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July 27, 1989

Mr. Steve Tribble
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32301

RE: Docket No. 890148-EI

Dear Mr. Tribble:

Enclosed for filing are the original and 15 copies of Florida Power & Light Company's Rebuttal Testimony of S. S. Waters in the above docket.

Very truly yours,

Charles A. Guyton

CAG:do
Enclosures

cc: Counsel for all parties of record

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of the Florida)
Industrial Power Users Group)
to Discontinue Florida Power) Docket No. 890148-EI
& Light Company's Oil Backout)
Cost Recovery Factor)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 27st day of July, 1989, a true and correct copy of Florida Power & Light Company's Rebuttal Testimony of S. S. Waters in Docket No. 890148-EI was served by U. S. Mail or hand delivery on the following persons:

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**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

DOCKET NO. 890148-EI

FLORIDA POWER & LIGHT COMPANY

JULY 27, 1989

**IN RE: PETITION TO DISCONTINUE
FPL'S OIL BACKOUT
COST RECOVERY FACTOR**

REBUTTAL TESTIMONY OF:

S.S. WATERS

**ORIGINAL
FILE COPY**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY**

**Re: Petition To Discontinue FPL's
Oil Backout Cost Recovery Factor
Docket No. 890148-EI**

**Rebuttal Testimony Of:
Samuel S. Waters**

July 27, 1989

**DOCUMENT NUMBER-DATE
07545 JUL 27 1989
FPSC-RECORDS/REPORTING**

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF S.S. WATERS

DOCKET NO. 390148-EI

JULY 27, 1989

1 **Q. Please state your name and business address.**

2 **A. My name is Samuel S. Waters, and my business address is 9250**
3 **West Flagler Street, Miami, Florida 33174.**

4

5 **Q. Have you previously filed direct testimony in this docket?**

6 **A. Yes, I have.**

7

8 **Q. What is the purpose of your rebuttal testimony?**

9 **A. I address several points raised in Mr. Jeffry M. Pollock's direct**
10 **testimony. First, I address Mr. Pollock's contention that FPL's**
11 **500 kV Project ("Project") has not resulted in the economic**
12 **displacement of oil fired generation. Mr. Pollock has made this**
13 **assertion based on a test of his own design which is entirely**
14 **inconsistent with the Primary Purpose Test that the Commission**
15 **has developed and applied. In discussing this misapplication of**

1 the Primary Purpose Test by Mr. Pollock, I show that the
2 Commission has previously rejected a test similar to Mr.
3 Pollock's. I also show that the Primary Purpose Test is still the
4 appropriate test to determine whether the Project economically
5 displaces oil. I have applied this test in my direct testimony
6 and demonstrated that the Project economically displaces oil
7 fired generation. Even Mr. Pollock, in his direct testimony,
8 admits that the Project passes the Primary Purpose Test.

9
10 Second, I address Mr. Pollock's misleading statements regarding
11 the alleged recovery of capacity costs associated with the Martin
12 coal units and the alleged double recovery of capacity costs
13 through the Oil Backout Cost Recovery Factor. I explain that
14 FPL recovers through additional depreciation only its investment
15 in the 500 kV Project. No costs of the deferred units are
16 recovered through the Oil Backout Cost Recovery Factor.
17 Consequently, there is no double recovery of capacity costs.
18 In addition to addressing Mr. Pollock's misstatements, I
19 demonstrate that for the 1987-1989 time period, the Martin Unit
20 Nos. 3 and 4 are the only units which can reasonably be used
21 as the basis for calculating capacity deferral benefits used in
22 determining actual net savings, two thirds of which are
23 recovered and applied as additional depreciation of the 500 kV
24 Project. I also establish that the cost estimates for the Martin
25 coal units are reasonable.

1 Third, I explain that there are no significantly changed cir-
2 cumstances that warrant reconsideration of whether the Project
3 should continue to receive cost recovery through the Oil
4 Backout Cost Recovery Factor. In so doing, I demonstrate that
5 the Commission was fully aware of the possibility of actual
6 circumstances varying from forecast, and that this possibility
7 was fully considered at the time the Project was qualified.

8
9 Finally, I draw some basic conclusions regarding the allegations
10 and requests made by FIPUG and Mr. Pollock in this proceed-
11 ing. I believe that Mr. Pollock's conclusions regarding the
12 Project are totally in error, and that his requests for a refund
13 of collected revenues and discontinuation of recovery are unfair
14 and unjustified. I question the fairness of these requests in
15 light of Mr. Pollock's acknowledgement of the many benefits of
16 the Project. I also note that few, if any, issues which have not
17 already been decided by the Commission have been presented
18 in this proceeding.

19
20 Q. Do you have an exhibit attached to your rebuttal testimony?

21 A. Yes. Attached to my rebuttal testimony is Exhibit No.
22 _____, comprised of Document Nos. 1, 2 and 3. It is
23 identified as Exhibit SSW-2.

1 Primary Purpose - Economic Displacement Of Oil

2

3 Q. Have Mr. Pollock's direct testimony and exhibits established
4 that the Project has failed to economically displace oil fired
5 generation?

6 A. No.

7

8 Q. Please explain.

9 A. Although Mr. Pollock asserts that the Project has not economic-
10 ally displaced oil fired generation, his direct testimony refutes
11 his assertion. For example, in his attempt to dramatize the
12 difference between the original projections and actual results
13 adjusted for more current projections, Mr. Pollock points out on
14 page 10 of his direct testimony that the "net fuel savings,"
15 while substantially below the original projection, are still a
16 positive \$1.3 billion on a nominal dollar basis. This calculation
17 is also shown on Mr. Pollock's chart appearing on page 11 of his
18 direct testimony.

19

20 Q. Would you agree that the reduction in net fuel savings from that
21 originally forecasted has been substantial?

22

23 A. Yes. But, even if these savings were relevant to deciding
24 whether oil backout cost recovery should continue, they still
25 remain positive, and the \$1.3 billion still represents substantial
savings.

1 Q. Mr. Pollock asserts (page 10) that the original projections
2 showed \$3.5 billion in "net fuel savings." Is that number
3 correct?

4 A. No. Mr. Pollock, perhaps in an attempt to be consistent with
5 his other assertion that there are no capacity deferral savings,
6 has failed to reflect the foregone fuel savings that would have
7 occurred had the deferred coal units, in fact, been built.

8

9 Q. What is the impact on the "net fuel savings" calculation had it
10 been performed correctly by Mr. Pollock?

11 A. As shown on Exhibit 15(J), the exhibit relied upon by the
12 Commission in Docket No. 820155-EU to determine whether the
13 primary purpose of the Project was the economic displacement
14 of oil, the projected fuel savings were \$1.4 billion, not the
15 \$3.5 billion Mr. Pollock has constructed for this proceeding.
16 In overstating net fuel savings, Mr. Pollock has also overstated
17 the difference between forecasted net fuel savings and actual
18 net savings by almost three times. He then uses this overstate-
19 ment to support his argument about "changed circumstances."

- 1 Q. Is the methodology which Mr. Pollock has used to support his
2 argument that the Project has not achieved the economic
3 displacement of oil fired generation correct?
- 4 A. No. It is in conflict with the Oil Backout Rule, in conflict with
5 the Commission's order qualifying the Project and internally
6 inconsistent.
- 7
- 8 Q. Please explain how it is internally inconsistent.
- 9 A. As I pointed out earlier, on pages 10 and 11 of his direct
10 testimony, Mr. Pollock shows that the "actual/current forecast"
11 of "net fuel savings" for the Project is \$1.3 billion.
12 Mr. Pollock, however, then subtracts additional non-fuel costs
13 from his "net fuel savings" and concludes that "actual net
14 savings" are negative. In essence, Mr. Pollock has mixed the
15 terms "net fuel savings" with "net savings" to support a faulty
16 conclusion.
- 17
- 18 Q. With what section of the Oil Backout Rule is Mr. Pollock's
19 methodology in conflict?
- 20 A. Rule 25-17.016 refers to the "economic displacement of oil fired
21 generation" in subsections (2)(c) and (3)(a). Subsec-
22 tion (3)(a) requires a finding that the primary purpose of a
23 project is the economic displacement of oil fired generation as
24 one of three findings the Commission must make in order for a
25 project to qualify as an oil backout project under the Rule. It

1 is the alleged failure of the Project to economically displace oil
2 that FIPUG and Mr. Pollock rely upon for the relief requested
3 in this proceeding.

4

5 Q. But, doesn't Mr. Pollock's methodology simply assume that if all
6 costs associated with the Project, including the cost of capacity,
7 are subtracted from total fuel savings, and if the capacity
8 deferral benefits are excluded, then the Project has negative
9 net savings?

10 A. That is what his methodology does. I cannot fault the mathe-
11 matics: the failure to reflect approximately \$2.7 billion of net
12 deferral savings and the inclusion of approximately \$2.6 billion
13 of non-fuel capacity costs will produce a loss. If one were to
14 include net capacity deferral savings in Mr. Pollock's method-
15 ology, it might provide information about total savings but not
16 fuel savings. In fact, this is what the "Cumulative Present
17 Value" test of subsection (3)(b) of the rule addresses.

18

19 Q. Please explain the test described by subsection (3)(b) of the
20 Rule.

21 A. The term "Cumulative Present Value of Expected Net Savings"
22 is defined by subsection (1)(c) of the Rule. This definition
23 reads in part:

1 (c) "Cumulative Present Value of Expected
2 Net Savings" means cumulative present value
3 of total net savings associated with the
4 proposed oil backout project,
5 (Emphasis added).

6
7 All Mr. Pollock has done is to attempt to quantify "total net
8 savings." From this attempt he concludes, incorrectly, that the
9 Project does not economically displace oil. In quantifying "total
10 net savings," Mr. Pollock excluded capacity deferral benefits
11 because he "believes" these have been "improperly collected."
12 Mr. Pollock's methodology, despite what he believes, is thus in
13 conflict with the Rule - it does not calculate fuel savings or
14 determine whether oil fired generation has been economically
15 displaced, and it does not correctly calculate total net savings.

16
17 Q. Do you agree with Mr. Pollock's assertion that the Project has
18 failed to economically displace oil?

19 A. No, absolutely not. Consistent with the Oil Backout Rule, the
20 Commission approved the Project for cost recovery because its
21 primary purpose was to economically displace oil fired genera-
22 tion. The Project has achieved this purpose. The method of
23 establishing this primary purpose was clearly defined by the
24 Commission in the Primary Purpose Test. Not only was this
25 Primary Purpose Test established in Commission Order

1 No. 11217, but also the exhibit reflecting the test, Late Filed
2 Exhibit 15(j) in Docket No. 820155-EU, was prepared by FPL at
3 the request of the Commission. Mr. Pollock, in pages 15
4 through 18 in his direct testimony, acknowledges that the
5 Project originally passed the test and continues to pass the
6 test. In light of his own testimony, which demonstrates that
7 the Project continues to economically displace oil, I fail to see
8 the reasoning behind Mr. Pollock's assertion to the contrary.
9

10 **Q. Mr. Pollock asserts (page 12) that the Commission approved the**
11 **Project for cost recovery even though FPL was projecting to**
12 **accumulate substantial net losses. Please comment.**

13 **A. This is a total misrepresentation of fact. The Commission did**
14 **not, as Mr. Pollock alleges, base its Project qualification**
15 **decision on the possibility of additional fuel savings provided**
16 **by Alternate and Supplementary energy purchases from the**
17 **Southern Companies, offsetting "forecasted" losses. None of**
18 **the economic tests applied by the Commission, either during the**
19 **qualification proceeding or since, has shown the accumulation**
20 **of substantial net losses.**

21
22 It is almost absurd for Mr. Pollock to assert that FPL projected
23 substantial net losses for the Project, when the Commission
24 actually found that FPL had proven by a "preponderance of the
25 evidence" that the Project would economically displace oil fired

1 generation and that the Project would produce a positive
2 cumulative present value of expected net savings within the
3 first ten years of operation.
4

5 **Q. Is Mr. Pollock's testimony consistent with the FIPUG Petition in**
6 **this docket?**

7 **A. No. FIPUG's Petition asks that the Commission: "determine**
8 **that FPL's Transmission Project has failed to achieve the**
9 **'primary purpose' which led the Commission to qualify it under**
10 **Rule 25-17.016, F.A.C." (FIPUG Petition, page 14). By Mr.**
11 **Pollock's own admission, on pages 17 and 18 of his direct**
12 **testimony, the Project passes the Primary Purpose Test, even**
13 **when actual data is used. I can only surmise from this**
14 **contradiction that in preparing the Petition, either FIPUG and**
15 **Mr. Pollock failed to inform themselves as to how the "primary**
16 **purpose" of the Project was determined by the Commission, or**
17 **they were aware of how the Commission originally determined**
18 **the primary purpose of the Project and intentionally chose to**
19 **ignore or misstate it. Given that Mr. Pollock now concedes that**
20 **the Project passes the Primary Purpose Test, the Commission**
21 **should find that the Project has achieved its primary purpose**
22 **of economic displacement of oil fired generation.**

1 Q. What then, is the basis for Mr. Pollock's current conclusions
2 that the Project does not economically displace oil?

3 A. Mr. Pollock has applied a test of his own creation, clearly with
4 the knowledge that the Primary Purpose Test does not support
5 his position. His test is an improper means of determining
6 whether the Project economically displaces oil for several
7 reasons:

- 8
- 9 • A virtually identical test was presented by Public Counsel's
10 witness, Mr. Dittmer, in the Project qualification proceed-
11 ing, and the Commission chose instead to adopt the analysis
12 in Exhibit 15(j). Simply stated, in determining whether the
13 primary purpose of the Project was economic oil dis-
14 placement, the Commission declined to use a test that
15 included coal by wire capacity costs.
 - 16
 - 17 • By including the capacity charges associated with the pur-
18 chases from the Southern Companies without recognizing
19 corresponding capacity deferral benefits, Mr. Pollock has
20 grossly misrepresented and understated the Project
21 savings. I will further address the issue of capacity
22 deferral later in my testimony.
 - 23
 - 24 • The test applied by Mr. Pollock is totally inconsistent with
25 the prescribed test the Commission has found to be

1 appropriate, the Primary Purpose Test. By including
2 capacity costs in his test, Mr. Pollock has created a test
3 that is seriously flawed and meaningless. In the original
4 qualification proceeding, the Commission recognized that
5 capacity benefits and fuel displacement benefits should be
6 separated.

- 7
- 8 • The Commission has a means of considering both fuel and
9 capacity costs and benefits in a qualification proceeding,
10 the Cumulative Present Value Test. When this test is
11 properly applied, the Project continues to produce net
12 savings within ten years of qualification. I have demon-
13 strated this in Document No. 4, page 2 of 2, attached to my
14 direct testimony.

15

16 **Q. Mr. Pollock asserts that the Primary Purpose Test is no longer**
17 **meaningful. Do you agree?**

18 **A. No. This is nothing more than an attempt to retry the position**
19 **of FIPUG in the original qualification proceeding that the**
20 **primary purpose of the Project was to defer capacity. The**
21 **tests for qualification do not compare fuel displacement benefits**
22 **to capacity deferral benefits as Mr. Pollock proposes.**

1 Q. Please address the specific reasons Mr. Pollock gives for his
2 argument that the Primary Purpose Test is no longer meaning-
3 ful.

4 A. The reasons Mr. Pollock gives to support his statement are not
5 new, and they have been rejected by this Commission before.
6 First, he argues that the "ability to purchase firm coal by wire
7 capacity and all the many reliability benefits associated with the
8 Project more than outweigh any prospective oil displacement
9 benefits" (page 19). The Commission specifically rejected this
10 type of comparison of gross savings in the original qualification
11 proceeding. Order No. 11217 notes that both Staff and FPL
12 argued that the primary purpose of a project was economic oil
13 displacement if fuel displacement benefits exceeded capacity
14 deferral benefits. The Commission responded:

15
16 We reject the Staff's position of simply com-
17 paring gross savings as wholly determina-
18 tive. Whether the primary purpose of the
19 project is oil displacement requires a keener
20 analysis.

21
22 That is the appropriate response to FIPUG's "outweighing"
23 argument, as well.

1 Second, Mr. Pollock argues (page 19) that the emphasis of the
2 Project has changed from oil displacement in 1982 to meeting
3 customer demands today. There has been no change in
4 emphasis. FPL has always acknowledged that in the ten year
5 period of analysis prescribed by the Oil Backout Rule, the
6 Project provides a number of benefits in addition to the
7 economic displacement of oil. In the original economic analysis
8 in the qualification proceeding, capacity deferral benefits were
9 projected to start five to six years into the first ten years of
10 the Project. The fact that those projections have proven
11 correct does not mean the emphasis of the Project has changed.
12 It is unreasonable to look at a few years in isolation out of the
13 ten year analysis horizon. The Project still economically
14 displaces oil, and as the Commission noted in Order No. 11537
15 denying FIPUG's motion to reconsider qualification of the
16 Project, economic displacement and meeting load growth are not
17 unrelated:

18
19 Displacing oil and providing capacity to meet
20 load growth are not mutually exclusive pur-
21 poses. The oil backout rule merely requires
22 a determination that the primary purpose of
23 a project is oil displacement to qualify a
24 project under it; the rule does not require a
25 determination that a project will not also

1 provide capacity to meet load growth.

2 (Emphasis in original).

3

4 Q. Is the Primary Purpose Test flawed?

5 A. No. Mr. Pollock's observations to that effect are either
6 irrelevant or unsupported. As Mr. Pollock points out, the
7 Primary Purpose Test is not designed to test reliability
8 benefits, and it should not be. Increased reliability is no more
9 mutually exclusive from oil displacement than meeting load
10 growth. The question is whether oil displacement is the
11 Project's primary purpose; it is not whether oil displacement is
12 the exclusive purpose. Mr. Pollock's second observation, that
13 the Primary Purpose Test assumes that coal by wire purchases
14 displace oil fired generation, is a reasonable assumption on
15 FPL's system. Finally, Mr. Pollock's self-serving "question"
16 regarding FPL's statement of total Project cost is totally
17 unsupported. As I note later in my testimony, Mr. Pollock has
18 done nothing to show that FPL's calculation of Project revenue
19 requirements is inaccurate. It is true the Project has required
20 less investment than originally projected; surely Mr. Pollock
21 does not mean to suggest FPL should have spent more money on
22 the Project simply because that is what FPL originally projected.

1 Q. Is the Primary Purpose Test invalidated simply because oil
2 prices have differed from projections since qualification?

3 A. No. The primary purpose of the Project was, and continues to
4 be, the economic displacement of oil, which it has done. The
5 fact that fuel savings have been less than projected cannot
6 change the purpose of the Project. In recognition of the fact
7 that there were multiple benefits of the Project, the Commission
8 created the Primary Purpose Test. The Primary Purpose Test
9 was developed to determine if the Project economically displaced
10 oil; it was never intended to measure the benefits of capacity
11 deferral or enhanced system reliability. The Commission
12 articulated its intent to allocate fuel costs against fuel savings
13 and capacity costs against capacity savings. The Project, as
14 I have stated before, still passes the Primary Purpose Test, a
15 point with which Mr. Pollock agrees, but tries to ignore.

16
17 I equate Mr. Pollock's reasoning to suggesting that if, after
18 planting a fruit tree, it provides more shade than fruit, then
19 the primary purpose of the tree must have been shade from the
20 beginning. He would also probably argue that we demand a
21 refund from the seller since he sold us a shade tree.

22
23 Mr. Pollock continually confuses what we might do today with
24 what we did in 1982. His time travel approach to analysis

1 clouds the fundamental issue of whether the Project economically
2 displaces oil.

3

4 Q. Mr. Pollock has also questioned FPL's handling of minimum-
5 energy scheduling obligations in its Oil Backout filings. Please
6 comment.

7 A. Mr. Pollock has stated (page 20) that FPL has "totally ignored"
8 the minimum-energy scheduling obligations associated with the
9 1982 Unit Power Sales ("UPS") Agreement with the Southern
10 Companies in the calculation of energy savings. He is, at best,
11 misinformed. He presents a schedule (Schedule 5) that
12 purports to prove that oil generation has been less expensive
13 than coal by wire during certain periods in the past. Based on
14 his fuel price comparison, he would eliminate \$400 million from
15 the net fuel savings (page 21). His approach reflects a basic
16 misunderstanding of how net fuel savings are computed. Also,
17 he has committed significant errors in both the fuel price
18 comparison and his adjustment of net fuel savings.

19

20 Q. How are minimum-energy scheduling requirements treated in
21 developing net fuel savings?

22 A. The calculation of net fuel savings begins with a determination
23 of the total amount of additional fuel costs that would have been
24 incurred by FPL if none of the coal by wire had been pur-
25 chased. From this total of avoided or foregone fuel costs is

1 subtracted total coal by wire energy costs, including minimum-
2 energy scheduling requirements. The remainder is the net fuel
3 savings of the coal by wire purchases. For every reporting
4 period, net fuel savings have always been positive.

5
6 Q. What would be the effect on net fuel savings of removing
7 minimum-energy scheduling requirements if coal by wire energy
8 were more expensive than FPL's cost to generate the same
9 energy?

10 A. If, as Mr. Pollock speculates, the cost of the scheduled minimum
11 energy exceeded the cost at which FPL could have generated
12 that energy with oil, then that result would already be reflected
13 in FPL's calculation of net fuel savings. It would lower the
14 overall savings for the period. Consequently, the removal of
15 scheduled minimum energy from the calculation of net fuel
16 savings under such circumstances would increase, rather than
17 decrease, the positive net fuel savings reported by FPL. In
18 other words, if FPL has ever paid more for coal by wire
19 minimum energy requirements than it would have cost FPL to
20 generate the same energy, that fuel penalty would already be
21 reflected in the net fuel savings reported. Mr. Pollock's
22 attempt to remove \$400 million of actual, positive net fuel
23 savings is conceptually wrong. If there had been any minimum-
24 energy scheduling fuel penalties, they would already be

1 reflected in the \$651 million of Project net fuel savings, shown
2 on Document No. 4 in my direct testimony.

3

4 Q. In addition to this conceptual flaw in Mr. Pollock's minimum-
5 energy scheduling argument, are there other flaws in
6 Mr. Pollock's attack on minimum-energy scheduling?

7 A. Yes, there is one additional flaw. His comparison of actual oil
8 generation costs and coal by wire energy charges is improper
9 and not meaningful.

10

11 Q. Please explain why Mr. Pollock's comparison of actual fuel cost
12 associated with oil generation and the coal by wire energy
13 charges shown on Mr. Pollock's Exhibit JP-1, Schedule 5, is
14 improper and not meaningful.

15 A. The fuel cost associated with oil generation shown on Schedule
16 5 is the actual fuel cost incurred by FPL with coal by wire
17 purchases. It reflects the lowest costs of oil fired generation
18 available on FPL's economically dispatched system. Without coal
19 by wire purchases, the energy necessary to replace the coal by
20 wire purchases would have to be generated on FPL's economic-
21 ally dispatched system using less efficient, higher fuel cost
22 units. Consequently, the use of actual oil generation costs
23 during a period when coal by wire purchases were made tells
24 nothing about what oil generation would have cost without the
25 coal by wire purchases.

1 To determine whether oil fired generation on FPL's system would
2 have been more costly than coal by wire energy costs, the
3 proper analysis is to compare coal by wire energy costs with
4 avoided oil generation costs, the costs which would have been
5 incurred without the coal by wire purchases. That comparison
6 is shown in Exhibit _____ (my Exhibit SSW-2, Document No.
7 1). The avoided energy oil generation costs shown were
8 derived by dividing, for each recovery period, avoided fuel
9 savings reported in FPL's true-up filings by coal by wire
10 energy purchases reported. This comparison is the proper
11 comparison. It also shows that the premise underlying
12 Mr. Pollock's entire minimum-energy scheduling argument is
13 unfounded. Coal by wire energy was less expensive than
14 avoided oil generation in all recovery periods.

15
16 Q. Mr. Pollock also "questions" the Transmission Project revenue
17 requirements used in the Primary Purpose Test (pages 19-20).
18 Please comment.

19 A. Mr. Pollock has done nothing more than attempt to cast doubt
20 on the Project costs. He has not shown that FPL's reported
21 costs are inaccurate. The cost of the Project and the associated
22 revenue requirements have been presented to the Commission
23 several times in the Oil Backout proceedings. They have also
24 been audited by the Commission's Staff since April 1985. The

1 Commission has accepted the calculations, and Mr. Pollock has
2 provided no factual basis on which to question them.

3

4 Q. What do you conclude about Mr. Pollock's claims that the Project
5 has not economically displaced oil?

6 A. His conclusions are based on the results of an improper
7 economic test which does not conform to any of the criteria used
8 by the Commission in qualifying the Project. In addition to
9 creating a test designed to show substantial losses, Mr. Pollock
10 has raised a number of peripheral and sometimes irrelevant
11 issues to support his allegations. Despite his arguments, he
12 has presented no evidence which is contradictory to the fact
13 that the project economically displaces oil, which is its primary
14 purpose.

1 Cost Recovery Of The Project

2

3 **Q. Mr. Pollock, on pages 8 and 37 of his direct testimony,**
4 **suggests FPL is recovering capacity twice in its Oil Backout**
5 **Cost Recovery Factor, once for UPS capacity purchases and**
6 **again for the deferred capacity carrying costs for Martin Unit**
7 **Nos. 3 and 4 and Unsited Unit No. 1. Are the deferred**
8 **capacity carrying costs for the Martin coal units being recov-**
9 **ered through the Factor?**

10 **A. No. FPL does not now collect, nor has it ever collected, any of**
11 **the revenue requirements associated with the deferred coal**
12 **units. Mr. Pollock's statements are extremely misleading.**
13 **There are two major flaws in his characterization. First, the**
14 **units which were deferred do not represent a cost at all, but a**
15 **benefit or reduction in cost to the ratepayers. Second,**
16 **Section 4(a) of the Oil Backout Rule allows collection of**
17 **revenues equal to two-thirds of the actual net savings of the**
18 **Project, to be applied as "additional depreciation of the**
19 **Project". (Emphasis added). Thus, FPL is recovering the**
20 **costs of the Transmission Project in the form of additional**
21 **depreciation, not any revenue requirements of the deferred**
22 **units. Mr. Pollock's allegation that FPL is recovering the costs**
23 **of facilities which are not used and useful is totally wrong.**
24 **Only the costs of the 500 kV facilities, which Mr. Pollock**
25 **acknowledges provide many benefits, are being recovered**

1 through FPL's Oil Backout Cost Recovery Factor as additional
2 depreciation.

3

4 **Q. Does FPL recover the costs of the UPS capacity charges through**
5 **the Oil Backout Cost Recovery Factor?**

6 **A. Yes. Recovery of these costs was specifically authorized in**
7 **Order No. 11210 and it has been authorized by the Commission**
8 **since then in the regularly held Oil Backout proceedings. FPL**
9 **has not, as I previously stated, recovered the costs of Martin**
10 **Unit Nos. 3 and 4 through the Oil Backout Cost Recovery**
11 **Factor. So, there is no double recovery of capacity costs as**
12 **suggested by Mr. Pollock on pages 8 and 37 of his direct**
13 **testimony.**

14

15 **Q. What other costs are recovered through the Oil Backout Cost**
16 **Recovery Factor?**

17 **A. The Rule explicitly defines what costs may be recovered:**

18

- 19 • **Straight line depreciation of the Project**
- 20 • **Cost of capital of the Project**
- 21 • **Actual tax expense**
- 22 • **Oil/non-oil O&M expense differential**
- 23 • **Two-thirds of the actual net savings of the project, to be**
24 **applied as additional depreciation**

1 The "project," in this case, refers to the FPL 500 kV lines and
2 associated facilities. FPL cannot and does not recover the costs
3 of deferred capacity through the Oil Backout Cost Recovery
4 Factor.

5
6 **Q. How, then, do the deferred coal units enter into the formulation
7 of cost recovery for the Project?**

8 **A. As prescribed by the Rule, the deferred units are considered
9 in the determination of actual net savings of the Project. The
10 revenue requirements that would have been incurred had the
11 units been built are included as a benefit to the customer in the
12 calculation of actual net savings, since these revenue require-
13 ments will not be incurred due to the power purchases from the
14 Southern Companies. This benefit is added to other benefits,
15 then total benefits are compared to total costs to determine
16 actual net savings.**

17
18 **Q. Please identify the elements of benefits and costs that are used
19 to determine actual net savings.**

20 **A. In each recovery period, actual net savings for the Project have
21 been calculated. The elements of benefits and costs which are
22 recognized in the computation of actual net savings are shown
23 below.**

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<u>Benefits</u>
Avoided Energy Fuel Savings
Spinning Reserve Fuel Savings
Deferred Martin Unit Carrying Charges
Deferred Martin Unit Fuel Charges

<u>Costs</u>
Coal by Wire Energy Charges
Foregone Martin Fuel Savings
Coal by Wire Capacity Charges
500 kV Project Revenue Requirements

Q. How long does this recovery of additional depreciation continue?

A. Provided that net savings remain positive, under the Rule FPL can continue to recover two-thirds of the actual net savings until the investment in the Transmission Project is fully depreciated. After the Project is fully depreciated, 100% of actual net savings will flow to FPL customers. Of course, FPL customers will also benefit from a lower Oil Backout Cost Recovery Factor.

Q. Has FPL been recovering additional depreciation through the realization of actual net savings?

A. Yes. Except for a brief period in 1982, the Project did not show actual net benefits until 1987, when Martin Unit No. 3 would have been placed in service. In every recovery period since that time, there have been actual net savings. FPL has recovered two-thirds of these savings and applied them as

1 additional depreciation on the 500 kV Project. By the end of
2 August, 1989, the Project is expected to be fully depreciated.

3

4 Q. What conclusions can be drawn concerning Mr. Pollock's allega-
5 tions of double recovery of capacity costs (pages 8 and 37)?

6 A. His arguments are incorrect and very misleading. FPL recovers
7 UPS capacity charges and the revenue requirements associated
8 with the 500 kV Project through the Factor. Additional cost
9 recovery represents only FPL's two-thirds share of actual net
10 savings provided by the Project, which is applied as additional
11 depreciation on the 500 kV Project. The avoided revenue
12 requirements of the deferred coal units are only one of several
13 elements in the calculation of how much actual net savings will
14 be included as additional depreciation of the Project. It is
15 incorrect and extremely misleading to characterize this addi-
16 tional depreciation of the Project as recovery of deferred
17 capacity costs.

1 Calculator. Of Capacity Deferral Benefits

2
3 Q. Do you agree with Mr. Pollock's argument (pages 34-42) that
4 the Martin coal units should not be used to calculate actual net
5 savings when determining the Oil Backout Cost Recovery
6 Factor?

7 A. No. Mr. Pollock has once again introduced irrelevant com-
8 parisons in an attempt to prove the Project has not produced
9 savings. While I have addressed this issue in my direct
10 testimony, I feel it must be readdressed due to Mr. Pollock's
11 persistence in presenting misleading and irrelevant information.

12
13 The fundamental issue to be considered here is what FPL would
14 have done had it not committed to the Project and firm power
15 purchases from the Southern Companies. What FPL plans to do
16 to meet load requirements in the mid-1990's is entirely irrelevant
17 to this issue. On one point Mr. Pollock and I agree, that the
18 Martin coal units have not been, and may never be, built. This
19 admission in Mr. Pollock's testimony (page 36) is the premise
20 upon which capacity deferral benefits are based; the Martin coal
21 units were not built due to the commitment to purchase power
22 from the Southern Companies and FPL's ability to move that
23 power over the Project. The argument that the Martin coal
24 units will not be "used and useful" is a very shallow attempt to
25 obscure the fact that the costs which FPL is recovering through

1 additional depreciation are only those associated with 500 kV
2 Transmission Project, which is used and useful by Mr. Pollock's
3 own admission. Once again, Mr. Pollock is implying that FPL
4 is recovering capacity costs associated with the deferred units,
5 which is not the case, as I have previously discussed.

6

7 Q. Mr. Pollock states that Martin Unit Nos. 3 and 4 are no longer
8 consistent with least cost planning. Do you agree?

9 A. No, not when the analysis is performed, as it should be, from
10 the perspective of making a decision in 1982. I agree that FPL
11 currently does not see large pulverized coal units as the most
12 economic choice for service in the mid-1990's, but that is
13 irrelevant to this issue, and as I stated in my direct testimony,
14 this change in preferred technologies for the 1990's is actually
15 an additional benefit attributable to the deferral of the Martin
16 units.

17

18 Q. Please explain why you believe Martin Units 3 and 4 would have
19 been placed in service in 1987 and 1988?

20 A. Mr. Pollock has stated in his testimony (page 23) that FPL's
21 projected reserve margins would be inadequate in the absence
22 of coal by wire purchases. His Exhibit JP-1, Schedule 7
23 demonstrates that from 1989 through 1992, FPL would have
24 inadequate reserve margins without these purchases. Beyond
25 1992, he has mistakenly subtracted the capacity associated with

1 FPL's 1988 Agreement with the Southern Companies, but I do
2 not believe this materially affects the issue of whether Martin
3 Unit Nos. 3 and 4 would have been placed in service in earlier
4 years.

5
6 Had Mr. Pollock included the years 1987 and 1988 in his
7 Schedule 7, he would have noted that FPL reserve margins
8 would also have been inadequate. To demonstrate this, I have
9 corrected Mr. Pollock's Schedule 7 with the years 1987 and 1988
10 added and attached the results as Exhibit SSW-2, Document
11 No. 2. As shown, FPL reserve margins would have been
12 inadequate throughout the years 1987 through 1992 without the
13 coal by wire purchases. New capacity would be required to
14 meet the deficiency in 1987.

15
16 To meet these requirements without power purchases from the
17 Southern Companies, FPL would have had to begin the siting,
18 licensing, design, engineering and construction of Martin Unit
19 No. 3 no later than 1980. However, I will begin my analysis in
20 1982 since that is when the Project was qualified for cost
21 recovery and when the Commission last had occasion to rely
22 upon a generation expansion plan showing the Martin Coal Units
23 with completion dates of 1987 and 1988. My analysis consists of
24 comparing the thirty year capital revenue requirements of
25 Martin Unit No. 3 with the thirty year capital revenue require-

1 ments for combined cycle units, which Mr. Pollock apparently
2 believes is the proper basis for comparison for each of the
3 years 1982 through 1985. To that difference, I add the thirty
4 year fuel revenue requirement advantage of the Martin coal
5 units. My analysis assumes that for each year from 1982
6 through 1985, FPL "changed its mind" on the type of capacity
7 it would build. The relevant fuel and load forecast assumptions
8 for each of the years were used. Sunk costs of Martin Unit No.
9 3 are charged to the in-service cost of the combined cycle units
10 in each year.

11
12 The results of the analyses are summarized in Document No. 3
13 of my Exhibit SSW-2, Exhibit No. _____. The results show
14 that Martin Unit No. 3 would be the clear economic choice in
15 1982, and the decision to proceed with Martin Unit No. 3
16 construction would not have been altered despite changes in
17 fuel price forecasts. By 1985, when FPL changed the type of
18 capacity it planned to build for the 1990's to combined cycle
19 units, sufficient sunk costs would have been incurred in Martin
20 Unit No. 3 that it would have been far more economical to
21 complete the unit for service in 1987 than to build a new
22 combined cycle unit for service in 1987. My Document No. 3
23 shows that a net present value savings of over \$500 million
24 would have resulted from completion of Martin Unit No. 3. In
25 addition to the economic advantages of Martin Unit No. 3 over

1 combined cycle units, it would have been impossible to bring the
2 new combined cycle units in service in 1987, assuming the
3 commencement of the siting, licensing, design and construction
4 activities in 1985.

5
6 **Q. What do you conclude from your analysis?**

7 **A. Based on this analysis, it is my judgment that Martin Unit No.**
8 **3 would have been the most economic choice to meet a required**
9 **in-service date of 1987. I believe a similar analysis performed**
10 **on Martin Unit No. 4 would yield similar results. This study**
11 **suggests that Martin Unit Nos. 3 and 4 are consistent with what**
12 **Mr. Pollock has referred to as a least cost plan, when viewed**
13 **from 1982 to meet 1987, rather than mid-1990's, need.**

14
15 **Q. Does this mean that the revenue requirements of the deferred**
16 **units are appropriately considered in determining actual net**
17 **savings?**

18 **A. Yes. Given that the units would have been constructed in the**
19 **absence of firm power purchases from the Southern Companies,**
20 **the revenue requirements associated with the units represent**
21 **the costs FPL customers would be paying without the pur-**
22 **chases. Thus, these forgone revenue requirements are actually**
23 **a savings attributable to the Project and the associated power**
24 **purchases, which should be used in the calculation of actual net**
25 **savings. When savings from capacity deferral and fuel**

1 displacement are offset by the costs of UPS capacity and energy
2 charges, foregone fuel benefits, etc., the Project produces
3 actual net savings, of which, consistent with the Rule, FPL
4 recovers a portion and applies as additional depreciation to the
5 Project.

6
7 **Q. Doesn't the fact that the Martin coal units are not in-service**
8 **or under construction actually support the premise that the**
9 **Project has deferred capacity?**

10 **A. Yes, absolutely. In the original qualification proceeding, FPL**
11 **projected that the Martin units would be needed in 1987/88**
12 **without the Project and associated coal by wire purchases.**
13 **Actual savings have resulted from the decision to pursue the**
14 **Project rather than construct the units. Mr. Pollock has not**
15 **disputed the need for capacity in the years 1987 and 1988. In**
16 **fact, he has argued that since capacity is needed in those**
17 **years, the primary purpose of the transmission lines is to**
18 **enable FPL to meet demand (page 24 of Mr. Pollock's testimony).**
19 **If capacity would be needed in the absence of the Project, a**
20 **point on which Mr. Pollock and I agree, then the fact that the**
21 **units were not built can only support the position that they**
22 **represent an "avoided cost" attributable to the Project.**

23
24 **Mr. Pollock cites no authority for his contention that the Martin**
25 **units must eventually be constructed for actual net savings to**

1 occur. In fact, his argument is totally illogical. I would
2 emphasize again that the only relevant way to determine
3 capacity deferral benefits is to identify what would have been
4 done to meet capacity needs in 1987/88. What will or will not be
5 built in the 1990's has nothing to do with the basic calculation
6 of actual net savings.

7
8 **Q. Mr. Pollock states (page 21) that "For the primary purpose of**
9 **the Project to be oil backout, the purchases must provide**
10 **capacity in excess of FP&L's reserve requirements." Do you**
11 **agree?**

12 **A. No. Mr. Pollock has once again attempted to introduce a new**
13 **concept of "primary purpose." I do not find any basis for his**
14 **contention. If this statement were true, a Project could not**
15 **have any capacity deferral benefits and still qualify under the**
16 **Rule. Such a result is inconsistent with Section (4)(c) of the**
17 **Rule which recognizes "other benefits" in calculating net**
18 **savings. It is also inconsistent with the Commission's calcula-**
19 **tion of expected benefits in the qualification proceedings. As**
20 **I have discussed previously, the Commission clearly recognized**
21 **that economic displacement of oil and capacity deferral are not**
22 **mutually exclusive.**

1 The Commission has established a basis for determining that
2 economic oil displacement is the Project's primary purpose. It
3 is based on economic oil displacement rather than capacity
4 displacement criteria, as it should be. The fact that the Project
5 in the later years of the original ten year analysis horizon is
6 being used to meet load in addition to economically displacing oil
7 does not mean the primary purpose of the Project has changed.
8 This additional Project use and benefit was anticipated when the
9 Project was determined to have the primary purpose of economi-
10 cally displacing oil.

11
12 **Q. Mr. Pollock's testimony suggests that the costs of the Martin**
13 **units were inflated to increase capacity deferral benefits**
14 **(page 39). Is this accurate?**

15 **A. No. Mr. Pollock has taken unit costs out of context, put them**
16 **in a table without adjusting for the different in-service dates,**
17 **and claimed they demonstrate that the Martin costs are too high.**
18 **He has also failed to point out that FPL's estimated direct costs**
19 **for the Martin coal units presented on page 40 of his testimony**
20 **include escalation, while the costs for the other estimates in his**
21 **Schedule 12 are "overnight construction costs" that do not**
22 **include escalation. This omission alone accounts for the**
23 **majority of the difference. In fact, FPL's estimated Martin unit**
24 **costs are representative of what the actual costs would have**
25 **been to construct the units.**

1 Q. How were capital costs for the Martin units determined?

2 A. The capital costs of the Martin units were based on the original
3 Bechtel unit package, and they reflect the original economic,
4 market and design conditions which existed at that time. FPL
5 has adjusted the original in-service cost estimates of the units
6 to reflect actual inflation and cost of capital. This significantly
7 lowered the cost estimates. I believe that this approach is
8 entirely reasonable.

9
10 As I previously noted, FPL's Martin unit costs reflect esca-
11 lation, while the costs used by Mr. Pollock do not. The Florida
12 Electric Power Coordinating Group, Inc. ("FCG") filing for the
13 1989 Annual Planning hearing showed that escalation would add
14 approximately 25% to the overnight construction costs of a
15 pulverized coal unit (FCG Form 1.5, page 3 of 3). That being
16 the case, I do not believe that FPL's estimated costs of the
17 Martin coal units are out of line with the estimates presented in
18 Mr. Pollock's Schedule 12.

19
20 Q. What do you conclude about Mr. Pollock's attempts to show that
21 the capacity deferral benefits of the Martin coal units are
22 improperly included in the calculation of the Oil Backout Cost
23 Recovery Filing (pages 34-42)?

24 A. I believe it is clear that Mr. Pollock, understanding the
25 weakness of his position, has attempted to attack the capacity

1 deferral issue from several angles. He has claimed the units
2 were not deferred because FPL has never built them. If we do
3 not accept this position, then he would have us believe that a
4 different type of capacity, i.e., combined cycle units, has been
5 deferred. If we do not accept this position, then he would like
6 us to believe that the capacity costs of the Martin coal units
7 have been inflated. If we accept none of his arguments that
8 capacity was not deferred or his argument that deferred
9 capacity costs are incorrectly calculated, then he would like to
10 suggest that since capacity really was deferred, this capacity
11 deferral was really the primary purpose of the Project after all,
12 rather than economic oil displacement. He has certainly tried
13 to cover all the bases.

14
15 The facts are that the Martin coal units are properly used in
16 the calculation of actual net savings. The estimate of Martin
17 coal unit costs is reasonable. FPL is not recovering any costs
18 of the deferred units. The only costs FPL has recovered
19 through additional depreciation are costs of the 500 kV Project,
20 and even that recovery will soon end when the Project
21 investment is fully depreciated.

22
23 All of these issues have been addressed in previous FPL Oil
24 Backout filings, and FIPUG raised no objection. There is no
25 basis for its objection now. My overall conclusion is that the

1 accelerated cost recovery of the Project costs resulting from
2 actual net savings, which are premised in part on Martin unit
3 deferral, is appropriate and should be allowed to continue.
4
5

6 Changed Circumstances
7

8 Q. Mr. Pollock asserts that changed circumstances warrant a
9 reexamination of the Project by the Commission. Do you agree?

10 A. No. I have been informed by Counsel that "changed
11 circumstances" cannot warrant the discontinuance of Project
12 cost recovery as a matter of law, but from my perspective,
13 there are no meaningful or significant changed circumstances
14 that should affect cost recovery, even if it could be discon-
15 tinued, Mr. Pollock has suggested that circumstances have
16 changed such that (1) economic oil displacement (oil backout)
17 is no longer the primary purpose of the Project and coal by
18 wire purchases (page 21) and (2) deferred capacity savings no
19 longer should be included in the calculation of actual net
20 savings (page 38). I do not believe that there are any
21 significant changed circumstances that justify reassessing
22 whether the Project and associated purchased power costs
23 should be recovered through the Oil Backout Cost Recovery
24 Factor.

1 I believe that the changed circumstances alleged by Mr. Pollock
2 are either irrelevant or do not significantly affect the con-
3 clusions reached by the Commission in the original qualification
4 proceeding.

5
6 **Q. Please address Mr. Pollock's first assertion, that the primary**
7 **purpose of the Project and coal by wire purchases is no longer**
8 **oil backout, due to changed circumstances.**

9 **A. While actual oil prices have been lower than originally projected,**
10 **this does not change the fact that the Project and the associated**
11 **coal by wire purchases still pass the Primary Purpose Test**
12 **established by the Commission. The Primary Purpose of the**
13 **Project is still the economic displacement of oil.**

14
15 **More importantly, the Commission has previously recognized**
16 **this possibility of lower oil prices, and the intent was not to**
17 **allow lower oil prices to be an excuse for reconsidering Project**
18 **recovery through the Factor. The Rule does not provide for**
19 **"unqualifying" a project should actual conditions not turn out**
20 **as projected.**

21
22 **In the June 22, 1982 Agenda Conference for Docket No.**
23 **820257-EU, amending Rule 25-17.16, F.A.C., Commissioner**
24 **Cresse stated:**

1 It seems to me that the primary purpose, as
2 I recall when I suggested that we adopt this
3 rule, was to provide an incentive to the
4 electric power companies that we regulate to
5 provide more economic electricity to their
6 ratepayers than would business as usual
7 provide their ratepayers.

8
9 And one outstanding way in which that can
10 be done in the state of Florida is to provide
11 mechanisms where within a reasonable projec-
12 tion of cost differential between oil and coal
13 that we have a mechanism whereby we could
14 replace some of our present oil-fired electric-
15 ity with coal fired electricity.

16
17 Now, that was the broad objective that I
18 think everybody was talking about, at least
19 I was talking about when I proposed the
20 rule.

21
22 We said, I think, first, that we want to pro-
23 vide that incentive for the utilities to get in-
24 volved in it with today's type of financial
25 difficulties and problems. And second, since

1 we're not very good at projecting what the
2 prices are of these differentials - because,
3 you know, less than fifteen years ago if you
4 had projected what would be the cheapest
5 today, everybody would have come down on
6 the side of oil.

7
8 We want a reasonable time frame whenever
9 these projects will pay out, very simple pay
10 out. And in the event we are wrong, we
11 won't be placing the burden on the
12 ratepayers in the future. And we chose ten
13 years. Why ten? Ten is better than 12? We
14 have a ten-year forecast. Twelve might not
15 be a bad idea; eight might not be a bad idea;
16 but we chose ten, and that was somewhat
17 arbitrarily chosen to show that the project
18 would be cost beneficial to the ratepayers
19 over a ten-year period. . . .

20
21 And he further states:

22
23 . . . what we do is split the savings, pay
24 for the project, use the decelerated (sic)
25 depreciation, get it off the books. Then if

1 your forecast is wrong on prices, and ten
2 years from now it turns out to be a bad deal,
3 we will at least in the next four or five years
4 have recovered some of the costs of that
5 investment, and not be burdened on future
6 ratepayers.

7

8 **Later at the same Agenda Conference, Commissioners Leisner**
9 **and Cresse had the following discussion regarding continued**
10 **recovery if anticipated fuel savings did not materialize:**

11

12 **Commissioner Leisner:** No. What we are
13 saying is you could always recover you [sic]
14 costs. And then the idea of this rule was
15 you recover your costs always, then if there
16 is a fuel differential that benefits the
17 ratepayers, benefits everybody, you split
18 the savings.

19

20 **Commissioner Cresse:** I understand that.
21 Commissioners, I think there -- don't have
22 any misunderstanding. If we approve one
23 of these projects, the utility will recover the
24 costs anyway, prudently incurred.
25 (Emphasis added).

1 Again, in the project qualification proceeding, Commissioner
2 Cresse restated his understanding. In response to a sugges-
3 tion by Staff Counsel that a change in the coal-oil price
4 differential would not be grounds for redetermining the
5 prudence of a project, Commissioner Cresse observed:

6
7 Don't misunderstand me. I think that once
8 we have said that this would be incorporated
9 into the oil backout clause that's that deci-
10 sion, just like whenever we say you ought to
11 build a plant (Emphasis added).

12
13 Q. Mr. Pollock argues (page 22) that since purchases do not
14 provide capacity in excess of reserve requirements, the
15 Project's primary purpose is to meet load growth. Do you
16 agree?

17 A. No. Mr. Pollock is playing both sides of this issue, claiming
18 capacity benefits or alternatively no capacity benefits, as
19 required to make his case. It is important to remember that
20 the Commission established a ten year period for examination
21 of project economics, not an isolated year. The Commission
22 understood from the beginning that the Project provided
23 reliability benefits and in the later years of the ten year
24 analysis period, capacity deferral benefits. This was permis-

1 sible under the Rule provided the economic displacement of oil
2 remained the primary purpose.

3

4 In addition, Mr. Pollock has acknowledged that FPL load growth
5 has been essentially as projected in 1982. Power purchases
6 have also been as projected in 1982. These facts lead to the
7 inescapable conclusion that the capacity deferral benefits
8 provided by the Project remain essentially unchanged. This
9 certainly does not suggest that there are any changed cir-
10 cumstances since 1982 which have altered the primary purpose
11 of the Project.

12

13 **Q. Have any of the important factors changed regarding economic**
14 **oil displacement as the primary purpose of the Project?**

15 **A. No. The Project still passes the Primary Purpose Test.**
16 **Capacity needs are essentially as FPL projected. I see no**
17 **reason to take FPL to task because load growth, capacity**
18 **deferral and power purchases have materialized as forecast.**

19

20 **Q. What about Mr. Pollock's second issue, that changed circum-**
21 **stances warrant revisiting the use of capacity deferral benefits**
22 **of the Martin units in the calculation of actual net savings?**

23 **A. I have already demonstrated that the Martin Coal Units were**
24 **deferred by the Project and are therefore the appropriate basis**
25 **for the calculation of net savings. The fact that these units**

1 have not appeared in FPL's ten year generation expansion plans
2 since 1986 is irrelevant. The only relevant question is what
3 would FPL have built had it not completed the Project and
4 committed to the associated power purchases from the Southern
5 Companies. The answer is undeniably the Martin Coal Units.
6 Current FPL plans to construct other types of units in the
7 1990's do not have any effect on this conclusion.

8
9 **Q. Mr. Pollock also contends (page 25) that the new UPS Agree-**
10 **ment between FPL and Southern Companies represents a**
11 **changed circumstance warranting the revisiting of the capacity**
12 **deferral issue. Please address this contention.**

13 **A. I believe the introduction of the new UPS agreement is totally**
14 **irrelevant to the issues in this proceeding for several reasons.**
15 **First, the time period for examination of the Project, as defined**
16 **in the Rule, is ten years, which limits the focus to the 1982-**
17 **1992 period. The new UPS Agreement does not begin until**
18 **1993, which is outside of this horizon.**

19
20 **Second, the availability of purchased power beyond 1992 does**
21 **not alter the fact that the Martin units were deferred by the**
22 **original Agreement. It does not change the fact that actual**
23 **net savings have occurred since 1987. It is fortunate that the**
24 **additional power from the Southern Companies became available,**
25 **but this does not in any way change the purpose of the Project.**

1 Q. Would you please summarize your conclusions about Mr.
2 Pollock's "changed circumstances" arguments?
3 A. Mr. Pollock's arguments do not substantiate his claims that
4 circumstances have changed significantly enough to require a
5 requalification proceeding by the Commission. He has merely
6 clouded the straightforward issues around which this proceed-
7 ing revolves: Is the primary purpose of the Project the
8 economic displacement of oil and has the Project deferred Martin
9 Unit Nos. 3 and 4? The answer to both questions is undeniably
10 yes. As a result, FPL should be allowed to continue to recover
11 Project and coal by wire costs through the Oil Backout Cost
12 Recovery Factor. The Martin coal units' capacity deferral
13 benefits have properly been used in the calculation of actual net
14 savings. FPL's recovery of revenues equal to two thirds of
15 actual net savings is consistent with the Rule. In addition,
16 FPL's application of those revenues as additional depreciation
17 on the 500 kV Project is consistent with the Oil Backout Rule
18 and will lower future oil backout recovery since the Project will
19 be fully depreciated in August, 1989. There are no significant
20 changed circumstances. The Oil Backout Rule has worked as
21 envisioned, and both FPL and its customers, including FIPUG's
22 members, have benefited.

1 Conclusions

2
3 **Q. Do you believe that the relief requested by FIPUG and Mr.**
4 **Pollock is fair to FPL?**

5 **A. No, I do not. The Project has produced substantial benefits**
6 **to FPL's customers, which Mr. Pollock acknowledges, yet Mr.**
7 **Pollock and FIPUG are suggesting that FPL be denied the ability**
8 **to recover the costs associated with the Project. Mr. Pollock**
9 **has testified that the Project passes the Primary Purpose Test.**
10 **He has acknowledged that the Project provides capacity deferral**
11 **benefits, and he has acknowledged that the Project provides**
12 **reliability benefits. Despite these admissions, FIPUG and Mr.**
13 **Pollock believe that cost recovery under the Oil Backout Cost**
14 **Recovery Factor should be discontinued, and they raise**
15 **questions as to whether any adjustment to FPL's base rates**
16 **should be made to assure cost recovery if the Factor is**
17 **discontinued. This is particularly unfair since FPL has**
18 **previously requested and has been denied base rate recovery**
19 **of the costs associated with the Project in Order No. 13537 in**
20 **Docket No. 830465-EI.**

21
22 **Q. Has Mr. Pollock raised any new issues in his testimony?**

23 **A. Very few, if any, of Mr. Pollock's arguments are new. Most**
24 **have been presented to, and rejected by, the Commission. The**
25 **Commission has established a Primary Purpose Test, rejecting**

1 tests similar to the one presented by Mr. Pollock. The
2 Commission has heard the arguments about energy based oil
3 backout charges, i.e., cents/kWh, and rejected them in
4 numerous prior proceedings. Capacity deferral benefits were
5 recognized in the original FPL qualification proceeding and have
6 been approved by the Commission on three prior occasions
7 without objection by FIPUG, yet FIPUG is now belatedly seeking
8 a refund. FPL is being called upon to defend settled issues.
9 This represents a tremendous cost to the Company.

10

11 **Q. What do you conclude about the merits of Mr. Pollock's**
12 **requests?**

13 **A. Mr. Pollock has not presented any substantive basis for**
14 **reconsidering the way the Oil Backout Cost Recovery Factor is**
15 **calculated or applied. He has not provided any factual basis**
16 **for requesting a refund of collected revenues; therefore, no**
17 **refund is warranted.**

18

19 Cost recovery of the Project is essentially complete. Continued
20 recovery of the remaining Project costs and the UPS capacity
21 charges through the Factor is consistent with prior Commission
22 decisions, and it protects the customer and the Company alike
23 by providing for regular review and true-up of such costs.

1 In summary, Mr. Pollock has failed to make a case for recon-
2 sideration of cost recovery of the Project. FIPUG's petition
3 should be denied.

4

5 Q. Does this conclude your testimony?

6 A. Yes, it does.

**Florida Power & Light Company
Comparison Of Coal-By-Wire Energy
And Avoided Energy Cost**

<u>Period Ending</u>	<u>Avoided Energy Cost (\$/MWH)</u>	<u>Coal-By-Wire Energy Cost (\$/MWH)</u>	<u>Difference (\$/MWH)</u>	<u>Difference (%)</u>	<u>Total Coal-By-Wire Energy (MWH)</u>	<u>Avoided Energy Fuel Savings (\$000)</u>
3/83	42.83	25.35	17.48	41	2,299,794	\$ 98,505
9/83	42.57	29.90	12.67	30	2,756,290	117,341
3/84	43.99	29.10	14.89	34	3,257,763	143,316
9/84	46.93	30.11	16.82	36	3,753,920	176,159
3/85	49.42	29.98	19.44	39	5,131,838	253,628
9/85	40.87	29.48	11.38	28	7,985,910	326,373
3/86	38.59	25.13	13.46	35	7,145,414	275,727
9/86	31.17	28.21	2.96	9	4,224,814	131,680
3/87	28.35	22.86	5.48	19	5,190,902	147,137
9/87	34.27	24.36	9.91	29	9,002,437	308,483
3/88	29.52	21.54	7.98	27	6,148,870	186,271
9/88	25.77	23.14	2.63	10	5,998,895	154,595
3/89	26.30	20.13	6.18	23	6,940,710	<u>182,564</u>
						\$2,501,779

Florida Power & Light Company
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Exhibit SSW-2
Document No. 1

Florida Power & Light Company

**Projected And Calculated Projected Reserve Margins
At Time Of Summer Peak With And
Without Coal-By-Wire Capacity**

<u>Year</u>	<u>With Coal-By-Wire</u>		<u>Without Coal-By-Wire</u>	
	<u>Margin (MW)</u>	<u>Percent Of Peak (%)</u>	<u>Margin (MW)</u>	<u>Percent Of Peak (%)</u>
1987	2,979	24.0	946	7.6
1988	3,704	29.9	1,656	13.4
1989	3,365	25.9	1,298	10.0
1990	3,070	22.9	1,070	8.0
1991	2,978	21.9	978	7.2
1992	2,920	20.9	920	6.6
1993	3,085	21.6	2,085	14.6
1994	2,919	20.0	2,419	16.6
1995	3,031	20.2	3,031	20.2
1996	3,714	24.4	3,714	24.4
1997	3,392	21.8	3,392	21.8
1998	3,020	18.9	3,020	18.9

Sources: FPL Ten Year Power Plant Site Plan: 1989-1998, Form 7A
FPL Ten Year Power Plant Site Plan: 1988-1997

Florida Power & Light Company
Docket No. 890148-EI
Exhibit No. _____
Exhibit SSW-2
Document No. 2

**Florida Power & Light Company
Comparison Of Martin Unit No. 3
Costs To New Combined Cycle Units**

Required In-Service Date: 1987

Year Analysis Would Have Been Performed	(a) Martin Unit No. 3 30 Year ^{1/} Cumulative P.V. Of Capital Rev. Req.	(b) Combined Cycle Units 30 Year ^{2/} Cumulative P.V. Of Capital Rev. Req.	(c) 30 Year ^{2/} Cumulative P.V. Of Fuel Differential	(d) Net PVRR Savings ^{3/} Of Martin Unit No. 3 Vs. Combined Cycle
1982	2,370,273	1,318,932	2,403,221	1,351,880
1983	2,370,273	1,577,551	2,442,965	1,583,511
1984	2,370,273	2,337,042	1,914,618	1,881,387
1985	2,370,273	2,961,102	527,493	1,118,322

Notes:

- ^{1/} Based on a 1987 installed cost of \$1,730,908,000 and a levelized fixed carrying charge rate of 17%. Discount Rate = 12%, Book Life = 30 Years
- ^{2/} Based on a 1987 installed cost of \$905,862,000 (Source: May, 1982 EPRI Technical Assessment Guide), plus sunk costs of Martin Unit No. 3 of \$57,295,000 (1982), \$246,158,000 (1983), \$800,782,000 (1984), \$1,256,505,000 (1985) and a levelized fixed carrying charge rate of 17%. Discount Rate = 12%, Book Life = 30 Years. Sunk costs are based on cash flows from original estimates included in the 500 KV Project certification filing in Docket No. 820155-EU, updated for actual inflation rates through the end of the construction period. An incremental AFUDC rate was applied to construction expenditures. Includes AFUDC to in-service date.
- ^{3/} Represents the cumulative present value difference of total system fuel costs between a system with Martin Unit No. 3 and a system with three 250 MW Combined Cycle Units burning residual fuel oil. A positive value indicates savings provided by Martin Unit No. 3.
- ^{4/} (d) = (b) - (a) + (c)

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