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October 14, 2002

VIA HAND DELIVERY

Blanca S. Bayo, Director Division of Records and Reporting Betty Easley Conference Center 4075 Esplanade Way Tallahassee, Florida 32399-0870

Re:

Docket No.: Docket Nos. 020262-EI and 020263-EI

Dear Ms. Bayo:

On behalf of the Florida Industrial Power Users Group (FIPUG), enclosed for filing and distribution are the original and 15 copies and a disk of the following:

Post-Hearing Statement of Issues and Positions and Post-Hearing Brief of the Florida Industrial Power Users Group.

Please acknowledge receipt of the above on the extra copy of each and return the stamped copies to me. Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

11142 OCT 148

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to determine Need for an electrical power Plant in Martin County by Florida Power & Light Company.

Docket No. 020262-EI

In re: Petition to determine Need for an electrical power Plant in Manatee County by

Docket No. 020263-EI

Florida Power & Light Company

Filed: October 14, 2002

POST-HEARING STATEMENT OF ISSUES AND POSITIONS AND POST-HEARING BRIEF OF THE FLORIDA INDUSTRIAL POWER USERS GROUP

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DOCUMENT NUMBER-0716
11142 OCT 148

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PRELIMINARY STATEMENT

Pursuant to rule 28-106.307, Florida Administrative Code, the Florida Industrial Power Users files its Post-Hearing Statement of Issues and Positions and Post-Hearing Brief, which contain a summary of the positions developed and supported in this brief.¹ FIPUG has provided a position statement on all of the issues, except those for which it has no position.

INTRODUCTION

FIPUG, a group of large industrial consumers, looks to this Commission to ensure that there is adequate and reliable capacity available to meet the needs of Florida retail ratepayers. FIPUG also looks to this Commission to ensure that when capacity is required to meet the needs of retail consumers, the capacity that is secured is the most cost-effective available – whether the capacity is the self-build project of an investor-owned utility or the project of a competitive power producer. While FIPUG does not take issue with the need FPL has identified in this case, it does take issue with the timing of the capacity additions FPL suggests as well as with FPL's proposal that its own self-build projects be permitted to meet the identified need.

As to the timing issue, FIPUG is concerned that FPL proposes to build 1896 MW in 2005 to meet a 1122 MW need. The Commission should carefully analyze whether such a plan makes sense considering that FPL proposes to convert its Martin 8 plant, a 789 MW upgrade, in 2005 to fill a 15 MW need.

¹The following abbreviations are used in this brief. The Florida Industrial Power Users Group is referred to as FIPUG. Florida Power and Light Company is referred to as FPL. The Florida Public Service Commission is called the Commission. References to the transcript are designated (Tr.).

As to the issue of what projects should be used to fill the need, FIPUG also suggests careful analysis. In FIPUG's view, the determination of need proceeding is the first step in the ratemaking process. Once the Commission makes a determination in a proceeding like this that the utility has chosen the least-cost alternative, it is extremely likely that ratepayers will be required to pay for the alternative chosen. It is an almost impossible burden for ratepayers to later claim that the alternative the Commission approved was not the best choice.

Thus, it is crucial that the Commission, as the surrogate for market competition and the entity charged with protecting the interests of captive retail customers, get it right on the front-end. The Commission must ensure that the new capacity selection process is fair, impartial and above-board; this is the only way that consumers – who ultimately foot the bill – will have confidence that the correct choice has been made.

In this case, the record reflects that the procedure FPL used and the information FPL relied upon to declare itself the winner was a process whose outcome was predetermined from the outset. For example, just the inclusion of the extremely controversial "equity penalty", which has never been approved by this Commission in the way FPL used it in its selection process, had the effect of eliminating non-FPL projects from consideration. This is only one factor that should indicate to the Commission that the selection process FPL followed was not impartial. Another indicator of the lack of fairness and impartiality of the process is the fact that FPL refuses to be bound by the amount it bid. If the process FPL conducted was truly competitive and impartial, and if FPL participated on the same footing as all other bidders, it is difficult to understand its unwillingness to stand by the amount it bid. Other aspects of the RFP process indicate bias on FPL's part as well, including its

failure to employ an independent evaluator and its ability to continually "rebid" until it could choose itself as the winner.

Due to the high potential cost to consumers of the FPL projects, the many questions raised about FPL's biased selection process, and the potential impact on ratepayers, this Commission cannot conclude that FPL has selected the least-cost alternative. The Commission should take immediate steps to require FPL to select the most cost-effective alternative.

ARGUMENT²

ISSUE 1³

DOES FLORIDA POWER & LIGHT COMPANY HAVE A NEED FOR MARTIN UNIT 8, TAKING INTO ACCOUNT THE NEED FOR ELECTRIC SYSTEM RELIABILITY AND INTEGRITY?

FIPUG's Position: *It appears that FPL may have a need for the capacity represented by Martin 8 in 2006, not 2005. FPL seeks to build 789 MW represented by Martin 8 in 2005 to meet a 15 MW need. This raises significant questions regarding the cost-effectiveness of this decision as well as whether such capacity may be able to be provided more cost-effectively by a competitive provider.*

ISSUE 2

DOES FLORIDA POWER & LIGHT COMPANY HAVE A NEED FOR MANATEE UNIT 3, TAKING INTO ACCOUNT THE NEED FOR ELECTRIC SYSTEM RELIABILITY AND INTEGRITY?

<u>FIPUG's Position</u>: *It appears that FPL has a need for the capacity represented by Manatee 3. However, such capacity may be able to be provided more cost-effectively by a competitive provider.*

²Issues on which FIPUG has no position are included at the end of the brief.

³Issues 1-4 have been grouped together for discussion.

ISSUE 3

DOES FLORIDA POWER & LIGHT COMPANY HAVE A NEED FOR MARTIN UNIT 8, TAKING INTO ACCOUNT THE NEED FOR ADEQUATE ELECTRICITY AT A REASONABLE COST?

FIPUG's Position: *It appears that FPL may have a need for the capacity represented by Martin 8 in 2006, not 2005. FPL seeks to build 789 MW represented by Martin 8 in 2005 to meet a 15 MW need. This raises significant questions regarding the cost-effectiveness of this decision as well as whether such capacity may be able to be provided more cost-effectively by a competitive provider.*

ISSUE 4

DOES FLORIDA POWER & LIGHT COMPANY HAVE A NEED FOR MANATEE UNIT 3, TAKING INTO ACCOUNT THE NEED FOR ADEQUATE ELECTRICITY AT A REASONABLE COST?

<u>FIPUG's Position</u>: *It appears that FPL has a need for the capacity represented by Manatee 3. However, such capacity may be able to be provided more cost-effectively by a competitive provider.*

Argument on Issues 1 - 4

FPL seeks to add 1722 MW of additional capacity in the 2005 and 2006 time frame. (Tr. 90). FPL testified that it needs to add 1122 MW in 2005 and an additional 600 MW in 2006 to maintain a 20% reserve margin in each of those years. *Id.* Consistent with maintaining electric system reliability and integrity, FIPUG does not take issue with FPL's need to add capacity. FIPUG also stresses the importance to retail consumers of ensuring that sufficient capacity is available to maintain the agreed-upon 20% reserve margin⁴ so as to avoid future capacity shortfalls and the need to purchase expensive replacement power as a result of such shortfalls.

However, FIPUG questions the timing FPL suggests for the capacity additions as well as whether FPL has selected the most cost-effective proposals to meet its need. As to the timing of the

⁴Order No. PSC-99-2507-S-EU; (Tr. 91).

additions, FPL has admitted that if only the Manatee unit is built in 2005, FPL would need just 15 MW to meet the 20% reserve margin requirement. (Tr. 197). Therefore, it is difficult to understand the rationale behind converting Martin 8 in 2005 and creating a surplus of over 700 MW. In addition, the record indicates that FPL did not explore or consider a purchase of 15 MW, in lieu of the 789 MW Martin 8 conversion, to bridge this "deficit" for one year. (Tr. 366-67). In fact, the terms of FPL's RFP did not allow for competitive proposals that would have addressed this short-term need. (Tr. 367). This suggests that other motives drove FPL to select its own Martin 8 self-build option.

Further, witness Silva's Exhibit No. 2 (RS-2, 3) shows FPL's present level of firm purchased power contracts. In its need study, these purchases will ramp down to less than 400 MW. (Tr. 89). By failing to deal with the opportunities for contract renewal, FPL was able to "improve" its need study, but still could only demonstrate a 15 MW shortfall. Public policy should not support a return to IOU-owned generating capacity coupled with disincentives for merchants to come to Florida. FPL's over capacity in a rate base subsidized by retail customers will give FPL even greater market power in the wholesale market to the detriment of Florida's other 58 utilities.

As important as the availability and adequacy of capacity is that such capacity be procured at a reasonable cost to ratepayers. The only way to ensure that capacity is procured at a reasonable cost is to require a fair and impartial competitive bid process. For the reasons discussed later in this brief, and in the briefs of the other Intervenors, the evidence demonstrates that the Commission can have no confidence in the procedures FPL followed to come to the conclusion that its projects were the most cost-effective. FPL's process was so skewed in favor of selecting its own proposals that

ratepayers and this Commission can have no faith in FPL's selection.5

ISSUE 96

DID FLORIDA POWER & LIGHT COMPANY'S SUPPLEMENTAL REQUEST FOR PROPOSALS, ISSUED ON APRIL 26, 2002, SATISFY THE REQUIREMENTS OF RULE 25-22.082, FLORIDA ADMINISTRATIVE CODE?

<u>FIPUG's Position:</u> *No, the purpose of the bid rule is to ensure that the selection of generating capacity is done in a fair and impartial manner so that the project(s) most beneficial to the ratepayers is chosen. In this instance, the record demonstrates that the requirements of the bid rule were not applied so as to achieve that result. Both the RFP and the comparison of proposals appear to have been skewed in favor of FPL's self-build option.*

ISSUE 10

WAS THE PROCESS USED BY FLORIDA POWER & LIGHT COMPANY TO EVALUATE MARTIN UNIT 8, MANATEE UNIT 3, AND PROJECTS SUBMITTED IN RESPONSE TO ITS SUPPLEMENTAL REQUEST FOR PROPOSALS, ISSUED ON APRIL 26, 2002, FAIR, REASONABLE, AND APPROPRIATE?

FIPUG's Position: *No, because both the RFP and the process used to compare the proposals were skewed in favor of FPL's self-build option, the process was not fair, reasonable and appropriate.*

ISSUE 11

IN ITS EVALUATION OF MARTIN UNIT 8, MANATEE UNIT 3, AND PROJECTS FILED IN RESPONSE TO ITS SUPPLEMENTAL REQUEST FOR PROPOSALS, ISSUED ON APRIL 26, 2002, DID FLORIDA POWER & LIGHT COMPANY EMPLOY FAIR AND REASONABLE ASSUMPTIONS AND METHODOLOGIES?

⁵As the Commission is well aware, FPL has a great incentive to select its own proposal over those proffered by others. When it picks itself, FPL can add the plants to its rate base and earn a return on them, thus increasing its earnings. If FPL purchases capacity and energy from others, it earns nothing on the transaction.

⁶Issues 9-11 are discussed together.

ISSUE 11(A): WERE THE ASSUMPTIONS REGARDING OPERATING PARAMETERS THAT FPL ASSIGNED TO ITS OWN PROPOSED UNITS REASONABLE AND APPROPRIATE?

FIPUG's Position: *FIPUG adopts the position of PACE.*

ISSUE 11(B): DID FPL APPROPRIATELY MODEL VARIABLE O&M COSTS IN ITS ANALYSIS?

FIPUG's Position: *FIPUG adopts the position of PACE.*

ISSUE 11(C): WHEN MODELING AND QUANTIFYING THE COSTS OF ALL OPTIONS, DID FPL FAIRLY AND APPROPRIATELY COMPARE THE COSTS OF PROJECTS HAVING DIFFERENT DURATIONS?

FIPUG's Position: *FIPUG adopts the position of PACE.*

ISSUE 11(D): WHEN MODELING AND QUANTIFYING THE COSTS OF ALL OPTIONS, DID FPL EMPLOY ASSUMPTIONS REGARDING THE GAS TRANSPORTATION COSTS APPLICABLE TO "FILLER UNITS" THAT WERE FAIR, REASONABLE AND APPROPRIATE?

FIPUG's Position: *FIPUG adopts the position of PACE.*

ISSUE 11(E): WHEN MODELING AND QUANTIFYING THE COSTS OF ALL OPTIONS, INCLUDING ITS OWN, DID FPL APPROPRIATELY AND ADEQUATELY TAKE CYCLING AND START-UP COSTS INTO ACCOUNT?

FIPUG's Position: *FIPUG adopts the position of PACE.*

ISSUE 11(F): WHEN MODELING AND QUANTIFYING THE COSTS OF ALL OPTIONS, DID FPL APPROPRIATELY AND ADEQUATELY TAKE INTO ACCOUNT THE IMPACT OF SEASONAL VARIATIONS ON HEAT RATE AND UNIT OUTPUT?

FIPUG's Position: *FIPUG adopts the position of PACE.*

Argument on Issues 9-11

FPL's RFP and the selection process FPL conducted to declare itself the winner of the RFP failed to satisfy the requirements of rule 25-22.028, Florida Administrative Code. Neither the RFP or the evaluation process was fair, impartial and independent.

The evidence demonstrates that FPL, who developed the RFP, designed it so that it was unfairly skewed in its favor. Numerous portions of the RFP document were worded so broadly and vaguely that it failed to convey the true meaning and substance of what FPL was seeking from prospective bidders. For instance, FPL testified that the following terms and conditions of the RFP and the evaluation process were not clearly communicated, or were not disclosed, in the RFP: the preference given to "brownfield projects" (Tr. 145); the need for a company's corporate strategy to expressly include power generation (Tr. 147); the equity penalty (Tr. 631); and the required contractual commitment of the bidder (Tr. 171-72). Moreover, although required by rule 25-22.082, FPL never actually created, documented or disclosed its methodology to evaluate the bids, other than the most vague descriptions. (Tr. 142).

The evaluation process was similarly vague and unclear. It unfairly favored FPL's own projects. For example, FPL used the simplistic EGEAS model⁸ in its evaluation (Tr. 1184); FPL failed to consider a one-year 15 MW purchase when grouping the bids for evaluation (Tr. 336); and FPL refused to be bound by its bid for ratemaking purposes, (Tr. 921), permitting it to "low ball"

⁷FPL never explicitly stated that it would apply the equity penalty to bidders nor did it identify the terms and conditions upon which it would apply the equity penalty. (Tr. 631).

⁸ FPL witness Sim testified that FPL could have used a more detailed model to evaluate the top six or eight proposals. (Tr. 380).

its bid in order to win. In addition, as discussed in Issue 12, FPL applied the controversial "equity penalty" to eliminate competitive projects.

These aspects of the RFP and the evaluation, and others described by the other Intervenors, made it impossible for any entity, other than FPL to be selected as the winner. Therefore, FPL's conduct in this matter had the effect of circumventing both the letter and the spirit of rule 25-22.082 by ensuring that FPL would declare itself the winner. Thus, this process cannot be said to have resulted in the selection of the most cost-effective project for FPL ratepayers.

ISSUE 12

WAS FLORIDA POWER & LIGHT COMPANY'S DECISION TO APPLY AN EQUITY PENALTY COST TO PROJECTS FILED IN RESPONSE TO ITS SUPPLEMENTAL REQUEST FOR PROPOSALS APPROPRIATE? IF SO, WAS THE AMOUNT PROPERLY CALCULATED?

FIPUG's Position: *No; it appears that the use of an "equity penalty" unfairly penalized competitive projects and skewed FPL's choice in favor of its self-build option.*

FPL's use of the equity penalty was inappropriate and unfairly prejudiced the selection process by eliminating bidders' proposals in favor of FPL's own self-build proposals. FPL has greatly exaggerated the "risks" it faces with respect to purchased power. (Tr. 1119). As Mr. Maury testified, FPL's use of the equity penalty was inappropriate for numerous reasons:

- FPL took an aspect of Standard and Poor's consolidated rating methodology and used it for a purpose for which it was never intended (Tr. 1117);
- The equity penalty does not promote a fair comparison of alternatives the adjustment

⁹The equity penalty looks at only one factor considered by credit rating agencies in isolation, while ignoring that these agencies consider more than just off balance sheet debt when formulating a credit rating. (Tr. 641).

- is entirely one-sided¹⁰ (Tr. 1118);
- FPL's argument that the equity penalty is needed to recognize an implied cost to the company to rebalance its capital structure is not credible (Tr. 1118-1119);
- FPL proposed no adjustments to take into account the benefits of purchased power contracts (Tr. 642-643; 1119-1120);
- An equity penalty has never been authorized as a tool for evaluating the costeffectiveness of a self-build option (Tr. 1096);
- FPL's high equity ratio, the addition of utility-owned capacity, and a decrease in the amount and number of purchase power obligations in the future obviate FPL's need for an equity penalty (Tr. 1112).

Based on the above factors, it appears that the only purpose of the equity penalty was to increase the price of the outside bids in comparison to FPL's own proposals. Absent the equity penalty, the price difference between FPL and the next highest bid was only \$2 million dollars. (Tr. 385-86). The equity penalty prohibitively increased the price of the competitive bids, thereby improving the appearance of FPL's self-build option. FPL's use of the equity penalty was not in the best interest of the ratepayers and does not assist in the determination of the least-cost alternative.

ISSUE 14¹¹

IS FLORIDA POWER & LIGHT COMPANY'S MARTIN UNIT 8 THE MOST COST-EFFECTIVE ALTERNATIVE AVAILABLE?

¹⁰Even FPL witness Avera admitted that the equity penalty singles out only unfavorable aspects of a purchase power agreement. (Tr. 642).

¹¹Issues 14-17 have been grouped together for discussion.

FIPUG's Position: *Because the bidding process was unfairly skewed in favor of FPL's own proposal, the Commission cannot reach this conclusion at this time.*

ISSUE 15

IS FLORIDA POWER & LIGHT COMPANY'S MANATEE UNIT 3 THE MOST COST-EFFECTIVE ALTERNATIVE AVAILABLE?

FIPUG's Position: *Because the bidding process was unfairly skewed in favor of FPL's own proposal, the Commission cannot reach this conclusion at this time.*

ISSUE 16

BASED ON THE RESOLUTION OF THE FOREGOING ISSUES, SHOULD THE COMMISSION GRANT FLORIDA POWER & LIGHT COMPANY'S PETITION FOR DETERMINATION OF NEED FOR MARTIN UNIT 8?

<u>FIPUG's Position:</u>*No. The Commission should require the needed capacity to be expeditiously rebid.*

ISSUE 17

BASED ON THE RESOLUTION OF THE FOREGOING ISSUES, SHOULD THE COMMISSION GRANT FLORIDA POWER & LIGHT COMPANY'S PETITION FOR DETERMINATION OF NEED FOR MANATEE UNIT 3?

<u>FIPUG's Position:</u> *No. The Commission should require the needed capacity to be expeditiously rebid.*

Conclusion

The process employed by FPL was so unfairly skewed in favor of the selection of its own units that consumers can have no confidence that FPL's selection comports with the requirements in § 403.519, Florida Statutes and rule 25-22.028. The Commission should immediately take whatever action is necessary to ensure the FPL's capacity need is met by the most cost-effective alternative.

Issues on Which FIPUG has No Position:

ISSUE 5

ARE THERE ANY CONSERVATION MEASURES TAKEN BY OR REASONABLY AVAILABLE TO FLORIDA POWER & LIGHT COMPANY THAT MIGHT MITIGATE THE NEED FOR MARTIN UNIT 8?

FIPUG's Position: *No position.*

ISSUE 6

ARE THERE ANY CONSERVATION MEASURES TAKEN BY OR REASONABLY AVAILABLE TO FLORIDA POWER & LIGHT COMPANY THAT MIGHT MITIGATE THE NEED FOR MANATEE UNIT 3?

FIPUG's Position: *No position.*

ISSUE 7

HAS FLORIDA POWER & LIGHT COMPANY ADEQUATELY ENSURED THE AVAILABILITY OF FUEL COMMODITY AND TRANSPORTATION TO SERVE MARTIN UNIT 8?

FIPUG's Position: *No position.*

ISSUE 8

HAS FLORIDA POWER & LIGHT COMPANY ADEQUATELY ENSURED THE AVAILABILITY OF FUEL COMMODITY AND TRANSPORTATION TO SERVE MANATEE UNIT 3?

FIPUG's Position: *No position.*

ISSUE 11(G)

DID FPL ACT IN A FAIR, REASONABLE AND APPROPRIATE MANNER IN NOT CONSIDERING FOR THE SHORT LIST PORTFOLIOS THAT INCLUDED TECO AND OTHER BIDDERS, IN PART, BECAUSE TECO'S RESERVE MARGIN REQUIREMENT MIGHT BE IMPAIRED?

FIPUG's Position: *No position.*

ISSUE 13

IN ITS EVALUATION OF MARTIN UNIT 8, MANATEE UNIT 3, AND PROJECTS FILED IN RESPONSE TO ITS SUPPLEMENTAL REQUEST FOR PROPOSALS, ISSUED ON APRIL 26, 2002, DID FLORIDA POWER & LIGHT COMPANY PROPERLY AND ACCURATELY EVALUATE TRANSMISSION INTERCONNECTION AND INTEGRATION COSTS?

FIPUG's Position: *No position.*

ISSUE 18

HAS FACT PROVED UP THE ALLEGATIONS OF STANDING SET FORTH IN ITS PETITION TO INTERVENE?

FIPUG's Position: *No position.*

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Post-Hearing Statement of Issues and Positions and Post-Hearing Brief of the Florida Industrial Power Users Group was served via (*) electronic mail, (**) hand delivery or U.S. Mail this 14th day of October 2002, to the following:

- (*) (**) Martha Carter Brown Lawrence Harris Florida Public Service Commission Division of Legal Services 2540 Shumard Oak Boulevard Tallahassee, Florida 32399-0850
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