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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 Second 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:

Please provide the electronic file containing the worksheet or spreadsheet of the 30-year CPVRR analysis with all formulas intact.

RESPONSE:

Please see Attachment No. 1 to this response.

QUESTION:

FPL's assertion that the acquisition of COVB customers will alleviate fixed costs from the general body of FPL ratepayers is largely based on the assumption that incremental revenues from COVB customers will significantly and consistently outpace the incremental costs to serve those customers.

- a. How can FPL assert with confidence that this differential between incremental revenues and incremental cost to serve will exist and remain constant for the entire length of the 30-year CPVRR analysis?
- b. How does the presumptive decision made by FPL to "stay out" an extra year until the end of 2021, due to the recent tax reform, affect the CPVRR analysis of increased base rate revenues from COVB customers, shown beginning 2021 on the 30-year CPVRR analysis?
- c. FPL's analysis reflects approximately a 15-percent growth in base rate revenue from COVB customers beginning in 2021, which grows to approximately 35-percent by 2028. Meanwhile, the incremental revenue requirement of those customers remains approximately flat. What is the explanation for this large and growing divergence between the Incremental Revenue Requirements and Base Rate Revenues for COVB customers?

RESPONSE:

- a. FPL prepared the CPVRR analysis utilizing the same rigorous forecasting process that it utilizes in all analyses presented before the Commission. The revenue forecast utilized in the CPVRR analysis was developed based on COVB's most recent load forecast, which demonstrated annual growth of approximately 0.5%. FPL reviewed the COVB load forecast and concluded that it appeared reasonable based on forecasted annual growth of approximately 1.0% for FPL's existing system. FPL then utilized its long-term price of electricity forecast to project the annual revenues that would be received from COVB customers under FPL rates.

In developing the incremental costs, FPL projected the costs to serve COVB using its UPLAN model for the incremental generation and cost estimates for the COVB system for functions such as distribution, transmission and customer service. FPL believes that the cost projections are reasonable, given its strong ability to enhance processes, leverage technology and efficiently manage costs.

- b. If FPL were to stay out through the end of 2021, and defer a base rate increase until 2022, the CPVRR analysis would reflect a positive benefit to existing FPL customers of \$101 million, representing a decrease of \$4 million from the \$105 million amount presented on Exhibit SRB-1.

- c. The COVB customers will be subject to FPL rates once they join FPL's system. As a result, they will see the same increase in rates as all other FPL customers for items such as the previously forecasted base rate increase in 2021 as well as the costs associated with new generation that will be needed for the FPL system in 2028. At the same time, while the COVB customer load is projected to grow on average 0.5% per year, the costs associated with serving that customer base are expected to grow roughly in line with inflation over the same period. As a result, the incremental revenues collected from the COVB customers will exceed the incremental costs of those customers on a standalone basis, but will help pay for the investments made to the overall FPL system that helps give rise to the benefit for existing customers.

QUESTION:

What is the bill impact to existing FPL ratepayers, on a 1,000 kWh basis, of FPL's proposed amortization of the acquisition adjustment based on current rates?

RESPONSE:

In the near term, there will be no impact to FPL customers under the 2016 Settlement Agreement. As seen on Exhibit SRB-1, even after the expiration of the Settlement Agreement, existing customers will see a benefit as the projected revenues to be collected from the COVB customers exceed the revenue requirements, which include the proposed amortization of the acquisition adjustment.

QUESTION:

In the Sebring Order No. PSC-92-1468-FOF-EU, the Commission made clear that: “we 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. Aside from the 30-year CPVRR analysis, does FPL believe that its general body of ratepayers will materially benefit from this acquisition in any other way?
- b. Based on previous responses, is it fair to say that FPL believes there will be no measurable difference in quality of service provided to FPL’s existing customers?

RESPONSE:

- a. The projected material benefits to FPL’s existing customer base resulting from the proposed acquisition are captured in the CPVRR analysis. The projected material benefits to COVB’s current customer base, as explained in FPL’s responses to Staff’s First Data Request Nos. 3 and 4, include benefits beyond those embedded in the CPVRR analysis due to the nature of being served by a large company with greater resources and managerial expertise, including but not limited to lower rates, increased quality of service, award-winning reliability, the benefits of FPL’s storm response efforts, as well as access to FPL’s many programs beneficial to customers. Additionally, approval of FPL’s pending Petitions¹ related to the COVB transaction will eliminate pending or potential future territorial disputes or litigation involving COVB, Indian River Shores, Indian River County and FPL, including but not limited to the matters addressed in Docket No. 20160049-EU (In re: Petition for modification of territorial order based on changed legal circumstances emanating from Article VII, Section 2(c) of the Florida Constitution, by the Town of Indian River Shores).
- b. Yes.

¹ FPL’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 (Docket No. 20170235-EI) and Joint Petition to Terminate Territorial Agreement (Docket No. 20170236-EU)

QUESTION:

Also, in the Sebring Order, the Commission concluded that: “[a]s a general rule, we do not preapprove the prudence of rate base acquisitions outside of a rate case, nor do we usually permit acquisition adjustments, particularly outside of a rate case.” However, in that specific case, the Commission did consider the acquisition adjustment because of the “extraordinary circumstances” surrounding that case, based primarily on the fact that existing Sebring ratepayers were facing significantly rising rates due to Sebring’s debt situation. Furthermore, the Commission clearly established that because of the extraordinary circumstances, the Sebring Order could not be considered precedential in nature.

- a. Does FPL assert that existing COVB ratepayers face similar “extraordinary circumstances” that would warrant similar Commission action? If so, please explain why in detail.
- b. Why does FPL believe it is appropriate for the Commission to consider its request at this time, when Commission practice is to consider acquisition adjustments through general rate proceedings?

RESPONSE:

- a. Yes, FPL believes that the COVB acquisition is of such great public importance that it should be expeditiously considered outside of a rate case. The COVB electric utility is a municipally-owned electric provider to the City, portions of Indian River County and the Town of Indian River Shores. Of the 34,000 customers served, approximately 60 percent are geographically located outside of the City limits. These customers feel that they do not have adequate recourse to address or challenge decisions concerning the operations and rates of the COVB utility as currently constituted. They have sought recourse through both their local and state-level elected officials as well as through the courts and the Commission. These initiatives have taken place over a long period of time and have taken various forms.¹ Because FPL’s residential rates, which will become the rates of current COVB customers, are among the lowest in Florida, the COVB City Council and their electric customers overwhelmingly support the proposed acquisition and naturally desire to see the transaction approved as expeditiously as possible.

¹ Disputes over the provision of electric service provided by the COVB electric utility have resulted in significant litigation involving a number of parties and amici, including but not limited to the Commission, the City of Vero Beach, the Town of Indian River Shores, Indian River County, FPL, OUC, FECA and FMEA. The litigation includes the following: Docket No. 20140142-EM (Petition for declaratory statement or other relief regarding the expiration of the Vero beach electric service franchise agreement, by the Board of County Commissioners, Indian River County, Florida); Docket No. 20140244-EM (In re: Petition for declaratory statement regarding the effect of the Commission’s orders approving territorial agreements in Indian River County, by the City of Vero Beach); Docket No. 20160049-EU (In re: Petition for modification of territorial order based on changed legal circumstances emanating from Article VIII, Section 2(c) of the Florida Constitution, by the Town of Indian River Shores) ; Town of Indian River Shores et. al. v. City of Vero Beach (Indian River Circuit Court Case No. 2014-CA-000748); and Board of County Commissioners of Indian River County v. Art Graham et. al., 191 So. 3d 890 (Fla. 2016).

It should also be noted that there is an open docket before the Commission that is being held in abeyance pending the outcome of the proposed acquisition. This docket (Docket No. 20160049-EU) was opened in response to the petition of the Town of Indian River Shores for a modification of a territorial order due to changed legal circumstances emanating from Article VIII, Section 2(c) of the Florida Constitution. On January 2, 2018, the Town of Indian River Shores and the City of Vero Beach filed a joint status report and motion to continue to hold in abeyance the hearing on the Town's and City's protest of the Florida Public Service Commission's (FPSC) Proposed Agency Action Order No. PSC-2016-0427-PAA-EU. The motion cites the City's approval of a purchase and sale agreement between the City and FPL, the closing on which "would resolve the issues in dispute in the docket." On January 11, 2018, the Prehearing Officer assigned to the docket, Commissioner Polmann, granted the motion holding the hearing in abeyance until December 31, 2018.

- b. FPL believes it is appropriate for the Commission to consider its request at this time for four reasons:
- 1) It is not Commission practice to consider acquisition adjustments exclusively within the context of a rate case. Indeed, from time to time, acquisition adjustments have been considered by the Commission as part of the initial acquisition and prior to a post-acquisition rate case. Please see Order No. PSC-2007-0913-PAA-GU, Order No. PSC-2012-0010-PAA-GU, and Order No. PSC-2014-0015-PAA-GU.
 - 2) Positive acquisition adjustments and the accompanying benefits that give rise to them must be demonstrated in the record to the Commission, whether or not the request is made in connection with a general rate proceeding. While FPL recognizes that such acquisition adjustments are not routine, the Company has presented evidence to support the Commission finding in this case that the adjustment is warranted to facilitate an otherwise beneficial proposal. Furthermore, delaying such a finding until the next general rate proceeding would result in prolonged regulatory uncertainty. For that reason, and particularly for an investment of this magnitude, such a delay will preclude the closing of the transaction.
 - 3) Most acquisitions are complex with matters that are time-sensitive. To bring these transactions to a successful conclusion that brings customer benefits, it is important to have them considered expeditiously and to have needed regulatory certainty. Otherwise, parties may be reluctant to enter into such complex negotiations when unnecessary delays may bring more uncertainty. In this case, after many years of negotiations and public debate within the COVB, FPL and COVB have successfully negotiated an agreement for the purchase and sale of the COVB electric utility which also involves related transactions involving Orlando Utilities Commission and FMPA. Requiring parties such as those involved in this series of transactions to attempt to negotiate on a schedule that corresponds with the possible timing of a general rate proceeding would make it virtually impossible for an acquisition such as this to take place.

- 4) Please see FPL's response to subpart (a) above concerning the importance of an expeditious decision for customers and the possibility to make a pending hearing (currently in abeyance) essentially moot.