

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Florida Power &)
Light Company for Inclusion of the)
Scherer Unit No. 4 Purchase in Rate)
Base, Including an Acquisition)
Adjustment)
_____)

Docket No. 900796-EI
Filed: November 21, 1990

DIRECT TESTIMONY OF

ROBERT SCHEFFEL WRIGHT

ON BEHALF OF

THE CITIZENS OF THE STATE OF FLORIDA

Respectfully submitted,

Jack Shreve
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400
(904) 488-9330

Attorneys for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE

10421 NOV 21 1990

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 900796-EI, PETITION OF FLORIDA POWER & LIGHT COMPANY
FOR INCLUSION OF THE SCHERER UNIT NO. 4 PURCHASE IN
RATE BASE, INCLUDING AN ACQUISITION ADJUSTMENT

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 Q: Please state your name, occupation, and business address.

2 A: My full name is Robert Scheffel Wright. I am employed as Vice
3 President and Principal Consultant with the consulting firm,
4 West Park Group, Inc. The firm's business address is 501 West
5 Tennessee Street, Suite D, Tallahassee, Florida 32308. I am
6 also employed as Resident Economist and Special Consultant on
7 regulatory and economic matters with the law firm of Wiggins &
8 Villacorta, Post Office Drawer 1657, Tallahassee, Florida
9 32302.

10 Q: Please describe your educational background and work
11 experience.

12 A: For a thorough discussion of my educational background and
13 pertinent work experience, please see Appendix A,
14 Qualifications of Robert Scheffel Wright.

15 Q: What is the purpose of your testimony in this proceeding?

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A: I am testifying on behalf of the Citizens of the State of
2 Florida on the issues (1) whether the Commission should approve
3 FPL's proposed purchase of Scherer Unit No. 4, and (2) if it
4 does, what constraints it should impose on FPL's ability to
5 recover revenue requirements associated with this generating
6 unit.

7 Q: Please briefly summarize your testimony.

8 A: The Commission should not approve FPL's proposed acquisition of
9 Scherer Unit No. 4 at this time, for the following reasons:

10 1. FPL has not submitted adequate contracts and
11 other documentation to enable the Commission to
12 determine what the actual costs associated with the
13 purchase as a power supply option will be.
14 Accordingly, the Commission lacks the necessary data
15 to determine whether the proposed acquisition is
16 reasonable and prudent.

17 2. FPL has not submitted any detailed data on other
18 power supply options that it claims it considered in
19 its process by which it determined that the Scherer 4
20 purchase was the best, most cost-effective option for
21 meeting its 1996 generation resource needs.
22 Accordingly, the Commission lacks the necessary data
23 to determine whether the Scherer 4 purchase is the

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 most cost-effective generation expansion alternative
2 for meeting these needs.

3 3. Commission approval at this time would at least
4 be unorthodox, and might not be based on sound
5 authority.

6 4. The "other benefits" recited by FPL as
7 justifications for the purchase are in some cases
8 questionable, and in other cases, it is doubtful that
9 they are any different than the benefits that would
10 accrue if FPL simply accepted Georgia Power's UPS
11 offer.

12 Additionally, if the Commission does decide to enter an
13 order approving the proposed purchase, it should limit FPL's
14 allowed recovery of capital-related revenue requirements
15 associated with Scherer Unit No. 4 to what FPL has represented
16 they will be.

17 Background

18 Q: Have you reviewed the testimony of Florida Power & Light's
19 witnesses Woody, Cepero, Denis, Waters, and Gower in this
20 matter?

21 A: Yes.

22 Q: Please explain the posture of this case at the present time.

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A: FPL filed its petition on September 28, 1990. On October 10,
2 1990, a Case Assignment and Scheduling Record was issued that
3 requires parties other than FPL to file testimony on November
4 21, 1990 and sets December 11, 12, and 13 as the dates for
5 hearings in the case.

6 Q: Has this case schedule affected the scope of the testimony that
7 you are filing today?

8 A: Yes. The short time frames allowed for preparation of testimony
9 have significantly limited the parties' abilities to conduct
10 discovery and to prepare testimony. The Staff and the Citizens
11 have sent discovery, but the responses have not yet been
12 received. Conceptually, the schedule leaves us with the
13 opportunity to point out shortcomings in FPL's case and
14 testimony, but without adequate opportunity to develop the data
15 needed to prepare our own affirmative cases before the testimony
16 is due. Accordingly, it may be necessary for me -- and, I would
17 expect, for other witnesses as well -- to file supplemental
18 testimony after we have had an adequate opportunity to conduct
19 discovery and review discovery materials.

20 Q: Should the Commission approve the proposed acquisition of
21 Scherer Unit No. 4?

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A: At this time, I would recommend that the Commission not approve
2 the proposed acquisition for several reasons:

3 1. The Commission does not have before it any of the
4 actual contracts that will specify the actual costs, terms,
5 and conditions of (a) the purchase, (b) the operation of the
6 unit subsequent to the purchase, or (c) the transmission
7 arrangements that will be necessary to accommodate delivery
8 of the purchased power.

9 2. Because the data proffered by FPL are incomplete, it is
10 not possible to determine whether the Scherer 4 purchase is
11 the most cost-effective alternative for FPL's general body of
12 ratepayers. Although FPL's witnesses have made this claim in
13 their testimony, they have not demonstrated actual facts to
14 support their conclusion.

15 3. It is doubtful that the Public Service Commission has
16 the authority to approve this purchase in advance, and, given
17 that a Commission sitting today cannot bind future
18 Commissions, one has to wonder what possible meaning
19 approval at this time would have.

20 Inadequate Data on the Costs of the Scherer 4 Purchase

21 Q: Mr. Wright, you indicated that the Commission does not have
22 before it the information necessary to make a fully informed
23 decision on FPL's petition. Please explain.

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A: In order to render a well-informed decision on the proposed
2 Scherer 4 acquisition, the Commission needs two fundamental
3 types of information and data: First, it needs the best
4 possible data on the actual costs that would be incurred were
5 FPL to go forward with the purchase. Secondly, the Commission
6 needs sound, meaningful comparative data on the alternatives
7 available to FPL in order to determine whether the Scherer 4
8 purchase is the most cost-effective alternative for FPL to meet
9 its 1996 generation resource needs.

10 Q: Please explain what information the Commission needs regarding
11 the actual costs of the Scherer 4 purchase, and why the data FPL
12 has submitted is insufficient.

13 A: Naturally, the Commission needs to know what the actual costs of
14 buying, owning, and operating the unit will be. These data
15 will only be known when all applicable contracts are available
16 for review. To assist the Commission in this regard, FPL and
17 Georgia Power could have negotiated and submitted binding
18 contracts, contingent upon obtaining their desired regulatory
19 approvals; instead, they have submitted only a letter of intent
20 that includes certain estimated cost data and that references
21 certain yet-to-be-negotiated "definitive agreements." These
22 agreements must cover the purchase of Scherer 4 and associated

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 facilities, transmission expansion and service, operation and
2 maintenance of the unit, fuel supply, additional UPS sales, and
3 assignments to FPL of some of JEA's rights under the 1982 UPS
4 contract.

5 Q: What information does the Commission need regarding transmission
6 costs that must be incurred in order to deliver the power from
7 this unit north of Macon, Georgia to FPL's load center in South
8 Florida?

9 A: The Commission needs data regarding necessary additional
10 facilities, the capital costs for FPL facilities, and the
11 wheeling charges that FPL would have to pay to Georgia Power and
12 JEA under the contemplated agreements.

13 Q: Can you tell from FPL's filings what the total of these costs
14 are?

15 A: No. FPL's filings present only estimates of Georgia Power and
16 JEA wheeling charges that FPL would incur as a result of the
17 contemplated agreements. Mr. Waters has given a rough estimate
18 of \$180 million for the cost of 500 MW of new transmission
19 interface capacity for FPL, and the fixed costs shown in his
20 Exhibit Document 10 purport to include transmission revenue
21 requirements, but it is impossible to tell how all of these fit

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 together, or to comprehend the bottom line total cost of
2 transmission facilities and services necessary to deliver
3 Scherer 4 power to FPL's load centers.

4 Inadequate Data to Determine Whether the Scherer 4 Purchase
5 is FPL's Cost-Effective Generation Expansion Alternative

6 Q: Please explain how the data and analyses presented in FPL's
7 petition and testimony are insufficient for determining whether
8 the proposed Scherer 4 purchase is the cost-effective generation
9 expansion alternative for FPL.

10 A: Basically, FPL has not provided the Commission with sufficient
11 data to permit comparison of available alternatives. Besides
12 the specific data needed to evaluate the costs inherent in, and
13 necessitated by, the Scherer 4 purchase, the Commission needs
14 meaningful, usable data regarding the costs of the various
15 alternatives available to FPL for meeting its 1996 generation
16 resource needs. All that FPL has proffered in this regard are
17 the following:

18 A. Mr. Denis's exhibits, which present (1) summary
19 data on size and location of RFP respondents; (2) the
20 RFP proposal evaluation criteria, with no explanation
21 whatsoever of the weights assigned the criteria nor of
22 the methodology used to compute each project's
23 evaluation score; and (3) a graph that apparently

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 depicts the scores of the thirteen highest ranked RFP
2 proposals with no identification of the proposals thus
3 ranked; and

4 B. Mr. Waters's Exhibit Document 10, which presents
5 gross summary cost data for FPL's IGCC unit, the
6 Scherer 4 purchase, Georgia Power's UPS proposal from
7 Scherer 4, and two cases -- with and without the 20
8 percent risk factor -- of QF power purchases under
9 FPL's previous standard offer contract.

10 Because of the non-specific and summary character, these data
11 are insufficient to determine whether the Scherer 4 purchase is
12 the most cost-effective generation expansion alternative
13 available to FPL.

14 Second, even the comparisons of generation options that
15 were presented by FPL are insufficient because they consist of
16 gross summary data, and because FPL has not identified critical
17 assumptions and input values.

18 Further, the comparisons offered up by FPL's witnesses are
19 incomplete. FPL has presented some aggregate-data comparisons
20 of the Scherer 4 purchase against FPL's own proposed next
21 generating unit, against the Scherer 4 UPS proposal, and against
22 two outdated standard offer contract options. According to Mr.
23 Denis, FPL conducted detailed evaluations of 33 RFP proposals.
24 Because these, together with FPL's proposed IGCC unit and the

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 Scherer 4 purchase, represent the universe of FPL's options to
2 meet its 1996 need, the Scherer 4 purchase should be evaluated
3 against these options. FPL has furnished no specific data to
4 the Commission to enable it to conduct this comparative
5 evaluation, nor has it furnished any specific information on its
6 evaluation of the Scherer 4 UPS proposal against the other RFP
7 responses. This evaluation must be performed before the
8 Commission can conclude that the Scherer 4 purchase is the cost-
9 effective alternative for FPL and its general body of
10 ratepayers.

11 Finally, it is not clear whether FPL has even subjected the
12 Scherer 4 purchase to the same evaluation process to which it
13 subjected the RFP proposals.

14 Q: Of what significance is this last point, that FPL has perhaps
15 not subjected the Scherer 4 purchase to the same process by
16 which it evaluated the RFP proposals?

17 A: This may have tremendous significance. It raises crucial
18 questions about the real costs of the Scherer 4 capacity, and it
19 raises other important questions that demand answers. For
20 example, one cannot discern from FPL's petition and testimony
21 whether FPL's evaluation of the Scherer 4 purchase included
22 subjecting this option to the "most severe penalties" that,

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 according to Mr. Denis, FPL applied to RFP proposals for
2 facilities located outside Florida.

3 This could have a dramatic effect on costs. In its newly
4 proposed standard offer contract tariffs, FPL has proposed to
5 apply an adjustment factor to Qualifying Facilities in parts of
6 Florida and in all (or nearly all) of Georgia that would reduce
7 their capacity payments by 25.1 percent from the amounts stated
8 in the tariff and available to QFs located near FPL's load
9 center in South Florida. Given that this obviously represents
10 FPL's most current thinking on the value of new generating
11 resources in such locations, the Commission should know whether
12 a comparable adjustment has been applied to the Scherer 4
13 purchase. Should Scherer 4's raw generating unit cost of some
14 \$953 per kilowatt be derated by this adjustment factor? If so,
15 this would indicate that the equivalent or comparable value of a
16 generating facility in South Florida would be nearly \$1,275 per
17 kW. (If FPL's avoided unit were located in South Florida and
18 had an avoided cost of \$1,272.36 per kW, then the Company's
19 proposed standard offer contract treatment would result in a QF
20 located in Georgia receiving capacity payments corresponding to
21 a generating unit cost of \$953 per kW.) Was such an equivalent
22 cost value used in evaluating the Scherer 4 purchase against
23 RFP proposals for power supply projects located in South
24 Florida? If not, why not, given that FPL is proposing to treat
25 new QFs located in Georgia this way?

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 Q: Is there anything unusual about the summary data presented in
2 Mr. Waters's Exhibit Document 10?

3 A: Yes. For example, the Scherer 4 purchase appears to be cost-
4 effective relative to the Scherer 4 UPS proposal submitted by
5 Georgia because of significant "system fuel cost" savings
6 projected for the purchase scenario. The claimed system fuel
7 cost savings under the Scherer 4 purchase scenario are barely
8 sufficient to wipe out the substantial deficit that the purchase
9 option shows relative to the UPS option on fixed costs and O&M
10 costs. No supporting data have been presented to explain this,
11 and it is not intuitively reasonable to think that the same unit
12 is going to have such widely different effects on fuel costs.

13 Along the same lines, FPL's projected base case, which is
14 the installation of the IGCC unit, has higher total revenue
15 requirements than FPL's previous standard offer contract, which
16 was based on a conventional baseload pulverized coal (PC) unit.
17 This raises the question whether the IGCC unit would be approved
18 as the cost-effective generation expansion alternative for FPL.
19 Additionally, the projected system fuel costs for the baseload
20 PC unit case are approximately \$1.3 billion greater than under
21 the IGCC scenario, despite the fact that the projected unit fuel
22 costs for the PC unit are approximately \$430 million less than

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 for the IGCC unit. This result also appears unusual, to say the
2 least.

3 Q: Mr. Wright, FPL's witnesses have recited a number of benefits
4 that they claim will accrue from the Scherer 4 purchase. Are
5 you familiar with these?

6 A: Yes. Mr. Woody, at page 6 of his testimony, recites the
7 following "short-term benefits" that would accrue from the
8 Scherer 4 purchase:

- 9 1. earlier reduction of FPL's dependency on oil for
10 fuel;
- 11 2. reduction of FPL's total investment while locking
12 in price;
- 13 3. provision of capacity needed in 1991 to allow for
14 the Turkey Point upgrade project;
- 15 4. additional flexibility to the Company's ability
16 to adjust to changes in load conditions or
17 construction requirements;
- 18 5. reduced risk because Scherer 4 is already built;
- 19 6. associated emission allowances;
- 20 7. potential unit life longer than the life of a
21 power purchase contract; and
- 22 8. that the purchase will "facilitate" expansion of
23 the Southern/Florida transmission interface.

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A number of these are also recited by Messrs. Cepero, Waters,
2 and Gower in their testimony.

3 Q: Do you believe that these are significant?

4 A: The answer to that depends on what power supply scenarios are
5 being compared. Certainly some of these have benefit in and of
6 themselves, but certain questions must be asked:

- 7 1. Would the same benefits accrue if FPL chose a
8 different power supply option? and
- 9 2. Though they have value, are they worth the cost?

10 For example, the additional load-serving flexibility that the
11 earlier availability of power would provide and the
12 availability of additional generation during the planned Turkey
13 Point upgrade outage surely have benefit. However, given that
14 the Company has determined that it would not otherwise spend
15 anything to obtain additional power, as evidenced by the fact
16 that its generation expansion plan is unchanged by the Scherer 4
17 purchase before 1996, it is difficult to conclude that these
18 benefits are worth much. At best, one could conclude that they
19 provide increments to FPL's reliability for which the Company
20 has determined it would not otherwise spend anything. They do
21 not enable FPL to avoid any costs. Similarly, the benefits from
22 the expanded transmission interface and the reduced risk
23 realized because Scherer 4 is already built would seemingly

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 accrue equally whether FPL buys the unit or whether it
2 purchases its output via a UPS contract. It is difficult to
3 believe that the outright sale of Scherer 4 provides any
4 different incentives to Georgia Power to expand the interface
5 than would the sale of the same plant's output over most, if not
6 all, of its useful life.

7 Incidentally, I believe that the Company's characterization
8 of the impact of the purchase on the transmission interface
9 expansion as "facilitation" is little more than sugar-coating:
10 The purchase would necessitate expansion of the interface, at an
11 unknown cost to FPL. The only data I have seen on this cost is
12 in Mr. Waters's testimony, at page 18, where he speaks of
13 "[a]ssuming approximately \$180 million as a rough estimate for
14 the cost of adding 500 MW of new transmission interface capacity
15 for FPL." Even if this capital cost were spread over the entire
16 646,000 kW of Scherer 4 capacity that FPL proposes to buy, it
17 adds \$278 per kW to the capital costs associated with this
18 capacity. If spread over the 500 MW (500,000 kW) of additional
19 transmission interface capacity, the additional capacity cost
20 for transmission necessitated by the Scherer 4 purchase rises to
21 \$360 per kW.

22 Given costs of this magnitude, which apparently do not
23 include the costs of wheeling power from Plant Scherer over
24 Georgia Power's -- and perhaps JEA's -- transmission facilities,
25 it is impossible to conclude that the Scherer 4 purchase is the

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 most cost-effective alternative. Mr. Waters casts this \$180
2 million cost as providing \$584 million in cumulative present
3 value benefits vs. FPL's base case expansion plan, but so far as
4 I can tell, he has not factored this additional cost into any
5 comparison of the Scherer 4 purchase against RFP proposals
6 located in South Florida. It is at least possible that, with
7 all such costs considered, some RFP proposals for new units in
8 southern and central Florida would prove to be cost-effective
9 vs. the Scherer 4 purchase.

10 Finally, the real benefit of the potential extended life of
11 Scherer 4 is questionable. In the first place, this benefit is
12 speculative, and in the second, even if the unit should attain
13 its estimated life of 40 years, the incremental benefit may not
14 be nearly as great as FPL's witnesses' testimony might lead one
15 to think. The unit's forty-year life would expire in March
16 2029. If FPL bought power under a 30-year UPS contract
17 beginning when it needs the power, in 1996, the contract would
18 expire in 2026, leaving a potential benefit of three years'
19 remaining life on the unit.

20 Limitations on Revenue Recovery

21 Q: If the Commission should decide to approve the acquisition,
22 should it address the revenue requirements associated with the
23 acquisition?

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 A: Yes, it should address them for the purpose of limiting them.
2 If the Commission decides to enter an order approving the
3 proposed acquisition of Scherer Unit No. 4, based on the costs
4 represented by FPL in its petition and testimony, the Commission
5 should simultaneously declare its intention to limit the
6 allowable revenue requirements for the unit to no more than
7 what FPL has represented they will be. Of course, if the
8 Commission determines that the appropriate rate base is less
9 than that represented by FPL, it should declare its intention to
10 limit FPL's recovery accordingly. Alternative limits would
11 include FPL's projected capital revenue requirements associated
12 with the purchase, as presented in Mr. Waters's exhibits, and
13 the revenue requirements that would have been incurred had the
14 UPS transaction originally proposed by Georgia Power been
15 consummated.

16 Q: What is your specific recommendation in this regard?

17 A: If the Commission decides to enter an order approving the
18 purchase at the rate base level requested by FPL, I would
19 recommend that the Commission limit FPL's recovery of capital
20 costs associated with the purchase of Scherer Unit No. 4 to
21 those claimed by FPL in its witnesses' testimony. This would
22 impose limits of (a) approximately \$616,386,688 on the plant's
23 rate base, as represented by witness Gower in his exhibit,

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 Document No. 1, page 1 of 1, and (b) \$3,098,838,000 on the
2 nominal fixed cost revenue requirements for generation and
3 transmission associated with the plant, as represented by
4 witness Waters in his exhibit, Document 10, page 1 of 1.
5 According to witness Waters's Document 10, this latter value
6 translates into \$955,557,000 in cumulative present value revenue
7 requirements.

8 Q: Why is this appropriate in this case?

9 A: This treatment is appropriate in this case because FPL claims
10 that it selected the Scherer 4 purchase option as a superior
11 alternative to purchasing power from Scherer 4 via a Unit Power
12 Sales contract, which it in turn claims was the best of a host
13 of options submitted in response to its RFP. The costs of the
14 others, including the Scherer 4 UPS purchase, must be considered
15 as the alternative cost of meeting FPL's needs. Because FPL
16 represents that it chose the Scherer 4 purchase in large part
17 because of its favorable cost characteristics, FPL should not be
18 allowed to recover more than the costs upon which its own
19 winning bid was selected.

20 This treatment is also especially appropriate because many
21 -- if not all -- of the other options available to FPL would
22 have given FPL contractual rights to performance or damages.
23 Discounting the possibility of fly-by-night operations, which

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 FPL's screening process doubtless weeded out anyway, if a power
2 supplier breached its contractual obligations, FPL could sue the
3 supplier and recover damages equal to the excess costs of
4 serving its load, above the agreed-upon contract price, thereby
5 keeping its ratepayers whole relative to the power supply
6 agreement. It seems only fair and economically reasonable that
7 FPL should, under these circumstances, make the same type of
8 guarantee to its ratepayers, and that the Commission should
9 enforce it.

10 In common sense terms, I am simply advocating that FPL be
11 treated like any other power supplier in its bidding process,
12 and that its ratepayers be protected from any different results
13 than those expected from any other power supply contract. In
14 common sense terms, I might also add that if FPL believes the
15 Scherer 4 purchase to be the great deal it represents it to be,
16 it should be willing to accept this revenue limitation as a fair
17 bargain in return for the Commission's advance approval of the
18 acquisition.

19 Q: Should your testimony be read as supporting FPL's request for
20 advance approval of the Scherer 4 acquisition?

21 A: No.

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 Q: Are you recommending that the Commission approve the acquisition
2 of Scherer 4 at the rate base levels represented by FPL?

3 A: No. That is a factual issue to be determined by the Commission
4 through the hearing process. I am recommending that if the
5 Commission finds that the rate base level represented by FPL is
6 the appropriate amount, FPL should be willing to live with its
7 representations and the Commission should memorialize its
8 intention to enforce such a limitation.

9 Q: Should the Commission allow for future fluctuations in FPL's
10 actual allowed cost of debt and equity capital as they would
11 apply to the capital revenue requirements associated with the
12 purchase?

13 A: It is tempting to say that the Commission should do so, but
14 because of the context, I doubt that it would be appropriate
15 here. In the normal case, the utility obtains the Commission's
16 certification that a given facility is needed and then proceeds
17 to build it. After the facility is on line, the utility may
18 seek to have it included in rate base, and the investment is
19 then held to cost standards of reasonableness and prudence. By
20 contrast, FPL is here asking the Commission to approve the
21 Scherer 4 purchase option as being the best out of a host of
22 alternative proposals that it considered. "Price and cost to

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1 FPL" were at the top of the list of criteria that FPL claims it
2 employed to rank these proposals. Roberto Denis Exhibit,
3 Document No. 2, page 1 of 1. In effect, FPL is before the
4 Commission in the posture of being the successful bidder in its
5 own bidding process. Because FPL would be expected to hold any
6 other bidder awarded a contract to the cost terms proposed by
7 the bidder, it is fair and economically reasonable to hold FPL
8 to the same conditions. This would include holding FPL to the
9 costs represented by it upon which its decision -- and the
10 Commission's decision -- were based.

11 Other Issues

12 Q: Are there other aspects of the proposed transaction that are
13 troubling from a regulatory policy perspective?

14 A: Yes. It appears that this transaction may provide a windfall
15 profit -- the acquisition adjustment -- to Georgia Power that it
16 would only be able to reap if it can get necessary regulatory
17 authorities to ratify an outright sale of the unit. Assuming
18 that FERC-regulated UPS power sales rates follow the traditional
19 regulatory principles of basing rates on actual costs, including
20 book value for rate base assets, if Georgia Power continued to
21 sell output from Scherer 4 through UPS contracts, it could only
22 get FERC approval of rates based on the unit's cost, excluding
23 any acquisition adjustment.

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

1

Conclusions

2 Q: Please restate the primary conclusions of your testimony.

3 A: 1. The Commission should not approve FPL's proposed
4 acquisition of Scherer 4 unless and until FPL thoroughly proves
5 that this is the cost-effective alternative for FPL to meet its
6 1996 needs.

7 2. The information presented in FPL's petition and testimony
8 is insufficient to enable the Commission to determine either
9 what the total costs of the Scherer 4 purchase are or to
10 determine whether the proposed purchase is the cost-effective
11 alternative for FPL to meet its 1996 generating resource needs.

12 3. If the Commission decides to enter an order approving the
13 proposed acquisition of Scherer 4, based on the costs
14 represented by FPL in its petition and testimony, the Commission
15 should simultaneously declare its intention to limit the
16 allowable revenue requirements for the unit to no more than what
17 FPL has represented they will be.

18 Q: Does this conclude your prefiled direct testimony?

19 A: Yes, at the present time, it does. As I discussed above, it may
20 be necessary to file supplemental testimony when the parties

DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT

- 1 have had an adequate opportunity to conduct discovery and review
- 2 discovery responses.

APPENDIX A

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 Q: Please state your name, occupation and business address.

2 A: My full name is Robert Scheffel Wright. I am employed as
3 Vice President and Principal Consultant with the consulting
4 firm, West Park Group, Inc. The firm's business address is
5 501 East Tennessee Street, Suite D, Tallahassee, Florida
6 32308. I am also employed as Resident Economist and Special
7 Consultant on regulatory and economic matters with the law
8 firm of Wiggins & Villacorta, Post Office Drawer 1657,
9 Tallahassee, Florida 32302.

10 Q: Please describe your educational background.

11 A: I received a B.A. degree with High Honors in Economics from
12 the University of Florida in 1971. I received a M.A. degree
13 in Economics from Duke University in 1973, upon passing my
14 preliminary examinations for admission to candidacy for the
15 Ph.D. degree. My examination fields were Environmental
16 Economics; Industrial Organization, Regulatory, and
17 Antitrust Economics; and Public Finance.

18 I have also attended numerous seminars and training
19 sessions on electric utility regulation, cogeneration, and
20 other regulatory subjects while I was employed by the
21 Florida Public Service Commission. In 1988, as one of the

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 instructors of the PSC's Public Utility Regulatory Seminar
2 presented for the Commission staff, I gave a presentation on
3 Current Issues in Energy.

4 Since August 1989, I have been enrolled as full-time
5 student in the Florida State University College of Law, from
6 which I expect to receive the J.D. in April 1992. I am a
7 member of the Florida State University Law Review.

8 Q: Please describe your employment experience.

9 A: Upon leaving Duke in 1974, I accepted a position as
10 Assistant Professor of Economics at Saint Olaf College in
11 Northfield, Minnesota, where I taught various courses in
12 Economics, including Industrial Organization, Environmental
13 Economics, and Principles of Economics from 1974 through
14 1976. I was employed as an economist/program analyst by the
15 Minnesota Legislative Auditor's Office from 1976 until 1979,
16 and as an economist/analyst by the Kentucky General Assembly
17 from 1979 to 1980. In December 1980, I accepted an analyst
18 position with the Florida Governor's Energy Office, where
19 my responsibilities included research, analysis, and
20 statewide energy use forecasting. I worked in the
21 Governor's Energy Office until March 1982, when I joined
22 the Research Division of the Florida Public Service
23 Commission.

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 In the Research Division, most of my work related to
2 electric utilities. I wrote several economic impact
3 statements for proposed rules affecting electric utilities,
4 and I participated fairly extensively in framing and
5 drafting some of those rules. I was also the project
6 manager and principal author of three substantial reports,
7 Analyzing Future Values: Present Value Analysis, Benefit-
8 Cost Analysis, and Inflation Adjustment Techniques; Rate
9 Case Procedures at the Florida Public Service Commission;
10 and Minimum Appliance Efficiency Standards for Florida.

11 I transferred to the Bureau of Electric Rates in the
12 Commission's Electric and Gas Division in November 1984.
13 As an Economic Analyst in the Rate Bureau from then until
14 January 1988, my main assignments were (1) the Commission's
15 generic cost of service docket; (2) its generic non-firm
16 rates docket, Docket No. 830512-EU; (3) Tampa Electric
17 Company's 1985 general rate case, Docket No. 850050-EI, in
18 which I served as the staff's witness on cost of service and
19 some rate design issues; (4) the self-service wheeling
20 petition of W.R. Grace Company v. Tampa Electric Company,
21 Docket No. 861180-EU; and (5) the Commission's generic
22 docket on appropriate rates for standby and supplemental
23 service for cogenerators, Docket No. 850673-EU. I also

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 processed tariff filings by investor-owned, municipal, and
2 cooperative utilities, and I authored and defended numerous
3 recommendations on tariff filings at PSC agenda conferences.
4 It was also my good fortune occasionally to write speeches
5 and prepare presentation materials for Commissioners on a
6 range of topics in electric utility regulation.

7 In January 1988, I was promoted to Chief of the Bureau of
8 Electric Rates, where my responsibilities were to
9 supervise, recruit, train, and review the work of a
10 professional staff of five persons besides myself.

11 During 1987 and 1988, I served on the NARUC Task Force
12 charged with re-writing the NARUC Electric Utility Cost
13 Allocation Manual. I authored the first and second drafts
14 of the chapter on Embedded Production Cost Allocation
15 Methods before I resigned from the Commission staff. When I
16 left, my chapter had been through a thorough review by the
17 other members of the Task Force and had been accepted by
18 them.

19 Q: What was your next employment?

20 A: I joined the law firm that is now Wiggins & Villacorta in
21 November 1988, and we incorporated West Park Group in 1989.

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 My responsibilities to law firm clients have included
2 providing legal and case strategy services to cogenerators
3 and cogeneration developers, a utility seeking to establish
4 joint ownership of a transmission line through its
5 territory, two water utilities, and several different
6 parties with specific complaints regarding their electric,
7 water, and sewer service. As a Class B Practitioner
8 certified pursuant to Rule 25-22.008(3), Fla. Admin. Code, I
9 have made appearances on behalf of clients before the
10 Florida Public Service Commission.

11 My consulting engagements include (1) preparing testimony
12 and appearing as an expert witness on behalf of the People
13 of the State of Michigan, through their Attorney General,
14 in Consumers Power Company's 1989 Power Supply Cost
15 Recovery case, Case No. U-8866R; (2) testifying as an
16 expert witness on behalf of the Citizens of the State of
17 Florida in Docket No. 891345-EI, the 1990 general rate case
18 of Gulf Power Company before the Florida Public Service
19 Commission; (3) testifying on behalf of the Citizens in
20 Florida PSC Docket No. 890200-EQ, Petition of Tampa Electric
21 Company for Approval of Construction Deferral Agreement with
22 IMC Fertilizer; (4) testifying on behalf of the People of
23 the State of Michigan in Consumers Power Company's 1990
24 general rate proceeding, Case No. U-9346; (5) providing

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 advice on standby rates and cost of service issues to an
2 investor-owned utility in New England; (6) providing advice
3 and consulting services to a cogeneration developer
4 participating in the Commission's docket to revise its
5 cogeneration rules, Docket No. 890149-EU; (7) preparing and
6 filing expert testimony on behalf of the City of
7 Tallahassee, Florida, in a territorial dispute proceeding
8 before the Florida PSC, Docket Nos. 881602-EU and 890326-EU;
9 and (8) a contract research project on energy efficiency
10 standards for manufactured housing and home appliances, for
11 the Governor's Energy Office of Florida.

12 Q: Have you previously testified in proceedings before the
13 Florida Public Service Commission?

14 A: Yes. I was a witness before the Florida Public Service
15 Commission on behalf of the Commission Staff (1) in Tampa
16 Electric Company's 1985 general rate case, Docket No.
17 850050-EI; (2) in the rulemaking hearing on non-firm
18 electric service and rates, Docket No. 830512-EI; and (3)
19 in the self-service wheeling petition of W. R. Grace
20 Company, Docket No. 861180-EU.

21 I submitted testimony to the Florida PSC on behalf of
22 the City of Tallahassee in its 1989 territorial dispute with
23 Talquin Electric Cooperative, Docket Nos. 881602-EU and

QUALIFICATIONS OF ROBERT SCHEFFEL WRIGHT

1 890326-EU, but that case was settled without hearings. On
2 behalf of the Citizens of the State of Florida, through
3 their Public Counsel, I testified through both direct and
4 rebuttal testimony before the Florida PSC in Gulf Power
5 Company's 1990 general rate case, Docket No. 891345-EI, and
6 in the proceeding on Tampa Electric's petition for approval
7 of a special construction deferral agreement with IMC
8 Fertilizer, Docket No. 890200-EQ.

9 Q: Have you testified in proceedings before other regulatory
10 authorities?

11 A: Yes. I have testified on behalf of the People of the State
12 of Michigan, through their Attorney General, on two
13 occasions: (1) Consumers Power Company's 1989 Power Supply
14 Cost Recovery reconciliation proceeding, Case No. U-8866R,
15 and (2) Consumers Power Company's 1990 general rate case,
16 Case No. U-9346.

17 Q: Does this conclude your qualifications statement?

18 A: Yes. This qualifications statement is current as of
19 November 20, 1990.

CERTIFICATE OF SERVICE
DOCKET NO. 900796-EI

I HEREBY CERTIFY that a true and correct copy of the DIRECT TESTIMONY OF ROBERT SCHEFFEL WRIGHT, has been furnished by U.S. Mail or by *hand-delivery to the following on this 21st day of November, 1990.

MATTHEW M. CHILDS, ESQUIRE
Steel Hector & Davis, P.A.
215 South Monroe Street
Suite 601
Tallahassee, FL 32301

FREDERICK M. BRYANT, ESQUIRE
Moore, Williams, Bryant,
Peebles & Gautier, P.A.
Post Office Box 1169
Tallahassee, FL 32302

JOHN T. BUTLER, ESQUIRE
Steel Hector & Davis, P.A.
4000 S.E. Financial Center
Miami, Florida 33131-2398

*M. ROBERT CHRIST, ESQUIRE
EDWARD A. TELLECHEA, ESQUIRE
Florida Public Service Commission
Division of Legal Services
101 East Gaines Street
Tallahassee, FL 32399-0872

FREDERICK J. MURRELL, ESQUIRE
Schroder & Murrell
The Barnett Center, Suite 375
101 Third Avenue West
Bradenton, FL 34205

JOSEPH A. MCGLOTHLIN, ESQUIRE
Lawson, McWhirter, Grandoff
& Reeves
522 E. Park Avenue, Suite 200
Tallahassee, FL 32301



John Roger Howe