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September 11, 2002

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Re: Docket Nos.: 020262-EI and 020263-EI

Dear Ms. Bayo:

On behalf of Florida Partnership for Affordable Competitive Energy, enclosed for filing and distribution are the original, 15 copies and disc of the following:

- ▶ Prehearing Statement of Florida Partnership for Affordable Competitive Energy

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

Sincerely,

Joseph A. McGlothlin

JAM/mls
Enclosure

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to determine
Need for an electrical power
Plant in Martin County by
Florida Power & Light Company.

Docket No. 020262-EI

In re: Petition to determine
Need for an electrical power
Plant in Manatee County by
Florida Power & Light Company

Docket No. 020263-EI

Filed: September 11, 2002

**PREHEARING STATEMENT OF FLORIDA
PARTNERSHIP FOR AFFORDABLE COMPETITIVE ENERGY**

Pursuant to Order No. PSC-02-0992-PCO-EI, the Florida Partnership for Affordable Competitive Energy ("PACE") files its Prehearing Statement.

A. APPEARANCES:

Joseph A. McGlothlin
McWhirter Reeves McGlothlin, Davidson,
Decker, Kaufman & Arnold, P.A.
117 S. Gadsden Street
Tallahassee, Florida 32301

On Behalf of the Florida Partnership for Affordable Competitive Energy

B. WITNESSES:

Kenneth J. Slater

C. EXHIBITS:

Exhibit __ (KJS-1) Technical Qualifications and Professional Experience

Exhibit __ (KJS-2) List of Expert Testimony

Exhibit __ (KJS-3) Comparison Of Risks (Value of Expected Unserved Energy vs.
FPL Cost & Performance Risk)

D. STATEMENT OF BASIC POSITION:

Particularly when the unwarranted and prejudicial "equity penalties" are removed from consideration, the differences in costs between FPL's self-build options and other

alternatives are small. At the same time, the operating parameters that FPL assumed for its self-build options were unrealistically aggressive, and FPL's simplistic modeling of the impact of the bidders' options on system costs was flawed and imprecise. As a result, FPL skewed the selection process in favor of its self-build options. These circumstances create a serious potential for choosing an alternative that is not the most cost-effective available. The wrong choice would expose ratepayers to adverse consequences in the form of the risk of cost overruns and the risk that FPL may not meet its aggressive performance projections if FPL's non-binding proposal is selected. Taking into consideration the minimal risk of adverse impacts (in the form of unserved energy) to ratepayers that would be associated with a denial of the petitions in this case, ratepayers' interests will be served by denying FPL's petitions.

E. STATEMENT OF ISSUES AND POSITIONS:

ISSUE 1: Is the output of Florida Power & Light Company's Martin Unit 8 fully committed for use by Florida retail electric customers?

PACE: No position.

ISSUE 2: Is the output of Florida Power & Light Company's Manatee Unit 3 fully committed for use by Florida retail electric customers?

PACE: No position.

NEED FOR ADDITIONAL GENERATING CAPACITY

ISSUE 3: Does Florida Power & Light Company have a need for Martin Unit 8, taking into account the need for electric system reliability and integrity?

PACE: When the consequences of choosing the wrong alternative are taken into account, and the de minimis value of expected unserved energy associated with a delay is considered, ratepayers will be served better by a denial of the petition.

ISSUE 4: Does Florida Power & Light Company have a need for Manatee Unit 3, taking into account the need for electric system reliability and integrity?

PACE: When the consequences of choosing the wrong alternative are taken into account, and the de minimis value of expected unserved energy associated with a delay is considered, ratepayers will be served better by a denial of the petition.

ISSUE 5: Does Florida Power & Light Company have a need for Martin Unit 8, taking into account the need for adequate electricity at a reasonable cost?

PACE: When the consequences of choosing the wrong alternative are taken into

account, and the de minimis value of expected unserved energy associated with a delay is considered, ratepayers will be served better by a denial of the petition.

ISSUE 6: Does Florida Power & Light Company have a need for Manatee Unit 3, taking into account the need for adequate electricity at a reasonable cost?

PACE: When the consequences of choosing the wrong alternative are taken into account, and the de minimis value of the expected unserved energy associated with a delay is considered, ratepayers will be served better by denying the petition.

CONSERVATION

ISSUE 7: Are there any conservation measures taken by or reasonably available to Florida Power & Light Company that might mitigate the need for Martin Unit 8?

PACE: No position.

ISSUE 8: Are there any conservation measures taken by or reasonably available to Florida Power & Light Company that might mitigate the need for Manatee Unit 3?

PACE: No position.

FUEL AVAILABILITY

ISSUE 9: Has Florida Power & Light Company adequately ensured the availability of fuel commodity and transportation to serve Martin Unit 8?

PACE: No position.

ISSUE 10: Has Florida Power & Light Company adequately ensured the availability of fuel commodity and transportation to serve Manatee Unit 3?

PACE: No position.

COST-EFFECTIVENESS

ISSUE 11: Did Florida Power & Light Company properly and accurately value the use of existing infrastructure at the Martin plant site in determining the construction cost of Martin Unit 8?

PACE: No position at this time.

ISSUE 12: Did Florida Power & Light Company properly and accurately value the use of existing infrastructure at the Manatee plant site in determining the construction cost of Manatee Unit 3?

PACE: No position at this time.

ISSUE 13: Did Florida Power & Light Company's Supplemental Request for Proposals, issued on April 26, 2002, satisfy the requirements of Rule 25-22.082, Florida Administrative Code?

PACE: No. Implicit in the rule is the requirement that the evaluation called for by the rule be fair and adequate for the purpose of identifying the most cost-effective alternative.

ISSUE 14: Was Florida Power & Light Company's decision not to consider proposals to construct generating capacity on property owned by Florida Power & Light Company appropriate?

PACE: PACE's position is that FPL should impute as a cost of its self-build option the market value of the property that could be sold for ratepayers' benefit if FPL were to purchase from a respondent to an RFP.

ISSUE 15: Was the process used by Florida Power & Light Company to evaluate Martin Unit 8, Manatee Unit 3, and projects submitted in response to its Supplemental Request for Proposals, issued on April 26, 2002, fair, reasonable, and appropriate?

(a) Did FPL administer the evaluation process so as to provide to non-FPL participants a fair opportunity to win the RFP?

PACE: PACE adopts the position of CPV Cana and CPV Gulfcoast.

(b) Did FPL apply to its self-build options the standards and criteria that it applied to respondents?

PACE: No. FPL did not impose on itself the requirement that payments received by bidders be limited to their bids.

(c) Were the evaluation criteria used by FPL in evaluating the bids disclosed to the bidders prior to the submission of bids?

PACE: No position at this time.

ISSUE 16: In its evaluation of Martin Unit 8, Manatee Unit 3, and projects filed in response to its Supplemental Request for Proposals, issued on April 26,

2002, did Florida Power & Light Company employ fair and reasonable assumptions and methodologies?

- (a) Were the assumptions regarding operating parameters that FPL assigned to its own proposed units reasonable and appropriate?

PACE: No. FPL assumed overly aggressive and unrealistic values for such parameters as heat rates and forced outage rates, thereby biasing the comparisons in favor of its self-build options.

- (b) When modeling and quantifying the costs of all options, did FPL appropriately and consistently quantify and take into account the impact of variable O&M costs associated with bidders' proposals and variable O&M costs associated with its own self-build options, so as to result in a fair comparison of purchased and self-built alternatives?

PACE: No. In the EGEAS modeling FPL attributed "full" variable O&M costs to bidders' proposals, but only the relatively small category of "consumables" to its self-build option. The disparate treatment of variable O&M introduced ambiguity and imprecision into the results of the evaluation.

- (c) When modeling and quantifying the costs of all options, did FPL fairly and appropriately compare the costs of projects having different durations?

PACE: No. FPL inappropriately applied to the bidders' shorter proposals the assumption that the bidder's project would be followed by the construction of a "greenfield" generating unit. The effect of the assumption was to increase artificially the cost of the purchased power options.

- (d) When modeling and quantifying the costs of all options, did FPL employ assumptions regarding the gas transportation costs for the proposals that were fair, reasonable, and appropriate?

PACE: No. FPL arbitrarily assumed that the purchased power options would be served by FGT, the more expensive of the available pipelines, thereby artificially increasing their transportation costs relative to the FPL self-build options.

- (e) When modeling and quantifying the costs of all options, including its own, did FPL appropriately and adequately take cycling and

start-up costs into account?

PACE: No. The EGEAS model is incapable of modeling cycling and start-up costs. FPL had to manually provide rough estimates of such costs. The effect was to introduce imprecision into the modeling.

(f) When modeling and quantifying the costs of all options, did FPL appropriately and adequately take into account the impact of seasonal variations on heat rate and unit output?

PACE: No. The impact of FPL's failure to take such seasonal variations into account injected another source of imprecision and error into its modeling.

(g) Did FPL act in a fair, reasonable and appropriate manner in not considering further a proposal from TECo on the basis that TECo's reserve margin requirements might be impaired?

PACE: No position.

ISSUE 17: Was Florida Power & Light Company's decision to apply an equity penalty cost to projects filed in response to its Supplemental Request for Proposals appropriate? If so, was the amount properly calculated?

PACE: No. Constructing and operating a power plant imposes many risks that can be allocated away from the utility's ratepayers through a power purchase contract. Even if one assumes, for purposes of argument, that a power purchase contract increases the utility's financial risk, to single out that factor while failing to consider the universe of risks associated with construction and purchasing unfairly skews the comparison in favor of the self-build options.

ISSUE 18: Did FPL negotiate with the short-listed bidders in good faith?

PACE: No position.

ISSUE 19: If the Commission grants FPL's petition for a determination of need authorizing it to construct its proposed Manatee 3 and Martin 8 units, should FPL be required to limit any requested rate base increase to the amount bid?

PACE: If FPL does not commit to limit its recovery to the amounts specified in its proposals, the Commission should take that factor into account when reviewing the aggressive nature of the assumptions underlying its proposals.

- ISSUE 20:** If the answer to the above issue is no, is each of FPL's proposals based on sound and reasonable estimates, such that the Commission may conclude that the Commission and FPL's ratepayers may realistically expect FPL to implement the non-binding proposal at the stated cost?
- PACE:** No. FPL "won" the FPL RFP on the basis of aggressive and unrealistic assumptions that place doubt on its ability to implement its proposals without significant overruns which, in the absence of a commitment on its part, will be presented to ratepayers for payment.
- ISSUE 21:** If the Commission grants FPL's proposal to construct Manatee 3 and/or Martin 8, are consumers estopped from challenging the prudence of the investment in any subsequent rate case?
- PACE:** No.
- ISSUE 22:** Has FPL met its burden of proof to demonstrate that it has fairly chosen the most cost-effective alternatives available?
- PACE:** No. The combination of flawed and imprecise modeling, self-serving and overly aggressive assumptions, and the non-binding nature of FPL's proposals cast serious doubt on its contention that it has chosen the most cost-effective alternatives.
- ISSUE 23:** What would be the impact on ratepayers if the Commission were to deny either or both of FPL's petitions?
- PACE:** Using the expected value of unserved energy as a measure of adverse impacts, ratepayers would be less likely to experience adverse impacts associated with a denial than with the selection of an alternative that, based on FPL's flawed and skewed analysis, may not be the most cost-effective and is likely to experience costs beyond those identified by FPL.
- ISSUE 24:** Is Florida Power & Light Company's Martin Unit 8 the most cost-effective alternative available?
- PACE:** FPL has failed to support its petition with an adequate basis on which the Commission can conclude that Martin Unit 8 is the most cost-effective alternative available.
- ISSUE 25:** Is Florida Power & Light Company's Manatee Unit 3 the most cost-effective alternative available?
- PACE:** FPL has failed to support its petition with a showing on which the Commission can reasonably conclude that Manatee 3 is the most cost-effective alternative available.

ISSUE 26: Based on the resolution of the foregoing issues, should the Commission grant Florida Power & Light Company's petition for determination of need for Martin Unit 8?

PACE: No.

ISSUE 27: Based on the resolution of the foregoing issues, should the Commission grant Florida Power & Light Company's petition for determination of need for Manatee Unit 3?

PACE: No. The Commission should deny the petition require and fair and unbiased selection process that will provide an outcome in which the Commission and the utility's ratepayers can have confidence.

F. STIPULATED ISSUES:

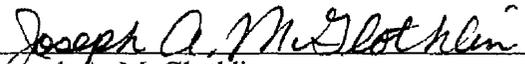
None at this time.

G. PENDING MOTIONS:

PACE has none.

H. OTHER MATTERS:

None at this time.


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Attorney for Florida Partnership for Affordable
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Prehearing Statement of Florida Partnership for Affordable Competitive Energy was on this 11th day of September 2002, served via (*) Hand delivery, electronically and U.S. Mail to the following:

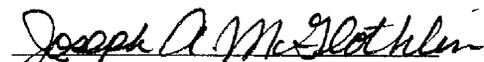
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