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**ORIGINAL
FILE COPY**

November 28, 1990

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

RE: DOCKET NO. 900796-EI

Dear Mr. Tribble:

Enclosed for filing please find the original and fifteen (15) copies of the Rebuttal Testimonies of R. Silva, S. S. Waters and H. A. Gower filed on behalf of Florida Power & Light Company in the above referenced docket.

Respectfully submitted,



Matthew M. Childs, P.A.

- ACK
- AFA
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG
- LEG NMC/eg
- LIN ercy 26
- OPC _____
- RCH _____
- SEC 1
- WAS _____

cc: All Parties Of Record

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FPSC-BUREAU OF RECORDS

Gower
DOCUMENT NUMBER-DATE

10598 NOV 28 1990

FPSC-RECORDS/REPORTING

Waters
DOCUMENT NUMBER-DATE

10597 NOV 28 1990

FPSC-RECORDS/REPORTING

Silva
DOCUMENT NUMBER-DATE

10596 NOV 28 1990

FPSC-RECORDS/REPORTING

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CERTIFICATE OF SERVICE

DOCKET NO. 900796-EI

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimonies of R. Silva, S. S. Waters and H. A. Gower filed on behalf of Florida Power & Light Company have been furnished to the following individuals by U. S. Mail* or Hand Delivery** this 28th day of November, 1990.

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MATTHEW M. CHILDS, P.A.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **REBUTTAL TESTIMONY OF RENE SILVA**
4 **DOCKET NO. 900796-EI**

5 **NOVEMBER 28, 1990**
6

7 **Q: Please state your name and business address.**

8 **A: My name is Rene Silva. My business address is**
9 **9250 W. Flagler Street, Miami, Florida 33174.**

10

11 **Q: By whom are you employed and what is your**
12 **position?**

13 **A: I am employed by Florida Power & Light Company**
14 **(FPL) as Director of the Fuel Resources**
15 **Department.**

16

17 **Q: Please describe your duties and responsibilities**
18 **in that position.**

19 **A: My responsibilities include: (1) directing the**
20 **procurement and delivery of all fossil fuels for**
21 **all existing and future FPL power plants; (2)**
22 **management of fossil fuel inventories; (3)**
23 **managing the operation and maintenance of FPL's**
24 **fuel oil terminals and transportation**

1 facilities; (4) directing the preparation of
2 forecasts, budgets and analyses concerning the
3 availability, price, and quality of fossil
4 fuels; and (5) participation and coordination on
5 projects related to existing and future fossil
6 fuel requirements.

7

8 Q: Please summarize your educational qualifications
9 and experience.

10 A: I received a Bachelor's Degree in Engineering
11 Science from the University of Michigan in 1974.
12 In 1978, I received a Master's Degree in
13 Mechanical Engineering from San Jose State
14 University. In 1985, I received a Master's
15 Degree in Business Administration from the
16 University of Miami.

17

18 From 1974 to 1978, I was employed by the General
19 Electric Company where I served as design
20 engineer on several projects related to the
21 design and fabrication of nuclear fuel.

22

23 In August 1978, I joined FPL as Nuclear Fuel
24 Engineer and was responsible for the negotiation
25 of contracts for the fabrication of nuclear fuel

1 for FPL's nuclear generating plants. In
2 September 1980, I was named Supervisor of
3 Nuclear Fuel Supply with responsibility for the
4 procurement of all materials and services
5 related to nuclear fuel.

6
7 In November 1982, I was named Supervisor of
8 Special Projects. In that capacity, I was
9 involved in litigation, settlement negotiations,
10 and policy evaluations related to generation
11 alternatives, and fuel procurement and
12 utilization strategies.

13
14 In September 1986, I was named Acting Manager of
15 Fossil Fuels. In that capacity, I was
16 responsible for the procurement of fuel oil,
17 natural gas and coal for FPL's fossil generating
18 units, as well as the operations and maintenance
19 of FPL's fuel oil receiving/storage terminals.

20
21 In October 1987, I was named Manager of Fuel
22 Services. In that capacity, I was responsible
23 for directing the development of fuel price and
24 availability forecasts used in the development
25 of FPL's strategies for generation additions,

1 fuel procurement, regulatory filings and
2 financial planning. I was also responsible for
3 managing the preparation of fuel-related budgets
4 and reviewing fuel contracts to ensure their
5 consistency with prudent procurement practices.

6

7 In May, 1990, I was named Director of the Fuel
8 Resources Department, my current position.

9

10 Q: Have you previously testified before the
11 Commission?

12 A: Yes. I have previously testified before the
13 Commission in a number of fuel cost recovery
14 dockets, as well as in FPL's Determination of
15 Need for Electrical Power Plant 1993 - 1996,
16 Docket Nos. 890973-EI & 890974-EI.

17

18 Q: What is the purpose of your testimony?

19 A: The purpose of my testimony is to rebut the
20 issues raised in the testimony of the Coalition
21 of Local Governments' (CLG) witness H.G. "Pat"
22 Wells concerning the coal price forecasts used
23 in FPL's evaluation of the Plant Robert W.
24 Scherer Unit No. 4 (Scherer Unit No. 4)
25 acquisition.

1 Mr. Wells takes issue with the differences
2 between the projected long-term price of coal
3 delivered to the Scherer Unit No. 4 and the
4 projected long-term price of coal delivered to
5 the Martin Plant. He also raises issues
6 concerning coal transportation costs, as well as
7 coal availability to Scherer Unit 4.

8
9 I will address each of these issues in my
10 testimony.

11
12 Q: Please describe how the Scherer Unit 4 coal
13 price forecast was developed.

14 A: The Scherer Unit 4 coal price forecast
15 methodology is based on a specific procurement
16 strategy to be implemented in 1991 which is
17 consistent with today's market conditions. This
18 strategy includes a mix of the existing long-
19 term coal supply contracts and current bids for
20 coal supply from Central Appalachia, as well as
21 new long and short-term contracts. The price
22 forecast also reflects transportation cost
23 advantages enjoyed by Scherer based on high
24 volume and moderate distances between the coal
25 mines and the Scherer Plant.

1
2 Under this procurement strategy, Scherer Unit 4
3 would use 25% of the coal purchased for the
4 Scherer site (Units 1,2,3, and 4) under the
5 terms of the existing long-term coal supply
6 contracts. The balance of the requirements to
7 operate Scherer Unit 4 would initially come from
8 the lowest cost Central Appalachian coal bids
9 Georgia Power Company (GPC) received in late
10 1989, and later from additional long-term and
11 short-term purchases. These additional
12 purchases would consist of long-term (15-20
13 year) coal contracts, which would escalate each
14 year with inflation (not market conditions); and
15 short-term (one-year) contracts that reflect
16 market prices. In addition, the strategy
17 anticipates that GPC would provide for the
18 transportation of coal to the Scherer site under
19 large-volume contracts, and the forecast
20 reflects that Scherer Unit 4 would, as a result,
21 incur lower transportation costs than FPL would
22 be able to obtain for a single generating unit.

23
24 This forecast methodology is consistent with
25 that used to develop FPL's long-term coal price

1 forecast for St. Johns River Power Park (SJRPP).
2 Both forecasts (Scherer Unit 4 and SJRPP) are
3 for existing units, with existing long-term
4 contracts, and/or a projected procurement
5 strategy of long and short-term contracts. This
6 methodology results in less volatility than
7 would be the case for market-based forecasts.

8
9 Given what we know about Scherer and current
10 coal market conditions, the forecast of coal
11 prices used in the Scherer analysis is
12 appropriate because it recognizes the factors
13 that will affect prices.

14

15 Q: Please describe how the Martin coal price
16 forecast was developed?

17 A: The methodology used to develop the Martin coal
18 price forecast, on the other hand, is based on
19 our view of what coal prices will be for a
20 series of one-year coal contracts; and therefore
21 it more closely reflects market conditions for
22 coal and coal transportation in each projected
23 year.

24

25 Since at the time the Martin forecast was

1 developed it was not known when a Martin Coal
2 Unit would be operational, or when coal
3 contracts would be executed, and since no bids
4 for Martin are available today, a forecast of
5 what the coal market in general would support in
6 each year is a reasonable methodology.

7
8 This methodology is consistent with that used to
9 develop FPL's fuel oil and market natural gas
10 price forecasts for new units or for units
11 without existing fuel supply contracts, and is
12 consistent with the forecasts used in FPL's
13 expansion plan evaluation.

14
15 Q: Mr. Wells' testimony suggests that the Scherer
16 Plant may have to get its coal from Wyoming and
17 implies that this would result in higher coal
18 prices. Please comment on this.

19 A: Western coal is an alternative which may offer
20 the owners of Scherer an opportunity to further
21 reduce costs. If a decision is made to use
22 western coal at Scherer, it will be because it
23 is more economical than operating the plant with
24 coal from Central Appalachia, which has been the
25 basis of our analysis. In fact, the delivered

1 price for western coal on a Btu basis reflected
2 in current bids for coal supply and
3 transportation to Scherer is significantly lower
4 than the coal price forecast we have used in the
5 evaluation of Scherer. Therefore, a decision to
6 use western coal would make the decision to
7 purchase Scherer 4 more positive.

8

9 Q: Please discuss the transportation issue raised
10 by Mr. Wells on page 6 of his testimony, that
11 Scherer Unit 4 is "captive" to the Norfolk
12 Southern Railroad.

13 A: Although Scherer Unit 4 is currently served only
14 by the Norfolk Southern ("NS") Railroad, this
15 will not necessarily result in high
16 transportation costs to Scherer Unit 4 in the
17 future.

18

19 A rail spur approximately thirty five miles in
20 length could be built to the CSX line to create
21 competition to the NS; moreover, even if the
22 line is not built, the fact that it can be built
23 will help maintain transportation rates on NS
24 competitive. Further, Georgia Power Company
25 ("GPC") has existing plant sites which are

1 served by both the CSX and the NS railroads.
2 The fact that GPC could reduce tonnage
3 transported by NS to other locations can be used
4 to negotiate competitive transportation rates on
5 NS to all GPC locations, including the Scherer
6 site.

7
8 Q: Please discuss the significance of the coal
9 transportation alternatives at the Martin Plant
10 raised by Mr. Wells on pages 7 - 9 of his direct
11 testimony.

12 A: Although the Martin Plant has access to two
13 railroads and has proximity to potential sites
14 for waterborne deliveries, we project that
15 transportation costs to Scherer will be lower
16 than those to the Martin Plant for the following
17 reasons:

18 (1) A coal port, although feasible, would be
19 costly to construct and operate and
20 transshipment of coal to the Martin Plant would
21 add to the transportation cost. Also, a coal
22 port is more expensive than building the rail
23 spur from the CSX railroad to the Scherer site.

24 (2) Although the Martin Plant has access to two
25 railroads, one system must transship coal at

1 Jacksonville, which would add to the
2 transportation cost.

3 (3) The Scherer site is 400 miles closer to the
4 Central Appalachian sources of coal than the
5 Martin Plant.

6

7 Q: Why does FPL use a coal transportation cost to
8 Scherer that is less than \$12.00 per ton for
9 future purchases?

10 A: Although the average of the existing coal
11 transportation tariffs is greater than \$12.00
12 per ton, Georgia Power Company (GPC) has
13 recently received a new transportation tariff
14 for delivery of coal under one of its existing
15 contracts to the Scherer site for less than
16 \$12.00 per ton. In addition, a review of the
17 bids for coal supply from Central Appalachia
18 received by GPC in late 1989 shows an average
19 transportation rate of less than \$12.00 per ton.

20

21 Q: Does access to only the NS line limit coal
22 supply availability to Scherer Unit 4, as
23 claimed by Mr. Wells?

24 A: No. The NS system serves compliance coal mines
25 with a total in-place production capacity of

1 25.6 million tons of coal per year. The
2 projected requirement for Scherer Unit 4 is 2.6
3 million tons of coal per year. In addition, the
4 Central Appalachian compliance coal reserves are
5 about 23 billion tons of which about 800 million
6 tons are connected to the NS line. Scherer Unit
7 No. 4's requirements over a 20 year life are 52
8 million tons, only 6.5% of the known reserves of
9 compliance coal currently connected to the NS
10 line.

11

12 **Q: Please summarize your testimony.**

13 **A. The forecast of delivered coal prices to Scherer**
14 reflects all the information available about the
15 coal market, coal transportation and feasible
16 coal procurement strategies. Therefore it is a
17 reasonable and appropriate forecast to be used
18 in the Scherer analysis.

19

20 **Q: Does this conclude your testimony?**

21 **A: Yes, it does.**

22