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April 15, 2002

**VIA HAND DELIVERY**

Blanca S. Bayo, Director  
Division of Records and Reporting  
Betty Easley Conference Center  
4075 Esplanade Way  
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Re: Docket No. ~~020165~~ **020175**

Dear Ms. Bayo:

On behalf of Reliant Energy Power Generation, Inc., I am enclosing for filing and distribution the original and 15 copies of the following:

- Testimony of Frederick John Meyer on behalf of Reliant Energy Power Generation, Inc.

Please acknowledge receipt of the above on the extra copy of each and return the stamped copies to me. Thank you for your assistance.

Sincerely,

Joseph A. McGlothlin

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Complaint of Reliant Energy  
Power Generation, Inc. Against  
Florida Power and Light Company

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Docket No. 020175

Filed: April 15, 2002

NOTICE OF FILING

Reliant Energy Power Generation, Inc., hereby gives Notice of the Filing of the  
Testimony of Frederick John Meyer in the above proceeding.

  
\_\_\_\_\_  
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Attorneys for Reliant Energy Power Generation, Inc.

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Reliant Energy Power Generation, Inc.'s Notice of Service of Testimony of Frederick John Meyer on behalf of Reliant Energy Power Generation, Inc., was on this 15th day of April, 2002, served via (\*) Hand delivery and U.S. Mail to the following:

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Complaint of Reliant Energy  
Power Generation, Inc. Against  
Florida Power and Light Company

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Docket No. 020175

Filed: April 15, 2002

TESTIMONY OF

FREDERICK JOHN MEYER

ON BEHALF OF

RELIANT ENERGY POWER GENERATION, INC.

MARCH 15, 2002

DOCUMENT NUMBER - DATE

04175 APR 15 02

FPSC-COMMISSION CLERK

1 **Q: Please state your name and business address.**

2 A: My name is Frederick John Meyer. I am currently Vice President of Asset  
3 Commercialization for Reliant Resources Incorporated. My business address is 1111  
4 Louisiana Street, Houston, Texas 77002.

5 **Q: Please describe your educational background and your professional experience.**

6 A: I earned a Bachelor of Science in Electrical Engineering in 1970 from Lamar University  
7 and a Master of Science degree in Electrical Engineering from the University of Houston  
8 in 1980. I am a Registered Engineer in the State of Texas.

9 I have spent 32 years working for Reliant Energy or its predecessors. I worked  
10 for over 25 years for the electric utility, Houston Lighting & Power Co. (HL&P) in  
11 various positions including Manager of Engineering Design and Development, General  
12 Manager Energy Control and Dispatching, General Manager of Gas and Oil Plant  
13 Operations, General Manager Engineering, and General Manager Transmission  
14 Operations and Planning.

15 In addition, I have held positions for Houston Industries Energy (International) as  
16 Vice President of Operations, for Reliant Energy Power Generation as Vice President of  
17 Commercial Development and my current position with Reliant Resources.

18 **Q: Have you testified in proceedings before State or Federal Commissions?**

19 A: Yes. I have testified numerous times before the Texas Public Utility Commission  
20 (PUCT) in transmission line need determinations, tariffs for qualified facilities,  
21 transmission access, interruptible load sales, economy power sales, standby power  
22 arrangements, and fuel reconciliation hearings. All of this testimony was done while  
23 working for HL &P on their behalf.

24 In addition, I have testified before the PUCT regarding the justification of the  
25 ERCOT ISO and its protocols that apply both to the market and the ISO operation.

1 I have testified before the Nevada Public Utility Commission on generation  
2 contracts on behalf of Sierra Pacific Corporation.

3 Finally, I have provided expert opinions and engaged in discussions before the  
4 Florida Public Service Commission and its Staff at various technical workshops. I have  
5 made similar appearances before the Federal Energy Regulatory Commission on RTO  
6 design, market design, transmission interconnection policies congestion management  
7 design, and RTO/ISO operations.

8 **Q: What is the purpose of your testimony?**

9 A: In August of 2001, FPL issued a Request For Proposals (“RFP”) in which it solicited  
10 proposals for capacity additions. Reliant Energy responded to and participated in the  
11 RFP. Reliant Energy submitted to FPL three separate proposals totaling 800 MW. In  
12 January 2002, FPL announced that it intends to build, own, and operate more than 1900  
13 MW of capacity. In its Complaint, Reliant Energy asserts that FPL violated Rule 25-  
14 22.082 in the manner in which it formulated and processed its August 2001 RFP and in  
15 the manner in which it altered, after the fact, the units that it identified in the RFP. In my  
16 testimony, I will identify the measures and actions that Reliant contends violate the rule  
17 and explain why they amount to far more than technical, harmless violations of the Rule.

18 **Q: To what provisions of Rule 25-22.083 does your testimony relate?**

19 A: My testimony relates to the portion of the rule that requires an investor-owned utility  
20 (IOU) to issue an RFP prior to filing a petition for a determination of need for its Next  
21 Planned Generating Unit (Rule 25-22.082(2)), as well as the portions of the rule that  
22 require the IOU to include in its RFP an estimate of the costs to construct the IOU’s Next  
23 Planned Generating Unit, and the technical and operating parameters of the unit (Rule 25-  
24 22.082(4)). I will also describe several commercially infeasible terms and conditions that  
25 FPL incorporated in the RFP. My testimony in this regard supports Reliant Energy’s

1 contention that terms and conditions that undermine and/or thwart the rule do not comply  
2 with the rule.

3 **Q: What specific issues are you addressing in your testimony today?**

4 A: Specifically, I will address the following problems or rule violations with the FPL  
5 Request for Proposal Process:

- 6 1) The proposed All FPL self-build option sites were not correctly identified  
7 by FPL;
- 8 2) Incorrect unit configuration information for self-build option was provided  
9 by FPL to bidders;
- 10 3) Bidders did not have a chance to provide updated responses for changed  
11 self-build options;
- 12 4) Self-build costs were apparently changed later by FPL;
- 13 5) Completion security for bidders was overly costly and did not allow  
14 bidders the option to provide for replacement power;
- 15 6) RFP required bidders to hold open bid proposal for too long;
- 16 7) The provision that would allow FPL to abrogate PPA for long term  
17 regulatory risk or changes in law is unrealistic;
- 18 8) FPL refused to accept tolling arrangement proposals in the bidding  
19 process;
- 20 9) FPL's failure to establish lowest cost alternatives.

21 **Q: In the RFP, what did FPL identify as the "next planned generating units" that it  
22 intended to construct unless it received better proposals?**

23 A: In the RFP, FPL identified combined cycle units at its Midway, Martin, and Ft. Myers  
24 sites. In each instance, the combined cycle units were to be constructed in a "two-on-  
25 one" configuration. That is, two combustion turbines would each have a heat recovery

1 steam generator (HRSG) tied to a single steam turbine.

2 **Q: When FPL announced its intent to construct capacity rather than select proposals**  
3 **from the RFP, did it identify the same units that it described in the RFP?**

4 A: No. FPL announced its intent to construct 1,100 MW of capacity at its Manatee site. The  
5 Manatee site was not mentioned in the RFP. In addition, rather than the “two-on-one”  
6 combined cycle configurations described in the RFP, FPL announced that it now intends  
7 to construct “four-on-one” combined cycle units at the Manatee and Martin locations. In  
8 a “four-on-one” configuration, four combustion turbines- each with its own HRSG- are  
9 tied to a single steam turbine. The result is a combined cycle unit that is roughly twice as  
10 large as the units that FPL identified in its RFP as its “Next Planned Generating Units.”  
11 As I will describe in my testimony, the difference in configuration affects the operating  
12 characteristics as well as the efficiency of the unit. The change has substantive  
13 implications for bidders interested in providing cost-effective capacity to FPL for the  
14 benefit of the Florida ratepayers.

15 **Q: You mentioned the change in location from the sites mentioned in the RFP to the**  
16 **Manatee location. Does such a change in location affect a bidder who is trying to**  
17 **offer a competitive proposal?**

18 A: Yes. Accurate details of the next supply alternative are very important to potential  
19 bidders and ultimately to FPL’s ratepayers. In order to develop a realistic competing  
20 supply option accurately -- one that includes accurate capital and operating cost estimates  
21 – the specific location of the self-build option is necessary so that site-related issues such  
22 as transmission capacity, fuel availability, labor costs, construction costs, and other local  
23 issues can be addressed in bid proposals and compared equitably to self build options.

24 **Q: Could you please explain how site location affects the costs for each of these items?**

25 A: The location of the interconnection to the grid determines whether or not the generator



1 will have to pay ongoing transmission charges (wheeling costs) to deliver its supply and  
2 also the amount of system upgrades that the generator must pay to interconnect in a  
3 specific location. There are additional costs that the bidders must consider, such as  
4 transmission integration costs. All of these factors converge to influence, from a system  
5 perspective, the best location for the interconnection of new generation supply. Once a  
6 specific site is identified by the IOU, bidders must presume that from an operational and  
7 a total least cost perspective that the IOU has determined the site to be a suitable location  
8 to connect new generation to the grid. Competitive supply alternatives tailor their  
9 proposals to best meet the needs of their prospective customer, which in this case is FPL,  
10 and to match the suitability of the location to the utility's self-build option. If a different  
11 location subsequently is chosen, all of the delivery, installation and operating costs would  
12 have been developed for the wrong frame of reference.

13 There are similar fuel delivery considerations. The availability of fuel supply  
14 varies greatly with location in Florida. Sites with limited fuel supply must either spend  
15 capital to upgrade the fuel delivery system or pay for firm delivery service. These costs  
16 are incorporated into the RFP response. Again, it is assumed that an IOU identifies  
17 specific locations based on the inherent operational and cost advantages of those  
18 locations. If a respondent has incorporated additional fuel delivery costs to serve a  
19 specific location and the choice of location then changes, the proposal is usually  
20 disadvantaged.

21 Construction costs are site specific and may vary throughout Florida as well. If  
22 specific sites are targeted, a respondent must assume that there was an operational and  
23 cost benefit to the Florida ratepayer to that location. Again, the proposals would take this  
24 into consideration and incorporate the appropriate costs for that site and geographical  
25 area into their proposals.

1           Local issues related to permitting and local land use compatibility are a key driver  
2 to selection of a site. Respondents attempting to craft a competitive supply alternative to  
3 an IOU's self-build proposal must consider these issues when attempting to optimize the  
4 trade-offs between site selection and the best location from an operational perspective. If  
5 a region is targeted and all of the local permitting and development costs are estimated  
6 for specific region, only to be replaced by one hundreds of miles away, those  
7 development costs are no longer relevant.

8           In summary, there are many development, capital and operational costs that are  
9 based on site-specific information. To casually designate an alternative site for  
10 comparison purposes completely ignores relevant costs and advantages of specific sites  
11 and provides no true comparison to the self-build options and the potential benefits  
12 available to the Florida ratepayer through PPA's by generation sited in close proximity to  
13 accurate site-specific information.

14 **Q: You have discussed the change in location associated with the substitution of the**  
15 **Manatee project for the units identified in the RFP. Did FPL make any other**  
16 **changes in the "next planned units" identified in the RFP that were significant from**  
17 **the standpoint of information that would be meaningful to potential bidders?**

18 A: Yes. As I mentioned, FPL identified in the RFP separate "two-on-one" combined cycle  
19 units as the capacity additions that it intended to construct at the Martin and Midway sites  
20 unless it received better proposals. However, FPL has now instead specified a single  
21 large "four-on-one" unit combined cycle unit at Martin and another "four-on-one" unit at  
22 Manatee.

23 **Q: Why is this change significant?**

24 A: Each power plant is characterized by its own set of costs and operating parameters.  
25 Compared to a smaller combined cycle unit, such as the "two-on-one" units identified in

1 the RFP, a “four-on-one” configuration (in which four combustion turbines are tied into a  
2 single steam turbine) involves an increase in capital costs offset by more output, about  
3 the same heat rate, but a different operating characteristic. For instance, the larger unit  
4 has, in comparison to the units identified in the RFP, some operating limitations and  
5 complications. It is important to analyze this trade-off further. The retail-serving  
6 utility’s load characteristics and needs must be such that they can “accommodate” the  
7 less flexible operating characteristics of a large source of incremental power. An 1100  
8 mw four-on-one combined cycle unit is more suitable for base load and moderate  
9 intermediate applications, as opposed to a two- on- one combined cycle application that  
10 can accomplish base load, all intermediate needs, and many peaking needs. To obtain the  
11 cost benefits of a larger four-on-one unit, the unit must run significantly more than a two-  
12 on-one combined cycle unit. Had FPL identified a four-on-one in its RFP, that  
13 designation would have signaled bidders that FPL regarded such a large unit as feasible  
14 for the load characteristics and operating needs at that site. Such information would have  
15 been very valuable to bidders, because it informs them of the target they would have to  
16 beat and the operational acceptability of a large unit at that site. Both of these factors  
17 may enhance the ability of bidders to offer better solutions to FPL and their ratepayers  
18 than the proposed self-build option.

19 The requirement of Rule 25-22.082(4)(10) that FPL apprise bidders of the  
20 technical parameters of the Next Planned Generating Unit comes into play in this regard.  
21 This subsection requires an IOU to inform potential bidders of “the planned and forced  
22 outage rates, heat rate, minimum load and ramp rates, and other technical details”  
23 associated with the Next Planned Generating Unit.

24 **Q: Did FPL apprise Reliant of the changes, or offer Reliant an opportunity to modify**  
25 **its proposals in response to the different units?**

1 A: No. Reliant was never contacted by FPL following the initial bid submittal other than to  
2 seek clarification of our bid proposal..

3 **Q: What is the significance of the changed location and the substitution of larger “four-  
4o on-one” combined cycle configurations for the units specified earlier in the RFP?**

5 A: It means that after accepting proposals from interested bidders/participants, FPL changed  
6 100% of the capacity additions that FPL had falsely specified as its “next planned  
7 generating units” in the RFP. It means that Reliant Energy and other bidders were  
8 “taking aim” at the wrong targets. As I stated at the outset of my testimony, these  
9 changes were more than harmless, technical violations of the rule that requires an  
10 investor-owned utility to issue an RFP related to its next planned generating unit prior to  
11 filing a petition to determine need for that unit. The substitution of materially different  
12 capacity additions after bidders prepared proposals geared to the units in the RFP had the  
13 effect of distorting the bid process significantly. More importantly, FPL’s actions have  
14 denied FPL’s ratepayers and this Commission the confidence of knowing that the very  
15 large and significant proposed generating additions at the Manatee and Martin sites have  
16 withstood fair market challenges and are indeed the best long-term solution to meet  
17 ratepayer needs.

18 **Q: Are there other violations of the Commission’s RFP rules which FPL conducted?**

19 A: Yes. The Commission’s rule requires the IOU to provide an estimate of the construction  
20 costs of its self-build option. In the RFP, FPL claimed its cost of constructing the  
21 essentially combined cycle capacity identified as its self-build option to be, on average,  
22 approximately \$429 per installed KW. Subsequently, after announcing that it had rejected  
23 all responses to the RFP, FPL publicly estimated its self-build cost of adding 1,900 MW  
24 to be \$1.1 billion, or \$579 per installed KW – a difference of 35%. Clearly, there was no  
25 effort to provide bidders with guidance regarding FPL’s costs. If anything, the

1 “estimate” was misleading. FPL’s “estimate” was meaningless – or worse -- and so, we  
2 contend, did not satisfy the requirement of the rule.

3 **Q: Did the design of the RFP by FPL adversely affect the ability of Reliant Energy to**  
4 **offer its best bid in any other respects that conflict with the intent of the**  
5 **Commission’s rules?**

6 A: Yes. Several unnecessarily onerous and commercially infeasible terms affected Reliant’s  
7 ability to fashion its best bid.

8 **Q: Please explain.**

9 A: The first point concerns a provision that required bidders to post a completion security in  
10 the amount of \$50,000 per MW. The RFP required that bidders would have to agree to  
11 allow FPL to draw down the entire amount of completion security in the event that a  
12 bidder was a single day late in meeting the specified commercial operation date. To  
13 illustrate, if a respondent proposed a 500 MW combined cycle facility, which is a typical  
14 configuration for new generation, and the project was one day late, the project would  
15 have to pay FPL \$25,000,000.

16 **Q: Is this a typical provision in purchased power agreements in the current wholesale**  
17 **market?**

18 A: No. Usually, purchased power agreements have guarantees by the seller for delivery of  
19 the power by a certain date. However, these guarantees are typically enforced by  
20 liquidated damage clauses that are intended either to cover the actual costs to which the  
21 purchaser may be exposed if it is forced to purchase replacement power in the event the  
22 proposed facility is not operational, or to specify a maximum “per day” liability. (Under  
23 FPL’s self-build alternatives, Florida ratepayers bear this uninsured risk.) At a  
24 minimum, a bidder should have the option to provide the needed replacement power in  
25 the event the new generation project is delayed.

1 **Q: Were there other provisions in the RFP that were commercially infeasible and**  
2 **unnecessary in today's environment?**

3 A: Yes. Embedded within the RFP was a provision requiring bidders to hold their offers  
4 open for 390 days. Given the dynamic nature of the wholesale electric market today, the  
5 requirement to hold an offer open for 390 days is simply unrealistic. Such "out-of-  
6 bounds" terms affect the dollar value of the responding bids.

7 **Q: In what way?**

8 A: To protect itself, the bidder must either accept the provision and adjust the offered price  
9 upward to mitigate the unnecessary risk associated with "hedging" a bid proposal, or  
10 simply take exception to the provision and risk having its proposal penalized by FPL in  
11 the scoring of the bids.

12 **Q: How long would it be reasonable to hold an offer open?**

13 A: Typical offers in the market are held open for 90 to 120 days.

14 **Q: Were there other terms of the RFP that were unreasonable?**

15 A: Yes. FPL specified that any contract between FPL and the selected winner would be  
16 subject to complete termination in the event the Commission failed to allow cost  
17 recovery. FPL also reserved the right to terminate the contract between a bidder and  
18 itself in the event of a change in current law governing the ability of developers to  
19 construct "merchant" plants.

20 In order to protect the ratepayer and provide a reasonable balance of risk between  
21 the supplier and FPL, the purchase contract should be conditioned on the successful filing  
22 in the need determination by the parties and the successful approval of the siting process.

23 If the provisions of the RFP allow FPL to abrogate the related contracts, then  
24 bidders must take the uncertainty into account. Specifically, uncertainty forces the  
25 bidders to adjust their bid prices upward to compensate for the additional risk imposed by

1 the provision or to take exception to the RFP provision and risk having FPL discount the  
2 bid proposal. FPL has biased the process toward its self-build option.

3 In the change-of-law provision, FPL has strongly discouraged a bidder from  
4 supporting changes in Florida law that would facilitate merchant plant construction.  
5 This is clearly a non-competitive and discriminatory action and it is not in the best  
6 interest of FPL ratepayers.

7 I would also postulate that if FPL is as uncertain about the future landscape of the  
8 electric industry as these RFP provisions suggest, then the self-build option is the worst  
9 option available to the Florida ratepayer because it forces a 25 year plus commitment on  
10 the Florida ratepayer.

11 **Q: What types of terms and conditions would you expect to see in an RFP proposal?**

12 A: I would expect for an equitable process, that the terms and conditions would be no  
13 different for potential bidders than for FPL. For instance, if bidders are required to  
14 submit a binding 1-year bid proposal, then FPL should be required to submit a binding  
15 bid at the start of the RFP process as well.

16 **Q: Are there any other problems that you identified in the RFP that would like to  
17 mention?**

18 A: Yes. In the RFP FPL emphasized that it would reject any proposal that would require  
19 FPL to supply fuel to a power plant owned by a participant. Such "tolling" arrangements  
20 -- i.e., commercial terms pursuant to which the purchaser of the output of the unit also  
21 supplies fuel to the unit -- are common in the power generation industry. They are an  
22 effective means of combining the strengths of different entities so that the overall  
23 commercial arrangements are as efficient and cost-effective to the retail ratepayers as  
24 possible. FPL is one of the largest customers of FGT, a privilege for which ratepayers  
25 have and continue to pay. As the largest customer, there are some natural fuel delivery

1 synergies available to FPL on a daily basis that could be complemented and enhanced by  
2 considering a tolling arrangement. Why should FPL generation alternatives be the only  
3 entity to enjoy this privilege paid for by the Florida ratepayer? I believe that tolling  
4 arrangements must be considered as a viable alternative in this process because they can  
5 provide benefits to all parties and most importantly to the Florida ratepayer.

6 **Q: Please explain how Reliant was able to respond to the RFP, given the unrealistic**  
7 **commercial terms and conditions.**

8 A: We responded to FPL's RFP by generally distancing ourselves from the onerous bid  
9 provisions and by stating our preference to resolve our objections to individual terms  
10 through the negotiation of an overall mutually acceptable package. To that end, we  
11 provided FPL with an Indicative Bid. An Indicative Bid proposal, common in the  
12 industry, sets forth specific site and pricing information in sufficient detail to enable FPL  
13 to evaluate it against its self-build alternatives, but it is understood that such an Indicative  
14 Bid contemplates negotiations. In our bid proposals we stated that we were willing and  
15 would welcome the opportunity to further discuss and refine our proposal through  
16 negotiations. Rule 25-22.082, contemplates that a retail-serving utility conducting an RFP  
17 will identify and negotiate with a short list of bidders. In its RFP package, FPL stated it  
18 would develop a short list and negotiate with individual bidders on that list. FPL built a  
19 "negotiation period" of approximately 5 months into its RFP process. I am not aware of  
20 any shortlist established for negotiations to verify that one of the bid proposals, a  
21 combination of FPL self-build and certain bid proposals, or that the all FPL's self build  
22 option is actually the most cost-effective and best long-term alternative to the Florida  
23 ratepayer. FPL did not negotiate with Reliant.

24 **Q: Please summarize your final analysis of the RFP process conducted by FPL.**

25 A: The RFP conducted by FPL has the following shortcomings:



- 1           1)     The comparative self-build options were not correctly identified by  
2                     location, type, or costs;
- 3           2)     The RFP terms and conditions imposed on the bidders biases the results in  
4                     favor of the self-build options and are not realistic of typical contractual  
5                     terms and conditions for these types of arrangements. Included in these  
6                     onerous terms are security completion, FPL's unilateral contract  
7                     termination rights, and open ended offers;
- 8           3)     There are no assurances that the self-build option proposed by FPL is truly  
9                     the most cost effective solution for the ratepayers because tolling  
10                    arrangement proposals and negotiations with short listed proposals were  
11                    not allowed and/or properly undertaken by FPL.

12 **Q:     What course do you recommend to the Commission in light of your testimony?**

13 A:     I believe the appropriate course, given the deficiencies of FPL's August 2001 RFP, is to  
14     require FPL to issue a completely new RFP—one that identifies the “next planned  
15     generating units” that FPL really intends to build in the absence of better proposals, and  
16     that contains legitimate, commercially feasible terms. Reliant and other potential  
17     participants could then use the correct information and feasible commercial requirements  
18     to fashion truly responsive proposals. Under the circumstances, this is the only course  
19     that would be fair to bidders and the only course that will ensure that ratepayers receive  
20     the benefit of the most cost-effective capacity additions that the market can deliver.

21 **Q:     Does this conclude your testimony?**

22 A:     Yes, it does.

23

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Testimony of Frederick John Meyer on Behalf of Reliant Energy Power Generation, Inc., was on this 15th day of April 2002, served via (\*) Hand delivery and U.S. Mail to the following:


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