BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160154-EI

PETITION FOR APPROVAL OF A PURCHASE AND SALE AGREEMENT BETWEEN FLORIDA POWER & LIGHT COMPANY AND CALYPSO ENERGY HOLDINGS, LLC, FOR THE OWNERSHIP OF THE INDIANTOWN COGENERATION LP AND RELATED POWER PURCHASE AGREEMENT.
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PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS

DATE: Monday, October 3, 2016

TIME: Commenced at 9:36 a.m.
Concluded at 9:58 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

APPEARANCES:

BRYAN S. ANDERSON and WILLIAM P. COX, ESQUIRES, 700 Universe Boulevard, Juno Beach, Florida 33408-0420, appearing on behalf of Florida Power & Light Company

J.R. KELLY, PUBLIC COUNSEL, and PATRICIA A. CHRISTENSEN, ESQUIRE; Office of Public Counsel, c/o the Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

WALT TRIERWEILER, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission staff.

KEITH HETRICK, GENERAL COUNSEL, and MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, Advisors to the Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
1	Comprehensive Exhibit List	8	8
2 - 17	As identified on Comprehensive Exhibit List.	8	
2 - 9	(Note: Exhibits 4 and 7 are confidential)		10
10 - 17			55
18	Joint Partial Stipulation	55	55

P R O C E E D I N G S

COMMISSIONER EDGAR: Okay. Good morning. Call this hearing to order. It is 9:30ish on Monday, October 3rd, and I'm going to start by asking our staff to please read the notice.

MR. TRIERWEILER: By notice issued on September 1st, 2016, by the Commission Clerk, this time and place has been set for a hearing conference in Docket 160154-EI. The details are contained within the notice.

COMMISSIONER EDGAR: Thank you. And Commissioner -- this is a panel: Commissioner Edgar, Commissioner Patronis, and Commissioner Brisé. Commissioner Brisé will be joining us by phone today.

Commissioner Brisé, are you with us?

COMMISSIONER BRISÉ: I am. Thank you for accommodating me this morning.

COMMISSIONER EDGAR: Absolutely. Good morning to you.

As you know, we have a number of procedural items to take -- to address first thing this morning. So at any point if you have a question or comment, just chime in.

COMMISSIONER BRISÉ: Thank you.

COMMISSIONER EDGAR: Thank you.

Okay. We'll take appearances.

MR. ANDERSON: Good morning, Commissioners. Bryan Anderson and Will Cox appearing for Florida Power & Light Company.

COMMISSIONER EDGAR: Thank you.

MS. CHRISTENSEN: Patricia Christensen on behalf of the Office of Public Counsel. And I'd also like to put in an appearance for J.R. Kelly, the Public Counsel.

COMMISSIONER EDGAR: Thank you. And I'll note at this time that FIPUG is a party in this case, but that they have been excused from today's proceedings.

And to our staff.

MR. TRIERWEILER: Walt Trierweiler for the Public Service Commission.

COMMISSIONER EDGAR: Thank you.

MS. HELTON: And Mary Anne Helton. I'm here as your advisor today. I'd also like to make an appearance for your General Counsel, Keith Hetrick.

COMMISSIONER EDGAR: Thank you. As you're all aware, we do have some proposed stipulations in this case. That puts us in a different procedural posture than normally at the beginning of a hearing. So with that in mind, I'd like to ask our staff to kind of run through the preliminary matters to help us, put us in the next procedural posture.

MR. TRIERWEILER: Yes, Madam Chair. There are proposed joint stipulations.

Number one, the parties have entered into a joint partial stipulation and have filed a motion to accomplish approval of the same.

Number two, the parties have stipulated to the admissibility of the exhibits on the Comprehensive Exhibit List.

Three, the parties have waived cross-examination.

Four, FIPUG has waived its appearance at the hearing without objection by the parties.

Five, the parties have requested to waive opening statements.

Six, there are proposed stipulations on Issues 6, 7, and 9 between OPC and FPL.

Seven, FIPUG has not taken a position on Issues 7 and 9.

Eight, FIPUG does not oppose the proposed stipulation between FPL and OPC to Issues 6, 7, and 9.

Nine, the parties request to waive the submission of briefs.

Ten, the parties request submission of this docket to a bench decision.

COMMISSIONER EDGAR: Thank you. So to summarize a little bit, the witnesses have all been excused; therefore, there will be no cross. Parties have stipulated to the admissibility of all exhibits on the Comprehensive Exhibit List. Parties have waived opening statements. However, recognizing that, before we go into the next steps, any comment from any of the parties? No comment? Ms. Christensen?

MS. CHRISTENSEN: No.

COMMISSIONER EDGAR: No comment. Okay. Then let's go ahead and take up exhibits.

MR. TRIERWEILER: Staff has compiled a stipulated Comprehensive Exhibit List containing 17 exhibits. The list has been provided to the parties, the Commissioners, and the court reporter. Staff requests that the Comprehensive Exhibit List be marked and entered into the record as Exhibit 1.

COMMISSIONER EDGAR: Okay. We will go ahead and mark the list as Exhibit 1 and enter it into the record. Are there any, from either of the parties, any comments or questions regarding the now marked as Exhibit 1 Comprehensive Exhibit List? No? Okay.

(Exhibits 1 through 17 marked for identification.)

(Exhibit 1 admitted into the record.)

Mr. Anderson, do you have testimony to offer?

MR. ANDERSON: Yes, we do, Commissioner Edgar. Florida Power & Light Company would first offer the testimony of Bob Barrett consisting of six pages as filed on June 20, 2016. We'd request it be inserted into the record as though read. Mr. Barrett has no exhibits to his prefiled testimony.

FPL has the testimony of David Herr consisting of 12 pages filed on June 20, 2016. We request that be inserted into the record as though read as well. FPL notes that Exhibits DH-1, DH-2, and DH-3 were noted in the Comprehensive Exhibit List. We'll offer those also. They were prefiled with Mr. Herr's testimony and are marked on the Comprehensive Exhibit List as Exhibits 2, 3, 4. Exhibit 4 is confidential in its entirety.

FPL offers the testimony of Liz Fuentes. This consists of 11 pages filed June 20, 2016. We ask that it be inserted into the record as though read. We also move the admission of Exhibit LF-1 prefiled with Ms. Fuentes' testimony and marked on staff's list as Exhibit 5.

We also finally have the testimony of Tom Hartman consisting of 12 pages filed June 20, 2016. We ask that be entered into the record as though read. FPL also moves the admission of Exhibits TLH-1, TLH-2, TLH-3, and TLH-4 prefiled with Mr. Hartman's testimony and marked on staff's exhibit list as Exhibits 6, 7, 8, and 9, noting that TLH-2 is confidential in its entirety.

COMMISSIONER EDGAR: Okay. The prefiled testimony of the four witnesses as described by Mr. Anderson will be entered into the record as though read, and exhibits that are marked on the Comprehensive Exhibit List as Exhibit 2 through 9 will be entered into the record as well at this time. Thank you.

(Exhibits 2 through 9 admitted into the record.)

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

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.

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.

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.

COMMISSIONER EDGAR: Staff.

MR. TRIERWEILER: Staff requests that the remaining exhibits on the Comprehensive Exhibit List submitted by staff that are marked as Exhibits 10 through 17 be entered into record.

COMMISSIONER EDGAR: Exhibits 10 through 17 will be entered into the record.

(Exhibits 10 through 17 admitted into the record.)

MR. TRIERWEILER: Staff also requests that the joint partial stipulation of the parties filed September 20th, 2016, be marked and entered into the record as Exhibit 18.

COMMISSIONER EDGAR: Okay. The joint partial stipulation will be marked as Exhibit 18 and will be entered into the record at this time.

(Exhibit 18 marked for identification and admitted into the record.)

Okay. I think that that addresses most of the preliminary procedural matters. Anything else from the parties before we go into the issues? No. No.

Okay. Commissioner Patronis, any -- you're good? Okay.

Commissioner Brisé, are you still with us?

COMMISSIONER BRISÉ: Yes, I am.

COMMISSIONER EDGAR: Okay. Then let me call upon staff.

MR. TRIERWEILER: Staff would note that the parties have requested to waive opening statements.

COMMISSIONER EDGAR: So noted.

MR. TRIERWEILER: Contested issues. Staff will provide a general overview of the docket and is prepared to make a verbal recommendation on each issue.

COMMISSIONER EDGAR: Okay. Well, then what I would ask is for a general overview at this time, and then I'll come to the bench and see how we want to proceed from that point.

Ms. Mtenga, are you up?

MS. MTENGA: Yes. Good morning, Commissioners. Moniaishi Mtenga with Commission staff.

The Indiantown Cogeneration facility is an approximately 330-megawatt coal-fired qualifying cogeneration facility located on a 215-acre site in Indiantown, Florida, in Martin County. The facility is owned by Indiantown Cogeneration LP, which sells electricity produced by the cogeneration facility directly to FPL pursuant to a long-term purchased power agreement which was approved by the Commission in 1991. The current purchased power agreement expires in December 2025.

FPL filed its petition in this docket on June 20th, 2016, for the approval of a transaction to acquire the ownership interest in the facility and associated land, as well as acquisition of the purchased power agreement. In their petition, FPL seeks approval to establish a regulatory asset of 451.5 million for the investment and to recover the cost through the capacity cost recovery clause. FPL intends to retire the facility at the end of 2018.

As discussed earlier, a joint stipulation between FPL, OPC, and FIPUG has been filed to address the conduct of the hearing. The parties agreed to the admissibility of the prefiled testimony and exhibits to the four FPL witnesses, stipulated to staff's Comprehensive Exhibit List, waived cross-examination and post-hearing briefs. Therefore, the record is complete and we can now move to the next phase of the process, the staff recommendation.

Evidence in the record estimates the transaction is cost-effective and will produce 129 million in savings for FPL customers on a cumulative net present value revenue requirement basis. Those -- these estimated savings are based on using the company's baseline fuel projections and an 11.5 percent return on equity as proposed in the pending rate proceedings in

Docket No. 160021-EI. System savings are projected to accrue in the second year on a cumulative basis, and FPL proposes to amortize the regulatory asset over the remaining life of the purchased power agreement, which is nine years. This is expected to produce a bill reduction on a monthly residential bill of approximately 44 cents in 2025. Using the current amortized return on equity for FPL, 10.5 percent, the transaction would produce 148 million in savings with system savings in the first year.

Staff is prepared to go issue by issue and would note that a partial stipulation between only FPL and OPC has been provided which addresses Issues 6, 7, and 9. Based on the record in this proceeding, staff recommends that the company's petition be granted inclusive of the partial stipulation. Some of the issues build upon each other and staff would suggest taking up the issues in the following order: 4A and 2 together, 4, 3, 1, 5, 6, 7, 9, and 10. Staff is prepared to answer any questions.

COMMISSIONER EDGAR: I didn't hear 8 in there, but that's okay. We'll get to that as well.

Commissioners, as you know, the parties have offered to waive briefs and have requested a bench decision; however, it is our decision as to whether we're prepared and have enough information to take a vote today or if we feel that our decision requires briefs to be filed and then to come back and vote at a later time. So, Commissioners, what is your pleasure? Commissioner Patronis, are you prepared to vote today?

COMMISSIONER PATRONIS: I am.

COMMISSIONER EDGAR: Okay. And we will have a stated recommendation on the issues from the staff that is available to us to debate, discuss, consider.

Commissioner Brisé, are you prepared to vote today, or would you prefer to request briefs.

COMMISSIONER BRISÉ: No, I'm prepared to vote today.

COMMISSIONER EDGAR: Okay. Then we can proceed. We'll go sort of in the order that the staff recommended, and so what I would ask is that you give us a recommendation for Issues 2 and -- Issues 2 and 4A.

MS. MTENGA: Staff would recommend a -- sorry. Staff would recommend yes for both Issues 4A and 2. For Issue 4A, evidence in the record contains an evaluation by Duff & Phelps which determined the fair value of the PPA was approximately 450 million, representing the value that it would bring to the owner of the facility, who is entitled to continue selling to FPL under the terms of the PPA. This value assumed the unit would perform at historic levels and, therefore, be eligible for full capacity and energy payments under the existing PPA. There's no evidence in the record that contradicted this assumption.

For Issue 2, evidence in the record indicates that the purchase price was determined by negotiations between independent unrelated parties. The fairness and reasonableness of the transaction is supported by testimony and exhibits of FPL witness David Herr which address the fair value based on U.S. generally accepted accounting principles of the assets to be acquired and liabilities assumed by FPL.

FIPUG believes that the purchase price is not fair and reasonable and OPC believes that FPL has not met its burden to prove that the proposed buyout price is the lowest buyout price. However, neither of these parties provided evidence to support another method to determine the fair market value of the ICL facility. Staff is available for any questions.

COMMISSIONER EDGAR: Thank you.

Commissioners, any questions for staff on Issues 2 and 4A? No questions?

COMMISSIONER BRISÉ: I have no questions, Madam Chair. I don't know if you're ready to entertain a motion on Issue 2 and 4A.

COMMISSIONER EDGAR: I am.

COMMISSIONER BRISÉ: Okay. So I move that we approve staff recommendation on Issues 2 and 4A. I find the recommendation to be reasonable.

COMMISSIONER EDGAR: Thank you.

COMMISSIONER PATRONIS: Second.

COMMISSIONER EDGAR: All right. So all in favor of the staff recommendation on Issues 2 and 4a, say aye.

(Vote taken.)

Thank you.

Ms. Mtenga, Issue 4.

MS. MTENGA: Issue 4. Staff would recommend yes for Issue 4. FPL determined that the current ICL transaction would be the best option available for customers after the evaluation of several alternate measures to mitigate the PPA's impacts. The options evaluated were changing the fuel to natural gas and renegotiating the contract to reflect current market conditions. These options were not pursued until -- due to a lack of interest from the current owner of the facility. FIPUG believes that FPL has not taken into account all reasonable measures to mitigate the PPA's impacts, and OPC concurs that FPL has not met its burden of demonstrating it took into account all reasonable measures to mitigate the future PPA's impacts to ratepayers. However, neither of these parties provided evidence to support other reasonable means of mitigation. Staff is available to answer any questions.

COMMISSIONER EDGAR: Thank you. Why don't you go ahead and present the recommendation on Issue 3 and Issue 1 as well at this time. Thank you.

MS. MTENGA: For Issue 3, the evidence in this record indicates that ICL transactions will allow FPL to control all operational, economic, and environmental decisions regarding the facility. Historically the ICL facility has been a well-run facility and is currently in compliance with regulatory measures set forth by the DEP and EPA. Evidence in the record indicates that there is no additional rule regulation compliance programs or projects that are anticipated to be needed or implemented beyond what is currently implemented at the plant. The transaction allows for FPL to dispatch the facility when economically viable, control the number of starts, and minimize run times. The reduction in dispatch is expected to go from 24 percent a year to 5 percent, which will reduce the amount of CO_2 released from the facility by approximately 657,000 tons per year.

For Issue 1, staff recommends that the

transaction is cost-effective over a wide range of scenarios and should provide material benefits to FPL's customers over the remaining life of the PPA. FPL's system reliability should not be negatively impacted as FPL will have dispatch control of the ICL facility. Evidence in the record shows the transaction to be cost-effective under a range of fuel and environmental sensitivities with savings ranging from 100 to 151 million, assuming the 11.5 ROE requested in FPL's base rate case. FPL's control of the facility allows FPL to maintain fuel supply reliability and mitigate the need for a short-term power purchase agreement through 2018.

Staff also analyzed ranges of ROE and found that the transaction is cost-effective with an ROE range of 9.5 to 11.5 percent. Assuming the 11.5 ROE system savings accrue in the second year of the analysis, the total savings is estimated of 129 million over the nine-year life of the regulatory asset.

Staff also determined that this transaction would have a bill reduction of approximately 44 cents to the typical residential customer by the year 2025. Assuming FPL's current approved ROE of 10.5 percent, system savings will accrue in year one and total savings would increase to 148 million. Staff is available for any questions.

COMMISSIONER EDGAR: Thank you, Ms. Mtenga.

Commissioners, any questions for staff on Issues 4, 3, and 1?

COMMISSIONER PATRONIS: No.

COMMISSIONER EDGAR: No questions?

Commissioner Brisé?

COMMISSIONER BRISÉ: Yeah. No questions. I'm ready for a motion, if you are ready to entertain one.

COMMISSIONER EDGAR: I am.

COMMISSIONER BRISÉ: Okay. I would offer the following motion: That we approve Items 4, 3, and 1 and -- for the following reasons. I find that, according to those issues, the project is cost-effectives, it reduces CO_2 emissions. So, therefore, it's environmentally responsible, while maintaining reliability and having a positive impact on consumer bills. So with that, I move Items 4, 3, and 1.

COMMISSIONER EDGAR: Thank you. And Commissioner Patronis has offered the second. Thank you, both of you.

So all in favor of the motion, say aye.

(Vote taken.)

Any opposed?

Ms. Mtenga, Issue 5.

MS. MTENGA: Issue 5 is a fallout issue of the previously covered issue and staff recommends its approval.

COMMISSIONER EDGAR: And I concur. Is there a motion?

COMMISSIONER BRISÉ: So moved.

COMMISSIONER PATRONIS: Second.

COMMISSIONER EDGAR: All in favor, say aye.

(Vote taken.)

Thank you. That brings us, Commissioners, to Issues 6, 7, and 9 as a block. Those are the issues that are specifically addressed in the joint stipulation. Ms. Mtenga.

MS. MTENGA: Staff recommends the Commission approve the stipulation between FPL and OPC for Issues 6, 7, and 9.

COMMISSIONER EDGAR: Is there a motion?

COMMISSIONER BRISÉ: So moved.

COMMISSIONER PATRONIS: Second.

COMMISSIONER EDGAR: All in favor, say aye.

(Vote taken.)

Issue 8.

MS. MTENGA: This is also a fallout issue. FPL should be permitted to cover costs associated with the ICL transaction as described by Issue 6 and 7.

COMMISSIONER EDGAR: Commissioners, any questions or a motion for Issue 8?

COMMISSIONER BRISÉ: No questions. Move staff recommendation.

COMMISSIONER PATRONIS: Second.

COMMISSIONER EDGAR: Thank you. And I concur, so all in favor, say aye.

(Vote taken.)

Show it passed.

And that brings us to Issue 10, close the docket. I assume the staff recommends yes.

MS. MTENGA: Yes, the docket should be closed.

COMMISSIONER PATRONIS: Move staff.

COMMISSIONER EDGAR: Okay. We have a motion. Commissioner Brisé, do you have a second?

COMMISSIONER BRISÉ: Second.

COMMISSIONER EDGAR: All right. And I concur, so all in favor, say aye.

(Vote taken.)

All right. All issues have been approved per the staff recommendation that has been made to us here on the record today. Other matters to address.

MR. TRIERWEILER: There are none.

COMMISSIONER EDGAR: Okay. Anything from the parties?

MR. ANDERSON: Commissioner Edgar, FPL thanks staff, Public Counsel, FIPUG, and the Commissioners for their professionalism and courtesy in this matter. Thank you.

COMMISSIONER EDGAR: Thank you.

Nothing?

MS. CHRISTENSEN: No. Thank you.

COMMISSIONER EDGAR: They're good. Okay.

Commissioners, any final comments?

All right. Then thank you, everyone, for your patience while we worked through all of the procedural matters today. Thank you for the work towards the stipulation, and we are adjourned.

(Hearing adjourned at 9:58 a.m.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 4th day of October, 2016.

Linda Boles

LINDA BOLES, CRR, RPR
FPSC Official Hearings Reporter
(850) 413-6734