiantown Facility only for so long as it remains beneficial from an economic, contractual and/or reliability perspective. ASC 820 and related guidance explicitly indicates that unique benefits, or “buyer specific synergies” (or synergies specific to FPL), should not be included in the Fair Value of assets.

In assessing assumptions that would be considered by market participants in establishing Fair Value, we performed our analysis assuming no corporate level taxes, as ICL is held in a legal entity structure which avoids taxation at the corporate level for PE firms. To offset the investor tax impact, such firms require a higher return on equity and do not recognize the benefits of tax deductibility of interest or depreciation deductions when establishing Fair Value (bid prices).

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 330 MW of power). However, given that there is currently not a market for its capacity, especially in light of the 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 Facility that reflected seasonal, on-peak operations consistent with the level of 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 April 2016. Fuel and operating costs were estimated based on the Facility's actual results over the past several years and the 2016 budget. Adjustments were made to the coal price incorporating IHS's Central Appalachian coal price outlook as well as historical delivery costs to the Facility as reported by SNL Energy.

Based on the low forecasted power prices in FRCC, due primarily to low forecasted natural gas prices, and the Facility's high operating costs (as a relatively small coal plant), the Facility is not expected to generate positive cash flow through the remaining term of the PPA. Specifically, because the annual net energy margin that ICL 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 it to avoid future expected operating losses.

Q. Please describe your analysis of the Land.

A. Professionals within the D&P Real Estate group performed a limited scope appraisal of the real estate, as if vacant and available, owned by ICL. As the cost to remove the Facility is included within the asset retirement obligation estimated by Management, it is reasonable and appropriate to estimate the Fair Value based on comparable sales of proximate vacant, available industrial property.

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 2025. 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 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 the discount rates for the two analyses. In both cases, we developed a pre-tax weighted average cost of capital ("WACC") appropriate for 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") and the assumption that a market participant could continue to capitalize on ICL's tax-efficient structure. 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 merchant 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 8.5% 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 12.5%.

Q. Given FPL is a unique buyer, in that it is the only acquirer who is also the offtaker of the PPA, what support exists that the purchase price reasonably represent the Fair Value of ICL?

A. While the savings FPL can provide its customers is an incentive to consummate the ICL transaction, the Fair Value is not based on the Buyer Specific benefits associated with those customer savings. Instead, the Fair Value of ICL is established based on a method consistent with that used by PE firms. The assumptions reflect independently established data combined with historical information from ICL's current owner that would be made available to market participants in a sales process.

It is worth noting that the price of $451 million for ICL negotiated between FPL and ICL's current owner represents an arm's length transaction negotiated without compulsion, and therefore provides corroborative evidence useful in estimating the Fair Value of ICL and the PPA (as the primary income-generating asset within ICL).

A purchase price allocation performed pursuant to ASC 805 is generally performed after buyer and seller agree on price, and the alignment of the Fair Value of assets acquired with the purchase price is an integral part of the process. In the case of ICL, the primary (cash flow) benefits available to market participant buyers are those associated with the PPA, so the Fair Value of approximately $450 million for the PPA is a reasonable conclusion given the arm's length transaction price and the negligible Fair Value ascribed to other acquired assets.

A key consideration in arriving at this conclusion is that ICL (including all assets and liabilities) is the *Unit of Valuation* that allows ICL's current owner to maximize the aggregate Fair Value of the component assets, and so the purchase price represents evidence of the total Fair Value of all the assets of ICL (net of assumed liabilities). With the negotiated price of $451 million established as the appropriate Fair Value starting point for the Purchase Price Allocation pursuant to ASC 805, this overall amount is then ascribed to the component *Units of Account* acquired. While FPL may perceive some utility from the plant in the short run, the plant DCF without a contract indicates that the Facility has no Fair Value (from a market participant perspective). Therefore, it is reasonable to conclude that substantially all of the $451 million price agreed to for ICL is attributable to the net settlement of the PPA.

Q. Please describe your conclusions.

A. Based on the DCF analysis reflecting the PPA pricing and the costs to operate the Indiantown Facility in order to fulfill the PPA (unit contingent) requirements, the Fair Value of the PPA can be reasonably estimated at approximately $450 million.

As noted in the prior response, the Fair Value conclusion for the PPA correlates with the conclusion that the Fair Value of the Indiantown Facility is $0. Specifically, absent the benefit of the (favorable) PPA, the annual net energy margin that the Facility could generate from selling power at forecasted merchant power prices is less than the annual fixed costs and capital required to maintain and operate the Facility. Accordingly, a PE firm (as the likely market participant) would likely retire the Indiantown Facility to avoid future expected operating losses (absent the favorable PPA).

It is our understanding that Management is estimating and recording an asset retirement obligation ("ARO") liability related to the dismantlement and restoration cost net of salvage, related to the take-down of the Facility. This amount substantially offsets the Fair Value of the Land of $8.5 million which presumes that the owned land is vacant and available for alternative industrial use.

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 with the exception of the RLA which was identified to be a liability with a Fair Value of $9 million. Other ICL contracts either contain reset provisions whereby, the pricing is reset to "market" terms resulting in a $0 Fair Value, or they expire within less than a year 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 ICL can be reasonably stated as net book value (on a dollar for dollar basis) assigned to the acquired working capital, approximately $450 million related to the termination of the PPA, $8.5 million for the Land, $9 million liability related to the RLA and $0 related to the Plant & Equipment.

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 has over twenty years 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 Assets of Indiantown Cogeneration LP

June 20, 2016

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.

June 20, 2016

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 Assets of Indiantown Cogeneration LP

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 Indiantown Cogeneration LP ("ICL") as of an expected transaction close on January 1, 2017 (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 with the Florida Public Service Commission ("FPSC") and the Federal Energy Regulatory Commission ("FERC" or together with FPSC, the "Regulators"). As part of the Services, we have assisted Management with the: (1) Estimation of the Fair Value of the Business Enterprise Value ("BEV") of ICL as well as certain assets and liabilities of ICL (altogether, the "Subject Assets"). Specifically, we have estimated the Fair Value of the following Subject Assets:

- Plant & Equipment ("P&E") of the Indiantown Cogeneration Facility ("Indiantown" or the "Facility") – 330 MW coal-fired cogeneration plant in Florida
- Owned Real Estate ("Land")
- Power Purchase Agreement (the "PPA")
- Railcar Lease Agreement (the "RLA")

The PPA between Indiantown and FPL was entered into in 1990, and the avoided cost calculations used to establish the PPA pricing were based on an 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 terms provided for in the contract, even if the cost to ICL 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 ICL that were established based upon the IGCC "avoided unit" costs. It is important to note that the PPA is unit contingent, and that ICL must generate the power from the Facility, even if cheaper power is available from other sources.

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 Coal Transportation Agreement, the Coal Supply Agreement, the Steam Sales Agreement and the O&M Agreement, but all other contracts of ICL were deemed to be at market pricing or approaching expiration (and therefore have negligible Fair Value as of the Valuation Date). Our analysis considered 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
- Current Liabilities
- Debt
- Asset Retirement Obligations (the “ARO”)

In the course of our valuation analysis, we used and relied upon financial and other information, including prospective financial information obtained from Management (which includes the Fair Value of the Excluded Assets and Liabilities) and from various public, financial, and industry sources. Our conclusions are 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 ICL 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 Indiantown’s historical operating results, industry results and expectation, and Management representations;
- Development of discounted cash flow (“DCF”) models for the Subject Assets, a form of the Income Approach, based on information received from and discussions with Management regarding the projected financial results of Indiantown;
- 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 (the “Guideline Companies”);
- Discussed the physical nature of the land and the data provided with local personnel, as necessary;
- Researched public records and other readily available sources of data to confirm the physical characteristics of the subject property;
- Interviewed local market participants and real estate professionals;
- Researched and analyzed market data;
- Estimation of the Fair Values of the Subject Assets, primarily through the application of the Income Approach and Market 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 the Facility 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 the Facility, 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 Indiantown only for so long as it remains beneficial from an economic, contractual 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 more than 8 years of operating the Facility at a loss and seek 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.

<u>Income Approach</u>: 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.

<u>Market Approach</u>: 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.

<u>Cost Approach</u>: 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 should reflect Market Participant assumptions and assumes continued existence of the PPA, but it does not reflect of the potential regulatory recovery received by FPL in connection with the Acquisition, as this is a benefit 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 exist related to power plants within FRCC, including Indiantown (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 Indiantown (absent the PPA), no precedent transactions exist that would provide comparable metrics that would allow us to establish a Fair Value for the P&E. The Market Approach was used as the primary method in estimating the Fair Value of the Land.

In establishing the appropriate pool of market participants to consider related to ICL, it is important to note that the Facility is owned through a tax-efficient pass-through structure whereby ICL's current owner does not pay corporate level taxes. Instead, ICL's taxable income (and other tax attributes) flow directly to the current owner's investors. This single tax structure is beneficial relative to c-corporation taxability and investor level taxes on dividends and capital gains.

Because a transaction could be structured providing this benefit to market participants (and their investors), it is highly likely that private equity ("PE") buyers would pay a premium for the equity of ICL versus its potential value to public companies who would likely incur c-corporation taxes due to their structure. For transactions involving businesses held in similar structures to ICL, it is common for PE funds to reflect a 0% tax rate in their income approach models, but also adjust increase the required rate of return to account for the higher investor level tax obligations (who receive interest and depreciation deductions but are also taxed on ICL's pre-tax income at an ordinary income tax rate).

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)
P&E	$0
Land	$8,500
PPA	$450,000
RLA	$(9,000)

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

- The Land valuation assumes the subject property as vacant and available for alternative industrial use. As the cost to remove the Facility is included within the ARO estimated by FPL Management, it is reasonable and appropriate to estimate the Fair Value based on comparable sales of proximate vacant, available industrial property.
- The P&E valuation reflects the value of Indiantown as a merchant asset, without the benefit of the existing PPA. Specifically, because the annual net energy margin that Indiantown could generate from selling power at expected merchant power prices is less than the annual capital expenditures and fixed costs to maintain and operate the Facility, a merchant owner of the Facility would likely retire Indiantown 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 Indiantown to FPL is a buyer specific consideration which should not be included in the Fair Value of an asset, as market participants bidder for Indiantown (which would largely consist of power-focused and diversified 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 Indiantown 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 Indiantown 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 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.
- The Fair Value of the RLA was determined to be a liability with a Fair Value of $9 million, as FPL will be required to make lease payments for approximately 188 railcars more than necessary to transport the coal needed for the expected Facility operations.

Based on the foregoing, it is reasonable to conclude that approximately $450 million (or virtually all) of the proposed purchase price for ICL relates to the buyout of the PPA, that the Fair Value of the Facility is $0 and the Land is $8.5 million, that the RLA represents a $9 million liability 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) which would be not be included in the Fair Value of the Subject Assets.

Limiting Conditions

These conclusions are subject to the Assumptions & Limiting Conditions attached hereto, those set forth in our statement of work ("SOW") dated May 13, 2016 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 ICL 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 ICL'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 ICL 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 ICL. Additional issues may exist that could affect the tax treatment of FPL or ICL. 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 Jesse Worek.

By: David Herr, CFA
Managing Director

Exhibit DH-3 is confidential in its entirety.