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25

1 APPEARANCES (CONTINUED)

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13 REPORTED BY:

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MOTIONSPage No.

Motion for Reconsideration (Granted)

7

Motion in Opposition (Denied)

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P R O C E E D I N G S

(Hearing convened at 2:20 p.m.)

CHAIRMAN WILSON: Read the notice, please.

MR. TELLECHEA: Pursuant to notice issued on November 14, 1990, the hearing for Docket No. 900796-EI, Petition for Inclusion of Scherer Unit No. 4 Purchase in Rate Base, Including Acquisition Adjustment will be held at this place and time.

The purpose of this hearing shall be to allow Florida Power and Light Company to present evidence and testimony in support of its petition for inclusion of Scherer Unit No. 4 purchase in rate base.

CHAIRMAN WILSON: Take appearances of counsel.

MR. CHILDS: Commissioners, my name is Matthew M. Childs of the firm of Steel, Hector and Davis, appearing on behalf of Florida Power and Light Company. With me will be John Butler and Greg Anderson of the same firm.

MR. MURRELL: Commissioners, my name is Fred Murrell. I'm with Schroder and Murrell, and we're appearing here on behalf of Coalition of Local Governments.

MR. MCGLOTHLIN: My name is Joseph A. McGlothlin. Also entering appearance for Vicki Gordon

1 Kaufman, Lawson, McWhirter, Grandoff and Reeves, 522
2 East Park Avenue, Tallahassee, for Intervenor, Nassau
3 Power Corporation.

4 MR. HOWE: I'm Roger Howe of the Office of
5 Public Counsel, 111 West Madison Street, Room 812,
6 Tallahassee, Florida 32399-1400, appearing on behalf of
7 the Citizens of the State of Florida.

8 MR. BRYANT: Frederick M. Bryant, law firm of
9 Moore, Williams, Bryant, Peebles and Gautier, P. O. Box
10 1169, Tallahassee, Florida, on behalf of the Florida
11 Municipal Power Agency.

12 MR. CHRIST: M. Robert Christ, 101 East
13 Gaines Street, Tallahassee, Florida, appearing on
14 behalf of the Commission Staff.

15 MR. TELLECHEA: Ed Tellechea, 101 East Gaines
16 Street, Tallahassee, Florida, appearing on behalf of
17 the Commission Staff.

18 MR. PRUITT: Prentice P. Pruitt, same
19 address, Counsel to the Commissioners.

20 CHAIRMAN WILSON: Commissioners, before we
21 begin, I have a little housekeeping matter I need to
22 take care of. FP&L had filed a Motion for
23 Reconsideration of an order granting intervention to
24 Florida Municipal Power Agency's petition for leave to
25 intervene. I had granted it prior to the time that the

1 time had run for their filing a Motion in Opposition,
2 and, consequently, I'm going to grant the Motion for
3 Reconsideration.

4 And they also filed a Motion in Opposition to
5 Florida Municipal Power Agency's petition for leave to
6 intervene, and I'm going to deny that motion. And so
7 Florida Municipal Power Agency is granted leave to
8 intervene.

9 All right. Are there any other preliminary
10 matters that we need to address?

11 MR. TELLECHEA: No, Chairman, that's it.

12 CHAIRMAN WILSON: None? Okay, are we ready
13 to begin?

14 MR. CHILDS: Commissioner, we are. Before I
15 call the first witness, we had arranged to show a brief
16 film having to do with the Scherer Plant, which we can
17 show at this time. It is furnished to us by Southern.
18 It is not prepared for this proceeding, but I thought
19 it gave some context as to what the plant was, where it
20 was located and basic idea of how it operated. It is
21 not intended to be part of the record and we'd like to
22 show it at this time.

23 CHAIRMAN WILSON: Anybody have any objection
24 to that?

25 (No response.)

1 CHAIRMAN WILSON: How long is the tape?

2 MR. CHILDS: I think it's 13 minutes.

3 CHAIRMAN WILSON: All right. I think our
4 attention span lasts that long.

5 (Whereupon, a videotape was played.)

6 MR. CHILDS: Commissioner, we would call, at
7 this time, our first witness, Mr. Woody.

8 CHAIRMAN WILSON: While I swear Mr. Woody in,
9 if there are -- all the other witnesses who intend to
10 testify in this hearing who are present -- obviously,
11 if you're not present, you're not going to do this, but
12 if you would rise and let me swear you all in at one
13 time.

14 (Witnesses collectively sworn.)

15 C. O. WOODY

16 was called as a witness on behalf of Florida Power and
17 Light Company and, having been first duly sworn,
18 testified as follows:

19 CHAIRMAN WILSON: Please be seated.

20 DIRECT EXAMINATION

21 BY MR. CHILDS:

22 Q Would you state your name and address,
23 please?

24 A C. O. Woody, 700 Universe Boulevard, Juno
25 Beach, Florida.

1 Q Mr. Woody, by whom are you employed and in
2 what capacity?

3 A Florida Power and Light Company as Executive
4 Vice President in charge of Energy Supply.

5 Q Do you have before you a document entitled
6 "Before the Florida Public Service Commission, Florida
7 Power and Light Company, Testimony of C. O. Woody"?

8 A Yes.

9 Q Was that prepared by you as your testimony
10 for this proceeding?

11 A Yes.

12 Q Do you have any changes or corrections to
13 make to that testimony?

14 A No.

15 Q Do you adopt it as your testimony?

16 A Yes.

17 MR. CHILDS: Commissioner, I ask that the
18 prepared testimony of Mr. Woody be inserted into the
19 record as though read.

20 CHAIRMAN WILSON: Without objection, it will
21 be so inserted into the record.

22 MR. CHILDS: And the documents that he is
23 sponsoring have been previously identified, I believe,
24 as Exhibit 1.

25 CHAIRMAN WILSON: All right, that will be

1 marked as Exhibit 1.

2 (Exhibit No. 1 marked for identification.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF C. O. WOODY

DOCKET NO. 900796 - *FI*

SEPTEMBER 28, 1990

1 Q. Please state your name and business address.

2 A. My name is C. O. Woody. My business address is 700
3 Universe Blvd., Juno Beach, Florida 33408.

4

5 Q. Who is your employer and what position do you hold?

6 A. I am employed by Florida Power & Light Company (FPL) as
7 Executive Vice President-Corporate Energy Supply.

8

9 Q. Please describe your responsibilities in that position.

10 A. I am responsible for the planning, construction, and
11 operation of FPL's generation and transmission system.
12 This includes all aspects of power generation (except
13 nuclear activities) and transmission. Developing a
14 system-wide plan for providing adequate, reliable service
15 at a reasonable cost to the customer is a part of the
16 planning functions under my responsibility.

1 Q. Please summarize your background and experience.

2 A. My undergraduate studies were in Electronic Technology.
3 I have subsequently received a Master's Degree in
4 Business Administration from the University of Miami. I
5 have also graduated from the Harvard Business School
6 Program for Management Development.

7

8 I have been employed by FPL since 1956, starting at an
9 entry level position at the Miami Beach Plant. I held
10 positions in plant operations, electrical maintenance,
11 and as Plant Superintendent prior to moving to the
12 corporate office in 1973 in a management position in the
13 Power Resources Department. From 1976 to 1987, I held
14 senior management positions in the area of nuclear
15 operations, including the positions of Manager, Director,
16 Vice President and Group Vice President. In 1987, I was
17 elected to my present position as Executive Vice
18 President, responsible for corporate energy supply.

19

20 I was associated with the Electric Power Research
21 Institute (EPRI) from 1980 to 1986, serving on the
22 Research Advisory Committee and as past chairman of the
23 Nuclear Power Division Committee. I am a member of the
24 Executive Board of the Southeastern Electric Reliability
25 Council and a member of the Engineering and Operation

1 Division Executive Committee of the Southeastern Electric
2 Exchange. I am also a member of the Power Generation
3 Committee of the Association of Electric and Illuminating
4 Companies and a member of the American Society of
5 Mechanical Engineers.

6

7 Q. Have you prepared an exhibit in connection with your
8 testimony?

9 A. Yes. It consists of two documents.

10 Document No. 1 is a map of the FPL service area.

11 Document No. 2 is the actual and projected energy
12 generated by resource type for the years
13 1989, 1990 and 1997.

14

15 Q. What is the purpose of your testimony?

16 A. The purpose of my testimony is to provide an overview of
17 the FPL system; to explain why the purchase of a share of
18 Georgia Power Company's Plant Robert W. Scherer Unit No.
19 4 (Scherer Unit No. 4) is necessary, reasonable, and
20 prudent and represents a unique opportunity for FPL; and
21 to summarize the reasons why FPL is requesting the
22 Commission's approval to include Scherer Unit No. 4's
23 total purchase price, including an acquisition
24 adjustment, in FPL's rate base.

25

1 Q. Please provide an overview of FPL's current system.

2 A. FPL is the principal subsidiary of FPL Group. FPL was
3 incorporated in 1925 and is the fourth largest investor-
4 owned electric utility in the United States when measured
5 by number of customers served, peak load, or total
6 electric sales. It is engaged in the generation,
7 transmission, distribution and sale of electric energy.
8 FPL provides electric energy to all or part of 35
9 counties in the state of Florida, mainly along the east
10 coast and the southwest coast of our state. This service
11 area covers 27,650 square miles and contains an estimated
12 population of over 5.9 million. At the local level, FPL
13 provides service to its customers through five divisions
14 which cover the entire service area shown on my Document
15 No. 1.

16
17 In 1980, FPL established a strategy to reduce its
18 dependence on oil as a fuel. That strategy has been
19 successful. We reduced our oil consumption from 44.5
20 million barrels in 1981 to 26.0 million barrels in 1989.
21 As shown on my Document No. 2, a majority of our customer
22 energy requirements in 1989 were met by a combination of
23 nuclear and coal resources, with the balance generated by
24 oil and gas resources. The Scherer Unit No. 4
25 acquisition that we are presenting to the Commission is

1 a coal-fired unit. The addition will help maintain a
2 diverse and flexible fuel mix on our system and will
3 avoid undue reliance on oil.

4
5 Q. Please explain why FPL intends to purchase a portion of
6 Scherer Unit No. 4?

7 A. The purchase of Scherer Unit No. 4 represents a unique
8 opportunity for FPL. It meets FPL's long-term capacity
9 needs and provides short-term benefits, while offering
10 advantages not available with other alternatives.

11
12 Q. Could you summarize the benefits of the proposed
13 purchase?

14 A. There are several benefits to the proposed purchase.
15 Where appropriate, benefits have been quantified in our
16 economic analysis.

17
18 All of our capacity addition decisions result from the
19 comprehensive planning process which Mr. S. S. Waters
20 describes. The results of that process demonstrate that
21 FPL requires additional capacity by 1996 in order to
22 continue to provide adequate and reliable service to our
23 customers. Scherer Unit No. 4 is the best of all the
24 alternatives available, inclusive of those identified
25 through FPL's "Request For Power Supply Proposals" (RFP)

1 process, to satisfy our capacity needs. Our purchase of
2 Scherer Unit No. 4 will be phased-in starting in 1991, as
3 described in Mr. G. R. Cepero's testimony. Therefore, in
4 addition to satisfying our long term capacity needs,
5 Scherer Unit No. 4 also provides short-term benefits.
6 Among these are: (1) a reduction of FPL's dependency on
7 oil at an earlier date; (2) a reduction in FPL's total
8 investment while locking in the price of the unit; (3)
9 the provision of capacity needed in 1991 to allow for the
10 upgrade of the Turkey Point Nuclear Station emergency
11 power system; and (4) a gradual increase to FPL's
12 capacity, thus adding flexibility to the Company's
13 ability to adjust for changes in load conditions or
14 construction requirements. No other alternative
15 available to FPL can provide these benefits.

16
17 Scherer Unit No. 4 is an existing unit with known
18 performance and costs. This eliminates risks associated
19 with design, engineering, licensing, permitting,
20 construction, and their potential for cost overruns.
21 This represents a reduction in risk when compared to
22 other generation additions, which must still be designed,
23 engineered, licensed, constructed and operated.

24
25 The purchase of the unit also includes associated

1 emission allowances. Also, should the life of the unit
2 extend beyond 30 years, as is the case with many fossil-
3 fired units, FPL will not have to build new capacity to
4 replace it, as it would have to for a power purchase.
5

6 Finally, the Scherer purchase will facilitate expansion
7 of the Southern/Florida transmission interface. To that
8 end, Southern Companies have agreed to utilize best
9 efforts to negotiate with utilities in Peninsular Florida
10 to expand the Southern/Florida interface to make an
11 additional 500 MW of interface capability available to
12 FPL.
13

14 In summary, the proposed purchase of Scherer Unit No. 4
15 will enable FPL to meet its future capacity needs, as
16 well as providing short-term benefits with a new, fully
17 licensed and operating unit at the most favorable cost.
18

19 Q. You mentioned alternatives identified through FPL's RFP
20 process. Please elaborate on these alternatives.

21 A. Briefly, FPL issued this RFP in July 1989 seeking
22 proposals to provide up to 800 MW of capacity with a
23 preferred in-service date of 1996. Proposals from
24 cogenerators, small power producers, independent power
25 producers and utilities, both from outside and within the

1 State of Florida, were accepted for consideration. FPL
2 received 34 proposals totaling 10,793 MW from 24
3 different respondents.

4

5 Mr. R. R. Denis will describe the RFP process in detail
6 in his testimony.

7

8 Q. Will you explain how the purchase of Scherer Unit No. 4
9 offers the opportunity to obtain capacity at favorable
10 cost?

11 A. Yes. As Mr. S. S. Waters explains, FPL has evaluated the
12 various potential options, including those solicited in
13 the RFP, to determine which offers the most favorable
14 conditions and has the lowest cost. The most favorable
15 option is the purchase of Scherer Unit No. 4, the aspects
16 of which are discussed by Mr. G. R. Cepero. The low risk
17 associated with obtaining capacity from an existing
18 licensed and operating unit is a significant
19 consideration.

20

21 Q. Why are you seeking approval of your proposed treatment
22 of the Scherer Unit No. 4 purchase at this time?

23 A. The opportunity to purchase a portion of Scherer Unit No.
24 4 is only available for a limited period of time. The
25 sale is also contingent on obtaining regulatory

1 approvals. Since the viability to FPL of this purchase
2 depends on the recognition by this Commission of the
3 purchase price in its rate base, approval of our request
4 is needed at the latest in early 1991 in order to make
5 Scherer Unit No. 4 a viable option.

6

7 Q. In light of the considerations you have discussed,
8 exactly what action is FPL asking this Commission to
9 take?

10 A. FPL is asking the Commission to find that the purchase of
11 Scherer Unit No. 4 is necessary, reasonable and prudent,
12 and that FPL can include the entire purchase price in its
13 rate base. FPL is not currently requesting an adjustment
14 in its rates to reflect this addition.

15

16 As described by Mr. G. R. Cepero, the purchase price is
17 about \$615 million for a 76.36% (646 MW) ownership share
18 of this 846 MW unit. Georgia Power's depreciated book
19 value for this unit is below the purchase price agreed to
20 by FPL. This difference represents an amount, or
21 acquisition adjustment, above net book value. We further
22 ask that we be allowed to amortize the acquisition
23 adjustment amount over the economic life of the unit.

24

25 As described by Mr. Hugh Gower, the purchase of Scherer

1 Unit No. 4 meets appropriate criteria for including the
2 acquisition adjustment within the rate base. The
3 testimony of other FPL witnesses supports that it is
4 reasonable and prudent to purchase Scherer Unit No. 4.
5 If the Commission were not to allow FPL's cost inclusion
6 in its rate base, the purchase would no longer be viable
7 leaving only options which are less favorable to FPL and
8 its ratepayers. Approval of the Scherer Unit No. 4
9 purchase is clearly the best alternative for our
10 customers.

11

12 Q. Does this conclude your testimony?

13 A. Yes.

1 Q (By Mr. Childs) Mr. Woody, would please
2 summarize your testimony?

3 A Good afternoon, Mr. Chairman and
4 Commissioners and ladies and gentlemen.

5 As stated, my name is C. O. Woody. I'm
6 Executive Vice President in charge of Corporate Energy
7 Supply for Florida Power and Light Company. My
8 responsibilities include the planning, design,
9 construction and operation of Florida Power and Light's
10 non-nuclear generation and transmission system.

11 The Company's witnesses will show that
12 Florida Power and Light's 76% interest in Scherer Unit
13 No. 4 is an important element of our plan to provide
14 adequate, reliable service at a reasonable cost to our
15 customers and that it is necessary, reasonable and
16 prudent. We will also show the need for inclusion of
17 Scherer Unit No. 4, total price, including an amount
18 above book value for acquisition adjustment into
19 Florida Power and Light's rate base.

20 My Document No. 1 provides a map of the Power
21 and Light Service area. Document No. 2 consists of
22 actual and projected energy generated by fuel type for
23 the years 1989, 1990 and 1997.

24 Florida Power and Light is the fourth largest
25 investor-owned electric utility in the U.S. when

1 measured by number of customers served, peak load, or
2 total electric sales. We serve 35 counties in Florida,
3 mainly along the east and southeast coast of our state.
4 The service area covers approximately 27,650 square
5 miles. It contains an estimated population of 5.9
6 million.

7 Between 1980 and 1989, our strategy to reduce
8 oil dependence has been successful. Our oil
9 consumption has been reduced from 44.5 million barrels
10 in 1980 to 26 million barrels in 1989.

11 My Document No. 2 shows that oil dependence
12 as a percent of total fuel will be further reduced from
13 approximately 23% in 1989 to less than 20% in 1997.
14 This reduction will be greatly aided by the 646
15 megawatts contributed by Scherer Unit 4, which is, of
16 course, a coal-fired unit, which will be added to
17 Florida Power and Light's system.

18 Our witness, Mr. Cepero, will describe the
19 unit and the key terms and benefits of the proposed
20 purchase. Additionally, Mr. Waters will be describing
21 Florida Power and Light's comprehensive planning
22 process regarding capacity addition decisions. The
23 result of that process demonstrates that Florida Power
24 and Light requires added capacity by 1996.

25 Mr. Denis will describe the power supply

1 proposal process, or what we refer to as the "RFP,"
2 which was used to solicit alternatives to meet our 1996
3 capacity need. This process identified the purchase of
4 power from Scherer Unit 4 to be economically superior
5 to all other RFP alternatives.

6 Coincident to the RFP process, FPL learned
7 that Georgia Power Company might have interest in
8 selling all or a portion of Scherer Unit 4. This
9 proceeding will address the benefit of a purchase for
10 Florida Power and Light Customers to meet the 1996
11 capacity need.

12 Mr. Waters will testify to Florida Power and
13 Light's expansion planning and evaluation process and
14 show that the purchase of Scherer Unit 4 is the most
15 economically beneficial, attractive alternative
16 available.

17 Additionally, the value of this alternative
18 goes beyond direct economic quantification. Among
19 these unquantified benefits are: Ownership of the unit
20 beyond 30 years and its value even after full
21 depreciation; emission allowance entitlements and their
22 residual benefit for our customers; and facilitation of
23 transmission interface expansion both for Florida Power
24 and Light customers, as well as other Florida
25 customers.

1 There is also significant additional value
2 associated with Scherer Unit 4 resulting from phasing
3 in that purchase in 1991. These include a further
4 reduction of oil dependency at an earlier date; the
5 ability to reduce the total investment for future
6 capacity while locking in Scherer Unit 4 price for
7 Florida Power and Light. It increases our flexibility
8 to adjust for changes in load conditions or
9 construction requirements, and it adds capacity needed
10 to support upgrade of the Turkey Point emergency power
11 system. None of the other alternatives available to us
12 provide these additional benefits.

13 Moreover, since Scherer Unit 4 has operated
14 with known performance and cost, risks associated with
15 the construction, licensing, permitting and design will
16 be avoided. This is significant to both our customers
17 and our shareholders.

18 This purchase is available only for a limited
19 time. We have worked hard and moved rapidly to provide
20 this benefit for our customers. The Scherer Unit 4
21 purchase is contingent on obtaining this Commission's
22 approval indicating the necessity and reasonableness of
23 including the Scherer Unit 4 purchase price in FPL's
24 rate base as it is acquired. However, Florida Power
25 and Light is not currently reflecting a rate adjustment

1 to reflect this addition.

2 Concerning the acquisition adjustment, Mr.
3 Gower will be describing the criteria and basis for
4 including in the rate base the amount of the purchase
5 of Scherer Unit 4 that is above the net book value.

6 Commissioners, we feel that the purchase of
7 an existing coal-fired unit offers a significant and
8 unique opportunity for our customers, and when compared
9 to all other alternatives, is clearly the best option.

10 The testimony of our witnesses will fully
11 show the reasonableness and prudence of the Scherer
12 Unit 4 purchase.

13 Your approval of Florida Power and Light's 76
14 interest in the purchase of this unit is important in
15 order that our customers may experience the benefits
16 which I have described and about which other witnesses
17 will further testify.

18 Thank you and I am prepared to respond to
19 your questions.

20 MR. CHILDS: We now tender the witness for
21 cross examination.

22 MR. MURRELL: With the Chairman's permission,
23 I would like to defer my cross examination until after
24 Roger Howe.

25 CHAIRMAN WILSON: Mr. McGlothlin?

1 CROSS EXAMINATION

2 BY MR. MCGLOTHLIN:

3 Q Mr. Woody, just a few questions on some of
4 the items you described as additional benefits.5 You mentioned as an additional benefit the
6 fact that FPL will obtain emission allowances
7 associated with Scherer 4. Given the nature of the
8 recent amendments to the Clean Air Act, do you think it
9 would be something out of the ordinary for a unit to be
10 sold without some provision for the emission allowances
11 to go with it?12 A (Pause) I would offer that to my knowledge
13 there's no precedent in this area, although having been
14 a part of the negotiations, I know that the emissions
15 for all units within a system are perceived by the
16 owners and operators of that system to accrie to that
17 company, and in this instant case where viewed by the
18 Southern Company as being an asset that was negotiable
19 as we contracted and negotiated to buy the unit.20 Q Would it be feasible for FPL to purchase a
21 generating station of that size absent some provision
22 for obtaining the allowances in conjunction with the
23 purchase?24 A I didn't hear the first part of your
25 question. Would you repeat it?

1 Q Would it be feasible to purchase a
2 600-megawatt unit absent some provision for obtaining
3 the allowances that are needed to operate that unit?

4 A It is a judgment call of whether it would be
5 feasible. It certainly, I believe, would be possible.

6 Q Well, in your judgment would it be feasible
7 to obtain the unit absent some provision for the
8 allowances that are required to operate it?

9 A In my judgment it would be possible to obtain
10 the unit without the emissions.

11 Q Yes, sir, you said that, but my question was
12 whether in your judgment it would be feasible to do so?

13 CHAIRMAN WILSON: May I ask you what you mean
14 by "feasible"?

15 COMMISSIONER EASLEY: Financially or --

16 Q (By Mr. McGlothlin) Would FP&L have been
17 interested in acquiring the unit absent the provision
18 for the allowances that are required to operate it?

19 A You are now getting in the weighted area of
20 cost of emissions, and clearly in order to operate the
21 unit, we will have to have emission allowances. If
22 they could be obtained by other methods, we would have
23 been interested in buying the unit, but accordingly
24 would have had to cost out having to obtain those
25 emission limits from elsewhere.

1 Q You also list as an additional benefit of the
2 reduction of the total investment in capacity while
3 locking in a price. How did this transaction serve to
4 reduce investment in capacity?

5 A In two ways. The cost per kilowatt, for
6 installed kilowatt, is less for this alternative than
7 the other alternatives available to us, and that
8 translates, of course, to less requirement for capital
9 in the five-year planning window of 1991 through '95.

10 Q Isn't it true that this transaction also had
11 the effect of requiring capital to be expended for
12 capacity years prior to the 1996 need for that
13 capacity?

14 A Yes, that's true.

15 Q And doesn't that increase, under the terms of
16 the present value of that expenditure, doesn't that
17 have the effect of increasing the cost of capacity?

18 A Yes, as any alternative would have.

19 Q As any alternative that requires the early
20 expenditure of money, do you mean?

21 A Yes, sir.

22 Q You say that one additional benefit is a
23 reduction on FPL's dependency on oil at an earlier
24 date. Did FPL perform any type of analysis to
25 determine whether the early reduction of oil as

1 accomplished by the Scherer transaction is cost
2 effective reduction in oil?

3 MR. CHILDS: Excuse me. If you're going to
4 say "cost effective," I would ask if there is some more
5 parameters to that question.

6 Q (By Mr. McGlothlin) No. My question is
7 whether any analysis has been done to determine whether
8 the cost expended, for the purpose of reducing
9 dependence on oil in an early date, were -- more than
10 offset the costs realized -- savings realized?

11 A We will have a later witness that will cover
12 the economic evaluation, and I will defer that specific
13 question to him. However, I will say that the full
14 cost is one of the contributors to the overall economic
15 evaluation and it was considered, the price
16 differential between oil and coal, as one of the
17 factors in the economic evaluation that will be
18 testified to later.

19 Q Your comment goes only to the fuel costs
20 associated with the Scherer and its relationship to oil
21 and not the capital costs that were expended prior to
22 1996?

23 A No. I said the fuel cost was one of the
24 parameters in the overall evaluation and certainly the
25 cost of capital is another.

1 Q And both would have to be considered in any
2 type of determination whether Scherer 4 transaction
3 economically reduces dependence on oil prior to 1996,
4 is that correct?

5 A Yes, and then among other things would also
6 have to be considered.

7 MR. MCGLOTHLIN: Those are all the questions
8 I have.

9 CROSS EXAMINATION

10 BY MR. HOWE:

11 Q Mr. Woody, I'm Roger Howe with the Office of
12 Public Counsel. My questions will generally be aimed
13 at a comparison between Scherer Unit No. 4 in a
14 purchase configuration and that unit under UPS.

15 First, I'd like to ask you how much is it
16 going to cost for FP&L to purchase Scherer Unit No. 4?

17 A Approximately \$615 million.

18 Q Why do you say "approximately," sir?

19 A Well, I could find in the document the exact
20 number. It's -- I believe it's 615,366,000, but I'm
21 going from recollection, and that's why I use the word
22 "approximately."

23 Q Which document in this proceeding would
24 reflect the purchase price? (Pause)

25 COMMISSIONER GUNTER: Can I help?

1 MR. HOWE: Yes, sir.

2 WITNESS WOODY: It's reflected --

3 COMMISSIONER GUNTER: It's the last page in
4 the document that you all have, in Mr. Gower's
5 testimony, and it has the purchase price and
6 acquisition cost and whatever, gives you a net figure.
7 Document No. 1, 1 of 1 of Gower's testimony.

8 Q (By Mr. Howe) Mr. Woody, is the dollar
9 amount reflected in the exhibit to Mr. Gower's
10 testimony based upon a Letter of Intent between Florida
11 Power and Light, Georgia Power, and the Southern
12 Companies?

13 A Yes.

14 Q What will the status of that Letter of Intent
15 be after December 31st of this year?

16 MR. CHILDS: Excuse me. I would to object to
17 that with the use of the status.

18 You mean legal significance?

19 MR. HOWE: How does this gentleman -- I
20 understand Mr. Woody signed the Letter of Intent, and
21 I'm asking how he, as a signatory to the Letter of
22 Intent, views its status after December 31st of this
23 year.

24 MR. CHILDS: Okay. Mr. Howe, I don't want to
25 interrupt your question, and I apologize for that, but

1 I think that can be open-ended. I mean, obviously, it
2 would be a little older than it was earlier. Sorry.

3 WITNESS WOODY: The Letter of Intent, of
4 course, was to serve the purpose of laying out the
5 tenets of the agreement that had been reached through a
6 series of negotiations that characterized the
7 conditions, the price, and then a series of detailed
8 agreements are being and have been negotiated to
9 implement those tenets shown in the Letter of Intent.

10 Q (By Mr. Howe) Have those detailed agreements
11 been executed at this time?

12 A They have not been executed.

13 Q Will the specifics of the transaction -- by
14 that I mean the sale by Georgia Power and the Southern
15 Companies and the purchase by Florida Power and Light
16 of Scherer Unit No. 4, be controlled by those detailed
17 agreements?

18 A Yes.

19 Q Will those detailed agreements set out
20 precisely the purchase price of Scherer Unit No. 4?

21 A I would expect that they will reiterate the
22 purchase price as stated in the Letter of Intent.

23 Q You would expect, sir, but you're not
24 certain, is that correct?

25 A At this point in our negotiations, we have

1 finalized all of the issues, and I believe with
2 certainty that the details that you see in the Letter
3 of Intent will be put in contract language in those
4 detailed agreements with the understanding, of course,
5 of the footnote shown on Mr. Gower's document that
6 represents the adjusted amounts for fuel at the future
7 points of closing.

8 Q And can those future amounts be quantified at
9 this time?

10 A They can be bounded by the contract with some
11 reasonable operating flexibility to implement the value
12 as shown on Mr. Gower's document and the Letter of
13 Intent.

14 Q What steps will define the definitive
15 agreements, as I'll call them since I've seen that term
16 somewhere in the Company's filing -- what will be
17 Florida Power and Light's procedures for giving final
18 approval to the definitive agreements? By that, I mean
19 must it go before the utility's board of directors?
20 What exactly will be the process for final approval by
21 Florida Power and Light of the definitive agreements?

22 A It will be signed by a duly authorized
23 officer of the corporation and -- just as the Letter of
24 Intent was many other business transactions that we do.

25 Q Who will be signing the definitive agreements

1 for Florida Power and Light, Mr. Woody?

2 A I would expect that I will probably be
3 signing them, and in my absence there are other
4 corporate officers authorized to do so.

5 Q When will you or those other corporate
6 officers be affixing a signature to those definitive
7 agreements?

8 A I do not have a date for that.

9 Q Mr. Woody, have there been any supplements or
10 revisions to the Letter of Intent signed between
11 Florida Power and Light, Georgia Power, and the
12 Southern Companies?

13 Q Could you describe any such supplements or
14 revisions?

15 MR. CHILDS: Could I interrupt and ask? I
16 have copies of the supplements. I believe they've been
17 distributed. If you don't object, I would pass them
18 out now. And if you want to use them and reference
19 them that way.

20 MR. HOWE: I would object. One of the
21 questions I'm leading up to is if there is a
22 supplement, why has it not been filed by the Company up
23 to this date? If the Company is relying upon it, I'd
24 like to know what the status is of the supplement.

25 MR. CHILDS: Well, I think because it was

1 just signed, number one. Number two, I think you asked
2 him if he could describe it and my reaction is, is that
3 I think rather than describing it, the best evidence is
4 what it says.

5 MR. HOWE: Well, he's free to refer to it,
6 certainly.

7 MR. CHILDS: Okay.

8 CHAIRMAN WILSON: Do you intend to offer that
9 at some point in the proceeding?

10 MR. CHILDS: Yes, we do.

11 CHAIRMAN WILSON: When?

12 MR. CHILDS: I intend to offer it on
13 redirect, if not before.

14 CHAIRMAN WILSON: Why don't you go ahead and
15 pass it out so we can all see it if you're going to
16 refer to it in cross examination.

17 Lets go ahead and give this an exhibit
18 number. That will be Exhibit No. 2.

19 (Exhibit No. 2 marked for identification.)

20 Q (By Mr. Howe) Mr. Woody, do you have a copy
21 of that document which has been identified as Exhibit
22 No. 2 before you?

23 A Yes.

24 Q Mr. Woody, are there any other documents that
25 have been identified by either Florida Power and Light,

1 Georgia Power Company or the Southern Companies as
2 supplements to the July 30th Letter of Intent between
3 Florida Power and Light, Georgia Power Company and the
4 Southern Companies?

5 A I believe this Exhibit 2 specifically makes
6 reference to an additional supplement that was signed
7 on the 13th of September.

8 Q Does Florida Power and Light consider that
9 letter dated September 13th of 1990 to constitute a
10 supplement to the Letter of Intent?

11 A I do not have a copy of that with me, and I
12 do not know whether it was referenced as a supplement.

13 MR. HOWE: Commissioners, I would ask for an
14 exhibit number for identification. It is a letter
15 dated September 14th, 1990 to Mr. Fred Williams of the
16 Georgia Power Company and Mr. Allen Franklin of the
17 Southern Company Services signed for Mr. Woody by, I
18 believe, Mr. Cepero. And appended to that is a letter
19 dated September 13th, 1990, from Fred Williams of
20 Georgia Power Company and R. O. Usry, U-s-r-y, of
21 Southern Company Services addressed to Mr. Woody.

22 CHAIRMAN WILSON: That will be marked for
23 identification as Exhibit No. 3.

24 (Exhibit No. 3 marked for identification.)

25 Q (By Mr. Howe) Mr. Woody, do you have that

1 document consisting of the letters dated September 14th
2 and a letter dated September 13th before you that's
3 been identified as Exhibit 3?

4 A Yes.

5 Q Mr. Woody, if you would refer, please, on
6 that first page, the September 14th, 1990 letter, the
7 second paragraph in the first bullet after that second
8 paragraph. Does that indicate that Florida Power and
9 Light has placed some reliance on a letter which is
10 dated -- identified here as a letter dated September 14th,
11 1990, supplementing the July 30th, 1990, Letter of Intent?

12 A Yes.

13 Q And the September 14th date reference there,
14 it's just an error, isn't it? It's really the
15 September 13th letter attached to your September 14th
16 correspondence, is it not?

17 A It would appear to be an error, although I
18 don't have the custodianship of how this document was
19 put together, so I'm not certain of that, but it would
20 appear to be so.

21 Q Mr. Woody, it was -- just if I might make
22 this statement. It was provided to us in this stapled
23 format, the two letters together by Florida Power and
24 Light Company in response to our First Request for
25 Production of Documents.

1 Mr. Woody, there is not both a September 14th
2 and a September 13th supplement to the Letter of Intent
3 to your knowledge, is there?

4 A Not to my knowledge.

5 Q Mr. Woody, this supplement to the Letter of
6 Intent is dated September 13th, 1990. Florida Power
7 and Light filed its case on September 28th, 1990. Do
8 you know of any reason why this supplement to the
9 Letter of Intent, dated September 13th, 1990, was not
10 included in the Company's original filing?

11 A Only that it specifically had to do with the
12 unit power sales contract that we were working on for
13 the period of November/December 1990.

14 Q Yes, sir. But if we look at the "Re:"
15 paragraph on the first page of the September 13th
16 letter, it is specifically referring to the proposed
17 purchases of undivided ownership interests by Florida
18 Power and Light and JEA, is it not?

19 A Yes.

20 Q Are you familiar with the Letter of Intent,
21 Mr. Woody?

22 A Yes.

23 Q The Letter of Intent provides, does it not,
24 that Florida Power and Light will be able to
25 participate in fuel supply decisions for Scherer Unit

1 No. 4, does it not?

2 A I would need to go back and look at that
3 language. It's my understanding that we have two
4 options. We can participate in the decision making
5 process with Georgia Power being our agent for fuel
6 procurement or we have an alternate alternative of with
7 notice, managing the fuel procurement process. And I
8 will have to go back and look at the Letter of Intent,
9 but it also, of course, is part of the detailed
10 discussions and negotiations that have gone forward
11 after the Letter of Intent.

12 Q Of those detailed discussions and
13 negotiations after the Company signed the Letter of
14 Intent led to certain changes from the Letter of
15 Intent?

16 A They have not led to substantive changes.

17 Q Mr. Woody, do you have a copy of the Letter
18 of Intent there before you? It's identified as
19 Document No. 2 to the testimony of Mr. Cepero.
20 (Pause.)

21 A I do have that document.

22 Q Are you generally familiar with that
23 document, Mr. Woody? It is your signature at the end
24 of the document, is it not? I'm looking at Page 14 of
25 18 of Mr. Cepero's Document No. 2?

1 A Yes.

2 Q If you'd refer, please, Mr. Woody, to Page 4
3 of 18 of Document No. 2, which is Page 4 of the Letter
4 of Intent, and in particular Paragraph No. 6. Mr.
5 Woody, in Paragraph No. 6 the third sentence states
6 that "FP&L and JEA will be allowed to participate in
7 the procurement decision process for all future fuel
8 supply." Do you see that, sir? (Pause)

9 A Yes.

10 Q The procedure you just described earlier
11 about the options that will be available under the
12 definitive agreements go well beyond Florida Power and
13 Light just being allowed to participate in the
14 procurement decision, do they not?

15 A It is my understanding that we will have the
16 right upon proper notice to go beyond participating.

17 Q In this original letter -- in this Letter of
18 Intent, which you have signed and I'm referring still
19 to Document No. 2 in Mr. Cepero's testimony, this
20 Letter of Intent envisioned a separate fuel supply
21 definitive agreement, did it not?

22 A Yes.

23 Q Will there -- as negotiations now stand, will
24 there be a separate fuel supply definitive agreement?

25 A Yes.

1 Q Mr. Woody, if you'd refer, please, to the
2 September 13th letter, which is the second page of
3 Exhibit No. 3, or what has been identified as Exhibit
4 No. 3. And that last paragraph on the first page of
5 the September 13th letter, Paragraph No. 1, sir. Now,
6 do you remember receiving this letter, Mr. Woody?

7 A Yes, I remember seeing this letter.

8 Q This letter states in Paragraph 1, Roman
9 Numeral small "i," that "one of the alternatives being
10 considered is a buyout of the now existing coal supply
11 contract with Shell for Plant Scherer and procurement
12 of replacement coal after consultation with and receipt
13 of appropriate input from the other co-owners,
14 including JEA and FPL." Is a buyout being considered,
15 to your knowledge?

16 A We have a witness that has much greater
17 knowledge of that negotiation, and I will defer that to
18 Mr. Cepero.

19 Q Do you, sir, of your own personal knowledge
20 have any information about whether a buyout of those
21 contracts is being considered?

22 A I do not.

23 Q If you'd refer, please, still on Paragraph 1
24 to Roman Numeral ii, small "ii." It refers there to a
25 modification of the existing co-owner agreements

1 related to Plant Scherer.

2 First of all, sir, do you know why a
3 modification to existing co-owner agreements would be
4 necessary?

5 A Yes, I have a general understanding of why
6 they might be necessary.

7 Q Could you tell me what your general
8 understanding is?

9 A That the coal stock, coal pile for Plant
10 Scherer is considered as one common coal pile, and that
11 with different ownerships of the four units, different
12 fuel contracts and different levels of capacity in
13 operating the four units, it presented an operational
14 problem for Southern Company, in which case they needed
15 to renegotiate with some of their other owners. That's
16 my limited understanding of that issue.

17 Q Is the necessity for, or the requirement for
18 negotiation with other co-owners in anyway different
19 from the terms expressed in the July 30th, 1990, Letter
20 of Intent?

21 A You must be more specific with what you are
22 referencing in the July 30th, Letter of Intent.

23 Q Am I correct that in your introduction in
24 your prefiled direct testimony, the Letter of Intent is
25 the basis for the Company's request for relief in this

1 proceeding, is it not?

2 A It identifies the cost and value that we will
3 receive from this purchase, yes.

4 Q Was it meant to identify all the terms and
5 conditions that would apply to the actual purchase?

6 A By definition, a Letter of Intent will not
7 identify all the terms and conditions. That's why you
8 need a detailed contract.

9 Q Mr. Woody, still referring to the bottom of
10 this Paragraph 1 on the September 13th, 1990, letter to
11 yourself from Mr. Williams and Mr. Usry, it states that
12 "The modification of the existing co-owner agreements
13 is intended to provide that JEA and FPL will be
14 responsible for no more than and no less than their pro
15 rata share of now existing long-term coal supply
16 contracts. Is it your understanding that Florida Power
17 and Light would be free then to negotiate its own
18 long-term coal supply contracts in addition to these
19 existing contracts?

20 MR. CHILDS: Excuse me. I think there's a
21 witness to talk about the details of this Letter of
22 Intent. I think that my specific objection in terms of
23 what is permissible is when you're using as the
24 predicate the reference to this letter, I read, I
25 thought, Mr. Howe, what you're referencing having the

1 proceeding, is it not?

2 A It identifies the cost and value that we will
3 receive from this purchase, yes.

4 Q Was it meant to identify all the terms and
5 conditions that would apply to the actual purchase?

6 A By definition, a Letter of Intent will not
7 identify all the terms and conditions. That's why you
8 need a detailed contract.

9 Q Mr. Woody, still referring to the bottom of
10 this Paragraph 1 on the September 13th, 1990, letter to
11 yourself from Mr. Williams and Mr. Usry, it states that
12 "The modification of the existing co-owner agreements
13 is intended to provide that JEA and FPL will be
14 responsible for no more than and no less than their pro
15 rata share of now existing long-term coal supply
16 contracts. Is it your understanding that Florida Power
17 and Light would be free then to negotiate its own
18 long-term coal supply contracts in addition to these
19 existing contracts?

20 MR. CHILDS: Excuse me. I think there's a
21 witness to talk about the details of this Letter of
22 Intent. I think that my specific objection in terms of
23 what is permissible is when you're using as the
24 predicate the reference to this letter, I read, I
25 thought, Mr. Howe, what you're referencing having the

1 introductory clause saying "The alternatives being
2 evaluated include", not that something had been done.
3 But I believe that we've put on a witness to describe
4 the detail associated with the Letter of Intent for
5 that purpose to handle those kinds of questions.

6 Q (By Mr. Howe) The reason for my question,
7 I'll agree with your statement about this being -- this
8 letter referring to alternatives being evaluated, but
9 correct me if I'm wrong, Mr. Woody, but hadn't you
10 stated earlier that Florida Power and Light would be
11 able to acquire its own fuel supply?

12 A This sentence is not intended to accomplish
13 that condition for Florida Power and Light procuring
14 its own fuel. It's a different issue.

15 Q All right. Mr. Woody, if you'd refer to the
16 second page of the September 13th, 1990 letter, in
17 particular, Paragraph 3. Would you agree that until
18 the purchase by Florida Power and Light is fully
19 consummated under the present schedule on June 1st,
20 1995, that Scherer Unit No. 4 will be dispatched by the
21 Southern Companies?

22 A No, I would not agree to that.

23 Q Mr. Woody, here in Paragraph 3 where it
24 states that, and I quote, I'm looking down here at the
25 GP -- it says, "During the transition period, or date

1 of the final closing when JEA and FPL become 100%
2 owners of Unit 4." First, when does FPL expect to
3 become a -- in conjunction with JEA, expect to become a
4 100% owner of Scherer Unit 4? (Pause.)

5 A Bear with me. We have that also in the
6 prefiled. It gives the dates of the closings.

7 Q Would you agree, subject to check, that it is
8 June 1st, 1995?

9 A I think that's correct, subject to check.

10 Q And then, Mr. Woody, still referring to the
11 second page of the September 13, 1990, letter there's a
12 qualification, still on that first sentence. It says,
13 "Until GPC," which I believe is Georgia Power Company,
14 "is able to accomplish either of the alternatives set
15 forth in Paragraph 1(i) or 1(ii)," and I quote "GPC
16 will retain the right to commit and schedule the unit
17 to Southern Company's aggregate load, including
18 off-system sales."

19 Is that an accurate description of the status
20 of Florida Power and Light's ability to dispatch
21 Scherer Unit No. 4 before the date of final closing?

22 A I would like to defer this again to the
23 witness who will be able to respond to the detail in
24 this line of questioning. It is one alternative of
25 this transition period that was spelled out here.

1 There have been discussions of other ways to accomplish
2 this. It is an operational matter and the intent, of
3 course, is to obtain the best benefit for our customers
4 and to not provide inordinate operational hardship on
5 Georgia Power. I would defer further detail of that to
6 Mr. Cepero.

7 Q Mr. Woody, are you engaged in the negotiations
8 of the definitive agreements?

9 A Me, specifically?

10 Q Yes, sir.

11 A No.

12 Q Who is negotiating the definitive agreements?

13 A By name?

14 Q Yes, sir. And I'm referring specifically to
15 Florida Power and Light employee.

16 A Our lead technical negotiator is Mr. Cepero
17 and our lead contract negotiator is Mr. Sears.

18 Q Mr. Woody, will you be relying on the
19 definitive agreements as negotiated by Mr. Cepero then
20 if you are the individual who actually signs the
21 definitive agreements?

22 A I don't understand the question.

23 Q Well, Mr. Woody, I guess, am I correct that
24 Mr. Cepero is the individual, for technical purposes,
25 who on behalf of Florida Power and Light is currently

1 negotiating the definitive agreements?

2 A Yes.

3 Q Am I correct that those definitive agreements
4 may be signed by yourself?

5 A That's correct.

6 Q Will you sign those -- if you sign those
7 agreements, will it be based on your independent
8 evaluation or will it be based upon -- will be in
9 reliance upon the agreements as negotiated by Mr.
10 Cepero?

11 CHAIRMAN WILSON: I don't understand that
12 there would be a difference.

13 MR. HOWE: There may not be and if the
14 witness would so state, that would be his answer.

15 CHAIRMAN WILSON: I mean, you asked him
16 whether he would be relying on his evaluation of the
17 agreements or would he be relying on the agreements as
18 negotiate by Mr. Cepero, and I don't understand what
19 the difference is.

20 MR. HOWE: The witness, if he doesn't
21 understand he can so state.

22 CHAIRMAN WILSON: Well, even if the witness
23 understands, I don't understand, and I'm the one who
24 needs to understand.

25 MR. HOWE: Perhaps I can restate the

1 question.

2 Q (By Mr. Howe) Mr. Woody, will the final
3 definitive agreement in all likelihood be that as
4 negotiated by Mr. Cepero? Do you anticipate making any
5 changes to the agreement negotiated by Mr. Cepero?

6 A Mr. Howe, the question gets more vague as we
7 move along.

8 I would not anticipate making changes to
9 something that we had finalized as an agreement, but
10 would have my own opportunity to read and review that
11 document and have questions answered again, although
12 not participating in the detailed negotiations.

13 COMMISSIONER GUNTER: Excuse me, Mr. Howe.

14 MR. HOWE: Yes, sir.

15 COMMISSIONER GUNTER: How long do these
16 negotiations take, two hours, two months, two weeks?
17 Normally, when you're buying -- when you're going to go
18 out and spend \$600 million on something?

19 WITNESS WOODY: Commissioner Gunter, we've
20 had a series of negotiating sessions that have taken
21 weeks, and in some cases seven days a week, 12 or 14
22 hours a day by subteams and then brought together at
23 this level that I talked about earlier.

24 COMMISSIONER GUNTER: Well, I've just got a
25 series of questions here, because I've got to

1 understand this a little.

2 WITNESS WOODY: They are complex. A lot of
3 issues that have to be resolved in balance, and with
4 much technical expertise needed on both sides of the
5 table and, in fact, more than one company involved; as
6 you know, more than two companies involved, and they
7 have taken a series of literally weeks around the
8 clock.

9 COMMISSIONER GUNTER: Well, I'm trying to get
10 down to the bottom line. I'm interpreting the
11 contract, you know, the negotiations as if Mr. Cepero
12 jumps in his Volkswagen Beetle, and runs up there and
13 negotiates a contract, and comes back and hands it to
14 you and says, "Sign this, Mr. Woody." Through the
15 process, do you or other officers of the company, when
16 they go out -- usually in processes I've been involved
17 in, everybody gets down to a point they negotiate where
18 the hell they think they can get, and then they go back
19 and discuss it with the boss and say, "Where do we go
20 from here?" And then you go back and you work that
21 process and on and on and on ad nauseum.

22 Am I kind of characterizing the way this
23 process goes? I mean, is my perception wrong that
24 there is continual input or do you have a Letter of
25 Delegation that you or whoever with the Company just

1 says "Mr. Cepero, just go negotiate the contract?"

2 WITNESS WOODY: There is continual input,
3 and, in fact, on some occasions there may be an issue
4 that resolved -- that ultimately resides with my
5 counterpart at Southern Company, and he and I have to
6 get involved to settle that issue.

7 COMMISSIONER GUNTER: So the impression that
8 I might have gotten from the question and answer is
9 that when you get the contract to sign or the agreement
10 to sign, that's not the first time you ever saw it?

11 WITNESS WOODY: That is correct.

12 COMMISSIONER GUNTER: I'm just trying to
13 understand that process.

14 Q (By Mr. Howe) Mr. Woody, with reference to
15 your prefiled testimony, in particular the document at
16 the very end, your Document No. 2, Page 1 of 1. I
17 believe it has been identified as part of Exhibit No.
18 1. In identifying energy by fuel type in the coal
19 category, does Florida Power & Light include what we
20 generally call coal by wire from the Southern
21 Companies?

22 A Yes, and not in the coal category of the
23 table at the top of that document, though. In the
24 energy interchange line is where coal by wire is
25 included.

1 Q Mr. Woody, are you generally familiar with
2 the Florida Power and Light's existing UPS contracts
3 with the Southern Companies?

4 A I am generally familiar with them, although I
5 was not a part of that negotiations. Prior to my
6 position, those contracts where negotiated.

7 Q How long have you been in your present
8 position?

9 A Since 1987.

10 Q Mr. Woody, Scherer Unit No. 4 came on line in
11 February or March of 1989, did it not?

12 A I believe it went commercial in February of
13 1989. I'm not sure when it came on line.

14 Q Mr. Woody, have you toured the Scherer Unit 4
15 site?

16 A Yes.

17 Q Would that have been a tour on -- an
18 evaluation tour on July 10th of 1990?

19 A Give me a moment and I'll see if I can check
20 that date.

21 Q Perhaps I can help you, Mr. Woody. I think I
22 have a document here that reflects that meeting.

23 MR. HOWE: Commissioners, could I have a
24 number for identification purposes? It is an
25 interoffice correspondence dated July 11th, 1990, from

1 C. O. Woody to "Memo for Information." Could we
2 identify that as Exhibit No. 4?

3 CHAIRMAN WILSON: Yes, that will be
4 identified for -- as Exhibit No. 4.

5 (Exhibit No. 4 marked for identification.)

6 Q (By Mr. Howe) Mr. Woody, do you recognize
7 this document which has been identified as Exhibit No. 4?

8 A Yes.

9 Q If you would refer, please, to the bottom of
10 that page, the paragraph entitled, "Performance", would
11 you agree that -- well, you might tell me what -- in
12 that paragraph entitled, "Performance", it says, and I
13 quote, "Due to the cost of fuel and their system
14 overcapacity, the units have not run very much - 17%
15 capacity factor in 1989." Were you referring there,
16 sir, to Scherer Unit No. 4 or were you referring to all
17 the Scherer units?

18 A It's my recollection that was Scherer Unit
19 No. 4.

20 Q Can we disregard the use of the plural for
21 "units," on that first line then?

22 A My recollection of this document, and it is,
23 if you will, a very working document, was that
24 generally speaking, all of the units at Scherer have
25 not run to the capacity factors that we would run

1 units, but the Unit 4 specifically less than the
2 others, and 17% refers to Unit 4.

3 Q Thank you, sir. How much capacity was
4 Florida Power and Light getting out of Scherer No. 4 in
5 1989 pursuant to its UPS contracts? Do you know, sir?

6 A I do not.

7 Q Mr. Woody, would the purchase of Scherer No.
8 4 necessitate the expansion of FP&L's current import
9 capability from the Southern System?

10 A The phased purchase of Scherer 4 as outlined
11 in the Letter of Intent does not require an expansion
12 of the interface capability between Southern Company
13 and Florida.

14 Q Mr. Woody, has Florida Power and Light been
15 negotiating with Florida Power Corporation to upgrade
16 the Southern/Florida transmission interface?

17 A Yes.

18 Q How long have you been negotiating that
19 upgrade? And by that, I'm referring to what we might
20 characterize as the third 500 kV transmission line?

21 A Approximately three months.

22 Q Three months from this date, Mr. Woody?

23 A I think I'm going to have to -- to tell you I
24 don't have a document that gives me that precision, but
25 it's, as I recall, sometime in August when we began to

1 discuss and negotiate that.

2 Q Mr. Woody, I'm going to distribute a document
3 right now that I hope will help pin down some of these
4 dates.

5 Mr. Chairman, could I have an exhibit number
6 for identification? This is a letter dated August 3rd,
7 1990, from C. O. Woody to Mr. Maurice Phillips,
8 Executive Vice President, Florida Power Corporation.

9 CHAIRMAN WILSON: The letter will be marked for
10 identification as Exhibit No. 5.

11 (Exhibit No. 5 marked for identification.)

12 Q (By Mr. Howe) Mr. Woody, are you familiar
13 with this letter?

14 A Yes.

15 Q Is that your signature on the second page of
16 what has been identified as Exhibit No. 5?

17 A Yes.

18 Q Mr. Woody, at the very first paragraph it
19 refers to a March 27th, 1990 meeting at FPL's Juno
20 Beach office, and the letter itself appears to be
21 referring to a third 500 kV transmission line between
22 Florida and the Southern System. Did you attend that
23 meeting, sir?

24 A Yes.

25 Q Were there any meetings or discussions

1 specifically dealing with that third 500 kV
2 transmission line before March 27th of 1990?

3 A Not to my recollection.

4 Q Mr. Woody, do you know when the subject of
5 the possible purchase of Scherer Unit No. 4 by Florida
6 Power and Light was initiated, either by Florida Power
7 and Light or the Southern Companies?

8 A The first discussion about the sale of all or
9 a portion of Scherer 4, to my knowledge and
10 recollection, took place about the last week of
11 January, 1990.

12 Q Mr. Woody, if you would refer to that fourth
13 paragraph, the last one on the first page of what has
14 been identified as Exhibit 5. It refers to discussions
15 with the Southern Company for the purchase of
16 additional power supplies from their system. Do you
17 know -- well, can you tell me, are you there in that
18 sentence referring to the outright purchase of the unit
19 or some other type of purchase of capacity and energy
20 such as a UPS purchase?

21 A At the point that this letter was written to
22 Florida Power Corp, we had, in fact, come to a Letter
23 of Intent agreement as now characterized in these
24 proceedings. So that paragraph refers to the purchase
25 of additional power via the ownership of a portion of

1 Scherer Unit 4.

2 Q Mr. Woody, in considering the -- that full
3 first sentence, does Florida Power and Light consider
4 that the -- first I must ask, if it refers to holding
5 discussions, are you saying that you had already
6 consumated the discussions in the Letter of Intent or
7 are you referring to the ongoing discussions to reach
8 definitive agreement?

9 A As I understand, the verb here is in the past
10 tense, and indicates that we have been holding
11 discussions, and by record we had signed a Letter of
12 Intent on the 30th of July, 30th, 31st. And it refers
13 to those discussions.

14 Q Mr. Woody, would you agree that pursuant to
15 this statement in that fourth paragraph, the last one
16 on the first page of Exhibit No. 5, that you
17 characterized to Florida Power Corporation that the
18 purchase of Scherer Unit No. 4 would necessitate, and I
19 quote that term "necessitate," the expansion of FP&L's
20 import capability?

21 A Yes. And as testified today, we have the
22 interface capability to transmit all of the power from
23 Scherer 4 into Florida, but the intent of this comment,
24 as understood by me, and I believe understood by
25 Florida Power Corp, is that in order to provide

1 enhanced reliability to our system, we need to build
2 more transmission interface into Florida.

3 Q Is that what you meant by the use of the term
4 "necessitate"?

5 A Yes.

6 CHAIRMAN WILSON: Are we at an appropriate
7 point to take a break, Mr. Howe?

8 MR. HOWE: This would be an appropriate time.

9 CHAIRMAN WILSON: Let's take 10 minutes.

10 (Brief recess.)

11 - - - - -

12 Q (By Mr. Howe) Mr. Woody, we were discussing
13 Florida Power and Light's discussions with Florida
14 Power Corporation about dealing with a third 500 kV
15 transmission line. I'd like to distribute another
16 document at this time. Mr. Woody, has Florida Power
17 and Light entered into a Letter of Intent with Florida
18 Power Corporation for additional transmission
19 facilities associated with a third 500 kV transmission
20 line?

21 MR. CHILDS: I would like to ask a question
22 before the witness answers. I really don't see what
23 that has to do with this witness' direct. I know the
24 witness has testified in his direct testimony on Page 7
25 about facilitation of the expansion of the

1 Southern/Florida transmission interface, but I'm not
2 sure that I see, with that statement, this particular
3 line of questioning as going to that properly.

4 CHAIRMAN WILSON: What was the question?

5 MR. HOWE: The question I had asked is
6 whether Florida Power and Light has entered into a
7 Letter of Intent with Florida Power Corporation
8 concerning the construction of a third 500 kV
9 transmission line.

10 CHAIRMAN WILSON: I'll allow the question.

11 WITNESS WOODY: Yes, we've signed the Letter
12 of Intent.

13 MR. HOWE: Commissioners, if I might respond
14 to Mr. Child's objection --

15 CHAIRMAN WILSON: If you may do what?

16 MR. HOWE: I understood Mr. Child's --

17 CHAIRMAN WILSON: Mr. Child's objection was
18 overruled. I said you could ask the question. Go
19 ahead and ask the question. He's already answered it
20 as I understand it.

21 MR. HOWE: Mr. Chairman, I'd ask that this
22 document dated November 19th, 1990, addressed from Mr.
23 C. O. Woody to "Documentary Files", it's interoffice
24 correspondence, Subject: Letter of Intent Between FP&L
25 and FPC for Additional Transmission Facilities," be

1 identified with an exhibit number.

2 CHAIRMAN WILSON: That will be Exhibit 6.

3 (Exhibit No. 6 marked for identification.)

4 Q (By Mr. Howe) Mr. Woody, if you would refer
5 to the last page of the document which has been
6 identified as Exhibit 6, is that your signature on that
7 last page, sir?

8 A Yes, sir.

9 Q Is this a copy of the Letter of Intent
10 between Florida Power and Light and Florida Power
11 Corporation for construction of additional transmission
12 facilities?

13 A It appears to be.

14 Q Mr. Woody, if you would please refer to Page
15 7 of the agreement itself, which would be the eighth
16 page of the exhibit. Do you have that, sir?

17 A Make the reference again, please.

18 Q Page 7 at the top of the page. See that,
19 sir? It's the eighth page of the exhibit itself.

20 A Okay, I understand.

21 Q Mr. Woody, there referring to Paragraph 10,
22 will Florida Power and Light have to compensate the
23 Southern Companies for the costs that the Southern
24 Companies will incur in constructing facilities related
25 to increasing the transfer capability of the

1 Florida/Southern interface?

2 A Yes.

3 Q In Paragraph 10 it refers to FP&L together
4 with such other parties with whom FP&L has reached an
5 agreement with Southern. Which parties are being
6 referred to there, sir?

7 A (Pause) I don't know.

8 MR. HOWE: Commissioners, I'm going to
9 distribute a document. I'd ask an exhibit number be
10 assigned. I believe it would Exhibit 7. It's
11 interoffice correspondence from Mr. R. R. Denis to Mr.
12 C. O. Woody dated November 30th, 1989; Subject:
13 Meeting with Southern.

14 CHAIRMAN WILSON: That will be marked for
15 identification as Exhibit No. 7

16 (Exhibit No. 7 marked for identification.)

17 Q (By Mr. Howe) Mr. Woody, are you familiar
18 with this document which has been identified as Exhibit
19 No. 7?

20 A Yes.

21 Q If you would refer, please, to the third full
22 paragraph beginning with the word "Southern is aware
23 ..." and the second full sentence in that paragraph,
24 and I quote, "They understand our unwillingness to
25 discuss additional purchases until the completion of

1 that process (i.e. not to allow a bypass of the
2 solicitation)." Mr. Woody, was it communicated to the
3 Southern Companies that Florida Power and Light was
4 unwilling to discuss additional purchases until
5 completion of the 1989 RFP solicitation process?

6 A Yes, I believe it was very clear to Southern
7 that we were not willing to discuss any proposal to
8 meet the 800 megawatt RFP outside of that process. And
9 I think it's appropriate for me to step back and give
10 you a little of the chronology involved in this memo.

11 Florida Power and Light had determined a need
12 for 5200 megawatts of additional supply or reduced
13 demand in the increment of time through 1997, and
14 during the fall of 1988 had been working on developing
15 a balanced capacity plan that was presented to this
16 Commission in a needs hearing in March of this year. A
17 part of that balanced plan was the solicitation for 800
18 megawatts to meet the specific capacity need of 1996
19 with the window of time offered to those proposers, as
20 I recall, from 1994 to 1997. That solicitation went
21 out in July of 1989 with a requirement that those
22 interested go through a procedure and identify -- or
23 register, if you will, with some small fee, by a date
24 in September of 1989.

25 After that date in September of 1989, we

1 became generally aware that the Georgia Public Service
2 Commission had taken some action on Scherer 4 that left
3 that asset uncovered at the Southern Company system,
4 and, frankly, we had no correlation between that action
5 and anything to do with our capacity need because this
6 was -- is and was a most unusual thing for a plant in
7 Georgia to have any potential benefit to customers in
8 Florida, outside of a unit purchase power sales as we
9 had had experience with.

10 We further understood at that time that their
11 problem was only in the short term. In the near term
12 years of 1990, '91, '92, '93, and did not correlate it
13 to our 1996 RFP for capacity solicitation.

14 The memo that you have passed out dated
15 November 30th was a result of a meeting that one of our
16 department heads, Mr. Roberto Denis by name, had with
17 his counterpart of Southern Companies, at my request,
18 because just a couple of weeks before, while talking
19 with my counterpart in Southern Company, he and I had
20 identified the potential for a so-called capacity swap
21 to the mutual benefit of both Georgia Power and Florida
22 Power and Light customers, specifically they were
23 concluding that they might need some peaking capacity,
24 and it's my continued position that we need more base
25 capacity on our system. Mr. Denis was asked to pursue

1 that potential capacity swap, and this particular memo
2 documents his first contact with his counterpart to
3 pursue a capacity swap, a potential capacity swap. We
4 had no foreknowledge prior to this meeting of any
5 opportunity to buy a brick and mortar purchase of a
6 Southern Company or Georgia Power asset.

7 Q Mr. Woody, I'd ask for a couple points of
8 clarification for the purpose of the record. You used
9 the term "uncovered." Could you explain what you meant
10 by that term? I believe you stated in some sense that
11 Georgia Power found itself with a portion of the asset
12 "uncovered."

13 A An investment that they were not allowed to
14 earn on.

15 Q By that you mean it was neither in rate base,
16 Georgia jurisdictional rate base, nor was it covered
17 through capacity sales, such as UPS?

18 A That's my understanding.

19 Q You also refer to your counterpart. Who
20 would that individual be?

21 A Mr. Guthrie.

22 Q And Mr. Woody, did you understand that as a
23 result of this November 30th, 1989, meeting, that the
24 Southern Companies made Florida Power and Light aware
25 that they would have power capacity and energy

1 available in the short term before the date of initial
2 capacity and energy specified in the RFP?

3 A Yes. That was one of the information points
4 achieved from this meeting apparently that took place
5 on November 30th.

6 Q Mr. Woody, would you happen to know whether
7 in the evaluations that Florida Power and Light
8 performed to determine whether to go with the purchase
9 option as opposed to the UPS response to the RFP,
10 whether Florida Power and Light included consideration
11 of the fact that short-term power sales, including from
12 this letter I would take it unit purchase power sales,
13 would be available in the years 1990, '91, '92 and '93
14 before the RFP solicitation kicked in?

15 A That's a very long question and I think I
16 understand the context. I guess you want to know if we
17 understood if there was short-term power sales being
18 offered for the near-term years of '90, '91, '92 and
19 '93. Is that your question?

20 Q Yes, sir.

21 A There was no offering made at this point in
22 the discussion. It was initially intended to be a
23 meeting to discuss a capacity swap. But during that
24 meeting there was information delivered that Southern
25 Company was going to be interested in selling energy or

1 capacity from Scherer Unit 4 in those short-term years.

2 Q Mr. Woody, if you would refer, please, to
3 Page 6 of your prefiled direct testimony. Looking
4 first at Line 6, you're referring there, are you not,
5 to short-term benefits from the purchase of Scherer
6 Unit No. 4?

7 A That is correct.

8 Q Would you agree with reference to Line 6
9 where you refer to -- designated as No. 1, a reduction
10 of FPL's dependency on oil at an earlier date, would
11 you agree that a UPS or other purchase from -- out of
12 Scherer Unit No. 4 in the years 1990 through 1993 would
13 also have provided a reduction in FPL's dependency on
14 oil at an early date?

15 A Any energy supplied by coal source that
16 displaces oil would have the benefit of reducing use of
17 and dependency upon oil, sure.

18 Q With reference to No. 2 on Line 7 you refer
19 to "a reduction in FPL's total investment while locking
20 in the price of the unit." Wouldn't a long-term UPS
21 agreement, such as the Southern Company's UPS response
22 to the 1989 RFP solicitation, also have provided a
23 reduction in FPL's total investment while locking in
24 the price of the unit during the terms of the UPS
25 contract?

1 A It could have if the price was right, and if
2 we had the transmission capability to get it to our
3 system.

4 Q Mr. Woody, would you need any different
5 transmission capability to get an UPS sale out of
6 Scherer Unit No. 4 than would be needed to purchase
7 Scherer Unit No. 4?

8 A The joint purchase by Florida Power and
9 Light in Jacksonville brought about the added benefit
10 to Florida Power and Light of gaining that short-term
11 transmission capability to accommodate the coal energy
12 to our customers that we otherwise would have not had
13 the opportunity to do.

14 Q When you say "would not otherwise have had
15 the opportunity to do" you mean you wouldn't have had
16 the opportunity under the UPS proposal?

17 A We did not own the transmission capacity.
18 And some preliminary discussions with Jacksonville for
19 our interest to buy out-of-state power during 1991 to
20 offset the outage of Turkey Point nuclear unit had
21 resulted in Jacksonville's position being that they did
22 not have capacity for sale; that they intended to use
23 it for the economic benefit of their system.

24 Q Did you negotiate with JEA whether they would
25 permit short-term UPS purchases from the Southern

1 System for the period 1991 through 1993?

2 A We had had discussions with them; you could
3 characterize it as negotiations, but we had concluded
4 that we would not be able to bring short-term energy
5 through a purchase power contract in through their
6 transmission system.

7 Q You are currently purchasing 300 megawatts of
8 Scherer No. 4 through a contract that's characterized
9 in this case as an initial UPS agreement, is that
10 correct?

11 A That's correct.

12 Q And that initial UPS contract, by the terms
13 of the Letter of Intent, would survive even if the
14 Commission were to deny FPL's petition in this case,
15 isn't that correct?

16 A Until the end of December of this year, yes.

17 Q Did that require approval of JEA?

18 A Yes.

19 Q Mr. Woody, if you'd refer, please, to Line 8
20 on Page 6 of your prefiled direct testimony, at the
21 very end of the line the No. 3 and the sentence that
22 follows, or the statement that follows on lines 9, 10
23 and 11. Referring there to the provision of capacity
24 needed in 1991 to allow for the upgrade of the Turkey
25 Point nuclear station. Would that have not been

1 available if you had proceeded to purchase UPS under
2 the RFP and taken UPS under the short term for the
3 years 1990 through 1993?

4 A We had not been able to get agreement to
5 purchase UPS for 1991 for those additional megawatts
6 identified in our plans to offset the loss of the
7 Turkey Point during its upgrade outage. We had not
8 been able to gain agreement to be able to buy that and
9 bring it from out of state. We were shopping within
10 state to buy those megawatts.

11 Q When you say "had not been able to obtain
12 agreement," from whom, sir?

13 A Jacksonville.

14 Q Had you sought to obtain such an agreement
15 from Jacksonville?

16 A We had had discussions with them, yes.

17 Q What's the reason that an agreement is
18 necessary with JEA for you to be able to import
19 additional electricity into Florida? Are you referring
20 to the dual 500 kV transmission corridor?

21 A Yes.

22 Q Could you please explain what the need is to
23 obtain approval from JEA?

24 A The dual 500 kV corridor was a joint project
25 by Florida Power and Light and Jacksonville to increase

1 the import capability into Florida, and it was
2 contiguous with an unit power purchase that's been
3 characterized as coal by wire, and that overall
4 agreement allowed for Florida Power and Light to have
5 more than 50% of the import capacity through the terms
6 of the initial UPS contract.

7 In fact, at the point in these negotiations,
8 Florida Power and Light was getting just a little more
9 than 2,000 megawatts out of a combined capacity that
10 was agreed to be about 2,780 megawatts.

11 Jacksonville had identified the operational
12 benefit of being able to make economy purchases and
13 emergency assist with the reserve that was available on
14 the line, and there was about 300 megawatts of reserve
15 left but it clearly belonged to them, and we had no
16 right to it other than through negotiations and paying
17 Jacksonville for that.

18 The overall benefit of this purchase and the
19 basket of benefits to the Jacksonville customers were
20 viewed by their management to be great enough to
21 provide us that short-term transmission capability to
22 bring that energy into our system in 1991.

23 Q Is the entitlement of the respective
24 utilities in Florida to the import capacity of the dual
25 500 kV transmission lines subject to allocation between

1 the utilities?

2 A Well, it's a very complex and technical
3 issue, but the basic import capability that existed
4 prior to the upgrade, the two 500 kV lines, has been
5 allocated to the people who had that initial capacity,
6 and the balance has been assigned to the joint
7 operating agreement, which, of course, Jacksonville and
8 Florida Power and Light are the principals and owners
9 of that joint operating agreement. There had not been
10 a resolution prior to this point on how to divide that
11 remaining allocation because we had had another
12 contract in place that provided Florida Power and Light
13 with the necessary transmission at a price to
14 accommodate the UPS purchases through their ramp down.

15 Q Is the total capacity of the two 500 kV
16 transmission lines approximately 3200 megawatts the
17 import capacity?

18 A The import capacity to Peninsula Florida,
19 with the exception of the Tallahassee interface, is
20 3,200 megawatts. There are some other ties, weak
21 though they may be, are much less capacity though they
22 may be, the total import capability is 3,200.

23 Q What's Florida Power and Light's allocated
24 share of that 3,200?

25 A At 3,200 it is my recollection that our

1 allocated share is 1,492; I believe that's correct.

2 Q And do you know what the date is of that
3 allocation? Is that a recent allocation?

4 MR. CHILDS: Excuse me. I'm just going to
5 object. I think this is pretty far afield for cross
6 examination of direct. And I realize he had one or two
7 lines about the short-term benefits and the increase in
8 the interface capability, but I believe when we get to
9 the point of chasing the date of the agreements, that I
10 need to object. I think it's beyond the scope.

11 CHAIRMAN WILSON: What's the relevance of it
12 as well as response to the objection.

13 MR. HOWE: As I stated when I began my cross
14 examination, what I'm trying to address is the relative
15 benefits of a UPS purchase of Scherer capacity versus
16 an outright purchase of the unit itself.

17 And addressing Mr. Woody's statements on Page
18 6, as I read it he has identified benefits that are
19 purportedly associated with the purchase of the unit,
20 and I'm testing to see whether these benefits are also
21 associated with a UPS purchase. I had understood Mr.
22 Woody, in response to a question about the benefit of
23 whether they could provide capacity needed during the
24 period 1991 through 1993, to state that it required the
25 agreement of JEA. That led to the question of what is

1 Florida Power and Light's import capacity through the
2 Southern Florida transmission interface?

3 MR. CHILDS: Well, but I think we answered,
4 were asked and answered those questions. Now we're to
5 what's the date of the agreement and that's the point
6 that I thought if he addressed to you what the factual
7 support was for his statement, that maybe we didn't
8 need to go any farther.

9 MR. HOWE: And the reason for the request for
10 the date of the agreement was that if it a very recent
11 date it may, in fact, be tied to the purchase of
12 Scherer Unit No. 4. If the date of the agreement that
13 allocated 1,400-some-odd megawatts to Florida Power and
14 Light predates even consideration of the purchase, that
15 is relevant in that it would appear that the same
16 transmission capacity would exist for both the UPS and
17 a Scherer purchase.

18 CHAIRMAN WILSON: Go ahead and answer the
19 question.

20 A In the prefiled testimony that Mr. Cepero
21 references, his Document No. 3, which is the Letter of
22 Intent with JEA, on Page 4, in Paragraph 6 we
23 specifically state that the allocation entitlement will
24 be 1,492 to Florida Power and Light, 1,292 to JEA and
25 the next 100 megawatts of upgrade will be assigned to

1 Florida Power and Light for a total of 1,592. And I'll
2 state again that we were able to achieve that ability
3 to bring the 300 megawatts of early UPS only because we
4 were jointly purchasing the unit in Jacksonville,
5 received a benefit and was willing to provide that
6 transmission as a part of the overall package.

7 Q Mr. Woody, with that reference to Page 7 of
8 your prefiled direct testimony --

9 COMMISSIONER GUNTER: Mr. Howe, let me ask a
10 question right there.

11 MR. HOWE: Yes, sir.

12 COMMISSIONER GUNTER: If, in fact, that
13 proves to be a bottleneck at JEA, what would preclude
14 you from just going down and looping around JEA and
15 just say, "No, we ain't going to allow that bottleneck
16 to occur." JEA gets -- you know, give unto Caesar what
17 is Caesar's and we keep the rest. I think that's an ad
18 lib to that thing, but -- you know. (Laughter)

19 So if, in fact -- you know, they've kind of
20 got you, you know, wherever they've got you, what's
21 wrong with just saying, "Okay, JEA, we ain't going to
22 put up with that. We'll just pick up off the north and
23 go on around." That's just sort of a curious kind of
24 question I've got.

25 WITNESS WOODY: Let me see if I can bring

1 some insight into that, Commissioner. I must tell you
2 we looked at whether or not we could do that.

3 An AC transmission system is a complex
4 circuit, and I don't mean by that in a common complex,
5 it means that the currents divide what the parallel
6 paths, and just putting a shunt around a piece of the
7 line does not necessarily improve the import
8 capability. It's the overall system beyond that line
9 that gives you the ability to deliver it.

10 Now, from a contractual standpoint it may be
11 possible for us to build a shunt around that system and
12 demonstrate that we have now more rights to the 2,700
13 than some perceived 50/50 split, but it would not
14 necessarily improve the import capability into Florida,
15 at least not very much.

16 COMMISSIONER GUNTER: I'm trying to solve the
17 bottleneck, the answer to that question about the
18 bottleneck.

19 WITNESS WOODY: Moreover, in order to
20 license, design and do that would take a number of
21 years, and would not have facilitated any kind of a UPS
22 purchase for this question of early purchase due to
23 Turkey Point.

24 COMMISSIONER GUNTER: Are you planning --
25 Florida is growing leaps and bounds and there may be

1 other folks that have got some. Have you planning to
2 be able to optimize utilization of that east coast
3 corridor and at least have got somebody looking at it?

4 WITNESS WOODY: Yes. And, in fact, I would
5 like to go back to the document that was referenced
6 earlier, the document that was written to Mr. Phillips
7 on my signature that referenced the March 27th meeting.

8 COMMISSIONER GUNTER: Is that Exhibit No. 5?

9 WITNESS WOODY: Yes. That precisely is what
10 the first paragraph of that memo speaks to where we
11 were meeting with them to look at the longer term needs
12 of Peninsular Florida and what are the various ways of
13 meeting that need.

14 The paragraph that became the point of
15 discussion was post-July 30th, where a Letter of Intent
16 had been signed, and we specifically now were pointed
17 toward needing to upgrade our import capability. But
18 the earlier part of that memo simply referenced the
19 kind of planning that we do and, in fact, at the point
20 of March of 1990, we were looking at at least three
21 ways to improve the import capability. The line that
22 we now have signed the Letter of Intent with Florida
23 Power Corp, a line that would come down on the east
24 coast from somewhere up in Southern Systems to
25 somewhere down in our system. And then, third, a DC

1 line that might run from deep into Southern Company all
2 the way down to the heavy load center in South Florida.

3 COMMISSIONER GUNTER: Okay. And if you had
4 that third 500 kV line, as I'll refer to through the
5 eastern corridor, that would somewhat remove the hand
6 from around your throat?

7 WITNESS WOODY: It would improve the --

8 COMMISSIONER GUNTER: It wouldn't be able to
9 grip it quite as hard.

10 WITNESS WOODY: It would improve the net
11 import to the state by some amount but it would not be
12 as effective to the state as this west coast line, in
13 my opinion.

14 COMMISSIONER GUNTER: Well, what if you had
15 them both?

16 WITNESS WOODY: It may be that ultimately
17 we'll need another east coast line.

18 COMMISSIONER GUNTER: All right.

19 Q (By Mr. Howe) Mr. Woody, with reference to
20 Page 7 of your prefiled testimony, at the top of the
21 page, you refer to the possibility of the life of
22 Scherer Unit No. 4 would extend beyond 30 years?

23 In its RFP response for a UPS configuration
24 out of Scherer Unit No. 4, did Georgia Power and
25 Southern Companies offer as an option UPS out of

1 Scherer Unit No. 4 for the life of the unit?

2 A It is my recollection that their proposal
3 spoke to the effective life of the unit, whatever that
4 means.

5 Q If they so spoke of the life of the unit,
6 would you agree that UPS would have also extended
7 beyond 30 years if the life of the unit was beyond 30
8 years?

9 A No, I would not conclude that.

10 Q Why not, sir?

11 A Short of having the detailed discussion of
12 what they mean by the effective life of the unit, it
13 could be the depreciated life of the unit; it could be
14 some other factor. I don't know what they would mean
15 by that.

16 Q Is this perhaps an area better addressed to
17 Mr. Denis?

18 A It would be an area that perhaps he can tell
19 you his understanding of it.

20 Q Mr. Woody, at Page 8 of your prefiled
21 testimony, looking at the answer beginning on Line 11,
22 you refer to the evaluation by FPL of the various
23 options including those solicited in the RFP.

24 Do you know, sir, whether the RFP process was
25 concluded?

1 A Would you repeat that question, please?

2 Q Yes, sir. Do you know whether the RFP
3 process was concluded? And by that I mean concluded as
4 it was designed originally to terminate.

5 A It is still in process.

6 Q Mr. Woody, if you'd refer, please, to the top
7 of page number 9 of your prefiled direct testimony.

8 (Pause)

9 Mr. Woody, would you agree that the normal
10 procedure when Florida Power and Light has added
11 generation facilities to its rate base, that approval
12 by this Commission generally comes after the fact?

13 A Approval to include the total cost comes when
14 the unit is commercial and through a proceeding to
15 examine the cost prudence reasonableness, yes.

16 Q In this case is Florida Power and Light's
17 major concern how this Commission would treat an
18 acquisition adjustment?

19 A Well, in that it is different, it's unique,
20 it certainly is a concern. I wouldn't characterize it
21 as the major or the only concern, but it is certainly a
22 concern that we feel we need the Commission's views on
23 that issue.

24 Q Is the reason that Florida Power and Light is
25 seeking approval at this stage of the purchase because

1 of the acquisition adjustment issue?

2 A It's certainly not limited to that.

3 Q Mr. Woody, on Page 9, Line 12, you state that
4 "Florida Power and Light is asking that the entire
5 purchase price be placed in its rate base."

6 Did I understand you correctly in your
7 introductory comments to state that you want it placed
8 in rate base as acquired, on the schedule under which
9 you actually acquire ownership in the unit?

10 A That is correct.

11 Q Are you asking that as you acquire ownership
12 in the unit, that you get a pro rata portion of the
13 purchase price and of the acquisition adjustment at
14 that time in your rate base?

15 A Yes, that is correct.

16 Q Mr. Woody, in your introductory comments I
17 understood you to state that your Florida Power and
18 Light strategy to reduce oil consumption has been
19 successful? (Pause)

20 Were you including in that strategy your
21 coal-by-wire purchases under UPS contracts from the
22 Southern System?

23 A Yes.

24 MR. HOWE: I have no further questions.

25 CHAIRMAN WILSON: Mr. Bryant.

CROSS EXAMINATION

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BY MR. BRYANT:

Q Mr. Woody, I represent Florida Municipal Power Agency, and I just have a couple of questions for you on some of these things that you've been so patient on clear in my mind.

Whose requirement in the Letter of Intent is it that the Public Service Commission approve acquisition of the Scherer unit? Was that a Georgia Power requirement?

A No, that's a Florida Power and Light requirement.

Q Is that a requirement that Florida Power and Light could waive if it fails to get the approval of the Florida Public Service Commission?

A If you mean by "waive," if we're not bound to complete the purchase absent that approval, that's correct.

Q No. I guess my question was, sir: Were it to be that you did not obtain the PSC approval, is that a requirement that Florida Power and Light could waive so that it could still consummate the sale with Georgia Power?

A I will assume we would have the right to do that if we elect to so do.

1 Q Yes, sir. As a matter of fact, you don't
2 know of any legal requirement under the statutes that
3 would require prior approval by the Florida Public
4 Service Commission?

5 MR. CHILDS: Excuse me. I assume that you're
6 asking for a layman's view of the legal requirement for
7 what that is worth.

8 MR. BRYANT: I'm not asking I'm asking as a
9 lawyer. I'm asking him as Executive Vice President
10 whether or not he knows there is any legal requirement.

11 MR. CHILDS: Okay.

12 WITNESS WOODY: No, I'm not aware of any.

13 Q (By Mr. Bryant) Have you, in fact, or are
14 you aware of any contingency plan that you and your
15 Staff have had that you indeed waive that requirement
16 if you failed to obtain PSC approval and go ahead and
17 consummate the transaction with Georgia Power?

18 A No. We have no predefined contingency plan
19 for that event.

20 Q Do you consider that requirement a critical
21 requirement, a no-deal requirement, that should you not
22 obtain prior PSC approval, that you would not proceed
23 with the consummation of the acquisition of the Scherer
24 unit?

25 A I do not consider it a no-deal requirement,

1 although we would clearly have to reassess our options
2 should that occur.

3 Q You also testified, sir, that you would have
4 obtain the approval of the Federal Energy Regulatory
5 Commission and the Securities and Exchange Commission.
6 To you knowledge, is this a legal requirement to obtain
7 approval by those two bodies?

8 A Again, with the qualification that I can't
9 give you a legal interpretation of that, it's my
10 understanding that SEC approval is needed because of
11 the Public Utility Holding Act status of the Southern
12 Company, not Florida Power and Light, and in the case
13 of the Federal Energy Regulatory Commission, it has to
14 do with their control of the transmission aspects of
15 this agreement.

16 Q To your knowledge, has such approval been
17 obtained yet, from FERC and SEC?

18 A To my knowledge, it has not been obtained.

19 Q To your knowledge, do you know whether or not
20 your company has made application to the SEC and FERC
21 for such approval?

22 A As stated earlier, we will not make
23 application to SEC, and I cannot speak for what status
24 that has with Southern Company.

25 Q I'm sorry, I misunderstood. Georgia Power

1 Corporation has to seek such application?

2 A That's my understanding.

3 Q Okay, and did you say you knew or did not
4 know whether or not that application has been made?

5 A I do not know.

6 Q What about to the FERC, sir?

7 A In at least one case, application has been
8 made and received for the transaction associated with
9 the early power purchase. That, in fact, was made
10 sometime in September and approval has been granted for
11 that as I understand.

12 Q What about the ownership acquisition, has
13 that application to FERC been made yet, sir?

14 A I do not know the status of that.

15 Q Is it a requirement that Florida Power and
16 Light be one of the parties to that?

17 A Yes.

18 Q Could you perhaps sometime during these
19 proceedings find out that information and either
20 yourself or someone else from your company supply that
21 information, whether or not that application has been
22 made?

23 A Yes, we will do that.

24 Q All right, thanks. Sir, why is -- do you
25 know why Georgia Power Corporation is selling the

1 Scherer Unit?

2 MR. CHILDS: Excuse me, that's an awfully
3 broad question. It calls for an awful lot of
4 speculation, and I just ask if counsel could refocus it
5 a little bit.

6 MR. BRYANT: Well, in my own inimitable way
7 of trying to ask a country lawyer's question, maybe it
8 was rough, Commissioner, but I'm simply trying to ask
9 if he knew why Georgia Power Corporation was selling
10 the unit.

11 COMMISSIONER GUNTER: I'm going to allow the
12 question. You know, that's -- go out to a farmer's
13 farm and he's got a --

14 COMMISSIONER EASLEY: You got him on "country
15 lawyer."

16 COMMISSIONER GUNTER: -- he has too many hogs
17 out there, you know, he might sell them because he
18 doesn't have enough feed.

19 MR. BRYANT: Yes, sir, I understand that
20 perfectly.

21 COMMISSIONER GUNTER: Could be a number of
22 reasons.

23 MR. BRYANT: Yes, sir.

24 COMMISSIONER GUNTER: And he may not know.

25 WITNESS WOODY: It is my understanding, and

1 from the document that's been entered, specifically --
2 and I don't know the exhibit number, but it's the memo
3 that Mr. Denis wrote to me that states, in short,
4 Southern would consider just any kind of sale to make
5 up for their \$60 million shortfall, so it was a matter
6 of their having an investment not earning on, and it
7 was a severe issue with them, and they were interested,
8 of course, in some manner of getting a earning on that
9 considerable investment.

10 Q (By Mr. Bryant) Sure. Well, tell me again how
11 much you're paying for this unit.

12 A I will refer, again, to Mr. Gower's attachment,
13 Document 1, 615,504,000 for our 76.34% of the unit.

14 Q And what is the book cost of that unit, sir?

15 A I would defer the discussion on the -- on the
16 book value to the plant to Mr. Gower. He's an expert
17 in that area and will be able to respond to that
18 question.

19 Q Well -- and excuse me for not being more
20 specific, but -- and bear with my lawyer's math, but
21 somewhere I believe you testified, or maybe I read it
22 in someone else's testimony, that there was a
23 acquisition adjustment of \$111 million, is that
24 correct?

25 A Yes. In fact, that is in a number of documents.

1 Again, it shows in Document 1 of Mr. Gower's prefiled
2 testimony.

3 Q What is your understanding of what this
4 acquisition adjustment means or entails, sir?

5 A In laymen's language --

6 Q Please.

7 A -- it is the difference between the
8 negotiated price and the accounting depreciated book
9 value adjusted to a number of factors.

10 Q So I guess then approximately the book value
11 would be \$500 million then, 514, 504? And, again, I'm
12 not trying to hold you to the specific figure.

13 A I will defer that question to Mr. Gower.

14 Q Well, Georgia Power Corporation apparently --
15 is it your understanding -- apparently is selling this
16 unit because Georgia Public Service Commission has
17 disallowed this unit from its rate base?

18 MR. CHILDS: I think that's what he testified
19 to in answer to your question.

20 MR. BRYANT: Yes, sir, I'm just -- I'm
21 getting there.

22 COMMISSIONER GUNTER: He's setting him up.
23 He can go ahead and answer the question.

24 WITNESS WOODY: Yeah, I don't know in the
25 context that you phrased the question, that it's

1 Georgia Public Utility Commission's fault that Georgia
2 Power is selling this unit. I have testified that for
3 whatever reason, that the unit is not covered in their
4 rate base, and as stated to us, that's the motivation
5 for Southern and Georgia Power to look for any form of
6 sale out of this unit to cover that loss.

7 Q Matter of fact, Mr. Denis, is his memo to you
8 dated November 30, 1989 indicated that the Georgia
9 Power Corporation had, in fact, removed approximately
10 400 megawatts of the Scherer Plant from Georgia Power's
11 rate base and that this disallowance has a \$60 million
12 impact on Southern's stockholders.

13 MR. CHILDS: Are we now referring to a
14 document that's already been marked for identification
15 as an exhibit?

16 MR. BRYANT: Yes, sir, No. 7.

17 MR. CHILDS: Isn't that information in the
18 exhibit?

19 MR. BRYANT: Yes, sir, that was more or less
20 a quote from that exhibit.

21 Q (By Mr. Bryant) Would you -- do you have
22 that document in front of you, sir, that memo to you
23 from Mr. Denis?

24 A Yes, it is a memo apparently dated November 30th.

25 Q And my reading of that was fairly accurate,

1 that Mr. Denis indicated to you that the Georgia Public
2 Service Commission had removed this unit from its rate
3 base and it has a \$60 negative impact -- I would assume
4 that's what he means -- on Southern's stockholders.
5 It's \$60 million detrimental impact, not a positive
6 impact. Do you understand that memo or mean that?

7 A As I read the memo, he identifies two
8 opinions of why Southern Company may have 400 megawatts
9 of capacity in the near term, the first of which is
10 it's his understanding that the Georgia PSC has
11 recently removed approximately 400 megawatts and has
12 the effect of \$60 million impact on the Southern
13 stockholders, yes, I read that. And then there's a
14 second opinion stated.

15 Q Yes. And second opinion, sir?

16 A And the second being that they have concluded
17 that they need to have more peaking capacity and less
18 base capacity in the longer term.

19 Q Now, would you agree that my interpretation
20 of the language that Mr. Denis used of the \$60 million
21 impact on Southern's stockholders, you would read that
22 has being a negative impact, not a positive impact?

23 A Yes, I would read that so.

24 Q All right, now, help me understand this.
25 You've agreed to pay to Georgia Power Company \$111

1 million over book, but your own man, Mr. Denis, has
2 written you a memorandum saying that by not having this
3 unit in rate base, Georgia Power Corp is looking to
4 shed itself of it because it's going to have a \$60
5 million negative impact on the stockholders of Georgia
6 Power Corp, is that correct? (Pause) Mr. Woody, did
7 you all pay \$51 million more than what you should have
8 paid for this unit?

9 A We did not arrive at the cost of this unit by
10 taking some series of things, such as uncovered assets,
11 depreciated book value. We arrived at the price of this
12 unit on a market basis. And I must tell you that it
13 certainly enhances your negotiating position if you
14 know where you're -- the other party, the factors that
15 contribute to the other party, but we are not
16 presenting this as the preferred option under the basis
17 that it starts out from some book value and arrives at
18 a number that we could purchase the unit. That would
19 have never been possible. We are buying this unit
20 because it represents an opportunity that will be
21 discussed by other witnesses in detail that this is the
22 best alternative we have for 1996 megawatts, from an
23 economic standpoint and from a risk standpoint, and it
24 is not appropriate in our view in negotiating this, we
25 did not evaluate what their losses may have been in

1 arriving at a price.

2 Q Well, certainly -- and your view and my view
3 of negotiations might be different, and I don't quarrel
4 with that -- might question it -- but are you telling
5 me that you all knew ahead of time that if Georgia
6 Power Corp couldn't unload this sucker they were going
7 to -- their stockholders were going to suffer a \$60
8 million loss, yet you were willing, as senior vice
9 president in charge of these negotiations, to offer
10 Georgia Power Corp \$50 million in excess of the loss
11 that they would incur, and you call that market price?

12 MR. CHILDS: Which is the question?

13 MR. BRYANT: Well, we can have the court
14 reporter read it back.

15 MR. CHILDS: Well, I think you had a number
16 of them there, Mr. Bryant.

17 COMMISSIONER GUNTER: The second question you
18 asked he already answered, and you were being
19 repetitive, and he answered one before, and you said
20 market price.

21 MR. BRYANT: I think that's a fair criticism,
22 Commissioner.

23 COMMISSIONER GUNTER: It wasn't a criticism.
24 That was an observation.

25 MR. BRYANT: Yes, sir.

1 Q (By Mr. Bryant) Is it your definition, sir,
2 of market price, then, and that you're buying this unit
3 at the market price -- that was my understanding of
4 your question -- your answer, that you are buying this
5 unit at market price. Let me ask that first, just to
6 make sure I understand. You are buying this unit at
7 what you think is market price?

8 A We're buying this unit at the lowest price
9 that we felt we could get it without the seller walking
10 away, and he had other options.

11 Q So it's your understanding of market price is
12 what a willing seller is able to sell -- willing to
13 sell for and what a willing buyer is willing to buy
14 for?

15 A That's correct.

16 COMMISSIONER EASLEY: Could I ask you a
17 question on that point?

18 MR. BRYANT: Yes, ma'am. Of me or --

19 COMMISSIONER EASLEY: No, the witness. Just
20 asking if I can interrupt you to ask a question.

21 MR. BRYANT: Yes, ma'am.

22 COMMISSIONER EASLEY: Mr. Woody, on Exhibit 7
23 of this memo that Mr. Bryant is talking about, what's
24 the capacity of Scherer? What are you purchasing as
25 the capacity of Scherer? Let me say it that way.

1 WITNESS WOODY: Commissioner Easley, that's
2 -- that's a good question because we refer in many
3 documents to 846, the net dependable expected capacity
4 from Scherer, and Jacksonville having 200 of that and
5 Florida Power and Light having the remaining 646. That
6 is the base number that we expect the unit to produce
7 in which the economic evaluations have been calculated
8 against, and in this memo you will note an 800 number.
9 It is common practice to refer to units in megawatt
10 classes, 400, 800. And this unit is referred to as a
11 800 megawatt class unit.

12 COMMISSIONER EASLEY: All right, when you
13 talk about the disallowance, or when Mr. Denis, and
14 maybe I need to ask this of Mr. Denis, but when you
15 talk about the disallowance of 400 megawatts, did -- I
16 don't understand, did the Georgia PSC disallow the
17 whole plant? Did they disallow part of it? Did they
18 disallow what you're buying or part of what you are
19 buying? I'm trying to put some relationship in here.

20 COMMISSIONER GUNTER: I don't think there's
21 any.

22 COMMISSIONER EASLEY: Well, if there's not,
23 then I don't know what we did for the last half hour.

24 WITNESS WOODY: It is my understanding that
25 very little of Scherer Unit 4 had been allowed in the

1 WITNESS WOODY: Commissioner Easley, that's
2 -- that's a good question because we refer in many
3 documents to 846, the net dependable expected capacity
4 from Scherer, and Jacksonville having 200 of that and
5 Florida Power and Light having the remaining 646. That
6 is the base number that we expect the unit to produce
7 in which the economic evaluations have been calculated
8 against, and in this memo you will note an 800 number.
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10 classes, 400, 800. And this unit is referred to as a
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12 COMMISSIONER EASLEY: All right, when you
13 talk about the disallowance, or when Mr. Denis, and
14 maybe I need to ask this of Mr. Denis, but when you
15 talk about the disallowance of 400 megawatts, did -- I
16 don't understand, did the Georgia PSC disallow the
17 whole plant? Did they disallow part of it? Did they
18 disallow what you're buying or part of what you are
19 buying? I'm trying to put some relationship in here.

20 COMMISSIONER GUNTER: I don't think there's
21 any.

22 COMMISSIONER EASLEY: Well, if there's not,
23 then I don't know what we did for the last half hour.

24 WITNESS WOODY: It is my understanding that
25 very little of Scherer Unit 4 had been allowed in the

1 rate base, and I'm saying perhaps 50 megawatts. The
2 part of Scherer 4 that was under unit power contracts,
3 that extend out through '95, to '95, covered the cost
4 of capital for that portion, and it's my further
5 understanding in this memo that Southern Company had no
6 unit power contract for approximately 400 megawatts,
7 and that the Georgia Public Utility Commission had
8 disallowed that as being needed in their rate base. So
9 they had approximately 400 megawatts of an 800 megawatt
10 class unit that they were not earning for the
11 investment.

12 COMMISSIONER EASLEY: And that's not the same
13 capacity that you're proposing to purchase?

14 WITNESS WOODY: Yes, it is the same capacity
15 in a phased-in way as the unit power sales that we have
16 against Scherer Unit 4 ramp down, we will be replacing
17 that unit power sale with an ownership that continues
18 to cover the cost of that investment.

19 COMMISSIONER EASLEY: I guess the bottom line
20 question then is can I relate the 60 million
21 disallowance to anything in this proposed purchase? I
22 mean is there a comparable number? Does it mean
23 anything?

24 WITNESS WOODY: No.

25 COMMISSIONER EASLEY: Thank you.

1 CHAIRMAN WILSON: Mr. Bryant?

2 Q (By Mr. Bryant) Sir, does your contract or
3 Letter of Intent with Georgia Power Corp have what I
4 call or would refer to as a drop-dead date, the point
5 at which in time that if the deal is not consummated,
6 the deal terminates?

7 A My understanding is that there's two dates.
8 There's a date as of the end of December 1990 under
9 which Georgia Power agrees to not shop the unit. There
10 is also a second date that extends out through -- and I
11 believe the date is the end of June, 1991, that would
12 allow us to continue to seek the necessary approvals to
13 allow us to make the closing, and those two dates have
14 a different meaning, of course. If we do not have
15 agreements in place for the purchase by the end of
16 December, it's my understanding that Georgia could
17 begin to shop to sell the unit to others if it elected
18 to. It's their option. We have then until the end of
19 June before we would walk away from the contract.

20 Q Before you would walk away or Georgia Power
21 Corp could walk away?

22 A I think either of us could walk away.

23 Q Mr. Woody, help me understand this
24 transmission. Do you or do you not, as Florida Power
25 and Light, need additional transmission in order to

1 bring the power that you will be owning out of the
2 Scherer Unit to your load centers in Florida?

3 A We do not need additional transmission to
4 bring the phased-in purchase, as identified in the
5 Letter of Intent and represented in this hearing, we do
6 not need additional transmission to bring that capacity
7 into our load centers.

8 Q Does that capacity simply take the place of
9 other capacity that you would otherwise be bringing
10 into Florida? In other words, what I'm really getting
11 at, I'm confused about your memorandum or letter to Mr.
12 Maurice Phillips dated August 3rd, 1990, Exhibit No. 5,
13 sir.

14 A I have the letter. I'm not sure of the
15 exhibit number.

16 Q Okay, it's Exhibit No. 5 is dated August 3rd,
17 1990, to Mr. Maurice Phillips from you, re: development
18 of a third 500 kV transmission line between Florida and
19 the Southern System. Please explain to me, if you
20 would, sir, what energy this third 500 kV line is
21 needed for, what transmission?

22 A A bit of background. The 500 kV lines were
23 constructed and, in fact, paid for by the benefit of
24 bringing coal by wire to our customers from Georgia.
25 The contracts that were in place to supply that power

1 had a ramp-down provision that started, as I recall, in
2 1993, and by 1995 would be ramped down, and, in fact,
3 there was a second unit power sales contract negotiated
4 that provides about 900 megawatts through the turn of
5 the century. So we are presently purchasing about
6 2,068 megawatts. Jacksonville is purchasing from
7 Southern and so is Florida Power Corp. And prior to
8 November 1st of this year, the total import capability
9 into Peninsular Florida had approximately 300 megawatts
10 of reserve left on it that belonged to that allocation
11 -- the rights, benefits of that allocation belonged to
12 Jacksonville Electric.

13 We have now negotiated contracts that will
14 provide the necessary transmission for Florida Power
15 and Light and its customers to accommodate all of the
16 present unit power sales contracts as they ramp down
17 and the purchase of Scherer Unit 4 as it ramps up. So
18 that we will have the capacity needed to bring that
19 combination of contracts into Florida without any
20 additional transmission interface improvement.

21 However, as of the 1st of November, all of
22 the capacity into the interface is now being scheduled
23 by those firm contracts and/or sales to the benefit of
24 the Florida customers because of the displacement of
25 oil and economy. It leaves no capability for us to

1 assist during times of a unit outage or to make
2 additional economy purchases that provide a reliability
3 benefit and an economic benefit to our customers in the
4 future. We had anticipated that short of a unit power
5 sales agreement, or purchase of Scherer 4 megawatts,
6 that there would have been some capacity owned by
7 Florida Power and Light available to our customers in
8 the time period of 1995 when the UPS ramped down. If
9 we make a decision to buy unit power sales or Scherer
10 capacity, and we fully subscribe that transmission
11 line, there is reason for us to want to add additional
12 transmission to the reliability and economic benefit of
13 our customers. It is that additional capacity that we
14 speak to in this third line referenced in the memo to
15 Mr. Phillips.

16 Q This third line that we've been talking
17 about, if it is to come to fruition, will there be
18 excess capacity on that line over and above the needs
19 of Florida Power and Light?

20 A There will not be excess over and above our
21 needs as you will see from the -- from various
22 documents that have been presented, the Letter of
23 Intent with the Florida Power Corp. We would
24 anticipate achieving 450 megawatts out of that joint
25 set of lines that we would build that would comprise a

1 third circuit from the Southern System down into our
2 Orange River Substation on the west coast of Florida.

3 Q So if I understand your answer correctly,
4 upon completion, that line would be fully utilized
5 also, that third 500 kV line?

6 A In the case of Florida Power and Light, we
7 assess that the 450 megawatts will allow us to provide
8 reliable service to our customers with a capacity plan
9 in the future that takes credit for that emergency
10 assist. And without those 450 megawatts, we would have
11 to build more capacity in the south Florida area.

12 Q More generation capacity?

13 A Yes.

14 CHAIRMAN WILSON: How much more, Mr. Bryant.

15 MR. BRYANT: Sir, I think one more question.

16 Q (By Mr. Bryant) Sir, refer back again, if
17 you would, to the memo from Mr. Dennis to you dated
18 November 30, 1989. The last page, the last paragraph,
19 I'll read you the sentence I'm concerned about:
20 "Barring an agreement with other interface owners,
21 provisions in the current UPS agreement restraining the
22 ability of others to purchase from Southern in the
23 event of adverse effects on FPL, might have to be
24 exercised." What is your understanding of that
25 sentence, sir? What does that mean?

1 MR. CHILDS: I'm going to object. First of
2 all, I think it's clear Mr. Woody is the recipient of
3 the letter. Second, I maintain it's irrelevant.
4 Third, I don't see where it has anything to do with the
5 direct testimony.

6 MR. BRYANT: Might I respond, Commissioner?

7 CHAIRMAN WILSON: Yes.

8 MR. BRYANT: I simply was asking what his
9 understanding of that sentence meant. Number two, I
10 certainly think it's relevant in that we have been
11 discussing the ability to get the Scherer unit power
12 into Florida, and I was curious of what his
13 understanding is about restraining the ability of
14 others to purchase from Southern means?

15 CHAIRMAN WILSON: What is the relevance of
16 that to this?

17 MR. BRYANT: I'm sorry, sir?

18 CHAIRMAN WILSON: What's the relevance of
19 that to Mr. Woody's direct testimony? Or to the issues
20 that are being discussed?

21 MR. BRYANT: Well, the relevancy, sir, is
22 talking -- he has been discussing the desirability of
23 ownership as opposed to UPS purchases from Southern.
24 And I was curious what was meant or what his
25 understanding is in this sentence of restraining others

1 from buying UPS from Southern.

2 MR. CHILDS: This was a letter dated November
3 30, 1989.

4 CHAIRMAN WILSON: I'm having trouble seeing
5 what that has to do with what we're talking about here
6 today.

7 MR. BRYANT: I'll move on. I can ask that of
8 Mr. Denis. I'll withdraw that right now, sir.

9 CHAIRMAN WILSON: All right. Anything
10 further.

11 MR. BRYANT: No, sir.

12 CROSS EXAMINATION

13 BY MR. MURRELL:

14 Q Mr. Woody, my name is Fred Murrell, and I'm
15 here for the Coalition of Local Governments. A couple
16 of housekeeping matters first. Two and a half hours
17 ago when --

18 CHAIRMAN WILSON: Hold on a minute. Do we
19 need to take a little short break? Do you need a
20 break, you okay? Go ahead.

21 MR. MURRELL: Thank you, Mr. Chairman. When
22 you were being examined by Mr. McGlothlin, you said
23 that you were going to defer the cost/benefit analysis
24 of the aspects of Scherer purchase relative to oil
25 backout or reducing oil consumption to another witness,

1 but you did not identify that witness. Can you do
2 that?

3 A Yes, that would be Mr. Waters.

4 Q Mr. Waters. And when you were being examined
5 by Mr. Howe regarding your negotiations with Southern
6 Company Services and Georgia Power, you said, and I
7 made a note something like agreements are being and
8 have been negotiated; some have been agreed to. Can
9 you tell me which of the agreements that you are
10 negotiating with Georgia Power, Southern Company have
11 been agreed to and whether -- let me finish with that.
12 Ask you that one first. Which agreement you're
13 referring to when you made that statement?

14 A During the very detailed and lengthy
15 negotiations that all of the issues have now been
16 resolved and were at the point of putting the contract
17 language to those issues, none of the detailed
18 contracts have been finalized and signed out but we're
19 in the stage of doing that.

20 Q So with the exception of the document that
21 was provided today dated December 10, which was some
22 kind of an addendum to the Letter of Understanding, you
23 haven't provided any other documents to the Commission
24 that we don't already -- have heard from you about in
25 your testimony?

1 A Well, there's been a great deal of documents
2 provided through this proceeding, response to
3 interrogatories; with that clarification, none that I'm
4 aware of.

5 Q I appreciate that. Let me ask my question a
6 little less awkwardly. What I'm specifically referring
7 to are any other addendum or adjustments or amendments
8 to the Letters of Understanding, to the Letter of
9 Understanding, between your company and Southern
10 Company Services, Georgia Power?

11 A Not to my knowledge beyond those that have
12 been spoken to today.

13 Q Mr. Woody, on Page 5 of your prefiled
14 testimony beginning at Line 18 you state that all of
15 the capacity addition decisions result from the
16 comprehensive planning process which Mr. Waters
17 describes in his testimony.

18 Does Mr. Waters report to you?

19 A Indirectly, yes.

20 Q And is this comprehensive planning program
21 sensitive to the cost of fuel used in the analysis of
22 the various options, capacity options?

23 A If by sensitive you mean does it consider the
24 cost of fuel, yes.

25 Q And is it, therefore, important that the fuel

1 cost or fuel price forecasts, is it important that
2 those price forecasts are accurate to the best of your
3 Company's ability to develop such forecasts?

4 A The fuel forecast is, of course, important,
5 but the word "forecast" itself is a dichotomy to the
6 word "accurate."

7 Q It's an oxymoron.

8 At Page 8 beginning at Line 11 of your
9 testimony you state that Mr. Waters' testimony
10 addresses the evaluation of capacity options to
11 determine which of those has the lowest cost, is that
12 correct?

13 A Give me the reference again.

14 Q Page 8, Line 11, beginning at Line 11
15 proceeding through Line 14.

16 A That is correct.

17 Q Now, the various potential options that you
18 refer to here that Mr. Waters is going to also address,
19 would that include the Martin site?

20 A If by the Martin site you mean Martins 5 and
21 6, that is correct.

22 Q Yes, sir that's what I mean. Thank you.

23 And would you agree that the evaluation of
24 the Martin site, as I refer to it, Martins 5 and 6, is
25 also sensitive to the fuel price forecast? Your

1 evaluation is also -- it's also important to get an
2 accurate fuel price forecast, is that correct?

3 A That's correct.

4 Q To the extent that you use an inaccurate or
5 incorrect fuel cost study, this could jeopardize the
6 results of any of your planning programs, is that true?

7 A I have acknowledged that the fuel component
8 is a significant consideration in those evaluations.
9 It's accuracy, of course, then becomes important.

10 Q Do you know approximately what percentage of
11 the total cost of the unit output is related to fuel?
12 That's talk about the Martin 5 and 6 units.

13 MR. CHILDS: Excuse me, I am going to object.
14 I think Mr. Waters has done the evaluation and presents
15 it in his testimony. I don't think it's really fair to
16 start probing as to the analysis that Mr. Waters did
17 solely because Mr. Waters may report to Mr. Woody
18 indirectly. It's certainly, I don't think, in his
19 testimony.

20 CHAIRMAN WILSON: Mr. Waters may be the more
21 appropriate witness.

22 MR. MURRELL: Yes, sir, he may be but he may
23 not. And this witness may know this. I'm going to
24 pass on if he doesn't know it. I just want to know if
25 he has an opinion as to the approximate percentage that

1 the fuel component is relative to a unit output.

2 CHAIRMAN WILSON: You mean does he know or
3 does he have an opinion?

4 MR. MURRELL: Does he know and what is it, is
5 what I'm after. The planning process, according to his
6 testimony, is his responsibility.

7 MR. CHILDS: No, no. Wait a minute. Wait a
8 minute. I don't see whether he knows it or not has
9 anything to do with the testimony.

10 MR. MURRELL: Mr. Chairman, on the first page
11 he says that he's responsible --

12 CHAIRMAN WILSON: First page of his
13 testimony?

14 MR. MURRELL: First page of his testimony.
15 He's responsible for planning, construction and
16 operation of Florida Power and Light's generation and
17 transmission system. This includes all aspects of
18 power generation and transmission. He's the fellow to
19 whom most people report to that we're going to be
20 dealing with.

21 CHAIRMAN WILSON: What's your question?

22 MR. MURRELL: My question, again, is we're
23 talking about the importance of fuel. My question was,
24 does he know approximately how much of the Martin 5 and
25 6 units, of the total cost of the unit output, is

1 attributed to fuel?

2 COMMISSIONER BEARD: That's projected.

3 MR. MURRELL: Yes, sir.

4 COMMISSIONER BEARD: Is that with or without
5 goal gasification?

6 MR. MURRELL: Well, I'd like to have him
7 respond either way. I'm really referring to the IGCC
8 unit.

9 WITNESS WOODY: Mr. Chairman, Commissioner --

10 CHAIRMAN WILSON: If you can answer it, fine.
11 If you can't then you can't.

12 WITNESS WOODY: I can't answer it because the
13 question hasn't been framed. There are many ways to
14 look at cost, with and without IGCC, nominal, present
15 value. Mr. Waters is the more appropriate witness. He
16 sponsors the document and he'll tell you the cost in
17 that document.

18 Q (By Mr. Murrell) In this particular instance,
19 your company has compared the purchase of a 640
20 megawatt portion of Scherer Unit No. 4 or 76.36% of it,
21 against the Martin option at 768 megawatts, is that
22 correct?

23 A What document are you referring to?

24 Q Well, I'm talking now -- it's the document
25 No. 10 to Mr. Waters' testimony.

1 A There, again, you need to probe that detail
2 with him.

3 Q I'm asking you if that is correct. I mean,
4 that's a real simple question. He reports to you or
5 reports at least indirectly to you. It's a 640
6 megawatt purchase of Scherer No. 4 versus a 678
7 megawatt purchase of the Martin IGCC unit.

8 MR. CHILDS: That's what the document says.

9 MR. MURRELL: I just want this witness to
10 focus on that.

11 CHAIRMAN WILSON: Do you want him to tell you
12 whether that's what the document says?

13 MR. MURRELL: Yes, sir. I want him to
14 understand that -- I want to know that he understands
15 that's what his company has done, this planning process
16 which is under his responsibility.

17 WITNESS WOODY: I would only read to you what
18 the note, the footnote, says that the offer in the RFP of
19 the 840 megawatts has been adjusted to reflect 646
20 capacity for comparison of the purchase. So they have
21 been put on an equal footing as I understand this
22 analysis. But again, you need to probe that with Mr.
23 Waters.

24 Q (By Mr. Murrell) But on the IGCC portion of
25 that it says 768 megawatts, does it not, on that same

1 document?

2 A I cannot speak to that number.

3 Q You don't see that on that document?

4 CHAIRMAN WILSON: What document is he using?

5 MR. MURRELL: Document No. 10 to the Waters'
6 testimony.

7 COMMISSIONER BEARD: Are you going to ask
8 these questions of Mr. Waters again? Are we going to
9 hear these questions twice.

10 MR. MURRELL: No, sir. I don't think so.

11 COMMISSIONER BEARD: He's already said, "Ask
12 Mr. Waters, ask Mr. Waters."

13 MR. MURRELL: Well, I'm trying to get
14 somewhere, Mr. Beard.

15 COMMISSIONER BEARD: Well, that's good. Me,
16 too.

17 MR. MURRELL: I'm trying to ask this witness
18 on the base case IGCC on Document 10 if he agrees that
19 that's what his company has done. They're comparing a
20 768 megawatt base case IGCC unit to a 646 megawatt
21 Scherer Unit No. 4 purchase.

22 WITNESS WOODY: I cannot speak to how that
23 has been normalized. You need to speak to Mr. Waters
24 about that.

25 Q (By Mr. Murrell) There is some aspect of your

1 testimony that I think I misunderstood. Let me just
2 direct you to Page 7, Lines 1 through 4 of your
3 testimony, Mr. Woody. And you state there "Should the
4 life of the unit," that is Scherer Unit No. 4, is that
5 correct? "Extend beyond 30 years? As is the case with
6 many fossil-fired units, FPL will not have to build new
7 capacity to replace it as it would have to for a power
8 purchase." (Pause)

9 If Florida Power and Light could initiate a
10 life-extension program as Scherer Unit No. 4, Georgia
11 Power could do the same, could it not?

12 A I would assume that there would be no reason
13 why they could not, if we could.

14 Q You also, on Page 7 starting at Lines 7,
15 refer to the fact that Southern Company Services and,
16 presumably Georgia Power, have agreed to use best
17 efforts to expand the Southern to Florida interface.
18 Do you know whether there is any penalty to Southern
19 Company Services or Georgia Power if that is not
20 accomplished? (Pause)

21 MR. CHILDS: Excuse me, do you mean that they
22 don't exercise best efforts or they are not successful
23 in making the additional capability available?

24 MR. MURRELL: Good point. I mean if they're
25 not successful in making the additional capability

1 available.

2 WITNESS WOODY: I know of no specific
3 penalties if they're not successful in making that
4 capability available. (Pause)

5 MR. MURRELL: You wrote a memo that's one of
6 the exhibits --

7 CHAIRMAN WILSON: Let me ask a question.
8 I'm looking on Page 6 of Mr. Cepero's -- of the Exhibit
9 No. -- Document No. 2, which is the Letter of Intent,
10 and it's Paragraph No. 9, and it says "Provision for
11 expansion of transmission facilities satisfactory to
12 FP&L is a condition to FP&L's purchase of ownership
13 interest in Unit 4 of Plant Scherer."

14 Would that indicate that there is a
15 consequence to not having satisfactory expansion of
16 transmission facilities?

17 WITNESS WOODY: Again, Mr. Chairman, it gives
18 us what we believe to be some rights, some preferential
19 rights that have, in fact, been exercised. We do have
20 the option, of course, that if they refuse to do that,
21 that is exert best effort to provide that additional
22 interface, we could walk away from the contract because
23 of that event.

24 CHAIRMAN WILSON: All right.

25 Q (By Mr. Murrell) Exhibit No. 4 is your

1 memorandum of July 11th, 1990, regarding a plant visit
2 to the Scherer 4 plant site. And you state in that
3 that due to the cost of fuel, and Georgia Power -- and
4 GPC's -- let me see if I can find that -- down in the
5 last paragraph, the ultimate paragraph, starting with
6 the word "performance", "Due to the cost of fuel and
7 their system overcapacity, the units have not run very
8 much 17% capacity factor in 1989."

9 Have you personally examined the cost of the
10 fuel going into these units, going to the Plant Scherer
11 site?

12 A I have not personally examined it.

13 Q Do you know what the current size of the coal
14 pile is at Plant Scherer?

15 A Current, today?

16 Q Yes, sir.

17 A I do not.

18 Q How about at any date in the recent past?

19 Did you make an evaluation of the coal pile?

20 A Yes.

21 Q And what was the size of the coal pile at
22 that time?

23 CHAIRMAN WILSON: Are you talking about a
24 length-of-time burn?

25 MR. MURRELL: Yes, sir. Talking about number

1 -- that's a good point. I'm really getting to the
2 number of days burn at 17% capacity based on the amount
3 of coal on the ground.

4 WITNESS WOODY: At various points in our
5 discussion, for example, as I recall at the time that
6 we signed the Letter of Intent, which was at the last
7 day of July or 30th of July, I believe the coal pile
8 was actually 45 days. Again, there have been reasons
9 for us to discuss the coal pile issue, and we have had
10 various reference points. I do not have that with me
11 but it's generally their operating philosophy to
12 maintain a 45-day fuel supply.

13 Q 45 days assuming fuel operation, is that
14 correct?

15 CHAIRMAN WILSON: At what capacity?

16 A At full nameplate capacity.

17 Q And which is more coal, I mean, it's more
18 days if you assume a 17% capacity factor is that a fair
19 statement? I mean at 17% it takes a lot more days to
20 burn the same amount of coal that you would otherwise
21 burn at full capacity in a 45-day period?

22 A Well, no. If you have an amount of coal
23 that's needed to burn at 100% nameplate for 45 days,
24 and you only run it 17% capacity, you may not have to
25 add very much coal to maintain it at that, but it's the

1 same amount of coal to burn 100% capacity factor for 45
2 days.

3 Q Regarding your negotiations with Southern
4 Company and Georgia Power you said that your lead
5 technical negotiator is Mr. Cepero, and your lead
6 contract negotiator is Mr. Sears. Can you tell me the
7 difference between those two terms?

8 A Mr. Sears is responsible for our Contracting
9 Department in the company and as such, of course, holds
10 skills and terms and conditions of contracts. Mr. Cepero
11 has and is principally in the technical side of our
12 company and holds expertise in areas that -- of planning,
13 fuel management, and so forth. That's a very broad
14 response to that. (Pause)

15 Q Who at your company had the discussions with
16 Jacksonville Electric regarding what they would and
17 would not permit to move through the transmission --
18 through their transmission lines? That is, through
19 their share of the capacity, transmission capacity?

20 A Those detailed discussions were held at the
21 manager level; by name, Mr. Lock.

22 Q Does Mr. Lock report to you?

23 A Indirectly.

24 Q Regarding Exhibit 6, Mr. Woody, which is your
25 Letter of Intent, between Florida Power Corporation and

1 Florida Power and Light Company dated November 15,
2 1990, is it true to state that this Letter of Intent is
3 not contingent upon your purchase of Scherer Unit No. 4?

4 A Is not contingent?

5 Q Correct. Doesn't require the -- this Letter
6 of Intent doesn't require in any of its provisions that
7 you purchase Scherer Unit No. 4. Is that a fair
8 statement? (Pause)

9 A I do not recall a reference in this Letter of
10 Intent that preconditions the purchase of Scherer 4 to
11 our agreeing to participate in this third 500 kV line.

12 Q So your deal you have working with Florida
13 Power Corporation for this other transmission line is
14 independent of Scherer Unit No. 4?

15 A As testified earlier, it is connected with
16 our capacity plan to provide transmission interface for
17 reliability and economy purchases, assuming that we
18 will consummate the purchase of Scherer 4, and also
19 implements the conditions in our Letter of Intent with
20 Southern Company for them to exercise best effort to
21 provide additional transmission interface. But it is
22 not conditioned in our agreement with Florida Power
23 Corp that we finalize the Scherer arrangement in order
24 to go forward with the Florida Power Corp line.

25 Q Mr. Woody, do you know what year Plant

1 Scherer Unit No. 4 was designed?

2 A Again, I can't -- that question is not
3 specific enough to answer. The design of a plant under
4 construction is an ongoing process, and that was the
5 fourth of a series of four units, standardized design
6 but with some lessons learned in modifications, I
7 assume, up to the time that the unit construction was
8 complete so the design was tied to the completion date,
9 which was in the latter part of the '80s.

10 MR. MURRELL: Mr. Chairman, I don't have any
11 more questions of this witness at this time. But I
12 just received the December 11, 1990, cover letter from
13 Mr. Butler attaching the December 10, 1990, amendment
14 to the Letter of Intent, if you will, whatever it's
15 called. Let me see what they refer to it as, which is
16 Exhibit No. 2, and I have not had an opportunity to go
17 through it in its entirety at this point in time since
18 the hearing has been ongoing since we received this
19 document. So I would like for this witness to remain
20 subject to recall just on this limited issue of Exhibit
21 No. 2.

22 MR. MCGLOTHLIN: Mr. Chairman, this document
23 was distributed after my turn at cross examination. I
24 also have a few questions now and I would like a chance
25 to --

1 CHAIRMAN WILSON: Well, you're going to ask
2 all your questions one time. You can either ask them
3 now or you can ask them later.

4 MR. MCGLOTHLIN: Whatever your pleasure is,
5 Mr. Chairman, as long as I get a chance --

6 CHAIRMAN WILSON: I'm not going to bring him
7 back -- I mean, I'm not going to inquire now and then
8 bring him back later so either everybody waits or
9 everybody goes ahead.

10 MR. TELLECHEA: I just have a few questions,
11 Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. TELLECHEA:

14 Q The opportunity to purchase Scherer Unit 4 is
15 available only for a limited time, is that correct,
16 Mr. Woody?

17 A Yes.

18 Q Okay. Are you aware of any other sales
19 options that Georgia Power Corporation has at this time
20 that may limit your time frame for purchasing Unit 4?

21 A I'm not aware of any options they have, no.

22 Q Do you know what is forcing this limited time
23 frame?

24 A I know that the time frame was particularly
25 sensitive to Georgia Power and Southern Company,

1 because, of course, if we're not going to purchase it,
2 then they are going to try to do something else with
3 it, and I would assume that in its broadest sense
4 that's the motivation for that.

5 Q So they would like to shop it around as soon
6 as possible if you were not given your approval here at
7 the Commission?

8 A I would assume so.

9 Q Do you know whether any other parties have
10 expressed an interest in purchasing Scherer Unit 4?

11 A I would say a street interest. I'm generally
12 aware of some other interests.

13 Q Will Georgia Power sell the Unit 4 capacity
14 in other UPS contracts if FP&L is unable to purchase?

15 A Please repeat that.

16 Q Will Georgia Power sell the Unit 4 capacity
17 in other UPS contracts if Florida Power and Light is
18 unable to purchase Scherer Unit 4?

19 A It's my understanding that they would sell
20 the capacity in any form that was economically
21 attractive to them.

22 Q What is preventing Florida Power and Light
23 from purchasing this unit without regulatory approval
24 from this Commission?

25 A I think there are a number of issues, but at

1 our needs hearing in March we generally provided
2 factual testimony for the 1996 need but explained that
3 we were in the RFP process and that we would come back
4 to you when we determined what the best alternative
5 from that process yielded. So this hearing provides
6 that opportunity. It also, as we have stated other --
7 previously today, because of the uniqueness of this
8 situation, we feel it is proper and right for the
9 Commission to approve the total price prior to our
10 finalizing the deal.

11 Q So the uniqueness of the situation?

12 A Yes, sir.

13 Q Why hasn't FP&L entered into a contract
14 that's subject to Commission approval, as opposed to
15 just a Letter of Intent?

16 A In response to Commissioner Gunter, I must
17 tell you that this is an extremely complex set of
18 issues and the people have been working literally seven
19 days a week toward getting those contracts, and we have
20 not been hesitant waiting on this hearing.

21 We've been going forward as fast as the
22 resources on both sides, or all three sides of the
23 table, would allow, and find ourself in an accelerated
24 process because of the window of opportunity available
25 to us, and are asking, of course, the Commission's

1 indulgence in the rapid way in which this case has been
2 brought to hearing.

3 Q So time has prevented you from entering into
4 a contract that's contingent on Commission approval?

5 A Well, it just takes a lot of time to get
6 through that, and our target to have all of that done
7 is the end of December if we still expect to meet that
8 target.

9 Q Do you not agree that the decision whether to
10 purchase generating capacity is first and foremost a
11 decision that should be made by the utilities' managers?

12 A Would you state the question again?

13 Q Do you not agree that the decision whether to
14 purchase generating capacity is first and foremost a
15 utility managerial decision?

16 A Yes, it is a utility managerial decision.

17 Q Do you think that advanced prudence
18 determinations may pose the risk that the Commission
19 may become overly involved in the day-to-day utility
20 management decisions?

21 A Well, this project is distinct in that it is
22 not a planning function. It is a reality. It's an
23 operating plant that is now a commercial operation and
24 available to be reviewed in terms of its value and our
25 use. So it is not -- it is not that we're asking for

1 prior approval of a cost of a planning asset or a
2 future construction, but at the completion it is unique
3 in that regard.

4 MR. TELLECHEA: Mr. Chairman, at this time
5 I'd like to ask the Commission to take official notice
6 of a FERC decision that I will hand out here.

7 CHAIRMAN WILSON: All right.

8 MR. TELLECHEA: It is found in Volume 43,
9 Page 61,340 of the FERC Reporter, and it is Order No.
10 61,104, Docket Nos. EL87-65-000 and ER87-653-000.

11 Briefly, in this case, Northern States Power
12 Company of Minnesota petitioned FERC prior to the
13 actual purchase of a generating unit from Minnesota
14 Power and Light to determine whether the purchase was
15 prudent and whether they would be allowed to include
16 the full purchase price, including acquisition
17 adjustment, in the wholesale rate base. FERC rejected
18 Northern States petition stating that a prudence
19 determination in advance of a transaction completion
20 would run the risk of having the Commission overly
21 involved in the day-to-day decision making of the
22 Utility.

23 We are just having this in just as a
24 persuasive document. Of course, it is not precedent
25 for this Commission.

1 CHAIRMAN WILSON: We've always found FERC's
2 reasoning to be --

3 COMMISSIONER EASLEY: Enlightening?

4 CHAIRMAN WILSON: -- persuasive is not the
5 word I would use.

6 COMMISSIONER BEARD: Certainly not precedent
7 setting.

8 MR. TELLECHEA: We understand that.

9 COMMISSIONER MESSERSMITH: Would you like to
10 take it back?

11 Q (By Mr. Tellechea) Mr. Woody, if the
12 Commission grants your petition, when will FP&L request
13 an adjustment to its rates that reflects the effect of
14 the purchase of Scherer Unit No. 4?

15 A We have not determined a future date in which
16 that action would be forthcoming.

17 Q Do you have a best estimate of when that
18 future date would be?

19 A No, I do not.

20 Q Okay. FP&L's purchase of the 646 megawatts
21 are to be phased in in a time span of five years, and
22 from Page 4 of your petition I've been able to
23 determine that it's in units of 150 megawatts on
24 January 1st, 1990 -- 1991, excuse me, 266 megawatts on
25 June 1st, 1993, 140 megawatts on June 1st, 1994, and 90

1 megawatts on June 1st, 1995. It took a little bit of
2 math on the part of Staff to figure that out, because,
3 of course, I wouldn't be able to myself.

4 How did FP&L and Georgia Power Company
5 determine these amounts of megawatts to be phased in at
6 these particular time frames?

7 A I would like to defer that question also to
8 Mr. Cepero. He can give you the basis for those
9 specific amounts. They do appear to be a bit unusual
10 when you get down to 266 versus some other rounded
11 number, but there's a reason for that, and he can best
12 explain that.

13 MR. TELLECHEA: Can we have a minute, Mr.
14 Chairman?

15 CHAIRMAN WILSON: Yes.

16 MR. TELLECHEA: Okay, that's all the
17 questions I have at this time. Thank you.

18 CHAIRMAN WILSON: Redirect?

19 MR. CHILDS: Do you want to go first? Does
20 the Commission want to ask any questions?

21 CHAIRMAN WILSON: Probably right. I want to
22 ask one question, and I want to get -- it's been asked
23 several times, and I'm going to ask it again.

24 Is the principal reason why you're asking for
25 this preapproval of the purchase is that there's some

1 doubt in your mind as to how the acquisition adjustment
2 could be -- the acquisition adjustment would be treated
3 by the Commission?

4 WITNESS WOODY: Yes, I think that's one of
5 the principal reasons, Mr. Chairman. In addition, of
6 course, this is different than anything we've had
7 experience with in that it is a completed plant and
8 that we have arrived at a price through the process
9 we've talked about today and present it as the best
10 option to meet that need, and as we would present to
11 the Commission the best option of any other way where
12 we're asking for your approval of that best option
13 based on a price that's now known, that it has as one
14 of its components this unique acquisition adjustment.

15 CHAIRMAN WILSON: Were you to go forward
16 without Commission approval of this project on the
17 acquisition part, you would face the prospect of either
18 that being allowed by the Commission or the Company
19 eating all or part of that, is that correct?

20 WITNESS WOODY: Those alternatives certainly
21 appear to be present.

22 CHAIRMAN WILSON: There really aren't any
23 other alternatives, are there, you either get it, you
24 get it all, you don't get any of it, or you get some
25 part of it?

1 WITNESS WOODY: Or hold the decision to some
2 -- in abeyance to some date for some cause. And I
3 would only submit that we believe this is an
4 opportunity that we have vigorously pursued, and we do
5 not believe that there should be disincentives for
6 utility management to pursue these sort of
7 opportunities and hope that we're making the case that
8 the customers would be best served by meeting our
9 capacity needs in this manner, and we would certainly
10 like to minimize the risk of some future action
11 associated with that.

12 CHAIRMAN WILSON: I certainly don't blame you
13 for that. That would be just good management to try to
14 minimize those kinds of risks.

15 Has Georgia Power indicated whether they
16 would be willing to enter into a purchase contract with
17 you or sales contract with you for this unit if there
18 were conditional -- if part of it were conditioned on
19 this Commission accepting or approving an acquisition
20 adjustment? Have they indicated to you that that would
21 either be unacceptable or acceptable or they would be
22 unwilling to proceed, or it doesn't make any difference
23 to them?

24 WITNESS WOODY: It is my understanding that
25 the rights that we have are stated to give us the

1 option to not go forward if we do not receive this
2 Commission's approval, but it's my further
3 understanding that Georgia Power would have no interest
4 in assuming part of those risks.

5 CHAIRMAN WILSON: You don't understand my
6 question. You don't understand my question? (Pause)

7 If such a clause were in the contract,
8 Georgia Power might be put at risk if they proceeded to
9 sign this contract and no resolution of the acquisition
10 adjustment were made within a reasonable amount of
11 time. If you had the option of canceling the contract
12 or annulling the contract at some point when a
13 determination was made on that, would that not increase
14 the risk that Georgia Power would have to assume in
15 selling this unit to you?

16 MR. WOODY: Yes, as I see that, the contract
17 particularly gives them some options to start shopping
18 the unit after the first of the year. And if they felt
19 that they could bring a buyer to market better than the
20 one they have in the time frame provided, they would be
21 free to do that, short of our having approval and
22 proceeding to purchase. If we do not achieve the
23 Commission's approval and we elect to hold our rights
24 until we resolve that issue, whatever it might be, I
25 think that we will lose -- we will suffer some risk of

1 them shopping the unit. They have that contractual
2 right. Whether or not they would be successful, I
3 don't know.

4 CHAIRMAN WILSON: Any questions,
5 Commissioners? Any other questions?

6 MR. BUTLER: We have no redirect of this
7 witness, and at this time would move Exhibit 1 into
8 evidence.

9 CHAIRMAN WILSON: Is this witness coming back
10 on rebuttal?

11 MR. BUTLER: He's not scheduled as a rebuttal
12 witness, no.

13 COMMISSIONER BEARD: You moved Exhibit 1?

14 MR. BUTLER: Exhibit 1, that's correct.

15 COMMISSIONER BEARD: Who belongs to Exhibit
16 2?

17 MR. BUTLER: We're not moving Exhibit 2 at
18 this time.

19 CHAIRMAN WILSON: I don't know that anyone is
20 offering Exhibit No. 2. Well, that puts in a -- all
21 right, Exhibit 1, without objection, is admitted into
22 evidence.

23 (Exhibit No. 1 received into evidence.)

24 MR. HOWE: Mr. Chairman, I would move the
25 admission of Exhibits No. 3, 4, 5, 6 and 7.

1 CHAIRMAN WILSON: 3, 4, 5, 6 and 7, without
2 objection, those documents are admitted into evidence.

3 (Exhibit Nos. 3 through 7 received into
4 evidence.)

5 CHAIRMAN WILSON: Mr. McGlothlin, as I
6 understand, the two of you want an opportunity to
7 question the witness on an exhibit that's not even
8 being offered into evidence.

9 MR. MCGLOTHLIN: It's a supplement to the
10 Letter of Intent that's not being offered into
11 evidence?

12 CHAIRMAN WILSON: It is not.

13 MR. BUTLER: At this time.

14 CHAIRMAN WILSON: At this time.

15 MR. MCGLOTHLIN: Yeah, I do --

16 CHAIRMAN WILSON: Whatever that means.

17 MR. MCGLOTHLIN: Yes, sir, I think we're
18 basically going to hearing over a Letter of Intent,
19 which I suppose would include whatever they believe are
20 supplements to that. So I do want to ask questions on
21 it.

22 MR. BUTLER: We do intend at some point to
23 offer it.

24 MR. CHILDS: The reason -- excuse me, I was
25 going to say, the reason it wasn't offered at this time

1 is I understood he wanted to reserve some right to look
2 at it, and we would -- to the extent we don't have to
3 have the witness stay here forever, we would like to do
4 that.

5 CHAIRMAN WILSON: Cross Examination exhibit
6 can be -- all right, well, tonight will be sufficient.
7 You'll have an opportunity to look at it overnight.
8 And this witness can come back on the stand in the
9 morning at 9:30, a short amount of time, for some
10 additional examination, only on this exhibit.

11 All right, we'll adjourn then until tomorrow
12 morning at 9:30.

13 (Thereupon, hearing adjourned at 6:00 p.m.,
14 to reconvene at 9:30 a.m., Wednesday, December 12,
15 1990, at the same location.)

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