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**-VIA ELECTRONIC FILING-**

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

**Re: Docket No. 20170235-EI – Florida Power & Light Company’s Petition for Authority to Charge FPL Rates to Former City of Vero Beach Customers and for Approval of FPL’s Accounting Treatment for City of Vero Beach Transaction**

Dear Ms. Stauffer:

Enclosed for filing please find Florida Power & Light Company’s responses to Staff’s Fourth Data Request Nos. 1 through 10 in the above-referenced docket.

If you should have any questions regarding this transmittal, please contact me at (561) 691-2512.

Sincerely,

s/ Kenneth M. Rubin  
Kenneth M. Rubin  
Florida Bar No. 349038

cc: Kathryn G. W. Cowdery, Esq.  
Jennifer Crawford, Esq.  
J.R. Kelly, Esq.  
Stephanie Morse, Esq.

**QUESTION:**

Please describe the current condition of the Vero Beach electric utility assets that FPL will acquire as a result of the proposed transaction. For purposes of this response, state whether the system is in excellent, fair, or poor condition.

**RESPONSE:**

Based on FPL's assessment, the current condition of the Vero Beach electric utility assets that FPL will acquire as a result of the proposed transaction may generally be described as fair. Some parts of the electric system, such as the underground system, are in better condition than other parts of the system, so it is difficult to describe the condition of the entire system through the use of a single descriptive term. However, additional hardening, improvements and upgrades are required in order to bring the Vero Beach electric system up to the condition and standards of FPL's system.

Examples of additional hardening, improvements and upgrades include hardening of transmission lines and distribution feeders, as well as installation of smart meters and smart grid equipment such as automated feeder switches (AFS) and automated lateral switches (ALS) that improve the reliability of the system. This equipment will improve the level of service provided to the City of Vero Beach customers and will help to improve the condition and operation of the electric system to be acquired through this transaction.

**QUESTION:**

Does FPL anticipate that it will have to make substantial upgrades to the Vero Beach utility system over the next five to ten years?

**RESPONSE:**

Yes, FPL will be making substantial upgrades to the Vero Beach utility system over the next five to ten years to incorporate best practices currently used on FPL's system in the areas of advanced metering infrastructure (AMI), storm hardening and smart grid device deployment. These improvements and upgrades avoid customer interruptions (CI), improve system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI), customer minutes of interruption (CMI) and expedite the response times following severe weather conditions. The upgrades described above are included in the CPVRR model previously provided by FPL.

These upgrades will be in addition to the ongoing capital investments and operations and maintenance expenditures made by FPL on a system-wide basis that benefit all customers, including former Vero Beach customers who will become FPL customers through FPL's acquisition of the Vero Beach electric utility.

**QUESTION:**

How much does FPL anticipate it will invest in the Vero Beach utility system over the next 10 years? For purposes of this response, provide an estimate of the amount FPL anticipates it will invest in the Vero Beach utility system in each of the next 10 years.

**RESPONSE:**

FPL plans to make capital investments of approximately \$119 million over the next 10 years in order to upgrade and improve the Vero Beach electric system. These upgrades and improvements will include installation of smart meters as part of AMI rollout, hardening of transmission and distribution facilities, and installation of devices such as automated feeder switches (AFS), automated lateral switches (ALS), substation cameras, oil filtration systems and other improvements similar to those that currently exist on FPL's electric system.

The projected investments over the next 10 years are broken down into the following categories:

Category	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Customer Service - AMI Rollout and Other Capital Investments	5,830	1,418	-	-	-	-	-	-	-	-	7,248
Vero Beach New Substation 1	850	7,475									8,325
Distribution Hardening	0	0	5,112	5,140	5,180	4,040	4,161	4,286	4,336	4,386	36,641
Automated Feeder Switches	0	-	2,351	2,351	2,351	-	-	-	-	-	7,054
Automated Lateral Switches	0	-	1,943	1,943	1,943	-	-	-	-	-	5,828
Substation Cameras	0	-	490	490	490	-	-	-	-	-	1,470
Fault Circuit Indicators	0	-	197	221	257	-	-	-	-	-	675
Additional Employee Capital	665	2,753	2,849	2,949	3,052	3,159	3,270	3,384	3,503	3,625	29,210
Street Light and IT Costs	28	116	119	122	125	128	131	134	138	141	1,183
Fiber Optic Relocation Costs	119	369	-	-	-	-	-	-	-	-	488
Conversion and Standardization Costs	2,671	-	-	-	-	-	-	-	-	-	2,671
Centralized Costs (for example - Cable costs)	30	1,175	1,205	1,235	1,266	1,297	1,330	1,363	1,397	1,432	11,729
Other Costs	494	3,501	(2,074)	(2,964)	(2,959)	1,673	1,817	2,737	2,797	2,191	7,215
<b>Total</b>	<b>10,689</b>	<b>16,807</b>	<b>12,191</b>	<b>11,487</b>	<b>11,704</b>	<b>10,298</b>	<b>10,709</b>	<b>11,905</b>	<b>12,171</b>	<b>11,776</b>	<b>119,737</b>

The cost projections were generated using FPL's historical costs to install the various types of equipment on either a per-piece of equipment (for example, per feeder) cost or on a per-mile (feeder/lateral hardening) cost depending on the type of equipment installed.

Additionally, once the transaction closes and the Vero Beach utility system has been integrated into the FPL system, former customers of the Vero Beach utility system will also benefit from FPL's ongoing capital investments and operations and maintenance expenditures that benefit all customers.

**QUESTION:**

On page 9 of witness Deason's testimony, he discusses the concept of "going concern value." Has FPL identified the "going concern value" of the Vero Beach utility system? If no, explain why not. If yes, what is the going concern value of the Vero Beach utility customer base?

**RESPONSE:**

The term "going concern value" was used by the Commission when it approved the acquisition of the Sebring Utility System by Florida Power Corporation. As discussed by FPL witness Terry Deason, the Commission used that term to describe a situation justifying an acquisition price in excess of the net book value of the acquired assets. As further discussed by FPL witness Deason, this concept recognizes that the value of a fully functional business is almost always in excess of the value of the individual assets, either at their net book value or their liquidation value.

Yes, FPL has identified the going concern value of the Vero Beach system in two ways. First, fair value presumptively is established through bilateral negotiations between sophisticated parties. Thus, in this case FPL entered into extensive negotiations with Vero Beach to establish a fair value for Vero's electric system. During these negotiations, both parties attempted to arrive at a fair value. The City's requirements in negotiating the sale included its customers receiving FPL's lower rates, excellent service and award-winning reliability, the City's release from its FMPA Entitlements, and the termination of the City's contract with OUC. As a result of the negotiations that resulted in the sale price of \$185 million, FPL was also able to structure the transaction in a manner that will deliver more than \$100 million in CPVRR benefits for its existing customers. This negotiation process yielded a fair or going concern value of the Vero electric system of \$185 million.

The second way FPL identified the going concern value of the Vero electric system was through a fair value study which concluded that the highest and best use of the acquired Vero electric system would be realized by its acquisition by another utility which would allow the acquired Vero assets to continue to be operated as part of a going concern utility. (Please see page 5, lines 9-19 of FPL witness David Herr's testimony.) This study and FPL witness Herr's testimony corroborate the \$185 million purchase price as representative of the Vero electric system's going concern value.

**QUESTION:**

If identified in Question 4, specifically how did FPL arrive at the going concern value of the Vero Beach utility customer base? For purposes of this response, explain how the value was determined and what is included in the valuation.

**RESPONSE:**

Please see the FPL's response to Staff's Fourth Data Request No. 4.

**QUESTION:**

On page 15 of witness Forrest's testimony, he explains that the benefit to FPL's existing customers is derived largely due to the positive effect of spreading FPL's fixed costs of operation over a larger total customer base when the COVB customers are added. Please explain specifically how adding 34,000 customers to an existing base of 4.9 million customers, an addition of less than 1 percent, will have a material impact on the fixed costs paid by the latter group.

**RESPONSE:**

Witness Forrest's testimony does not imply a level of materiality in the estimated savings from this transaction; rather, the size of FPL's system and existing customer base affords FPL the opportunity to combine its best in class cost performance with scale economies, i.e., FPL's expected incremental costs to serve 34,000 customers of COVB is less than FPL's average cost of serving its existing 4.9 million customers. Since the former COVB customers will pay FPL rates which reflect average costs, the incremental revenue paid by the former COVB customers is expected to exceed the incremental costs to serve them thus producing the estimated \$105 million CPVRR savings.

**QUESTION:**

On page 14 of witness Deason's testimony, he explains that the size of FPL in comparison to the COVB is such that the acquisition's impact would not have a material impact on FPL's surveillance reports. If the acquisition is so small that it would not have a material impact on FPL's surveillance reports, please explain how it is large enough to materially spread fixed costs.

**RESPONSE:**

As illustrated in Exhibit SRB-1 and FPL's response to Staff's Fourth Data Request No. 6, the incremental benefits of adding COVB customers are greater than the incremental costs. However, due to the size of the transaction in the context of FPL's entire system, neither the benefits nor the costs will have a material impact on FPL's surveillance reports.

**QUESTION:**

Please refer to the Company's response to Data Request No. 3 of Staff's Second Data Request. Based on FPL's current rates, what would be the rate impact on a residential bill on a 1,000 kWh basis for recovery of \$116.2 million and the associated carrying cost (exclusive of the CPVRR analysis)?

**RESPONSE:**

In the absence of the benefits identified in FPL's CPVRR analysis, recovery of \$116.2 million and the associated carrying cost would result in an expected bill impact of \$0.12 per month on a 1,000 kWh residential bill, following expiration of the 2016 Settlement Agreement. However, as indicated in FPL's response to Staff's Second Data Request No. 3, and as more fully outlined in FPL's CPVRR analysis, under the proposal that is before the Commission the hypothetical bill impact described in this response will be more than offset by the projected revenues to be collected from the former COVB customers. As a result there will be no rate impact on FPL's customers as a result of this transaction.

**QUESTION:**

FPL's request assumes the acquisition adjustment will be recovered over 30 years. Will FPL earn an equity return on the unamortized balance of the acquisition adjustment over the 30 year recovery period? If yes, please identify the total equity return FPL will earn on the \$116.2 million acquisition adjustment over the 30 year period. For purposes of this response, please provide the value on both a nominal and cumulative net present value basis.

**RESPONSE:**

Yes, FPL will be investing both debt and equity capital to finance this transaction, therefore it is requesting Commission approval to earn an equity return on the portion of the unamortized balance of the \$116.2 million acquisition adjustment that is financed with equity. Over the 30-year period, this is estimated to amount to \$92.5 million on a nominal basis and \$50.3 million on a cumulative net present value basis. FPL has included the equity return in the CPVRR analysis that is projected to provide a \$105 million benefit to customers.

**QUESTION:**

Please refer to the Company's response to Data Request No. 1 of Staff's Second Data Request, Summary of Economic Analysis. For the line item labeled System Impact, please explain why FPL has assumed it will incur zero incremental fixed costs and capital for generation needed to serve Vero's load for the initial 15 years 2018 through 2032 and that it will incur between \$20 million and \$31 million each and every year from 2033 through 2047, or a total of \$415.2 million, over the latter 15 years.

**RESPONSE:**

The line "System Impacts" represents incremental fixed costs and capital for generation needed to serve COVB's load. There were no changes to FPL's existing generation resource plan through 2032 related to FPL's ability to serve former COVB customers, and as such, no Base Rate Incremental Revenue Requirements associated with this component of the analysis through that year. Starting in 2033, FPL projects that it will need incremental generation to begin to serve COVB's load and as such, has included the fixed costs associated with such generation in the analysis.