

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchase power cost recovery
clause with generating performance incentive
factor

Docket No: 20180001-EI

Date: November 16, 2018

**FLORIDA POWER & LIGHT COMPANY'S POST HEARING BRIEF AND
STATEMENT OF ISSUES AND POSITIONS REGARDING ISSUES 2M, 2N, AND 2P-2S**

Pursuant to Order No. PSC-2018-0520-PHO-EI, Florida Power & Light Company ("FPL" or the "Company"), hereby files with the Florida Public Service Commission ("Commission") its post-hearing brief and statement of issues and positions on Issues 2M, 2N, and 2P through 2S, which are associated with its Petition for Approval of Solar Base Rate Adjustment To Be Effective 2019 ("SoBRA Petition"). FPL proposes to construct 298 MW¹ of solar generation expected to enter service by March 1, 2019, which meets all requirements for SoBRA recovery set forth in the FPL's 2016 rate case Stipulation and Settlement ("Rate Settlement Agreement" or "RSA") approved by Order No. PSC-16-0560-AS-EI, dated December 15, 2016 (the "Rate Settlement Order").

FPL's SoBRA Petition seeks approval to recover the revenue requirements associated with four solar energy centers, each with a nameplate capacity of 74.5 MW (together, the four solar energy centers comprise the "2019 Project"). The 2019 Project will provide 298 MW of clean, cost-effective solar power, enough to power the equivalent of approximately 58,000 homes. The Project also will provide customers substantial cost savings over the long term, and the construction of the sites will create new jobs that benefit local Florida communities. Under the Rate Settlement Agreement, the Commission authorized FPL to construct up to 300 MW of new solar generation annually from 2017 to 2020 if FPL satisfies the following requirements:

¹ All references to "MW" or "kW" refer to alternating current.

1. The total costs of the solar projects do not exceed \$1,750/kW;
2. The construction, engineering, and component costs are reasonable; and
3. The solar projects are cost-effective additions to FPL's system.

The testimony of FPL witnesses William Brannen and Juan Enjamio demonstrate that FPL satisfies each requirement. The capital costs for the 2019 Project are significantly below the \$1,750 per kW cost cap. FPL ensured that these costs are reasonable by employing a thorough competitive bidding process to procure equipment and construction services. Moreover, a thorough economic analysis established that, on a cumulative present value revenue requirements ("CPVRR") basis, an FPL generation resource plan with the 2019 Project is cost-effective, saving customers \$40 million compared to not adding the Project.

Accordingly, FPL requests approval of its Petition and the specified base rate adjustment to recover revenue requirement for the 2019 Project, which was calculated in the manner prescribed by the Rate Settlement Agreement. FPL also requests authority to implement the base rate adjustment when the 2019 Project enters commercial operation.

I. BACKGROUND

Procedural Posture

At the hearing held in this Docket on November 5, 2018, the Commission approved stipulations for FPL on all Fuel Clause and all Capacity Clause cost recovery issues. Tr. 11. Only Issues 2M, 2N, and 2P through 2S, which address FPL's SoBRA Petition, remain in dispute. Tr. 6. All of FPL's prefiled testimony and exhibits were entered into the record without objection at the hearing, and all FPL witnesses were excused without cross-examination. Tr. 15-16. The Florida Industrial Power Users Group ("FIPUG") is the only intervenor that opposes FPL's positions on the SoBRA issues; FIPUG presented no witness of its own. FIPUG requested the opportunity to brief the contested issues. Each is addressed below.

FPL's Solar Base Rate Adjustment Mechanism

FPL's Solar Base Rate Adjustment ("SoBRA") mechanism was established in 2016 by Order No. PSC-16-0560-AS-EI issued by the Commission pursuant to its authority under the provisions of Chapter 366, Florida Statutes. *Sierra Club v. Brown*, 243 So. 3d 903, 903 (Fla. 2018). Paragraph 10 of the Rate Settlement Agreement authorizes FPL to recover the costs for constructing up to 300 MW of solar photovoltaic ("PV") generation annually from January 1, 2017 through December 31, 2020 (1,200 MW total), with an additional year ending December 31, 2021 to complete these solar generation projects. FPL is authorized to recover the costs of the solar generation through a base rate adjustment when the generation enters commercial operation if it is determined to be cost-effective, and the costs are reasonable and do not exceed \$1,750 per kilowatt ("kW"). RSA ¶¶ 10(a), 10(c). Pursuant to the express terms of the Rate Settlement Agreement, the issues for determination are limited to (i) the cost effectiveness of the solar generation, (ii) the amount of revenue requirements, and (iii) the appropriate percentage

increase in base rates needed to collect the estimated revenue requirements. RSA ¶¶ 10(a), 10(c).

Intervenor FIPUG was a party to the 2016 rate case proceeding; did not oppose approval of the Rate Settlement Agreement; did not appeal the Rate Settlement Order; and did not participate in the unsuccessful appeal of the Rate Settlement Order filed by the Sierra Club.

As contemplated by the Rate Settlement Agreement, FPL filed its SoBRA Petition on March 2, 2018, at the time of its final true-up filing in the Fuel Docket, seeking approval to implement a SoBRA for the 2019 Project when it enters service. In support of its Petition, FPL also filed the testimony of Juan Enjamio and William Brannen, who address the reasonableness of the capital costs and cost-effectiveness of the solar generation. On August 24, 2018, FPL filed the testimony of Stephanie Castaneda and Tiffany Cohen who address the calculation of the 2019 Project's revenue requirement and SoBRA factor.

II.
THE 2019 PROJECT IS COST-EFFECTIVE AND SATISFIES
THE REQUIREMENTS OF THE RATE SETTLEMENT AGREEMENT

FPL's 2019 Project

Pursuant to the Rate Settlement Agreement, FPL proposes to construct and operate 298 MW of solar PV generation by March 1, 2019. Tr. 164 (Brannen), 175 (Enjamio). The 2019 Project consists of four solar energy centers ("the 2019 Project") located throughout FPL's service territory: (i) Miami-Dade Solar Energy Center in Miami-Dade County, (ii) Interstate Solar Energy Center in St. Lucie County, (iii) Pioneer Trail Solar Energy Center in Volusia County, and (iv) Sunshine Gateway Solar Energy Center in Columbia County. Tr. 164 (Brannen). Each of the four centers will have a nameplate capacity of 74.5 MW and will be able to generate about 173,000 MWh in a year. Tr. 164 (Brannen); 176 (Enjamio). The technology selection, engineering, and execution strategies are managed under the direction of FPL witness

Brannen who applied more than a decade of broad-ranging solar development experience and competitive procurement for nearly all of the required services and equipment to ensure that the costs for the 2019 Project are reasonable while attaining a high level of performance and reliability. Tr. 159-60, 169-71 (Brannen).

The 2019 Project will involve the installation of more than 1.2 million PV panels. Tr. 164. The panels and inverters selected by FPL for the 2019 Project are highly efficient and reliable. Tr. 170 (Brannen). The panels used for the 2019 Project turn sunlight to DC electricity at a conversion efficiency rate of 17.7%. Tr. 164 (Brannen). This is among the highest conversion efficiency rates at universal solar sites across the United States and is even superior to the highly efficient panels used in FPL's 2017 and 2018 Projects. Tr. 164-65 (Brannen).

FPL continuously evaluates design optimization activities. Tr. 164 (Brannen). For the 2019 Projects, FPL determined that the baseline design would consist of panels supported by fixed-tilt structures. The panels will be tied together in groups and paired with an electronic device called a power conversion unit ("PCU"), which includes inverters that transform the direct current ("DC") electricity produced by the PV panels into alternating current ("AC") electricity. Tr. 165 (Brannen). The ratio of total installed DC capacity of PV modules to the AC capacity of each center is (the "DC/AC ratio") is 1.52. *Id.* The arrangement of the 1.52 DC/AC ratio, the fixed-tilt support system, and the carefully selected major equipment produced the highest overall benefit to customers. Compared to other options, the FPL design results in lower cost and optimized generation of electricity. *Id.*

Each center will have a separate point of interconnection to the FPL transmission system. Tr. 166 (Brannen). FPL will select transmission interconnection designs that provide great customer benefit. Each of the new collection substations will be connected to the bulk

transmission system at the corresponding point of interconnection by generation tie lines spanning in length from one tenth of a mile to just under one mile. Tr. 166 (Brannen). No upgrades to the existing FPL bulk transmission system are required to accommodate the 2019 Project, and thus, there are no associated transmission upgrade costs. Tr. 167 (Brannen).

Over a period of approximately fourteen months that began in late September 2017, FPL will complete engineering permitting, equipment procurement, construction and commissioning for the Project. Tr. 167-68 (Brannen); Ex. 32. The construction schedule includes time necessary to prepare the sites, construct roads and drainage systems, install solar generating equipment, and build the interconnection facilities. Tr. 167-68 (Brannen); Ex. 32.

The 2019 Project's Capital Costs Satisfy the Cost Cap and are Reasonable

FPL estimates that the cost of the centers comprising the 2019 Project will be \$413 million, equating to \$1,386/kW. The cost for each center ranges from \$1,289/kW to \$1,460/kW. Tr. 168 (Brannen). This includes all costs associated with the Project: equipment, solar panels, land, and interconnections. Ex. 76 (Ints. 12-13). Thus, as required by the Rate Settlement Agreement, the cost for the 2019 Project, as well as the cost for each solar energy center, is reasonable and falls substantially below the \$1,750 per kW cap. *Id.*

Continuing its commitment to ensure the reasonableness of its costs, FPL again undertook a competitive bidding process for the equipment to be installed and work to be performed at the solar energy centers. In fact, 100% of the construction costs were the result of competitive bids:

- PV panels. FPL solicited proposals from fourteen large, industry leading suppliers. Eight bids qualified and were evaluated, and, due to the large volume of panels required for the 2019 Project, FPL secured the panels from the three lowest cost bidders. These bidders also demonstrated high product quality and strong financial performance security. Tr. 169-70 (Brannen).
- PCUs. FPL solicited proposals from seven suppliers. All proposals qualified and were evaluated. As of the time FPL filed its Petition in March 2018, FPL was finalizing its evaluation of inverter supply options. Tr. 170 (Brannen).²
- Step-up transformers. FPL solicited proposals from nine industry-leading manufacturers and was able secure the supply of all the required transformers from the lowest cost bidder. Tr. 170 (Brannen).
- Engineering, procurement, and construction. FPL also solicited proposals for engineering, procurement, and construction (“EPC”) services, which includes the supply of the balance of equipment and materials. Four industry-recognized contractors submitted bids. The EPC contractor with the lowest and most competitive bid was selected. Tr. 170 (Brannen).
- Substation and interconnection. FPL solicited proposals from ten industry-recognized contractors. Six contractors responded and were evaluated. FPL selected the lowest cost bidder. Tr. 170-71 (Brannen).
- The bidding process above accounts for 99.4% of the costs. The balance of the costs resulted from existing agreements for engineering services, which were the product of a separate bidding process. Tr. 169 (Brannen).

² The estimated cost per kW for the 2019 Project includes a projection for inverters.

The bids received from the PV panel, PCU, and transformer suppliers, as well as the bids from the EPC, substation, and interconnection contractors were highly competitive and of distinct quality. Tr. 169 (Brannen). The competitive bidding process brought market forces to bear and provides assurance that the costs for the 2019 Project are reasonable. *Id.*; Tr. 172 (Brannen).

The 2019 Project Is Cost-Effective

As noted above, the Rate Settlement Agreement provides that the SoBRA-eligible projects are cost-effective if they lower the system CPVRR for FPL's electric system as compared to the system CPVRR without them. RSA ¶ 10(c). The analysis performed by FPL witness Enjamio demonstrates that adding the 2019 Project to FPL's system lowers CPVRR by \$40 million and is therefore cost-effective.

To evaluate cost-effectiveness, FPL compared resource plans that exclude and include the proposed solar generation: the "No Solar Plan" and the "2019 Solar Plan," respectively. Both plans use the same major system assumptions, including FPL's official long-term fuel forecast developed using the Company's standard forecasting methodology and FPL's official load forecast, including system peaks and net energy for load, both of which were used in its 2018 Ten-Year Site Plan. Tr. 176 (Enjamio). Mr. Enjamio also utilized a carbon dioxide ("CO₂") price projection forecast provided by ICF, a recognized industry leader in the field of CO₂ price forecasting and whose CO₂ forecast was used by FPL for purposes of its 2018 Ten-Year Site Plan. *Id.*³

³ On October 30, 2018, the Commission approved FPL's 2018 Ten-Year Site Plan as suitable for planning purposes.

The No Solar Plan does not include any solar generation beyond that already in service as of March 1, 2018. Tr. 176 (Enjamio). It assumes that future resource needs are met by combined cycle units, short-term power purchase agreements, and FPL's planned extension of the operating lives of the Turkey Point 3 and 4 nuclear units. *Id.* The 2019 Solar Plan adds the 2019 Project. Tr. 177 (Enjamio). Each center has an average summer firm capacity value – the expected output of the facility during the peak load hour in the summer⁴ – of 55% of their nameplate rating. Therefore, FPL assumes that at the time of summer peak each of the four 74.5 MW solar energy centers has a firm capacity value of 41 MW, or a Project total firm capacity of 164 MW. As a result of adding this firm capacity, the Project reduces the size of several short-term purchase power agreements, defers by one year a combined cycle that would have been placed in service in 2028, and reduces the size of a combined cycle unit projected for 2031. Tr. 177 (Enjamio).

Based on the assumptions for each Plan, FPL determined the variable system costs, consisting primarily of fuel, variable operations & maintenance (“O&M”), and emissions, using an hourly production cost model. The output of each production cost modeling run is imported into FPL's Fixed Cost Spreadsheet (“FCSS”) Model, which adds fixed costs such as capital, capital replacements, and fixed O&M. The FCSS model is used to calculate the CPVRR for each resource plan. Tr. 178 (Enjamio). Next, to determine the cost impact of the proposed solar generation, FPL subtracted the CPVRR of the 2019 Solar Plan from the CPVRR of the No Solar Plan. Tr. 178 (Enjamio). The economic analysis performed by Mr. Enjamio demonstrates that

⁴ FPL's summer peak typically occurs in August from 4 p.m. to 5 p.m. The solar installations are assumed to have zero firm capacity value at the time of winter peak due to FPL's winter peak typically occurring in the early morning, when there is little or no solar generation output. Tr. 177 (Enjamio).

the 2019 Project is estimated to produce about \$40 million (CPVRR) in customer savings, and therefore meets the cost-effectiveness requirement set forth in the Rate Settlement Agreement.

Tr. 179 (Enjamio).

Additional Benefits of the 2019 Project

The 2019 Project also provides non-economic advantages in the form of system, environmental, and community benefits. The solar energy produced by the Project improves FPL's fuel diversity by displacing fossil-fueled generation at a level that is equivalent to removing approximately 52,000 cars from the road annually. Tr. 179 (Enjamio). More specifically, on an average annual basis, the Projects are projected to reduce FPL's use of natural gas by 4,463 million cubic feet, the use of oil by 6,224 barrels, and the use of coal by 1,838 tons. Tr. 429, 505-06 (Enjamio).

The reduced use of fossil fuels will reduce CO₂ emissions from FPL's fleet by an average of 271,000 tons annually. Sulfur dioxide and nitrogen oxide emissions also are projected to decline by an annual average of 14 tons and 45 tons, respectively. Tr. 179 (Enjamio).

In addition, construction of the solar energy centers that comprise the 2019 Project will create about 800 jobs in total, which, in turn, will provide an economic boost to local businesses. Tr. 171 (Brannen).

In conclusion, the 2019 Project satisfies the requirements of the Rate Settlement Agreement: the costs are reasonable and well below the \$1,750/kW cost cap, and the Project is cost-effective.

III. FIPUG'S CHALLENGES TO THE 2019 PROJECT HAVE NO MERIT

FIPUG challenges the 2019 Projects on three grounds: (i) Section 366.06, F.S. requires the Commission to determine that the SoBRA projects are needed and prudent; (ii) FPL's use of a third party's carbon cost projections is uncorroborated hearsay; and (iii) use of the Fuel Clause

to consider SoBRA recovery is inappropriate. Tr. 392. As discussed below, none of FIPUG's challenges has merit.

The Commission is not Required To Determine Need or Separately Evaluate Prudence.

As it did in the Commission's 2017 proceeding to address FPL's 2017 and 2018 SoBRA Projects, FIPUG once again asks the Commission to cast aside the terms of the Rate Settlement Order, arguing that the Commission must make a separate prudence determination and must find that SoBRA-eligible projects are "needed." But the Rate Settlement Order expressly prescribes the limited issues to be decided in a proceeding that involves FPL's SoBRA Petition. For projects sized under 75 MW:

FPL will file a request for approval of the solar generation project at the time of its final true-up filing in the [Fuel Docket] the issues for determination *are limited to* the cost effectiveness of each such project (*i.e.*, will the project lower the projected system [CPVRR] as compared to such CPVRR without the solar project) and the amount of revenue requirements and appropriate percentage increase in base rates needed to collect the estimated revenue requirements.

RSA, ¶ 10(c) (emphasis added). Thus, unless a project falls within the scope of the Florida Power Plant Siting Act (*i.e.*, 75 MW or greater), there is no requirement to determine a resource need. In approving the Rate Settlement Agreement, the Commission determined that it is in the public interest for FPL to add cost-effective solar generation to its system and that FPL should be allowed to recover its costs through the SoBRA mechanism for up to 300 MW a year, so long as that generation is not projected to increase the CPVRR borne by customers.

FIPUG's challenge to the SoBRA Petition is nothing less than a patent and improper collateral attack on the Commission's final order approving the Rate Settlement Agreement, a decision subject to the doctrine of administrative finality. The administrative law counterpart to *res judicata*, this doctrine circumscribes the authority of agencies to reconsider final orders. *Fla. Power Corp. v. Garcia*, 780 So. 2d 34, 43-44 (Fla. 2001); *Peoples Gas Sys., Inc. v. Mason*, 187

So. 2d 335, 338 (Fla. 1966). “[O]rders of administrative agencies must eventually pass out of the agency’s control and become final and no longer subject to modification. This rule assures that there will be a terminal point in every proceeding at which the parties and the public may rely on a decision of such an agency as being final and dispositive of the rights and issues involved therein.” *Id.* at 339.

FPL unquestionably has relied upon the Commission’s Rate Settlement Order, having placed eight solar energy centers in service and now constructing four more. Under the doctrine of administrative finality, the Commission must adhere to its final order unless FIPUG demonstrates that there has been a significant change of circumstances or there is a demonstrated public interest. *See Florida Power & Light Co. v. Beard*, 626 So. 2d 660 (Fla. 1993). FIPUG not only failed to make such showing, it made no attempt to do so.

Significantly, FIPUG – and all other parties to FPL’s 2016 rate case – were granted a fair opportunity to explore and challenge the SoBRA mechanism prior to the Commission’s approval of the Rate Settlement Agreement. FIPUG declined, however, choosing instead to take no position. Underscoring FIPUG’s waiver is the fact that another party – the Sierra Club – did appeal the Commission’s Rate Settlement Order. In affirming that Order, the Florida Supreme Court held that the Commission appropriately fulfilled its statutory responsibility when it determined that the Settlement Agreement as a whole, including the SoBRA Mechanism, was in the public interest. *Sierra Club v. Brown*, 243 So. 3d 903, 903 (Fla. 2018).

In the past, FIPUG has argued that a project is not needed if FPL’s reserve margin is projected to exceed 20% in future years. But the reserve margin criterion is a *minimum*. It exists

to ensure that utilities have generation sufficient to provide adequate and reliable service to customers, not to limit the development of projects that produce customer savings.⁵

FPL's Resource Planning Expert Appropriately Considered a Reliable Carbon Cost Forecast

FIPUG has argued that the Commission cannot base its decision regarding cost-effectiveness on a carbon price forecast prepared by a third party that did not provide testimony because it is uncorroborated hearsay. As in the past, this argument has no merit; it would again ignore the facts and the law.

As was the case for the 2017 and 2018 SoBRA Projects, FPL did not submit the carbon cost forecast from consultant ICF with its filed testimony and exhibits. And, even if that forecast were part of the record, FPL does not ask the Commission to rely on the ICF forecast report in order to reach its decision. Rather, FPL relies on the testimony of Mr. Enjamio and asks the Commission to base its decision on Mr. Enjamio's expert conclusions.

Moreover, the Administrative Procedure Act permits consideration of the information contained in the ICF report as utilized and discussed by Mr. Enjamio in his testimony under these circumstances. Section 120.57(1)(c) states that “[h]earsay evidence may be used for the purpose of supplementing or explaining other evidence, but it shall not be sufficient in itself to support a finding unless it would be admissible over objection in civil actions.” Accordingly, the price forecast might arguably be insufficient on its own to support a cost-effectiveness determination. But it was not a stand-alone, uncorroborated piece of evidence. Rather, it was used to *explain* Mr. Enjamio's own expert opinion. Therefore, the Commission is authorized to

⁵ FIPUG's “need” argument is factually irrelevant. While beyond the terms of the Commission-approved Rate Settlement Agreement, the evidence demonstrates that the Project helps to meet a resource need in 2019. Ex. 77 and 79 (Int. 36, Attch. 1). Absent the 2019 Project, FPL would be required to enter larger purchased power agreement in the years 2019 through 2021. *Id.*

rely on it. *See Orasan v. Agency for Health Care Admin. Bd. of Medicine*, 668 So. 2d 1062, 1063 (Fla. 1st DCA 1996) (error for administrative hearing officer to sustain a hearsay objection to excerpts of medical treatises and texts because the evidence was “offered for a permissible purpose . . . to supplement or explain the appellant’s testimony.”).

Additionally, the Florida Rules of Evidence, while not strictly applicable in administrative proceedings,⁶ also permit use of the underlying price forecasts by Mr. Enjamio. Florida Rule of Evidence 90.704 states that “[t]he facts or data upon which an expert bases an opinion or inference may be those perceived by, or made known to, the expert at or before the trial. If the facts or data are of a type reasonably relied upon by experts in the subject to support the opinion expressed, the facts or data need not be admissible in evidence.” § 90.704, Fla. Stat. Florida courts interpret this to mean that experts may rely on hearsay to formulate their opinions if the hearsay information is the type of data reasonably relied upon by experts in a particular field. *Smith v. State*, 7 So. 3d 473, 501 (Fla. 2009). *Geralds v. State*, 674 So. 2d 96, 100 (Fla. 1996) (expert allowed to base opinion as to cause of death on materials prepared by another doctor); *Department of Corrections v. Williams*, 549 So. 2d 1071 (Fla. 5th DCA 1989) (finding that, under the rules of evidence, “it was perfectly proper for the expert to consider” an affidavit prepared by someone who did not testify at trial “in formulating his opinion”).

It is undisputed that FPL witness Enjamio is an expert. FPL’s resource planning experts have reasonably relied on carbon price forecasts like the one used here in developing their resource plans and cost-effectiveness analyses. Indeed, carbon forecasts prepared by ICF (or other third parties) are information of the type reasonably relied upon by expert resource planners to support the preparation of resource plans and economic analyses. *See, e.g.*, Order

⁶ *Florida Indus. Power Users Group v. Graham*, 209 So. 3d 1142, 1146 (Fla. 2017).

Nos. PSC-15-0521-FOF-EI, p. 8 (noting utility's use of ICF carbon forecast for resource planning); PSC-16-0032-FOF-EI, p. 18 (same); and PSC-2018-0150-FOF-EI, p. 11 (same). Mr. Enjamio directly addresses ICF's reputation and reliability, stating that "ICF is a consulting firm with extensive experience in forecasting the cost of air emissions and is recognized as one of the industry leaders in this field." Tr. 176 (also noting that the ICF forecast in question also would be used for FPL's 2018 Ten Year Site Plan).

Use of the Fuel Docket for Consideration of FPL's SoBRA Petition is Appropriate

FIPUG, for some reason not readily apparent to FPL, continues to insist that the Commission is using the fuel clause to consider recovery of solar generation capital costs. It is abundantly clear, however, that the Commission is using the fuel *docket* as an administrative vehicle and is not recovering costs through the fuel *clause*. As the name plainly indicates, solar *base rate* adjustments are recovered through base rates. For three main reasons, FIPUG's argument must be rejected.

First, the Rate Settlement Agreement, FPL's testimony, and the Commission's prehearing order state expressly and unambiguously that the revenue requirements for the solar facilities will be recovered through base rates.

The Rate Settlement Agreement states:

For each solar project that is approved by the Commission for cost recovery pursuant to the process described in this Paragraph, FPL's *base rates* will be increased by the incremental annualized base revenue requirement (as defined in Paragraph 10(e)) for the first 12 months of operation (the "Annualized *Base Revenue Requirement*"), but in no event before the facility is in service. Each such base rate adjustment will be referred to as a Solar *Base Rate Adjustment* ("SoBRA")"

RSA ¶ 10(a); see also RSA ¶ 10(c) and (e).

FPL witness Tiffany Cohen testified that: "[a]pplication of the SoBRA factors to the Company's March 1, 2019 *base rates* will provide the Company with sufficient revenue to

recover the costs associated with the construction and operation of the 2017 and 2018 Projects.” Tr. 182 (emphasis added). Witness Cohen provided exhibits that summarize the base rates proposed to become effective when the 2019 Project enters commercial operation. Ex. 42.

The Commission’s Prehearing Order similarly makes clear that cost recovery, if approved, will occur through base rates. Issues 2R and 2S, respectively, ask: “What is the appropriate *base rate* percentage increase for the 2019 SoBRA projects . . . ?” and “Should the Commission approve revised tariffs for FPL reflecting the *base rate* percentage increase for the 2019 SoBRA projects determined to be appropriate in this proceeding?” (Emphases added).

Second, use of the Fuel Docket is strictly for administrative and procedural efficiency. As FPL has previously articulated and is well known, the Fuel Docket is an annual proceeding with a relatively predictable schedule. Moreover, the Fuel Docket is a proceeding in which many intervenors who are traditionally interested in FPL’s rates routinely participate. Therefore, interested parties, such as FIPUG which is an annual participant, have notice of all of FPL’s SoBRA filings. Finally, filing the request for SoBRA approval in the Fuel Docket streamlines the synchronization of the base rate increase and the reduction in fuel costs resulting from the Project’s commercial operation.

Third, FIPUG’s arguments are directly contradicted by positions taken in this docket and others. The terms of the Rate Settlement Agreement reveal that the SoBRA mechanism operates in substantially the same manner as FPL’s generation base rate adjustment (“GBRA”) mechanism, an element of FPL’s 2013 base rate settlement agreement to which FIPUG was a signatory. FIPUG offers no explanation as to why the Commission lacks authority to approve a mechanism that FIPUG agreed it could implement – and was implemented – three times between 2013 and 2016. *See* Order Nos. PSC-12-0664-FOF-EI (Cape Canaveral GBRA); PSC-13-0665-

FOF-EI (Riviera Beach GBRA); PSC-15-0586-FOF-EI (Port Everglades GBRA). Even FIPUG's positions in this docket underscore the inconsistency in FIPUG's argument: FIPUG took no position on Issue 2T, which provides for Commission approval of FPL's proposed GBRA factor for the Okeechobee Clean Energy Center. *See* Order No. PSC-2018-0520-PHO-EI at p. 37 (Stipulations).

IV.

FPL'S PROPOSED REVENUE REQUIREMENTS, SoBRA FACTOR AND TARIFF SATISFY THE REQUIREMENTS OF THE RATE SETTLEMENT AGREEMENT

Revenue Requirement

The annualized jurisdictional revenue requirement for the 2019 Project's first 12 months of operations is \$51.7 million. Tr. 154 (Castaneda). FPL calculated this revenue requirement in accordance with the Rate Settlement Agreement. *See* RSA ¶ 10(a) ("For each solar project that is approved by the Commission for cost recovery pursuant to the process described in this Paragraph, FPL's base rates will be increased by the incremental annualized base revenue requirement . . . for the first 12 months of operation"). The SoBRA revenue requirement calculation methodology is the same as the methodology approved by the Commission for FPL's 2017 and 2018 Projects. *See* Order Nos. 2018-0028-FOF-EI. Tr. 155 (Castaneda).

The revenue requirement computations for each SoBRA are based on the Company's capital expenditures estimate as of March 2, 2018 (described, *supra*, under Issue 2P), depreciation expense and related accumulated depreciation for solar generation and transmission plant using depreciation rates set forth in the Rate Settlement Agreement, estimated operating expenses for the first 12 months of operations, incremental cost of capital, and accumulated deferred income taxes ("ADIT"). Tr. 155-57 (Castaneda).

FPL used a 10.55% return on common equity and an incremental capital structure, adjusted to reflect the inclusion of investment tax credits (“ITC”) on a normalized basis. Tr. 156 (Castaneda). FPL used the equity ratio and long-term debt rate set forth on Schedule 4, Page 1 of 2, of FPL’s May 2018 Earnings Surveillance Report. *Id.* With respect to the ITC for the 2019 Project, FPL will record an ITC of approximately \$100.5 million, representing 30% of the qualified capital spending associated with each solar investment upon the in-service date of each site as required by the Internal Revenue Code. Tr. 157 (Castaneda). FPL will amortize the ITCs as a reduction to tax expense over the life of each unit, and the unamortized balance will be reflected as a component of capital structure and have a blended debt and equity cost rate. Tr. 157-58 (Castaneda). This method of calculating the ITC cost rate has been reviewed and approved by the Commission in connection with FPL’s 2017 and 2018 Projects. Order No. PSC-2018-0028-FOF-EI. Tr. 158 (Castaneda).

Finally, the ADIT included as a component of rate base for the 2019 Project primarily reflects the timing difference between book and tax depreciation over the life of the assets. Tr. 157 (Castaneda). To comply with the IRC Treasury Regulation §1.167(1)-1(h)(6), FPL prorated the depreciation-related ADIT balance. FPL calculated this proration adjustment in the same manner as the calculation for FPL’s 2017 and 2018 Projects.

SoBRA Factor

Using the calculated revenue requirements, FPL next determined the SoBRA Factor associated with the 2019 Project in the manner required by the Rate Settlement Agreement. Tr. 181-82 (Cohen). The SoBRA factor is based on the ratio of (1) the Company’s jurisdictional revenue requirements for the Project and (2) the forecasted retail base revenue from electricity sales for the first twelve months of operation, expected to begin March 1, 2019. Tr. 182

(Cohen);⁷ *see* Rate Settlement Agreement, ¶ 10(e). The resulting factor is 0.795%. Application of this SoBRA factor to the Company's March 1, 2019 base rates will provide the Company with sufficient revenue to recover the costs associated with the construction and operation of the 2019 Project. Tr. 182 (Cohen). FPL projects that the March 1, 2019 typical residential bill – inclusive of the SoBRA – will remain 27% below the national average (as of January 2018), 13% below the state average (as of June 2018), and will remain among the lowest in the state of Florida. Tr. 183-84 (Cohen).

Revised Tariff

Revised tariffs reflecting the base rate percentage increase for the 2019 Project should be approved. As detailed above, FPL satisfied the requirements for SoBRA cost recovery set forth in the Rate Settlement Agreement. FPL's capital costs for the 2019 Projects is \$1,386/kW, substantially below the \$1,750/kW cap. FPL undertook a thorough bidding process for the equipment as well as the EPC services, ensuring that the costs are reasonable. Additionally, the economic analysis performed demonstrates that the 2019 Project is estimated to generate \$40 million in customer savings (CPVRR) and is therefore cost-effective. Finally, the revenue requirements and SoBRA factors for each Project were calculated as prescribed in the Rate Settlement Agreement. Accordingly, FPL should be authorized to implement a revised tariff that reflects the SoBRA factors when the 2019 Project enters commercial operation.

⁷ The total retail base revenues from the sale of electricity for the twelve months beginning March 1, 2019 is projected to be \$6,501.950 million. Ex. 40, p. 1.

FPL STATEMENT OF POSITIONS

ISSUE 2M: What is the appropriate revised SoBRA factor for the 2017 projects to reflect actual construction costs that are less than the projected costs used to develop the initial SoBRA factor?

FPL: *The total costs of FPL's 2017 SoBRA Project are not yet final. FPL anticipates that final costs will be known by the third quarter of 2019, and that the issue will be ripe for consideration during the 2019 Fuel Docket cycle.*

ISSUE 2N: What is the appropriate revised SoBRA factor for the 2018 projects to reflect actual construction costs that are less than the projected costs used to develop the initial SoBRA factor?

FPL: *The total costs of FPL's 2018 SoBRA Project are not yet final. FPL anticipates that final costs will be known by the third quarter of 2019, and that the issue will be ripe for consideration during the 2019 Fuel Docket cycle.*

With respect to projects approved for a SoBRA, the Rate Settlement Agreement provides:

In the event that the *actual* capital expenditures are less than the projected costs used to develop the initial SoBRA factor, the lower figure shall be the basis for the full revenue requirements and a one-time credit will be made through the CCR Clause.

RSA ¶ 10(g) (emphasis added).

The total costs of FPL's 2017 and 2018 SoBRA Project are not yet final, and thus do not constitute the actual capital expenditures contemplated by the Rate Settlement Agreement. Ex. 78 (Ints. 30, 31). The Company anticipates that final costs will be known by the third quarter of 2019. *Id.* Based on current information, FPL expects that final costs for the 2017 and 2018 Projects will be less than the capital cost estimates used to develop the revenue requirements and SoBRA Factors for the 2017 and 2018 Projects. *Id.* If that occurs, a one-time true-up adjustment will be credited to customers through the Capacity Cost Recovery Clause in accordance with Section 10(g) of the Rate Settlement Agreement. *Id.* Because actual capital expenditures are not yet final, however, a decision regarding the appropriate revised SoBRA factor for the 2017 and 2018 Projects is premature.

FIPUG's position that no new rates should be recovered because "the SoBRA projects are neither cost effective nor needed" is both legally and factually unsound. Order No. PSC-2018-0520, pp. 13-14. By Order No. PSC-2018-0028-FOF-EI, the Commission already approved the 2017 and 2018 Projects for SoBRA recovery. Therefore, any argument that new rates should not be recovered for these projects ignores that decision. Additionally, FPL does not seek, as part of this Docket, to change the 2017 and 2018 SoBRA factors. Ex. 78 (Int. 32).

ISSUE 2P: Are the 2019 SoBRA projects (Miami-Dade, Interstate, Pioneer Trail, Sunshine Gateway) proposed by FPL cost effective?

FPL: **Yes. FPL undertook a comprehensive solicitation process to ensure that the cost of the 2019 Project is reasonable and well below \$1,750 per kW. In addition, the 2019 Project is cost-effective and is estimated to result in \$40 million (CPVRR) of customer savings.**

See Section II, *supra*.

ISSUE 2Q: What are the revenue requirements associated with the 2019 SoBRA projects?

FPL: **The revenue requirement for the 2019 Project is \$51,685,454.**

Tr. 154; *see also* Section IV, *supra*.

ISSUE 2R: What is the appropriate base rate percentage increase for the 2019 SoBRA projects to be effective when all 2019 projects are in service, currently projected to be March 1, 2019?

FPL: **The appropriate base rate percentage increase for the 2019 SoBRA Project is 0.795%. The increase is to be effective when the 2019 Project is in service, currently projected to be March 1, 2019.**

See Section IV, *supra*.

ISSUE 2S: Should the Commission approve revised tariffs for FPL reflecting the base rate percentage increase for the 2019 SoBRA projects determined to be appropriate in this proceeding?

FPL: **Yes.**

See Section IV, *supra*.

WHEREFORE, Florida Power & Light Company requests that the Commission approve its SoBRA Petition and authorize FPL to implement the solar base rate adjustment when the 2019 Project enters commercial operation.

Respectfully submitted,

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CERTIFICATE OF SERVICE
Docket No. 20180001-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished

by electronic service on this 16th day of November 2018 to the following:

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