BEFORE THE PUBLIC SERVICE COMMISSION

In Re: Petition to determine need for an electrical power plant in Martin County by Florida Power & Light Company.	Docket No. 020262
In Re: Petition to determine need for an electrical power plant in Manatee County by Florida Power & Light Company.	Docket No. 020263 Filed: August 20, 2002

DIRECT TESTIMONY

OF

DOUGLAS F. EGAN

ON

BEHALF OF

CPV Cana, Ltd.

And

CPV Gulfcoast, Ltd.

AUGUST 20, 2002

Q: Please state your name, title and business address.

A: I am Doug Egan, the President and Chief Executive Officer of Competitive Power Ventures. I am in the Silver Spring, Maryland, offices of Competitive Power Ventures, which are located at Silver Spring Metro Plaza II, 8403 Colesville Road, Suite 915, Silver Spring, Maryland 20910.

Q: Please tell the Commission about your educational and employment background.

A: I attended Dartmouth University where I graduated with a Bachelor of Arts degree in 1979. I then went to law school at Cornell Law School and obtained my juris doctorate in 1982. I worked for the law firm of Murtha, Cullina, Richter & Pinney in Hartford, Connecticut from 1982 to 1987 where I represented, among others, the Connecticut Resource Recovery Authority on the development and construction of a series of waste-to-energy projects. In 1987, I joined Intercontinental Energy Company as General Counsel. In 1991, I joined J. Makowski Associates where I was responsible for managing several development projects and an operating asset acquisition. After J. Makowski Associates merged in 1994 with U.S. Generating Company (now known as PG&E National Energy Group), I was Senior Vice-President for Development at NEG and charged with running the development program, consisting of more than a dozen power plant projects around the country. Under my direction, more than 2250 MW of power were developed and put into construction. Several additional projects initiated and partially developed during my tenure have subsequently been put into construction. In 1999, I, along with a group

of investors, formed Competitive Power Ventures ("CPV"). CPV is actively developing projects in Florida and other states across the country. A copy of my biography is attached to my testimony as Exhibit DFE-1.

Q: How is it that you became involved in this proceeding?

A: CPV Cana, Ltd., a Florida limited partnership, which is an affiliate of CPV, responded to FPL's Initial Request for Proposals for Capacity and Energy of August 13, 2001. When FPL issued its Supplemental RFP, and properly identified the FPL Manatee facility as one of its "next planned generating units," CPV Gulfcoast Ltd., also a Florida limited partnership, with a power plant project located in Manatee County, Florida responded to the FPL's Supplemental RFP.

Q: What is the purpose of your testimony?

A: My testimony will point out a number of things that made FPL's Initial and Supplemental RFPs unfair to prospective bidders. The careful crafting of the RFP in a way designed to favor FPL showed that FPL was predisposed to declare itself the winner of its RFP process from the outset. Indeed, I believe FPL reached a conclusion that it would self-build its "needed" capacity before the Initial RFP was ever released. My testimony will also point out the risks that FPL, by selecting its self-build options, is imposing on its ratepayers. These risks include, but are not limited to, the risk of construction and associated construction delays and cost overruns, and the risk of technological obsolescence.

Q: On what facts do you base this assessment that the RFP was unfair and that FPL is resistant to awarding a contract to an outside bidder?

A: There are a number of facts that support this view. First, both the Initial RFP and the Supplemental RFP contain terms that are, at best, commercially unreasonable, and at worst, skewed to see that FPL can declare itself the winner of its own RFP. (I will point out some of those specific terms later in my testimony.) Second, FPL has a long history of opposing the entry of competitors into the Florida wholesale market. One need not look much past FPL's active opposition to the Duke-New Smyrna Need Determination (PSC Case No. 981042) and the Okeechobee Generating Need Determination (PSC Case No. 991462) to realize that FPL has a deeply held opposition to competition in the wholesale energy market in Florida, particularly when that competition is in the form of merchant generators. To award a potential competitor a purchase power contract and to then support a need determination filing of a potential competitor is not consistent with FPL's view of its own interests. Third, a former employee of FPL, Michael Caldwell, wrote a letter to the Florida Public Service Commission and others outlining FPL's long held, but seldom stated, policy of thwarting competition in the Florida wholesale market place. (See Exhibit DFE-2). The letter, authored by an FPL insider, is compelling evidence that FPL never had any intention of awarding any portion of its asserted need to a third party. Fourth, one cannot ignore FPL's resistence to the creation of Rule 25-22.082, F.A.C., Selection of Generation Capacity, commonly known as the bid rule, as it was originally enacted. More recently, in the ongoing bid rule rulemaking docket, FPL is challenging the Commission's legal authority to make changes and other

improvements to the bid rule that would make the bid rule more fair. If FPL were truly interested in having an open, transparent and fair bidding and evaluation process, it is doubtful it would so vigorously oppose some of the changes suggested by PSC staff and question the Commission's authority to engage in rulemaking designed to improve the bid rule.

Q. Can you explain why you indicate that it is not in FPL's interest to award a purchase power contract to an independent power producer?

A. Let me try. A number of responses to the FPL's RFP, other than turn-key proposals and projects with less than 75 megawatts of steam output, were dependent on some type of contractual relationship with FPL. Power plants with a steam cycle of greater than 75 megawatts must go through the Power Plant Siting Act, sections 403.501-403.519, Florida Statutes, and must have a contract with a retail serving entity such as FPL, to be "an applicant" under the Power Plant Siting Act. *See* Tampa Electric v. Garcia, 767 So.2d 428 (Fla. 2000). Thus, a way of keeping potential competitors out of the Florida market, particularly with independent power producers who want to build power plants with a steam cycle greater than 75 megawatts, is to not enter into contractual arrangements with them. The reason not to enter into a purchase power agreement is even more compelling if the proposed contractual term is for a short-term, say three to five years, as the power project would be a merchant plant at end of the contract term. If one accepts FPL's opposition to merchant plants in Florida, as one must, then it follows it is not in FPL's interest to accept, in response to FPL's RFP, a short-term contract from an Independent Power Producer ("IPP") that gives

the IPP entry into the Florida market. This is especially true if the proponent of the short-term contractual bid will be a competitor of FPL's, with a new, large-scale and efficient power project built in the State of Florida., upon expiration of the contract term. Thus, one way to avoid this competition is to not accept a bid (and thus enter into a contract) from an IPP proposing to build a large-scale (greater than 75 megawatt of steam) facility in the state.

Q: You mentioned that certain terms in FPL's Initial RFP and Supplemental RFP were unfair. Would you please specifically identify those terms and indicate what makes them unfair?

A: Yes. Both RFPs, which by their terms seek proposals from bidders to be followed by negotiations with short-listed bidders, seek to impose contractual terms on the bidders without negotiations. The RFP requires the bidder to complete a form (Form 9) which provides: "Bidder must either indicate that they take no exceptions to any of the terms, conditions or other facets of the RFP or must indicate that they do take exception(s)." A bidder must then submit alternative revised language in writing to FPL with its response to the RFP if it takes exception to any term or condition. The RFP goes on to state that it "will give preference to the bids with the fewest number of and least significant exceptions."

This is unfair in that, prior to the start of negotiations, before a short list is even developed, an applicant is asked to agree to all significant terms and conditions of the RFP. If a bidder does not so agree, at a time when it is preparing to respond to the

RFP, it must propose, in writing, alternative language. Tellingly, FPL does not say how the bid will be evaluated if exceptions are raised. Instead, leaving much to the imagination, it merely states "FPL will give preference to bids with the fewest number of and least significant exceptions." In other words, object or propose alternative language at your own risk. Surely, this construct is not "negotiations" aimed at entering into a contract and is unfair.

Additionally, FPL imposed certain regulatory provisions in its RFP that unreasonably shifted risk to bidders. For example, in its Initial RFP, FPL provided that should the electric industry in Florida be "deregulated," an undefined term, FPL would have the option, after giving ninety (90) days written notice, to terminate the negotiated contract or shorten by half the original contract term and associated payments. This term, which runs only in the favor of FPL, would surely make a potential lender view debt loaned on the project as being at subject to an unquantifiable risk. Indeed, this type of term would likely render the deal, if FPL accepted a bid, unfinanceable. In its Supplemental RFP, FPL, while deleting the onerous provision described above, states: "In the event that the Florida Public Service Commission fails to allow cost recovery of any of the costs incurred pursuant to the contract between FPL and the bidder, FPL will reduce payments to the bidder in amounts equivalent to the amounts disallowed." Again, this contractual provision shifts inordinate risk to the bidder and tends to make financing the construction of the project more difficult, if not impossible. All of these type of arrangements described in my testimony, when taken in total, point out that FPL does not want to award a contract to a bidder, but wants to

self-build its projects. It also points out the biased and unfair nature of the way FPL conducted the RFP.

Q: Are there other provisions of the RFP or RFP process that you consider unfair?

A: Yes. To this date FPL has never revealed the complete list of criteria by which the proposals were judged or the weights assigned to the various criteria. While FPL may identify certain factors that it considers, it never reveals how it considers or weighs certain factors. Consequently, FPL's scoring criteria are akin to a black box to which only FPL holds the key. (See Supplemental RFP p. 18 which indicates the bids "will be evaluated for various risk factors and other considerations". (Emphasis added). order to determine which proposal(s) would be the best overall choice(s) for FPL.") Various risk factors and other considerations, which are not enumerated, hardly give the bidder comfort that the bids will be evaluated in a fair and objective manner. While FPL did list some risk factors in its supplemental RFP on page 18 and 19, it carefully did not commit to considering them, stating simply that "Factors which may be considered include, but are not necessarily limited to, the following:" (Emphasis added.) FPL, when it structures its self-build option, certainly knows which factors matter most to it. If te RFP was designed to elicit the best possible proposals for FPL to choose from, then just as certainly it would have informed bidders of the project attributes that most benefit FPL ratepayers.

Q: What other ways, if any, does FPL realize an unfair advantage over the other bidders, including CPV's projects?

A: FPL has a distinct advantage over the other bidders, including CPV, in a number of other ways. The RFP documents and the accompanying evaluation process are replete with examples, and I will try to quickly highlight a few. FPL gets to craft the RFP, make "the rules" and criteria for judging the responses to its RFP, review all of the competing bids received before putting forward its best competing proposal(s), selects the short-listed bidders, prepares and presents an onerous draft contract to the short-listed bidders, sets the time schedule (an extremely tight one) for "negotiations", (in this case presenting short-listed bidders with little time to sufficiently, thoroughly, and completely review the draft contract document), gets to negotiate with the short-listed bidders, acts as the judge to declare the winner of the RFP, and, when FPL declares itself the winner of the RFP, it is not obligated to stick by its "winning bid," but can seek recovery for cost overruns or other charges which result in the numbers represented in its "winning bid" increasing. (This refusal to stick by its own winning bid imposes additional risk and potential costs on the ratepayers, which is ironic when one considers the bid rule was designed, in part to see that ratepayers got the best deal possible from the market.)

Q: What is the impact of the equity penalty that FPL imposed on competing bids in this RFP process?

A: FPL's decision to impose an "equity penalty" acts to significantly stack the deck in favor of FPL. This equity penalty, which seeks to impose a direct penalty against non-FPL capacity proposals during the evaluation process is yet another example of how the RFP was unfair. Based on my review of the way FPL institutes the equity

penalty, it appears that Bidders who submit proposals for either large amounts of capacity or long-term capacity are penalized relative to those Bidders who submit proposals for smaller amounts of capacity or short-term capacity. FPL has established an equity penalty that will be more detrimental to a proposal that offers larger amounts of capacity for long-term. This effectively preludes any proposal similar to the FPL self-build options from being able to win the RFP. (It should also be noted that FPL did not offer bidders any "credit" for assuming the risk of technological obsolescence or construction risk, yet seeks to impose this equity penalty.)

Q. What else would you like the Commission to know about FPL's equity penalty?

A. Since FPL used excessive latitude in deciding what it could consider in weighing the bids, it obviously decided the "equity penalty" was a high card that it could hold in its hand until it was needed. The fact that FPL designed the equity penalty as its "ace in the hole", and used it to justify its decision to self-build is reflected in an internal FPL e-mail, authored by Steve Sim, one of the individuals charged with running the RFP process. This e-mail, a copy of which is attached hereto as Exhibit DFE-3 is telling, as it states, "the equity penalty is not only 'not the cake', but may not even be the icing. It's more like the candle." In my experience, the use of the phrase "icing on the cake" denotes the item or thing that rounds out or completes the deal. In the context used in this e-mail, the phrase is used to reflect the fact that FPL imposed an equity penalty to give itself some room to maneuver in comparing its self-build

options against competing bids and evidences FPL's predetermined conclusion that it would win its own RFP.

Q. What else can you point to support the notion that FPL decided it would win its RFP before the competing proposals were reviewed and evaluated?

A. I have pointed to a number of things previously in my testimony that support the proposition that FPL determined its preference to self-build the additional "needed" capacity before it evaluated the competing proposals. However, there are some additional things that I can point to that support this conclusion.[1] Sam Waters, who as I understand it, was in charge of FPL's initial RFP, authored an e-mail on October 31, 2001 to FPL Senior Management entitled "RFP/Generation Strategy Meeting, Friday, Nov. 2" The e-mail is enlightening in a number of respects. First, it states the purpose of the meeting "will be to discuss strategy in responding to the bids received addressing our RFP, as well as the longer-term generation strategy." The e-mail next mentions that the bids are still in the process of being evaluated and that there is no information available "approaching a final result of analyses." Finally, the e-mail desires "to develop a consensus on direction for our generation plan, i.e., do we want to build or buy, or a combination of both? What kind of projects do we want to be involved in? How long should we buying for, if that is the choice? Should FPLE be

[1] CPV still has outstanding certain discovery requests and anticipates conducting some additional discovery on this and related points. What I am testifying to now has been culled from discovery produced to date and I would like to reserve the right to supplement my answer to this question as discovery continues.

involved in the projects?" I find it instructive that FPL senior management was meeting to "develop a consensus" on its generation strategy, i.e., in the words of the FPL employee charged with running the RFP, "do we want to build or buy", at a point in time when no concrete results or analysis of the responses to FPL's initial RFP were available.[2] A copy of this FPL e-mail is attached to my testimony as Exhibit DFE-4.

Q. Is there other documentary evidence that suggests FPL decided it would self-build for its needed capacity before the RFP was even issued?

A. Yes, I believe there is. Another e-mail and related document prepared in response to the referenced e-mail reflects FPL's predetermination that it would "win" its RFP. Steve Sim, one of the FPL employees responsible for conducting the RFP process, asked another FPL employee, Daisy Iglesias to prepare a document in anticipation of a meeting called "to discuss how we will actually evaluate proposals we'll receive from the RFP". Sim stated in the e-mail: " I want you to prepare a page or three which describes how our section should do the evaluation. We'll use this document (be sure to label it as "draft") for our discussion on Tuesday morning." The document prepared by Ms. Iglesias is instructive in that it clearly shows FPL's

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[2] It is also interesting to note that the e-mail states: "Tomorrow I will be forwarding materials to you that include a proposed strategy. . . ." However, when CPV Cana, in its Second Request for Production, sought "All documents that Sam Waters or his assistants provided to Paul Evanson or his assistants related to the 'Request for Proposal/Generation Strategy Meeting, Friday, November 2' referenced in FPL Document Number 00101969 ND". FPL responded that no such documents existed.

unabated desire to self-build its "needed" capacity. From its title, "RFP Evaluation (Based on Assumption that FPL can meet or beat lowest bid)" to its critique of the best way for FPL to "meet or beat" competing bids and its accompanying seven step "evaluation" process, the document should raise serious concerns about whether ratepayers, in the long run, are better off with FPL's self-build options.

Among the alarming revelations in the FPL internal document are the following: "PGD's costs will have to be at or below the costs of the best proposals. The best/most defendable way to show this is through the VOD analysis." (PGD stands for FPL's internal generation department.) Thus, FPL selected a method to evaluate the bids, not based on what is in the best interests of ratepayers or which deal is actually the best submitted to FPL for consideration, but based on the "best/most defendable way" to show that FPL's own internal costs are "at or below the costs of the best proposals." The document goes on to suggest, as Step Number 2, that FPL's own construction alternatives be reviewed after evaluation of the competing bids: "After the proposals are evaluated . . . receive from PGD the costs of each construction project." Step Number 2 continues: "These costs should be as aggressive as possible to both minimize the remaining work and increase the defensibility (sic) of any subsequent decision to go with an FPL option."

FPL has vigorously resisted suggestions that it be bound to its "winning bid" numbers, and wants to preserve its ability to come back to the Commission to recover construction cost overruns. (Remember, FPL's RFP called on all bidders to submit

"binding" proposals.) An FPL internal document suggesting that the assumed construction costs of the projects "be as aggressive as possible" should raise a red flag that FPL sought to be overly aggressive in its project construction cost estimates at best or low-balled its numbers at worst. Revealingly, this document goes on to suggest other steps to ensure that FPL declares itself the winner as part of its "evaluation process".

To assure that FPL "wins" the RFP, the document instructs in Step Number 5: **"As necessary, repeat steps 2 - 4 until it is determined what cost reductions are necessary by FPL so that the proposals' costs are higher than the VOD benefits of deferring the FPL projects."** (Emphasis added.) (Remember, Step Number 2 is to aggressively estimate the construction costs for the project, a step that apparently is to be repeated as often as necessary until the competing proposals are higher than the VOD of deferring FPL's projects!) Step 6 of the evaluation is as follows: "In order to provide a more complete picture, enter the resulting FPL project costs into EGEAS versus the proposals to ensure that the FPL projects are selected by EGEAS as the winner." Thus, EGEAS appears to be used simply as a tool, after the evaluation process is repeated as often as necessary to declare FPL the winner, to somehow "legitimize" this skewed, slanted, and false evaluation process. A copy of the documents referenced above are attached to my testimony as Composite Exhibit DFE-5.

Q. Are FPL's self-build options the most cost effective alternatives available for the ratepayers?

A. No, I do not believe so. As mentioned above, it seems FPL's evaluation process was designed to steer toward a pre-designed conclusion, namely that FPL's self-build options were the preferred choice. Whenever a preordained result is signaled, it leads me to seriously doubt and question the resulting data. Since FPL's internal generation group aggressively estimated its project costs, and continued to do so until FPL's VOD analysis concluded FPL was the winner, coupled with FPL's steadfast refusal to date to be bound by the terms of its "winning bid", I do not believe FPL's self build options are the most cost effective alternatives for ratepayers. The bids of CPV Cana and Gulfcoast, had they been accepted and a contract agreed to, would have been binding. FPL's unwillingness to stick by its number, combined with its aggressive construction cost estimates, suggests that at some point in the future FPL will be back before this Commission seeking additional cost recovery for these projects, something it should not be allowed to do..

Additionally, FPL apparently does not recognize the risk associated with construction and the risk associated with obsolescence of equipment. Neglecting this risk and not properly factoring into a decision of the type made by FPL acts to impose additional risk, and potentially costs, on the ratepayers. If a CPV project were selected, the risk of construction cost overruns and delays would have been shouldered by the private sector, not ratepayers. Similarly, if a CPV project were selected, the risk of technological obsolescence would rest with CPV and its investors. With FPL's

decision to self-build the capacity in question, these risks are shifted to ratepayers, making FPL's decision to self-build less cost effective than other alternatives in my opinion.

Finally, had a CPV project been selected, the RFP would have required it to post completion security. Specifically, it would have been obligated to post " a deposit or some other form of security acceptable to FPL in the amount equal to Fifty Thousand Dollars ($50,000) per MW of guaranteed firm capacity (Completion Security)." For each day that the project was not available, FPL would be able to draw down from the Completion Security a sum equal to $330 per megawatt of guaranteed firm capacity. (Thus, for one of the bids submitted by CPV Gulfcoast, to provide approximately 800 megawatts of power, Forty Million Dollars ($40,000,000) would have been required to be posted as security for FPL and its ratepayers to ensure that CPV Gulfcoast would deliver as called for in its purchase power agreement with FPL.) This would enable FPL and its ratepayers to recoup, or "cover" any losses it suffered as a result of the contracted for power not being available by purchasing the needed power in the market. FPL, when it self-selected its own generation projects, is not going to post any type of completion security guarantee similar to what CPV Gulfcoast would have been required to post had it been selected. Thus, if FPL experiences construction delays, the ratepayers are not protected by the $40 million dollars completion security instrument in the example above, and may be looked to for the construction cost overruns and the costs of obtaining the needed power from the market. Thus, from the completion security perspective, the ratepayers are better

off (served more cost-effectively) with a purchased power contract backed up by a completion security guarantee and other contractual obligations than with FPL's self-build options. For a host of reasons, FPL's self-build options are not the most cost effective alternatives available.

Q. What are you asking this Commission to do?

I would ask that they declare FPL's RFP process inherently unfair as implemented by FPL. I would ask that the need determinations pending before the Commission be denied, with FPL being directed to attempt to meet any anticipated future need in a way that is fair and impartial to all parties and bidders.

Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail on this 20th day of August, 2002, to those listed below:

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By: _____
Jon C. Moyle, Jr.

Biography

Doug Egan is the President and Chief Executive Officer of Competitive Power Ventures, Inc. CPV is developing more than 5000 MW of gas-fired combined cycle merchant generating facilities in Florida, Georgia, Virginia, Iowa and Connecticut. CPV developed the CPV Atlantic Project in Port St. Lucie Florida a 250 MW combined cycle project which was sold to Orion Power Holdings and taken into construction in October 2001. The Florida projects currently under development include the CPV Gulfcoast Project in Manatee County, the CPV Pierce Project in Polk, Florida, and the CPV Cana Project in St. Lucie County, all 250 MW combined cycle projects. Prior to forming CPV in 1999, Mr. Egan was Senior Vice President for Development at PG&E Generating Company, formerly US Generating Company, where he had been employed since 1994. At PG&E Generating, Mr. Egan was responsible for the company's power project development program and supervised the successful development of the Millennium Power Project in Charlton, Massachusetts, the Lake Road Power Project in Killingly, Connecticut, and the LaPaloma Project in Kern County California. Mr. Egan was also responsible for initiating several projects that were taken into construction after his departure.

Before that, he was Vice President of Development at J. Makowski Company of Boston where he was responsible for the acquisition of the Altresco Pittsfield Project in Pittsfield, Massachusetts and was General Counsel for Intercontinental Energy Corporation of Hingham, Massachusetts where he was involved with the successful development of the Bellingham Project in Bellingham, Massachusetts, the Sayreville Project in Sayreville, New Jersey and the Doswell Project in Hanover County, Virginia. In the early 1980's, Mr. Egan worked at the law firm of Murtha Cullina Richter & Pinney in Hartford, Connecticut where he represented the Connecticut Resource Recovery Authority in developing and financing a series of large-scale waste-to-energy plants including the Mid-Connecticut Project and the Bridgeport Project.

He is a graduate of Dartmouth College and Cornell Law School and a member of the Connecticut Bar.

Michael T. Caldwell
12540 SW 108 Avenue
Miami, FL 33176
February 11, 2002

Commissioner Lila A. Jaber
Chair, Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Request for Investigation by the FPSC into FPL's Decision on $1.1 Billion in Energy Expansion

Dear Chair Jaber:

The Miami Herald recently ran a story on Florida Power & Light (FPL) Company's plans for a $1.1 billion expansion that would add 1,900 megawatts of power over the next three years (see attached article dated January 19, 2002). I was distressed to read in the article that, even though FPL supposedly received eighty-one (81) proposals from fifteen (15) other energy developers to see if outsiders could build the new generators cheaper, FPL "decided that it would be best - and cheapest - to do the job itself." As an affected customer and ratepayer, I am requesting that the Florida Public Service Commission (FPSC) hold hearings on this matter and that the FPSC require that FPL provide full and open disclosure of all proposals, documents, analyses, etc. related to the proposed energy expansion(s) discussed in the Miami Herald article.

Having worked for FPL for over twenty years, with the last five years working as a Regulatory Coordinator and dealing with issues such as fuel adjustment, site certifications, new fuel testing, and generation expansion, I am very familiar with FPL's philosophy towards competition from outside energy companies. FPL's philosophy was then (and I'm sure still is) to take whatever action is necessary to stop or minimize competition from such outside energy companies. One example of this philosophy was FPL's wilfull breach of their contract to purchase cogeneration power from the Fanjul's Okeelanta and Osceola facilities a few years ago. This breach of contract by FPL (which put the cogeneration facilities in bankruptcy) led to a lawsuit being filed by the Fanjuls; the lawsuit was settled out of court in the year 2000 for $222.5 million (which settlement, of course, was passed on to FPL's customers).

The Miami Herald article states that the Florida Partnership for Affordable Competitive Energy (PACE) noted that, while outside energy companies have won bids to build generating plants for Florida municipal electric companies by making their bids cheaper than those made by IOUs, not one bid (from outside energy companies) has been accepted by a Florida IOU since 1994, when Florida started requiring RFPs. Given FPL's philosophy concerning outside competition, and given that FPL is the only one that reviewed and analyzed the eighty-one proposals received for this proposed energy expansion, it does not seem to be a such a remarkable coincidence that

FPL determined that it (FPL) was the only choice to do such an expansion.

I understand that Governor Jeb Bush's Energy Commission recently came out with a report that suggests that the State of Florida should seriously consider energy deregulation and competition from outside energy companies. FPL, and others, can be expected to vehemently protest the concept of energy deregulation and competition from outside energy companies (along with their many, well-paid lobbyists). They will undoubtedly cite the recent energy problems in California, and the more recent collapse of Enron, as examples why deregulation and outside competition are not good ideas. In fact, in the *Miami Herald* article, FPL states "...we also believe our expansion proposal has fewer associated risks at this time than contracting for purchased power with independent power plant producers, many of whom are facing financial uncertainties due to the economy..." It is true that risks exist, but the State of Florida and the FPSC can learn from the problems that others have experienced, and build safeguards into their rules and regulations, and require good contracting practices, that would minimize such risks. Deregulation and outside competition have worked in other states and other countries, and the State of Florida and the FPSC should at least consider such alternatives. The customers and ratepayers can only benefit when there is true competition and the procurement/evaluation process is open and transparent.

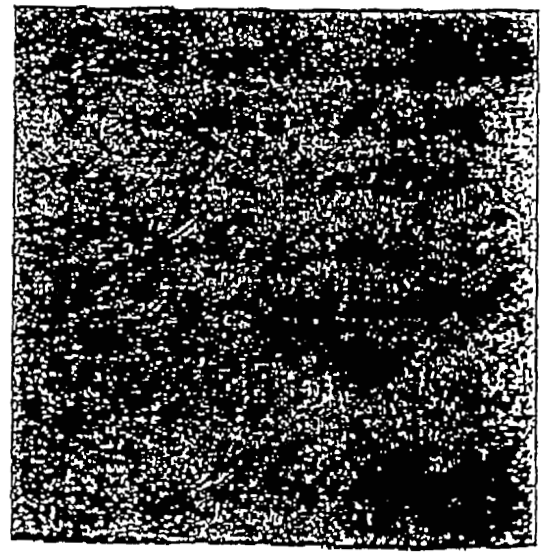
Therefore, as an affected customer and ratepayer, I am asking that the FPSC fully investigate all elements of this proposed energy expansion, and FPL's decision, in an open and transparent manner. A public hearing should be held, with any and all interested parties having a chance to participate, to see documents, and to ask questions. All interested parties should have the ability for discovery, interrogatories, requests to produce, testimony by appropriate personnel, and cross-examination. Only under such circumstances can the ratepayer, customers, the FPSC and the public be assured that such a decision has been properly and fairly made.

I am also requesting to be kept advised, and/or notified, of any proceedings or hearings before the FPSC, and any communications with the FPSC, etc. regarding this matter. If you have any questions or need further information, please contact me at (305) 579-2594 (office), (305) 233-7779 (home), by email at mikec996@worldnet.att.net, or at the address above.

Respectfully yours,

Michael T. Caldwell
Attachment

cc: The Honorable Governor Jeb Bush
Commissioner J. Terry Deason
Commissioner Braulio L. Baez
Commissioner Michael A. Palecki
Commissioner Rudolph Bradley
Mr. Jack Shreve, Office of Public Counsel
Mr. John Dorschner, Miami Herald



Lisa

Steve R Sim

Steve R Sim
01/10/02 06:11 PM

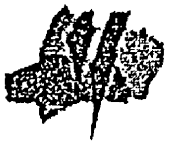
To: Lisa Schanen/FPL Energy/FPL@FPL
cc:
Subject: Thanks

Lisa,

Thanks again for the spreadsheet. We appreciate the work and tell Kathy that once we got all of the cost data, the equity penalty is not only "not the cake", but it may not even be the icing. It's more like the candle.

One more favor, please. Would you send me a simple e-mail message explaining (again) why you used this particular discount rate (since we used an after tax discount rate of 8.5% for all of our analyses that we got from Sufia last April or May). NO RUSH on this and thanks again for your help.

Steve



Sam Waters

10/31/01 11:31 AM

To: Paul Evanson/EXEC/FPL@FPL, Armando Olivera/EXEC/FPL@FPL, Bill Walker, Mario Villar@FPL, Anne M Grealy, Rene Silva/PGBU/FPL@FPL, Bob Fritz/FPL Energy/FPL@FPL, Bill Yeager/PGBU/FPL@FPL
cc: Moray Dewhurst/FNR/FPL@FPL, Tony Rodriguez/PGD/FPL@FPL, (bcc: Steve R Sim/RAP/FPL)
Subject: RFP/Generation Strategy Meeting, Friday, Nov. 2

The purpose of our meeting this Friday will be to discuss our strategy in responding to the bids received addressing our RFP, as well as the longer-term generation strategy. Tomorrow, I will be forwarding materials to you that include a proposed strategy, and the latest results we have from analysis of the RFP responses and the preliminary estimates for FPL projects.

I have to caution everyone that we will not have a proposed short list of bidders or anything approaching a final result of the analyses. The form of the bids resulted in nearly 80 combinations of pricing and terms, and we are still looking at all of the possible combinations. I am going to try and indicate what projects appear to be floating to the top, and give some indication of how our repowering and new combined cycle projects might stack up against them.

My intent is to develop a consensus on direction for our generation plan, i.e. do we want to build or buy, or a combination of both? What kind of projects do we want to be involved in? How long should we be buying for, if that is the choice? Should FPLE be involved in the projects? etc. While I will propose an approach, I am looking forward to a lively discussion given the many issues we identified at the last meeting.

If you have any issues or questions you would like to include in the meeting, please feel free to call me.

FPL

Steve R Sim
07/18/01 01:06 PM

To: Daisy Iglesias/RAP/FPL
cc: Sharon Fischer/RAP/FPL@FPL, Richard Brown/RAP/FPL@FPL, Mario Villar/RAP/FPL@FPL
Subject: for Tuesday's 9:30 a.m. meeting

Daisy,

I mentioned to you earlier that I want the four of us in this section to sit down Tuesday morning to discuss how we will actually evaluate proposals we'll receive from the RFP and that I want you to lead the discussion. (I figure I'll be busy trying to incorporate all of the comments we're getting on the entire RFP so you'll have more time to concentrate on taking a first cut at developing an evaluation plan.)

I want you to prepare a page or three which describes how our section should do the evaluation. We'll use this document (be sure to label it as "draft") for our discussion on Tuesday morning.

1) Here are some "ground rules" I want you to use:

- assume we are only considering firm capacity proposals (I believe that evaluation of the non-firm energy from renewables proposals will be pretty simple);
- assume we get more than a few proposals (20 or more) ;
- the proposals range from 50 to 500 MW;
- I want Sharon and Richard assisting you.

2) I want you to address at least the following questions (and add more as you see the need):

- how many options can EGEAS handle at one time?
- how do we make sure we capture all combinations of proposals that meet our RM and LOLP criteria?
- how do we handle all of those combinations in EGEAS?
- do we take FPL's bid(s) first and use the resulting expansion plan as our "Base Plan" in EGEAS?
- how do we actually perform the calculations using between EGEAS's reveneue requirements and VOD evaluations of short-term projects?
- how do we ensure that we have FPL construction option data in a form that allows us to consider them years later (after a short-term purchase has deferred their proposed construction dates)?
- what role(s) should Sharon and Richard play?
- what do we need to do now to get TIGER and EGEAS ready to go?

This document should give us a very good start at getting ready. Thanks in advance for preparing it.

Steve

RFP Evaluation
(Based on Assumption that FPL can meet or beat lowes

I. Evaluation of RFP Proposals

First, we need to determine the least cost combination of proposals which meets the desired 1750 MW cumulative need (of course this is assuming we get enough bids to reach the RFP Proposal amount).

I suggest we do this in two steps:

1. Traditional IRP (using EGEAS)

The analysis would begin with TIGER. I don't foresee too many TIGER runs unless we are going to look at different scenarios as far as high/low load forecast.

The TIGER case would have all the latest IRP 2001 assumptions without the expansion plan, and Sharon would provide the MWs needed, similar to every IRP process every year, to be input into EGEAS.

EGEAS would then be used to determine the best overall combination of proposals, which satisfy the 1750 MW cumulative need through 2006. Each proposal would be handled as a separate option in EGEAS (it can handle 50 options at one time) with the first year available for installation of 2005 or 2006 depending on the proposal year and a 2006 last year available for installation. In other words, EGEAS will be allowed to build each option only in 2005 or 2006. A greenfield combined cycle would be the only option EGEAS can build beyond 2006; therefore, the resulting expansion plans would all have identical units added after 2006.

Based on the MWs obtained from TIGER, EGEAS would then pick the least cost combination while maintaining our desired reserve margin. In order to make sure we do not overlook combinations that may be the least cost in a shorter time frame, we can run EGEAS for shorter time frames than 30-years (maybe 15 years, 25 years, etc.)

2. Calculating Total Cost (Spreadsheet).

After obtaining the least cost combination, calculate the total cost for each proposal which makes up the best combination. This can be done in a simple spreadsheet which would itemize each component of cost (capital, O&M, and energy).

DRAFT

II. PGD "Meet or Beat" Evaluation

PGD's costs will have to be at or below the costs of the best proposals. The best/most defendable way to show this is through a VOD analysis. Each FPL project which PGD proposes (there will likely be at least 3 such projects) will need to have costs which are low enough so that the VOD benefits of deferring the project are lower than the cost of the proposals.

This could either be done by: (1) summing proposals together in an attempt to match MW size with each FPL project and then performing a VOD analysis; or, (2) a pro-rata approach of matching the MW size of an FPL project to that of each individual proposal and then performing a VOD analysis. We need to study this in order to determine which way is more accurate and defendable, but the decision may be influenced by how many proposals (and MW) we get.

The overall approach consists of 7 steps:

1. Using the TYSP-based costs of FPL construction projects, develop total costs and calculate the VOD benefits of deferring projects from 3-to-10 years. (for "dry run" + to cover all bases re proposals)
2. After the proposals are evaluated (or as we near the end of this evaluation), receive from PGD the costs of each construction project. (These costs should be as aggressive as possible to both minimize the remaining work and increase the defensibility of any subsequent decision to go with an FPL option.)
3. Calculate the VOD benefits of deferring each FPL project and calculate the total cost of FPL projects by adding variable O&M, fuel cost, and system benefits.
4. Compare the VOD benefits of deferring FPL's projects to the costs of the proposals.
5. As necessary, repeat steps 2-4 until it is determined what cost reductions are necessary by FPL so that the proposals' costs are higher than the VOD benefits of deferring the FPL projects.
6. In order to provide a more complete picture, enter the resulting FPL project costs into EGEAS versus the proposals to ensure that the FPL projects are selected by EGEAS as the winner.
7. Present results to FPL management/PGD for them to use in deciding if FPL will build or buy.