

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 130007-EI

IN RE: ENVIRONMENTAL COST RECOVERY CLAUSE

DIRECT TESTIMONY

OF

CAROLYNE WASS

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ON BEHALF OF

**DESOTO COUNTY GENERATING
COMPANY, LLC**

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3 ON BEHALF OF

4 DeSoto COUNTY GENERATING COMPANY, LLC

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6 SEPTEMBER 13, 2013

7
8 **DESCRIPTION OF DeSoto GENERATING FACILITY AND OPERATIONS**

9
10 **Q. Please state your name and business address.**

11 A. My name is Carlyne Wass, and my business address is 1700 Broadway, New York,
12 NY 10019.

13
14 **Q. By whom are you employed and in what capacity?**

15 A. I am employed by LS Power Development, LLC, as Senior Vice President, Asset
16 Management. LS Power Development, LLC is the indirect owner of DeSoto County
17 Generating Company, LLC, which owns the DeSoto Generating Facility.

18
19 **Q. Please describe LS Power.**

20 A. LS Power Development is part of the LS Power Group (LS Power). Founded in
21 1990, LS Power is a privately-held company engaged, through its subsidiaries, in the
22 development, acquisition, and management of power generating and electric

1 transmission infrastructure throughout the United States. LS Power and its
2 subsidiaries have developed, constructed, managed or acquired more than 27,000
3 MW of competitive power generation and 470 miles of transmission infrastructure,
4 for which we have raised more than \$22 billion in debt and equity financing.

5 LS Power has two primary lines of business: development activities through
6 LS Power Development, and investment management activities through LS Power
7 Equity Advisors. LS Power Development has developed more than 8,000 MW of
8 power generation facilities throughout the United States, with a combined capital cost
9 of approximately \$7 billion. As a developer, LS Power Development identifies the
10 need for new power generation resources and works with our customers – including
11 investor-owned utilities, regional power pools, electric cooperatives, and municipal
12 utilities – to deliver competitively priced electricity to those customers on a wholesale
13 basis. Our current development efforts reflect a diverse mix of power generation
14 facilities, including those fueled by natural gas and solar energy. Additionally, LS
15 Power Equity Advisors is an established investment manager with \$4.3 billion in
16 equity capital across two private equity funds. LS Power Equity Advisors' focus is to
17 acquire operating power generation assets and utilize our development, operations,
18 power marketing, and financial expertise to improve their commercial and physical
19 operations. Since their inception, the private equity funds have acquired and
20 managed more than 18,000 MW of generation capacity.

21

1 **Q. Please summarize your responsibilities in that position.**

2 A. I am responsible for management of the operating portfolio of LS Power. This
3 portfolio includes over 8,000 MWs of generating capacity that is located throughout
4 the United States. The portfolio is a mix of gas, coal, hydroelectric and solar plants.

5
6 **Q. Please summarize your educational background and professional experience.**

7 A. I received a Bachelor of Science degree in Mechanical Engineering from Texas A&M
8 University in 1991. I have worked for LS Power since 2005. Prior to that, from 2002
9 until 2005, I worked for DTE Energy Services, where my duties included
10 management of a portfolio of non-regulated generation assets on behalf of DTE
11 Energy Services and other third-party owners. From 1998 until 2002, I worked for
12 Entergy Wholesale Operations, where my duties included business development and
13 operations management. From 1996 until 1998, I worked for Coastal Power
14 Company, where my duties included business development.

15
16 **Q. Please summarize any specific experience that you have with respect to the
17 operation and business management of electrical power plants, including power
18 purchase and sale agreements and transactions in which power plants are
19 bought and sold.**

20 A. My responsibilities include management of over 8,000 MWs of generating capacity
21 located throughout the United States. The portfolio consists of gas, oil, coal,
22 hydroelectric and solar generating units. In my career, I have been responsible for
23 the management of over 40 power plants including the negotiation of power purchase

1 agreements (PPAs) for multiple power plants, including the DeSoto Generating
2 Facility, other power plants owned and operated by LS Power affiliates, and power
3 plants owned, co-owned, and operated by DTE Energy Services. I have also been
4 involved in transactions in which power plants were bought and sold.

5
6 **PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. I am testifying on behalf of DeSoto County Generating Company (DeSoto) to
9 describe the DeSoto Generating Facility (Facility), its operational history, and
10 DeSoto's proposals to sell either the Facility's output or the Facility itself to Florida
11 Power & Light Company (FPL) as a cost-effective means of meeting FPL's desire to
12 add more efficient, environmentally preferable peaking capacity to its system in
13 advance of possible implementation of the EPA's 1-Hour National Ambient Air
14 Quality Standard (NAAQS) for nitrogen dioxide (NO₂).

15
16 **Q. Please summarize the main conclusions of your testimony.**

17 A. The DeSoto Facility is a proven generating resource that has operated reliably since
18 achieving commercial operation in June 2002. In the ensuing 11 years, DeSoto
19 Generating Company has sold power from the Facility to several Florida load-serving
20 utilities, including FPL, and is capable of achieving the goals articulated by FPL
21 witness Michael DeBock – including heat rate, dual fuel capability and fast start
22 times. Further, as testified to by DeSoto's witness Kathy A. French, P.E., the DeSoto
23 Facility would meet the 1-Hour NAAQS Standard for NO₂ and satisfy FPL's desire

1 for more efficient, environmentally preferable CT capacity to replace its older, less
2 efficient, and less environmentally desirable gas turbines.

3 DeSoto has offered to sell the output of the Facility or the Facility itself to
4 FPL at very favorable prices. In fact, DeSoto has offered to sell the Facility itself to
5 FPL at a price that is well below 40 percent of FPL's reported cost per kilowatt of CT
6 capacity for the units it proposes to install through its NO₂ Compliance Project, while
7 providing substantially the same attributes as the units proposed by FPL.

8 Additionally, DeSoto has offered to include, in the already-low sale price for the
9 Facility, (a) an upgrade in the Facility's startup capability that will approximately
10 match the startup performance metrics of FPL's proposed CTs, and (b) the next major
11 maintenance overhauls on both of the Facility's CTs, at DeSoto's cost, which would
12 effectively make the units like new in many respects. In summary, DeSoto has
13 offered FPL an option to meet its needs for CT capacity at tremendous savings to FPL
14 and thus to FPL's customers.

15 DeSoto purchases electricity from FPL under FPL's General Service Demand
16 (GSD-1) and Standby and Supplemental Service (SST-1T) tariffs.

17
18 **DESCRIPTION OF THE DeSOTO GENERATING FACILITY**

19 **Q. Please describe the DeSoto Generating Facility.**

20 A. The DeSoto Generating Facility is a modern, efficient power generating facility
21 consisting of two General Electric Frame 7241FA combustion turbines (CTs) with
22 summer net generating capability of 310 megawatts (MW). The Facility is located in
23 Arcadia, Florida, approximately 36 miles from FPL's Ft. Myers plant. The DeSoto

1 Facility is interconnected to FPL's transmission system at the FPL Whidden
2 substation and is interconnected to the Florida Gas Transmission Company (FGT)
3 natural gas pipeline. Additionally, the Facility is capable of operating on No. 2 (ultra-
4 low sulfur diesel) fuel and has on-site backup fuel capability of 1.5 million gallons,
5 which is sufficient for approximately 54 hours of full load operation with both
6 combustion turbines running. The Facility achieved commercial operation in June
7 2002. LS Power purchased the Facility in December 2009.

8
9 **Q. What Florida utilities have purchased power from the DeSoto Facility, and**
10 **under what arrangements?**

11 A. Since coming on-line in 2002, numerous Florida utilities have purchased the output of
12 the DeSoto Facility, including FPL. The Facility's output has been sold under various
13 arrangements, including hour-to-hour non-firm energy sales, firm power purchase
14 agreements of varying durations, and tolling agreements, whereby DeSoto operates
15 the Facility to generate electricity using fuel supplied by the utility purchasing the
16 output. Prior to its acquisition by LS Power, the DeSoto Facility had a long-term
17 tolling agreement with FPL from the Facility's commercial operation date, June 2002,
18 until May 2007. FPL and DeSoto also had a one year tolling agreement for the period
19 of January 1, 2012 through December 31, 2012.

20
21 **Q. Please summarize the Facility's recent performance and reliability.**

22 A. The DeSoto Facility has an excellent operating history and safety and environmental
23 records, as well as an experienced staff. For the most recent full calendar year,

1 DeSoto had a NERC GADS Equivalent Availability Factor of 97.7% and a starting
2 reliability of 98.2%, representing 277 successful starts out of 282 attempts. As
3 demonstrated by its high availability and starting reliability, the DeSoto Facility has
4 proven to be an effective, reliable peaking resource option.

5
6 **PROPOSALS TO FLORIDA POWER & LIGHT COMPANY**

7 **Q. Has DeSoto County Generating Company offered to sell the output of the**
8 **DeSoto Facility to FPL under long-term arrangements? If so, under what terms**
9 **and conditions has DeSoto offered to make such sales?**

10 **A.** Yes. On July 31, 2013, DeSoto provided a proposal to FPL's management that
11 included options for the purchase of the Facility or a 10-year tolling agreement; both
12 offers were at prices that represent a significant discount to new-build cost or price.
13 The 10-year capacity/tolling agreement proposal contemplated using a form of
14 agreement similar to that of the recent tolling agreement between DeSoto and FPL
15 dated October 24, 2011. That agreement lasted for one year. The pricing under this
16 offer started with a fixed capacity charge of \$1.75 per kilowatt-month from April 1,
17 2014 through March 31, 2017, and \$2.50 per kilowatt-month from April 1, 2017
18 through March 31, 2024, subject to escalation at 2.5% per year for the 2018-2024
19 years. As proposed, the other terms and conditions would have been the same as in
20 the October 2011 agreement.

21

1 **Q. Has DeSoto offered to sell the Facility itself to FPL? If so, under what terms and**
2 **conditions did DeSoto offer to sell the Facility?**

3 A. Yes. As noted previously, DeSoto provided a proposal to FPL's management on July
4 31, 2013. The proposal offered to sell FPL the Facility for a purchase price of \$51
5 million. After a meeting between DeSoto management and FPL management on
6 August 5, 2013 to discuss the offer, DeSoto provided an updated offer to FPL on
7 August 28, 2013. The updated offer addressed FPL management's emphasis on the
8 need for fast start capability and offered to sell FPL the DeSoto Facility for a
9 purchase price of \$52.75 million. Based on the Facility's summer capacity of 310
10 megawatts (MW), this is approximately \$170 per kilowatt of capacity. The proposal
11 indicated that other terms and conditions would be those usual and customary for
12 transactions of this type.

13
14 **Q. Were there any special features of DeSoto's August 28 offer that would enhance**
15 **the value of the Facility to FPL?**

16 A. Yes, DeSoto's August 28, 2013 offer included two particular features that, in my
17 opinion and in the view of DeSoto, addressed certain specific FPL concerns and that
18 would provide significant additional value to FPL.

19 The first of those provisions addressed FPL's desire to have CTs with quick-
20 start capability. After consulting with the manufacturer, General Electric (GE),
21 DeSoto ascertained that the startup capabilities of the units could be improved to
22 approximately match those of FPL's proposed CTs: specifically, by purchasing GE's
23 "Fast Start OpFlex" package, the DeSoto units could achieve operation of

1 approximately 78 percent of full load within 10 minutes and 100 percent of full load
2 in 13 minutes from startup; similar to those times referenced in Michael DeBock's
3 testimony.

4 The second option, which DeSoto also offered to provide at its cost, within the
5 quoted purchase/sale price, was that DeSoto would perform a "major maintenance
6 overhaul" on both of the Facility's CTs before transferring ownership to FPL.
7 Although the major maintenance overhauls are not currently due, this would
8 effectively give FPL units that are like new in many respects. Again, these
9 substantial enhancements to the Facility are included in the \$52.75 million price at
10 which DeSoto offered to sell FPL the Facility.

11
12 **Q. How does the price at which DeSoto offered to sell the Facility to FPL compare**
13 **to the costs of FPL's proposed peaking units?**

14 A. According to FPL's petition, the total cost of the combustion turbines that FPL
15 intends to install appears to be approximately \$822 million, including transmission
16 and integration costs, or \$771 million, excluding transmission and integration costs.
17 Based on the higher figure, FPL's cost per kilowatt (kW) of added capacity would be
18 about \$511 per kW, and based on the lower figure, the cost would be about \$479 per
19 kW of capacity. For 310 MW (which is 310,000 kW) of capacity, FPL's cost is
20 between \$148.5 million and \$158.4 million; this is approximately \$100 million
21 greater than the cost at which FPL can purchase the DeSoto Facility, including the
22 quick-start upgrade and the major maintenance overhaul on the Facility, both of
23 which would be provided within DeSoto's \$52.75 million offer price.

1 Q. Is DeSoto's offer still available to FPL? That is, as of the date of your testimony,
2 could FPL accept DeSoto's offer to sell the DeSoto Generating Facility at the
3 pricing proposed in DeSoto's August 28 offer?

4 A. Yes. DeSoto's offer is available to FPL as of the date of this testimony.
5

6 Q. To your knowledge, would FPL incur any additional costs associated with
7 integrating the Facility into FPL's system as an additional generating unit in
8 FPL's generating fleet?

9 A. None that I know of. I understand that during the term of the previous tolling
10 agreement FPL designated DeSoto as a network resource at no additional cost to FPL
11 allowing FPL to control and operate the DeSoto Facility similar to one of its owned
12 resources.
13

14 Q. To your knowledge, could the same fuel supply and transmission arrangements
15 be continued if FPL were to purchase the Facility outright?

16 A. DeSoto's existing fuel supply and transmission arrangements would be transferred
17 along with the purchase of the Facility. Of course, FPL could designate the Facility
18 as a network resource and deliver gas consistent with past practice.
19
20
21

1 **Q. In summary, can the DeSoto Generating Facility provide the same favorable**
2 **attributes that FPL asserts its proposed, self-built CTs would provide?**

3 A. Yes. In paragraph 22 on page 9 of FPL's petition for approval of its NO2
4 Compliance Program, FPL asserts that

5 "Soliciting proposals for third parties to build and provide
6 peaking capacity on other sites (in lieu of the proposed CTs) would not
7 result in the identification of alternatives that could offer the economic
8 and strategic benefits associated with the NO2 Compliance Project at
9 either PFL or PFM. The primary benefits of the FPL proposed option
10 at these locations are that (1) the plant sites remain intact and
11 operational; (2) they would require only minimal transmission
12 enhancements; (3) they have existing gas delivery and back-up fuel
13 infrastructure, and (4) the land is available and already dedicated to
14 generation of electricity. Any other proposed alternative sites and
15 associated power plant facilities proposed by a third party through a
16 solicitation process would incur significant costs in each of those
17 areas, making any alternative site a more costly alternative to these
18 proposed sites."

19 Contrary to FPL's assertions, the DeSoto Generating Facility would provide
20 or satisfy all of these attributes. The DeSoto Facility site is intact, and the land is,
21 obviously, already available and dedicated to power generation. The Facility is
22 already interconnected to FPL's transmission system at the 230 kV voltage level.
23 Further, the Facility already has existing natural gas delivery infrastructure as well as

1 1.5 million gallons of storage capability for back-up fuel (ultra-low sulfur No. 2 oil).
2 Finally, as noted above, purchasing the Facility as offered by DeSoto would provide
3 fast-start capability, and, as testified by Kathy French, P.E., the Facility meets the
4 environmental need of satisfying NO2 emissions requirements, including the 1-Hour
5 NAAQS Standard for NO2, if that were to become applicable to the Facility.

6 In short, the DeSoto Facility would provide all of the attributes that FPL
7 desires at a cost that is about 65 percent less per kilowatt of capacity than FPL's
8 proposed CTs.

9
10 **Q. What are DeSoto's long-term plans for the DeSoto Facility?**

11 A. DeSoto County Generating Company strongly desires to keep the Facility up and
12 running to serve load in Florida through mutually agreeable power sale and purchase
13 arrangements with Florida load-serving utilities. However, as utility-owned
14 generation capacity has grown in the State, DeSoto's sales opportunities have
15 declined. Accordingly, and as described above, we have offered to sell the Facility's
16 output to FPL pursuant to a long-term firm capacity arrangement, and we have
17 offered to sell the Facility itself to FPL. We have also offered to sell the Facility's
18 output, and the Facility itself, to other Florida utilities.

19 However, if we are unable to negotiate a medium-term or long-term power
20 sale, or to sell the Facility itself, DeSoto will not be able to cover its operation and
21 maintenance costs. As a result, we are evaluating either "mothballing" the Facility or
22 dismantling the Facility and moving the combustion turbines and other usable
23 equipment to other states. We are reluctant to pursue either of these options, because

1 we believe that the Facility still has significant value to Florida as a proven, reliable
2 generating resource.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes.

6