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PLEASE REPLY TO:
TALLAHASSEE

November 20, 1990

BY HAND DELIVERY

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

Re: Petition of Florida Power and Light Company for Inclusion
of the Scherer Unit No. 4 Purchase in Rate Base,
Including an Acquisition Adjustment, Docket No. 900796-EI

Dear Mr. Tribble:

Enclosed for filing and distribution are the original and 15
copies of the Direct Testimony of Dr. Dennis Thomas, on behalf of
Nassau Power Corporation.

Also enclosed is an extra copy of the Direct Testimony of Dr.
Dennis Thomas, on behalf of Nassau Power Corporation. Please stamp
with the date of filing and return it to me.

Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman
Vicki Gordon Kaufman

VGK/jwm
Enclosure

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10444 NOV 21 1990

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power) DOCKET NO. 900796-EI
and Light Company for Inclusion) Filed: November 21, 1990
of the Scherer Unit No. 4)
Purchase in Rate Base, Including)
an Acquisition Adjustment)

**ORIGINAL
FILE COPY**

DIRECT TESTIMONY OF:

DR. DENNIS THOMAS

ON BEHALF OF NASSAU POWER CORPORATION

DOCUMENT NO.
11-21-90
10444-90

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 DOCKET NO. 900796-EI

3 DIRECT TESTIMONY OF

4 DR. DENNIS THOMAS

5 ON BEHALF OF NASSAU POWER CORPORATION

6 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

7 A. My name is Dennis Thomas. My business address is Five
8 Post Oak Park, Suite 1400, Houston, Texas 77027.

9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

10 A. I am testifying on behalf of Nassau Power Corporation.
11 I serve as Chief Administrative Officer of Falcon
12 Seaboard Corporation, which is the parent corporation of
13 Nassau Power.

14 Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

15 A. I have been working with Falcon for the past two years.
16 Prior to that I was Chairman of the Texas Public Utility
17 Commission, where I served from August 1984 to May of
18 1988. Prior to my appointment to the Texas Commission,
19 I was Director of the Texas Governor's Office of
20 Management and Budget and then Deputy Executive Assistant
21 for Programs. I have been a public employee, a
22 university teacher and a consultant at various times over
23 the past 20 years.

24 I have a Ph.D. in Management and Energy Policy, a
25 Master of Arts degree in Public Administration, and a

1 Bachelor of Business Administration degree in Finance,
2 all from the University of Texas at Austin.

3 **Q. WHY HAS NASSAU INTERVENED IN THIS DOCKET?**

4 A. Nassau has a standard offer contract to sell 435 MW of
5 capacity to Florida Power and Light Company ("FPL")
6 beginning on January 1, 1996. Nassau's contract was
7 executed on June 13, 1990. On November 1, 1990, the
8 Commission ruled that Nassau's contract subscribes the
9 first 435 MW of the 1996 500 MW statewide avoided unit.
10 However, the Commission also indicated that it intends to
11 require a cogenerator to prove that its project meets an
12 individual utility's need in "determination of need"
13 proceedings. Nassau believes that this ruling is
14 inconsistent with the Commission's rules and policies
15 requiring a statewide market for standard offers and does
16 not waive its right to argue that point at the
17 appropriate time. However, to the extent that individual
18 determinations of need may be so restricted; that
19 approval of the proposed Scherer No. 4 purchase would
20 satisfy a portion of FPL's 1996 capacity need; and that
21 FPL's individual capacity need possibly may not
22 accommodate Nassau's project and the proposed Scherer No.
23 4 purchase, Nassau believes it must apprise the
24 Commission of a deficiency in FPL's calculation of future
25 resources.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. First, my testimony will point out that FPL has
3 inappropriately failed to include Nassau's standard offer
4 contract for 435 MW in its generation expansion planning.
5 I will also offer some observations on the comparisons of
6 the economics of alternatives shown on Mr. Waters
7 Document 10.

8 Q. WHAT DOCUMENTS HAVE YOU REVIEWED CONCERNING FPL'S
9 GENERATION EXPANSION PLANNING PROCESS?

10 A. I have reviewed the testimony and exhibits of S.S. Waters
11 in Docket Nos. 900709-EQ and 900731-EQ, the testimony and
12 exhibits of C.O. Woody and S.S. Waters in this docket,
13 and table 1 of FPL's Generation Expansion Plan, filed on
14 October 30, 1990, in Docket No. 900004-EU. I have
15 reviewed these documents for the limited purpose of
16 determining which QFs FPL has included as committed
17 capacity to fill FPL's 1996 need. In addition, I have
18 reviewed Mr. Waters' Document 10 in this docket.

19 Q. DO YOU HAVE AN OPINION ON WHETHER FPL'S QUANTIFICATION OF
20 ITS 1996 NEED IS ACCURATE?

21 A. Not at this time. My comments on the calculations relate
22 only to Nassau's position that Nassau's standard offer
23 contract should be included in FPL's identification of QF
24 facilities which will be available in 1996. There may
25 well be a need for both Nassau's project and the proposed

1 Scherer No. 4 capacity addition.

2 Q. WHAT DID YOUR REVIEW REVEAL ABOUT FPL'S INCLUSION OF
3 COMMITTED QF CAPACITY?

4 A. Mr. Waters states that one component of the generation
5 expansion planning process requires FPL to estimate the
6 planned and projected QFs which will come on line. It
7 appears from both Mr. Waters' testimony in this docket
8 and FPL's most recent current generation expansion plan
9 that FPL has not included Nassau's project in its
10 generation expansion planning. Rather, FPL includes the
11 Indiantown Cogeneration, L.P. project (currently under
12 consideration in Docket Nos. 900709-EQ and 900731-EQ),
13 for which there is not at this time an approved contract,
14 and the proposed Scherer No. 4 purchase. (Waters
15 prefiled testimony in Docket Nos. 900709-EQ and 900731-
16 EQ, p. 20: Table 1, page 3 of FPL Generation Expansion
17 Plan.)

18 Q. WHAT IS WRONG WITH FPL'S APPROACH?

19 A. FPL's approach includes the negotiated Indiantown
20 contract but ignores Nassau's executed standard offer
21 contract. The terms and conditions of Nassau's contract
22 were preapproved by the Commission. The contract
23 represents firm capacity committed to FPL to which the
24 Commission has attached priority in the subscription
25 process. FPL should include it in its planning exercise.

1 Nassau's project represents a firm capacity
2 commitment based on a preapproved contract. By contrast,
3 Indiantown's contract has not at this point been
4 approved. Neither contract has received a "determination
5 of need" at the time this testimony is being prepared.
6 Therefore Nassau's contract should have at least as much
7 and arguably greater "stature" in FPL's count of QF
8 capacity. Nassau's project should certainly be included
9 in FPL's generation expansion plan before the proposed
10 Scherer 4 purchase, for which no contract exists, is
11 included.

12 Q. WHY SHOULD THE NASSAU PROJECT BE INCLUDED BEFORE THE
13 PROPOSED SCHERER 4 PURCHASE?

14 A. It is my understanding that there is no contract for the
15 proposed Scherer No. 4 purchase. The only evidence of
16 the proposed purchase is a letter of intent. This letter
17 of intent is contingent on the satisfactory negotiation
18 and execution of numerous other complex agreements. The
19 letter of intent recites that it does not constitute an
20 agreement among the parties and is not binding on the
21 signatories to it. (See prefiled testimony of G.R.
22 Cepero, Document No. 2, p. 12 of 18). Therefore, the
23 proposed Scherer No. 4 purchase, if counted at all toward
24 meeting FPL's needs, should be counted after Nassau's
25 project, which is based on a preapproved contract.

1 Q. WHAT POLICY IMPLICATIONS BEAR ON FPL'S TREATMENT OF THE
2 NASSAU POWER CONTRACT?

3 A. Two policy implications are relevant. First, there is the
4 statutory mandate to encourage cogeneration, which would
5 not be met if FPL were permitted to ignore Nassau's
6 contract in its calculation of committed resources.
7 Second, there is the Commission's policy of providing QFs
8 the alternative of a standard offer contract. In view of
9 the fact that the Indiantown contract had not been
10 approved at the time it found its place in FPL's tally of
11 QF projects, failure to afford Nassau's preapproved
12 standard offer contract a similar place in the count
13 would violate that policy as well.

14 Q. HAVE YOU REVIEWED MR. WATERS' ECONOMIC COMPARISON OF
15 ALTERNATIVES?

16 A. I have reviewed Document 10 of Mr. Waters' exhibit, which
17 shows the results of his comparisons in a summary format.
18 The details of his assumptions and methodology are not
19 provided. However, I can make some general observations
20 about the comparisons.

21 Q. PLEASE DESCRIBE THE FORMAT OF MR. WATERS' COMPARISONS.

22 A. For each of several generating alternatives, Mr. Waters
23 summarizes the cumulative present value of four
24 categories of calculated costs: fixed costs of the unit
25 being compared; O&M cost of the unit; "unit fuel cost";

1 and "system fuel cost". He sums the present values of
2 the four categories of costs in a "total cost" column.
3 He reports the differences between the Scherer "total
4 costs" and the "total costs" of the alternatives in his
5 testimony as savings associated with the Scherer option.

6 Q. WHAT OBSERVATIONS DO YOU HAVE ON THIS APPROACH?

7 A. First, it is important to see the relationship between
8 the costs associated with the individual units, on the
9 one hand, and the claimed total costs (which include
10 assumptions about system fuel costs), on the other.

11 When one compares the present value of the sum of
12 fixed costs, O&M, and unit fuel costs of the discounted
13 standard offer with the corresponding present value
14 figures for the proposed Scherer purchase, the discounted
15 standard offer shows a marked economic advantage - due
16 principally to lower present value costs of capacity
17 (reflecting the later timing of the expenditure) and
18 fuel. Mr. Waters apparently is asserting on Document 10
19 that impacts on system fuel costs more than overcome the
20 lower present value cost which the discounted standard
21 offer would have over the Scherer purchase in these unit-
22 specific categories.

23 Q. PLEASE COMMENT ON THE "SYSTEM FUEL COST" AND "TOTAL COST"
24 COLUMNS.

25 A. First, while the assumptions underlying the "system fuel

1 cost" column are critical to FPL's claim that the Scherer
2 No. 4 purchase is more economical than the discounted
3 standard offer, there is a dearth of information and/or
4 explanation concerning what is included, how the
5 calculation was made, and what assumptions are reflected
6 in the entries. There is virtually no support for this
7 most significant column. Therefore, my observations must
8 be prefaced by the initial comment that Mr. Waters'
9 methodology and assumptions are largely unknown and the
10 claimed system fuel impacts are unproven.

11 **Q. WHAT ADDITIONAL OBSERVATIONS DO YOU HAVE?**

12 **A.** Based on his testimony, Mr. Waters apparently has
13 credited the Scherer 4 purchase with some economy power
14 transactions not available with the other options. Apart
15 from the ability to quantify such purchases, I believe it
16 is not at all clear that enhancements to the interface
17 would not or should not be made at some point whether or
18 not FPL buys the Scherer unit. Further, the "system fuel
19 cost" entries are subject to the uncertainty associated
20 with long-term fuel projections.

21 Most importantly, however, even if one were to
22 accept the differences in total costs at face value, Mr.
23 Waters' Document 10 provides little support for FPL's
24 request.

25 **Q. WHAT IS THE BASIS FOR THAT STATEMENT?**

1 A. Mr. Waters reports that the purchase of Scherer 4 would
2 cost \$226 million less than the discounted standard
3 offer. However, his frame of reference includes system
4 fuel costs over 30 years, which amount to more than \$40
5 billion. Relating the claimed savings which Mr. Waters
6 attributes to the Scherer purchase to the total cost of
7 the discounted standard offer indicates a difference of
8 only 0.5%. Taking into account any reasonable margin of
9 error for the vagaries inherent in the 30 year
10 assumptions and projections, Mr. Waters' Document 10
11 hardly provides the basis for an economic determination.

12 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

13 A. FPL has inappropriately excluded from its inventory of
14 committed QF resources Nassau Power's 435 megawatt
15 project and contract. In advancing its proposal to
16 purchase Scherer 4, FPL has failed to demonstrate or
17 support any material economic advantage which could serve
18 to persuade the Commission to abandon the policies
19 favoring the encouragement of cogeneration in favor of
20 the utility's desire to increase its rate base.

21 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

22 A. Yes.

23

24

25

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Dr. Dennis Thomas, on behalf of Nassau Power Corporation has been furnished by hand delivery* or by U.S. Mail to the following parties of record this 21st day of November, 1990:

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