

101 North Monroe Street
Suite 1060
Tallahassee, Florida 32301

Tel 850.224.6199
Fax 850.681.6654

ORIGINAL



August 1, 2001

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee Florida 32399-0870

RECEIVED FPSC
01 JUL 32 AM 10:02
COMMISSION
CLERK

Dear Ms. Bayo:

RE: Docket No. 010827-EI

Enclosed are an original and fifteen copies of the following to be filed in the above docket.

1. Prepared Supplemental Direct Testimony and Exhibits of Ronnie R. Labrato. 09344-01
2. Prepared Supplemental Direct Testimony and Exhibit of M.W. Howell. 09345-01

Sincerely,

Susan D. Ritenour

APP _____
CAF _____
CMP _____
COM 5/10 Susan D. Ritenour
CTR _____ Assistant Secretary and Assistant Treasurer
ECR _____
LEG 1 _____
OPC _____
PAI _____ Enclosures
RGO _____
SEC 1 _____
SER _____ CC: Service List
OTH _____

RECEIVED & FILED

RLM

FPSC-BUREAU OF RECORDS

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Supplemental Direct Testimony of
4 M. W. Howell
5 Docket No. 010827-EI
6 Date of Filing: August 1, 2001

7 Q. Please state your name, business address and occupation.

8 A. My name is M. W. Howell, and my business address is One Energy Place,
9 Pensacola, Florida 32520. I am Transmission and System Control
10 Manager for Gulf Power Company.

11 Q. Are you the same M. W. Howell who has previously filed Direct Testimony
12 dated June 18, 2001 in this docket?

13 A. Yes.

14 Q. What is the purpose of your supplemental testimony in this proceeding?

15 A. I will address issues raised by the Florida Public Service Commission
16 Staff, the Office of Public Counsel, and the Florida Industrial Power Users
17 Group following the submittal of my direct testimony.
18

19 Q. Do you have an exhibit that contains information to which you will refer in
20 your testimony?
21

22 A. Yes. I have one exhibit to which I will refer. The exhibit contains a listing
23 of assets to be transferred to Southern Power under the Asset Purchase
24 and Sale Agreement.
25

DOCUMENT NUMBER-DATE

09345 AUG-1 01

FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Counsel: We ask that Mr. Howell's Exhibit
MWH-2, be marked for identification
as Exhibit _____(MWH-2).

Q. Are you also co-sponsoring Exhibits RRL/MWH-1 and RRL/MWH-2, which were identified in Mr. Labrato's testimony?

A. Yes. I support the PPA portion of Exhibit RRL/MWH-1. I also support the Operating Agreement and the Interconnection Agreement, which are included in Exhibit RRL/MWH-2.

Q. Would you agree that the proposed purchased power arrangement is the most cost-effective capacity resource available to Gulf and its customers?

A. Yes. When one looks at what may occur over the next ten years with the potential risk associated with uncertainty in the wholesale generation market, a portfolio of assets that includes the Purchased Power Agreement with Southern Power (PPA) is more appropriate than rate basing Smith Unit 3.

Q. What would you say is the major risk that Gulf's customers might face if Gulf were to rate base Smith Unit 3, and how does this translate to a benefit from having the proposed PPA?

A. If Smith Unit 3 is placed into Gulf's base rate investment, then this unit's costs, whatever they may be in the future, are a life of asset obligation of our customers. The customers will carry the burden of this cost for the life of the unit. For the thirty-year life of the unit, whatever the Commission

1 determines to be prudent costs associated with the operation and
2 maintenance of this unit will be included in the rates paid by Gulf's
3 customers. Under the PPA, Gulf's customers are only obligated to carry
4 the costs of the unit for ten years. The cost to Gulf's customers under the
5 PPA is essentially fixed, and the uncertainty of operating and maintenance
6 costs during this period will be borne by Southern Power. Another major
7 benefit of the PPA is the opportunity to participate in a more competitive
8 wholesale market. The wholesale generation markets are slightly tight at
9 this time, which puts upward pressure on market capacity costs. Gulf
10 believes that utilities will be required to maintain an adequate reserve
11 margin because of the public's desire to have a generation supply that is
12 plentiful and not to be subject to a high risk of blackouts. In a more
13 competitive wholesale market, this reserve margin requirement has the
14 potential to drive the generation supply to exceed the demand by a
15 sufficient amount to yield relatively lower wholesale market prices than
16 exist today. If this comes about, then lower cost market capacity will be
17 available for Gulf to purchase for its customers at the conclusion of the 10-
18 year PPA period.

19
20
21
22
23
24
25

Q. What happens if the surplus generation is such that available market prices for capacity are not lower in the future?

A. Even though Gulf does not believe that this will be the likely case, if market prices are higher than they are now, Gulf would have the option, at that time, to construct and put into rate base a new generating unit if it would be less costly than the available market prices. The PPA provides

1 the flexibility that allows Gulf to respond to changes in the wholesale
2 marketplace.

3

4 Q. Is there any projected difference in the cost of fuel to Gulf's customers for
5 Smith Unit 3 if the unit is covered by the PPA versus included in Gulf's rate
6 base?

7 A. No. The natural gas suppliers in the market are indifferent to who owns
8 the generating unit when pricing their product. The specific factors that do
9 impact the commodity price are going to affect the entire generation
10 market in this area irrespective of who owns the generation asset.

11 Further, the SCS Fuel Department will act as agent for fuel procurement
12 for Smith Unit 3 regardless of ownership. Consequently, under both the
13 PPA and rate base treatment for Smith Unit 3, the cost of fuel to Gulf's
14 customers recovered through the fuel cost recovery clause will be the
15 same.

16

17 Q. If Gulf's proposed purchased power arrangement with Southern Power is
18 approved and Smith Unit 3 is transferred, what assets will be transferred
19 and what is their estimated costs?

20 A. My Exhibit MWH-2 is Gulf's response to Staff's First Set of
21 Interrogatories, Item No. 3 dated July 18, 2001. This schedule shows a
22 detailed breakdown of the estimated costs associated with Smith Unit 3,
23 with a total estimated cost of \$220,614,000.

24

1 Q. Is the price to be paid by Gulf Power under the proposed purchased
2 power arrangement with Southern Power no higher than the price Gulf
3 would have paid to purchase power from a non-affiliate?

4 A. Yes. Based on the RFP process reviewed and approved by the
5 Commission in Docket No. 990325-EI, the selection of Smith Unit 3 was
6 recognized as a more cost effective alternative to purchases from non-
7 affiliated third parties. All of the RFP responses in that proceeding are
8 higher in cost than the proposed PPA with Southern Power.

9

10 Q. Do you believe that the Commission's determination of need for Smith
11 Unit 3 as contained in Order PSC-99-1478-FOF-EI restricts Gulf from
12 transferring the unit to Southern Power as part of the proposed PPA?

13 A. No. The Commission determined that Smith Unit 3 satisfied the power
14 supply and reliability needs of Gulf's customers in the most cost-effective
15 manner when compared to the other alternatives offered in the RFP
16 process required by Rule 25-22.082, FAC. Gulf's participation in the
17 proposed PPA still allows Smith Unit 3 to meet Gulf's needs consistent
18 with the Commission's finding in its order. In other words, Gulf's capacity
19 needs are being met by the same generating facility as was certified by
20 the Commission. I have read the order, and it contains no restriction on
21 transferring ownership of this facility.

22

23 Q. Is it necessary that Gulf Power demonstrate changed circumstances since
24 the need determination order was issued in order for the Commission to
25 approve the proposed purchased power arrangement regarding Smith

1 Unit 3, including transferring ownership to Southern Power instead of rate
2 base treatment of Smith Unit 3 as a Gulf owned resource?

3 A. No. No such demonstration is even hinted at in the order.

4

5 Q. Was it necessary that Gulf seek competitive bids for the purchase of
6 power and voltage support before entering into the contract with Southern
7 Power?

8 A. No. The PPA beat all other competitive bids and this is all that is
9 necessary. From a practical standpoint, there simply is not time to go
10 through another bidding process to solicit bids, perform bid evaluations,
11 negotiate a contract, develop the companion operating and transfer
12 agreements, and all of the other activities necessary to have the capacity
13 purchase agreement in place by next summer.

14

15 Q. Will Gulf's proposed purchased power arrangement with Southern Power
16 unreasonably impair the Commission's ability to direct Gulf Power to make
17 additions or extensions of facilities to the plant and equipment at the Smith
18 site pursuant to Section 366.05, Florida Statutes?

19 A. No. Adequate land, water, and other facilities are available at the site to
20 add additional generation that may be needed.

21

22 Q. Is excess power from Smith Unit 3 projected to be available for sale on the
23 wholesale market?

24 A. No excess capacity sales are projected to be made from Smith Unit 3.

1 Even if there were some projected sales, Gulf customers have the first call
2 on the capacity, and that is not changed by ownership of the unit.

3

4 Q. What is the difference, if any, in the impact of wholesale sales on Gulf's
5 retail customers between the proposed PPA and rate base treatment of
6 Smith Unit 3?

7 A. There is no difference. In either case, it is just as if Gulf owned the unit.
8 Gulf's customers have first call on the full output of the generating unit at
9 all times.

10

11 Q. Will the Commission have the same authority regarding disposition of
12 power from Smith Unit 3 under Section 366.04(2)(c) of the Florida Statutes
13 if the unit is owned by Southern Power and committed to Gulf pursuant to
14 the proposed purchased power arrangement as compared to the unit
15 being owned by Gulf Power as part of Gulf's retail rate base?

16 A. There is no difference in Gulf supplying this reliability between Gulf
17 actually owning the unit and purchasing the out put under the PPA. In
18 both cases, Gulf has full control of the entire plant output, total decision-
19 making authority on where the unit output is to be directed, and sole
20 discretion on the unit's dispatch requirements for Gulf's needs.

21

22 Q. Does that conclude your testimony?

23 A. Yes.

24

25

3. Please describe in detail, the assets, including common facilities, that will be transferred to Southern Power under the Transfer Agreement. Please provide their associated book value.

Answer:

The assets that will be transferred to Southern Power under the transfer agreement are as follows:

<u>Description</u>	<u>Estimated Book Value</u>
Combined Cycle Block (including)	
Engineering/project management	\$ 5,245,000
Major generator and balance of plant equip	121,878,000
Construction	53,319,000
Switchyard and step up-transformers	10,400,000
Training	1,685,000
Natural Gas conditioning station	1,600,000
Start up gas transportation	4,900,000
Start up natural gas costs	3,000,000
Unit start up costs	1,660,000
Environmental licensing costs	1,751,000
Wetlands mitigation	649,000
New generation project management	400,000
AFUDC & administrative	14,008,000
Land (50.12 acres)	<u>119,000</u>
Total	<u>\$220,614,000</u>