

ORIGINAL

In re: Petition to determine need for Cane Island Power Park Unit 3 and related facility in Osceola County by Kissimmee Utility Authority and Florida Municipal Power Agency.

DOCKET NO. 980802-EM

FILED: AUGUST 26, 1998

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-98-1007-PCO-EM, issued July 24, 1998, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

None.

b. All Known Exhibits

Composite Exhibit - Deposition Transcripts of Richard Casey, A.K. (Ben) Sharma, Robert Miller, Myron Rollins and Craig Dunlap.

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

ISSUE 1: Are the reliability criteria used by the Kissimmee Utility Authority and the Florida Municipal Power Agency to determine the need for Cane Island Unit 3 reasonable?

POSITION: Yes. KUA's use of a 15 percent reserve margin criterion is reasonable for planning purposes. FMPA's use of an 18

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percent reserve margin criterion with a 15 percent minimum is also reasonable for planning purposes. FMPPA demonstrated a need for additional power in 2001 even at the 15 percent minimum reserve criterion.

ISSUE 2: Is the load forecast used by the Kissimmee Utility Authority to determine the need for its 50% (125 MW) share of Cane Island Unit 3 reasonable?

POSITION: Yes. The base case Energy and Peak Demand forecasts used by KUA are reasonable. However, additional load associated with the Expo Center may cause these base case forecasts to understate future energy and peak demand requirements.

ISSUE 3: Is the load forecast used by the Florida Municipal Power Agency to determine the need for its 50% (125 MW) share of Cane Island Unit 3 reasonable?

POSITION: Yes. The base case Energy and Peak Demand forecasts used by FMPPA are reasonable.

ISSUE 4: Does the Kissimmee Utility Authority have a need for 125 MW of additional capacity in the year 2001?

POSITION: KUA has a need for additional capacity in the year 2001 to meet its reliability criterion. While KUA needs only 78 MW of additional capacity in the year 2001, KUA is expected to need the full 125 MW by 2003. Further, KUA's 125 MW share of the proposed Cane Island Unit 3 is the most cost-effective resource alternative available to meet KUA's need for capacity in 2001.

ISSUE 5: Does the Florida Municipal Power Agency have a need for 125 MW of additional capacity in the year 2001?

POSITION: Yes. FMPPA has a need for 125 MW of additional capacity in the year 2001 to meet its reliability criterion.

ISSUE 6: Is the timing of the Kissimmee Utility Authority and Florida Municipal Power Agency's joint petition to determine the need for Cane Island Unit 3 appropriate?

POSITION: Yes. The petition was filed at the appropriate time to meet the planned June 1, 2001 in service date. Both KUA and FMPA have demonstrated a need for additional power in 2001 to maintain adequate reserve margins.

ISSUE 7: Will the proposed Cane Island Unit 3 contribute to the electric system reliability and integrity of the Kissimmee Utility Authority, the Florida Municipal Power Agency, and Peninsular Florida?

POSITION: Yes. The additional capacity from Cane Island Unit 3 will enable KUA and FMPA to meet their reserve margin criteria, and will contribute to maintaining a minimum 15 percent reserve margin for Peninsular Florida.

ISSUE 8: Will the proposed Cane Island Unit 3 contribute to fuel diversity for the Kissimmee Utility Authority, the Florida Municipal Power Agency, and Peninsular Florida?

POSITION: The proposed natural gas-fired combined cycle unit will not contribute to fuel diversity for KUA because over half of KUA's existing generation is gas-fired. However, the proposed unit will contribute to FMPA's fuel diversity by increasing the All Requirements Project's gas-fired generation to 21 percent. Because the capacity of the proposed combined cycle unit is small relative to the generating capacity of Peninsular Florida, the proposed unit will not materially affect fuel diversity for Peninsular Florida.

ISSUE 9: Are there any adverse consequences to customers of the Kissimmee Utility Authority or the Florida Municipal Power Agency if Cane Island Unit 3 is not completed in the time frame requested?

POSITION: Yes. Both KUA and FMPA have an immediate need for capacity in 2001. If Cane Island Unit 3 is not completed on time, both utilities will be forced to take short-term measures to satisfy their need for electricity, such as buying replacement power from other utilities or the

market. The availability and cost of short-term purchased power is unknown.

ISSUE 10: Is the fuel price forecast jointly used by the Kissimmee Utility Authority and the Florida Municipal Power Agency reasonable?

POSITION: Yes. KUA and FMPA's joint fuel price forecasts for coal, No. #6 oil, No. #2 oil, nuclear energy, and natural gas are reasonable.

ISSUE 11: Have the Kissimmee Utility Authority and the Florida Municipal Power Agency provided adequate assurances regarding available primary and secondary fuel to serve Cane Island Unit 3 on a long and short-term basis at a reasonable cost?

POSITION: Yes. Based upon the fuel price forecast and its underlying assumptions, KUA and FMPA have provided adequate assurances regarding primary and secondary fuel to serve Cane Island Unit 3 on a long-term and short-term basis at a reasonable cost. KUA and FMPA intend to make contract and spot purchases of natural gas from Florida Gas Utility to provide the primary fuel to Cane Island Unit 3. KUA and FMPA also plan to increase their on-site storage capacity for No. #2 oil in order to allow for more than three days of full load operation of Cane Island Units 1, 2, and 3.

ISSUE 12: Have the Kissimmee Utility Authority and the Florida Municipal Power Agency provided appropriate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Cane Island Unit 3 site?

POSITION: Yes. Natural gas is supplied via a pipeline lateral jointly owned by KUA and FMPA and operated by Florida Gas Transmission (FGT). Based on the capacity of this lateral and FGT's Phase IV expansion plans, sufficient natural gas pipeline capacity will be available to transport natural gas to the Cane Island Unit 3 site.

ISSUE 13: Were the costs of environmental compliance adequately considered by the Kissimmee Utility Authority and the Florida Municipal Power Agency when they evaluated their future generation needs?

POSITION: Yes. KUA and FMPA adequately considered the costs of environmental compliance in estimating costs for Cane Island Unit 3. Further, KUA and FMPA included a contingency factor for increased environmental compliance costs in the capital cost estimates for Unit 3.

ISSUE 14: Have the Kissimmee Utility Authority and the Florida Municipal Power Agency provided sufficient information on the site, design and engineering characteristics of Cane Island Unit 3 to evaluate their proposal?

POSITION: Yes. The information provided by KUA and FMPA in the Need for Power Application, prefiled testimony, and discovery responses is sufficient to evaluate all aspects of the proposed unit.

ISSUE 15: Have the Kissimmee Utility Authority and the Florida Municipal Power Agency adequately explored alternative generating technologies to Cane Island Unit 3?

POSITION: Yes. KUA and FMPA examined a broad range of potential generating technologies including conventional, advanced, and renewable technologies.

ISSUE 16: Have the Kissimmee Utility Authority and the Florida Municipal Power Agency adequately explored and evaluated the availability of purchased power options, such as firm capacity purchases from other electric utilities or non-utility generators?

POSITION: Yes. KUA and FMPA simultaneously issued a Request for Proposals (RFP) for alternatives to Cane Island Unit 3. KUA received 22 responses to its RFP, while FMPA received 33 responses. None of these proposals were more cost-effective than Cane Island Unit 3.

ISSUE 17: Are there any conservation measures, including self-service generation, taken by or reasonably available to the Kissimmee Utility Authority or the Florida Municipal Power Agency which might mitigate the need for all or part of Cane Island Unit 3?

POSITION: No. KUA and FMPA evaluated nearly 70 DSM measures, but no new cost-effective DSM programs were found which would mitigate the need for Cane Island Unit 3.

ISSUE 18: Is the addition of Cane Island Unit 3 expected to contribute to the provision of adequate electricity at reasonable cost for the Kissimmee Utility Authority and the Florida Municipal Power Agency?

POSITION: Yes. Cane Island Unit 3 will provide adequate electricity to maintain KUA's and FMPA's reserve margin criteria. The proposed unit will generate low-cost electricity by using a highly efficient, proven combined cycle technology.

ISSUE 19: Has the Kissimmee Utility Authority demonstrated that the addition of its 50% (125 MW) share of Cane Island Unit 3 is the most cost-effective alternative available?

POSITION: Yes. No RFP bids, DSM programs, or other resources were cost-effective alternatives to the proposed Cane Island Unit 3.

ISSUE 20: Has the Florida Municipal Power Agency demonstrated that the addition of its 50% (125 MW) share of Cane Island Unit 3 is the most cost-effective alternative available?

POSITION: Yes. No RFP bids, DSM programs, or other resources were cost-effective alternatives to the proposed Cane Island Unit 3.

ISSUE 21: What associated facilities and transmission improvements are required in conjunction with the construction of Cane Island Unit 3, and were their costs adequately considered?

POSITION: The proposed Cane Island Unit 3 requires a three mile transmission line from the Cane Island site to Intercession City. The estimated costs for this transmission line were included in the evaluation of the proposed unit.

ISSUE 22: Are the economic and financial assumptions used by the Kissimmee Utility Authority and the Florida Municipal Power Agency in their integrated resource planning studies reasonable?

POSITION: Yes. The assumed escalation rates, bond interest rate, present worth discount rate, and interest during construction rate used by KUA and FMPA are reasonable. These rates reflect current rates and trends for inflation and tax-exempt debt.

ISSUE 23: Based on the resolution of the previous factual and legal issues, should the joint petition by the Kissimmee Utility Authority and the Florida Municipal Power Agency for determination of need for Cane Island Unit 3 be granted?

POSITION: Yes. Based on the resolution of the foregoing issues, the joint petition by KUA and FMPA for determination of need for Cane Island Unit 3 should be granted.

ISSUE 24: Should this docket be closed?

POSITION: This docket should be closed after the time for filing an appeal has run.

e. Pending Motions

None at this time.

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f. Compliance with Order No. PSC-98-1007-PCO-EM

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 26th day of August, 1998.



WM. COCHRAN KEATING, IV
Staff Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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Osceola County by Kissimmee
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of Staff's
Prehearing Statement has been furnished by U.S. Mail this 26th day
of August, 1998, to the following:

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