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ORIGINAL
FILE COPY

November 15, 1990

Mr. Steve C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: ~~Docket No. 900709-EQ~~

Dear Mr. Tribble:

Enclosed for filing in the above-referenced dockets on behalf of Indiantown Cogeneration, L.P. are the original and fifteen copies of ICL's Prehearing Statement.

By copy of this letter, this document has been furnished to the parties on the attached service list.

Very truly yours,

Richard D. Melson
Richard D. Melson

- ACK
- AFA _____
- APP _____
- CAF _____
- CMU _____
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- Enclosure
- EXP cc: Parties of Record
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10235 NOV 15 1990
REC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition for determination)
of need for proposed electrical power) Docket No. 900709-EQ
plant and related facilities, Indiantown)
Project, by FLORIDA POWER & LIGHT COMPANY) Filed: Nov. 15, 1990
and INDIANTOWN COGENERATION, L.P.)
_____)

INDIANTOWN COGENERATION, L.P.'s
PREHEARING STATEMENT

Indiantown Cogeneration, L.P. (ICL) hereby submits its Prehearing Statement in the above-captioned docket pursuant to the requirements of Order No. 23710.

A. Known Witnesses. ICL will present the direct testimony of the following witnesses:

<u>Witness</u>	<u>Issues</u>	<u>Subject Area</u>
J.P. Kearney	1, 7, 13, 17	Overview of ICL and Indiantown Project; corporate strengths and experience of ICL and PGE/Bechtel; policy matters.
S.A. Sorrentino	1, 7, 8, 9, 10, 13, 15, 17	Details of Indiantown Project; project site; plant facilities; power sales agreement; steam customer; fuel supply; interconnection; associated facilities; project cost and schedule; benefits of project.
J.P. Cooper	1, 7, 13, 17	Project financing structure; ability to finance project.

ICL will identify its rebuttal witnesses by the due date for rebuttal testimony, October 21, 1990.

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ICL reserves the right to file supplemental testimony to provide updated information on the status of its project.

B. Known Exhibits. ICL will sponsor the following exhibits as part of its direct case:

<u>Witness</u>	<u>Exhibit</u>	<u>Title</u>
Kearney	---	Portions of Exhibit 1 to Joint Petition to Determine Need for Electrical Power Plant (August, 1990) <ul style="list-style-type: none">o Sections 1.1.1 to 1.1.3
	JPK-1	Organization Structure
	JPK-2	Bechtel Cogeneration Projects
	JPK-3	PGE/Bechtel Generating Company Advanced Projects
	---	Map of PGE/Bechtel Generating Company Projects
Sorrentino	---	Portions of Exhibit 1 to Joint Petition to Determine Need for Electrical Power Plant (August, 1990) <ul style="list-style-type: none">o Section 1.0 (portions relating to ICL)o Sections 1.3.1 to 1.3.8o Section 1.3.10o Section 1.6
	---	Photograph of Plant Site
	SAS-1	Location Map
	SAS-2	Site Plan
	SAS-3	Comparison Between ICL Contract and Standard Offer Contract
	SAS-4	ICL Project Schedule

- Letter of Intent with Caulkins
Citrus
- Agreement in Principle with Caulkins
Citrus
- Letter of Intent with CSX Railroad
- Letter of Intent with Indiantown Gas
- Land Option with Post/Wall
- Land Option with Florida Steel

ICL will identify its rebuttal exhibits by the due date for filing rebuttal testimony, October 21, 1990.

ICL reserves the right to submit additional exhibits to respond to any new issues raised by other parties to these dockets and to identify demonstrative exhibits by the time of the prehearing conference. ICL also reserves the right to identify cross-examination exhibits following the completion of discovery.

C. Basic Position. Indiantown Cogeneration, L.P. (ICL) has negotiated a comprehensive and detailed Agreement for Purchase and Sale of Capacity and Energy ("Agreement") with Florida Power & Light Company (FPL). Under the Agreement, ICL will provide 270-330 MW of firm capacity and energy to FPL from its Indiantown Project, a coal-fired cogeneration plant located in Martin County, Florida. The anticipated commercial operation date for the project is December 1, 1995. The capacity provided by the project will contribute to deferral of a 1996 IGCC unit that FPL would

otherwise have required. The project will supply up to 215,000 pounds/hour of steam to Caulkins Citrus processing plant, and will be a qualifying facility under PURPA.

The Indiantown Project is the most cost-effective alternative available to FPL for meeting a portion of its 1996 capacity need, saving over \$90 million compared to FPL's avoided cost for a comparable amount of IGCC capacity. The project also provides savings of approximately \$67 million compared to the statewide avoided unit priced with no risk factor, before quantification of the value of ICL's location, dispatchability and other benefits.

The Indiantown Project and related Agreement include a number of benefits and risk reduction factors that provide significant value to FPL and its ratepayers compared to standard offer contracts generally, and to the proposed Nassau Power project in particular. In a cost-effectiveness evaluation, these benefits clearly outweigh any price difference between the two projects.

The benefits and risk reduction factors, which are discussed in more detail under Issues 1 and 13, include: (a) project sponsors with substantial experience in all phases of the electric power business; (b) a project at a relatively advanced stage of project development; (c) a location close to FPL's load center, which reduces losses

and minimizes impact on the transmission grid and improves system reliability; (d) dispatchability by FPL; (e) a proven coal technology that uses a stable, domestically-sourced fuel; (f) pay-for-performance provisions with substantial incentives for high capacity factor and on-peak performance; (g) operational and other provisions designed to ensure the capability for high capacity factor operation; and (h) numerous financial provisions, restrictions, and security provisions designed to protect PPL and its ratepayers.

D. - G. Issues. ICL submits its position on the following issues identified by the parties and incorporated in Order No. 23710. As indicated below, ICL believes that the additional issue proposed by Nassau Power in its Memorandum to Parties dated November 7, 1990 is not necessary to the disposition of this case, and should be stricken by the Prehearing Officer.

ISSUE 1: Has ICL provided sufficient information on the site, technology and status of project development of the Indiantown Project to enable the Commission to evaluate its proposal?

ICL Position: Yes. The plant site is located in southwestern Martin County, about three miles northwest of Indiantown, and adjacent to Caulkins Citrus processing plant, the steam customer for the facility. ICL has options to purchase the two parcels of land comprising the site, which totals approximately 325 acres. The site is adjacent to the CSX Railroad. The existing Martin-Indiantown 230kV transmission line, to which the project will be interconnected, crosses the site. The plant will use proven pulverized coal technology, which uses a stable, domestically-sourced

fuel. The Site Certification Application for the plant, which is based on preliminary engineering design data, is scheduled for submission to DER in December, 1990.

The project's sponsors are subsidiaries of Pacific Gas & Electric Company and Bechtel Group, Inc., who together have significant experience in all aspects of the electric generation business, including the construction and operation of power plants. The sponsors have agreed to a structure which will include a minimum of 10% equity and the project is being structured to make it readily financeable on a project finance basis.

The project is at an advanced stage of development. ICL has a power sales agreement signed after 18 months of negotiation; an agreement in principle with its steam customer; a letter of intent from the CSX railroad for fuel transport; a letter of intent from Indiantown Gas for gas supply for start-up operations and supplemental firing; and expressions of interest from a number of potential coal suppliers. (Kearney, Sorrentino, Cooper)

ISSUE 2: Are the reliability criteria used by FPL to determine its need for 270-330 MW of capacity in 1996 to be satisfied by the proposed Indiantown Project reasonably adequate for planning purposes?

ICL Position: Yes. ICL understands that the dual criteria of loss of load probability and reserve margin used by FPL were recently found appropriate for planning purposes in the need determination proceedings for the repowering of Lauderdale Unit Nos. 4 and 5 (Docket No. 890973-EI) and the construction of Martin Unit Nos. 3 and 4 (Docket No. 890974-EI).

ISSUE 3: Is the load forecast used by FPL to determine its need for 270-330 MW of capacity in 1996 to be satisfied by the proposed Indiantown Project reasonably adequate for planning purposes?

ICL Position: Yes. ICL understands that the load forecast and load forecast methodology used by FPL were recently found appropriate for planning purposes in the need determination proceedings for the repowering of Lauderdale Unit Nos. 4 and 5 (Docket No. 890973-EI) and the construction of Martin Unit Nos. 3 and 4 (Docket No. 890974-EI).

ISSUE 4: Does FPL, as an individual utility interconnected with the statewide grid, exhibit a need for additional capacity in 1996?

ICL Position: Yes. ICL understands that FPL's studies show a need for additional capacity in 1995 in order to maintain adequate system reliability.

ISSUE 5: Does FPL, as an individual utility interconnected with the statewide grid, have a need by 1996 for the additional 270-330 MW of capacity represented by the Indiantown Project?

ICL Position: Yes. ICL understands that FPL's studies show a need for approximately 900 MW of capacity by 1996 (over and above the capacity previously certified by this Commission) in order to maintain adequate system reliability. The Indiantown Project will contribute 270-330 MW toward meeting this capacity need.

ISSUE 6: Are there any adverse consequences to FPL and its customers if the proposed Indiantown Project is not completed in the approximate time frame provided in the power purchase agreement with ICL?

ICL Position: Yes. ICL understands that the failure to have the 270-330 MW of capacity represented by the Indiantown Project in service by 1996 would cause FPL's system reliability to degrade to unacceptable levels in 1996 and would increase the likelihood of service interruptions.

ISSUE 7: Would the proposed Indiantown Project and the purchase of power pursuant to the ICL/FPL contract contribute to the reliability and integrity of FPL's electric system?

ICL Position: Yes. The ICL project and contract will provide a highly reliable source of power to FPL. The project is located close to FPL's load center and can be easily integrated into the electric grid in a way that will contribute to system integrity and reliability. As a coal-fired facility, the project makes use of a stable, domestically-sourced fuel supply which increases reliability. The project's sponsors have significant experience in all aspects of the electric power

generation business and have agreed to a financial structure with a minimum of 10% equity. In addition to dispatchability, the agreement between FPL and ICL contains a number of operational provisions, pay-for-performance provisions, and security provisions that are designed to ensure its timely commercial operation and reliable, long-term operation. (Kearney, Sorrentino, Cooper)

Adequate Electricity at Reasonable Cost

ISSUE 8: Would the proposed Indiantown Project and the proposed purchased power agreement between ICL and FPL reliably provide electricity to FPL at a reasonable cost to assist FPL in providing reliable service to its customers?

ICL Position: Yes. The Indiantown Project will be designed for reliable, high capacity factor operation. The unit design and maintenance plans will be reviewed by independent engineers to ensure that the facility is capable of maintaining a minimum 87% capacity billing factor. The combination of dispatchability by FPL and pay-for-performance provisions with substantial incentives for high capacity factor operation and on-peak performance will ensure that the facility will be available to meet FPL's needs. This capacity and energy comes at a reasonable cost, at savings of approximately \$90 million compared to FPL's own avoided unit. (Sorrentino)

ISSUE 9: Is the fuel price forecast used by FPL to compare power supply alternatives reasonable for planning purposes?

ICL Position: ICL understands that the fuel price forecast methodology used by FPL and the resultant forecast used to compare power supply alternatives were recently found appropriate for planning purposes in the need determination proceedings for the repowering of Lauderdale Unit Nos. 4 and 5 (Docket No. 890973-EI) and the construction of Martin Unit Nos. 3 and 4 (Docket No. 890974-EI). While that forecast was used to evaluate alternatives to the Indiantown Project, it is not used directly to forecast the energy cost from the project, since that energy cost is fixed by the terms of the power sales agreement. (Sorrentino)

ISSUE 10: Does ICL's fuel selection and fuel procurement plan provide adequate assurances regarding the availability of fuel for the Indiantown Project?

ICL Position: Yes. ICL plans to procure coal, a stable, domestically-sourced fuel, from one or more coal suppliers in the Southern Appalachian coal region of Kentucky, Virginia and West Virginia. ICL intends to issue a request for proposals for fuel supply during mid-1991. Based on a preliminary solicitation of statements of qualification, ICL has already received expressions of interest from a number of potential coal suppliers. ICL is contractually obligated to FPL to provide a minimum of 50% of the plant's coal requirement of approximately 1,000,000 tons/year under firm long-term contracts, and anticipates that a substantially higher percentage may be contracted for on a firm basis. ICL has a letter of intent from the CSX Railroad, whose rail line is adjacent to the site, to provide fuel transportation. In addition, ICL has a letter of intent from Indiantown Gas for gas supply for start-up and supplemental firing. (Sorrentino)

ISSUE 11: Will the Indiantown Project contribute toward maintaining adequate fuel diversity for FPL's system?

ICL Position: Yes. ICL understands that a significant percentage of FPL's energy is produced by oil and gas fired resources. The addition of another 270-330 MW of coal-fired capacity will contribute toward maintaining adequate fuel diversity for FPL's system.

Cost-Effective Alternatives

ISSUE 12: Has FPL reasonably considered alternative supply side sources of capacity?

ICL Position: Yes. ICL understands that FPL has considered numerous alternative supply side sources of capacity, including utility-constructed units and other QF-supplied capacity.

ISSUE 13: Is the Indiantown Project and the purchased power agreement between ICL and FPL the most cost-effective means of meeting 270-330 MW of FPL's 1996 capacity need, taking into account risk factors that are part of the cost-effectiveness analysis?

ICL Position: Yes. The Indiantown Project and the purchased power agreement between ICL and FPL is the most cost-effective means of meeting 270-330 MW of FPL's 1996 capacity need. The Indiantown Project provides savings of \$90 million compared to FPL's own avoided cost.

The Indiantown Project also provides savings of \$67 compared to the full cost of the statewide avoided unit when both units are assumed to run at the 70% capacity factor required by a standard offer contract. The Indiantown Project has been calculated to cost \$61 million more than the statewide avoided unit when a 20% risk factor is included in the avoided unit pricing. However, the calculated savings versus the statewide avoided unit do not include: (1) the value of location near FPL's load center, which is significant when compared to particular standard offer projects, such as Nassau Power's project located in extreme North Florida; (2) the value of the Indiantown Project's expected on-peak performance; or (3) the value to FPL and its ratepayers of the dispatchability of the Indiantown Project.

The calculated savings versus the statewide avoided unit also do not include any quantification of the numerous features of the Indiantown Project and its power sales agreement that reduce the risks associated with the project and provide benefits to FPL and its ratepayers versus a standard offer contract such as the Nassau Power project.

These project-related factors include, in addition to the favorable location near FPL's load center, sponsorship by an organization with substantial experience in all phases of the electric power business and a proven coal-fired technology which uses a stable, domestically-sourced fuel. They also include the fact that the project is at a relatively advanced stage of development. For example, ICL has a power sales agreement signed after 18 months of negotiation; an agreement in principle with its steam customer; options to purchase the property on which the plant will be located; a letter of intent from the CSX railroad for fuel transportation; a letter of intent from Indiantown Gas for gas supply for start-up operations and supplemental firing; and expressions of interest from a number of potential coal suppliers. ICL plans to file its Site Certification Application with DER during December, 1990.

The agreement-related factors include -- in addition to dispatchability by FPL -- the following: the contract is on a pay-for-performance basis with substantial incentives for high capacity factor and on-peak performance; maintenance scheduling will be coordinated with FPL; ICL's construction and maintenance plans will be reviewed by independent engineers to ensure the capability for high capacity factor operation; ICL has agreed with FPL to meet contractual milestones and to provide \$9 million as security for \$750,000 per month in liquidated damages if ICL fails to begin commercial operation according to the terms and conditions of the agreement; and ICL has agreed to provide substantial financial assurances to FPL to support long-term operation of the project, including a \$5 million cash reserve fund to ensure continued OF status, a \$30 million cash reserve fund to support major overhauls of the plant, a second mortgage on the project in favor of FPL, a 10% minimum equity requirement, and other financial provisions and restrictions.

These project-related and agreement-related benefits are in contrast to the Nassau Power project. That project is not dispatchable. It has no incentive to operate at greater than the required minimum 70% capacity factor, since it will be paid no more than coal energy prices for incremental output when its energy costs are based on natural gas prices. Its sponsors have narrow experience in the electric power industry. It has an unfavorable location in relation to FPL's load center. It is at a less advanced stage of project development, with no commitment from a steam host. Its standard offer contract provides significantly less protection for FPL and its ratepayers than the negotiated contract for the Indiantown Project. For example, Nassau Power has no liability to FPL, other than for breach of contract, if its project is delayed or abandoned, either before or after its scheduled in-service date. The contract lacks the numerous operational provisions, pricing incentives, financial restrictions, and security provisions that are offered by the contract for the Indiantown Project. While it is difficult to place a precise value on each of these factors, in the aggregate they clearly outweigh the approximately \$61 million higher cost calculated for the Indiantown Project. Furthermore, the fact that the Nassau Power contract specifies a capacity commitment of only 435 kW makes the status and value of the entire contract uncertain. (Kearney, Sorrentino, Cooper)

ICL reserves the right to supplement this position following the completion of discovery.

Conservation

ISSUE 14: Did FPL's power supply plan reasonably consider the ability of conservation or other demand side alternatives to mitigate the need by 1996 for the capacity represented by the Indiantown Project?

ICL Position: ICL adopts the position of FPL on this issue.

Associated Facilities

ISSUE 15: What off-site associated facilities are required in connection with the development of the Indiantown Project?

ICL Position: The Project will interconnect with the existing Martin-Indiantown 230kV transmission line which crosses the plant site. No off-site transmission facilities will be required. An approximate 20-mile water transmission line will be required in existing railroad right of way to transport agricultural waste water to the site from the Taylor Creek-Nubbin Slough. (Sorrentino)

Peninsular Florida Issue

ISSUE 16: Is the capacity to be provided by the Indiantown Project reasonably consistent with the needs of Peninsular Florida, taking into consideration timing, impacts on the reliability and integrity of the Peninsular Florida grid, cost, fuel diversity, and other relevant factors?

ICL Position: ICL adopts the position of FPL on this issue.

Ultimate Issue

ISSUE 17: Based on the resolution of the above issues, should the joint petition of ICL and FPL for determination of need for the Indiantown Project be granted?

ICL Position: Yes. The Indiantown Project will provide a reliable, cost-effective source of power to FPL to contribute to meeting its 1996 capacity needs.
(Kearney, Sorrentino, Cooper)

Nassau Power's Proposed Issue

ISSUE A: Does FPL have a need for additional capacity in 1996 from a statewide perspective?

ICL objects to the inclusion of this issue and requests that it be stricken by the Prehearing Officer. First, the FPL and Peninsular Florida need can be addressed under existing issues 4, 5, and 16. Second, the wording of the issue assumes that FPL has a need from a statewide perspective that is different than its need from an individual utility perspective. While ICL does not agree with that assumption, the resolution of that issue is not relevant to the need for the Indiantown Project, and is thus beyond the scope of the proper issues in this case.

H. Stipulations. ICL is not aware of any issues to which the parties have stipulated.

I. Pending Motions. ICL does not have any pending motions that require action by the Prehearing Officer. As indicated above, ICL intends to request the additional issue proposed by Nassau Power be stricken by the Prehearing Officer.

J. Requirements of Order. ICL believes this prehearing statement is fully responsive to the requirements of Order No. 23710.

RESPECTFULLY SUBMITTED this 15th day of November, 1990.

HOPPING BOYD GREEN & SAMS

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CERTIFICATE OF SERVICE

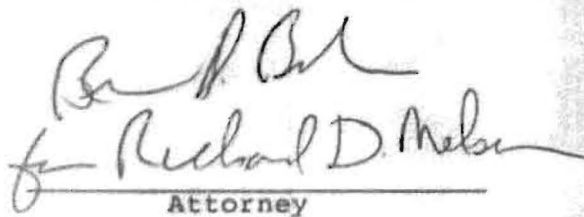
I HEREBY CERTIFY that a true and correct copy of the foregoing was sent by hand-delivery this 15th day of November, 1990, to the following:

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