

I N D E XWITNESSES

	<u>Name:</u>	<u>Page No.</u>
1		
2		
3		
4	G. R. CEPERO	
5	Cross Examination by Mr. Howe	322
	Cross Examination by Mr. Murrell	362
6	Cross Examination by Mr. Christ	389
	Redirect Examination by Mr. Anderson	393
7		
	DENNIS L. THOMAS	
8	Direct Examination by Mr. McGlothlin	395
	Prefiled Direct Testimony Inserted	397
9	Cross Examination by Mr. Childs	409
	Cross Examination by Mr. Murrell	434
10	Redirect Examination by Mr. McGlothlin	442
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 Index Continued:

2 EXHIBITS

3	<u>Number:</u>		<u>Identified</u>	<u>Admitted</u>
4	15	(OPC) 6-15-90 Documents from G.R. Cepero to Distribution	329	
5	13	(Cepero)		394
6	14	(Cepero)		394
7	15	(Cepero)		394
8	16	(Thomas) Standard Offer Contract for the Purchase of Firm Capacity and Energy from a Qualifying Facility	419	443
9				
10				
11	17	(Thomas) Interconnection Agreement for Qualifying Facilities	419	443
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

MID-AFTERNOON SESSION

(Transcript follows in sequence from Volume II.)

CHAIRMAN WILSON: Mr. Howe.

CROSS EXAMINATION

BY MR. HOWE:

Q Mr. Cepero, are you in charge of the negotiation of the definitive agreements from a technical perspective?

A For the purchase of Scherer 4, yes, I am.

Q Do you consider the Letter of Intent attached as a document to your prefiled direct testimony to be supplemented by two letters; one dated September 13th, 1990, the other by a letter dated December 10th, 1990?

A Yes. And I will simply say that the letter dated December 10th certainly is an official supplement, which is executed by all three parties. The letters that you refer to on September the 13th, we did not consider a formal supplement because they were unilaterally executed by Southern, but, you know, I won't argue with you over that if you want to call them supplement, that's okay.

Q Just a housekeeping matter, Mr. Cepero. On that letter dated September 14th, to Mr. -- which has been identified as Exhibit 3 in this proceeding, did you sign that letter from Mr. Woody, is that your signature, sir?

1 A Yes, it is.

2 Q Mr. Cepero, in your prefiled direct testimony,
3 at Page 14, you refer to the definitive agreement, and
4 you state that, "In addition to these agreements being
5 finalized, regulatory approvals must be obtained from
6 this Commission, from the Securities and Exchange
7 Commission, and the Federal Energy Regulatory
8 Commission." That statement begins on Line 4, Page 14.
9 Mr. Cepero, why do you believe it is necessary -- why
10 must approval be obtained from this Commission?

11 A In its simplest form --

12 MR. ANDERSON: Excuse me. Mr. Howe, are you
13 asking whether or not it's a legal requirement or a
14 contractual requirement?

15 MR. HOWE: I'm just asking in the sense of
16 the way he's expressed it here in his prefiled direct
17 testimony.

18 MR. ANDERSON: Okay.

19 WITNESS CEPERO: In its simplest form, there
20 is an acquisition adjustment to this transaction.
21 According to the accounting rules, that acquisition
22 adjustment goes below the line unless and until the PSC
23 approves it, affirmatively approves it and includes it
24 in our rate base. So we're seeking such an approval so
25 that we can move the acquisition adjustment above the

1 line. And Mr. Gower can give you more details on the
2 calculation of the acquisition adjustment and the
3 accounting policies related to it.

4 Q (By Mr. Howe) If the parties to this
5 proceeding could reach an agreement that, to the extent
6 Florida Power and Light establishes its purchase price
7 to be prudent, as it takes ownership interest, to be
8 prudent and in the best interest of its customers,
9 consistent with the acceptance of ownership, could we
10 address these factual matters, such as the actual
11 purchase and price at a later date when we have the
12 definitive agreements?

13 A You're asking me a hypothetical question, and
14 yes, we can address it at any point, I suppose, in the
15 future. We believe it's very important for Florida
16 Power and Light, and really for our customers, so that
17 we can move forward with certainty, that we address it
18 now, and we think the issue is ripe to be addressed
19 now.

20 Q The real point of risk, though, is that the
21 acquisition adjustment, you want assurance as to how
22 the Commission will handle that?

23 A Well, I guess as I explained earlier, there
24 is an automatic that result under the accounting rules.
25 And the automatic result short of an affirmative

1 decision by the Commission, is it goes below the line,
2 which means we don't earn on it. It requires an
3 affirmative decision, approval by the Commission to
4 move it above the line, so yes, we can come back five
5 years from now not earn \$111 million and five years
6 down the road get an approval but why should we do
7 that?

8 Q No, sir. Expressed in terms of -- would
9 Florida Power and Light be willing to address the
10 numbers, the dollars and everything pursuant to the
11 definitive agreements at the time those are finally
12 signed, if at this time it can receive a Commission
13 approval for how the acquisition adjustment will be
14 treated?

15 A I think I better defer that to Mr. Gower and
16 I think it involves legal argument, also.

17 COMMISSIONER GUNTER: One question, Mr. Howe.

18 MR. HOWE: Yes, sir.

19 COMMISSIONER GUNTER: Between rate cases,
20 could you explain to me what difference it makes as to
21 how much you have in the rate base, how much you're
22 earning on except for surveillance purposes?

23 WITNESS CEPERO: To the best of my knowledge,
24 sir, between rate -- well, I say that because, you
25 know, Mr. Gower can give you a definitive answer, but

1 between rate cases, we make an investment, we can move
2 it into rate base, and report it in the surveillance
3 reports and include it in the calculation of rate of
4 return.

5 COMMISSIONER GUNTER: That's the only thing.
6 It's really a paper transaction. It has nothing to do
7 with your earnings except for surveillance report on
8 the level of your earnings.

9 WITNESS CEPERO: The difference here,
10 Commissioner --

11 COMMISSIONER GUNTER: The ratepayers would
12 not see any difference.

13 WITNESS CEPERO: That's correct.

14 COMMISSIONER GUNTER: Okay. I understand. I
15 wanted to make sure you did.

16 Q (By Mr. Howe) Mr. Cepero, just going through
17 your prefiled direct testimony, first, refer, if you
18 would please, to Page 4. And this is just a small
19 thing. In your introductory statement also you stated
20 that the Unit 4 has demonstrated net dependable
21 capacity of 846 megawatts, that correct?

22 A Yes.

23 Q The figure in the UPS response to the RFP was
24 848 megawatts. Is one right, one wrong, or is it just
25 a matter of how you figure it out?

1 A I can't answer why it's different.

2 Q With reference to Page 5, where you refer to
3 the Letter of Intent contemplating agreements. I
4 believe there you're referring there to the definitive
5 agreements, are you not? I'm looking on Line 16.

6 A Yes.

7 Q Did you hear Mr. Woody's testimony this
8 morning? Do we understand correctly that there will
9 not be a separate definitive agreement on the fuel
10 supply but instead it will incorporated in other
11 definitive agreements?

12 A That's correct.

13 Q With reference to Page 6, emission and other
14 environmental allowances, and I'm looking at the
15 paragraph beginning on Line 6, Mr. Denis addressed the
16 allowances themselves and the quantification of them.
17 I believe you sponsored certain answers to
18 interrogatories, and in particular, would you agree
19 that the emission allowances calculated for Scherer
20 Unit No. 4 will allow the unit to operate at a 72%
21 capacity factor?

22 A I will agree that the allowances are
23 whatever we calculated the allowances to be in terms of
24 tons.

25 Q We had asked the question on discovery

1 whether the allowances -- whether the emission credits
2 have already been assigned to Scherer No. 4 or if it is
3 an expected assignment, and in response to our
4 Interrogatory No. 19-C, which I believe you have been
5 designated as sponsoring, the statement is made, and I
6 quote, "The estimated emission credits for Scherer No.
7 4 are an expected assignment." Is that still the case?

8 A No. Let me clarify that. We will receive
9 the assignments. The only thing which is doubt is
10 exactly how the transfer will take place. It may be
11 automatically by operation or law, or it may require
12 explicit conveyance by Georgia Power itself.

13 Q Is it correct to state that you don't know
14 exactly how many allowances you're going to get; that
15 it's up to an administrator with the EPA or some other
16 agency to figure out pursuant to rules that they will
17 promulgating?

18 A The Act itself has specified a calculation
19 methodology which applies to units such as Scherer 4.
20 It also does give the administrator some latitude in
21 modifying some of those allowances, so yes, we are at
22 risk, as everybody else is.

23 Q Do you know, sir, how the allowances would be
24 -- would affect Florida Power and Light under the UPS
25 response to the RFP?

1 A My understanding is that the UPS offer did
2 not address allowances, did not include them and did
3 not exclude them. It just did not address allowances.

4 Q Under the UPS response to the RFP, would
5 Florida Power and Light be at risk as to those
6 allowances, in the sense that you used the term "at
7 risk" earlier?

8 A Well, the UPS response did not address the
9 issue of allowances, so, you know, we can sit here and
10 speculate whether we would be at risk. So I don't know
11 the answer to that.

12 MR. HOWE: Commissioners, we are distributing
13 a document at this time, interoffice correspondence
14 dated June 15, 1990, from G. R. Cepero to Distribution,
15 subject: Scherer No. 4. Could we have an exhibit
16 number for identification purposes?

17 CHAIRMAN WILSON: That would be Exhibit 15.
18 (Exhibit No. 15 marked for identification.)

19 Q (By Mr. Howe) Mr. Cepero, we had asked Mr.
20 Denis on deposition to produce an exhibit comparing the
21 purchase of Scherer Unit No. 4 versus the UPS response
22 to the RFP, and when I say "produce an exhibit," I
23 meant produce documents pertaining to it. What we have
24 received is what we've identified as Exhibit No. 15,
25 and, Mr. Cepero, everything had your name on it. So I

1 must ask then, are you appropriate witness to ask about
2 the actual comparison that was done evaluating the
3 purchase versus the UPS?

4 A Yes, I can answer questions regarding the
5 evaluation and interpretation of the data. Mr. Waters
6 can answer questions related to the -- how the numbers
7 were put together and what specific assumptions were
8 made.

9 Q The documents comprising Exhibit No. 15 are
10 of a fairly summary nature and it appears that they may
11 have been used to make a presentation. Were they
12 generated for that purpose?

13 A I cannot recall whether we made a formal
14 presentation or not.

15 Q Mr. Cepero, if we could, I would like to
16 address some questions to you based on Exhibit No. 15
17 and just work our way through it since it seems to be a
18 summary of the actual comparison.

19 A Okay.

20 Q If you would refer, please, to the second
21 page, the graph entitled "1989 Load Forecast, Scherer
22 4, Purchase Analysis."

23 A All right.

24 Q Are you familiar with this graph, sir?

25 A I have seen it before, yes.

1 Q On the left-hand side in handwriting, there
2 are assumptions listed. Do you know who made those
3 entries, sir?

4 A The ones that say "availability," et cetera?

5 Q Yes, sir.

6 A I believe that's my handwriting, but I can't
7 -- you know, I can't confirm that.

8 Q If we might start first with the term
9 "availability," it uses a figure of 80%, is that
10 correct?

11 A That's correct.

12 Q Was an 80% availability factor assumed in
13 this graph?

14 A You know, I cannot answer that conclusively,
15 We assumed different levels of availability during the
16 course of this analysis. And it may very well have
17 been that we used an 80% availability for the -- for
18 the purchase.

19 Q Mr. Cepero, if we just look at the graph
20 itself, it appears that we have four plots. We have
21 640 megawatts at \$810 a kilowatt. Then we have 840
22 megawatts at \$810 a kilowatt; 640 megawatts at \$986 a
23 kilowatt, and 840 megawatts at \$986 a kilowatt.

24 Is this graph meant to represent part of the
25 evaluation process that was used by Florida Power and

1 Light in deciding whether the purchase option was
2 preferable to the UPS?

3 A Yes, it was part of our evaluation of the
4 purchase option and that was compared to several other
5 alternatives.

6 Q In each pairing -- by that I mean the 640
7 megawatts and the 840 megawatts at \$810 per kilowatt,
8 and the pairing at \$986 a kilowatt, it shows that there
9 are additional savings at the 640 megawatts over the
10 840 megawatt level, does it not?

11 A Yes, I think that's true.

12 Q Is --

13 A Even though I guess -- yeah, I guess that's
14 true, right.

15 Q Why would a purchase of a coal-fired unit on
16 Florida Power and Light's system be more beneficial at
17 640 megawatts to Florida Power and Light than it would
18 be at 840 megawatts?

19 A You really ought to ask Mr. Waters. It gets
20 to how well it fits with our capacity expansion plan.
21 He can answer that.

22 Q Can he answer whether if 640 megawatts
23 generates more savings than 840 megawatts?

24 A Sure.

25 Q Whether there is some limit below 640 at

1 which the savings are maximized?

2 A He could address that question, yes.

3 Q Would you continue on in this document to --
4 it's Page 4 of 5. It's marked in the lower right-hand
5 corner and it has the large number "3" in a circle.

6 A Okay.

7 Q This is entitled "Summary of FPL/Southern
8 Positions." First, I might ask you, Mr. Cepero, are
9 there detailed schedules and supporting documents that
10 backed up these summaries?

11 A I'm not sure what you mean. I mean, I think
12 we've shared with you everything that you've asked for
13 in the discovery.

14 Q Well, I guess, Mr. Cepero, I'm asking what
15 supporting documents did you have available at the time
16 you initiated this interoffice correspondence on the
17 first page of Exhibit 15 that is then reflected in the
18 succeeding pages?

19 A Well, we have, over the course of this
20 analysis, put together summaries of the assumptions,
21 and I think this is -- this is yet another summary of
22 the assumption. The supporting documents, I suppose,
23 should go back to the capacity RFP, in the case of the
24 UPS, and to the various discussions, negotiations that
25 we had with Southern in the case of the purchase. Some

1 of that may simply be assumptions that we made
2 unilaterally. They don't necessarily have to relate to
3 any documents which may exist.

4 Q All right, sir, still referring to Page 4 of
5 5, the document entitled "Summary of FPL/Southern
6 Positions," just starting there at the top with Issue
7 1, pricing, it appears that FPL's position as of June
8 15th, 1990, was for an average of \$854 per kilowatt, is
9 that a correct representation or interpretation of this
10 document?

11 A That's what it says.

12 Q And Southern's position was at an average of
13 \$950 per kilowatt on that date, is that correct?

14 A I can't remember exactly whether that was
15 their position, what else is included in the 950. I'm
16 not sure they ever came down to 950 per kW, candidly.

17 Q But does the figure represented in your
18 prefiled direct testimony based on the Letter of Intent
19 is that the Scherer 4 purchase will be at \$953 per
20 kilowatt, is that correct?

21 A That's correct, yes.

22 Q Mr. Cepero, are you familiar with the -- I
23 will call it "location penalty," capacity adjustment --
24 I've heard various terms -- that Florida Power and
25 Light applies in its evaluation of QF facilities based

1 on their distance from the Utility's load centers?

2 A Yes, I'm familiar there is such a factor and
3 that we do apply it to the --

4 Q In the RFP evaluation, are you aware whether
5 a capacity adjustment factor was applied to the Scherer
6 Unit No. 4 response for a UPS configuration because of
7 its location?

8 A Mr. Waters can answer that question.

9 Q Do you have a general understanding of how --

10 A I believe it was, but it's really his
11 question.

12 Q Do you have a general knowledge of what the
13 magnitude of the adjustment factor that Florida Power
14 and Light applies to QFs or purchases in the
15 northernmost part of Florida or into Georgia?

16 A It's approximately 25%. Again, Mr. Waters
17 can give you more details on it.

18 Q The \$953 per kilowatt referenced in your
19 prefiled direct testimony, is that adjusted based on a
20 25% or any other location penalty?

21 A That's based on 646 megawatts.

22 Q Does that mean that the \$953 per kilowatt has
23 not been adjusted for location?

24 A It means it's based on 646. Whether it's
25 been adjusted and the extent of the adjustment, you

1 really must ask Mr. Waters. When you add transmission
2 it may be a different number, so I can't give you an
3 answer there.

4 COMMISSIONER GUNTER: Let me see if we can
5 cut through this. You're paying \$615 million plus.
6 Divide that by the 953, you come up with 646. If
7 you're paying the money, and that's how many megawatts
8 you get, there hasn't been any adjustment, would you
9 accept that subject to check?

10 WITNESS CEPERO: Yes.

11 COMMISSIONER GUNTER: All right, fine, go
12 ahead.

13 Q (By Mr. Howe) Mr. Cepero, still looking
14 there under the issue of pricing, after you get the
15 average of \$850 per kilowatt, the next little bullet
16 refers to "Satisfies All Key Criteria - (1) Southern
17 Remains Whole Prospectively;" what does that mean?

18 A I cannot remember what that means. I can't
19 remember -- I just -- I'll just say I don't remember
20 what it means.

21 Q With reference to No. 2, it states,
22 "Competitive With B/M Options Available to FPL."

23 Am I correct that B/M refers to brick and
24 mortar, which in turn refers to purchase?

25 A Yes.

1 Q Are there -- have there been other brick and
2 mortar options available to FPL in this time period
3 other than the Scherer 4 purchase?

4 A Well, we can build our own unit, and
5 certainly that was an option that was considered.

6 Q All right, is that what you mean by B/M
7 options in this --

8 A I think I said that B/M here does refer to
9 the purchase of Scherer 4.

10 Q All right, the next one, No. 3, says,
11 "Competitive with Capacity RFP Offer-i.e. Defensible
12 Before PSC."

13 It uses the term "competitive." It doesn't
14 say, "lower cost." What do you mean by the use of the
15 term "competitive"?

16 A I would say "competitive" there is synonymous
17 with a better -- overall better deal than the capacity
18 RFP.

19 Q With reference to the second issue, fuel, and
20 the entry under Southern, the bullet there says,
21 "'Pro-Rata' share (25%-840 MW) of existing agreements;
22 effectively a subsidiary to Southern retail customers."

23 In the Letter of Intent, Florida Power and
24 Light is, in fact, going to assume 25% of the existing
25 long-term coal supply agreements for the Scherer plant,

1 is it not?

2 A Yes.

3 Q Is that 25% allocated to Florida Power and
4 Light irrespective of the availability or capacity
5 factor out of Scherer Unit No. 4?

6 A Yes.

7 Q Can you explain what is meant by the term
8 "effectively a subsidy to Southern retail customers"?

9 A This goes to the issue of if you single out a
10 particular part of the transaction and you look at it
11 by itself, that's what it was referring to, and a
12 subsidy to Southern retail customers is relative to not
13 accepting 25% of the existing agreements, which means
14 that, therefore, Southern would have to find some other
15 arrangements for that coal.

16 Q Would you refer, please, to Page 5 of 5,
17 Exhibit 15, which is referring to Late-Filed Exhibit
18 No. 2 to Mr. Denis' deposition? It's entitled
19 "Equivalency between Capacity RFP and B/M." Is this
20 intended to express an equivalency between the UPS
21 response to the RFP and the purchase of Scherer Unit
22 No. 4?

23 A Yes.

24 Q Under the capacity RFP offer, it refers to a
25 price of \$800 per kilowatt. Is that the approximate

1 per kilowatt charge under the UPS proposal?

2 A That's what it says. I can't recall whether
3 that includes production capacity charge only or
4 whether it includes production and transmission.

5 Q How about the next bullet, availability, 92%?
6 Did Florida Power and Light assume that under the UPS
7 response to the RFP solicitation that Scherer Unit No.
8 4 would be available, would have an availability of
9 92%?

10 A Mr. Waters can answer that. I thought it was
11 90%.

12 Q The next refers to fuel out of Scherer. Did
13 you consider the availability or the fact that your
14 actual energy pursuant to the UPS might be provided by
15 other units on the Southern System under their
16 alternate energy provisions of their UPS contract?

17 A Mr. Waters can answer the specific
18 assumptions that were made on energy. I will remark
19 that the issue of alternate energy that you discussed
20 with Mr. Denis earlier, I think that you got to the
21 point where alternate energy was available under the
22 UPS and was not available under purchase, and I'd like
23 to clarify that under the purchase option we have the
24 opportunity under a separate set of agreements, the
25 interchange agreements, for example, to purchase

1 economy energy from Southern at any time. So even
2 though that's not exactly the same thing as purchasing
3 alternates, part of our analysis or overall evaluation
4 is that -- I think Commissioner Easley was trying to
5 make this point -- we can purchase economy energy and
6 split the savings under the interchange agreements.

7 Q We also discussed with Mr. Denis the assigned
8 import capacity under the allocation of the
9 Southern-Florida interface to Florida Power and Light,
10 and I believe he gave a figure of 1492. Does that
11 sound right?

12 A Yes.

13 Q Would the purchase of Scherer Unit No. 4 by
14 Florida Power and Light effectively fill up its
15 capacity under that interface allocation?

16 A To the extent that it's limited to 1492, yes.

17 Q Would the purchase of Scherer Unit No. 4 then
18 reduce Florida Power and Light's ability to make
19 economy purchases on the Southern System until that
20 third 500 kV transmission line is constructed?

21 A No. One possible interpretation of economy
22 purchases is if there is cheaper coal energy, cheaper
23 -- if Southern has coal energy which is lower cost than
24 the Scherer 4 energy, I could then replace Scherer 4
25 energy with lower cost energy and maximize the value of

1 my deliveries on that interface.

2 Q During what time period could you do that
3 pursuant to your Letter of Intent?

4 A That's sort of open. I can do that, you
5 know, generally under the interchange agreement. We
6 have a specific provision in the Letter of Intent for
7 alternate energy which, as I explained earlier, it's a
8 little bit different than the economy transaction under
9 the interchange agreement.

10 Q Where is that in the Letter of Intent, Mr.
11 Cepero?

12 A The alternate energy?

13 Q Yes, sir.

14 A It's in the supplement to the Letter of
15 Intent dated December 10th, a document which was filed
16 yesterday, and it's Paragraph 5.

17 Q In the original Letter of Intent, the
18 availability of alternate energy was limited up till
19 June 1st of 1995, was it not?

20 A The original Letter of Intent, we spoke about
21 supplemental energy, not alternate energy.

22 Q I see. Now, you were referring to the
23 supplement to the Letter of Intent, is that correct,
24 the one dated December 10th, 1990?

25 A Yes, Paragraph 5 of that.

1 Q And that is Exhibit 2, and what paragraph are
2 you referring to, sir?

3 A Paragraph 5.

4 Q That's referring to the transition period, is
5 it not, before FP&L and JEA become full owners of the
6 unit?

7 A That's correct.

8 Q So that would still be up until June 1st of
9 1995, is that correct?

10 A That's correct.

11 Q What about after that date?

12 A After that date, we have in place an
13 interchange agreement which is a separate agreement, an
14 interchange agreement with Southern, as well as with
15 just about every other utility in Florida. Under the
16 terms of that interchange agreement, there are several
17 schedules. One of the schedules is the so-called
18 economy schedule where you can buy or sell energy at a
19 -- split the savings between the seller's incremental
20 cost and the buyer's decremental cost. So the point
21 I'm trying to make is under the interchange agreement,
22 we have options to purchase economy energy from
23 Southern, and that is not inconsistent with what we're
24 doing here under the purchase.

25 Alternate energy is a little bit different

1 than economy energy under the interchange schedule.
2 But I wanted to point out that our ability to purchase
3 economy energy under the interchange schedule is not
4 abrogated, restricted or eliminated by virtue of a
5 purchase of Scherer 4.

6 Q Is there a transmission limitation, though,
7 on your ability to import economy energy after you
8 purchase Scherer Unit No. 4?

9 A There is a transmission limitation.

10 COMMISSIONER GUNTER: Let me, if I can, Mr.
11 Howe, ask a question.

12 MR. HOWE: Yes, sir.

13 COMMISSIONER GUNTER: You've got on your
14 allocation of the import capability through -- and I'll
15 just use Duval substation -- is 1492, isn't that right?

16 WITNESS CEPERO: Yes, sir.

17 COMMISSIONER GUNTER: What is your firm UPS
18 contract?

19 WITNESS CEPERO: Currently?

20 COMMISSIONER GUNTER: Yes.

21 WITNESS CEPERO: 2,068, I believe.

22 COMMISSIONER GUNTER: We have a -- from a
23 Docket No. 890799-EU, there was a table in there which
24 had as of 1 January '91, that your firm would be 2216.
25 Now, when you exceed 1492, how does that work? Do you

1 have to pay a wheeling charge to JEA?

2 WITNESS CEPERO: Yes, we have made
3 arrangements with JEA. They provide delivery capacity.
4 We pay them a wheeling charge.

5 COMMISSIONER GUNTER: Do you know what that
6 wheeling charge is?

7 WITNESS CEPERO: We pay a flat fee of -- I
8 believe it's approximately \$2 million a year to get up
9 to 2025.

10 COMMISSIONER GUNTER: All right. What
11 happens when you exceed 2025?

12 WITNESS CEPERO: 2025, and let me just
13 double-check my documents here so I can give you a most
14 accurate answer. Just bear with me a second because I
15 think it's in the Letter of Intent to JEA. (Pause)

16 Beyond 2025 and up to 2070, which is an
17 additional 45 --

18 COMMISSIONER GUNTER: Additional what?

19 WITNESS CEPERO: An additional 45, we pay at
20 the rate of 79 cents a kW month. And, you know, that
21 -- I think that works out to be \$1.08 a megawatt hour.

22 COMMISSIONER GUNTER: Mr. Cepero, to your
23 personal recollection, do you recall when Florida Power
24 and Light was before this Commission asking for
25 permission to build the two 500 kV lines, what the

1 utilization of those lines and what the allocation of
2 those lines was intended to be?

3 MR. CEPERO: I recall when we requested the
4 Commission permission to build the two lines, yes.

5 COMMISSIONER GUNTER: Do you recall what the
6 allocation was at that time to Florida Power and Light?

7 WITNESS CEPERO: I don't recall the allocation.
8 I don't recall that there was a specific --

9 COMMISSIONER GUNTER: Even if there was an
10 allocation, do you recall even if there was an
11 allocation at that time?

12 WITNESS CEPERO: I don't believe there was.

13 COMMISSIONER GUNTER: Okay. Go ahead, Mr.
14 Howe.

15 Q (By Mr. Howe) Mr. Cepero, one of the
16 documents that was introduced earlier in this
17 proceeding, it was Exhibit No. 4, it was a memorandum
18 from C. O. Woody to memo for information, plant visit
19 Scherer Unit No. 4, and it gave a -- we've talked about
20 it with Mr. Woody. It -- Scherer Unit No. 4 had a 17%
21 capacity factor in 1989?

22 A Yes.

23 Q Do you know what -- in the unit mix for the
24 1982 UPS, what megawatts was Florida Power and Light
25 receiving from Scherer Unit No. 4 in 1989?

1 A The capacity charges under the '82 UPS are
2 calculated based on a certain mix of units. I believe
3 that Scherer 4 has, or there's 400 megawatts of Scherer
4 4 in the capacity charge under UPS, under the '82 UPS
5 agreement.

6 Q On its system does Florida Power and Light
7 essentially dispatch its UPS purchases from the
8 Southern Systems as baseload?

9 A I'm sorry?

10 Q Do you essentially --

11 A Yes, I think, okay.

12 Q -- dispatch it as baseload?

13 A Yes.

14 Q How did you get 400 megawatts out of Scherer
15 4 to 17% capacity factor?

16 A Well, that's what I made when I responded to
17 your earlier question, I made the distinction that that
18 is the amount of Scherer, which is included in the
19 capacity charge calculation. The energy is received --
20 can be received from other units.

21 Q Essentially, then, the difference was made up
22 by Schedule R and alternate energy, was it not?

23 A Yes, the majority of what we get today, I
24 think, is Schedule R.

25 Q If FP&L buys Scherer, I understand they're

1 projecting a capacity factor of approximately 85% for
2 the unit, is that correct?

3 A Yes.

4 Q How then will you be able to -- if that's
5 basically the whole operational of capacity of the
6 unit, how will you be able to take advantage of an
7 interchange agreement providing for economy? Won't you
8 be replacing this previously available Schedule R and
9 alternate energy with energy billed at Scherer 4's
10 incremental cost?

11 A The interchange agreement provides for the
12 opportunity to buy from a neighbor, if a neighbor has
13 energy at a price lower than you do. So I don't see
14 the inconsistency between saying I can take advantage
15 of the economy schedule in the interchange agreement or
16 I can buy from Scherer 4, and I can make that decision,
17 you know, on a literally hour-by-hour basis almost.

18 Q Would it then be, you could just decide, for
19 example, after you assumed full ownership, not to
20 dispatch Scherer Unit No. 4 if there's economy
21 interchange available on the Southern System?

22 A Yes. We don't anticipate that will be the
23 case, but yes, we could do that.

24 Q Referring back, if you would, please, Mr.
25 Cepero, to Late-Filed Exhibit No. 2 to Mr. Denis'

1 deposition, Page 5 of 5, and it's again that one that's
2 captioned at the top "Equivalency Between Capacity RFP
3 and B/M."

4 A 5 of 5?

5 Q Yes, sir, it's the fifth page of Exhibit No.
6 15.

7 A Okay, I'm with you.

8 Q In the middle of the page, we have the term
9 "Equivalency" in bold letter and underlined. Is this
10 meant to represent an equivalency, basically the point
11 at which the purchase is equivalent to the UPS response
12 to the RFP?

13 A This is a point where if you considered the
14 strict economic parameters which we were quantifying
15 here, you would get a -- you know, an equivalency or
16 break even.

17 Q And in the first column, I'll call it, you
18 have a price of \$935 per kilowatt, availability 90%,
19 acid rain average cost. And there's a note. Can you
20 explain the difference between average cost of acid
21 rain compliance, which is represented as \$350 a ton,
22 and incremental cost of acid rain compliance, which is
23 shown to be \$700 per ton.

24 A These became almost shorthand terms for two
25 ways of thinking or evaluating acid rain compliance.

1 Average cost referred to if you took the full amount of
2 compliance costs of the Southern System and divided by
3 the full amount of SO-2 reduction. The incremental is,
4 if you looked at just the last increment or the more
5 expensive increment to comply with the acid rain
6 legislation.

7 Q Would you agree that in your evaluation of
8 equivalency of the purchase versus the UPS offer under
9 the RFP, than an equivalent price -- the equivalent
10 price goes down on a per-kilowatt basis if acid rain is
11 calculated at an incremental instead of average cost
12 basis?

13 A Yes, I believe that's correct. The more -- I
14 mean the more value that you receive for acid rain, the
15 more you can afford to pay. The less value that you
16 receive, the less that you can afford to pay in the
17 price. So maybe you said it backwards.

18 Q I perhaps have.

19 Did I hear you in response to a question or
20 in your summary to state that you have calculated the
21 value of acid rain, or of emission credits?

22 A Mr. Waters has calculated the value of the
23 SO-2 allowances that we would receive, and he's
24 estimated that figure to be \$92 million, present value
25 dollars.

1 Q And has he estimated that based on an assumed
2 \$700-per-ton price?

3 A You can ask him that. I believe it is at
4 \$700 a ton.

5 Q If it is at \$700 a ton, would you agree we've
6 got the acid rain compliance at the incremental rate
7 and the price at \$953 per kilowatt?

8 A I would agree that the \$92 million acid rain
9 credit value is based on -- I think it's \$700 a ton,
10 and you can ask Mr. Waters' confirmation.

11 Q Could you go to the next page, please, in
12 Exhibit 15. It's Inter-Office Correspondence from G.
13 R. Cepero to Dennis P. Coyle, C-o-y-l-e, and C. O.
14 Woody, dated June 22nd, 1990. Do you recognize that,
15 sir?

16 A Yes.

17 Q We have at the -- at No. 1, the -- which is
18 entitled Economic/Equivalency Analysis, the second
19 bullet, it states that "The 'bottom-line' is \$935/kW
20 represents a small quantitative 'break-even' or
21 equivalency to the Capacity RFP." Does that represent
22 your calculations as of June 22nd, 1990?

23 A Yes. And I will add that that calculation is
24 based on a series of assumptions. For example, the
25 second or the third bullet under that same letter

1 states that all the figures are based on availability
2 of 83%, which is a very conservative ability
3 assumption. We feel very comfortable with an
4 availability assumption of 85, and arguably it could
5 even be higher than 85%, and it's also based -- and
6 I'll just sort of take you to the bottom line. If you
7 go to Page 6 of 10 on Attachment 2, and Page 7 of 10,
8 it sort of gives -- and maybe Mr. Gunter -- this is
9 sort of what he was looking for -- it gives a breakdown
10 of each of the major components that were considered
11 and the difference between how they would perform under
12 a so-called brick and mortar or purchase scenario and a
13 UPS/RFP proposal scenario. Based on these assumptions
14 we concluded that the breakeven was \$935 a kW. We had
15 built in a significant amount of conservatism. For
16 example, the availability was 83%.

17 Also, I'll point out that second bar graph,
18 fixed and variable O&M, brick and mortar, we were
19 assuming considerably higher O&M, which we felt was an
20 element of conservatism because, really, it shouldn't
21 be any different -- arguably it should be less, because
22 we control it, there's less indirects under brick and
23 mortar than under UPS, so just qualifying the \$935 per
24 kilowatt figure for you.

25 Q And that Page 6 of 10 that you're referring

1 to was based upon 848 megawatts brick and mortar versus
2 848 megawatts under UPS, is that correct?

3 A That's correct.

4 Q If I might back you up just a little bit, Mr.
5 Cepero, to Page 2 of 10 on that same document.

6 A Yes.

7 Q The bullet by "fuel neutrality," what do you
8 mean by the reference to "'negative effects' of the
9 'bad deals'" as being more than offset by the value of
10 the low market supplies?

11 A This bullet refers to our assessment that the
12 overall fuel prices that we could achieve out of the --
13 out of the unit, and out of really the transaction,
14 would be competitive with our forecast fuel prices.
15 Specifically, the reference to the bad deals refers to
16 the existing coal supply agreements. There is one of
17 those coal supply agreements which has coal at what we
18 would consider to be fairly expensive prices, and the
19 effect of those expensive prices would be offset by
20 the opportunity to participate in the competitive bids
21 which were available to the Southern Companies by the
22 opportunity to participate in volume transportation
23 arrangements, which would result in lower
24 transportation costs than if Florida Power and Light
25 arranged for transportation, and by the ability to

1 essentially control or determine our own fuel
2 procurement.

3 Q What is Florida Power and Light's experience
4 with procuring coal supplies?

5 A I think you should ask that of Mr. Silva.

6 Q In your deposition, Mr. Cepero, we talked a
7 little bit about the fuel supplies and you referenced
8 the contracts for Scherer Unit No. 4, did you not?

9 A Yes.

10 Q Were the three contracts Shell, Delta, and
11 Mingo-Logan?

12 A I believe that's correct.

13 Q Am I correct that the contracts that Georgia
14 Power Company enters in with the various fuel suppliers
15 do not specify a particular unit generating plant site
16 or otherwise specify where that fuel is going to be
17 burned?

18 A Mr. Silva can really answer that, is in a
19 better position to answer that.

20 Q Are you familiar with the Mingo-Logan
21 contract, sir?

22 A I have not read the contract, no.

23 Q If you would, Mr. Cepero, please move on to
24 Page 4 of 10 on Exhibit 15.

25 A Yes.

1 Q We're referring here to study assumptions.
2 Apparently, comparing brick and mortar versus the
3 capacity RFP; and that's the UPS, is that correct?

4 A Yes.

5 Q The capacity price for brick and mortar is
6 based on FPL's offer of approximately 900 per kilowatt.
7 And for the UPS, it's based upon \$770 per kilowatt. Is
8 the \$770 per kilowatt a close approximation of the
9 actual cost of capacity under the UPS proposed by
10 Georgia Power in response to the RFP?

11 A No. You really have to look at the total
12 costs of the transaction and you're sort of focusing on
13 the capacity price. And, for example, the next line
14 down, the transmission service, the numbers go the
15 other way. The transmission costs under the RFP
16 proposal are considerably higher than the transmission
17 costs under the brick and mortar, so you really have to
18 look at the overall economics.

19 Q Could we speak for that a moment, the
20 transmission price. We're talking about basically the
21 same energy coming from the same unit going to the same
22 location. Why would the transmission price under the
23 purchase be \$187 per kilowatt and that under the UPS be
24 \$313 per kilowatt?

25 A I'll answer that very briefly and I'll make

1 three points. First of all, I don't know all that went
2 into Southern's analysis or offer of this transmission
3 price. We accepted the number that they used in their
4 offer at face value.

5 Second point, a few minutes ago you were
6 asking me about alternate energy being available under
7 UPS and not being available under purchase. To the
8 extent that alternate energy is available under UPS and
9 that alternate energy comes from units all around the
10 Southern System, including units in Alabama, units in
11 Mississippi, units in Gulf, I would speculate that
12 those other operating companies would seek compensation
13 for use of their transmission system. And I would
14 speculate that that may be part of the reason why the
15 rate here for transmission service may be higher.

16 Q Would you agree that if in its comparison --
17 which I guess we'll get to with Mr. Waters -- if, in
18 that comparison, Florida Power and Light does not
19 assume any alternate energy but, in fact, assumes all
20 energy out of Scherer Unit No. 4, that it would not be
21 appropriate to assume a transmission price that
22 considers the receipt of alternate energy?

23 A You really have to -- no, I don't agree. You
24 have to accept the offer in its entirety. You cannot
25 pick and choose and say, "I like this part of it and

1 not the other one." Part of the concept of alternate
2 energy is not only to give you a lower energy price
3 but, more importantly, to give you the higher
4 availability, the 90% availability. We assumed, in the
5 UPS analysis, a 90% availability. Part of the reason
6 that you get that 90% availability is because you're
7 bringing resources from all over the Southern Company
8 to help you.

9 We assumed an 85% availability under the
10 purchase because we didn't assume those alternate
11 resources would be available. So, you really can't
12 pick and choose, you've got to look at the entire
13 transaction and cost it out.

14 Q But, Mr. Cepero, hasn't Florida Power and
15 Light been engaged in picking and choosing in the sense
16 that it is taking the transmission costs from the
17 Southern and the RFP at face value but ignoring the
18 fact that alternate energy will very likely be received
19 if it accepts the UPS response to the RFP?

20 A No. I disagree. And again, Mr. Waters can
21 answer exactly what is and is not included, but I
22 already gave you the explanation of options that we
23 would have under the purchase strategy to buy economy
24 from Southern.

25 Q Under the two comparisons, the brick and

1 mortar and the capacity RFP, why are there charges from
2 JEA for transmission service for the capacity RFP but
3 not for the brick and mortar?

4 A The reason is that under the brick and mortar
5 and, in fact, under this overall transaction that we
6 have been able to work out with JEA and with Southern,
7 JEA agreed to transmission allocation, JEA agreed to
8 provide transmission service at certain rates in
9 recognition for the value that they're receiving from
10 this transaction and in recognition of the fact that
11 we're assuming -- we're accepting assignment of some
12 UPS power that otherwise they would be obligated to
13 purchase.

14 Therefore, for all those reasons, we felt
15 that we could work out a more favorable transmission
16 arrangement with JEA under brick and mortar because
17 they would have an incentive, they would be receiving
18 value, and they would be much more willing to negotiate
19 an arrangement with us than under a capacity RFP where
20 JEA would not be a participant. They have said many
21 times they're not interested in purchasing any more
22 power and they would have no incentive, therefore, to
23 provide transmission service or provide it at very
24 competitive rates.

25 So -- and I spent a little bit of time in the

1 answer because this, to us, is a very important element
2 of the purchase transaction which is simply not
3 available under UPS. The entire JEA participation and
4 the value that JEA brings to the table in the form of
5 transmission.

6 Q But FPL was engaged with JEA and the other
7 Florida utilities in the allocation of the
8 Florida/Southern interface and an allocation of Florida
9 Power and Light's entitlement under their joint
10 agreement with JEA independent and even before the
11 purchase negotiation began, was it not?

12 A Yes. And as Commissioner Gunter pointed out
13 a little while ago and yesterday, JEA, regardless of
14 what allocation use, JEA controls the remaining
15 available transmission capacity into the state. The
16 300 megawatts that are left over belong to JEA, and JEA
17 was not disposed to sell or commit for those 300
18 megawatts on a firm basis for several years without
19 some real value coming to their side of the ledger.

20 Q What real value did they receive, sir, in --
21 as I understand it, they get 150 megawatts in the
22 purchase substituted for 150 megawatts UPS. Is that
23 correct?

24 A Yes.

25 Q What is their advantage in that?

1 A Their advantage is really several and I'll
2 briefly state that. They have an opportunity to
3 participate in the deal now, buy capacity now in 1991,
4 even though they really don't need that capacity until
5 1995. And they're going to buy 150 megawatts now and
6 assign to us 150 megawatts of the '82 UPS agreement
7 that otherwise they would be obligated to purchase and
8 that would put them in a situation of having more
9 capacity than they really need.

10 So they can buy now, lock in the brick and
11 mortar now, and avoid being in a situation where they
12 have more capacity than they really need because we
13 agreed to accept that assignment from them.

14 Additionally, the fact that they can buy
15 brick and mortar now and replace 150 megawatts of UPS
16 with 150 megawatts of brick and mortar, not only is it
17 a better deal but, because they have a lower cost of
18 capital by virtue of being a municipal than Southern
19 does, it saves them direct money.

20 Q The same would be true of the income taxes
21 they're paying to Southern on the UPS, would it not?

22 A They have to answer the comparison. What
23 they have represented to us is that purchasing 150
24 megawatts outright brick and mortar is a lower cost, is
25 a better deal for them, than purchasing the same 150

1 megawatts under UPS. And that's not only have they
2 said that but they're backing that up by their
3 commitments in the Letters of Intent.

4 Q Would you agree that JEA might have benefits
5 of purchase over UPS as a municipal that FPL would not
6 have as an investor-owned utility with its own cost of
7 capital and obligation to pay income taxes?

8 A Yes.

9 Q If you would, please, going forward in this
10 document to Page 9 of 10.

11 CHAIRMAN WILSON: Mr. Howe, how much longer
12 do you have?

13 MR. HOWE: Just a couple of minutes, sir.

14 Q (By Mr. Howe) Again, Mr. Cepero, is this
15 where we -- is the calculated breakeven as of June
16 22nd, 1990, comparing purchased versus UPS, \$935 per
17 kilowatt as expressed here?

18 A That's the number in this document with the
19 qualifiers that I have already expressed, lower
20 availability, higher O&M.

21 Q Excuse me, you said lower availability?
22 Under which?

23 A We assumed an 83% availability rate for the
24 brick and mortar in this analysis. If we had assumed
25 90 -- or 85%, the breakeven would have been

1 considerably higher, probably over \$1,000 a kW.

2 MR. HOWE: I have no further questions, thank
3 you very much, Mr. Cepero.

4 CHAIRMAN WILSON: Let's take a 15-minute
5 break and then we'll come back. We will come back and
6 take -- who are we going to take next? Mr. McGlothlin's
7 witness, Dr. Thomas? And we're probably going to go into
8 the night, so you might as well make the plans.

9 COMMISSIONER EASLEY: Are you going to order
10 out and take a break then?

11 CHAIRMAN WILSON: We will order out.

12 (Brief recess.)

13

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14 CHAIRMAN WILSON: Did you have any questions?

15 MR. MURRELL: No, sir, I have not. But I
16 thought we were going to go to the witness out of
17 order, I thought that was the Chair's ruling. Doesn't
18 matter to me, I'm ready.

19 CHAIRMAN WILSON: What have we not done now?

20 MR. CHRIST: I have some --

21 COMMISSIONER EASLEY: I have some, so if you
22 want to take the other one?

23 CHAIRMAN WILSON: Let's finish this witness.
24 Do you have some questions of this witness?

25 MR. MURRELL: Yes, sir, I do.

1 CHAIRMAN WILSON: About how much?

2 MR. MURRELL: It's going to be what I estimated,
3 well less than 30 minutes.

4 CHAIRMAN WILSON: Go ahead.

5 MR. MURRELL: Mr. Christ?

6 CHAIRMAN WILSON: You go ahead.

7 CROSS EXAMINATION

8 BY MR. MURRELL:

9 Q Mr. Cepero, let me ask you to refer to
10 Exhibit 2 to the hearing, that is Hearing Exhibit 2?

11 A Which is the latest -- I beg your pardon?

12 Q That is correct, the December 10, 1990,
13 supplement.

14 MR. ANDERSON: Do you have a copy of that in
15 front of you, Mr. Cepero?

16 WITNESS CEPERO: Yes, I do.

17 Q (By Mr. Murrell) Let me take you to Page 3 at
18 the top of the page, some questions I was trying to put
19 to Mr. Woody earlier. It talks about the pivot point
20 being subject to periodic adjustment based upon
21 performance of other facilities in a designated peer
22 group. Has the type of periodic adjustment been
23 determined between your company and Southern Company
24 Services and Georgia Power?

25 A Yes, we have agreed on a basic concept.

1 Q And is that reflected anywhere?

2 A That is not reflected in this supplement.

3 I can elaborate on that, if you want.

4 Q Is there a document that reflects the
5 understanding of the parties at this point in time?
6 Are you aware of any other document?

7 A We have developed drafts of the agreement and
8 those drafts address how this would operate.

9 Q So that will be in the final agreement that
10 you expect to be executed in the event that there is a
11 final agreement executed, is that correct?

12 A Yes.

13 Q How about the designated peer group, has that
14 been identified in that document or have you come to an
15 agreement on that also, the designated peer group?

16 A Yes. We have.

17 Q And that's going to -- that will be another
18 item that may be reflected in the final agreement that
19 you enter into?

20 A Yes.

21 Q And how about the certain reopeners also
22 shown at the top of Page 3, have you come to an
23 understanding about the certain reopeners?

24 A Yes.

25 Q And will that also be reflected in any final

1 agreement you enter into?

2 A Yes.

3 Q Paragraph 4, in Paragraph 4, it says -- it
4 gives, apparently, certain rights there and it says, at
5 the next-to-the-last line of that, it says, "Subject to
6 appropriate limits."

7 Have those "appropriate limits" been agreed
8 to between you and Southern Company, Georgia Power?

9 A Yes. Essentially.

10 Q Are they reflected in the document?

11 A They're not reflected in this document.

12 Again, they're reflected in the drafts of the
13 agreement.

14 Q Paragraph No. 5, Mr. Cepero, it seems to
15 permit Georgia Power to operate Scherer 4 at minimum
16 levels until June of 1995. If the unit is run at these
17 minimum levels, will this not reduce the amount of
18 cheaper coal that you could take into Scherer Unit No.
19 4 to reduce your average fuel cost?

20 A Yes. If the unit is run at minimum levels.

21 Q And where is the base cost defined? There's
22 a term in here "base cost." Can you tell me where
23 "base cost" is anywhere defined either in the original
24 Letter of Intent or the supplements?

25 A It's not defined here.

1 Q Is it defined anywhere?

2 A It's defined in the drafts of the agreement.

3 Q What is the effect on base cost, if you know,
4 of running Scherer at minimums?

5 A Basically, the less you run Scherer, the
6 higher the base cost, and vice-versa.

7 Q In Paragraph 6 of that same agreement -- not
8 agreement, I'm sorry, I don't mean to misrepresent it,
9 the supplement to the Letter of Intent -- have you
10 compared this \$1.64 per kW month, we're talking about
11 the transmission service rate, have you compared that
12 to your Exhibit A that was attached to the original
13 Letter of Intent that you filed with your testimony,
14 Mr. Cepero?

15 A Yes. I have.

16 Q And that is found on Page 15 of 18 to your
17 Document No. 2, which is the exhibit to your testimony,
18 is that correct, sir?

19 A 15 of 18 is correct.

20 Q Is it true that the \$1.64 per kilowatt per kW
21 month reflected in Paragraph 6 of the latest supplement
22 to the Letter of Intent is higher than the comparable
23 numbers shown on your Exhibit A?

24 A No. You have to look at the entire table.
25 The \$1.64 is higher in 1991. The \$1.64 is representative

1 of a stream which is very, very equivalent to the stream
2 of numbers in Page 15 of 18. So the overall effect is
3 almost a wash. In fact, I think we're about half a
4 million dollars ahead with this latest set of numbers
5 relative to the numbers in Page 15 of 18 when you consider
6 the 30-year life to the present value, you go through the
7 whole -- and Mr. Waters will walk you through that.

8 Q Okay. Mr. Waters is the best witness for
9 that? But \$1.64 per kW month is higher than the
10 apparent counterpart on Exhibit A, which is the \$1.42
11 per kW month?

12 A It's higher in the first year, it's lower in
13 later years.

14 Q Is this \$1.64 per kilowatt month, is this in
15 lieu of or in addition to any -- let me start again.

16 I heard you testify, I think it was you,
17 Mr. Cepero, that in your current UPS agreement, there
18 is something like a 3% charge for transmission losses
19 that is worked into all the figures, is that correct?

20 A Yes. And I think it was Mr. Woody that said
21 that.

22 Q Is this \$1.64 in any way comparable to that
23 3% charge in that other agreement?

24 A Well, \$1.64 is the transmission service rate.
25 There will also be losses. The losses will be the 3%

1 figure, which is the same as we're currently paying on
2 UPS.

3 Q Okay, it will be the 3%, okay.

4 A Right.

5 Q Now, that 3% loss gets it to the Duval
6 interchange point?

7 A Yes.

8 Q And then how much farther is it from there to
9 the point in your service territory from which you were
10 not penalizing the RFP response?

11 A Well, we have run a load flow analysis and we
12 have estimated the losses for delivery throughout the
13 Florida Power and Light system and I don't have the
14 figures for that.

15 Q Who does?

16 A Mr. Waters can answer that.

17 Q Another portion of your testimony, Mr. Cepero,
18 or another portion of an exhibit is the synopsis of Plant
19 Scherer plant description attached to your testimony?

20 A Yes.

21 Q My question is: Isn't it true to state that
22 those Scherer units are substantially alike? They're
23 very similar units?

24 A They're very similar units, yes.

25 Q From your synopsis, they appear to have

1 basically the same heat rate and basically the same
2 turbines?

3 A Basically, yes. I think Scherer 4 probably
4 has a little bit better heat rate than the others.

5 Q Do you have any information on that
6 particular aspect of it?

7 A We have information on the Scherer 4 heat
8 rate which is included here. And based on our
9 knowledge of the other units from UPS and other
10 sources, we concluded that it is a little better. Not
11 significantly better.

12 Q Not significant, okay. I'm interested in
13 finding out from you, Mr. Cepero, what caused Florida
14 Power and Light to decide to incorporate the fuel
15 supply from a separate agreement into the operating
16 agreement? How did that come about?

17 A Well, there really wasn't any real elaborate
18 analysis done to conclude -- to integrate them into the
19 agreements. Southern expressed a desire to incorporate
20 the fuel supply arrangements into the purchase and
21 ownership agreements and the operating agreements
22 because that's the same way that they currently deal
23 with fuel on the other units, and so we accommodated
24 them in that.

25 Q So you're going to operate in a manner

1 substantially similar to the way Georgia Power has been
2 operating with the other co-owners of those other
3 units?

4 A No. We're not.

5 Q Okay. It's going to be different than what
6 Georgia Power has done in the past with the other
7 co-owners?

8 A Yes. It will.

9 Q Have you interviewed any of the other
10 co-owners regarding their relationship and how they've
11 gotten along with Georgia Power over the past several
12 years?

13 A We have not interviewed the other co-owners.
14 We have examined the co-owner agreements.

15 Q In response to one of Mr. Howe's questions
16 regarding emission allowances, you said something like
17 there is some risk regarding how emission allocations
18 will be made once the regulations are promulgated by
19 the agencies and their -- everything is presented to
20 the whatever hearing officer finally makes
21 determination. Do you know whether or not there would
22 also be a similar risk under a UPS from Scherer?

23 A As I had testified before, the issue of
24 emission allowances in UPS is one that there's some
25 uncertainty. The offer we received from them did not

1 include, nor did it exclude, emission allowances. Our
2 judgment is that any UPS agreement with Southern would
3 not include emission allowances as part of the basic
4 price. Emission allowances would have to be purchased
5 separately or would require a premium.

6 Q Have you had direct discussions with Georgia
7 Power regarding just that point?

8 A Yes.

9 Q And that is your understanding from those
10 direct discussions?

11 A Yes.

12 Q On Exhibit 15, Mr. Cepero, the page that is
13 numbered Page 2 of 10, it's about four or five pages
14 into the exhibit, I think.

15 A Exhibit 15.

16 Q It's the second page of a memo dated June 22,
17 1990.

18 A Okay, I'm with you, 2 of 10.

19 Q 2 of 10. The end fuel neutrality, you were
20 asked a couple of questions about that by Mr. Howe
21 also. Who coined the term "below market"? Were did
22 that term come from?

23 A I don't recall the genesis of the term. We
24 use terms loosely -- this is a working document and we
25 use terms loosely because the team that was

1 participating in this analysis came to understand what
2 was meant by these terms or short-hands or proxies, and
3 "below market" really refers generally to the
4 opportunity to enter into competitive coal supply and
5 transportation arrangements which will have the effect
6 of when you consider the overall fuel prices, the new
7 arrangements plus the existing arrangements of offering
8 a delivered total fuel price, which would be
9 competitive relative to either our forecast of coal or
10 relative to what we could do if we were to go out and
11 procure coal independent of the rest of the Scherer 4
12 -- or the Plant Scherer owners.

13 Q Just so I can be clear on this, Georgia Power
14 is not offering to provide coal to the unit at less
15 than what it pays for the coal, is that correct?

16 A That's correct.

17 Q And so it's at market?

18 A Well, what they're offering is -- and what we
19 have worked out in the area of fuel procurement is sort
20 of the opportunity to capture the best of all worlds.
21 We will have the opportunity to determine and execute
22 our fuel procurement strategy, whatever we deem that to
23 be, and at the same time we will have the opportunity
24 to conduct a procurement effort in a cooperative -- we
25 call it common procurement -- in a cooperative way with

1 the rest of the owners. So that we will have or we
2 anticipate that we will have a single coal
3 transportation contract for deliveries of Plant Scherer
4 coal for all four units. As you probably know, there
5 are discounts that are available when you haul 10
6 million tons of coal a year versus hauling 2 or 3
7 million tons of coal a year. So we will be able to
8 avail ourselves of those volume discounts. We will
9 also be able to avail ourselves of bids or offers which
10 are made to other co-owners. So we will have sort of
11 the efficiencies and economies of a cooperative common
12 procurement effort, and at the same time we will have
13 the control of determining and executing our own
14 strategy, fuel procurement strategy.

15 COMMISSIONER GUNTER: Counselor, if I may.

16 MR. MURRELL: Yes, sir.

17 COMMISSIONER GUNTER: Mr. Cepero, I've got to
18 understand a little bit more about that than I do right
19 now.

20 WITNESS CEPERO: Yes, sir.

21 COMMISSIONER GUNTER: You're saying that you
22 all are anticipating signing a contract which would
23 allow you to control your own destiny by doing your own
24 fuel procurement, is that correct?

25 WITNESS CEPERO: By specifying our own fuel

1 procurement strategy.

2 COMMISSIONER GUNTER: What does that mean?

3 WITNESS CEPERO: It means that we will have
4 an arrangement whereby Florida Power and Light
5 determines that what it wants to do is to get 20-year
6 deals for 70% of its coal and do spot for 30%; that we
7 will have the opportunity and really the right to go
8 and request Georgia Power to incorporate that strategy
9 into the bids that they will seek for coal deliveries
10 to Scherer 4. Bids come back, we evaluate them, and
11 whatever bids come back will be available to everybody,
12 not just Florida Power and Light. So if bids come back
13 and they look good, then other owners will have an
14 opportunity to also buy under the same terms as Florida
15 Power and Light, or they will have the option not to
16 buy it under the same terms as Florida Power and Light.
17 In any event, if we like the bids, we execute the
18 agreements, Florida Power and Light will be the
19 signatory to the agreement. It will not be Georgia
20 Power.

21 COMMISSIONER GUNTER: Would you be the only
22 signator to the agreement?

23 WITNESS CEPERO: We haven't quite decided
24 whether we will be the only ones, but certainly we'll
25 be the principal ones.

1 COMMISSIONER GUNTER: Let me explore that
2 just for a moment. You own the plant, you and
3 Jacksonville own the plant?

4 WITNESS CEPERO: Yes.

5 COMMISSIONER GUNTER: Now, what if you go
6 along in your benevolent wisdom and for 25% of that
7 power station you all say, "Well, I want to lock up 80%
8 of it on long-term contracts and -- or 75, and work 25
9 on the spot market."

10 WITNESS CEPERO: Yes.

11 COMMISSIONER GUNTER: And you're working
12 Appalachian coal.

13 WITNESS CEPERO: Yes.

14 COMMISSIONER GUNTER: For that region. And
15 Georgia all of a sudden says, "Huh-uh, we are going to
16 take the other pieces and we're going to Powder River
17 for other reasons. And you got a -- as I read the
18 specs, I think for this plant, they've got a storage
19 capacity of 2 million tons. And we saw the deal this
20 morning. What happens when you start commingling due
21 to independent coal policies? What happens when you
22 start commingling that and trying to burn that in the
23 various pieces that are there? It seems as though what
24 you're saying, there may be some elements to that that,
25 in fact, are correct, but there's going to some

1 majority rule as to what is burned there, and that
2 majority rule, you all own 25% of that majority, shall
3 we say?

4 WITNESS CEPERO: Okay, quick, cannot
5 commingle, got to be either Powder River Basin or
6 Eastern Coal, cannot commingle.

7 COMMISSIONER GUNTER: I understand. I
8 understand. And say they want to go to Powder River
9 and you got a long-term contract to Eastern Coal.

10 WITNESS CEPERO: The decision of where we go
11 will be a joint decision of all owners. Owners will
12 exercise their voting rights in proportion to their
13 ownership shares.

14 COMMISSIONER GUNTER: All right, Southern
15 Company has got the majority, so you're going where
16 Southern Company wants to go. I understand that. Now,
17 that's pretty clear to me. They got a majority,
18 Southern Company.

19 WITNESS CEPERO: They don't have a majority,
20 but they have more than we do.

21 COMMISSIONER GUNTER: They don't have a
22 majority? Who else did they sell to?

23 WITNESS CEPERO: I think Oglethorpe has the
24 biggest share. I forget the exact numbers, but I think
25 Oglethorpe is about 30% and MEAG is about 15, and we

1 will be 25 --

2 COMMISSIONER GUNTER: Assume you get two of
3 them together and they say, "We're going this way, it
4 doesn't matter where you want to go."

5 WITNESS CEPERO: Okay.

6 COMMISSIONER GUNTER: So part of your control
7 -- you're just a participant. You're characterizing
8 it, see, and that's the reason I want to hammer home on
9 it. You're characterizing it as if you have control,
10 and you don't have control.

11 WITNESS CEPERO: Well, sir, there's four
12 units in this plant. The decision of whether its
13 eastern or western coal will be made by all owners and
14 it will probably be made by more than 50% majority. It
15 will require a super majority.

16 COMMISSIONER GUNTER: Sure.

17 WITNESS CEPERO: But given that a decision is
18 made, it will be Eastern Coal and it will have to meet
19 certain quality standards, certain sulfur, ash, all
20 that. Those are part of the ground rules. Everybody
21 has got to play by those rules.

22 Now, given that it's Eastern Coal, given the
23 ground rules, quality, then we will be able to go out
24 and determine our strategy, whether that strategy is
25 10-year deals, 15-year deals, 5-year deals, different

1 mixes of firm and spot. In that sense we can certainly
2 determine our strategy.

3 COMMISSIONER GUNTER: Okay, so what you're
4 saying is once it's decided where you're going to buy
5 the coal and the contract -- the deal is cut because
6 there are so many tons of coal that are required to be
7 burned at that facility, the deal is cut on
8 transportation, you pay your pro rata share of that, I
9 guess on a ton basis, ton-delivered basis, then how you
10 -- what you buy is up to you independently, is that
11 what you're saying?

12 WITNESS CEPERO: I think that's a fair
13 characterization, yes. For how long, the term and how
14 much we pay and all that.

15 COMMISSIONER GUNTER: In other words, if you
16 run out and you decide you want to buy your own coal
17 supplies and mine it yourself, as some other folks have
18 done, there's nothing in the contract to preclude you
19 from doing that?

20 WITNESS CEPERO: Well, let me clarify
21 something. We will buy our coal supplies. We will
22 designate Georgia Power as the administrative or
23 operating agent. In other words, Georgia Power will be
24 our representative in terms of visiting the mine site,
25 making sure that there's compliance with that contract,

1 receiving the coal and so on, but the management
2 decision, procurement decision of term, price, volume,
3 mix between long-term firm, spot, that will be Florida
4 Power and Light's.

5 COMMISSIONER GUNTER: So you 're going to
6 have to create additional resources within Florida
7 Power and Light to accomplish that?

8 WITNESS CEPERO: We have a very competent
9 fuel resources department.

10 COMMISSIONER GUNTER: You have a very
11 competent nuclear and a very competent petroleum fuel
12 resources department with great experience.

13 WITNESS CEPERO: Well, we also buy coal, sir.

14 COMMISSIONER GUNTER: Do you buy coal?

15 WITNESS CEPERO: For St. Johns River Power
16 Park, yes, sir.

17 COMMISSIONER GUNTER: Do you buy that coal?

18 WITNESS CEPERO: Well, we participate in the
19 buying decisions, absolutely.

20 COMMISSIONER GUNTER: Isn't the majority of
21 that coal bought on a single contract from MAPCO, isn't
22 it?

23 WITNESS CEPERO: No, we've got three long
24 term -- and they're not all that long term, but they're
25 several years long, coal supply contracts, and they

1 come up for reopeners every several years.

2 COMMISSIONER GUNTER: So you can do that
3 within existing capacity -- existing capability?

4 WITNESS CEPERO: Certainly, with the existing
5 or very modest extensions to the existing capability,
6 yes.

7 COMMISSIONER GUNTER: You didn't answer my
8 question. I'm just trying to get you to answer my
9 question.

10 WITNESS CEPERO: If you're asking me do we
11 need to add one or two people to do it --

12 COMMISSIONER GUNTER: I just said you have to
13 add to capability. That would be a simple question.

14 WITNESS CEPERO: Yes, we may have to add a
15 small amount.

16 COMMISSIONER GUNTER: Okay, go ahead. We'll
17 flesh out some more as we go down the road.

18 MR. MURRELL: Just for the Chair's advice,
19 I'm nearly done myself, Mr. Chairman.

20 Q (By Mr. Murrell) Let me ask to take a look on
21 Exhibit 15, Mr. Cepero, Page 1 of 10 on that exhibit.
22 That's that same -- that's just the first page of that
23 same document we were referring to just a few minutes
24 ago.

25 A Yes.

1 Q This is Page 1 of 10.

2 A Yes.

3 Q Under paragraph numbered 1, the third bullet
4 point, the last sentence, second sentence, it says,
5 "Each 1% improvement in availability" -- let me read
6 the entire thing. "All the figures are based on an
7 availability of 83% for Scherer No. 4. Each 1%
8 improvement in availability has a value of about \$20
9 million net present value, or about \$22 a kilowatt."
10 Is that a fair reading of that bullet point?

11 A Yes.

12 Q And this memo was from you to Mr. Coyle and to
13 Mr. Woody?

14 A Yes.

15 Q Now, on Exhibit 2 to the -- Hearing Exhibit
16 No. 2, Page 3, it refers to -- let me get the correct
17 -- I'm sorry, it's Page 2, Paragraph 3, excuse me, Page
18 2, Paragraph 3, refers to "bonuses and penalties" that
19 you --

20 A I'm sorry, I want to make sure that I'm in
21 the right exhibit. Where are you now?

22 Q Exhibit No. 2, which is the December 10,
23 1990, Supplement to the Letter of Intent?

24 A Okay, that's where I'm at on Page 2.

25 Q Yes, sir, Page 2, Paragraph 3.

1 A Okay.

2 Q Talks about the penalties and premiums paid
3 to Georgia Power Company relative to availability of
4 the unit.

5 A Yes.

6 Q With them being operators?

7 A Yes.

8 Q Now, you say on the first document I referred
9 to, Exhibit 15, that each 1% improvement has a value of
10 \$20 million or \$22 a kilowatt, and the penalty to
11 Georgia Power for operating at below the pivot point
12 here, 84%, is \$150,000 for each 1%.

13 A Yes.

14 Q That seems to be a substantial difference in
15 the way you value the 1% difference in availability,
16 and I wonder if you were focusing on your Exhibit 15 at
17 the time that you agreed to Paragraph 3 in your
18 supplement to the Letter of Intent.

19 A We have conducted analysis estimating the
20 value of higher availability, and document -- I guess
21 it's 15 -- refers to it, and we have worked out a
22 performance fee with Georgia Power based on the
23 availability performance of the unit. And you have to
24 look at the entire performance fee. You have to look
25 at the upside with the downside. You have to look at

1 the probabilities of achieving higher availabilities
2 with the probabilities of achieving the lower
3 availabilities.

4 In balance, we think that the performance fee
5 is very competitive. It pays Southern, or Georgia
6 Power I should say, an adequate and sufficient
7 incentive to cause them to operate at the highest
8 possible availability, and at the same time, it gives
9 us value well in excess of the payments to Southern.
10 The reason that we used \$150,000 for each percent below
11 84% is we think that there's probably a higher
12 probability that they can operate there than in any
13 other side. So we wanted to establish a penalty system
14 and we used that figure.

15 Q And there's a bonus, in fact, of
16 substantially higher than the penalty. The bonus for
17 each percent above that level is \$400,000 rather than
18 150,000, is that correct?

19 A Yes, and the bonus is considerably lower than
20 the value received by Florida Power and Light.

21 Q And the agreement here contemplates that the
22 document -- excuse me, that the -- that the unit could
23 potentially operate as low as a 74% availability
24 factor?

25 A Yes.

1 Q What role, if any, did you play --

2 A Yes, and let me -- and it also contemplates
3 it could operate as high as 92%.

4 Q Right. Mr. Cepero, what role did you play in
5 developing the long-range fuel cost study for the
6 Martin 5 and 6 project?

7 A I did not play a role in that. Mr. Silva can
8 answer those questions.

9 Q And, Mr. Cepero, would you agree with me that
10 you personally do not have much experience in buying
11 coal?

12 A Well, I ran fuel resources for about a year
13 and a half, so I have some experience.

14 Q Have you had a lot of meetings with coal
15 companies and actually gotten involved in coal
16 procurement negotiations?

17 A I have been involved from a management
18 perspective in evaluation of coal bids and coal
19 strategies.

20 Q Have you negotiated directly with coal
21 companies for --

22 A No, I have not.

23 Q How about with railroads for coal
24 transportation?

25 A No.

1 MR. MURRELL: Those are my questions, Mr.
2 Chairman.

3 COMMISSIONER GUNTER: Mr. Chairman, before he
4 gets started, I've just got a couple I'd like to ask
5 you.

6 CHAIRMAN WILSON: Go ahead.

7 COMMISSIONER GUNTER: How familiar are you
8 with the 500 kV lines that run up the east coast?

9 WITNESS CEPERO: The existing ones, yes, sir,
10 I'm familiar with them.

11 COMMISSIONER GUNTER: They were authorized
12 under Order 10110 in June of '81 under a determination
13 of need process and then subsequently the next year the
14 company made application in October of '82, and the
15 consummating order there was 11217. What part of the
16 line was Florida's responsibility to construct? It
17 says in Order 11217 that from the Florida line south.
18 How far did Southern Company bring that line in?

19 WITNESS CEPERO: To the State line, St. Marys
20 River, I think.

21 COMMISSIONER GUNTER: Brought it to the state
22 line. And then Florida Power and Light constructed
23 from there on south, is that correct?

24 WITNESS CEPERO: Jointly with Jacksonville,
25 yes.

1 COMMISSIONER GUNTER: That's the trouble is I
2 don't see in either of these orders -- and I'm not -- I
3 realize that it's done a very quick reading to sort of
4 bolster my memory, but I don't find in a very quick
5 reading that JEA was referenced, either in the oil
6 backout proceeding or in the original determination of
7 need proceeding.

8 WITNESS CEPERO: Okay, let me see if I can --

9 COMMISSIONER GUNTER: What I'm trying to get
10 at is how did we get from where we were on the orders,
11 which do not include, to all of a sudden the allocation
12 process, which existed -- which exists now. I'm trying
13 to -- and it goes a step further into the annual \$2
14 million payments and the 75 cents per kilowatt month
15 payments for over -- I wrote those figures down when
16 they were given previously.

17 WITNESS CEPERO: Yes.

18 COMMISSIONER GUNTER: I wonder how we got
19 from the order,
20 through the request in June of '81 to the oil backout
21 in which your customers of Florida Power and Light paid
22 for those facilities to where we are now with what I
23 would characterize as a restriction existing for
24 Florida Power and Light's customers who paid for the
25 line.

1 WITNESS CEPERO: Okay. Let me try to --

2 COMMISSIONER GUNTER: Okay. I wanted to
3 clearly lay out what my question was before you --

4 WITNESS CEPERO: I'm sorry, I --

5 COMMISSIONER GUNTER: Go ahead. You're
6 ready.

7 WITNESS CEPERO: My recollection is -- well,
8 first of all, JEA did not participate in the oil
9 backout. Florida Power and Light and JEA are joint
10 owners, 50/50 of the lines between -- from the state
11 line to Duval. It's about 35, 38 miles, and there was
12 some improvements to Duval substation that was part of
13 the project. We entered into an agreement with JEA.
14 They own half. We own half. South of Duval, we own
15 everything. Now, the order --

16 CHAIRMAN WILSON: When were the lines with
17 JEA from the state line to Duval constructed?

18 WITNESS CEPERO: I think they were
19 constructed in 1980 and '81, and I think the reason
20 that they didn't go through the Transmission Line
21 Siting Act, or a typical type of review, was that that
22 was in the throes of the Iranian oil crisis and in the
23 enabling legislation for the oil backout, and there may
24 have been some -- I forget -- may have been FEECA, may
25 have been different legislation. There was a

1 grandfather clause in there that said if you build 500
2 kV lines that cross the state line prior to, I think it
3 was August 1st, 1980, then they're grandfathered in.
4 You don't have to go through the normal certification
5 process. And I'm really going back now on memory, but
6 I'm pretty sure that that's correct. So the
7 Hatch/Duval segments were built under that grandfather
8 clause.

9 CHAIRMAN WILSON: Those were separate from
10 the two 500 kV?

11 WITNESS CEPERO: Well, those are -- I guess
12 you'd say they're separate. They're sort of the
13 northern terminals.

14 CHAIRMAN WILSON: I don't want to say they're
15 separate. I want you to tell me what they are.

16 WITNESS CEPERO: No, they're the northern
17 terminals. We call 500 kV is starting at the state
18 line all the way down to the Martin area, state line to
19 Duval, jointly owned with JEA 50/50; south of Duval,
20 exclusively owned by Florida Power and Light. And the
21 order that Commissioner Gunter was referring to, I
22 believe, refers to the lines south of Duval. It may
23 have been Midway, or Lake Poinset, Duval to Lake
24 Poinset.

25 COMMISSIONER GUNTER: One of them is and one

1 of them isn't. The first one on the determination of
2 need was South Duval/Poinset on down the way.

3 WITNESS CEPERO: Yes, sir.

4 COMMISSIONER GUNTER: The second one refers
5 to -- and this was the oil backout.

6 WITNESS CEPERO: Yes.

7 COMMISSIONER GUNTER: -- refers to from the
8 Florida/Georgia line --

9 WITNESS CEPERO: Yes.

10 COMMISSIONER GUNTER: -- south. So I guess
11 if we really wanted to see if the customers of Florida
12 Power and Light had paid for that total cost, we would
13 have to go back -- I'm just trying to again look at
14 this whole global thing to go back and find our what
15 elements of the cost north of Duval Substation were
16 included in the oil backup.

17 WITNESS CEPERO: Only FPL's cost, only FPL's
18 investment, not JEA's.

19 COMMISSIONER GUNTER: Okay, I'll read them in
20 more detail, I just wanted to make sure I understood.
21 So that 30-odd mile -- I used to live in Jacksonville,
22 so I know about how far it is up there, that 30-odd
23 mile piece you have up there, would it be fair to
24 characterize that this line costs somewhere about a
25 million dollars a mile to build?

1 WITNESS CEPERO: Yes, sir, I think it's even
2 less than that.

3 COMMISSIONER GUNTER: A little less than a
4 million dollars a mile. And just on a normal wheeling
5 charge you're paying \$2 million a year. That's
6 interesting. It doesn't take long until some folks
7 haven't got an investment.

8 WITNESS CEPERO: Well.

9 COMMISSIONER GUNTER: You all don't have an
10 investment in 500 kV lines today, anyway.

11 WITNESS CEPERO: That's correct.

12 COMMISSIONER GUNTER: All been recovered on
13 oil backout.

14 WITNESS CEPERO: Yes, sir.

15 COMMISSIONER GUNTER: Okay. Just sort of a
16 curious thing. I'll pursue it further before we get
17 through. Go ahead.

18 CROSS EXAMINATION

19 BY MR. CHRIST:

20 Q Mr. Cepero, would you look at Page 8 of your
21 testimony? Could you explain the depreciation credit
22 of \$0.5 million?

23 A I'm sorry, Page 8 --

24 Q On your testimony.

25 A Okay.

1 Q Talking about a depreciation credit.

2 A Yes.

3 Q What does that consist of?

4 A That is a credit that we will receive for each
5 month that we purchase 300 megawatts of UPS starting
6 November 1st. So we have purchased in November and in
7 December, and we will receive a credit of about half a
8 million dollars per month. And that is a figure which is
9 the estimated depreciation, monthly depreciation expense
10 for 300 megawatts out of Scherer 4.

11 Q So that's predicated on 300 megawatts?

12 A Yes, sir.

13 Q All right, on Page 10, Line 1 through 9, will
14 the O&M agreement mentioned there tie in any way with
15 the O&M for the units now owned by Florida Power and
16 Light?

17 A Will it tie to the units --

18 Q Will it tie in any way to the unit -- the
19 cost?

20 A Cost will be -- there will be no direct
21 linkage. The agreement, the O&M agreement, will
22 provide for Florida Power and Light to review and
23 approve O&M budgets every year as we move forward.

24 Q Would you look at Page 14 of your testimony,
25 Lines 4 through 10. Do you know what the current

1 status is of the SEC and the FERC applications?

2 A I don't have explicit knowledge. I don't
3 believe they have been filed yet.

4 Q As I understand it the SEC is Southern
5 Company's responsibility, right?

6 A Right. Southern is the one that needs really
7 both Securities and Exchange Commission and FERC
8 approval.

9 Q All right, in your document No. 2, Letter of
10 Intent --

11 A Yes.

12 Q On Attachment A to that Letter of Intent, on
13 Page 15 of 18 --

14 A Yes.

15 Q -- you have an interface improvement. What
16 does that mean? Would you describe what that --

17 A That is a component of the overall
18 transmission rate which is designed to represent or
19 estimate the long-term marginal cost of adding
20 interface facilities.

21 Q All right. Would you look -- continuing with
22 the Letter of Intent, on Page 5 of 18, on Line 9.

23 A I'm sorry, I'm losing the reference here.

24 Q Continuing on with that Letter of Intent.

25 A Yes.

1 Q Would you look at Page 5 of 18.

2 A Okay.

3 Q On Line 9 "Has Florida Power and Light
4 determined the expected average cost of fuel to be
5 competitive with the long-term prices?"

6 A Yes, it has.

7 Q Who established the phase-in dates of Scherer
8 No. 4? Was it Power and Light or was it Southern
9 Company or was it jointly?

10 A Southern really offered those dates and those
11 amounts or approximate dates and amounts and we
12 evaluated their offer and we may have made small
13 adjustments in coordination with the Jacksonville
14 purchase but essentially with Southern.

15 Q And that's the reason Southern offered those
16 dates?

17 A What do you mean what's the reason?

18 Q What predicated those various dates?

19 A Okay. The basic motivation for the dates is
20 the ramp-down, the ramp down of the '92 UPS agreement,
21 which contains --

22 Q The '82.

23 A The '82 UPS agreement includes or contains a
24 percentage of Scherer 4. And as we move forward in
25 time, that agreement ramps down and a greater

1 percentage of Scherer 4 capacity becomes available for
2 sale. And so basically the delivery dates conform to
3 the ramp down rate in the '82 UPS agreement. And '93
4 starts coming down so we pick up more of those
5 megawatts. And '94, there's another adjustment and we
6 pick up more, and finally in '95, '82 UPS terminates
7 and then we pick up the full plant.

8 MR. CHRIST: That's all I have, thank you.

9 MR. ANDERSON: Commissioners, just two
10 questions on redirect.

11 REDIRECT EXAMINATION

12 BY MR. ANDERSON:

13 Q Mr. Cepero, doesn't Southern Company treat
14 emission allowance credit as a system asset?

15 A Yes, absolutely, it does.

16 Q And what would be the effect on the cost of
17 energy under a UPS agreement by virtue of the fact that
18 Southern Company does treat anticipated emission
19 allowance credits as a system asset?

20 A Well, the logic there is that they would
21 reflect the costs of compliance associated with energy
22 deliveries to us and the price of those energy
23 deliveries. We have not negotiated explicit terms with
24 them and how that would work in the '88 UPS. But
25 basically, we do expect that there will be some

1 compliance costs and we have some estimates or we have
2 done some analysis, and we anticipate that they will
3 include those numbers in the energy costs.

4 MR. ANDERSON: No further questions. Thank
5 you, Commissioner.

6 CHAIRMAN WILSON: Questions, Commissioners?
7 Exhibits?

8 MR. ANDERSON: Commissioner, we would move
9 into evidence Exhibit No. 13, which is the composite
10 exhibit to Mr. Cepero's direct testimony.

11 CHAIRMAN WILSON: Without objection it will
12 be so admitted into the record.

13 (Exhibit No. 13 received into evidence.)

14 CHAIRMAN WILSON: Anyone else want to move
15 their exhibits?

16 MR. HOWE: I would move the admission of
17 Exhibit 15.

18 CHAIRMAN WILSON: Without objection, 15 is
19 entered into evidence.

20 (Exhibit No. 15 received into evidence.)

21 Mr. McGlothlin, do you want to move 14?

22 MR. MCGLOTHLIN: Yes, sir, I move 14.

23 CHAIRMAN WILSON: All right, without
24 objection, 14 is moved into evidence.

25 (Exhibit No. 14 received into evidence.)

1 CHAIRMAN WILSON: Thank you very much.

2 (Witness Cepero excused.)

3 - - - - -

4 CHAIRMAN WILSON: Next witness.

5 MR. MCGLOTHLIN: Nassau Power Corporation
6 calls Dr. Dennis Thomas.

7 CHAIRMAN WILSON: Dr. Thomas, we finally get
8 to hear from you.

9 WITNESS THOMAS: Thank you.

10 DENNIS L. THOMAS

11 was called as a witness on behalf of Nassau Power
12 Corporation and, having been first duly sworn,
13 testified as follows:

14 DIRECT EXAMINATION

15 BY MR. MCGLOTHLIN:

16 Q Dr. Thomas, were you sworn with the other
17 witnesses?

18 A Yes, I was.

19 Q Please state your name and business address
20 for the record.

21 A It's Dennis L. Thomas, Five Post Oak Park,
22 Suite 1400, Houston, Texas 77027.

23 Q Dr. Thomas, by whom are you employed?

24 A I'm employed by Falcon Seaboard Resources
25 Corporation.

1 Q In what capacity?

2 A I'm Chief Administrative Officer.

3 Q For whom do you appear in this proceeding?

4 A For our subsidiary, Nassau Power Corporation.

5 Q Did you prepare and submit direct prefiled
6 testimony for this proceeding?

7 A Yes, I did.

8 Q Do you have any changes or additions to that
9 testimony?

10 A No, I don't.

11 Q Do you adopt it as your testimony here today?

12 A Yes.

13 MR. MCGLOTHLIN: I request that Dr. Thomas'
14 prefiled direct testimony be inserted in the record at
15 this point.

16 CHAIRMAN WILSON: Without objection it will
17 be so inserted in the record.

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 DOCKET NO. 900796-EI

3 DIRECT TESTIMONY OF

4 DR. DENNIS THOMAS

5 ON BEHALF OF NASSAU POWER CORPORATION

6 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

7 A. My name is Dennis Thomas. My business address is Five
8 Post Oak Park, Suite 1400, Houston, Texas 77027.

9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

10 A. I am testifying on behalf of Nassau Power Corporation.
11 I serve as Chief Administrative Officer of Falcon
12 Seaboard Corporation, which is the parent corporation of
13 Nassau Power.

14 Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

15 A. I have been working with Falcon for the past two years.
16 Prior to that I was Chairman of the Texas Public Utility
17 Commission, where I served from August 1984 to May of
18 1988. Prior to my appointment to the Texas Commission,
19 I was Director of the Texas Governor's Office of
20 Management and Budget and then Deputy Executive Assistant
21 for Programs. I have been a public employee, a
22 university teacher and a consultant at various times over
23 the past 20 years.

24 I have a Ph.D. in Management and Energy Policy, a
25 Master of Arts degree in Public Administration, and a

1 Bachelor of Business Administration degree in Finance,
2 all from the University of Texas at Austin.

3 Q. WHY HAS NASSAU INTERVENED IN THIS DOCKET?

4 A. Nassau has a standard offer contract to sell 435 MW of
5 capacity to Florida Power and Light Company ("FPL")
6 beginning on January 1, 1996. Nassau's contract was
7 executed on June 13, 1990. On November 1, 1990, the
8 Commission ruled that Nassau's contract subscribes the
9 first 435 MW of the 1996 500 MW statewide avoided unit.
10 However, the Commission also indicated that it intends to
11 require a cogenerator to prove that its project meets an
12 individual utility's need in "determination of need"
13 proceedings. Nassau believes that this ruling is
14 inconsistent with the Commission's rules and policies
15 requiring a statewide market for standard offers and does
16 not waive its right to argue that point at the
17 appropriate time. However, to the extent that individual
18 determinations of need may be so restricted; that
19 approval of the proposed Scherer No. 4 purchase would
20 satisfy a portion of FPL's 1996 capacity need; and that
21 FPL's individual capacity need possibly may not
22 accommodate Nassau's project and the proposed Scherer No.
23 4 purchase, Nassau believes it must apprise the
24 Commission of a deficiency in FPL's calculation of future
25 resources.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. First, my testimony will point out that FPL has
3 inappropriately failed to include Nassau's standard offer
4 contract for 435 MW in its generation expansion planning.
5 I will also offer some observations on the comparisons of
6 the economics of alternatives shown on Mr. Waters
7 Document 10.

8 Q. WHAT DOCUMENTS HAVE YOU REVIEWED CONCERNING FPL'S
9 GENERATION EXPANSION PLANNING PROCESS?

10 A. I have reviewed the testimony and exhibits of S.S. Waters
11 in Docket Nos. 900709-EQ and 900731-EQ, the testimony and
12 exhibits of C.O. Woody and S.S. Waters in this docket,
13 and table 1 of FPL's Generation Expansion Plan, filed on
14 October 30, 1990, in Docket No. 900004-EU. I have
15 reviewed these documents for the limited purpose of
16 determining which QFs FPL has included as committed
17 capacity to fill FPL's 1996 need. In addition, I have
18 reviewed Mr. Waters' Document 10 in this docket.

19 Q. DO YOU HAVE AN OPINION ON WHETHER FPL'S QUANTIFICATION OF
20 ITS 1996 NEED IS ACCURATE?

21 A. Not at this time. My comments on the calculations relate
22 only to Nassau's position that Nassau's standard offer
23 contract should be included in FPL's identification of QF
24 facilities which will be available in 1996. There may
25 well be a need for both Nassau's project and the proposed

1 Scherer No. 4 capacity addition.

2 Q. WHAT DID YOUR REVIEW REVEAL ABOUT FPL'S INCLUSION OF
3 COMMITTED QF CAPACITY?

4 A. Mr. Waters states that one component of the generation
5 expansion planning process requires FPL to estimate the
6 planned and projected QFs which will come on line. It
7 appears from both Mr. Waters' testimony in this docket
8 and FPL's most recent current generation expansion plan
9 that FPL has not included Nassau's project in its
10 generation expansion planning. Rather, FPL includes the
11 Indiantown Cogeneration, L.P. project (currently under
12 consideration in Docket Nos. 900709-EQ and 900731-EQ),
13 for which there is not at this time an approved contract,
14 and the proposed Scherer No. 4 purchase. (Waters
15 prefiled testimony in Docket Nos. 900709-EQ and 900731-
16 EQ, p. 20: Table 1, page 3 of FPL Generation Expansion
17 Plan.)

18 Q. WHAT IS WRONG WITH FPL'S APPROACH?

19 A. FPL's approach includes the negotiated Indiantown
20 contract but ignores Nassau's executed standard offer
21 contract. The terms and conditions of Nassau's contract
22 were preapproved by the Commission. The contract
23 represents firm capacity committed to FPL to which the
24 Commission has attached priority in the subscription
25 process. FPL should include it in its planning exercise.

1 Nassau's project represents a firm capacity
2 commitment based on a preapproved contract. By contrast,
3 Indiantown's contract has not at this point been
4 approved. Neither contract has received a "determination
5 of need" at the time this testimony is being prepared.
6 Therefore Nassau's contract should have at least as much
7 and arguably greater "stature" in FPL's count of QF
8 capacity. Nassau's project should certainly be included
9 in FPL's generation expansion plan before the proposed
10 Scherer 4 purchase, for which no contract exists, is
11 included.

12 Q. WHY SHOULD THE NASSAU PROJECT BE INCLUDED BEFORE THE
13 PROPOSED SCHERER 4 PURCHASE?

14 A. It is my understanding that there is no contract for the
15 proposed Scherer No. 4 purchase. The only evidence of
16 the proposed purchase is a letter of intent. This letter
17 of intent is contingent on the satisfactory negotiation
18 and execution of numerous other complex agreements. The
19 letter of intent recites that it does not constitute an
20 agreement among the parties and is not binding on the
21 signatories to it. (See prefiled testimony of G.R.
22 Cepero, Document No. 2, p. 12 of 18). Therefore, the
23 proposed Scherer No. 4 purchase, if counted at all toward
24 meeting FPL's needs, should be counted after Nassau's
25 project, which is based on a preapproved contract.

1 Q. WHAT POLICY IMPLICATIONS BEAR ON FPL'S TREATMENT OF THE
2 NASSAU POWER CONTRACT?

3 A. Two policy implications are relevant. First, there is the
4 statutory mandate to encourage cogeneration, which would
5 not be met if FPL were permitted to ignore Nassau's
6 contract in its calculation of committed resources.
7 Second, there is the Commission's policy of providing QFs
8 the alternative of a standard offer contract. In view of
9 the fact that the Indiantown contract had not been
10 approved at the time it found its place in FPL's tally of
11 QF projects, failure to afford Nassau's preapproved
12 standard offer contract a similar place in the count
13 would violate that policy as well.

14 Q. HAVE YOU REVIEWED MR. WATERS' ECONOMIC COMPARISON OF
15 ALTERNATIVES?

16 A. I have reviewed Document 10 of Mr. Waters' exhibit, which
17 shows the results of his comparisons in a summary format.
18 The details of his assumptions and methodology are not
19 provided. However, I can make some general observations
20 about the comparisons.

21 Q. PLEASE DESCRIBE THE FORMAT OF MR. WATERS' COMPARISONS.

22 A. For each of several generating alternatives, Mr. Waters
23 summarizes the cumulative present value of four
24 categories of calculated costs: fixed costs of the unit
25 being compared; O&M cost of the unit; "unit fuel cost";

1 and "system fuel cost". He sums the present values of
2 the four categories of costs in a "total cost" column.
3 He reports the differences between the Scherer "total
4 costs" and the "total costs" of the alternatives in his
5 testimony as savings associated with the Scherer option.

6 Q. WHAT OBSERVATIONS DO YOU HAVE ON THIS APPROACH?

7 A. First, it is important to see the relationship between
8 the costs associated with the individual units, on the
9 one hand, and the claimed total costs (which include
10 assumptions about system fuel costs), on the other.

11 When one compares the present value of the sum of
12 fixed costs, O&M, and unit fuel costs of the discounted
13 standard offer with the corresponding present value
14 figures for the proposed Scherer purchase, the discounted
15 standard offer shows a marked economic advantage - due
16 principally to lower present value costs of capacity
17 (reflecting the later timing of the expenditure) and
18 fuel. Mr. Waters apparently is asserting on Document 10
19 that impacts on system fuel costs more than overcome the
20 lower present value cost which the discounted standard
21 offer would have over the Scherer purchase in these unit-
22 specific categories.

23 Q. PLEASE COMMENT ON THE "SYSTEM FUEL COST" AND "TOTAL COST"
24 COLUMNS.

25 A. First, while the assumptions underlying the "system fuel

1 cost" column are critical to FPL's claim that the Scherer
2 No. 4 purchase is more economical than the discounted
3 standard offer, there is a dearth of information and/or
4 explanation concerning what is included, how the
5 calculation was made, and what assumptions are reflected
6 in the entries. There is virtually no support for this
7 most significant column. Therefore, my observations must
8 be prefaced by the initial comment that Mr. Waters'
9 methodology and assumptions are largely unknown and the
10 claimed system fuel impacts are unproven.

11 Q. WHAT ADDITIONAL OBSERVATIONS DO YOU HAVE?

12 A. Based on his testimony, Mr. Waters apparently has
13 credited the Scherer 4 purchase with some economy power
14 transactions not available with the other options. Apart
15 from the ability to quantify such purchases, I believe it
16 is not at all clear that enhancements to the interface
17 would not or should not be made at some point whether or
18 not FPL buys the Scherer unit. Further, the "system fuel
19 cost" entries are subject to the uncertainty associated
20 with long-term fuel projections.

21 Most importantly, however, even if one were to
22 accept the differences in total costs at face value, Mr.
23 Waters' Document 10 provides little support for FPL's
24 request.

25 Q. WHAT IS THE BASIS FOR THAT STATEMENT?

1 A. Mr. Waters reports that the purchase of Scherer 4 would
2 cost \$226 million less than the discounted standard
3 offer. However, his frame of reference includes system
4 fuel costs over 30 years, which amount to more than \$40
5 billion. Relating the claimed savings which Mr. Waters
6 attributes to the Scherer purchase to the total cost of
7 the discounted standard offer indicates a difference of
8 only 0.5%. Taking into account any reasonable margin of
9 error for the vagaries inherent in the 30 year
10 assumptions and projections, Mr. Waters' Document 10
11 hardly provides the basis for an economic determination.

12 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

13 A. FPL has inappropriately excluded from its inventory of
14 committed QF resources Nassau Power's 435 megawatt
15 project and contract. In advancing its proposal to
16 purchase Scherer 4, FPL has failed to demonstrate or
17 support any material economic advantage which could serve
18 to persuade the Commission to abandon the policies
19 favoring the encouragement of cogeneration in favor of
20 the utility's desire to increase its rate base.

21 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

22 A. Yes.

23

24

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1 Q (By Mr. McGlothlin) Dr. Thomas, have you
2 prepared a summary statement of that testimony?

3 A Yes, I have.

4 Q Please proceed, sir.

5 A Good afternoon, Commissioners. We appreciate
6 the opportunity to participate and I'm personally
7 appreciative of your willingness to accommodate my
8 schedule.

9 As you know, on November 1st you voted that
10 Nassau Power Corporation, our standard offer contract
11 with Florida Power and Light counts towards the first
12 435 megawatts of the 500 megawatt 1996 statewide
13 avoided unit you designated last May.

14 I'm here because of two developments. The
15 first is that the Commission indicated on November 1st
16 that it intends to look to individual utility need
17 rather than statewide need in our determination of need
18 proceeding. Obviously, if that is the case, then the
19 outcome of this proceeding could affect Florida Power
20 and Light's 1996 need, and in turn, whether or not we
21 prevail in our own determination of need proceeding.

22 Parenthetically, since my prefiled testimony
23 was submitted, Nassau has filed a Motion for
24 Reconsideration on the language in the November 1
25 decision that ties the standard offer contract to an

1 individual utility need versus the statewide need. We
2 believe that language is inconsistent with the
3 Commission's governing rules and is not necessary to
4 enable the Commission to exercise oversight. If it
5 turns out that you agree with us then obviously we care
6 less strongly about the outcome of this case.

7 The second reason we're here is that as best
8 we can determine, Florida Power and Light has excluded
9 our project from its count of QF capacity, which they
10 believe could contribute to meeting the 1996 need.

11 My point in being here is that we believe it
12 is inappropriate for Florida Power and Light to exclude
13 from its inventory of QF capacity any recognition of
14 the planning process and subscription process
15 established by the Commission to encourage cogeneration
16 to supply a portion of the state's capacity needs.

17 We note that Florida Power and Light included
18 the Indiantown contract in their forecast at a time
19 when the Indiantown project had received neither
20 contract approval nor determination of need. And this
21 was the same time in which the terms and conditions of
22 the standard offer contract were preapproved by the
23 Commission.

24 In summary, we believe that Florida Power and
25 Light's measurement of committed QF capacity should

1 recognize the standard offer process and give equal
2 status to our project.

3 In my testimony I also comment briefly on the
4 economic claims that were offered by Florida Power and
5 Light in support of its petition. The problem is that
6 Florida Power and Light did not explain their
7 methodology or give any of their assumptions and there
8 is not enough information in their direct case for the
9 parties or the Commission to make a \$600 million rate
10 base decision.

11 Even if one were to ignore the lack of
12 methodology for the sake of argument, when you read
13 their conclusions on a total system basis, through the
14 degree of uncertainty inherent in such an exercise
15 such as fuel forecasts and forecasts of economy sales
16 over 30 years, then the very narrow difference between
17 the present value total costs between the Scherer plant
18 and the discounted standard offer did not make either
19 one a clear winner.

20 I conclude that Florida Power and Light has
21 not demonstrated the level of economic advantage with
22 the Scherer purchase necessary for the Commission to
23 ignore its own policy and statutory mandate of
24 encouraging cogeneration.

25 MR. MCGLOTHLIN: Dr. Thomas is available for

1 cross examination.

2 MR. HOWE: No questions.

3 CROSS EXAMINATION

4 BY MR. CHILDS:

5 Q Dr. Thomas, I have several questions.

6 Would you look to Page 2 of your testimony?

7 I believe it's Lines 13 through 17. This is where
8 you're commenting on the ruling by the Commission. Do
9 you have that?

10 A Yes, I have that Mr. Childs.

11 Q Can you explain to me what you mean with the
12 words "Argue that point at the appropriate time"?

13 A I think that that referred to the fact that
14 we intended to file a Motion for Reconsideration.

15 Q Okay. In your summary and in your direct
16 testimony you reference the ruling by the Commission on
17 November 1, 1990, as to the proper basis for evaluating
18 a contract. And I think you referred to that in
19 connection with measuring it against statewide needs
20 and costs or a utility's specific needs and costs. Is
21 that what you intended?

22 A That's correct.

23 Q Have you read Commission Order No. 22341,
24 which was issued in the last annual planning hearing
25 proceeding, which is Docket 900004-EU?

1 A I have seen that document but I haven't
2 studied it in some time.

3 Q Do you recall whether that document itself,
4 in fact, said that "in the future the Commission would
5 be looking to utilities specific needs and costs in
6 need determination proceedings?"

7 MR. MCGLOTHLIN: Commissioners, I'm going to
8 object to the line of questioning. Dr. Thomas
9 explained why Nassau felt this case may affect his
10 rights and pointed out that there are some things going
11 on with respect to the November 1st decision, that
12 which we've requested reconsideration. But I don't
13 think Dr. Thomas is here to argue with Mr. Childs about
14 what the outcome of it should be. We've got a motion
15 pending and FPL, I'm sure, intends to respond to it.

16 MR. CHILDS: I don't intend to argue with
17 him, sir, but I think he said that the ruling was on
18 November 1 and I thought he intended to present that as
19 though that timing or that date had some significance.
20 And I'm trying to establish whether he was aware of any
21 Commission ruling on that specific point at an earlier
22 date.

23 Q (By Mr. Childs) Were you?

24 MR. MCGLOTHLIN: I have an objection.

25 CHAIRMAN WILSON: The relevance that has to

1 the November 1 date.

2 MR. CHILDS: I didn't think it was either but
3 it was put in his testimony and I thought it was
4 intended to relate to the timing of this proceeding,
5 their participation and counsel has argued before that
6 their participation didn't begin earlier because they
7 didn't know until November 1.

8 CHAIRMAN WILSON: Why don't you ask him then
9 about the November 1 date, of its significance and then
10 that will either render the balance of your questions
11 superfluous or not.

12 MR. CHILDS: I'll do that.

13 Q (By Mr. Childs) Of what significance to you
14 or did you intend to have attached to your reference to
15 the November 1, 1990, date as the date of the ruling by
16 this Commission on the issue of the basis for measuring
17 the cost benefit of a contract with a qualifying
18 facility?

19 A The November 1 date has, I think, two aspects
20 of significance. One is that is the date on which we
21 were deemed first to subscribe to the 435 megawatts of
22 the 500 megawatt statewide standard offer. And the
23 November 1 date was also the date on which the
24 Commission made a decision which, in the way the order
25 came out, would appear to indicate that our

1 determination of need case, when filed, would be judged
2 against the individual utility need versus a statewide
3 need.

4 Q Okay.

5 MR. CHILDS: Commissioner, I think that's how
6 he intended that date and my questions simply go to the
7 fact that to establish that the Commission ruled on that
8 issue in November -- excuse me, in December of 1989.

9 MR. MCGLOTHLIN: To which I will respond that
10 the issue of what is the effect of queueing was
11 specifically identified, I think, by Florida Power and
12 Light as an issue in the queueing case was addressed
13 and ruled upon in the November 1 decision reflected in
14 the order that was issued afterwards.

15 MR. CHILDS: Excuse me, I think it was quite
16 clear that the witness distinguished the two points.
17 One was subscription, and one was the basis to
18 determine need. And I think they are different issues
19 than queueing.

20 CHAIRMAN WILSON: The witness did make two
21 statements in support of that November 1st date.

22 MR. MCGLOTHLIN: Yes, sir. He said first
23 that Nassau was deemed to be first to subscribe the
24 unit, and secondly that the Commission indicated that a
25 determination need would be based upon an individual

1 utility basis. Both of those aspects of the decision
2 were issues in the case and treated on November 1st and
3 memorialized in an order that followed.

4 CHAIRMAN WILSON: Mr. Childs, you're simply
5 asking him whether he was aware that there was a prior
6 decision that had indicated that judgment was going to
7 be based on individual utility needs, is that your
8 question?

9 MR. CHILDS: Actually, Commissioner, my
10 intent was to establish that the November 1 date that
11 the witness referenced is wrong. That you, in fact,
12 established that merely a year earlier, and the final
13 order in the annual planning hearing proceeding.

14 MR. MCGLOTHLIN: Well, that's something that
15 lawyers should argue about, Commissioner, and is not a
16 proper question to put to the witness. I point out
17 that was not an order that was entered in a
18 determination of need case, and that the issue was
19 again considered --

20 CHAIRMAN WILSON: Which order?

21 MR. MCGLOTHLIN: 22341.

22 CHAIRMAN WILSON: I don't know orders by the
23 numbers. And I'll tell you this, I never will.

24 MR. MCGLOTHLIN: Well, that's the only one I
25 know.

1 CHAIRMAN WILSON: For good reason, right.

2 MR. CHILDS: Well, I think what I'll do,
3 Commissioner, is the order -- I will drop it except
4 that I do intend to reference it to the extent it
5 continues to be relevant as to this assertion. It is
6 the Commission's order. I assume that what you said
7 there is not in dispute.

8 CHAIRMAN WILSON: Well, I'm not yet convinced
9 to exactly where it's relevant or what meaning it has
10 for this case, but if you can make your argument by
11 reference to that order in your brief then that's fine.

12 MR. CHILDS: We'll try.

13 Q (By Mr. Childs) Doctor, still with reference
14 to that same sentence, on Page 2 of your testimony,
15 would you agree that the Company that you represent or
16 are employed by could have signed a standard offer
17 contract with a utility other than Florida Power and
18 Light Company for the same prices?

19 A I'm not sure if Florida Power Corp standard
20 offer was available in the same time frame or not.
21 Other than that, the statewide offer was I think
22 available in relation to any company.

23 Q Okay. And would you agree that that standard
24 offer to the extent it was available would have the
25 same prices as are in the contract that your Company

1 has signed?

2 A Yes.

3 Q Okay. Let me make sure I understand your
4 point about the change in policy that you reference
5 there at Page 2.

6 Is it your position that even if the cost to
7 be paid for a standard offer contract exceeds the cost
8 the Utility would avoid, that is the Utility that signs
9 that contract, that this Commission should require the
10 Utility to purchase pursuant to that contract?

11 MR. MCGLOTHLIN: To what statement are you
12 referring with the question, Mr. Childs?

13 MR. CHILDS: I'm referring to his
14 disagreement on Page 2 of his testimony with the
15 Commission's decision where he says, "this ruling is
16 inconsistent with the Commission's rules and policies
17 requiring a statewide market."

18 WITNESS THOMAS: I assume you asked the
19 witness in the hypothetical.

20 Q (By Mr. Childs) Yes, sir.

21 A Since that is -- you know, the question
22 doesn't apply to the current fact situation of our
23 contract with Florida Power and Light.

24 So answering in the hypothetical, it would
25 seem to me that the intent of the Commission was to

1 establish a statewide pricing system based upon the
2 designation of a statewide unit built towards meeting a
3 statewide need.

4 Now, I don't remember if there is a provision
5 in the rules which covers that situation of matching in
6 which if the statewide price were greater than the
7 specific utility avoided price, it's not my
8 recollection that in this context that there were
9 specific utility avoided prices that had been
10 certified.

11 Q In what context?

12 A Well, where they're state certified or
13 Commission certified individual utility prices at this
14 time, which you could make that hypothetical
15 comparison.

16 Q Well, let's just --

17 A That's what I don't remember.

18 Q -- sure. Lets ask if you will make the
19 hypothetical comparison on the basis that absent
20 certification by this Commission as to the price, as a
21 matter of fact, for the hypothetical. The cost or the
22 price under the standard offer was in excess of the
23 avoided cost of the purchasing utility. All right?

24 A All right.

25 Q In that case, is it your position that

1 nevertheless the Commission's policy is for the Utility
2 to purchase power pursuant to that contract?

3 A As I understood the rule at that time, the
4 intent was that if the purchasing utility did not need
5 the power, then it would be sold to the Utility, which
6 did need the power.

7 Now, I don't remember in the rule a
8 discussion as it relates to price.

9 Q Doctor, I'm going to show you a document
10 which is a copy but I want you to look at it and verify
11 it. A copy of the contract that I believe you refer to
12 in your testimony as the contract with Florida Power
13 and Light Company. Do you happen to have a copy of
14 that?

15 A No, I don't.

16 Q Okay. We'll give you one. (Hands out
17 document to witness.)

18 While that's being passed around let me ask
19 you this question: Do you happen to know in whose
20 service territory the generating facility that you
21 propose to construct is located?

22 A The power will be delivered to Florida Power
23 and Light in its service territory.

24 Q Yes, sir. But where is the facility, the
25 generating facility that you propose to construct?

1 A The actual generators are in the service
2 territory of Florida Public Utilities.

3 Q Okay. And is it correct or do you know
4 whether intervening between Florida Power and Light and
5 Florida Public Utilities is an area served by
6 Jacksonville Electric Authority?

7 A I don't know.

8 Q Okay. Do you have a copy of those documents
9 that were passed out, Doctor?

10 A Yes, I do.

11 Q Would you please look at them and tell me
12 whether these are copies of the standard offer contract
13 together with an interconnection agreement that were
14 executed by Nassau Power Corporation?

15 A Yes. That's what they appear to be.

16 Q Okay. Let me ask you, does Nassau Power
17 Corporation have an interconnection agreement with
18 Florida Public Utilities?

19 A Not at this time.

20 Q Are you negotiating one?

21 A We have not started the negotiations yet, no.

22 Q Is it your view or intent to, in fact, have
23 an interconnection agreement with Florida Public
24 Utilities?

25 A I don't think we've made a final decision on

1 that point.

2 Q Okay. If you do make a final decision on
3 that point, will you tell me what you have considered
4 or decided would be the effect of the document which is
5 marked original sheet 9.800 of Florida Power and Light
6 Company's tariff entitled "Interconnection Agreement
7 for Qualifying Facilities?"

8 A The intent of that document is to serve as a
9 standard offer interconnection agreement with Florida
10 Power and Light.

11 Q Okay.

12 MR. CHILDS: Mr. Chairman, I'd like to have
13 both of these documents marked for identification
14 please. The first is a standard offer contract.

15 CHAIRMAN WILSON: All right. That would be
16 marked for identification as Exhibit No. 16.

17 MR. CHILDS: And the second is the
18 interconnection agreement for qualifying facilities.

19 CHAIRMAN WILSON: That would be marked as
20 Exhibit No. 17.

21 (Exhibit Nos. 16 and 17 marked for
22 identification.)

23 Q (By Mr. Childs) Doctor, would you turn to --
24 or look at the first page of what has now been marked
25 for identification as Exhibit No. 16?

1 A I'm sorry, which one's 16?

2 Q It is the standard offer contract --

3 A Okay.

4 Q -- for purchase of firm capacity.

5 A I'm on the first page.

6 Q All right. Would you look to the second
7 clause that begins, "Whereas?"

8 A All right.

9 Q Do you have that? Do you agree that this
10 represents that Nassau Power Corporation has an
11 interconnection agreement with the Utility in whose
12 service territory the QF's generation facility is
13 locate?

14 A That's what it says.

15 Q Do you have one?

16 A We have an interconnection agreement with
17 Florida Power and Light. Our facility will deliver the
18 power to Florida Power and Light.

19 Q Yes, sir. My question is, do you have an
20 interconnection agreement with the utility in whose
21 service territory the generation facility or generating
22 facility is located?

23 A Well, you're making the distinction between
24 the actual generator and where we will deliver the power.

25 Q Yes, sir.

1 A And the power line is defined as associated
2 facilities, and is part of the cogeneration facility
3 itself, and the delivery will be to Florida Power and
4 Light.

5 Q Well, then you would define generating
6 facility to include associated facilities -- something
7 other than the generating facility that actually
8 produced the power?

9 A Yes.

10 Q How about a natural gas pipeline. Is that an
11 associated facility?

12 A There might be circumstances in which it was
13 considered part of the overall facility -- overall
14 generating facility.

15 Q Under that interpretation you could have an
16 interconnection agreement with anybody that -- or any
17 utility who happened to be along that natural gas
18 pipeline?

19 A I don't think the intent was to take it to
20 that extreme.

21 Q What is the reference of associated facility
22 that you used as a part of the definition of generating
23 facility?

24 A That is a reference which has evolved over a
25 series of battles between utilities and cogenerators

1 across the country.

2 Q Would you agree that it is a term of art at
3 least in Florida, as it relates to a site certification?

4 A I'm not sure I understand your question.

5 Q Okay. Let me ask you this: Are you aware of
6 it being discussed at all by the Commission in its
7 rules on cogeneration, small power production, and the
8 rights and obligations of electric utilities in dealing
9 with qualifying facilities?

10 A The first part of your question, are you
11 aware of what being discussed?

12 Q The term "associated facilities" as you used
13 it being discussed in the rules and regulations of this
14 Commission relating to qualifying facilities and
15 electric utilities.

16 A I'm not aware if the term has been used here
17 or not.

18 Q Okay.

19 I'm still on the contract itself. If you
20 look to Paragraph No. 3 at the bottom of the first
21 page, I read that to state that Nassau intends a
22 simultaneous purchase and sale arrangement with Florida
23 Power and Light Company, is that correct?

24 A Yes, that's the way I read it.

25 Q Do you know what a simultaneous purchase and

1 sale arrangement means?

2 A I would assume in this context it means that
3 -- there could be purchases of power from Florida Power
4 and Light.

5 Q Is it your intent that those purchases from
6 Florida Power and Light Company would pass through that
7 transmission line through the service territory of JEA
8 and into the service territory of Florida Public
9 Utilities?

10 A I think that would be the intent.

11 Q Okay. Would you look at the second document,
12 which has been marked as Exhibit 17, the
13 interconnection agreement for qualifying facilities?

14 A I have it.

15 Q Would you look at numbered Paragraph 1?

16 A All right.

17 Q Would you agree that this paragraph itself as
18 well refers to the QS generating facility, calls for a
19 location and states that it is located within FPL's
20 service territory? (Pause)

21 A I think it has the same general structure as
22 we were discussing before, yes.

23 Q All right. And your explanation for the
24 wording that you have inserted here is the term
25 "associated facility" being part of the definition of

1 "generating facility"?

2 A Yes.

3 Q Okay. Is the proposal for interconnection --
4 excuse me, I don't want to mischaracterize it.

5 Attachment 4 to this document, it's identified as
6 Attachment 4 and is titled, "Interconnection Facilities
7 by NPC." Would you turn to that, please?

8 A Yes. That's on Page 6 or it shows a Page 6
9 at the bottom?

10 Q Yes.

11 A Okay.

12 Q There, under the, at the bottom of the page,
13 there's a reference to approximately 12 miles of 230 kV
14 H-frame wood transmission line?

15 A I see that.

16 Q Is the intent or the interconnection
17 facilities that have been identified here to be a
18 single circuit connection with Florida Power and Light,
19 to your knowledge?

20 A I don't know the answer to that.

21 Q Do you know whether the facilities that are
22 identified on these attachments to the agreement, the
23 interconnection agreement, include the definition of
24 the interconnection facilities for which your company
25 intends to pay?

1 MR. MCGLOTHLIN: I'm sorry, Mr. Childs, that
2 was had a long question and I didn't get all of it.

3 MR. CHILDS: I'll try again.

4 Q (By Mr. Childs) The reference I have,
5 Doctor, are the various attachments to the
6 interconnection agreement. There is a QF
7 interconnection cost estimate, which is Attachment 1.
8 There's an Attachment 2, which as I read, is also a
9 cost estimate. Attachment 3, identification of
10 interconnection facilities, as is Attachment 4.

11 A Okay. And what --

12 Q Is this part of the interconnection agreement
13 that you submitted to Florida Power and Light?

14 A Yes.

15 Q And my question is: Are these
16 interconnection facilities intended by Nassau to be the
17 facilities for which Nassau would pay FPL to construct
18 to interconnect the generating facility with FPL's
19 system?

20 A I think there are two categories. One is an
21 estimate of the facilities we would need to construct,
22 and the other is an estimate of the facilities which
23 Florida Power and Light would need to construct.

24 Q Okay. I want to ask you which ones are you
25 agreeing to pay for?

1 A Well, clearly, we pay for the ones which we
2 construct. And my guess is that we would pay for a
3 considerable number of the ones that you construct,
4 also.

5 Q Okay, I want to approach that considerable
6 number of the ones that we construct. Would you look
7 to Paragraph No. 5 of Exhibit 17? Do you have that?

8 A Yes. I do.

9 Q There's a reference there that I believe your
10 company typed in, which says, "See Attachments 3 and
11 4." Do you see that?

12 A Yes. I do.

13 Q And I read it, it says, "If upon negotiation
14 FPL demonstrates that additional or different
15 facilities are reasonably required to accomplish the
16 interconnection, this list will be modified upon mutual
17 agreement of the parties."

18 What is your intent there?

19 A Our intent was that we had provided our best
20 estimate at the time of what the facilities necessary
21 would be; and that should we find that there were
22 additional facilities, then we would need to make
23 modifications for them.

24 Q Well, doesn't it say the modification would
25 -- to be required if FPL intended to be paid is that

1 you'd have to agree to?

2 A I'm sorry, say it again?

3 Q That in order for FPL to be paid if
4 modifications were required, that you would, your
5 company, would have to agree to make that payment
6 first?

7 A Right.

8 Q Is that part of the preapproved standard
9 offer contract form of this Commission?

10 A Preapproved interconnection agreement?

11 Q Yes, sir. And isn't the interconnection
12 agreement, in fact, a part of the standard offer
13 contract?

14 A Well, I think that the understanding I have
15 is that if we cause facilities to be needed, we pay for
16 them, okay? Our experience has been that that is a
17 negotiation process, when you finally come down to it,
18 between the qualified facility and the utility.

19 Q Well, let me come back to my question. My
20 question is: Is this term, which says, "We'll pay you,
21 we agree to," a part of the Commission's preapproved
22 standard offer contract?

23 A As you pointed out, this was something which
24 we added to the agreement because we were uncomfortable
25 with the thought of writing a blank check.

1 Q Yes, sir. So when you in your testimony
2 refer to a preapproved contract, would it be fair to
3 say that you are referring to a preapproved contract
4 form and not all of the terms and conditions that might
5 be in that contract?

6 A I think it's fair to say that, on something
7 as technical as an interconnection agreement, that
8 there will be modifications and that what we executed
9 was the standard offer form, standard offer contract,
10 contained in the tariff.

11 Q Sure. And if there aren't modifications but
12 there's a difference of opinion, would you agree
13 there's no contract, or do you know?

14 A That would call for a legal conclusion that I
15 really haven't thought through, probably am not
16 qualified to make.

17 Q Okay. The term of the contract that you've
18 signed is for 20 years, is that correct?

19 A That's correct.

20 Q In terms of comparing a contract with a term
21 of 20 years to a contract for a term of a longer
22 duration, if you wanted to put those on equal footing,
23 would one have to assume that someone else would become
24 available to provide service under the exact same terms
25 and conditions as are in the Nassau power contract for

1 all years past year 20?

2 A Well, there would be a number of ways to do
3 it. You could also reduce the 30-year contract to 20
4 years and compare them over that span.

5 Q Well, if you compared them -- are you
6 familiar with the pricing schedule under standard offer
7 contracts?

8 A In a general sense, yes.

9 Q Well, don't those prices escalate each year
10 at 5.4%?

11 A Right.

12 Q So if you only compared them on a 20-year
13 basis, you wouldn't have a full comparison, would you,
14 as it relates to standard offer contracts?

15 A Well, I thought your question went to how do
16 you go about comparing a 20-year contract with a
17 30-year contract.

18 Q Really, what I'm getting to is, if your
19 contract is only for 20 years and another alternative
20 extends for 30 years, then in order to assume
21 performance of your contract for more than 20 years,
22 under the terms and conditions in the standard offer
23 contract, we have to go sign another contract for those
24 10 years remaining, don't we?

25 A In order to make a comparison between a

1 20-year and a 30-year contract, you have to make
2 assumptions. The way you describe would be one way to
3 make a set of assumptions. There are other ways to do
4 it.

5 Q All right. Well, let's stay with that way.
6 Would you agree that the way that would be done would
7 require the execution of another standard offer
8 contract commencing January 1, 2016?

9 A I'm sorry, I don't quite understand the
10 assumption that you want me to agree to.

11 Q I'm trying to get the assumption that, in
12 order to permit comparison on a 30-year basis, that for
13 us to understand the costs associated with the standard
14 offer contract for 30 years, when yours is only for 20
15 years, that one would have to assume that Florida Power
16 and Light could sign another standard offer contract
17 with another QF commencing January 1, 2016.

18 A That is one way to try and make a comparable
19 comparison.

20 Q Okay. Do you think it's reasonable to assume
21 that one contract, standard offer contract, could be
22 signed for that commencement date and at this price?

23 A Well, now, we're predicting the future. It
24 could be the price would be less.

25 Q Could be.

1 A Could be the power is not needed.

2 Q Well, if we're trying to do a cost/benefit
3 analysis, wouldn't we want to know that?

4 A I would certainly think you would want to
5 look at it from a number of different methodologies.

6 Q Would you agree that a baseload generating
7 unit such as a pulverized coal facility is
8 substantially more expensive to construct than is a gas
9 turbine, for example?

10 A Yes.

11 Q And would you agree that it's uneconomical to
12 build a gas turbine and operate it as a baseload
13 facility?

14 MR. MCGLOTHLIN: I object. It's irrelevant
15 to the testimony.

16 MR. CHILDS: I thought it was. The gentleman
17 testified that one should not look to speculative fuel
18 costs in comparing alternatives and he should not look
19 to the displacement of fuel benefits. And I am trying
20 to understand how you do that.

21 CHAIRMAN WILSON: I'm going to allow the
22 question.

23 A So your question was is it uneconomic -- why
24 don't you repeat your question for me.

25 Q (By Mr. Childs) It would be uneconomical for

1 a utility to build a gas turbine and operate that gas
2 turbine as a baseload facility?

3 A No.

4 Q It would not be?

5 A It would be economic; it can be done
6 economically, yes.

7 Q Okay. So then if it can be done
8 economically, would you agree that this Commission, in
9 setting standard offer prices, should use the most
10 economic alternatives and price the standard offer on a
11 gas turbine and not a pulverized coal unit?

12 MR. MCGLOTHLIN: Object as irrelevant. The
13 Commission has in place a standard offer. The standard
14 offer comparisons that Mr. Waters makes are based on
15 the existing standard offer. This witness has spoken
16 to a contract signed under the existing standard offer.
17 I think it's irrelevant.

18 COMMISSIONER GUNTER: Well, God, don't put us
19 on that test of relevancy question. Geez. (Laughter)

20 I'm just having at you a little bit, Joe. We
21 haven't had much relevant stuff in two days.

22 CHAIRMAN WILSON: Mr. Childs?

23 MR. CHILDS: Yes. I think the witness
24 testifies on Page 7, "When one compares the present
25 value of the sum of fixed costs, O&M and unit fuel

1 costs of the discounted standard offer with the
2 corresponding present value figures for the proposed
3 Scherer purchase," then he draws a conclusion about the
4 "marked advantage for the discounted standard offer."
5 And then he critiques Mr. Waters by saying, "Mr. Waters
6 apparently is asserting on Document 10 that impacts on
7 system fuel costs more than overcome the lower present
8 value cost which the discounted standard offer would
9 have over the Scherer purchase."

10 I'm trying to understand how, if that's so,
11 the Commission ever makes a decision to build anything
12 other than gas turbines?

13 COMMISSIONER GUNTER: Well, you know, we can
14 get into that; but there are a lot of other pieces, you
15 know, that went into that deliberation.

16 I don't mean to prejudice your process, but
17 one, in the state of Florida is availability of gas.
18 You know, that's sort of a fundamental thing; it goes
19 on combined cycles. Because, Lord, we don't ever want
20 to get back -- we have a situation now with Big Ahab
21 and the escalation of the price of oil. There are
22 other considerations.

23 MR. CHILDS: Sure, there are.

24 Well, let me ask you about one of those.

25 Q (By Mr. Childs) What do you propose to use

1 as a fuel for your generating facility?

2 A Natural gas.

3 Q And your proposal then would displace the
4 pulverized coal unit with the natural gas? And is it a
5 combined-cycle facility?

6 A Yes.

7 CHAIRMAN WILSON: Is that yes to both of
8 those questions?

9 WITNESS THOMAS: His first question was --

10 CHAIRMAN WILSON: Well, you said you intend
11 to displace the pulverized coal unit with the natural
12 gas unit.

13 WITNESS THOMAS: To the extent that that was
14 the unit in the 1996 standard offer, yes.

15 MR. CHILDS: Thank you, that's all I have.

16 CROSS EXAMINATION

17 BY MR. MURRELL:

18 Q Dr. Thomas, would you agree that fuel cost is
19 a very large percentage of the cost of producing power?

20 A Yes.

21 Q And have you taken a look at the fuel cost
22 estimates provided by Mr. Waters?

23 A Yes.

24 Q Have you been able to review any of the
25 underlying documents, any of the support data that

1 underlie those estimates that are presented on Mr.
2 Waters' Document 10?

3 A You mean the system fuel costs?

4 Q I'm talking about the, specifically, the fuel
5 costs of the various options that were reviewed. Not
6 the system fuel costs but the actual unit fuel costs.

7 A I have looked at the projections which were
8 contained in his testimony. We've not done extensive
9 study on the projections.

10 Q Those projections entail projections over a
11 30-year period, is that correct?

12 A That's my understanding, yes.

13 Q To the extent, based on your experience, to
14 the extent that there may be errors in methodology of
15 those projections used for these long-term fuel
16 forecasts, that could taint the final result, is that a
17 true statement?

18 MR. CHILDS: Objection. Totally beyond the
19 scope of the witness' direct. He's attempting to make
20 the witness his own and I think it's improper.

21 CHAIRMAN WILSON: The witness has also
22 indicated he has not studied the projections anyway. I
23 sustain the objection.

24 Q (By Mr. Murrell) Do you know how much
25 farther south the plant you're proposing to build is

1 than Plant Scherer?

2 A Approximately 400 miles.

3 Q Do you know how much your company, your project,
4 has been penalized by Florida Power and Light --

5 COMMISSIONER GUNTER: Counselor, hold on just
6 a second.

7 I realize you're not from the Southeast, you
8 know, you're from Texas where distances don't matter.

9 (Laughter) But 400 miles from Fernandina to Macon,
10 Georgia?

11 WITNESS THOMAS: When we got out the map and
12 put the chart to it, it looks like right around 400
13 miles to us.

14 COMMISSIONER GUNTER: Better do it again,
15 son. (Laughter)

16 Q (By Mr. Murrell) Have you been able to
17 determine -- I'm sorry, Commissioner Easley?

18 COMMISSIONER EASLEY: No, no.

19 Q (By Mr. Murrell) Have you been able to
20 determine from your review of Mr. Waters' materials how
21 much your project was penalized for presenting its
22 power to Florida Power and Light near Jacksonville?

23 MR. CHILDS: Excuse me, I don't believe
24 there's been any identification of that project in Mr.
25 Waters' testimony or exhibits.

1 MR. MURRELL: I believe that's absolutely
2 accurate. I withdraw the question.

3 That's all. Thank you.

4 COMMISSIONER GUNTER: I'd just say if you
5 went 400 miles, you're not going to be in Georgia from
6 where you are.

7 WITNESS THOMAS: Let me go back and refigure
8 it then.

9 COMMISSIONER GUNTER: Okay. Probably about
10 half of that. The reason I've got some reasonable
11 knowledge of that, my boy went to school in Mercer,
12 which is located in Macon. And I've got some
13 reasonable idea, walking-around idea about that --

14 WITNESS THOMAS: Then I would bow to your
15 superior knowledge.

16 COMMISSIONER GUNTER: No, that just cost me
17 several thousand dollars for a year's experience up
18 there.

19 CHAIRMAN WILSON: If it had been 400 miles,
20 you might have been better off because he wouldn't have
21 been willing to go that far away from home.

22 COMMISSIONER GUNTER: You got that right.

23 CHAIRMAN WILSON: Questions?

24 MR. TELLECHEA: We have no questions for this
25 witness.

1 CHAIRMAN WILSON: I need to ask one question
2 that Mr. Childs raised, which was that if you do
3 simultaneous buy-sell, you would anticipate that you
4 would be buying power from Florida Power and Light in
5 your location where you're going to construct your
6 generating plant?

7 WITNESS THOMAS: I think that's one of the
8 options we're considering, because we haven't run the
9 load flow studies to figure out the nature of the
10 interconnect which we would have, if any, with the
11 local utility. And in that situation, it's likely we
12 could need startup power or some sort of emergency
13 backup power. More than likely, just mainly startup
14 power. And there are options for us to make our own
15 startup power, but in many situations it's much more
16 economical to get it from the utility that you're
17 selling the power to.

18 CHAIRMAN WILSON: So are you contemplating an
19 interconnect with Florida Public Utility?

20 WITNESS THOMAS: I don't think we've made a
21 final decision on that. It is not necessary to the
22 operation of the plant, it does not appear.

23 CHAIRMAN WILSON: Okay. So you would
24 anticipate that, if you had any power needs at the
25 plant, that you would buy those from FP&L?

1 WITNESS THOMAS: Either do that or put in
2 supplemental generation.

3 CHAIRMAN WILSON: But if you were to buy
4 outside your own facility, that purchas would be from
5 Florida Power and Light?

6 WITNESS THOMAS: That would be our
7 preference, yes.

8 COMMISSIONER EASLEY: Let me ask you
9 something.

10 Is the interconnection agreement, that is
11 part of the standard offer contract, correct?

12 WITNESS THOMAS: That's the way we understand
13 it.

14 COMMISSIONER EASLEY: What's the difference
15 between amending a standard offer contract and a
16 negotiated contract?

17 WITNESS THOMAS: Well, I think it's more a
18 difference of intent. I think the Commission's intent,
19 especially as it relates to price and terms and
20 conditions, is that when you sign a standard offer
21 contract, that's what you get. They're locked in.

22 The intent with the interconnection agreement
23 is to also spell out a large portion of what the
24 relationship between the two is going to be. And,
25 essentially, it's if you're going to agree to this

1 standard offer, you're also going to agree to this
2 basic form of interconnection and who pays and how it
3 operates.

4 The difference is that there is a large
5 number of load flow studies and specific engineering
6 details that have got to be worked out for the
7 interconnection. And we probably could have signed the
8 interconnection agreement without adding any of the
9 list of facilities and so on, but we wanted to go ahead
10 and provide the best information we had at the time we
11 signed.

12 COMMISSIONER EASLEY: So you just consider
13 this amplifying on a standard offer, not modifying a
14 standard offer contract, when you make these additions
15 to a part of the contract?

16 WITNESS THOMAS: Well, I think the intent is
17 that we have accepted a standard offer and that the
18 option for us to go out and try and do better by
19 negotiating -- unless that's, you know, unless we bring
20 it back to the Commission -- is not open to us.

21 COMMISSIONER EASLEY: Thank you.

22 CHAIRMAN WILSON: I may have one more
23 question. (Pause)

24 You make the point that FP&L did not include
25 Nassau's standard offer contract in its calculation of

1 committed resources --

2 WITNESS THOMAS: Right.

3 CHAIRMAN WILSON: -- in its projections, but
4 it did include the Indiantown, PG&E and Bechtel
5 contracts?

6 WITNESS THOMAS: That's correct.

7 CHAIRMAN WILSON: And you think it's error
8 not to have included Nassau's --

9 WITNESS THOMAS: Yes.

10 CHAIRMAN WILSON: -- in that as well?

11 Because Indiantown contract had not been
12 approved at the time, it should be excluded; or if it's
13 included, you ought to also be included?

14 WITNESS THOMAS: That's the major point, if
15 they're included, then we're --

16 CHAIRMAN WILSON: Could you exclude both and
17 get to the same place?

18 WITNESS THOMAS: Well, there's one other
19 point there. There was a standard offer and a
20 statewide subscription process which was ongoing at the
21 time, and that was completely ignored in their analysis
22 of what QF capacity was out there and might fill a
23 portion of the need. So that would be the only other
24 subtlety I think that would be needed to be added.

25 CHAIRMAN WILSON: Your analysis shows that if

1 FP&L has approved both the Indiantown contract as well
2 as the purchase of Scherer 4, that there's not a need
3 on an individual utility basis for Nassau's project?

4 WITNESS THOMAS: Using their numbers, that's
5 what it would indicate.

6 CHAIRMAN WILSON: Okay. Redirect?

7 MR. MCGLOTHLIN: Yes, sir.

8 REDIRECT EXAMINATION

9 BY MR. MCGLOTHLIN:

10 Q Dr. Thomas, you indicated in response to
11 questions concerning whether the intention is to
12 purchase power from FPL that that is one of Nassau's
13 options. Very briefly, what are the other options or
14 alternatives to that?

15 A The other option would be to generate any
16 emergency or startup power we needed ourselves.

17 Q Would one option be to receive that power
18 from the Florida Public Utilities?

19 A I would assume that would be an option also,
20 yes.

21 Q Referring again to the first page of what has
22 been marked as Exhibit No. 16, and to the same
23 "Whereas" clause to which you referred earlier, which
24 reads, "Whereas, QF has signed an interconnection
25 agreement with the Utility," does that language

1 indicate to you that the interconnection agreement
2 necessarily is verbatim the standard form
3 interconnection agreement?

4 A No. It doesn't.

5 Q Do you distinguish between the preapproved
6 terms and conditions for the purchase and sale of firm
7 capacity and energy on the one hand and the terms and
8 conditions of the interconnection agreement to which a
9 QF must enter on the other?

10 A Yes. I think you can distinguish between
11 them.

12 MR. MCGLOTHLIN: Those are all my questions.

13 CHAIRMAN WILSON: All right. Anything
14 further with this witness? Need to move exhibits?

15 MR. CHILDS: We'll move Exhibits 16 and 17.

16 CHAIRMAN WILSON: Without objection, those
17 exhibits are admitted into evidence.

18 (Exhibits Nos. 16 and 17 received into
19 evidence.)

20 CHAIRMAN WILSON: Thank you very much.

21 WITNESS THOMAS: Thank you.

22 (Witness Thomas excused.)

23 CHAIRMAN WILSON: Are you ready to call the
24 next witness?

25 MR. MCGLOTHLIN: Would you entertain a two-

1 or three-minute break while we shuffle the papers?

2 CHAIRMAN WILSON: Sure. Why don't we take a
3 10 or 15 minutes so folks can go ahead and make
4 arrangements to have supper brought in.

5 We'll come back at 15 after 6:00.

6 (Brief recess.)

7 (Transcript follows in sequence in Volume
8 IV.)

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