

CARLTON FIELDS

ATTORNEYS AT LAW

ONE PROGRESS PLAZA
200 CENTRAL AVENUE, SUITE 2300
ST. PETERSBURG, FLORIDA 33701-4352

MAILING ADDRESS:
P.O. BOX 2861, ST. PETERSBURG, FL 33731-2861
TEL (727) 821-7000 FAX (727) 822-3768

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October 3, 2000

VIA FEDERAL EXPRESS

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

In re: Petition for Determination of Need of Hines Unit 2 Power Plant
Docket No: 00164-EI

Dear Ms. Bayo:

Florida Power Corporation ("FPC" or the "Company") is filing herewith an original, fifteen (15) copies and disc of Florida Power Corporation's Prehearing Statement and the original and one (1) copy of Florida Power Corporation's Notice of Deposition Duces Tecum.

We request you acknowledge receipt and filing of the above by stamping the additional copy of this letter and returning it to me in the self-addressed, stamped envelope provided.

If you or your Staff have any questions regarding this filing, please contact me at (727) 821-7000.

Very truly yours,

Gary L. Sasso
Gary L. Sasso *js*

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Enclosure

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FPSC-BUREAU OF RECORDS

Notice Deps
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FPSC-RECORDS/REPORTING

Prehearing
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ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Determination)
of Need of Hines Unit 2 Power Plant.)
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_____)

Docket No.: 001064-EI

Submitted for Filing: October 4, 2000

**FLORIDA POWER CORPORATION'S
PREHEARING STATEMENT**

Florida Power Corporation ("FPC" or the "Company"), pursuant to Order No. PSC-00-1561-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

A. APPEARANCES:

Robert A. Glenn
Director, Regulatory Counsel Group
Florida Power Corporation
P.O. Box 2861
St. Petersburg, FL 33731

Gary L. Sasso
J. Michael Walls
Jill H. Bowman
Carlton Fields
P. O. Box 2861
St. Petersburg, Florida 33731-2861

On behalf of Florida Power Corporation.

B. WITNESSES AND EXHIBITS:

In identifying witnesses and exhibits herein, FPC reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

Further, FPC notes that it is listing possible rebuttal witnesses who might provide testimony relevant to Staff's proposed preliminary issue 6, subject to FPC's objection about the inclusion of that issue in this proceeding. FPC has filed a motion to strike that issue from the list of issues that FPC must address at the final hearing. FPC further objects to Staff's proposed preliminary issues 1 and 2, which Staff has taken from the Supreme Court's decision in Tampa Electric Co. v. Garcia, Case Nos. SC95444, et al. (Fla. S. Ct. Sept. 28, 2000), inasmuch as these issues pertain only to "merchant" plants.

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

1. WITNESSES.

Direct Testimony.

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
John B. Crisp	General overview of Hines 2, FPC's need for Hines 2, FPC's identification of Hines 2 as its next-planned, supply-side alternative, the RFP process and evaluation of competing proposals, and the Company's decision to proceed with the Hines 2 plant.	FPC's Issues 1-4; Staff's Preliminary Issues 1-5, 7-10.
Alan S. Taylor	FPC's RFP process and evaluation, and FPC's selection as a result of that process.	FPC's Issue 3; Staff's Preliminary Issues 5, 7 and 9.
Robert D. Niekum	FPC's fuels forecasts, the types and amounts of fuel for Hines 2, and fuel transportation for Hines 2.	FPC's Issues 1-2; Staff's Preliminary Issues 3 and 4.
Eric G. Major	The Hines 2 site, the power plant, its costs, its fuel, and its schedule.	FPC's Issue 2; Staff's Preliminary Issue 4.
W. Jeffrey Pardue	The Hines Energy Complex, the environmental benefits of the site and the Hines 2 plant, and the environmental approval process for Hines 2.	FPC's Issue 2; Staff's Preliminary Issue 4.
Peter M. O'Neill	FPC's existing transmission and distribution facilities, and the transmission facility additions and upgrades required by the addition of Hines 2 at the Hines Energy Complex.	FPC's Issues 1 and 2; Staff's Preliminary Issues 3 and 4.

Possible Rebuttal Testimony.

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
John Flynn	Rebuttal to testimony and of Staff's witness, Billy R. Dickens.	Staff's Preliminary Issue 6.
Charles J. Cicchetti	Rebuttal to testimony of Staff's witness, Billy R. Dickens.	Staff's Preliminary Issue 6.

2. EXHIBITS.

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
JBC-1	John B. Crisp	FPC's Need Study for Hines 2 (with attachments), a composite exhibit.
JBC-2	John B. Crisp	FPC's Notice of Filing Request for Proposals (dated January 26, 2000).
(Confidential) JBC-3, Appendices 1-8	John B. Crisp	FPC's Confidential Section of its Need Study, Bidder A and B proposals, correspondence regarding required and supplemental information, FPC's evaluations of the bidders' proposals on economic and non-price attributes grounds, a composite exhibit.
AST-1	Alan S. Taylor	Mr. Taylor's curriculum vitae.
RDN-1	Robert D. Niekum	FPC's Fuels Forecast.
RDN-2	Robert D. Niekum	FPC's Base, High, and Low Case Natural Gas Forecasts.
RDN-3	Robert D. Niekum	FPC's Natural Gas Forecast Compared to Other Industry Forecasts.
RDN-4	Robert D. Niekum	Estimated Gulf Coast Gas Reserves.
RDN-5	Robert D. Niekum	Gas Transportation Options.

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
EGM-1	Eric G. Major	Hines Energy Complex Map.
EGM-2	Eric G. Major	Site Arrangement-Overall Plan.
EGM-3	Eric G. Major	Site Arrangement-Power Block Area.
EGM-4	Eric G. Major	Typical Combined Cycle Schematic.
EGM-5	Eric G. Major	Installed Cost Estimate for Hines 2 Unit.
EGM-6	Eric G. Major	Project Schedule for Hines 2 Unit.
PMO-1	Peter M. O'Neill	Map of FPC's Existing Generation Plants, Substations, and Transmission Lines.
PMO-2	Peter M. O'Neill	Map of Transmission Network In the Vicinity of the Hines Energy Complex.
CJC-1	Charles J. Cicchetti	Mr. Cicchetti's curriculum vitae.

D. FPC'S STATEMENT OF BASIC POSITION:

FPC seeks an affirmative determination of need for the Hines 2 power plant to enable the Company to meet its obligation to maintain electric system reliability and integrity and to continue to provide adequate electricity to its ratepayers at a reasonable cost.

FPC recently agreed to increase its Reserve Margin planning criterion from a minimum of 15 percent to a minimum of 20 percent, effective no later than the summer of 2004. The Company needs to add substantial new capacity to its system in order to meet this planning objective. In its planning judgment, the Company has determined to implement this new planning criterion in the winter of 2003/04. The Company has relied increasingly over the last decade upon dispatchable demand-side resources to reduce the "firm" load that must be protected by planning reserves. This has included placing a large number of willing customers on load-management or interruptible service in exchange for reduced tariffs. Due to the Company's experience with its Residential Energy Management Program over the last two years

(i.e., attrition by customers concerned about interruptions), the Company believes that it is prudent to reduce its reliance on dispatchable demand-side alternatives.

This is important because we are facing a period of some uncertainty about how the Company's new Energy Management program will be received by residential customers, which creates the need for more "insurance" in the form of additional hard generating assets before the Summer of 2004, and it is FPC's judgment in any event that the Company should carry more supply-side assets than it has in the past. This will better address concerns expressed by the Commission Staff that FPC has relied too much on demand-side resources as a percentage of total reserves—in view of changes to unit ratings, volatility in weather and consumption patterns, and other concerns—and enhance the Company's electric system reliability and integrity.

Further, building the Hines 2 plant will enable FPC to continue to provide adequate electricity to its ratepayers at a reasonable cost. The Hines 2 power plant will be a state-of-the-art, highly efficient, environmentally benign unit, and it will be built at a site planned and well suited for expansion of FPC's generation system. It will provide needed diversity, efficiency, and cost-effectiveness to the Company's fleet, enabling the Company to achieve substantial fuel savings for its ratepayers over the life of the plant. The projected installed cost for Hines 2 is well below the current market estimates for equivalent units because of previously negotiated favorable equipment option terms.

In addition, the plant is the most cost-effective alternative available to FPC. FPC determined to seek approval to build Hines 2 only after conducting a rigorous internal review of supply-side and demand-side options and after soliciting and evaluating competing proposals submitted by interested third-party suppliers. After a thorough analysis of the two bids it received in response to its Request for Proposals, FPC concluded that the Hines 2 plant was the most cost-effective supply-side alternative available to FPC to meet its need for power.

The Company has attempted to avoid or defer constructing the unit by considering and pursuing demand-side options reasonably available to it, but the Company has nonetheless concluded that it cannot avoid or defer its need to build the unit.

For all these reasons, as more fully developed in FPC's Need Study (and the Confidential Section of that Study) and supporting appendices and tables, and its pre-filed testimony and exhibits, FPC respectfully requests that the PSC grant a favorable determination of need for the Hines 2 plant.

FPC must register its objection to Staff's attempt to raise an issue that the Commission may not and should not consider in this proceeding, namely, preliminary issue 6. This issue is outside the scope of the Commission's jurisdiction, and, in any event, falls outside the proper scope of this proceeding. Through preliminary issue 6, Staff asks the Commission to take up the unknown impact on ratepayers of potential deregulation at some point in time in the future if the costs of the Hines 2 power plant are placed in FPC's rate base over the course of the expected life of the Hines 2 plant. The Commission does not have jurisdiction to act on this issue in this proceeding since it fundamentally concerns the Florida Legislature's prerogative to restructure

existing laws and to provide for any transition from existing rules and regulations. Moreover, Staff's seeks through this issue to propose that the Commission violate Supreme Court-decreed principles of prudence review, which provide that the Commission must not assess the prudence of utility decisions based on hindsight (i.e., looking at circumstances that developed after the decision at issue was made). For all these reasons, FPC has moved the Commission to strike Staff's Preliminary Issue Number 6 and the testimony proffered by Staff on this issue from this proceeding.

E. FPC'S STATEMENT OF ISSUES AND POSITIONS:

1. FACTUAL ISSUES.

FPC Factual Issue 1: Is there a need for the proposed Hines 2 plant, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519? (FPC's Issue 1; Staff's Preliminary Issue 3).

FPC: Yes. See Part D above, which FPC incorporates by reference herein.

Witnesses: Crisp, Niekum (FPC's fuels forecasts), and O'Neill (FPC's current transmission and distribution systems).

FPC Factual Issue 2: Is there a need for the proposed Hines Unit 2, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519? (FPC's Issue 2; Staff's Preliminary Issue 4).

FPC: Yes. See Part D above, which FPC incorporates by reference herein.

Witnesses: Crisp, Niekum, O'Neill, Pardue, and Major.

FPC Factual Issue 3: Is the proposed Hines Unit 2 the most cost-effective alternative available, as this criterion is used in Section 403.519? (FPC's Issue 3; Staff's Preliminary Issue 7).

FPC: Yes. See Part D above, which FPC incorporates by reference herein.

Witnesses: Crisp and Taylor.

FPC Factual Issue 4: Are there any conservation measures taken by or reasonably available to Florida Power Corporation which might mitigate the need for the proposed power plant? (FPC's Issue 4; Staff's Preliminary Issue 8).

FPC: No. See Part D above, which FPC incorporates by reference herein.

Witness: Crisp.

FPC Factual Issue 5: Has Florida Power Corporation met the requirements of Rule 25-22.0826, Florida Administrative Code, "Selection of Generating Capacity," by conducting a fair bid process? (Staff's Preliminary Issue 5).

FPC: Yes. Pursuant to Rule 25-22.082, F.A.C., FPC issued a Request for Proposals ("RFP") on January 26, 2000, to solicit competitive proposals for supply-side alternatives to its planning and bid evaluation benchmark, Hines 2. As required by that rule, FPC filed its RFP with the PSC on January 26, 2000.

Through its RFP, FPC endeavored to attract all proposals that might offer lower cost supply-side resources or provide more economic value to FPC and its ratepayers. The only real limitations FPC placed on potential proposals were that the capacity offered to FPC had to be dedicated solely to FPC's use and subject to economic dispatch by FPC. FPC sought proposals that might offer FPC superior value and other attributes from anyone interested in responding to the RFP.

FPC sent its RFP to more than 50 independent power producers and electric utilities, published the RFP on the Company's internet website, and published notice of the RFP in several national and local newspapers and in various widely disseminated trade journals. FPC requested notification from potential bidders by February 10, 2000, expressing their interest in submitting a proposal in response to the RFP, called a Notice of Intent to Bid ("NOI"). FPC set up a pre-bid meeting for interested parties on February 18, 2000, to provide an opportunity for any interested person to ask questions about the RFP or to discuss the RFP.

Thirteen companies submitted NOIs on the project, and representatives of twelve entities attended the optional pre-bid meeting. A member of the PSC Staff also attended the pre-bid meeting. At that meeting, and in response to questions raised before the meeting, FPC said that it would entertain proposals by bidders to build their power plants at the HEC. FPC also identified a contact person to handle all questions about the RFP. Before the time for submissions of bids arrived, FPC provided answers to various inquiries from potential bidders. FPC circulated questions of general interest – and FPC's answers – to all potential bidders that had submitted an NOI. FPC also posted a transcript of the pre-bid meeting and the answers to the potential bidder's questions on its website.

In its RFP, FPC had set March 27, 2000 as the deadline for bids. Although numerous potential bidders had expressed an intention to bid, two bidders in fact submitted proposals for FPC's consideration. Both bidders requested that the terms of their proposals be treated as confidential.

After a thorough analysis of the two bids, FPC concluded that the Hines 2 plant was the most cost-effective supply-side alternative available to FPC to meet its need for power.

Witnesses: Crisp and Taylor.

FPC Factual Issue 6: Based on the resolution of the foregoing issues, should the Commission grant Florida Power Corporation's petition to determine the need for the proposed Hines Unit 2? (Staff's Preliminary Issue 9).

FPC: Yes. For the foregoing reasons, as more fully developed in the testimony and exhibits filed by FPC in this proceeding, the Commission should grant FPC's petition for a determination of need for the proposed Hines Unit 2.

Witnesses: Crisp and Taylor.

2. LEGAL ISSUES.

None at this time. (See also Part F below.)

3. POLICY ISSUES.

None. As noted above, Staff, however, has sought to interject into this proceeding a "policy" issue (Staff's Preliminary Issue 6) that is inappropriate for this proceeding, outside the jurisdiction of this Commission in this proceeding, and which calls upon the Commission to violate fundamental principles of prudence review. For all of these reasons, FPC has moved the Commission to strike Staff's Preliminary Issue 6 from this proceeding, along with the testimony proffered by Staff on this issue.

F. STIPULATED ISSUES.

Staff has indicated their intention to raise what amounts to two legal issues, supposedly for the purpose of reaching a stipulation on them, namely, (1) whether FPC is an "applicant" within the meaning of Section 403.519, Fla. Stats., and within the meaning of the Florida Power Plant Siting Act, and (2) whether the proposed plant will be "fully committed" to meeting ratepayer needs. Staff advised FPC that these issues were taken from the Supreme Court's recent decision in the Garcia case supra. That case, of course, discussed and resolved whether a "merchant" plant that is not "fully committed" under a power purchase agreement to meeting the identified needs of a Florida retail utility may qualify as an "applicant" under Section 403.519 and the Siting Act. These are not "issues" that need to be resolved at a hearing in a need case filed by a Florida retail utility, which is, by definition, a proper "applicant" in a need case and which proposes to build a plant to help the utility meet its statutory obligation to serve under well established precedent of the Commission and the Florida Supreme Court. If Staff is not willing to stipulate to these two issues (which Staff has raised), FPC objects to the inclusion of these two issues in this proceeding. The point of identifying "issues" in the Prehearing Order is to specify matters that must be addressed and resolved at the final hearing; not to list matters that should not be subject to question or dispute based on the pleadings and testimony filed in the case.

G. PENDING MOTIONS.

FPC seeks action on the following pending motions:

FPC's Motion to Strike Staff's Preliminary Issue Number 6 and the Direct Testimony of Billy R. Dickens (as discussed above).

FPC's Motion to Compel Staff's Responses to FPC's First Set of Interrogatories to Staff and First Request for Production of Documents (and Response to Staff's Motion for Protective Order).

H. FPC'S REQUESTS FOR CONFIDENTIAL CLASSIFICATION.

FPC's Request for Confidential Classification, dated August 7, 2000. This request seeks confidential classification of the proposals FPC received in response to the Company's Request for Proposals issued January 26, 2000, pursuant to Rule 25-22.082, F.A.C., and FPC's evaluation of them.

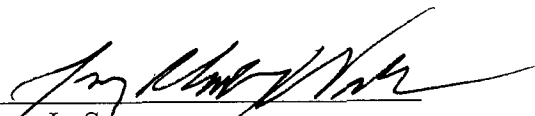
FPC has been served with discovery requests by Staff that will require FPC to provide some confidential business information in response. Such information will be marked as confidential and, pursuant to the Order Establishing Procedure in this proceeding, FPC requests confidential classification of such information. FPC further requests (i) immediate notification of any confidential designation objected to by Staff and notification of what, if any, designated confidential information Staff intends to use at the hearing in this proceeding, and (ii) the return of any confidential information provided in response to Staff's discovery requests that Staff does not intend to use at the hearing in this proceeding. Staff, through its counsel, has agreed to this method of handling any confidential business information produced by FPC in response to Staff's discovery requests in this proceedings.

Pursuant to the Order Establishing Procedure, Order No. PSC-00-1561-PCO-EI, dated August 30, 2000, any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. It is exempt from the public records act pending a formal ruling on the request or the return of the information to the person providing it, which shall be done if the information is not made part of the evidentiary record in this proceeding.

I. REQUIREMENTS OF PREHEARING ORDER THAT CANNOT BE MET.

Because discovery is continuing in this matter, FPC must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments.

Respectfully submitted this 4th day of October 2000.



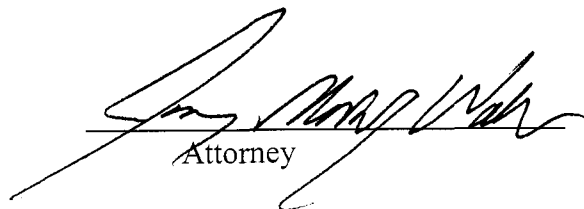
Gary L. Sasso
J. Michael Walls
Jill H. Bowman
Carlton Fields
P. O. Box 2861
St. Petersburg, Florida 33731-2861
Telephone: (727) 821-7000
Facsimile: (727) 822-3768

and

Robert A. Glenn
Director, Regulatory Counsel Group
Florida Power Corporation
P.O. Box 2861
St. Petersburg, FL 33731
Telephone: (727) 820-5184
Facsimile: (727) 820-5519

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT a true and correct copy of the foregoing has been furnished by facsimile and U.S. Mail to Deborah Hart as counsel for the Florida Public Service Commission and by U.S. Mail to all other interested parties of record as listed below on this 3rd day of October, 2000.



Attorney

PARTIES OF RECORD:

Deborah Hart, Esq.
Division of Legal Services
Florida Public Service Commission
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Buck Oven
Siting Coordination Office
Department of Environmental Protection
2600 Blairstone Road
Tallahassee, FL 32301

Myron Rollins
Black & Veatch
P.O. Box 8405
Kansas City, MO 64114

Paul Darst
Strategic Planning
Department of Community Affairs
2740 Centerview Drive
Tallahassee, FL 32399-2100