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PLEASE REPLY TO:
TALLAHASSEE

January 27, 1989

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399

Re: Docket No. 890149-EF, Petition of the Florida Industrial Power Users Group to Discontinue Florida Power & Light Company's Oil Backout Cost Recovery Factor.

Dear Mr. Tribble:

I am enclosing, for filing and appropriate distribution, the original and 12 copies of the above petition, on behalf of the Florida Industrial Power Users Group.

The individual representing FIPUG who should be served copies of all orders, notices and other communications in this matter is:

Joseph A. McGlothlin
Lawson, McWhirter, Grandoff & Reeves
522 East Park Avenue, Suite 200
Tallahassee, Florida 32301

Yours truly,

Joseph A. McGlothlin

JAM/jfg

Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISS

In re: Petition of the Florida Industrial Power Users Group to Discontinue Florida Power and Light Company's Oil Backout Cost Recovery Factor.	)	DOCKET NO. 890148-EI Submitted for Filing: January 27, 1989

FIPUG'S PETITION TO DISCONTINUE FPL'S OIL BACKOUT COST RECOVERY FACTOR

Pursuant to Sections 366.06(2), 366.07 and 366.076, Florida Statutes, and Rule 25-22.036(4)(b), Florida Administrative Code, E. I. Du Pont Co., Florida Steel Corporation, Rinker Materials Corporation and Union Carbide Corporation, hereinafter referred to as the Florida Industrial Power Users Group, through their undersigned attorneys, petition the Florida Public Service Commission to issue an order requiring Florida Power & Light Company to discontinue use of the Oil Backout Cost Recovery Factor ("OBCRF") for recovery of costs associated with certain 500 KV transmission lines (the "Transmission Project"), and to refund to customers certain revenues which have been inappropriately collected through the Oil Backout Cost Recovery Clause. The Commission should take these actions for the reasons set forth below.

Introduction

1. The name of the Petitioner is the Florida Industrial Power Users Group ("FIPUG"). The names and addresses of FIPUG's

representatives who should receive copies of notices, orders, and pleadings in this case are:

Joseph A. McGlothlin and
Vicki Gordon Kaufman
Lawson, McWhirter, Grandoff & Reeves
522 East Park Avenue, Suite 200
Tallahassee, Florida 32301
904/222-2525

2. Other entities affected by this Petition include Florida Power & Light Company ("FPL"). The name and address of the FPL representative who should receive copies of notices, orders, and pleadings in this case is:

Matthew M. Childs
Steel, Hector and Davis
310 West College Avenue
Tallahassee, Florida 32301
904/222-4192

3. FIPUG is a voluntary organization of high load factor industrial users of electricity served by FPL. Collectively, FIPUG members use substantial quantities of electricity annually. The cost of electricity constitutes a significant portion of FIPUG members' costs of production and is closely related to their ability to maintain viable, competitive businesses.

4. In Docket No. 820155-EU, In Re: Petition of Florida Power & Light Company for Approval to Recover the Cost of its 500 KV Transmission Project Through an Oil-Backout Recovery Factor, the Commission approved FPL's use of the OBCRF to recover the costs of constructing certain 500 KV transmission lines connecting FPL's system to the Southern Company's system. Order No. 11217, Attachment 1.

5. The costs recovered by FPL from customers through the operation of the OBCRF are recovered on a cents-per-Kwh basis. This treatment is extraordinary for transmission line investment and was justified solely by FPL's claim that the lines would enable FPL to economically displace oil-fired generation. FIPUG members use large quantities of electricity relative to the demands they impose on FPL's system. They bear a relatively greater share of the OBCRF per unit of demand than other customers having lower load factors.

Background

6. The Oil Backout Rule, Rule 25-17.016, Florida Administrative Code, became effective as originally enacted on February 25, 1982. The rule was amended, effective August 31, 1982, to allow two-thirds of any net savings to be allowed as additional, accelerated depreciation.

7. The Oil Backout Rule states that its primary purpose is the "economic displacement of oil generated electricity in Florida. . . ." Rule 25-17.016(2)(a).

8. To qualify a project for the OBCRF, a utility must demonstrate to the Commission that:

a. the primary purpose of the project is the economic displacement of oil-fired generation;

b. there will be a positive cumulative present value of expected net savings to retail customers in Florida within the first ten (10) years of commercial operation of the project; and

c. the project is the most economical alternative available.

Rule 25-17.016(3)(a) 1-3.

9. When a project is approved pursuant to the criteria outlined above, the OBCRF is calculated and applied in conjunction with the Fuel and Purchased Power Recovery Clause. The OBCRF revenues which the utility may collect for an approved project include:

a. Straight line depreciation expense over the useful life of the project;

b. Capital costs associated with the project;

c. Actual tax expense of the project;

d. Oil/non-oil operating and maintenance expense differential (which would normally be included in base rates); and

e. Two-thirds of actual net savings (if positive) to be applied as additional depreciation.

10. In Docket No. 820155-EU, the Commission considered FPL's application to qualify two parallel 500 KV transmission lines extending down the Florida east coast from the Georgia-Florida border to Martin and St. Lucie Counties as an oil backout project. In support of its application, FPL stated that construction of the transmission lines would increase the transfer capability between FPL and the Southern Company ("Southern"), from whom FPL would purchase excess coal-fired power. (FPL had planned to build the lines in any event to secure the benefits of increased reliability which they would provide). It proposed to accelerate the time frame for construction to exploit the availability of coal-fired generation

on Southern's system, thereby economically displacing its own oil-fired generation. On this basis, FPL applied for approval of the lines as an oil backout project. Application of FPL, Docket No. 820155; Attachment 2.

11. The Commission approved the project, based on FPL's projections that the lines would economically displace oil-fired generation. However, the projections on which the approval of the project and the extraordinary energy-based recovery of costs were based failed to materialize. The project has not accomplished the purpose which led the Commission to qualify it under the Oil Backout Rule.

12. The Oil Backout Cost Recovery mechanism which was approved for FPL's 500 KV transmission lines in 1982 should be discontinued, and certain revenues should be refunded to customers, for the following reasons, all of which are documented in an affidavit of FIPUG consultant Jeffry Pollock of the firm Drazen-Brubaker & Associates (Attachment 3). The reasons summarized here will be fully developed in subsequent paragraphs.

a. The energy-based recovery of the costs of the lines has been in effect for approximately seven years. In that time, the Project has not achieved its primary purpose. In fact, over time the Project has accumulated substantial net losses, because the projections of fuel cost differentials upon which the original approval was based never materialized. Ratepayers are paying more with the project, not less.

b. Absent the substantial economic oil displacement benefits on which the qualification of the 500 KV transmission lines was based, the transmission lines' functional value to FPL's ratepayers lies in providing capacity and reliability

benefits. The appropriate manner in which to allocate the costs of such assets among customers is to provide appropriate recognition to the demands of the classes which give rise to the need for the investment--not on the basis of energy consumption alone. Consequently, the OBCRF has placed an unfair and unreasonable burden on high load factor customers.

c. In its recent oil backout filings, FPL has claimed that the net losses experienced by the project recently have been more than offset by "savings" in the form of the deferral of two Martin coal-fired units. In fact, the Commission has authorized FPL to collect a portion of such Martin unit "savings," to be applied as accelerated depreciation. Such recoveries are inappropriate and unjustified, because the Martin units are not part of FPL's expansion plan, and have not been since 1983. The claimed "deferral benefits" are illusory because they are based on fictional units. The recovery of revenues associated with the invalid Martin unit assumption is unjustified and all such monies previously collected and applied as accelerated depreciation must be refunded to customers.

d. FPL has used the oil backout cost recovery clause to thwart the Commission's ability to monitor and regulate the reasonableness of the utility's earned rate of return.

13. The Transmission Project has not achieved its purpose. The major intent of the Oil Backout Rule was to reduce the cost of power for FPL's customers by reducing the consumption of expensive oil for generation. The rule was created at a time when oil prices were high and expected to get much higher. However, the Transmission Project has not economically displaced oil-fired generation. After the Commission relied on FPL's projections of fuel prices to qualify the project, oil prices

plummeted. Oil costs are roughly one-half of what they were when the rule was passed some seven years ago. Present prices are an even smaller percentage of what they were forecasted to become by this time. The fuel cost savings that were expected to result from the transmission lines and the coal-by-wire purchases have not materialized. In fact, there have been very large losses in almost every year since FPL's use of the OBCRF began. The cumulative losses through 1987 are $215,036,000 larger than FPL's original projection. (Source: Jeffry Pollock's Schedules 1, 2 and 3).

14. The principal source of savings projected for the Transmission Project was the expected difference between the energy cost of purchased power and the cost of oil-fired power. These projections took into account FPL's forecast of oil prices, purchased power prices, quantities of power to be purchased, and load growth. The failure of the project to produce the expected savings has not been due to any significant difference between the actual and projected load growth (See Mr. Pollock's Schedule 4), nor to any significant difference between actual and projected amounts of power purchased (Schedule 5); it has been due to the dramatic difference between actual oil prices and FPL's forecasts (Schedule 6).[2/]

2/ Mr. Pollock's Schedule 4 is a comparison of forecasted and actual load growth. Actual and forecasted power purchases are compared in Schedule 5. The unexpectedly low actual oil prices are compared with the forecast in Schedule 6.

15. FPL's oil backout charge is unreasonable and inequitable to high load factor customers. The Transmission Project has accomplished valuable benefits which are unrelated to fuel costs. The line has strengthened the reliability of FPL and all of the interconnected peninsular utilities and has reduced their spinning reserve costs. These reliability benefits--which were needed independent of any fuel cost considerations, and which would ultimately have been realized without the incentive of the Oil Backout Rule in any event--provide no justification for continuing to use the OBCRF to recover the costs of the Transmission Project. Instead, they demonstrate that recovery of the costs of the lines should be accomplished through the traditional base rate mechanisms.

16. As early as the 1970's, FPL had planned to improve system reliability by building transmission lines to strengthen the interties between Florida and Georgia. Absent the claimed fuel savings, the transmission lines would certainly have been put into the rate base and treated in the same way as any other similar investment. Under the appropriate ratemaking treatment for such an investment, high load factor customers would have been allocated a much smaller revenue responsibility than that exacted by the unjustified energy charge of the oil backout mechanism.

17. Recently, FPL extended the Unit Power Sales ("UPS") Agreements with the Southern Company through the year 2010. All totaled, the UPS Agreements will have provided FPL with almost 30 years of reliable capacity--about the life of a base load

generating unit. FPL's purchases of capacity from the Southern Company are a vital cog in FPL's plan to meet the projected demand on its system and to provide the required system reserves of capacity. The purchases from the Southern Company made possible by the Transmission Project are a long-term source of capacity for FPL's system. In light of this development, and given the lack of the promised economic displacement of oil, the costs of the Transmission Project can no longer be regarded as a short-term fuel cost phenomenon. The unrecovered investment costs and the capacity charges associated with the Southern (UPS) purchases should be recovered through FPL's base rates.

18. Deferred capacity costs have been inappropriately included in FPL's calculations of net savings. In recent filings, FPL has collected revenues over and beyond the revenue requirements of the lines as accelerated depreciation because, the utility claims, it has experienced significant "net savings." FPL claims that the total cost of the project (e.g., Transmission Project revenue requirements, UPS demand, energy and wheeling charges) have been more than offset by the alleged benefits (e.g., fuel cost savings, spinning reserve savings and net avoided cost of deferred generation capacity). These net savings have been solely attributable to the inclusion in claimed savings of the net avoided cost associatrd with "deferred generation capacity." The filing for October 1988-March 1989, for example, calculated total net savings of $144 million. However, the deferred capacity savings accounted for $260 million of this amount; excluding the issue of deferred capacity, the net

losses (excess of revenue requirements of the lines over fuel savings) were projected to be $115 million. Under the oil backout rule, the utility may retain two-thirds of net savings and apply it as accelerated depreciation. Consequently, two-thirds of $144 million, or $96 million, was included in oil backout revenues in the determination of the oil backout cost recovery factor. Based on projected energy sales of 28,019,662 Mwh, the accelerated depreciation accounted for about 0.36¢ per Kwh, or more than 40% of the authorized factor.

19. The "deferred units" treated in FPL's original application for approval of the project were to be two 700 MW coal-fired base load generators at FPL's Martin site. FPL originally planned to place these units in service in 1987 and 1988, respectively. Three other unsited 700 MW coal-fired units were also part of FPL's 1982 base rate expansion plan. These units are shown on Schedule 7 to Jeffry Pollock's affidavit. FPL claimed that the construction of the 500 KV lines enabled it to defer the in-service date of the Martin units until 1993 and 1994, respectively, and to defer an Unsited Coal Unit until 1994. The impact of the deferral claimed by FPL is designated in Schedule 7 as the "1982 Oil-Backout Case." Since the early 1980's, however, FPL's generation options have changed as dramatically as fuel prices.

20. With the repeal of the Fuel Use Act, FPL can now build new oil and gas-fired units to satisfy its projected requirements. Also, improved technology is now available, enabling FPL to consider such options as combined cycle units, the repowering

of old units (Lauderdale Unit Nos. 4 and 5), the return to service of Riviera No. 2 (which formerly was on long-term reserve shutdown status), and possibly, integrated coal gasification combined cycle units. FPL's current generation plan (which is illustrated at the bottom of Schedule 7 to Mr. Pollock's affidavit) identifies all of these capacity alternatives, whereas Martin Units 3 and 4 and the unsited units--the "deferral" of which underlies the claim of net savings--are now conspicuously absent. In fact, these units have not appeared in any of FPL's annual "Ten-Year Power Plant Site Plans" since 1983. FPL's use of Martin Units 3 and 4 to determine the value of deferred capacity in its oil backout filing also contradicts its submission in the recent nonfirm load methodology hearings (Docket No. 870198-EI). There, FPL quantified the benefits of adding interruptible load by comparing two optimal generation expansion plans. In this recent analysis, as in Docket No. 880004-EU, FPL did not identify the Martin units as part of its expansion plan.

21. FPL removed the Martin units from its expansion plan long ago. Since FPL has had no plans to build the units, they have not been and are not now being "deferred." The claimed deferral benefits associated with these units should be disallowed, and all past "savings" associated with the claim which have been collected by FPL since October 1987 should be refunded to customers.

22. Alternatively, any recognition of deferral benefits should be based on the less expensive alternatives presently

being pursued, and not on some fictional units that have long been discarded from FPL's generation expansion plan. Martin Units Nos. 3 and 4 were projected to have an installed cost of $2.88 billion and a direct construction cost of $1.88 billion. This equates to an installed cost of $2,054 per KW and a direct cost (i.e., excluding AFUDC) of almost $1,340 per KW. By contrast, FPL's planned capacity additions through 1995 are projected to be much less expensive, ranging in cost from $423 per KW to $533 per KW, excluding AFUDC (FPL's Generation Expansion Planning Document, Docket No. 880004-EU, Page 25).

23. FPL has used the oil backout cost recovery mechanism to evade the Commission's ability to monitor and regulate the utility's earned rate of return. In FPL's last revenue requirements case, the Commission authorized a range of return on equity having a midpoint of 15.6%. FPL has used the 15.6% ROE in calculating the revenue requirement associated with the transmission line investment which is being collected via the OBCRF.

24. Since the Commission authorized the 15.6% return on equity, capital costs have fallen dramatically. However, FPL has continued to earn a return of 15.6% on its investment in the oil backout project. Further, it has used the oil backout mechanism to disguise its actual system earned rate of return and to arbitrarily dilute its offers to limit its earned return to a level that is more reasonable in light of current capital market conditions.

25. One of the principal tools which the Commission uses to monitor the financial performance of utilities subject to its jurisdiction is the monthly "surveillance report." The Commission requires the utility to report monthly its rate base, revenues, expenses, and achieved rate of return, adjusted to reflect regulatory requirements. Over time, FPL's surveil-lance reports have consistently reflected a rate of return on equity lower than the 15.6% authorized in its last rate case. However, FPL has excluded the investment and revenues associated with the oil backout transmission line project from the calculation of the rate of return reflected on its surveillance reports. Because FPL has earned 15.6% on that very substantial investment, the exclusion of the project from the calculation serves to significantly understate the system rate of return reported on the surveillance forms.

26. FPL also excluded the oil backout investment and revenues from the calculation of the tax savings refund due customers for calendar year 1987 and intends to exclude the subject from the calculation of refunds for future periods. Rule 25-14.003, F.A.C., requires the utility to return to customers part or all of the revenues associated with the decrease in income tax rates. The portion to be returned to customers is dependent upon and is a function of the utility's earned rate of return. FPL's practice of omitting oil backout revenues from the calculation of earned rate of return has amounted to much more than a misleading indication of the utility's financial health; it has materially reduced the refunds of excess earnings received

by customers under the rule. This use of the oil backout mechanism constitutes an abuse of the policy considerations which led the Commission to implement the oil backout rule and to qualify FPL's transmission line investment under the rule. The purpose of recovery of transmission line costs "outside base rates" was to make possible the accelerated depreciation of qualifying investments; the purpose was not to insulate such investments from regulatory scrutiny, or to distort financial statements, or to safeguard a rate of return which is unreasonably high for current conditions.

CONCLUSION

The Commission should not allow FPL to perpetuate a charge that is unjust, unreasonable and unfair in the context of circumstances vastly different from the assumptions on which its approval was based. FIPUG requests the Commission to assert jurisdiction over this petition, and upon hearing:

1. Determine that FPL's Transmission Project has failed to achieve the "primary purpose" which led the Commission to qualify it under Rule 25-17.016, F.A.C.;

2. Find that, in light of actual experience, prospective application of the energy-based oil backout charge for recovery of costs associated with the 500 KV transmission lines would be unjust, unreasonable and unduly discriminatory, within the meaning of Sections 366.06(2) and 366.07, Florida Statutes;

3. Determine that all oil backout revenues based on alleged benefits associated with the deferral of Martin coal units have been improperly collected from customers;

4. Direct FPL to refund to customers all "accelerated depreciation" revenues associated with the inclusion of alleged Martin deferral benefits in the calculation of net savings;

5. Order FPL to terminate the oil backout charge;

6. Direct FPL to reflect the investment and revenues associated with the 500 KV lines in its surveillance reports; and

7. Instruct FPL that recovery of costs associated with the transmission line must henceforth be accomplished through the operation of the utility's base rates.

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Attorneys for the Florida
Industrial Power Users Group

ATTACHMENTS TO PETITION

1. Order 11217 (approving Project)
2. Application of FPL, Docket No. 820155-EU
3. Affidavit of Pollock and schedules

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of FIPUG's Petition to Discontinue FPL's Oil Backout Cost Recovery Factor has been furnished by ~~U.S. Mail~~ hand delivery to the following parties of record, this 27th day of January, 1989.

Matthew M. Childs
Steel, Hector & Davis
310 West College Avenue
Tallahassee, Florida 32301

Suzanne Brownless
Florida Public Service Commission
Division of Legal Services
101 East Gaines Street
Tallahassee, Florida 32399

Joseph A. McGlothlin

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power & Light Company for approval to recover the cost of its 500 KV transmission project through an oil backout recovery factor.	DOCKET NO. 820155-EU ORDER NO. 11217 ISSUED: 10-1-82

The following Commissioners participated in the disposition of this matter:

JOSEPH P. CRESSE, Chairman
KATIE NICHOLS

APPEARANCES: Matthew M. Childs and John Butler, of the firm Steel, Hector and Davis, 1400 S.E. First National Bank Bldg., Miami, FL 33131, on behalf of Florida Power & Light Company.

Joseph A. McGlothlin, of the firm Lawson, McWhirter and Grandoff, P. O. Box 3350, Tampa, FL 33601, on behalf of Florida Industrial Power Users Group.

Stephen Fogel, Benjamin Dickens and Michael Wilson, Office of Public Counsel, Rm. 4, The Holland Bldg., Tallahassee, FL 32301, on behalf of the Citizens of the State of Florida.

Bonnie E. Davis, Esq., 101 E. Gaines St., Tallahassee, FL 32301, on behalf of the Commission Staff.

William S. Bilenky, General Counsel and Kathleen Villacorta, 101 E. Gaines Street, Tallahassee, FL 32301, as advisers to the Commissioners.

FINAL ORDER

BY THE COMMISSION

By a petition filed on March 30, 1982, Florida Power & Light Company (hereinafter FPL) sought approval of an Oil Backout Cost Recovery Factor to recover the cost of its proposed 500 KV transmission line project.

The Oil Backout Cost Recovery Factor Rule, Rule 25-17.16, Fla. Admin. Code, (hereinafter referred to as the Rule) was adopted by the Commission on January 29, 1982. The Rule is intended to allow the timely recovery of the cost of implementing supply side conservation projects whose primary purpose is the economic displacement of oil generated electricity.

To qualify for recovery under the Rule, a project must meet three tests:

1) The primary purpose of the project must be the economic displacement of oil [Rule 25-17.16(3)(a)(1), Fla. Admin. Code];

2) There must be a cumulative present value of expected net savings to ratepayers within the first ten years of commercial operation of the project [Rule 25-17.16(3)(a)(2), Fla. Admin. Code];

3) The project must be the most economical alternative available [Rule 25-17.16(3)(a)(3), Fla. Admin. Code].

The Rule also provides that unless waived by the Commission, a project must be qualified under the Rule before construction begins [Rule 25-17.16(3)(c), Fla. Admin. Code]. As FPL began construction before the Rule was adopted, the issue of whether a waiver should be granted is present in this case.

Finally, the Rule allows the Commission to authorize commencement of cost recovery through an Oil Backout Recovery Factor before a project is placed in commercial service if necessary to preserve the financial integrity of a utility [Rule 25-17.16(4)(f), Fla. Admin. Code]. In its petition, FPL sought this authorization. However, in Order No. 10819, the Commission limited the scope of this docket to the issue of qualification of the project under the Rule and transferred the issue of whether to allow FPL to commence cost recovery through the Clause before commercial operation of the project, to the Company's pending rate case, Docket No. 820097-EU.

The parties in this docket include the Company, the Commission Staff, Public Counsel and the Florida Industrial Power Users Group (FIPUG). Duly noticed hearings were held on June 17, June 18, July 30, and August 3, 1982.

As proposed by the Company, the transmission line project consists of two 500 KV lines and associated substation facilities, extending down the Florida east coast from the Georgia-Florida state line to Martin and St. Lucie Counties where they will tie in with the existing 500 KV system. The project is necessary to increase the transfer capability between the Southern Company (hereinafter Southern) electric system and the FPL system, and thus allow the purchase of up to 2000 MW of firm unit power by FPL from Southern. Southern expects to have power produced from coal fired generation available for sale on a firm basis in varying amounts through the mid 1990's. This is sometimes referred to as the coal bubble. Because of the projected price differential between coal and oil, FPL, who relies heavily on oil fired generation, has purchased up to 2,000 MW of Southern's coal by wire. Thus, completion of the proposed high voltage transmission lines will remove the major impediment to the importation of the 2,000 MW of coal by wire that have been purchased by FPL. The project will also improve the electric system reliability for all peninsular Florida utilities.

The Company presented the testimony of three witnesses. Mr. Michael Cook presented the Company's fuel forecasts, Mr. James Scalf described the project in detail and presented the fuel savings calculations, while Mr. Joseph Howard presented the deferred capacity calculations and the qualification analysis.

Mr. James Dittmer testified in opposition to the project's qualification under the Rule on behalf of Public Counsel. While FIPUG presented no witnesses, it actively participated in the hearings, also contending that the project does not qualify under the Rule.

Interpretations of the Rule

In addition to fuel savings, the Company identified other costs savings made possible by the project. The Company presented evidence that completion of the project would allow the deferral of the in service dates of the Company's planned coal fired units, Martin Units 3 and 4 and Unsited Units 1 and 2 from 1987, 1988, 1990 and 1992, respectively, to 1992 and beyond. The Company also presented evidence that completion of the project would allow a reduction in the spinning reserve requirements the Company must maintain.

The question arose as to whether benefits, other than fuel savings, conferred by an oil backout project could be included in the qualification analysis. FIPUG and Public Counsel took the position that subsections 1(c) and (3)(a)(2) of the Rule required the Commission to consider only fuel savings in determining whether the project qualified under the rule. The Staff took the position that when the costs and benefits of a project cannot be separated, as in this case, the present rule allows the Commission to consider all of the costs and all of the benefits associated with the project. The Company contended that the present Rule authorized the Commission to consider all of the costs and all of the benefits associated with the project in determining qualification.

Because the Commission was dissatisfied with that portion of the Rule dealing with the calculation of the amount of savings allowed the Company as additional depreciation, we opened a rulemaking docket to consider amendments to the Rule. One of the suggested changes we adopted amends Subsecton (1)(c) to make clear that the Commission may consider all of the costs and all of the benefits associated with a project in determining whether it qualifies for cost recovery under the Rule. However, we did not vote on the proposed amendments until August 3, 1982, and the amendments to the Rule did not become effective until August 31, 1982, while the vote in this case was taken on August 3, 1982. Therefore, if it qualifies at all, the project must qualify for cost recovery under the Rule as it existed on August 3, 1982, and therefore, we must interpret the language of the Rule as it then existed. The language in question is as follows:

> "Cumulative Present Value of Expected Net Savings" means the cumulative present value of the annual oil/non-oil fuel expense differential associated with the proposed oil backout project less the projected annual straight line depreciation expense over the 'used and useful' life of the proposed project; less the annual incremental cost of capital expense associated with the proposed project; less the annual oil/non-oil tax expense associated with the proposed project; less the annual oil/non-oil operating and maintenance expense differential, exclusive of fuel expense, of the proposed project; less the differential cost associated with the early retirement of existing plant and the derated capacity, if any; less any other costs incurred specifically as a result of the proposed oil-backout project, whether such costs are incurred before or after the commercial in service date of the proposed project. Rule 25-17.16(1)(c), Fla. Admin. Code

We find this language sufficiently broad to allow us to consider all of the costs and all of the benefits associated with a project in determining whether a project qualifies for cost recovery under the Rule. While the presence and magnitude of benefits other than fuel does have significant bearing on the issue of whether the primary purpose of the project is oil displacement, we do not believe the Rule as it then existed required us to blind ouselves to some of the beneficial consequences of implementing the project while compelling inclusion of all of the costs of the project in the qualification analysis. Costs, as used in this section of the Rule, mean both positive and negative consequences, or costs, of implementing a proposed oil backout project. Thus, we hold that once the primary purpose of a project is determined to be oil displacement, both the original and amended language of Subsection (1)(c) permits us to consider all of the costs and all of the benefits associated with a project in determining whether it qualifies for cost recovery under the Rule.

The Primary Purpose Test

One of the pivotal issues in this case is whether the primary purpose of the proposed project is the displacement of oil. The Staff took the position, in which they were joined by the Company, that if the gross fuel savings expected from the project outweighed all other gross savings, as they did in this case, that fact alone conclusively established oil displacement as the primary purpose of the project. On the other hand, Public Counsel and FIPUG took the position that rather than oil displacement, the primary purpose of this project was to meet increased load and improve system reliability.

Mr. Scalf testified on this issue on behalf of the Company. He stated that while portions of the project had been included in the Company's long range transmission expansion plan for reliability purposes, the decision to accelerate construction of the project and complete it by 1986 was made solely on the basis that completion of the project by that date was necessary to take full advantage of the coal by wire available for sale by Southern. Mr. Scalf emphasized that the gross fuel savings expected from the project are $4.3 billion in 1982 dollars while the capacity deferral benefits are $1.2 billion in 1982 dollars.

Mr. Dittmer testified in support of Public Counsel's position. He testified that four factors led him to conclude that the unit power purchases were made by FPL to facilitate load growth rather than to displace oil. First, Mr. Dittmer testified that FPL had planned to add four coal fired generating units between 1987 and 1992. These units were planned to facilitate load growth and since the coal by wire unit power purchases have deferred construction of the units, the purchased capacity must also be necessary for load growth. Second, FPL's projected reserve margin at the time of winter peak with and without the capacity purchases demonstrates that they are necessary to serve to meet expected load growth. On cross examination, Mr. Dittmer admitted that the Company sets its reserve margin based on LOLP studies, and the relevant comparison is the Company's reserve margin with and without the capacity purchases at the time of its summer peak. Third, a transmission line network of which the proposed project is a part has been planned for over a decade for reliability purposes. Fourth, the amount of oil projected to be consumed by FPL increases from 1982-1992 and therefore, no oil will actually be displaced, but rather load growth will exceed the growth in non-oil fired generation.

Viewing the evidence as a whole, we find the position of no party entirely persuasive. We reject the Staff's position of simply comparing gross savings as wholly determinative. Whether the primary purpose of the project is oil displacement requires a keener analysis. However, we also reject the contentions of Public Counsel. In our mind the issue is best resolved by allocating the fuel costs of the project against the fuel savings and the capacity costs of the project against the capacity savings. We think it proper to allocate costs and benefits in this case because the Company could have purchased the coal by wire power on a non-firm basis, thereby avoiding the capacity costs due Southern but also foregoing the deferred capacity benefits. If the net fuel savings exceed the cost of the project, the Company has met its burden of proof on this issue and demonstrated that the primary purpose of the project is oil displacement. The Company has done this in Exhibit 15(j). Direct fuel savings from the project are $3,785,430,000 and the fuel savings attributable to reduced spinning reserve requirements are $169,684,000. From this is subtracted the foregone benefit of lower system fuel costs if the Martin Units had been built as originally planned of $2,138,125,000. Also subtracted are the Schedule E purchased power charges. Thus, the net fuel savings expected from the project are $1,396,455,000. This well exceeds the projected cost of the project of $850,584,000.

The Fuel Price Forecasts

Whether this project will ultimately prove to be cost effective to FPL's ratepayers depends on the price differential between oil that would have been burned by FPL to generate electricity and coal that will be burned by Southern to produce the power purchased by FPL. Mr. Michael Cook testified on behalf of FPL concerning the projected oil/coal price differential through 1992. Mr. Cook presented a banded oil price forecast. The high band forecast was published by the U.S. Department of Energy in February 1982. Mr. Cook testified that he through the DOE forecast was overly pessimistic and that he would not use it for planning purposes, but that it did portray the likely course of oil prices in the event of a sustained period of restricted oil supplies and continued growth in demand. The mid band forecast presented by Mr. Cook was the fuel price forecast prepared by the Florida Coordinating Group (FCG). This forecast was assembled by the FCG and is the consensus forecast of all of the Florida utilities. Mr. Cook stated that the FCG forecast was the most appropriate for use in this proceeding as he considered the results to be middle of the road estimates of the future oil prices of FPL and other Florida utilities. This forecast was made by taking the actual fuel prices paid by the utilities at the time the forecast was made and escalating them by the rates of escalation for oil forecasted by Data Resources Incorporated. The low band forecast was prepared by FPL and Mr. Cook characterized it as a conservative forecast. It assumes strong user conservation, no supply disruptions and a continued need for producing nations to maintain relatively high production levels.

The relevant coal price forecast was provided by Southern and is their estimate of the price of coal that will be burned in the units from which FPL will purchase power. Mr. Cook testified that this forecast begins with current contract coal prices and escalates them over the next five years on the basis of specific information developed by Southern and beyond that by DRI's coal escalators. To this is added a projected rail transportation rate.

Based on the evidence before us, we find that the fuel price forecasts are reasonable and are of sufficient reliability to warrant their use as the starting point for our determination that the project qualifies under the rule.

Calculation of the Fuel Savings

As required by the Rule, the Company calculated the fuel savings expected from the project using a production cost simulation model, commonly referred to as PROMOD. The PROMOD run indicated the amount of coal by wire that could be economically dispatched on FPL's system. The number of barrels of oil needed to produce an equivalent amount of power were then determined. The resultant difference between the cost of the barrels of oil and the cost of coal by wire is the expected amount of net fuel savings due to the project, which, along with other benefits of the project, can be compared to the cost of the project to determine if it is cost beneficial to the ratepayers.

Calculation of Deferred Capacity Benefits

Mr. Scalf testified that during 1979 and 1980, before the coal by wire purchases were consummated, Martin Units 3 and 4, 700 MW coal fired units, were scheduled for in service dates of 1987 and 1988 to maintain adequate reserve margins. Another 700 MW coal fired unit, referred to as Unsited Unit 1 was scheduled for completion in 1990 also to maintain adequate reserve margins. The Company's commitment to purchase 1,000 MW of coal by wire from Southern in February 1981, permitted FPL to defer the Martin Units to 1989 and 1990. The purchase of an additional 1,000 MW of firm power in February 1982 allowed further deferral of the Martin and Unsited Units to 1992, 1993 and 1994.

To determine the benefit, if any, flowing to the ratepayers from deferral of these units, the Company calculated the annual carrying charges for the units for the years in which they would have gone in service absent the coal by wire purchases. To this was added the O&M and fuel costs that would have been incurred had the units not been deferred. Subtracted from this total were the oil displacement benefits that would have been realized by the addition of the Martin and Unsited Units according to the original time table. The resulting net avoided cost, as shown in line (Z) of Document 3 of Exhibit 11, achieved in the years 1987 through 1992 totals $3,394,891.

Testimony was presented both on the method of calculating these benefits, as outlined above, and on the underlying assumptions concerning the cost of the avoided units. Based on the record before us, we conclude that the assumptions made by the Company and the method of calculating the benefits resulting from the deferral of the units is reasonable, and, as previously indicated, were properly included in the calculation of the total expected net savings of the project.

Reliability Benefits

Completion of the transmission line project will significantly improve FPL's system reliability, principally by preventing electrical separation from the Southern electrical system for single generation contingencies. Improvement in reliability allowed FPL to reduce its shaft spinning reserve requirement from approximately 320 MW to 120 MW, resulting in annual savings of $15,000,000 to $30,000,000 per year for FPL, as shown on line (F) of Document No. 3, Exhibit 11. These savings were properly included in the calculation of the total expected net savings of the project.

The Cumulative Present Value Test

Having calculated the expected savings, the Rule next requires a determination of the expected net savings from the project in the first ten years of commercial operations, that is, a netting of the costs of the project against the expected savings. The relevant period of examination in this case is 1982-1992; to qualify under the Rule, the project must show a cumulative present value of expected net savings within that time.

Document No. 3 of Exhibit 11, jointly sponsored by Mr. Howard and Mr. Scalf, shows that the project will produce net savings within the requested time period. In calculating the net savings shown on Document No. 3, Mr. Howard used the most probable case oil and coal price forecasts and assumed a weighted average incremental cost of capital of 13.00%, including a return on equity of 19%. He also included both net fuel savings and capacity deferral savings in his analysis. With these assumptions the project is expected to yield a cumulative present value of expected net savings of $851,194,000 through 1992.

We find that these exhibits demonstrate that there is a cumulative present value of expected net savings within the first ten years of commercial operation of the project. Two observations are in order concerning the qualification analysis shown in this exhibit. First, the fuel savings are conservative since they ignore the possibility of additional fuel savings that are likely to be achieved through the alternate and supplemental energy provision of FPL's contract with Southern. In a nutshell, the alternate energy provision entitles FPL to receive energy from less expensive coal units in the Southern system whenever it is available and more economical than the energy from the units specified in the contract. The supplemental energy provision entitles FPL to energy from other units to maintain FPL's capacity entitlements during periods when power from the units specified in the contract is unavailable. The savings from the alternate and supplemental savings would increase the cumulative present value of expected net savings from $851 million to $1.09 billion.

Second, we emphasize that while it is appropriate to assume incremental costs of capital, the issue of the appropriate cost of capital for the project is expressly reserved for decision at such time as the Company seeks actual recovery under the Rule. Nonetheless, since the effect of the Company's assumptions is to perhaps understate expected savings and perhaps overstate expected costs, the analysis, for qualification purposes, is valid, and we find that the Company has met its burden of proof on this issue.

The Most Economical Alternative Test

The next issue that must be considered is whether the proposed 500 KV line project is the most economical alternative available. Two distinct questions were raised concerning this point. The first is whether, looking beyond the 10 year horizon imposed by the Rule, deferral of the Martin and Unsited Units is cost beneficial to the ratepayers.

Mr. Scalf presented an analysis of the long term cost consequences of deferring the units in question. As shown in Exhibit 15, if the units are deferred until 1992 and beyond, the

breakeven point (the point at which cost increases due to deferral exceed cost savings from deferral) is reached in the year 2002. Mr. Scalf testified that he limited the analysis to the twenty year period, 1987-2007, because of the increasing uncertainties associated with forecasting much beyond 20 years. From this analysis, he concluded that deferral of the units was a prudent decision since ratepayers are expected to receive savings as a result of deferral for at least 15 years and advances in technology, or reductions in the cost or availability of capital may occur in intervening years which would push the breakeven point further toward the horizon.

We do not find Mr. Scalf's analysis persuasive because it does not cover the entire economic life of the plant. However, no witness disagreed with the truism that as long as the increased cost of construction does not exceed the increased cost of capital, deferral of the construction of a generation facility, until the capacity is needed, is a prudent economic decision, and in the best interest of the ratepayer.

The second question is whether it is more economical for FPL and their ratepayers, to purchase firm capacity from Southern or build new coal fired capacity itself. If FPL is paying Southern more than it would cost to build the Martin Units as originally planned and generate the electricity itself, the 500 KV line project might not be the most economical oil backout alternative available. However, Document 3 of Exhibit 11 shows that on a $ per KW basis, the capacity charges paid by FPL to Southern for coal by wire are less than the projected capacity carrying charges of the Martin and Unsited Units.

Finally, Mr. Scalf testified that there are no other oil backout projects that could be implemented within the next ten years that would produce the same level of savings to the ratepayers as the 500 KV line project, and that this project does not preclude other oil backout projects that prove technically and economically feasible. Public Counsel contended that FPL had not presented sufficient evidence as to other oil backout projects it may have considered in lieu of or in addition to the 500 KV line project. However, as stated by Mr. Scalf, the 500 KV line project was initiated to take advantage of what at this time appears to be a unique and short lived coal bubble and no other oil backout project during the same time period has surfaced which could be implemented during this time period and achieve an equivalent amount of savings. Therefore, we find the Company has shown by a preponderance of the evidence that the 500 KV line project is the most economical alternative available.

Waiver of Project Qualification Before Construction

Finally, to qualify the project under the Rule, the Commission must determine whether to waive the requirement that the Company obtain approval of cost recovery under the Rule before construction of the project begins. The evidence is clear that the Company made construction expenditure commitments and actually began construction well before the Rule was adopted. Both Public Counsel and FIPUG contended that since construction began before the Rule was adopted and since the Company has not absolutely conditioned continuation of the project on qualification for cost recovery under the Rule, there is no justification for waiving the requirement of prior approval.

Yet, we find persuasive justification for waiving this requirement of the Rule. Had the Company deferred construction of the lines until our Rule was adopted, it would not have possessed the ability to import coal by wire during the years it will be available for sale. Refusing to waive the prior approval requirement would amount to penalizing the Company for exercising diligence on behalf of its ratepayers, and this we decline to do. We find that waiver of the prior approval requirement, as permitted by subsection (3)(c) of the Rule is justified and the same is hereby granted.

Wholesale Rate Issues

Issues were raised at the prehearing conference as to whether FPL's wholesale customers will bear their proportionate share of the project's cost, how wheeling charges will be treated in cost recovery, and whether the cost of this project will be incorporated in FPL's wheeling rate. While Mr. Scalf testified on all three of these issues we find the record sufficient to support a finding only that FPL's wholesale customers will bear their proportionate share of the project's cost; we reserve decision on the latter issues.

Panel Size

This docket was originally assigned to a panel of five commissioners. Between the June and July hearings, the Chairman reassigned the case from five commissioners to two. Public Counsel questioned the legality of this. However, Section 350.01(5), Florida Statutes (1981), empowers the chairman to ". . . assign the various proceedings pending before the commission requiring hearings to two or more commissioners" in order to "distribute the workload and expedite the commission's calendar...." At the July hearing, the Chairman indicated that the case had been reassigned precisely to distribute the workload and to expedite the calendar, the other three commissioners not being available for the July hearing and all five not being available for several months. Therefore, we find the reduction of the size of the panel proper.

Conclusion

Having found that the primary purpose of the proposed 500 KV line project is the displacement of oil fired generation, that there is a cumulative present value of expected net savings within the first ten years of commercial operation of the project, and that the project is the most economical alternative available, we conclude, as a matter of law that the project qualifies for cost recovery under the provisions of the Oil Backout Cost Recovery Factor Rule, Rule 25-17.16, Fla. Admin. Code.

As previously noted, we reserve the issue of the appropriate cost of capital for the project to use in calculating the revenue requirements to be recovered through the Clause until such time as the Company seeks actual recovery through the Clause. And the issue of whether the Company should be authorized to commence cost recovery before the project is placed in commercial operation will be determined in the Company's pending rate case, Docket No. 820007-EU.

WHEREFORE, it is

ORDERED by the Florida Public Service Commission that the proposed 500 KV transmission line project qualifies for recovery under the provisions of the Oil Backout Cost Recovery Factor, Rule 25-17.16, Florida Administrative Code. It is further

ORDERED that Docket No. 820155-EU be and the same is hereby closed.

By Order of the Florida Public Service Commission, this 1st day of October 1982.

(S E A L)

BED

STEVE TRIBBLE
COMMISSION CLERK

820155-EC

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Florida Power & Light Company for approval to recover the cost of its 500 kV Transmission Project through an Oil-Backout Recovery Factor

RECEIVED
MAR 31 1982
COMMISSION CLERK

PETITION

Florida Power & Light Company ("FPL") petitions the Florida Public Service Commission (the "Commission") pursuant to Rule 25-17.16, Florida Administrative Code, and requests authority to recover the cost of its proposed 500 kV Transmission Line Project, which will span a distance of approximately 631 transmission line miles, from the Georgia/Florida border to Martin County (the "Transmission Project"), through an Oil-Backout Recovery Factor. In support of its petition, FPL respectfully represents the following:

1. FPL is an electric utility company, organized and existing under the laws of Florida and operating under the jurisdiction of the Commission. FPL's principal offices are located at 9250 West Flagler Street in Dade County, Florida; and its mailing address is Box 529100, Miami, Florida, 33152.

2. In anticipation of the savings to be attained by Florida electricity consumers, FPL has undertaken the planning, engineering, permitting, and construction of the Transmission Project, the primary purpose of which is to increase the importation and transfer of non-oil derived electric energy and to accomplish the economic displacement of oil-fired electrical generation in the FPL system and in the State of Florida.

3. The Transmission Project will be implemented in three phases. Phase I, jointly undertaken by FPL and Jacksonville Electric Authority, will be the Florida/Georgia state line - Duval 500 kV Lines and associated facilities and equipment. The first circuit of Phase I is planned to enter service by April, 1982; and the second circuit is planned to enter service by January, 1983. Phase II will be the Duval-Rice, Duval-Poinsett, Rice-Poinsett, and Martin-Poinsett 500 kV Lines and associated facilities and equipment which are planned to enter service by January, 1985. Phase III will be the Midway-Poinsett 500 kV Line and associated facilities and equipment which are planned to enter service by January, 1986.

Attachment 2

4. The Transmission Project cost, including the cost of related land and land rights, substations, and support electrical equipment, is currently estimated to be approximately $500 million. As a result of the completion of the Transmission Project and the importation of economical coal-by-wire, there will be a Cumulative Present Value of Expected Net Savings, as defined in Rule 25-17.16, Florida Administrative Code, to retail electrical customers in Florida within the first ten (10) years of commercial operation of the Transmission Project.

5. The Transmission Project is the most economical alternative available to FPL for the displacement of oil-fired electrical generation in Florida.

6. During the period 1982-1986, FPL's construction expenditures for the purpose of providing adequate and reliable electric service, not including the expenditures for the Transmission Project, are expected to be approximately $3.6 billion. The Transmission Project, initiated for the primary purpose of benefitting retail electrical customers by displacing oil generated electricity, represents a significant additional financial burden to the company. In order to preserve FPL's financial integrity in the face of the hardship to be caused by the cost of the Transmission Project, the Commission should authorize recovery through an Oil-Backout Cost Recovery Factor, commencing with the October 1982 through March 1983 six-month period, prior to the placement into commercial service of the Transmission Project.

WHEREFORE, FPL respectfully requests that the Commission grant its petition for authority to recover the cost of the Transmission Project through an Oil-Backout Recovery Factor.

Dated this 30th day of March, 1982.

FLORIDA POWER & LIGHT COMPANY

By E.L. Bivans
E.L. Bivans,
Vice President, System Planning

William T. Mutr
Matthew M. Childs, P.A.
William T. Mutr of
STEEL HECTOR & DAVIS
[illegible] Southeast Bank Building
[illegible]
[illegible] 577-2938

Its Attorneys

Before the
Florida Public Service Commission

In Re: Petition of the Florida Industrial Power Users Group to Discontinue Florida Power & Light Company's Oil Backout Cost Recovery Factor	)	Docket No. _____

AFFIDAVIT OF JEFFRY POLLOCK

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Jeffry Pollock, after first being duly sworn, deposes and states:

1. My name is Jeffry Pollock. I am a Principal in the firm of Drazen-Brubaker & Associates, Inc., and I am employed as a consultant in the field of utility rates and service.

2. I have been retained by the Florida Industrial Power Users Group to analyze the performance and experience of certain of Florida Power and Light Company's 500 KV transmission lines (i.e., the Transmission Project) in accomplishing fuel and/or net savings for FP&L's ratepayers since the lines were approved, pursuant to Commission Rule 25-17.16, F.A.C., as an oil backout project in 1982. In the course of my analysis, I have reviewed FP&L's Fuel and Purchased Power Oil Backout Filings; the Ten-Year Power Plant Site Plans; testimony presented by FP&L in the Nonfirm Load Methodology proceedings (Docket No. 870198-EI); FP&L's APH Filing (Docket No. 880004); FP&L's Surveillance Reports; and various FP&L Financial Reports.

3. When FP&L applied to the Commission for approval of the construction of the 500 KV transmission lines to Georgia as an Oil Backout project, it projected that the $335 million investment in the lines would economically displace oil-fired generation within the first ten years of commercial operation. The projected fuel savings of $3.5 billion (nominal) were predicated on the assumption that oil would become increasingly more expensive relative to the cost of importing coal-fired generation from the Southern Company (i.e., the coal-by-wire purchases). In addition, FP&L predicted that the Transmission Project would enable the utility to defer construction of three large coal-fired units by two years or more, and it claimed approximately $3.4 billion (nominal) of additional savings associated with the deferral of those units. Coupled with the additional capacity costs of the project (estimated to be $4.3 billion nominal), the total net savings, thus, were projected to be $2.6 billion (nominal). Based on the then net present

value of these projected savings, a substantial portion of which were related to fuel, the Commission authorized FP&L to recover the revenue requirements associated with the lines through a special energy charge (the Oil Backout Cost Recovery Factor) and to collect and apply two-thirds of any "net savings" as accelerated depreciation.

4. The projections on which approval of the lines as an Oil Backout project was based have not materialized. Instead, oil prices decreased dramatically. I have prepared as an exhibit to this affidavit Schedule 1, which compares projected and actual net savings associated with the Transmission Project. Schedule 1 demonstrates that even if the projected $3.5 billion of fuel savings had materialized, it would have been more than offset by the $4.3 billion capacity costs associated with the project (e.g., Transmission Project revenue requirements and Unit Power Sale demand charges). But for the alleged "deferral" savings, the Project would have failed the economic test because the ratepayers would have been charged $800 million in higher rates. On the basis of actual experience and current forecasts, the losses will be substantially higher than originally projected--$666 million through 1987 and $1,668 million through 1992. (These amounts were based on FP&L's own projections of oil prices and firm purchased power expenses.) The ratepayers, thus, have already absorbed $215 million, in higher rates than was assumed in FP&L's original 1982 projections, and can expect to absorb $870 million in higher rates by 1992. (Supporting analysis is provided in Schedules 2 and 3 of the exhibit to this affidavit.) These facts, along with the discussion below, demonstrate that the Transmission Project has failed to live up to the expectations which led the Commission to qualify it for special cost recovery under the Oil Backout Rule.

5. The principal source of savings projected for the Transmission Project was the expected difference between the energy cost of purchased power and the cost of oil-fired power. These projections took into account FP&L's forecast of oil prices, the price of purchased power, the quantities of power to be purchased, and load growth. Schedule 4 demonstrates that the failure of the project to produce the projected savings has not been due to any significant difference between actual and projected load growth. Similarly, there has been no material discrepancy between actual and projected amounts of purchased power (Schedule 5). As Schedule 6 depicts, the reason why projected savings have been supplanted by enormous losses lies in the radical difference between projected and actual oil prices.

6. In recent filings, FP&L has alleged that, since mid-1987, the Project has produced positive net benefits. These benefits, however, are associated with capacity costs related to the claimed deferral of three 700 MW coal units. These alleged "benefits," which have enabled FP&L to recover more than $90 million as accelerated depreciation, are illusory. My analysis demonstrates that the capacity deferral "savings" are nonexistent and that collection of the net savings, which is entirely attributable to the "deferred" 700 MW coal-fired units is inappropriate and unjustified.

7. The three coal-fired units in question--Martin 3 and 4 and 1-Unsited unit--are the same units that FP&L alleged that it would defer when it sought formal certification of its Oil Backout project. At the time of that application, these large, expensive coal units were part of FP&L's generation expansion plan. Since then, FP&L has significantly altered its generation expansion plan. I have compared FP&L's current generation expansion plan to the plan in effect at the time of its oil backout application in Schedule 7. The current plan includes the repowering of old units (Lauderdale Nos. 4 and 5), the return to service of Riviera No. 2 (which was on long-term reserve shutdown status), and possibly integrated coal gasification combined cycle units. The current plan does not include the two Martin coal units and the one Unsited unit on which FP&L has based the calculation and collection of net savings. In fact, FP&L has not included these 700 MW coal units in any of its Ten-Year Power Plant Site Plans since 1983.

8. As the Martin units are not now and have not been part of FP&L's generation expansion plan for some time, the "net savings" attributed to the deferral of those units is a spurious claim. Further, the Martin capacity is not needed because FP&L has extended its UPS Agreement with the Southern Company to at least the year, 2010. These purchases, in fact, are a vital cog in FP&L's current generation expansion plan (Source: FP&L's Ten-Year Power Plant Site Plan: 1988-1997). Extending the coal-by-wire purchases for an additional fifteen years means the UPS Agreements will be in effect for nearly twenty-eight years. Rather than a temporary source of capacity, the UPS Agreements are nearly the equivalent of owning base load generation--both from a planning and operating perspective. Because the coal-by-wire purchases can no longer be regarded as a temporary source of firm capacity (i.e., the Coal Bubble), the deferral argument, which may have seemed plausible when FP&L sought the certification of the lines as an Oil Backout project, has no factual basis. This alone should warrant the complete elimination of any capacity deferral savings from the OBCRF computation.

9. Significantly, the generation options which have supplanted the "deferred" units are far less expensive than the now fictitious Martin coal units. Whereas Martin 3 and 4 were projected to have an installed cost of $2.88 billion and a direct construction cost of $1.88 billion (equivalent to an installed cost of $2,054 per kW and a direct cost of $1,340 per kW), the components of the current plan would range in cost from $423 per kW to $533 per kW (Source: FP&L's Generation Expansion Planning Document, Docket No. 880004-EU, p. 25). Thus, even if the Commission determines that the Transmission Project defers capacity, the value is substantially below the "deferral savings" assumed in recent OBCRF filings.

10. The "deferral savings" claimed for the three 700 MW coal plants is a fiction and must be disallowed. Any Oil Backout revenues which have been predicated on such savings were collected without justification and should be refunded to customers. If the Commission determines to entertain any presentation of "deferral savings," the proper application of the Oil Backout Rule would be to require FP&L to base its analysis upon the options

in its present generation plan instead of a plan that became defunct long ago. The assumptions which were current at the time the project was qualified have no place in the calculation of actual savings if they are no longer valid. That is true of the oil prices used to determine actual fuel savings; it is equally true of the alternative generation costs used to determine any actual capacity savings.

11. Clearly, the Transmission Project has not economically displaced oil-fired generation--the objective which led it to be qualified as an Oil Backout project. The lines have accomplished very real benefits in the area of increased reliability. Because of the lines, FP&L's system is less vulnerable to the type of incidents which formerly would have caused severe outages. In addition, FP&L's spinning reserve requirement has decreased. These are the functions typically served by an investment in transmission capacity. The reliability benefits exemplify the reasons why the costs associated with a transmission line should--in the absence of some extraordinary circumstance--be allocated among customer classes and collected through base rates on a basis that appropriately reflects the demands which give rise to the need for the investment. Despite the significantly lower fuel savings which purportedly justified recovering the cost of transmission lines through an energy charge, FP&L continues to collect those costs from customers solely on the basis of the customers' energy consumption. Currently, high load factor customers are being required to pay--through a special energy charge--a disproportionate share of the cost of a major asset that has failed to provide the promised fuel savings but that does provide significant reliability benefits to all customers. For this reason, FP&L's Oil Backout charge is particularly unjust and unreasonable to high load factor customers. No justification exists for treating the investment in the "Oil Backout" transmission lines any differently than the treatment afforded any other transmission line costs being recovered through FP&L's base rates.

12. FP&L includes a return on equity of 15.6% in the calculation of the revenue requirements associated with the 500 KV transmission lines which comprise the Transmission Project. However, FP&L excludes the Transmission Project investment and revenues from the calculation of the system rate of return reflected in its monthly Surveillance reports. This exclusion has had the effect of understating the return resulting from actual overall operations.

FP&L has also refused to apply the "voluntarily reduced" return on equity of 13.6% to the Oil Backout investment for purposes of calculating the tax savings refund due customers under Rule 25-14.003, F.A.C. For 1987, FP&L's exclusion of the Oil Backout revenues from these calculations had the effect of lowering the indicated rate of return under the new tax rate from about 9.78% to 9.65% and of reducing the tax savings refund by approximately $18.8 million (from $72.0 million to $53.2 million). FP&L has stated that it intends to continue to exclude the Oil Backout investment and revenues from the application of the stipulated rate of return of 13.6% for purposes of the tax savings refund for future periods.

Further, Affiant sayeth naught.

Jeffry Pollock

Jeffry Pollock

Subscribed and sworn to before me this 17th day of January, 1989.

Virginia D. Robinson

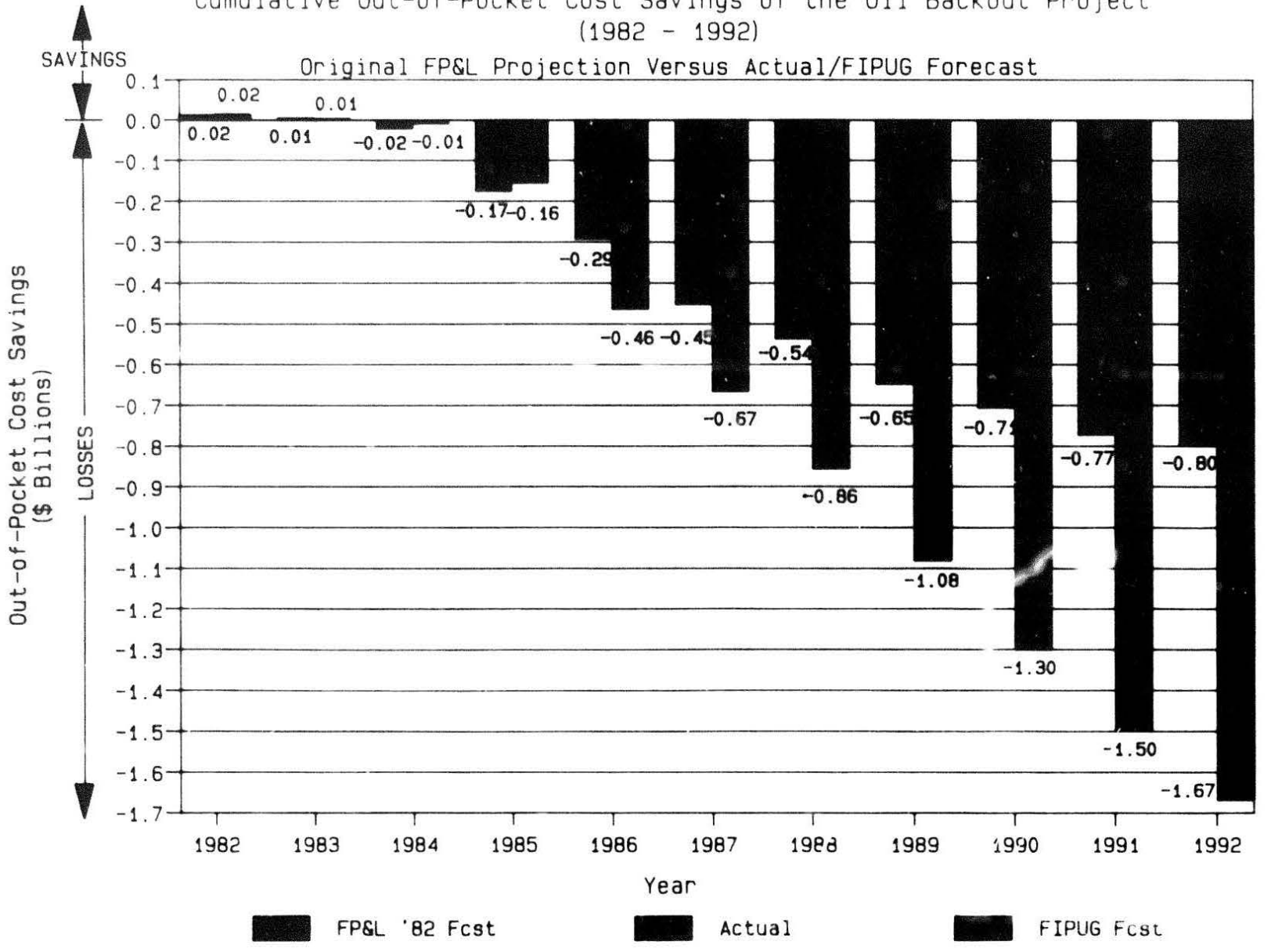
Notary Public

My Commission expires March 4, 1992.

FLORIDA POWER & LIGHT COMPANY

Cumulative Out-of-Pocket Cost Savings of the Oil Backout Project
(1982 - 1992)

Original FP&L Projection Versus Actual/FIPUG Forecast



Schedule 1
Page 1 of 2

FLORIDA POWER & LIGHT COMPANY

Comparison of Actual and Estimated Oil-Backout Savings (Losses)
With FP&L's Original 1982 Forecast
Excluding Generation Deferral Benefits
(Dollar Amounts in Thousands)

Line	Year	FP&L's Original Forecast		Actual/Current Estimate		Difference in Accumulated Savings or (Loss)
		Annual Net Savings or (Loss)	Accumulated Net Savings or (Loss)	Annual Net Savings or (Loss)	Accumulated Net Savings or (Loss)	
		(1)	(2)	(3)	(4)	(5)
1	1982	$14,520 a	$14,520	$16,541 b	$16,541	$2,021
2	1983	(8,265)a	6,255	(11,460)b	5,081	(1,174)
3	1984	(27,030)a	(20,775)	(13,806)b	(8,725)	12,050
4	1985	(153,386)a	(174,161)	(146,221)b	(154,946)	19,215
5	1986	(116,868)a	(291,029)	(308,115)b	(463,061)	(172,032)
6	1987	(159,868)a	(450,897)	(202,872)b	(665,933)	(215,036)
7	1988	(85,366)a	(536,263)	(189,955)c	(855,886)	(319,625)
8	1989	(111,007)a	(647,270)	(224,335)c	(1,080,223)	(432,953)
9	1990	(58,740)a	(706,010)	(219,445)c	(1,299,668)	(593,658)
10	1991	(65,867)a	(771,877)	(199,471)c	(1,499,138)	(727,261)
11	1992	(26,017)a	(797,894)	(169,247)c	(1,668,385)	(870,491)

Notes: (a) Forecast - J. L. Howard Testimony, Docket No. 820155-EU, Document No.9, page 1, column L (Uses FCG oil price forecast), minus E. L. Hoffman/J. E. Scalf, Late Filed Exhibit No. 6X, Docket No. 840001-EI, line M.

(b) Actual: E. L. Hoffman & J. E. Scalf Testimony, Per Docket Nos. 830001-EU, 840001-EU, 840001-EI, 850001-EU, 860001-EI, 870001-EI, 880001-EI, Schedule OB-C1

(c) Estimated by FIPUG. Refer to Schedule 2, column (8).

Schedule 1
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FLORIDA POWER & LIGHT COMPANY

Estimated Future Oil-Backout Savings (Losses)
(1988 - 1992)

Line	Year	Estimated Annual Purchases (GWh)	Estimated Purch Pwr Price (¢/kWh)	Estimated Purch Pwr Cost (000)	Forecast Oil Price ($/MMBTU)	Oil-Fired HeatRate (BTU/kWh) (e)	Estimated Oil-Fired Gen Price (¢/kWh) (f)	Estimated Oil-Fired Gen Cost (000)	Estimated Savings or (Loss) (000)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	1988	12,872 a	4.499 b	$579,111	$3.12 d	10,200	3.02	$389,157	$(189,955)
2	1989	15,657 a	4.679 b	732,585	3.35 d	10,200	3.25	508,250	(224,335)
3	1990	15,599 a	4.866 b	759,066	3.57 d	10,200	3.46	539,621	(219,445)
4	1991	15,682 a	5.061 b	793,629	3.91 d	10,200	3.79	594,158	(199,471)
5	1992	15,713 a	5 263 b	827,006	4.32 d	10,200	4.19	657,759	(169,247)

Notes: (a) From FP&L's 1988 Generation Expansion Planning Document, page 169, column (8).
(b) Uses FP&L's purchased power energy cost forecast (Refer to Schedule 3, column (5),) and the 1987 capacity cost per kWh.
(c) Actual, from FP&L's 1987 Financial & Statistical Report, p. 33.
(d) From FP&L's 1988 Generation Expansion Planning Document, page 107.
(e) From J. E. Scalf testimony, Docket No. 820155-EU, Document 5, footnote.
(f) Using 95% of the price of 1% sulfur oil as a proxy for FP&L's composite oil price.

FLORIDA POWER & LIGHT COMPANY

Resources Costs
($/MWh)

Line	Year	Nuclear	Oil	Gas	Coal	Purchases
		(1)	(2)	(3)	(4)	(5)
1	1983	$4.60	$42.55	$23.74	-	$30.40 a
2	1984	6.63	45.09	35.95	-	31.02 a
3	1985	7.01	42.02	34.23	-	28.78 a
4	1986	8.13	22.97	20.95	$14.34	26.52 a
5	1987	7.36	29.20	28.47	16.52	21.00 a
6	1988	6.80	29.84	28.08	14.75	22.80 a
7	1989	6.48	32.04	30.37	15.18	21.31 a
8	1990	6.37	34.14	32.78	15.70	21.67 a
9	1991	6.15	37.39	35.97	16.47	21.58 a
10	1992	6.37	41.31	39.88	17.50	21.37 a
11	1993	6.37	45.71	44.34	18.44	21.72 a
12	1994	6.37	50.21	48.89	19.47	23.51 a
13	1995	6.48	54.99	53.75	20.58	24.20 a
14	1996	6.37	60.16	58.83	21.70	25.03 a
15	1997	6.37	65.89	64.53	22.90	24.90 a

Notes: (a) Excludes capacity costs.

Source: For years 1983 - 1987, FP&L's 1987 Financial & Statistical Report, page 33.
For years 1988 - 1997, FP&L's 1988 Generation Expansion Planning Document, pages 107, 110, and 111.

Schedule 3

FLORIDA POWER & LIGHT COMPANY

Comparison of FP&L's Actual Load Growth and Energy Consumption
With FP&L's Forecast of 1982

Line	Year	1982 Forecast (MW)	Actual Experience (MW)	Difference Amount	Difference Percent	1982 Forecast Net Energy (GWh)	Actual Experience Including Losses (GWh)	Difference Amount	Difference Percent	1988 Forecast Demand Without LM&QF	1988 Forecast Demand With LM&QF	1988 Forecast Net Energy for Load
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	1982	10,123	9,893	(230)	-2.3%	52,110	50,532	(1,578)	-3.0%			
2	1983	10,523	10,676	153	1.5%	54,246	52,500	(1,746)	-3.2%			
3	1984	10,923	10,270	(653)	-6.0%	56,394	53,149	(3,245)	-5.8%			
4	1985	11,321	10,654	(667)	-5.9%	58,526	55,998	(2,528)	-4.3%			
5	1986	11,695	11,022	(673)	-5.8%	60,855	58,266	(2,589)	-4.3%			
6	1987	12,045	12,394	349	2.9%	63,277	61,616	(1,661)	-2.6%			
7	1988	12,382	12,353	(29)	-0.2%	65,810				12,139	12,058	63,688
8	1989	12,729				68,458				12,457	12,355	66,181
9	1990	13,085				71,210				12,867	12,715	68,856
10	1991	13,445				74,082				13,273	13,069	71,379
11	1992	13,805				76,737				13,726	13,431	74,246
12	1993									14,117	13,706	76,687
13	1994									14,564	14,025	79,000
14	1995									14,877	14,211	81,171
15	1996									15,216	14,429	83,509
16	1997									15,605	14,682	85,753

Source: 1982 Forecast - J. E. Scalf Testimony, Docket No. 820155-EU, Document No. 10, Page 1
Actual - FP&L's Financial and Statistical Report; Peak, p. 32; Energy, p. 30
1988 Forecast - FP&L's Generation Expansion Planning Document, Docket No. 880004-EU, Page 103, Column 2 (Most Probable Case).

FLORIDA POWER & LIGHT COMPANY

Comparison of FP&L'S Actual Capacity and Energy Purchases
and FP&L'S Original 1982 Forecast
(Purchases from Jacksonville Electric Authority are excluded
from both Forecast and Actual values)

		Capacity Purchased, MW				Energy Purchased, GWh					
				Difference		Forecast		Actual		Difference	
Line	Year	Forecast	Actual	MW	As % of Forecast	Annual	Accum	Annual	Accum	Accum GWh	As % of Fcst Accum
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	1982	650	650	0	0.0%	2,052	2,052	1,414	1,414	(638)	-31.1%
2	1983	950	653	(297)	-31.3%	6,595	8,647	6,234	7,648	(999)	-11.6%
3	1984	950	963	13	1.4%	6,642	15,289	8,465	16,113	824	5.4%
4	1985	2,000	2,018	18	0.9%	13,177	28,466	15,448	31,561	3,095	10.9%
5	1986	2,000	2,025	25	1.3%	13,293	41,759	9,669	41,230	(529)	-1.3%
6	1987	2,000	2,033	33	1.7%	13,951	55,710	15,392	56,622	912	1.6%
7	1988	2,000	2,050	50	2.5%	13,996	69,706	8,762 a	65,384	(4,322)	-6.2%
8	1989	2,000	2,050 b	50	2.5%	14,169	83,875	14,169 c	79,553	(4,322)	-5.2%
9	1990	2,000	2,050 b	50	2.5%	14,303	98,178	14,303 c	93,856	(4,322)	-4.4%
10	1991	2,000	2,050 b	50	2.5%	14,314	112,492	14,314 c	108,170	(4,322)	-3.8%
11	1992	2,000	2,050 b	50	2.5%	13,984	126,476	13,984 c	122,154	(4,322)	-3.4%

Notes: (a) Estimated from three months usage.
(b) Assumed to continue at 1988 levels.
(c) Assumed equal to Forecast values for purpose of illustration.

FLORIDA POWER & LIGHT COMPANY

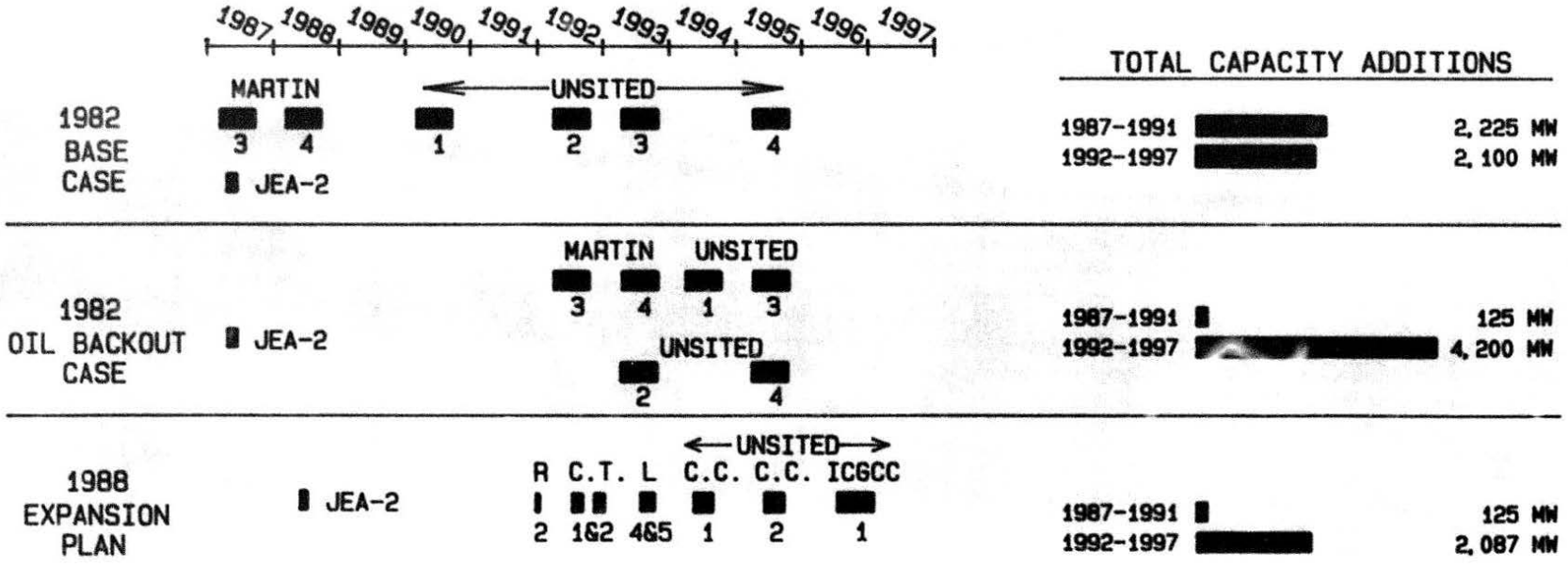
Comparison of FP&L's Actual/Estimated Composite Oil Prices,
With FP&L's 1982 Oil Price Forecast

Line	Year	Forecast(a) ($/Bbl)	Actual or '88 Forecast ($/Bbl)	Difference Amount ($/Bbl)	Difference Percent
		(1)	(2)	(3)	(4)
1	1982	$26.41	$27.14 b	$ 0.73	2.8%
2	1983	26.56	26.95 b	0.39	1.5%
3	1984	28.20	28.38 b	0.18	0.6%
4	1985	28.93	25.83 b	-3.10	-10.7%
5	1986	32.12	14.67 b	-17.45	-54.3%
6	1987	41.62	18.42 b	-23.20	-55.7%
7	1988	51.81	18.84 c	-32.97	-63.6%
8	1989	55.41	20.20 c	-35.21	-63.5%
9	1990	59.71	21.56 c	-38.15	-63.9%
10	1991	64.27	23.57 c	-40.70	-63.3%
11	1992	68.87	26.06 c	-42.81	-62.2%

Notes: (a) From M.C. Cook Testimony, Docket No. 820155-EU, Document No.5, Page 1
(b) Actual, from E. L. Hoffman J. E. Scalf Testimony, Docket Nos. 830001-EU, 840001-EI, 850001-EI, 860001-EI, 870001-EI, 880001-EI.
(c) 95% of FP&L's March, 1988 forecast prices for 1.0% sulfur oil, taken as a proxy for FP&L's composite oil cost.

FLORIDA POWER & LIGHT COMPANY

STATUS OF DEFERRED COAL-FIRED CAPACITY



DEFERRED BASE LOAD COAL-FIRED UNITS INCLUDED IN OBCRF

OTHER PLANNED BASE LOAD COAL-FIRED UNITS

ACTUAL COAL-FIRED UNITS IN SERVICE

OTHER PLANNED GENERATION