FPL

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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 First Data Request Nos. 1 through 5 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: Jennifer Crawford, Esq.
Danijela Janjic, Esq.
Kyesha Mapp, Esq.
J.R. Kelly, Esq.
Stephanie Morse, Esq.

QUESTION:

FPL has claimed that the City of Vero Beach (COVB) transaction will be beneficial to its current customers by citing a 30-year CVPRR analysis which shows cumulative present value savings of $105 million to current FPL customers. FPL's analysis reflects significant savings beginning in 2021 when the Orlando Utilities Commission (OUC) PPA payments cease.

a. Why does FPL believe using a 30-year term is appropriate for their CPVRR analysis of this transaction?

b. What are the associated costs with replacing the OUC PPA, and how are they reflected in FPL's CPVRR analysis?

c. Please explain the assumptions made in the CPVRR analysis beginning in 2021 which lead to reduced Base Rate revenue requirements, and increased Base Rate revenue from the COVB customers.

RESPONSE:

a. The 30-year term is appropriate because it approximates the weighted-average book life of the acquired assets, and because it is sufficient to capture the long-term effects of a transaction of this nature.

b. COVB's load can be served by FPL's system without the capacity from the OUC PPA. FPL's decision to enter into the OUC PPA was made at the request of OUC in order to effectuate the transaction, which allows for the $105 million in cumulative present value savings. The $23.5 million cost associated with the OUC PPA is reflected in the CPVRR model as a clause revenue requirement.

c. The drop in Base Rate Revenue Requirements in 2021 is primarily driven by FPL no longer incurring operations and maintenance costs associated with transitioning COVB to FPL's system. The increase in Base Rate Revenue from COVB Customers in 2021 is driven by assumptions regarding base rate increases after the initial term of FPL's 2016 Settlement Agreement. These base rate increases reflect FPL's existing system and are not a result of the COVB transaction.

QUESTION:
In Witness Bores's testimony, he claims that the expected savings to existing FPL customers are generated by, "an expanded customer base which would reduce each existing FPL customer's economic share of fixed costs included in projected electric rates." What is the amount of fixed costs that FPL projects the additional COVB customers will assume each year?

RESPONSE:
Please refer to Exhibit SRB-1 from FPL Witness Scott Bores' testimony.

From 2018 to 2028, "Rate Base Revenue from COVB Customers" is projected to contribute an annualized average of $52.9 MM per year toward fixed costs. The incremental fixed costs associated with the acquisition (reflected in "Total Incremental Base Rate Revenue Requirements") are projected to average $41.0 MM on an annualized basis. As a result, COVB customers are projected to contribute a net amount averaging $11.9 MM per year toward FPL's fixed costs.

Please note: The averages above are calculated by summing the values from 2018 to 2028 and dividing by 10.25 years, to reflect the partial year in 2018.

QUESTION:

In his testimony, Witness Deason cited the acquisition of Sebring Utility System by Florida Power Corporation in Docket No. 920949-EU as an example of a positive acquisition adjustment being allowed for an investor owned electric utility. In Order No. PSC-92-1468-FOF-EU, the Commission approved $5.7 million of the $36.2 million difference between the purchase price and net book value of the Sebring utility assets which FPC had requested be considered as "going concern". The Commission did allow for specific items that it deemed to benefit FPC and its general class of ratepayers. These items included: maps and records, experienced personnel, and the avoidance of future territorial disputes. However, the Commission disallowed the remaining amount on the grounds that it "must insure that the amount we approve for recovery from FPC's general body of ratepayers is related to the benefits that they receive."

a. Please list and provide the estimated value of any items that FPL believes directly benefit its existing general body of ratepayers.

b. Please explain the need for the above items and describe how its acquisition benefits FPL's existing general body of ratepayers.

c. Please explain why FPL believes the entire $116.2 million acquisition adjustment to be recovered by FPL's existing general body of ratepayers is directly related to the benefits they receive.

RESPONSE:

Before entering into an Asset Purchase and Sale Agreement with the City of Vero Beach (COVB), FPL's principal requirement was that its existing customers would not be harmed by the transaction. This basic requirement is consistent with Commission precedent and policy which is to approve acquisitions that are in the public interest. The transaction being proposed by FPL not only meets but greatly exceeds this requirement. As demonstrated by the testimony of FPL Witness Scott Bores, the proposed acquisition is expected to produce net present value savings to FPL's existing customers of approximately $105 million over 30 years. These savings primarily result from an expanded customer base whose incremental revenues exceed the incremental costs to serve them. This in turn reduces each existing FPL customer's share of fixed costs included in projected electric rates. This is the conclusion of the Cumulative Present Value of Revenue Requirements (CPVRR) analysis sponsored by Witness Bores.

The basic requirement to not harm existing customers was addressed by the Commission when it approved the acquisition of the Sebring Utility System by Florida Power Corporation (FPC) in Docket No. 920949-EU. Based on the record evidence in that case, the Commission determined that FPC's customers would benefit through increased revenues and improved system efficiencies and approved $5.7 million of the amount paid in excess of net book value as a positive acquisition adjustment. The Commission's order does not show that the remaining amount paid in excess of net book value was "disallowed" for rate recovery. Rather, to ensure no harm to existing FPC customers, the Commission approved a rate rider to recover the remaining amount paid in excess of net book value. This remaining amount in excess of net book value was primarily attributable to the cost of retiring Sebring debt which was in danger of default. In its Order No. PSC-92-1468-FOF-EU, the Commission recognized this was a cost more appropriately recovered exclusively from Sebring customers:

> We find that the Sebring rider rate appropriately identifies the additional cost to serve Sebring customers, appropriately allocates that cost to those customers, and appropriately insulates Florida Power Corporation's general body of ratepayers from the costs that were not incurred for their benefit.

This is in contrast to the facts and evidence in FPL's proposal to acquire the COVB electric system. When approving the $5.7 million positive acquisition adjustment in the Sebring case, the Commission stated that it could not find reasonable support for a higher amount in the record. In the present case, FPL has provided significant record evidence, including a CPVRR analysis that clearly demonstrates that FPL's existing customers will benefit greatly from the COVB acquisition, which benefits will not be received by FPL's customers absent the transaction.

a. FPL Witness Sam Forrest's testimony identifies both economic and non-economic benefits for both existing FPL customers and prospective COVB customers. With respect to the economic benefits specifically attributable to its existing customers, FPL is taking a holistic approach by looking at the overall impact on customer rates. The result is the estimated savings of $105 million as evidenced by FPL's CPVRR analysis. As such, FPL has not endeavored to identify any specific items with greater granularity than what is holistically captured in its CPVRR analysis.

b. Please see response to subpart (a) above.

c. The COVB acquisition, including the $116.2 million acquisition adjustment, is in the overall public interest and should be approved consistent with Commission policy and precedent. The acquisition results in substantial savings to existing customers, even after factoring in the positive acquisition adjustment. This is the benefit that existing customers receive. COVB customers also receive substantial economic and non-economic benefits including but not limited to lower rates, increased quality of service and access to FPL's many programs beneficial to customers.

QUESTION:
In his testimony, Witness Deason outlines five factors the Commission has historically judged acquisition adjustments by, these factors are:

- Quality of service
- Lower operating costs
- Increased ability to attract capital
- Lower overall cost of capital
- More professional and experienced managerial, financial, technical and operational resources

a. Does FPL believe that acquiring the COVB electric system will improve the quality of service FPL provides to its existing customers? If so, how would that be achieved?

b. Does FPL expect any reduction in its overall operating costs due to the acquisition of the COVB electric system? If so, what is the total amount of savings that FPL expects to realize from this acquisition?

c. Please show how acquiring the COVB electric system would increase FPL's ability to attract additional capital investment.

d. Does FPL believe acquiring the COVB electric system will lower its overall cost of capital? If so, please explain how and by what amount.

e. Does FPL believe it acquires an added level of experience or expertise in managerial, financial, technical, or operational resources through this acquisition? If yes, please explain what additional expertise is being acquired and how it benefits FPL's existing general body of ratepayers.

RESPONSE:
The five factors identified by FPL Witness Terry Deason were enumerated in Commission Order No. PSC-14-0015-PAA-GU. In this Order, the Commission approved a positive acquisition adjustment associated with the acquisition of Indiantown Gas Company by Florida Public Utilities Company and explained how the new customers of FPUC benefited based on the enumerated factors. In each explanation, the Commission's focus was on how the acquired customers would specifically benefit. Effects on the acquired system's customers has historically been the focus of these factors since a large part of the public interest determination involves situations of smaller (sometimes troubled or challenged) systems being acquired by larger companies with greater resources and managerial expertise. Thus these five factors do not normally lend themselves to an evaluation of the effects on existing customers who normally are already receiving the substantial benefits of being served by a large company with greater resources and managerial expertise. Rather, the focus is on the basic requirement that existing customers not be harmed, as opposed to their current level of service being enhanced by the

acquisition. Nevertheless, FPL Witness Sam Forrest addresses the five factors and describes how these factors should be evaluated in regard to the proposed COVB acquisition.

a. As explained in detail by Witness Forrest, the proposed acquisition will significantly improve the quality of service for prospective COVB customers. The excellent quality of service currently provided to and enjoyed by FPL's existing customers will continue after the acquisition.

b. Yes, costs will be reduced by approximately $105 million on a net present value basis over 30 years.

c. Because the proposed COVB acquisition is small in comparison to FPL's rate base, there is no anticipated effect on FPL's already strong ability to attract capital.

d. Because the proposed COVB acquisition is small in comparison to FPL's rate base, there is no anticipated effect on FPL's overall cost of capital.

e. Witness Forrest describes the high level of managerial performance and expertise that currently exists at FPL and how prospective COVB customers would benefit from this performance and expertise. The acquisition is not expected to have any negative impact on this high level of performance and expertise on a going forward basis.

   To help ensure the continued high performance of and knowledge about the current Vero Beach system, and to facilitate a smooth transition, the intent of FPL, as outlined in the Asset Purchase and Sale Agreement and subject to any applicable collective bargaining requirements, is to offer employment to all eligible Vero Beach electric utility employees. This includes those who are employed at the time of closing, have not been previously terminated for cause with FPL, and meet applicable qualification requirements, which includes passing pre-employment screening.

QUESTION:
Since Commission practice is to utilize original cost net book value for determining appropriate utility investment for ratemaking purposes, please explain why FPL has chosen to use alternative methods of valuation for the COVB electric system in lieu of the original cost net book value.

RESPONSE:
FPL will record the acquired electric assets of Vero Beach at original cost net book value as of the acquisition date in the appropriate plant accounts (i.e., distribution, transmission, and general) in accordance with the FERC Uniform System of Accounts and Commission practice (see FPL witness Keith Ferguson's testimony, page 7, line 14). However, since the acquisition price is greater than the net book value of the acquired assets, FPL is required under Accounting Standards Codification 805, *Business Combinations*, to determine the fair value of the transaction in order to support the reasonableness of the overall purchase price and the amount of the acquisition adjustment. As such, FPL engaged Duff & Phelps to perform an enterprise valuation of the Vero Beach utility, which is addressed by FPL witness David Herr in his testimony.