



**Florida
Power**
CORPORATION

JAMES P. FAMA
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April 12, 1993

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
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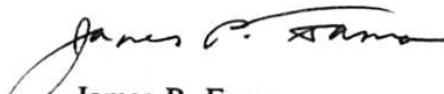
Re: Application for Determination of Need for an Intrastate Natural Gas Pipeline; Docket #920807-GP

Dear Mr. Tribble:

Enclosed for filing, please find an original and fifteen copies of Florida Power Corporation's prefiled direct testimony of S. Watsey and J.T. Pollard.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance.

Sincerely,


James P. Fama

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cc: All Parties

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CERTIFICATE OF SERVICE

DOCKET NO. 920807-GP

I HEREBY CERTIFY that a true and correct copy of Florida Power Corporation's Prefiled Direct Testimony of S. Watsey and J.T. Pollard was furnished by U.S. Mail this 12th day of April, 1993 to the following:

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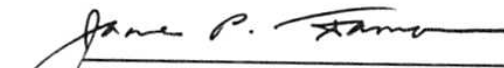
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Before the
Florida Public Service Commission

In re: Petition of Florida Power)
Corporation for Determination of)
Need for Electrical Power Plant and)
Related Facilities)
_____)

Docket No. 920807-GP

Filed: April 12, 1993

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DIRECT TESTIMONY
OF
STEPHEN WATSEY

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Stephen Watsey. My business address is Florida Power Corporation, 3201 34th Street South, P.O. Box 14042, St. Petersburg, Florida, 33733.

Q. In what capacity are you employed by Florida Power?

A. I am employed by FPC as Vice President, Purchasing and Stores. I am also Vice President of two wholly-owned subsidiaries of FPC, Power Energy Services, Inc. ("PESCORP") and Power Interstate Energy Services Corporation ("PIESCORP").

1 Q. Please summarize your education background and employment experience.

2 A. I have a Bachelor of Science degree in Engineering from the United States
3 Military Academy, West Point, New York. In August, 1955, I was employed
4 by Florida Power & Light Company as a transmission engineer, responsible
5 for designing overhead transmission lines and managing projects until award
6 of construction contracts. In May of 1958, I joined a manufacturer's
7 representative firm as a field sales engineer, subsequently becoming a Vice
8 President and part owner. My duties included sales of electrical apparatus to
9 utility companies in West Central Florida. In October, 1977, I joined FPC as
10 Manager, Power Plant Inventory Control. I progressed through several
11 positions in Materials Management and Purchasing, and in January, 1985, I
12 become Director, Purchasing and Stores. In this position, I was responsible
13 for all purchasing, contracting, and materials management functions, including
14 fuel supply. In October, 1989, I was elected an officer of FPC.

15

16 Since 1981, I have held the designation of Certified Purchasing Manager, a
17 title awarded by the National Association of Purchasing Management. I am
18 a past Chairman of the Edison Electric Institute Materials Management and
19 Procurement Committee, and have been on this Committee for several years.
20 I also serve on the Executive Committee of the Utility Purchasing
21 Management Group, a subsection of the National Association of Purchasing
22 Management.

1 From May 1, 1991, until July, 1992, I relinquished my regular responsibilities
2 to spend full time on the natural gas supply and transportation assessment.
3 Since July, 1992 I have devoted a large percentage of my time to natural gas
4 pipeline matters.

5

6

7 **Q. What are your responsibilities at Florida Power Corporation?**

8 **A.** As Vice President -- Purchasing and Stores at FPC, I direct FPC's purchasing
9 and materials management functions, including all of our fuel supply
10 purchases. Consistent with this responsibility, I directed FPC's evaluation of
11 natural gas transportation alternatives resulting in our involvement in the
12 SunShine pipeline.

13

14 **Q. Have you ever testified before the FPSC on a related matter?**

15 **A.** Yes, in November 1991, I testified before this commission in the FPC Polk
16 County Determination of Need hearing on the subject of natural gas
17 transportation and supply.

18

19 **Q. On whose behalf are you testifying?**

20 **A.** I am testifying on behalf of Florida Power Corporation, which will be a
21 shipper on the SunShine pipeline.

22

1 II. PURPOSE AND OVERVIEW

2
3 Q. What is the purpose of your testimony in this proceeding?

4 A. The purpose of my testimony in this proceeding is to explain why our
5 purchase of gas from the SunShine Pipeline Project best meets the needs of
6 our customers, and is responsive to the Commission's findings and directions
7 in Docket 910759-EI. Purchase of gas transportation from SunShine will
8 enable us to use clean, abundant natural gas in our system in the most cost-
9 effective manner possible, and will provide additional benefits such as
10 pipeline-to-pipeline competition and enhanced clean air compliance options.
11 To complete the process the Commission set into motion in Docket 910759-
12 EI, we urge the Commission to approve SunShine's request for a Need
13 Certificate.

14

15 III. FPC'S DECISION TO PURCHASE FROM A SECOND PIPELINE WAS
16 BASED ON A CAREFUL CONSIDERATION OF SYSTEM NEEDS

17

18 Q. Mr. Watsey, what prompted FPC to begin to evaluate gas transportation
19 options?

20 A. In early 1991, our system planning studies led to a decision that natural gas-
21 fired combined cycle units represented the most cost-effective addition of

1 resources to our system. We also believed that adding natural gas to our fuel
2 mix would provide a number of systemwide benefits to our customers.

3

4 To assist our system planners, I established a task force to analyze and
5 develop a gas transportation strategy. The purpose of this task force was to
6 examine, in broad terms, the availability of natural gas, our gas transportation
7 options, and the approximate range of likely gas transport costs to the Polk
8 County site.

9

10 Q. Why did the task force focus on gas transportation service?

11 A. Our focus was primarily on gas transport because there was ample evidence
12 that gas supplies would be available in quantities and at prices to meet our
13 requirements in the various producing areas within reasonable proximity to
14 Florida. However, there was not sufficient transportation capacity from those
15 supply areas to accommodate the supplies FPC would require on a firm,
16 reliable basis.

17

18 Q. Mr. Watsey, what general benefits does FPC realize for its customers by
19 adding natural gas to its fuel mix?

20 A. Natural gas is an abundant domestic resource with excellent environmental
21 characteristics. It will facilitate our compliance with the Clean Air Act
22 Amendments of 1990 and many other environmental rules, and is relatively

1 less sensitive to the proposed energy tax. It is available on attractive terms
2 from a variety of producers all over North America.

3
4 FPC presently fuels its major generating units almost entirely with coal, oil,
5 and nuclear fuels. While these fuels have proven to be cost-effective in the
6 past, changes in economics, generating technologies, and environmental rules
7 have made natural gas the fuel of choice for additions to many electric
8 systems today. Moreover, in our case the addition of natural gas to our fuel
9 mix will increase the diversity of our fuel sources, which is valuable in and of
10 itself.

11
12 **Q.** Mr. Watsey, you indicated that planning studies performed in mid-1991
13 indicated that new natural gas-fired plants would be the most cost-effective
14 additions to the FPC system. Were these the studies that culminated in
15 FPC's application to this Commission for a Certificate of Need to construct
16 the Polk County units?

17 **A.** Yes, they were. In August, 1991, we filed our petition with the Commission
18 for permission to construct four 235-MW gas-fired combined cycle power
19 plants at a site in Polk County.

20
21 **Q.** What did FPC's testimony in the Polk County need proceeding say about the
22 supply of natural gas and natural gas transportation?

1 A. With respect to the availability of natural gas, Section 10 of our Integrated
2 Resource Planning Study [Exhibit 2, Docket 910759-EI] described the
3 abundant quantities of gas available to U.S. consumers, the locations of the
4 major producing areas, the distribution of reserves held by U.S. producers,
5 and a variety of related information. FPC continues to believe that sufficient
6 quantities of natural gas will be available from producers at reasonable prices
7 for the foreseeable future.

8
9 With respect to gas transportation, Exhibit 2 and my testimony both described
10 our ongoing evaluation of gas transportation options. We explained that we
11 were looking at three options: (a) An independent pipeline owned by FPC
12 and others; (b) Purchase gas transportation from FGT; and (c) Solicit interest
13 from a pipeline company other than FGT to build a second pipeline into
14 Central Florida.

15
16 As I said in my testimony, FPC was at that time evaluating all three options
17 and had not yet reached a firm conclusion as to which option was best for its
18 customers. However, even before our decision was finalized, we recognized
19 that a second major pipeline into Florida would provide substantial benefits
20 not only for us, but for other electric utilities and gas customers all over the
21 state.

22

1 One of the factors entering into the evaluation of gas transportation options
2 at the time of the Need case was a parallel evaluation of the conversion of
3 Anclote to gas. Our system planning department was examining this during
4 late 1991, and we indicated this in my testimony in the Need proceeding. As
5 I explained in my testimony, if we ultimately determined that it was cost-
6 effective to convert Anclote to gas, this would add significantly to our gas
7 transportation needs.

8
9 **Q.** What was this Commission's response to FPC's request for a Need Certificate
10 for the four Polk County units?

11 **A.** The Commission agreed with us that natural gas-fired combined cycle units
12 at Polk County were the most cost-effective way of meeting our growing
13 customer needs, and issued a Need certificate to us for two 235-MW plants.
14 The Commission's Order also agreed with FPC that the construction of a
15 second pipeline into Florida would provide benefits to the entire state, and
16 that these benefits should be given weight by the Commission. As stated by
17 the Hearing Examiner:

18
19 *"Florida Power contends, and I agree, that construction of a second natural gas*
20 *pipeline into peninsular Florida will provide a variety of strategic benefits for the*
21 *state. While the strategic benefits alone cannot lead to a determination of the*
22 *need for the proposed power plants, certainly the Commission may consider them*

1 *in this proceeding. I have so considered them in light of the new pipeline's*
2 *contribution to fuel diversity for Florida Power and the State, and in light of the*
3 *lead times associated with construction of the pipeline and the plants." [Order*
4 *No. 25805, Docket No. 910759-EI, p.40]*

5
6 **Q.** In Docket 910759-EI, did the Commission recognize that a Certificate of Need
7 for two, rather than four, Polk County units might affect FPC's
8 transportation options?

9 **A.** Yes, it did. The Commission recognized that a reduction in gas load at Polk
10 would reduce the transportation needed by FPC, and thereby affect the
11 possibility of constructing a second pipeline. The Commission expressed a
12 hope that the conversion of Anclote to natural gas, if cost-effective, would
13 provide an additional gas load that might anchor a new pipeline. As stated
14 by the Hearing Examiner:

15
16 *"A commitment of one or more key shippers to use approximately one-third to*
17 *one-half of the pipeline capacity is necessary to anchor the new*
18 *pipeline."..."Anclote plus two Polk units will use approximately half the pipeline*
19 *capacity, and, therefore, they should act as a strong anchor load." [Order No.*
20 *25805, Docket No. 910759-EI, p.41]*

21

1 Q. Mr. Watsey, what did your Task Force do to complete the evaluation of gas
2 transportation strategies that was underway at the time of the Polk County
3 proceedings?

4 A. We engaged in many discussions with FGT and other pipeline companies that
5 might have an interest in developing a pipeline into Florida. We also talked
6 to other Florida electric utilities to determine whether they were interested
7 in jointly developing gas transport options.

8
9 Following a disciplined decision analysis process, it was determined that a
10 joint development of an intrastate pipeline including FPC ownership would
11 result in the lowest cost of gas transportation to Polk County. Our analysis
12 of these strategies indicated that FPC would likely obtain substantial cost
13 savings from the pipeline-to-pipeline competition that would result if a second
14 major pipeline was constructed to serve Florida. Our analysis also indicated
15 a serious possibility that the fourth alternative, joint development with a
16 pipeline company, would be best for our system. A key element in making
17 this option attractive was the possibility that the pipeline could be built
18 primarily as an intrastate pipeline, thereby making it subject to regulation by
19 this Commission rather than the FERC.

20
21 Q. Mr. Watsey, why does FPC believe that regulation of a second gas pipeline by
22 the FPSC, rather than the FERC, is an important benefit of the SunShine Pipeline?

1 A. FPC believes that regulation of a second gas pipeline by the Florida Public
2 Service Commission will provide better regulatory oversight than the FERC
3 will provide. The Florida Commission will regulate this pipeline for the
4 benefit of all gas users in Florida and will be more attuned to the unique
5 needs and characteristics of our state's economy.

6

7 Q. What actions did FPC take as a result of its analysis of gas transport
8 strategies?

9 A. First, we engaged in negotiations with all pipelines that continued to indicate
10 an interest in serving us. We also participated in proposing legislation that
11 would give the Commission the authority to regulate an intrastate pipeline.
12 Two items of legislation, the Natural Gas Transmission Pipeline Siting Act
13 and the Natural Gas Transmission Pipeline Regulatory Act, were signed into
14 law by Governor Chiles on June 24, 1992.

15

16 Q. What gas transportation alternatives did your gas transportation task force
17 ultimately develop and evaluate?

18 A. When FPC began its effort to negotiate an agreement for firm gas
19 transportation service in late 1991, it identified two alternatives: The FGT
20 Phase III project, and the proposed SunCoast Pipeline Project, which was a
21 joint venture of ANR Southern Pipeline Company ("ANR") and United Gas
22 Pipeline Company ("United"). Subsequently the ANR-United joint venture

1 was terminated, and each of ANR and United presented separate offers for
2 service over ANR's SunShine Pipeline Project and United's SunCoast Pipeline
3 Project, respectively. Thus, there were three alternative transporters from
4 which FPC received offers for its gas transportation service requirements.
5 The service contemplated by each transporter required the construction of
6 new pipeline facilities in order to make available the capacity FPC requires.

7

8 Q. How did FPC evaluate these three gas transport options?

9 A. Our final response to our strategy analysis was to initiate a full-scale
10 evaluation of the three best transportation service proposals we received as
11 a result of our negotiations. This study concluded that the economic and
12 other characteristics of the transportation service offered by the SunShine
13 Pipeline Project were the most cost-effective and valuable from the standpoint
14 of our customers. Mr. Pollard describes this study in his testimony in this
15 proceeding.

16

17 Q. Could you summarize your testimony, Mr. Watsey?

18 A. Yes. Increasing the availability of natural gas to FPC is essential if we are to
19 maintain an adequate, cost-effective electric power system for our customers.
20 To obtain the supplies FPC needs, new gas transportation capacity is required.
21 We have carefully considered our gas transportation strategy options and
22 concluded that the SunShine pipeline will provide FPC and its customers with

1 the most cost-effective gas transportation alternative. It will also give other
2 gas users in Florida a much-needed alternative to FGT and enhance Florida's
3 access to gas. As a customer of this new Florida pipeline, we request that the
4 Commission grant SunShine its Certificate of Need.

5

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

7 **A.** Yes, it does.