

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

PETITION TO DETERMINE NEED FOR DOCKET NO. 020262-EI
AN ELECTRICAL POWER PLANT IN
MARTIN COUNTY BY FLORIDA POWER &
LIGHT COMPANY

PETITION TO DETERMINE NEED FOR DOCKET NO. 020263-EI
AN ELECTRICAL POWER PLANT IN
MANATEE COUNTY BY FLORIDA POWER &
LIGHT.

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VOLUME 7

PAGES 828 THROUGH 1018

PROCEEDINGS: HEARING
BEFORE: CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI
COMMISSIONER RUDOLPH "RUDY" BRADLEY

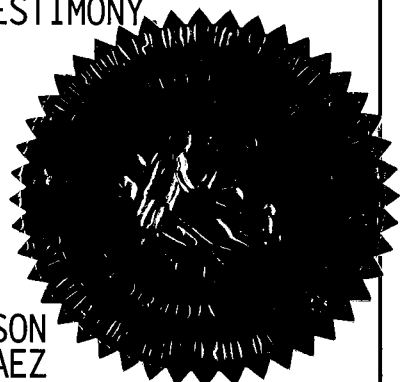
DATE: Friday, October 4, 2002

TIME: Commenced at 8:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
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Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR
Official PSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)



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P R O C E E D I N G S

(Transcript continues in sequence from Volume 6.)

CHAIRMAN JABER: Good morning. We're ready to get started.

FP&L, I think you were going to call your next witness.

MR. LITCHFIELD: That's correct, Madam Chairman.

MORAY PETER DEWHURST

was called as a witness on behalf of Florida Power & Light Company and, having been duly sworn, testified as follows:

D I R E C T E X A M I N A T I O N

BY MR. LITCHFIELD:

Q Would you state your name and address.

A Excuse me. My name is Moray Peter Dewhurst. My address is 700 Universe Boulevard, Juno Beach, Florida.

Q And what is your position with Florida Power & Light Company?

A I'm the Senior Financial Officer.

Q You've been previously sworn in this case, have you not?

A Yes, I have.

Q And do you have before you prefiled direct testimony consisting of 19 pages dated July 16th, 2002?

A Yes, I do.

Q Are you sponsoring portions of FPL's Need Study in

1 this proceeding?

2 A I sponsor Appendix I and I cosponsor Appendix N.

3 Q Have you prepared an errata sheet to your prefiled
4 direct testimony?

5 A Yes, I have.

6 Q As revised by that errata sheet, if I were to ask you
7 the same questions as are identified in your prefiled direct
8 testimony, would your answers be the same as reflected therein?

9 A Yes, they would.

10 MR. LITCHFIELD: Madam Chairman, I would ask that
11 Mr. Dewhurst's prefiled direct testimony as revised by his
12 errata sheet be inserted into the record as though read.

13 CHAIRMAN JABER: The prefiled direct testimony of
14 Moray P. Dewhurst shall be inserted into the record as though
15 read, with the errata sheet.

16 MR. LITCHFIELD: Thank you.

17

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF MORAY P. DEWHURST**

4 **DOCKET NOS. 020262-EI, 020263-EI**

5 **JULY 16, 2002**

6
7 **Q. Please state your name and business address.**

8 A. Moray P. Dewhurst, 700 Universe Boulevard, Juno Beach, Florida 33408.

9
10 **Q. What is your employment capacity?**

11 A. I serve as Senior Vice President of Finance and Chief Financial Officer of
12 Florida Power & Light Company (FPL or the Company).

13
14 **Q. Please describe your educational and professional background and
15 experience.**

16 A. I have a bachelor's degree in Naval Architecture from MIT and a master's
17 degree in Management, with a concentration in finance, from MIT's Sloan
18 School of Management. I have approximately twenty years of experience
19 consulting to Fortune 500 and equivalent companies in many different
20 industries on matters of corporate and business strategy. Much of my work
21 has involved financial strategy and financial re-structuring. I was appointed to
22 my present position in July of 2001.

23

1 **Q. What is the purpose of your testimony?**

2 A. My testimony will address two main subjects relevant to FPL's Supplemental
3 Request for Proposals (Supplemental RFP). The first subject deals with the
4 evaluation of the financial viability and business commitment of bidders
5 responding to FPL's Supplemental RFP, including the importance of ensuring
6 the supplier will have the financial strength to complete construction of the
7 proposed plant in a timely manner, as well as the strength, skills and
8 commitment to maintain and operate the facility over the term of the
9 agreement in accordance with the supplier's original promises. I will review
10 the minimum financial requirements established in the Supplemental RFP and
11 how those requirements factored into in the determination of the short list of
12 bidders.

13
14 My testimony will also support and supplement the testimony of Dr. Avera on
15 the propriety of assigning an equity penalty to the costs of non-FPL bids
16 submitted in response to FPL's Supplemental RFP when comparing those bids
17 to FPL's self-build option, the methodology employed in computing the
18 amount of debt equivalent added to the Company's balance sheet, and the
19 assumptions underlying the amounts computed.

20

21 **Q. Are you sponsoring any sections in the Need Study Document?**

22 A. Yes. I am sponsoring Appendix I, Summary of Financial and Economic
23 Assumptions, and co-sponsoring Appendix N.

1 **Financial Viability as a Non-Price Factor**

2

3 **Q. Please explain why the Company should consider as non-price factors the**
4 **financial viability of a potential supplier as well as other issues relating to**
5 **the supplier's ability to meet its commitments.**

6 A. The Company must look both to price and non-price factors when choosing
7 the best solution to meet resource needs for providing power to customers.
8 Price, or cost, is obviously important – other things equal, the lower cost
9 alternative is preferred – and can be quantitatively evaluated. However, other
10 things may not always be equal, and an alternative that appears promising
11 solely on the basis of economic calculations may be much less so when
12 considered more broadly.

13

14 Bidders' responses to the Supplemental RFP represent promises of future
15 commitments, which may or may not be met, depending upon the specific
16 circumstances of the particular bidder. Thus, it is necessary that FPL make
17 assessments as to the reliability of each bidder's promises and of its likely
18 abilities to meet the commitments. Factors such as a bidder's long-term
19 financial viability, its operating track record, its stated or implied commitment
20 to the business of operating generation projects, and its history of successfully
21 delivering against commitments in prior projects are all important when
22 making a long-term commitment to purchase power. A supplier that cannot
23 complete construction of a plant according to the schedule agreed to, either

1 because of operational failure or because of financial impairment, jeopardizes
2 FPL's ability to provide power sufficient to meet our customers' needs.

3
4 Similarly, a supplier must be able to maintain a strong financial profile over
5 the life of the project. A supplier that fails to operate and maintain a project
6 due to financial or other constraints will place FPL at risk of having to
7 purchase replacement power on short notice and at the risk of higher prices or
8 otherwise compromising system reliability. In addition, FPL may face
9 increased risk of contract disputes with a financially weakened supplier. The
10 cost of these various risks is ultimately borne in large part by our customers,
11 who will directly bear the costs of replacement power if the supplier does not
12 have the financial wherewithal to correct operational problems or to pay the
13 replacement power costs in the form of damages. Accordingly, when
14 evaluating bids, FPL must weigh a variety of non-price factors along with the
15 promised economics of each alternative.

16
17 **Q. How did FPL go about assessing financial viability?**

18 A. FPL used a number of indicators of overall current financial health as a guide
19 to assessing financial condition. Primary emphasis was placed on standard
20 indicators of creditworthiness, including coverage ratios and leverage ratios.
21 As an overall guide, credit assessments from the major credit rating agencies,
22 Standard & Poor's Corporation (S&P) and Moody's Investors Service
23 (Moody's), were used. While rating agency assessments have limitations and

1 cannot be used as an absolute or sole indicator of financial viability for all
2 purposes, I believe that for the purpose of providing a general indicator of a
3 bidder's likely ability to meet its commitments under the Supplemental RFP
4 they are a useful starting point.

5

6 **Q. How were rating agency ratings used in the evaluation process?**

7 A. Rating agency ratings were used to set a minimum threshold of credit quality.
8 Ratings are by no means perfect indicators of financial strength or viability,
9 and it would be inappropriate to draw too fine a distinction between, for
10 example a company with a BBB+ rating and one with an A- rating. However,
11 there is substantial evidence that default probabilities are correlated overall
12 with ratings and, in particular, that default probabilities increase significantly
13 as companies drop below the standard definitions of "investment grade." For
14 the purposes of the Supplemental RFP, FPL set a minimum threshold of
15 "BBB" with a "stable" outlook, and we examined the specific circumstances
16 of bidders whose ratings might be in doubt, to provide reasonable assurance
17 that the rating agencies evaluations were appropriate for the bidders' actual
18 financial circumstances.

19

20 **Q. How does FPL know that a supplier who is credit worthy today will be so
21 6 months from now, or 10 years from now?**

22 A. Financial viability and credit quality are influenced by many factors, including
23 market conditions, strategic decisions of management, and general economic

1 conditions. Thus there can be no guarantee that a company that is
2 creditworthy today necessarily will be so in the future. However, while it is
3 impossible to perfectly predict long-term viability, it is feasible to assess a
4 bidder's current financial position and likely near-term (2 to 3 year) future
5 financial position, as indicated both by publicly stated intentions and by rating
6 agency assessments, to make informed judgements as to a supplier's ability to
7 maintain a strong financial position. For FPL's purposes, the 2 to 3 year
8 assessment is very important, because it coincides with the construction
9 period for the assets that will be needed to fill the underlying capacity need.
10 Because we applied a minimum credit threshold in our evaluation, it is not
11 necessary to be absolutely precise about the relative levels of creditworthiness
12 among bidders; rather, the intent was merely to ensure that entities that do not
13 meet the minimum definition of creditworthiness were screened out. In
14 addition to a minimum credit threshold, additional forms of security
15 independent of credit ratings, such as completion and performance
16 requirements, can also be employed to protect our customers from the cost of
17 supplier non-performance.

18
19 **Q. Describe the current state of the independent power producer (IPP)**
20 **industry as it relates to capital markets.**

21 A. On average, the trend in credit quality for the IPP segment of the U.S. utility
22 industry has been negative for the past year. However, there have been
23 significant variations across companies. In general, companies that have

1 overextended and over-leveraged themselves, and/or those that have taken on
2 excessive merchant generation or trading exposure in relation to their overall
3 size, have seen their credit positions suffer most significantly. Companies that
4 have taken significant exposure in many foreign markets – in particular those
5 in Latin America – have also been negatively affected. On the other hand,
6 companies whose investment programs have been well tailored to their
7 available cash flow and balance sheet strength have been much less affected,
8 as have those that have pre-emptively supported their growth plans through
9 the issue of new equity or equity-linked securities. As a result, today there is
10 a wide range of credit and balance sheet strength in the segment: some
11 companies are eminently well positioned to meet the kinds of obligations
12 required by FPL's Supplemental RFP, while others are not. Given this wide
13 range in financial conditions, it is especially important for FPL to carefully
14 screen bidders for financial viability.

15
16 **Q. Given the concerns you have noted above, what minimum financial**
17 **standards or requirements did FPL include in the Supplemental RFP and**
18 **the power purchase agreement?**

19 A. The Supplemental RFP and the power purchase agreement contemplate the
20 bidder maintaining a minimum credit standard and posting a completion
21 security. Additionally, the power purchase agreement requires the bidder to
22 provide performance security as described generally below. These minimum
23 standards are necessary to help ensure that the facilities which will provide

1 contracted power will be constructed, completed on schedule, and operated
2 and maintained in a manner consistent with the terms of the contract. It should
3 be noted that the completion and performance securities employed here by no
4 means entirely eliminate risk to FPL or to its customers; rather, they represent
5 an effort on the part of the Company to reduce such risk by means and within
6 limits generally consistent with current commercial practice.

7
8 **Financial security.** The power purchase agreement requires each bidder to
9 maintain, at a minimum, a BBB grade rating with a “stable” outlook or
10 provide a guarantee from another party with such credit standing. S&P’s
11 definition of an investment grade issuer is an “...obligor who has adequate
12 capacity to meet its financial commitments.” A requirement that bidders
13 maintain, at a minimum, a BBB grade rating helps ensure that the bidder will
14 be able to obtain financing for the project and that cash flows will be available
15 for ongoing maintenance of the project. As indicated earlier, default
16 probabilities escalate sharply across lower rated entities, particularly those of
17 marginal investment grade or below.

18
19 **Completion security.** To help ensure timely completion of the project, the
20 Supplemental RFP and the power purchase agreement requires that the bidder
21 provide completion security in an amount equal to no less than \$50,000 per
22 MW of committed capacity. This security provides a ready source of funds to
23 pay for replacement power if the project were to be delayed or to fail to

1 achieve its in-service date and provides an incentive to the bidder to complete
2 the project on schedule.

3
4 **Performance Security.** The purchase power agreement also requires that
5 each bidder provide performance security in an amount to be negotiated.
6 Should an event of default occur and not be cured, performance security helps
7 provide funds necessary for FPL to purchase replacement power or to operate
8 the plant.

9
10 **Q. Did these standards and requirements result in the disqualification of any**
11 **bidders from further consideration?**

12 **A.** Yes, the application of these standards and minimum requirements resulted in
13 FPL declaring one bidder ineligible for further evaluation beyond the initial
14 review of its proposals. As Mr. Silva describes in more detail in his
15 testimony, upon receipt of the responses to the Supplemental RFP, FPL
16 observed that some of the bidders had failed to adequately confirm their intent
17 and willingness to provide the requisite completion security consistent with
18 the terms of the Supplemental RFP. In response to a follow-up request for
19 clarification from FPL, one of these bidders again failed to confirm its intent
20 to provide the necessary completion security. That bidder was dropped from
21 further consideration. Thus, the fact that one bidder was unwilling even to
22 agree to these conditions confirms that there can be substantial differences
23 among bidders on non-price factors.

1 **Q. Were any other bidders declared ineligible for further consideration at**
2 **this stage of the evaluation based on questions regarding their financial**
3 **viability?**

4 A. As Mr. Silva indicates in his testimony, two other bidders were determined to
5 be ineligible to be included in the evaluation beyond an initial review of their
6 proposals. One of those bidders already had given FPL advance notice of its
7 inability to meet the in-service date under an existing agreement to supply
8 capacity and energy to FPL. This entity's acknowledgment of its likely
9 failure to meet an existing commitment to FPL is, I believe, due in large
10 measure to its current financially weakened state (recently downgraded to
11 "BB-" by S&P), which significantly limits its ability to finance, construct, and
12 operate the project consistent with its contractual obligations. This is
13 precisely the kind of adverse impact that FPL seeks to avoid by attempting to
14 hold bid respondents to certain minimum standards regarding financial
15 viability and security. Clearly, it would not be advantageous for FPL to
16 negotiate further with a company that has already signaled its inability to meet
17 its existing commitments, much less enter into new ones.

18

19 **Q. Where else in the evaluation process did FPL consider the financial**
20 **viability of the bidder?**

21 A. As Mr. Silva describes in his testimony, once FPL completed its economic
22 evaluations and determined which combinations of resource options were
23 among the more cost-effective portfolios, based strictly on price, the Company

1 had to assess which, if any, of the bidders should be included on a “short list”
2 of suppliers with whom FPL would enter into negotiations. The purpose of
3 the negotiations was to determine if the “short-listed” bidders in fact could
4 provide the most cost-effective alternative, as well as to assure financial
5 viability of the project. In considering candidates for the short list among the
6 more price-competitive options based on the economic analysis, FPL
7 considered the financial viability of the individual suppliers.

8
9 **Q. Did FPL eliminate any bidder from consideration for negotiations, i.e.,**
10 **not making the “short list,” based on financial viability of the bidder?**

11 A. Yes. FPL eliminated one additional entity from consideration for the short list
12 based at least in part on questions concerning that bidder’s financial viability.
13 Mr. Silva identifies this bidder as “Bidder X” in his testimony.

14
15 **Q. Please explain FPL’s reasons for electing not to include Bidder X on the**
16 **short list.**

17 A. Bidder X was eliminated from the short list because of concerns regarding its
18 financial viability. In particular, Bidder X did not maintain the requisite credit
19 rating as defined in the Supplemental RFP. Neither did it indicate that it
20 would supply a guarantee from an entity with at least a BBB rating as
21 contemplated by the Supplemental RFP. To compensate for its below
22 investment grade status, Bidder X offered an alternate security arrangement.
23 This alternate form of security provided no additional protection against the

1 risk of Bidder X not achieving its commercial service date. Moreover, the
2 purchased power agreement FPL was prepared to offer investment grade short
3 list bidders had the same security arrangement that Bidder X offered. In short,
4 Bidder X essentially offered no financial security other than that which FPL
5 would require of another investment grade bidder, yet Bidder X was below
6 investment grade.

7
8
9 FPL has good reason to be concerned about the financial viability of Bidder
10 X. Bidder X announced earlier this year that many advanced stage
11 development projects had been placed on hold pending further review. Bidder
12 X has also canceled delivery of approximately \$3 billion of turbines originally
13 slated for delivery between 2002 and 2005. Even with these actions, which
14 should serve to strengthen credit quality, Bidder X was recently downgraded
15 by both rating agencies and is currently rated "BB" by S&P and "B1" by
16 Moody's. S&P's definition of a "BB" rated issuer is one who "... faces
17 major ongoing uncertainties and exposure to adverse business, financial, or
18 economic conditions which could lead to the obligor's inadequate capacity to
19 meet its financial commitments." The rating agencies have noted concerns
20 over Bidder X's high leverage, limited financial flexibility, substantial
21 ongoing capital expenditure requirements to complete its build-out program,
22 and Bidder X's liquidity profile. At March 31, 2002, Bidder X's total debt to
23 total capitalization was 75%, or 78.5% including off-balance sheet debt. S&P

1 expressed concern “that nearly \$3.5 billion of debt matures in late 2003-early
2 2004 [which] places considerable pressure on [Bidder X’s] credit risk profile
3 given growing concerns about [Bidder X’s] access to equity and debt
4 markets.” Bidder X recently secured over \$2 billion of debt, which according
5 to S&P, will likely prevent Bidder X from obtaining unsecured debt financing
6 in the future.

7
8 Furthermore, Bidder X’s stock price has suffered immensely. The stock price
9 has fallen for five consecutive quarters, for a total loss of approximately 87%.
10 FPL does not believe it is in the best interests of its customers to accept the
11 level of financial risk associated with a company in Bidder X’s financial
12 position.

13

14 **Q. Should the Commission infer from FPL’s decision to enter into**
15 **negotiations with El Paso that the Company had no concerns with respect**
16 **to this supplier?**

17 A. No. While the credit ratings of El Paso Corporation (“El Paso”) (S&P) Issuer,
18 BBB+/ Unsecured, BBB) (Moody’s Unsecured Baa2) met the investment
19 grade criteria set forth in the Supplemental RFP, I was concerned over El
20 Paso’s ability to maintain these ratings levels throughout the construction and
21 subsequent contract period. According to S&P’s analysis of El Paso, its
22 current ratings depend on the Company executing a challenging financing
23 plan. Specifically, El Paso’s maintenance of an investment grade rating

1 depends upon successful and more or less simultaneous execution of a number
2 of initiatives, even without consideration of a possible commitment to projects
3 of the magnitude bid by El Paso in response to the supplemental RFP.

4
5 In addition to questions I had concerning El Paso's financial plan, I had
6 questions that stemmed from El Paso's announcement on May 29, 2002 of a
7 strategic repositioning plan that would downsize and restructure the merchant
8 energy segment of the business. The announcement stated further that El Paso
9 intends to concentrate future investment in its core natural gas business.

10
11 These issues would have been appropriately addressed in specific negotiations
12 with the bidder. However, as Mr. Silva describes, circumstances did not
13 warrant discussions beyond the initial meeting because the project economics
14 were not sufficient to merit selection over the two FPL self build options.

15
16 **Equity Penalty**

17
18 **Q. What is an "equity penalty" as employed by the Company in its analysis**
19 **of responses to the Supplemental RFP?**

20 **A.** An equity penalty is an adjustment made in the calculation of the total cost of
21 supply options containing purchased power obligations to reflect the fact that
22 such obligations draw upon the debt capacity of the Company and, other
23 things being equal, must be offset by increasing the ratio of equity in the

1 Company's financing mix. Mechanically, an equity penalty is the net present
2 value of the incremental cost of equity required to rebalance the Company's
3 capital structure (the incremental cost of equity is measured relative to the cost
4 of debt).

5
6 **Q. Why is it appropriate for the Company to include an equity penalty as a**
7 **cost for the non-FPL proposals in the comparison of those bids to the**
8 **FPL self-build options?**

9 A. The equity penalty is a real cost to a utility and its customers of entering into a
10 purchase power agreement. In assessing a utility's credit quality, the bond
11 rating agencies explicitly evaluate the utility's purchase power obligations.
12 Based on that examination, the rating agencies attribute to the utility's balance
13 sheet as debt-equivalent a portion of the net present value of the obligations
14 under each power purchase agreement. The effect is to increase the relative
15 share of debt and debt-like instruments in the capital structure. Accordingly,
16 the utility would need to increase equity in its capital structure to attain the
17 same level of financial security and flexibility with a purchased power
18 obligation as without. The net present value of the incremental cost of
19 increased equity to rebalance the capital structure must be added to the net
20 present value of the cost of purchased power options evaluated to determine
21 the total cost to FPL. FPL's analysis of the bids took this incremental cost of
22 capital into account. This comparison for each option enables FPL to fairly
23 evaluate competing proposals against one another and against FPL self-build

1 options. Were this not done, the economic comparison of self-build and
2 external supply options would be biased in favor of the latter, leading to
3 higher total revenue requirements to be borne by customers over the long run.

4

5 **Q. Please describe the basic methodology employed to determine the amount**
6 **of imputed debt.**

7 A. While all of the rating agencies take off-balance sheet obligations into account
8 when evaluating credit quality, S&P uses an approach that has both
9 quantitative and qualitative aspects to value the debt component of off-balance
10 sheet obligations. It involves first computing the net present value of the
11 remaining capacity payments under the contract. A qualitative analysis of
12 market, operating, and regulatory risk is then performed for each contract to
13 derive a risk factor.

14

15 Once the risk factor is determined, it is then multiplied by the net present
16 value of the remaining capacity payments to determine the amount of off-
17 balance sheet obligation to include as debt in the capital structure of the
18 company for purposes of analyzing credit quality.

19

20 **Q. Do you believe an adjustment of this type is appropriate?**

21 A. Yes. In evaluating the capital structure of any company, investors will take
22 into account major financial commitments, whether these are reflected on the
23 balance sheet or not. In general, I agree that an adjustment for off-balance

1 sheet obligations should be made in assessing the financial condition of a
2 company. While our own calculation of the appropriate amount of purchase
3 power obligation to include as a debt equivalent might be different, I believe
4 S&P's methodology produces an overall assessment that is reasonable and
5 fairly represents the general investor viewpoint.
6

7 **Q. How did the Company calculate the incremental cost of equity or "equity**
8 **penalty" for each bid in this case?**

9 A. We estimated the amount of imputed debt based on the S&P methodology
10 described above. Once the imputed debt is calculated, equity would be
11 required to rebalance the Company's capital structure (currently
12 approximately 55% equity on an adjusted basis) in order to maintain
13 comparable financial flexibility and credit quality. The equity penalty
14 represents the net present value of the incremental cost of the equity added to
15 the capital structure.
16

17 The equity penalty is then added to the net present value of the capacity
18 payments under each contract to determine the total cost of each option. Once
19 this is done, a meaningful comparison of the total cost of each option with
20 FPL's self-build option can be made. The equity penalty computations are
21 shown in Appendix N of the Need Study.
22

1 **Q. Please indicate the risk factor that the Company used in its computation**
2 **of the equity penalty attributed to each outside proposal and explain the**
3 **basis for that factor.**

4 A. FPL employed a risk factor of 40 percent. During the RFP process, FPL
5 furnished S&P with the basic terms of the power purchase agreement reflected
6 in the RFP. FPL requested that S&P provide an estimate of the risk factor it
7 would attribute to the contract in determining the amount of off-balance sheet
8 debt to add back to FPL's balance sheet for purposes of evaluating the
9 Company's credit quality. S&P indicated that it likely would assign the
10 contract a risk factor ranging from 40 to 60 percent, i.e., it would add to the
11 Company's balance sheet between 40 and 60 percent of the net present value
12 of the capacity payments as debt-equivalent. To be conservative and to avoid
13 debate over which portion of this range more fairly represents the appropriate
14 risk factor, FPL elected to use the bottom of the range, i.e., 40 percent, for
15 purposes of its analysis.

16
17 **Q. Does this 40 percent risk factor consider the impact of a potential**
18 **supplier's financial viability, as discussed earlier in your testimony?**

19 A. No. The risk factor assigned by S&P represents the rating agency's
20 assessment of the debt characteristics of a particular purchased power
21 agreement. While this entails an examination of a variety of qualitative
22 factors related to the underlying contract and the extent to which the related
23 financial risks are borne by FPL and its customers, S&P's assessment

1 implicitly presumes that the generating facility has been placed in service and
2 is operating under the terms of the purchased power agreement contemplated
3 in the Supplemental RFP. Thus, the risk factor does not directly address the
4 financial viability of individual suppliers or the impact that this has on the
5 ability of a particular bidder to meet its commitments.

6
7 **Q. Has the Commission previously endorsed the use of an equity penalty in**
8 **assessing the true costs of purchased power alternatives?**

9 A. Yes. In Order No. PSC-01-0029-FOF-EI, the Commission found Florida
10 Power Corporation's consideration of imputed debt based on a risk factor of
11 40% to be appropriate for purposes of comparing third party proposals to
12 FPC's self-build option, the Hines Unit 2. The Commission also allowed
13 consideration of imputed debt in approving FPL's Standard Offer Contract in
14 Order No. PSC-99-1713-TRF-EG.

15
16 **Q. Does this conclude your testimony?**

17 A. Yes, at this time.

Errata Sheet
Direct Testimony of Moray P. Dewhurst
Docket Nos. 020262-EI and 020263-EI

Page, Line	Correction
2, 6	Insert "that" at beginning of line
2, 11	Delete "in"
2, 15	Insert "certain" before "non-FPL"
4, 5	Add a comma at the end of the line
4, 6	Add a comma after "constraints"
11, 17	Add "in part" after "short list"

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FPSC-COMMISSION CLERK

1 BY MR. LITCHFIELD:

2 Q Mr. Dewhurst, would you please summarize your
3 testimony?

4 A Good morning, Commissioners. My testimony addresses
5 two subjects: The role of financial viability and other
6 nonprice factors in our evaluation of competing supply
7 alternatives and the equity penalty.

8 With respect to the first, while price is obviously
9 important, it should not be the only factor considered in
10 evaluating alternative means of meeting our customers' supply
11 needs. We must also satisfy ourselves that suppliers have the
12 financial viability, track record and commitment to make it
13 highly likely that they will deliver on their commitments. The
14 commitments themselves are just promises. We need reasonable
15 assurance that suppliers can and will follow through on their
16 promises.

17 Among these factors, finance viability is obviously
18 important and particularly important today since many IPPs and
19 merchant energy companies are suffering through significant
20 deterioration in their financial positions.

21 In the supplemental RFP we required a completion
22 guarantee and we also expected each bidder to provide evidence
23 of ability to remain a BBB or equivalent credit rating. We
24 also indicated that alternative forms of credit support could
25 be offered.

1 Financial viability and related concerns played a
2 role in FPL's decision making and form part of the reason for
3 dropping some bidders from further consideration at different
4 points in the process.

5 In addition, notwithstanding the fact that we entered
6 into preliminary negotiations with El Paso, I had concerns
7 about their financial position and prospects and their
8 commitment to the power business. However, we did not pursue
9 these concerns since the economics of the El Paso bids were not
10 sufficiently economically attractive.

11 My second subject is the equity penalty. The equity
12 penalty is an adjustment made in the calculation of the total
13 cost of those supply alternatives that contain fixed capacity
14 payments in order to reflect the fact that such payments draw
15 upon the debt capacity of the company and, other things equal,
16 must be offset by increasing the ratio of equity in the capital
17 mix.

18 The basic economic analysis that we performed
19 implicitly assumed a constant capital structure across
20 alternatives, yet this assumption is violated when the analysis
21 is applied to outside alternatives fixed capacity payments. By
22 adding in the cost of the equity needed to rebalance the
23 capital structure we obtain a more accurate comparison. The
24 equity penalty is not applied to turnkey supply alternatives.

25 In performing our analysis, we utilized the basic

1 methodology employed by S&P to estimate the amount of debt that
2 would be imputed to each PPA alternative. The cost of
3 rebalancing the capital structure to accommodate this level of
4 incremental debt is then straightforward to calculate, as
5 described by Dr. Avera.

6 We believe inclusion of the equity penalty in our
7 analysis is required in order accurately to compare supply
8 alternatives that have fixed capacity payments with those that
9 don't, and we also believe it's consistent with the
10 Commission's previous rulings. Thank you.

11 CHAIRMAN JABER: Thank you.

12 MR. LITCHFIELD: Tender the witness for
13 cross-examination.

14 CHAIRMAN JABER: Mr. Moyle?

15 CROSS EXAMINATION

16 BY MR. MOYLE:

17 Q Thank you. Good morning, Mr. Dewhurst.

18 A Good morning.

19 Q I have a number of questions for you. But before I
20 get started, I wanted to ask you with respect to -- you've
21 been -- have you been here for the last few days?

22 A Yes, I have.

23 Q Okay. And did you hear me ask Dr. Sim a question in
24 his rebuttal testimony where I pointed to some lines in the
25 testimony in which -- these aren't the exact words, but it was

1 indicated that there was another bidder out there who had a
2 proposal that had lower revenue requirements? Do you remember
3 that line of questioning? And I subsequently asked him whether
4 FPL had entered into a settlement agreement with this bidder?

5 A Yes. I recall that general line of questioning.

6 Q Okay. Given that you recall that, then let me ask
7 you this question. Are you aware whether FP&L has entered into
8 a settlement agreement with that bidder that affects that
9 bidder's participation in this proceeding?

10 MR. LITCHFIELD: Madam Chairman, I'd like to restate
11 our objection and to preserve it for the record. We understand
12 your ruling with respect to the question as to whether or not
13 there was a settlement.

14 CHAIRMAN JABER: Actually my ruling was allowing two
15 questions: The first was, are you aware of any settlement
16 agreements? And to save my life I can't remember the second
17 one, but hopefully you can.

18 MR. MOYLE: I think the follow-up was, did they enter
19 into one?

20 CHAIRMAN JABER: Okay.

21 MR. MOYLE: I would not be doing my job if I just
22 asked him if they were aware of one and didn't ask a follow-up.

23 BY MR. MOYLE:

24 Q So given that preservation for the record, are you
25 aware as to whether FPL has entered into any agreement with

1 that bidder that we've previously identified that affected
2 their participation in this proceeding?

3 A Yes, I am.

4 Q Okay. And did FP&L enter into such an agreement?

5 A Yes, they did.

6 MR. MOYLE: Okay. Given that, Madam Chair, I have a
7 couple of other questions that I think are pertinent along that
8 line. I'm not going to ask about the contents of the
9 settlement agreement.

10 BY MR. MOYLE:

11 Q I believe in that group of proposals there were,
12 there were some others or at least there were some others on a
13 short list that has been talked about. Has FP&L entered into
14 an agreement or reached an understanding with the Tampa
15 Electric Company --

16 MR. LITCHFIELD: Objection.

17 MR. MOYLE: -- with respect to this proceeding?

18 MR. LITCHFIELD: I apologize for interrupting,
19 Counsel.

20 Again, I would reurge our objection for the record.
21 And if that's also a question you'd like to have answered,
22 that's fine. But I would like to have that objection preserved
23 for the record.

24 CHAIRMAN JABER: And what exactly is the objection?

25 MR. LITCHFIELD: The objection is, is that this

1 information would tend to disclose potentially confidential
2 settlement communications and, as is typical in settlement
3 agreements, often a condition of the settlement is that the
4 fact of the settlement itself is confidential. And to ask the
5 witness to disclose one way or the other whether there was a
6 settlement we think tends to cut across the principle of
7 protecting settlement communications among parties.

8 CHAIRMAN JABER: At least with respect to one
9 example, your witness just said that there was a settlement
10 agreement. So what I need to find out is is there a, an
11 agreement to hold those discussions confidential? For the
12 record I'd like for you to state that.

13 MR. LITCHFIELD: With respect to the answer that Mr.
14 Dewhurst gave regarding the settlement reached with Bidder X.
15 Fair enough. I'm not sure whether Mr. Dewhurst knows the
16 answer to that question, but --

17 MR. GUYTON: I can address that for the record.

18 CHAIRMAN JABER: Go ahead, Mr. Guyton.

19 MR. GUYTON: The agreement, by its terms, is
20 confidential; both parties treat it as such.

21 CHAIRMAN JABER: Okay. Mr. Moyle, govern yourself,
22 you know, accordingly.

23 MR. MOYLE: Sure. And I'm not, I'm not asking
24 anymore questions about that agreement. I don't -- I am not
25 asking what its terms are. I'm just asking simply has there

1 been an agreement entered into with parties that have
2 participated in this process that's affected their
3 participation in this process, you know, yes or no?

4 CHAIRMAN JABER: I'll allow it. Go ahead.

5 MR. MOYLE: And I'll leave it at that.

6 BY MR. MOYLE:

7 Q So, Mr. Dewhurst, returning to my original question,
8 I believe that my recollection is that there were some other
9 bidders on that short list, one of which was the Tampa Electric
10 Company. Has FP&L entered into an agreement or reached any
11 kind of understanding, had discussions related to that
12 company's participation in this proceeding?

13 A I don't know.

14 Q Okay. Who would know that?

15 A I don't know.

16 Q Would the president of the company know that?

17 A He might or he might not.

18 Q Okay. The same question with respect to Florida
19 Power Corporation.

20 A My response is the same.

21 Q Okay. The same question with respect to any other --

22 A Same.

23 Q -- bidder -- let me finish it --

24 A Sorry.

25 Q -- any other bidder or intervenor in this case?

1 A No. I'm aware that at least one other intervenor has
2 approached us for settlement discussions. I'm not sure whether
3 any agreement has been reached.

4 Q So like with South Pond that withdrew on the day
5 before the hearing, you don't know whether there was an
6 agreement or understanding reached with them?

7 A I don't know.

8 Q Okay. Did you -- I think you testified that you
9 looked at creditworthiness and things like that. Did you
10 affirmatively find any company to be creditworthy?

11 A Could you explain what you mean by "affirmatively
12 find them to be creditworthy"?

13 Q Well, you have evaluated companies where they
14 creditworthiness, financial viability has been an issue. Did
15 you make a determination that any entity that submitted bids,
16 did you decide that they were financially viable?

17 A Yes and no. Yes in the sense that there were several
18 bidders who at least passed the initial screen for financial
19 viability; i.e., they had an investment-grade credit rating and
20 from my general knowledge of their situation, I would have
21 considered them perfectly adequate partners in a PPA
22 alternative.

23 Q But that wasn't a definitive thumbs-up or thumbs-down
24 call on the financial viability of that company?

25 A No. As you heard yesterday or the day before, the

1 process was to complete the economic evaluation and enter into
2 negotiations with a short list. At that point we would have
3 gone into more depth on any concerns that we might have had
4 with nonfinancial factors, including financial viability.

5 Q Are you familiar with the completion guarantee
6 arrangement?

7 A Yes.

8 Q Security arrangement?

9 A Yes, somewhat.

10 Q Would you describe what that provision does?

11 A Yes. Fundamentally the completion security requires
12 that bidders post a \$50,000 a megawatt completion security to
13 be drawn at the rate of \$330 per megawatt per day if the
14 project does not complete when it's committed to complete.

15 So, in other words, if the contractor were late, if
16 they were a day late, Florida Power & Light would be entitled
17 to draw on that security for \$330 per megawatt for each day.

18 Q And so if somebody submitted a 1,000 megawatt bid,
19 that would be a \$50 million pot of money; is that correct?

20 A That's correct.

21 Q Okay. And that protects the ratepayers, does it not,
22 from a construction delay?

23 A No. It helps to protect them but it doesn't protect
24 them. And let me explain.

25 The \$330 per megawatt per day, if you divide it by

1 12, that's, excuse me, 24, would amount to roughly 13 or 14
2 bucks per megawatt hour. So if the project were late, we could
3 be in the situation where we're buying power in the open
4 marketplace at prices of 40 or 50 bucks a megawatt hour and
5 getting compensated to the tune of 13 or 14 on the customers'
6 behalf. So there could be still very substantial exposure for
7 the customer from that.

8 However, we do believe that the inclusion of that
9 completion security provides a strong incentive for the
10 supplier to get the project completed on time.

11 Q If I heard -- so given your testimony about it, you
12 wouldn't be protected if prices were in the \$40 to \$50 range?
13 How often have they been in the \$40 to \$50 range in the last
14 year, if you know?

15 A I couldn't say statistically, but certainly in the
16 summer, which is when the projects will be due to complete, it
17 would be quite likely that they would be in \$40 to \$50 megawatt
18 hour range.

19 Q So is it, is it your testimony that the completion
20 security provision that y'all drafted does not -- was drafted
21 in a way that doesn't completely cover the risk related to
22 FP&L's not having that power available and doesn't give them
23 enough money necessarily to go into the market to, to pick up
24 additional power if the power plant is not available?

25 A That's correct. I don't believe we could write in

1 any provision that would absolutely protect customers. I
2 believe this provision is a reasonable protection for some
3 circumstances. And, as I say, I believe it also provides a
4 strong incentive for the supplier to complete the project on
5 time. So I think it's a good balance there.

6 Q Okay. Now with respect to -- if I understand it,
7 this completion guarantee money is a pot of money out there.
8 If a plant is a week late, a month late, there's a pot of money
9 that FP&L can rely on to go in and cover, to use a legal term,
10 or to go into the market and buy excess power; correct?

11 A Yes.

12 Q Okay. Now in FP&L's self-build option is there a
13 similar mechanism that is in place to protect the ratepayers if
14 the project is delayed?

15 A Can you explain what you mean by "a similar
16 mechanism"?

17 Q A pot of money, a pot of money that has been set
18 aside that can be looked to to go in and pick up extra power if
19 the, if the project is delayed? Just use your description of
20 the completion security agreement.

21 A Yes. I think there is. FPL is always ready to
22 purchase additional power, if that's needed, to meet the needs
23 of our customers. That's part of our responsibility.

24 Q But there's not -- you haven't set any money aside or
25 you won't set any money aside, will you, to do this?

1 A No. We wouldn't specifically set a particular pot of
2 money aside for this particular risk. We have general
3 liquidity available to us for a variety of different purposes.
4 So there's a central pool of liquidity available to us.

5 Q Are you testifying as an expert today?

6 A I don't believe so. I believe expert is a legal term.
7 So I'm not entirely clear. I don't consider myself a legal
8 expert.

9 Q Page 9 of your testimony.

10 A Yes.

11 Q There's a provision on Line 4 through 8; it talks
12 about performance security. What, what is envisioned by
13 performance security as set forth in your testimony?

14 A The performance security is somewhat analogous to the
15 completion security, but would apply once the project is in
16 operation. To the extent that the project fails to meet its
17 operational commitments, there would be some form of security,
18 which, as we, as I indicated here in the testimony, would have
19 been to be negotiated in the PPA, again, to provide at least
20 partial protection in the event that we had to go out and
21 purchase power because the project wasn't delivering.

22 Q Okay. And the same question with respect to FP&L's
23 self-build. Is a similar type arrangement envisioned in FP&L's
24 self-builds?

25 A Yes. Again, we always stand ready to go out and

1 purchase additional power, if we need to, to meet our
2 customers' needs.

3 Q Okay. You cannot answer that yes or no?

4 A I said yes.

5 Q Okay. So there is a performance security arrangement
6 envisioned in FP&L's self-build options?

7 A Well, yes and no. There is no specific contractual
8 provision between FPL and itself saying that we will do that.
9 It seems to me it's part of our obligation to serve; if we have
10 a situation where, for whatever reason, a plant goes down, has
11 an unexpected outage, we then go out and cover that need either
12 through our existing resources or by purchasing power in the
13 open market.

14 Q There's been discussion about a short list, and I
15 think on Page 10 you talk about a short list. I'm sorry. Page
16 11.

17 A Yes.

18 Q And it says you eliminated Bidder X from
19 consideration; is that right?

20 A Yes. We did eliminate Bidder X from consideration.

21 Q Did you, did you consult with Bidder X and discuss
22 the situation with them prior to eliminating them?

23 A No, we didn't. In my view, that would have been a
24 waste of time.

25 Q And did you talk to your expert, Mr. Avera, about

1 concerns related to that bidder's financial condition before
2 eliminating them?

3 A No, we didn't. That was not necessary.

4 Q Okay. Were you at the meeting that I think Mr. Silva
5 talked about the other day where there was, he brought in a
6 list of five proposed bidders for a short list and you ended up
7 with two out of that meeting?

8 A Yes, I was.

9 Q Okay. Do you recall why you only went out with, with
10 two on the short list from that five?

11 A Yes, I do.

12 Q Please, please indicate why.

13 A Commissioners, there were five basic alternatives
14 presented to us on June 18th, and I believe an exhibit was
15 shown either yesterday or the day before indicating the, the
16 five that we evaluated at that June 18th meeting.

17 If I could kind of explain the decision-making logic.
18 There's a group labeled E that on a total economic basis is
19 roughly \$182 million more expensive than the self-build option.
20 We felt that that was too far out of the money economically to
21 warrant going further with entering into negotiations.

22 Secondly, we noted that all five of these groups
23 contain one or other of the El Paso alternatives. So we noted
24 that if anybody was to be on the short list, it was going to
25 have to include El Paso.

1 Thirdly, we then looked at -- or I think, I believe,
2 I articulated this in the meeting. If you compare the two
3 pairs of remaining alternatives, if you compare A and B and C
4 and D, in each case we felt that, I felt that the first in the
5 alphabet was clearly superior.

6 And let me explain that. Let me take A and B. A is
7 the alternative which we did pursue short list negotiations
8 with that consists of the 50-megawatt power sale from Florida
9 Power Corp plus the El Paso alternative, and I compared that
10 with B, which consists of the Martin expansion 200 megawatt
11 supply from TECO, Bidder X, and the El Paso alternative.

12 That second alternative was, in my mind, roughly
13 equivalent in promised economics. However, where the first
14 included ourselves, Florida Power Corp and El Paso, the second
15 included TECO and Bidder X.

16 We had some concerns, as you heard yesterday, about
17 whether TECO could meet the reserve margin and supply that
18 200 megawatts. I personally was not too concerned about that
19 because I thought we could resolve it one way or another;
20 either they would have it or they wouldn't have it. We could
21 satisfy ourselves of that later on.

22 My problem was with Bidder X. Bidder X is a very
23 reputable company, but it has had some trouble lately. It had
24 an expansion plan calling for it to reach roughly
25 80,000 megawatts of generation by 2005. It was entirely

1 dependent on the capital markets to meet that expansion plan.
2 It has been downgraded at least once, possibly more times in
3 the last year. At the time we reviewed it, I believe I'm
4 correct in saying that it had a Moody's rating of B. And to
5 put that in perspective, a B rating means that statistically,
6 I'm not saying this would happen to that particular company,
7 but statistically we could expect roughly 30 percent odds that
8 that company would be in default within five years.

9 It was a company that had also announced that it was
10 pulling back on projects in construction in other parts of the
11 country. I felt that it would be inappropriate for us to
12 continue and enter into detailed negotiations with them when we
13 had an alternative which had roughly similar economics and
14 didn't contain them.

15 I made the same argument with respect to pairs C and
16 D. Bidder X was in D. There was another alternative in C. In
17 that case the alternative was also economically worse. So I
18 couldn't see any logic by which it would make sense for us to
19 continue with Bidder X.

20 Therefore, when we reduced the logic, it seemed to me
21 that the A alternative was the only one that had any realistic
22 prospect of producing something that in detailed negotiations
23 might get us closer to the economics.

24 And, remember, that at this time we believed that
25 that alternative was roughly \$80 million more expensive in

1 total economics than the self-build option. When we did get
2 into negotiations, we found that that gap increased.

3 That was my logic and I said so at the time, although
4 I think my words may have been a little more colorful.

5 COMMISSIONER DEASON: Let me ask -- I'm sorry. Let
6 me ask a question.

7 I assume that Bidder X's identity is confidential; is
8 that correct?

9 MR. MOYLE: It's not. We've kept it out of the
10 record as a courtesy, but it's not confidential.

11 COMMISSIONER DEASON: Okay. I'll just, I'll get that
12 information from staff at the break then.

13 MR. MOYLE: Okay. Yes. I mean, it's Calpine, but
14 we've just been referring to them as Bidder X. I think the cat
15 was out of the bag the other day when I asked the witness to
16 read the line from the testimony, and I asked him to refer to
17 it as Bidder X and he said Calpine.

18 CHAIRMAN JABER: Right.

19 BY MR. MOYLE:

20 Q I was just going to comment, in law school they train
21 young lawyers not to ask why questions during cross, and your
22 answer reminded me of why, why they train lawyers that way. I
23 appreciate the answer.

24 You have a long history in finance, do you not? I've
25 read your testimony and you've been in the financial world for

1 a number of years; correct?

2 A I've studied financial issues for approximately 20 --
3 23, 24 years.

4 Q Are you familiar at all or just maybe in general
5 terms with the leading auction houses in the country:
6 Sotheby's, Christy's?

7 A I'm generally familiar with them, yes.

8 Q Okay. Do you know that they prequalify bidders
9 before they put things out to bid, particularly things that
10 cost a lot of money, that before they go through the effort of
11 receiving bids and going through that process, that they ask
12 them to submit certain financial information that they then
13 make a judgment as to whether that particular bidder is able to
14 bid or not?

15 A I do not know that.

16 Q Can you see how that would make some sense?

17 A Yes. In some circumstances I can see that that could
18 make sense, particularly for their business.

19 Q So just so I'm clear, you negotiated -- the short
20 list had El Paso, Bidder X, PG&E, TECO and Florida Power Corp;
21 correct?

22 A No, that's not correct. The short list had Florida
23 Power Corp and El Paso.

24 Q Okay. But the short list that was used as an exhibit
25 the other day that we talked about that Mr. Silva brought into

1 a meeting had the five entities I just listed; correct?

2 MR. LITCHFIELD: I'll object, Madam Chairman. I
3 believe that Mr. Moyle is mischaracterizing testimony that's
4 already been received into evidence. We do not believe that
5 the exhibit that he's referring to has ever been characterized
6 as the short list.

7 MR. MOYLE: Ma'am, the exhibit speaks for itself. At
8 the top of it it says "Short List" and underneath it there are
9 five names?

10 CHAIRMAN JABER: Yeah. Mr. Litchfield, I remember
11 that conversation vividly because I jokingly referred to it as
12 the medium list.

13 MR. LITCHFIELD: You're correct. But I think
14 Mr. Silva's testimony was to the effect that that was simply a
15 list of potential participants on the short list and that it
16 was presented to management, and then management determined the
17 two who actually made the short list. And you're correct, and
18 you referred to this as the medium list.

19 CHAIRMAN JABER: With all of that clarification, I
20 think we understand Mr. Moyle's point in that regard.

21 THE WITNESS: Could you repeat the question, please?

22 BY MR. MOYLE:

23 Q Sure. There, there was a list that was used during
24 the cross-examination of Mr. Silva that contained five names of
25 companies on it: El Paso, Bidder X, PG&E, TECO and Florida

1 Power Corporation. Do you recall that testimony?

2 A Yes, I recall that.

3 Q Okay. So let's talk about El Paso. You negotiated
4 with them, you had one meeting with them; correct?

5 A Yes. We had one meeting with them.

6 Q And prior to that meeting you sent them a letter that
7 said -- you asked them to lower their price before they came to
8 the meeting; correct?

9 A I'm personally not familiar with exactly what was in
10 that letter. I believe Mr. Silva was the one who sent the
11 letter.

12 Q All right. Bidder X, you never had any discussions
13 with them?

14 A That's correct.

15 Q PG&E, you never had any discussions with them?

16 A That's correct.

17 Q TECO, you never had any discussions with them?

18 A I don't believe so. That's correct.

19 Q And FPC, you never had any discussions with them
20 either, did you?

21 A I, I believe that's incorrect. I thought we -- my
22 understanding is that we had at least one or two telephone
23 conversations with them, but I could be wrong on that.

24 Q So you maybe had a telephone conversation, but no
25 face-to-face negotiations?

1 A I don't believe there were any face-to-face
2 negotiations. Of course, that was a very small piece of the
3 alternative that we were considering. So until we could get El
4 Paso locked in, they were going to be the key, obviously, to
5 improving the economics of that alternative. So until we could
6 get that done, there was no point in talking to FPC in detail.
7 In addition, with a 50-megawatt block, we didn't perceive that
8 there would likely be any major issues with that piece.

9 Q Are you on the board of directors of Florida Power &
10 Light?

11 A Yes, I am.

12 MR. MOYLE: May I approach?

13 CHAIRMAN JABER: Yes.

14 MR. MOYLE: I'm showing you a document that was
15 produced by Florida Power & Light during discovery. And for
16 the record I'll identify it as, at the bottom Bate stamp number
17 00104858 ND through 00104866 ND.

18 Attached is a presentation to Florida Power & Light's
19 board of directors. Have you ever seen this document before?

20 A Yes, I have. And I need to correct something. This
21 is not a presentation to Florida Power & Light's board of
22 directors. It's a presentation to FPL Group's board of
23 directors. There's obviously a difference.

24 Q Okay. Do you sit on that board as well?

25 A No, I don't.

1 Q Do you attend those meetings?

2 A Normally I do, yeah. Normally I attend parts of
3 them, yes.

4 Q What was the purpose of this presentation?

5 A I'm not sure I know precisely since I didn't prepare
6 the presentation. I didn't make the presentation either. I
7 believe it was to update the FPL Group board as of the date of
8 the presentation, February 11th of this year, of the current
9 status of the RFP process.

10 Q Who would have made this presentation; Mr. Evanson?

11 A Most likely, yes. I can't say for sure. I don't
12 recall definitely that he did make that presentation, but most
13 likely he did.

14 Q Let me refer you to -- there's a page in here -- the
15 presentation is not marked, but at the bottom the Bate stamp
16 number, it's 00104864 ND. At the top it says, "Description of
17 Martin and Manatee Projects." Can you find that page, please?
18 I think it's third from the back.

19 A Yes.

20 Q The second bullet point down says, "Projects will use
21 six additional CTs of purchase obligation with GE." Do you
22 know what that refers to?

23 A Yes. I believe this indicates that the projects
24 would use six gas turbines.

25 Q Isn't, isn't that something that is significant with

1 respect to your obligation with GE, the fact that six turbines
2 would be placed in these two projects?

3 A Not necessarily. It's going to obviously depend on
4 the term "significance."

5 Q Well, I -- is it -- let me ask it this way. Do you
6 believe it's beneficial to FP&L that six additional turbines
7 are being placed in these units with respect to the overall
8 arrangement that it has with GE?

9 A I'm sorry. Could you repeat that question?

10 Q Do you believe it's beneficial to the interest of
11 FP&L that these six additional turbines are being placed in the
12 Martin and Manatee projects, given the contractual relationship
13 it has with GE?

14 A Yes. I think there's some benefit to FPL.

15 MR. MOYLE: May I approach?

16 CHAIRMAN JABER: Sure.

17 MR. MOYLE: I think I forgot to mark that previous
18 exhibit, the presentation to the board of directors as --

19 COMMISSIONER JABER: Hearing Exhibit 26 will be
20 identified as February 11th, 2002, presentation to FPL Group,
21 board of directors.

22 (Exhibit 26 marked for identification.)

23 MR. MOYLE: Okay. And the one --

24 MR. LITCHFIELD: Madam Chairman, may I point your
25 attention to the last page attached to this document that has

1 been characterized at a presentation. And apparently an E-mail
2 dated 1/29/02 from Mr. Waters to Mr. Evanson is attached to the
3 back of this document. I'm not sure how that relates to the
4 document as a whole. It's certainly dated separately from the
5 document that's attached to the first E-mail dated 02/04/2002.

6 CHAIRMAN JABER: Thank you, Mr. Litchfield. I think
7 for purposes of identifying the exhibit, though, just
8 identifying it, we'll call it February 11th, 2002, presentation
9 to FP&L Group board of directors with E-mails.

10 MR. LITCHFIELD: That's fine.

11 MR. MOYLE: And then the document I just handed out
12 I guess we can identify as press release.

13 CHAIRMAN JABER: Hang on a second, Mr. Moyle. I
14 think with respect to the comment that Mr. Litchfield just made
15 --

16 MR. MOYLE: Yes, ma'am.

17 CHAIRMAN JABER: -- are you, do you intend to ask
18 questions on the E-mails?

19 MR. MOYLE: I can ask a couple. The purpose of the
20 document was really related to the turbines. I mean, I think
21 the document speaks for itself. It shows that Sam Waters and
22 Mr. Evanson were discussing this board presentation to the RFP.
23 I asked him who he thinks made the presentation. He said
24 Mr. Evanson.

25 CHAIRMAN JABER: Here's my point. I don't want to

1 clutter the record with things that you're not going to ask
2 questions on. That's not an invitation for you to ask
3 questions. I just need to know what it is you want identified.

4 MR. MOYLE: Okay.

5 CHAIRMAN JABER: If you're just identifying the
6 presentation, then I'll modify the identification of the
7 exhibit. If you are intending to ask questions on the E-mails,
8 let me know.

9 MR. MOYLE: Okay. I'll ask one question on the
10 E-mail so we can identify it that way.

11 CHAIRMAN JABER: Okay. So that will be hearing
12 Exhibit 26.

13 BY MR. MOYLE:

14 Q Mr. Dewhurst, regarding the E-mail that your counsel
15 brought up, have you seen that document before?

16 A I'm sorry. I'm now confused. There's two E-mails
17 here. There's the February 4th and the January 29th. Which
18 one are you referring to?

19 Q The one at the very end of the composite document I
20 gave you. It's dated 1/29.

21 A And the question is?

22 Q Have you seen that before?

23 A I'm not sure. I may or may not have. I don't recall
24 it.

25 Q Okay. Let's shift your attention to the document I

1 just handed out, which I believe will be marked as 27, Exhibit
2 27. It's an FP&L press release, as I understand it. I pulled
3 it up off the Internet under FP&L's web site. Have you seen
4 this document before?

5 A Yes, I have.

6 Q And describe for the Commission what it is.

7 A It's the text of a press release that we issued,
8 let's see, a couple of weeks ago indicating that our third
9 quarter results will be affected by a number of one-time or
10 unusual items, and then going on to describe those and certain
11 changes we're making in our businesses in light of current
12 industry conditions.

13 Q As the CFO of FP&L, did you review this before it was
14 released?

15 A Yes, I did.

16 Q Did you have involvement in, in putting it together?

17 A Yes, I did.

18 Q Let me direct your attention to the bottom of the
19 document and ask you to read the first bullet point where it
20 says, "Major elements of the restructuring include, colon." If
21 you would read that first bullet point, the first sentence.

22 A "Major elements of the restructuring include:
23 Successful contract renegotiations to significantly reduce
24 overall commitments for gas turbines and other related
25 equipment, resulting in a termination charge of \$10 million

1 after tax. In a separate agreement, FPL Energy has committed
2 to purchase wind turbines to support its industry-leading wind
3 development activities."

4 Q So am I reading this correctly that FP&L had to
5 cancel some turbines and had to pay a \$10 million termination
6 charge to GE as a result of not accepting some turbines it had
7 originally agreed to take?

8 MR. LITCHFIELD: I'll object to the question. I
9 think it mischaracterizes what Mr. Dewhurst just read into the
10 record. He read "FPL Energy," and Mr. Moyle is now asking
11 about FP&L. I think that's an unfair question.

12 CHAIRMAN JABER: So your objection is that -- your
13 objection goes to the characterization of the witness's
14 response?

15 MR. LITCHFIELD: My objection is to the form of the
16 question in that it mischaracterizes the response.

17 CHAIRMAN JABER: Mr. Moyle?

18 MR. MOYLE: Well, I guess I can rephrase it. I mean,
19 I'm looking at a press release that came off of FP&L's web
20 site.

21 CHAIRMAN JABER: Just rephrase it.

22 MR. MOYLE: If he needs to explain his answer that it
23 was not FP&L but --

24 CHAIRMAN JABER: Just rephrase your question.

25 BY MR. MOYLE:

1 Q Okay. Am I reading this correctly to indicate that
2 some FP&L entity under FP&L Group has been forced to not take
3 as many gas turbines as it had originally agreed to and
4 consequently pay a termination charge of \$10 million?

5 A Yes. Some entity, not FPL.

6 Q Now explain for me how your, how your gas turbine
7 contracts work. Who, who is the contract with; between GE and,
8 and who?

9 A I'm not personally familiar with the details of the
10 various GE contracts. I believe there are numerous contracts
11 with GE. They are our number one -- they're our largest single
12 supplier. I believe some of them are with FPL Group, some of
13 them are with, potentially with FPL Group Capital and some of
14 them are with FPL Energy. There will be contracts also between
15 FPL and General Electric.

16 Q Okay. There aren't -- are there turbine contracts in
17 place now as we sit here today for the turbines that are going
18 to be in this Manatee and Martin facility that was referenced
19 in this board presentation?

20 A Yes and no. Florida Power & Light has no contractual
21 commitment to turbines. FPL Group has available to it turbines
22 that could be used for these projects.

23 Q Am I correct in understanding that y'all have like an
24 overall master turbine agreement with GE; y'all being FPL
25 Group?

1 A Yes. That's a fair characterization.

2 Q Okay. And so then I guess going back to my point in
3 this board presentation, do you know how much additional money
4 FP&L would have had to have taken off as, as a charge if it had
5 not been using the six turbines referenced in that board
6 presentation in the Manatee and Martin projects?

7 A Again, let me correct you. FPL took no charge in
8 connection with the renegotiation of the turbine agreement.

9 Q Okay. FP&L Group?

10 A No. I don't -- that's -- I think there's no way to
11 know how that renegotiation would have gone had we changed it.
12 There were a lot of different moving pieces. As I indicated,
13 GE is our biggest single supplier. We jointly share an
14 interest in continuing to see that we have a productive
15 business relationship. They, therefore, have an interest in
16 seeing that we are happy.

17 And given the state of the wholesale market today, we
18 had indicated that we just didn't need or want the turbines
19 that we had contracted for and, therefore, renegotiated them.

20 Q When did you know that you might -- when did you --
21 when did FP&L -- the entity that renegotiated the contract,
22 when did it know it might have to renegotiate these contracts?

23 A I don't think I can answer that question with a
24 definitive date.

25 Q Ballpark.

1 A Well, there have been several renegotiations. I
2 mean, we're almost in constant renegotiation. As I indicated,
3 they're our number one supplier for all kinds of different
4 components, so there's an ongoing relationship with them. So I
5 don't know that I could point to any specific date or general
6 era when we recognized we were going to be renegotiating with
7 them. It's an ongoing process.

8 Q Do you think it was before April of this year that
9 you had some discussions in that respect?

10 A As I indicated, we've had multiple renegotiations
11 with GE. I don't know how far back those go, but certainly
12 we've renegotiated. We had an amendment, I believe, sometime
13 last year. There may have been others. I'm not sure.

14 Q You heard testimony that contractual commitment was a
15 factor that the evaluators of these RFPs considered in making
16 its decision. Do you recall that testimony?

17 A No, I don't right now.

18 Q Let me ask you this. The fact that, that FP&L, one
19 of these entities was renegotiating a contract, not sticking to
20 an original contract, did that come into the decision in any
21 way, shape or form about the direction FP&L would take with
22 respect to its self-build option?

23 MR. LITCHFIELD: Madam Chairman, for clarity of the
24 record I would object just to the form of the question, but
25 simply to note that Mr. Moyle continues to refer to FP&L in the

1 context of negotiating, renegotiating this contract, and I
2 think the witness has made clear that it is a group contract.
3 And so I think Mr. Moyle can just be clearer in his questions
4 and we can move forward.

5 CHAIRMAN JABER: Mr. Moyle?

6 MR. MOYLE: I'll rephrase.

7 BY MR. MOYLE:

8 Q FPL Group was renegotiating its contract; correct?

9 A Yes.

10 Q Do you know whether the folks evaluating the bids
11 considered the fact that FP&L Group was renegotiating its
12 contract when FP&L, the regulated company, made the decision as
13 to which bidder had the most cost-effective alternative?

14 A I don't know.

15 Q That would be something that would be significant,
16 don't you think?

17 A No, I don't. No I don't.

18 Q You don't?

19 A No.

20 Q Have you reviewed Mr. Silva's testimony about the
21 contractual commitment of an entity in trying to make a
22 judgment about whether they would be willing to stand by their
23 contracts?

24 MR. LITCHFIELD: Madam Chairman, may I ask that
25 counsel refer Mr. Dewhurst to the testimony upon which he's

1 questioning him if he's going to go forward with this line?

2 MR. MOYLE: I think I made my point. I'll move on.

3 CHAIRMAN JABER: Okay, Mr. Moyle.

4 BY MR. MOYLE:

5 Q Let me refer your testimony -- refer you to Page 14
6 of your testimony.

7 CHAIRMAN JABER: Are you about to leave the press
8 release?

9 MR. MOYLE: Yeah. For a minute. Do you want to take
10 a break?

11 CHAIRMAN JABER: No. I just wanted for purposes of
12 the record to identify the FP&L press release from the web site
13 as Exhibit 27.

14 (Exhibit 27 marked for identification.)

15 CHAIRMAN JABER: Okay. Now what page of the
16 testimony, Mr. Moyle?

17 MR. MOYLE: I'm going to Page 14.

18 CHAIRMAN JABER: Thank you.

19 BY MR. MOYLE:

20 Q Page 14 of your testimony in Lines 5 through 9, you
21 talk about El Paso, and I would ask you if you would just read
22 for the record Lines 5 through 9.

23 A "In addition to questions I had concerning El Paso's
24 financial plan, I had questions that stemmed from El Paso's
25 announcement on May 29th, 2002, of a strategic repositioning

1 plan that would downsize and restructure the merchant energy
2 segment of the business. The announcement stated further that
3 El Paso intends to concentrate future investment in its core
4 natural gas business."

5 Q With respect to the press release that's been
6 identified as Exhibit 27, would I be correct in reading this
7 press release to indicate that there is a major restructuring
8 of unregulated businesses within FP&L Group?

9 A No. I would not characterize it as a major
10 restructuring.

11 Q Just a restructuring?

12 A Yes.

13 Q That was significant enough where you felt you had to
14 issue a press release about it; correct?

15 A Yes.

16 Q Did you notify the SEC about this?

17 A Yes. An AK was filed at the same time.

18 Q Okay. And the standards for notifying the SEC are
19 what, material effect upon business operations?

20 A The ultimate standard, I believe, is would a
21 reasonable investor want to know this information in evaluating
22 the security.

23 Q And that's because it potentially could have an
24 effect on the stock price?

25 A Potentially, yes.

1 Q Okay. And you felt that this restructuring was
2 significant enough to at least notify the SEC about; correct?

3 A Yeah. We believe in erring on the conservative side
4 with respect to that standard, yes.

5 MR. MOYLE: May I have a minute?

6 CHAIRMAN JABER: Uh-huh.

7 (Pause.)

8 BY MR. MOYLE:

9 Q You've talked some about financial viability. I'm
10 trying to understand in my mind how, how that decision was made
11 with respect to a company's financial viability. We've already
12 talked and you said you haven't, you didn't consult an
13 independent, your independent expert on financial matters. Did
14 you have conversations with analysts from either Moody's or
15 Standard & Poor's in making that decision?

16 A In making what decision?

17 Q That Bidder X was not able to move through because of
18 financial concerns?

19 A Did we have conversation was analysts or Standard &
20 Poor's or Moody's? We -- I don't believe we had conversations
21 with them. We certainly referred to material that they had put
22 out, both analysts and Standard & Poor's and Moody's.

23 Q Okay. And you didn't have any conversations with
24 Bidder X?

25 A That's correct.

1 Q Did FP&L ever develop a ranking of the bids it
2 received in terms of one through whatever number without
3 grouping the bids?

4 A I don't know. I think you'd have to ask Dr. Sim
5 that.

6 Q Currently as we sit here today does FP&L conduct
7 business with any entity that does not meet investment-grade
8 rating levels?

9 A Yes, we do.

10 Q Who might that be?

11 A Well, there are a whole variety of companies we do
12 business with who don't meet investment grade. An example that
13 comes to mind is AES.

14 Q Do you believe that IPPS are generally of a higher
15 level of risk than utilities?

16 A No. I don't think you can make that categorical
17 statement.

18 Q All things being equal, do you know if rating
19 agencies view utilities that have IPP affiliates more risky,
20 riskier than utility companies without IPP affiliates?

21 A Are you asking as a general rule?

22 Q Yes, sir.

23 A I don't know that you can say that. I think it
24 depends on the specific industry environment. I think in
25 today's environment that would be a fair characterization.

1 Q Okay. There's been a lot of talk about the equity
2 penalty issue is a factor affecting how bond rating companies
3 view a company. Have you been in the room for some of that
4 conversation?

5 A I've been in the room for some of that conversation,
6 yes.

7 Q Has FP&L recently endured a downgrade by the rating
8 agencies?

9 A Depending on what you mean by "recently," we were
10 downgraded by S&P last year, yes.

11 Q Okay. And that, that downgrade -- do you know -- I
12 think you were asked this question in your deposition. Do you
13 know why that downgrade took place principally?

14 A There were several reasons for that downgrade.

15 Q And as far as you know, none of them had to do with
16 an equity penalty, did they, or imputation of debt?

17 A No, that's incorrect. The rating decision is the
18 outcome of the rating agency's overall evaluation of all
19 factors affecting credit. Included in that is the
20 consideration of off-balance sheet obligations, particularly in
21 the form of fixed capacity payments associated with PPAs.

22 Particularly with S&P that's a major concern, and, as
23 I think you've heard testimony, they have an explicit
24 methodology for calculating the amount of imputed debt. So
25 that calculation was definitely a part of their evaluation of

1 us and in that sense was reflected in their decision to
2 downgrade us last year.

3 Q Do you consider that to be a major reason why that
4 downgrade took place?

5 A I don't know. I don't consider the, the debt
6 imputation itself to be the reason for the downgrade because
7 the amount of imputed debt had not changed in that period.

8 Q There was an exhibit, there's been testimony, what
9 not, and I don't, I'm trying to move this along. Just let me
10 generally ask you the question.

11 It seems to show that given where FPL's current
12 contractual arrangements are with outside suppliers of energy,
13 that that amount is trending downward. Would you agree with
14 that?

15 A I'm not sure I do. I think for the next few years it
16 trends upwards.

17 Q How about in the, the 2010 time frame?

18 A If we don't replace contracts, then, yes, obviously
19 eventually it will taper off.

20 Q Okay. Is one option, if you're concerned about the
21 debt/equity ratio, simply not to replace contracts that you
22 could consider that are otherwise set to expire?

23 A I'm sorry. Could you repeat the question?

24 Q Sure. My recollection is I saw some information that
25 indicated a lot of these contracts were expiring and it was

1 kind of a downward, downward path. There's been a lot of
2 discussion about this imputation of debt. To my way of
3 thinking, I thought, well, if that's a real concern from FP&L,
4 one way to do it is to simply not, one way to deal with the
5 issue is to simply not sign, reexecute or renegotiate some of
6 these contracts that are set to expire.

7 I guess my question is, is that -- am I right in
8 that? Is that an option that you could pursue if you are
9 concerned about a certain level of, of contracts that you have
10 with IPPS and other outside power suppliers?

11 A Yes. Certainly we could pursue that. But that
12 doesn't deal with the issue that the equity penalty as applied
13 in this case is designed to address.

14 The equity penalty here is simply designed to put the
15 two alternatives on the same economic basis. So whichever way
16 we were to go, whether it was a self-build option or a PPA
17 structure going forward, we could maintain our capital
18 structure balance by doing a number of different things.

19 One of them would be failing to renew existing PPAs.
20 Another one would be failing to reissue debt as it came due.
21 So there's a lot of different ways that we could keep the
22 capital structure at our target levels. But those would apply
23 whether it was a self-build option or the PPA.

24 The issue here is that when we do the analysis of
25 the -- when Dr. Sims does the, Sim does the analysis in EGEAS,

1 we are assuming in that analysis a constant capital structure
2 going forward. That's fine for the self-build and turnkey
3 options. But for the PPA options that assumption doesn't hang
4 together because we know that they will bring with them imputed
5 debt. So the actual debt/equity ratio in that alternative will
6 be different. So to get them analytically back on the same
7 basis we need to adjust for that. That's what the equity
8 penalty is doing.

9 Q Mr. Dewhurst, it's been, it's been a long three days,
10 and I'm not sure whether I asked you these questions related to
11 the turbine. I'm going to jump back to the turbine issue just
12 for a minute.

13 Do you know -- wasn't the fact that FP&L, the
14 regulated company, was able to use six turbines from GE a
15 factor that was considered in the evaluation of FP&L's
16 self-build proposal versus the outside bids?

17 A No.

18 MR. LITCHFIELD: I believe that was asked and
19 answered.

20 THE WITNESS: That's not correct.

21 BY MR. MOYLE:

22 Q That's not? So it wasn't considered in any way,
23 shape or form; is that your testimony?

24 A No. I think I've described the evaluation process.

25 Q Okay.

1 COMMISSIONER PALECKI: Could I jump in and ask a
2 question?

3 Mr. Dewhurst, have, do you know if the gas turbines
4 have been identified for FPL's Martin and Manatee self-build
5 proposals?

6 THE WITNESS: I don't know that.

7 COMMISSIONER PALECKI: Which witness would be, would
8 have knowledge of that?

9 THE WITNESS: I believe Mr. Yeager might know that.

10 COMMISSIONER PALECKI: Thank you.

11 BY MR. MOYLE:

12 Q There was some testimony yesterday from your, FPL's
13 expert from Texas about the equity penalty, and you have some
14 testimony about the equity penalty.

15 Standard & Poor's, they received some documents from
16 you all to review in giving you some feedback on the equity
17 penalty or the imputation of debt; is that correct?

18 A That's correct.

19 Q Okay. And a rating agency, when it's making a
20 decision about a relationship and how much debt should be
21 imputed, isn't the principal document that it reviews the
22 purchased power agreement between the two parties that would
23 set forth the respective duties and responsibilities?

24 A No, that's not necessarily correct.

25 Q Why not?

1 A Because what the rating agency is going to try and
2 understand is the characteristics of the particular PPA
3 alternative.

4 As I think we heard some testimony yesterday, one of
5 the issues that greatly concerns them is how sort of firm the
6 commitment to the capacity payments is. So there are a lot of
7 different ways that one can convey that information to them.

8 Where a PPA already exists, obviously an easy way is
9 simply to give them the PPA. They can then read it and judge
10 for themselves what they think the characteristics are.

11 In this case, of course, we didn't have an actual PPA
12 at the time we were looking for the input on the risk
13 adjustment factor, so we gave them the initial RFP and we
14 described the general characteristics of the alternatives that
15 we thought we were likely to get. That was the information
16 that they had.

17 Q Okay. There was a draft PPA that was prepared in
18 this case, was there not?

19 A Yes, there was.

20 Q Okay. And you never provided that draft PPA
21 agreement to the rating agencies, did you?

22 A No, we did not. It was prepared much later.

23 Q Did Standard & Poor's give you any kind of report or
24 analysis of the imputation of debt other than the E-mail?

25 A You mean for this specific?

1 Q Yes.

2 A No. Well, that's not quite correct. Let me say
3 there is an E-mail documenting what they told us. There were,
4 I believe, at least one, maybe more telephone conversations
5 between members of my staff and representatives of S&P in which
6 they discussed those issues. But those were then documented in
7 the E-mail that S&P sent us.

8 Q The draft purchased power agreement that's been
9 introduced into evidence, that's a pay-for-performance PPA, is
10 it not?

11 A It was contemplated that the PPA would have
12 pay-for-performance characteristics, yes.

13 Q So isn't it true that Florida Power & Light would
14 only have a liability with respect to that purchased power
15 agreement that is contingent on the IPP performing under the
16 contract?

17 MR. LITCHFIELD: I object to the extent it calls for
18 a legal conclusion.

19 MR. MOYLE: I'm not asking him for a legal
20 conclusion. He's a CFO of Florida Power & Light, the regulated
21 company. I'm asking him if it would be a contingent liability,
22 in essence.

23 CHAIRMAN JABER: You may want to rephrase it to, to
24 be is it his understanding that it would be a contingent
25 liability.

1 MR. MOYLE: Okay.

2 CHAIRMAN JABER: Based on his financial experience.

3 MR. MOYLE: Okay.

4 CHAIRMAN JABER: That's the question.

5 BY MR. MOYLE:

6 Q Have you reviewed the purchased power agreement?

7 A I have reviewed it briefly; not recently.

8 Q Have you reviewed it in full?

9 A I couldn't say that I have read every single word in
10 that.

11 Q Would you have a view as to whether that, the
12 obligations set forth under the purchased power agreement could
13 properly be classified as a contingent liability with respect
14 to FP&L's obligations?

15 A I don't know for sure, but I would agree that there
16 was intended to be an element of pay-for-performance any PPA
17 that we negotiated. I think that's appropriate to protect the
18 customers.

19 Q Okay. So in effect FP&L's obligation is contingent
20 on the IPP's performance; right?

21 A That would be correct.

22 Q There were a lot of questions about this equity
23 penalty and who gets to claim credit for inventing it. I don't
24 think it's a patentable idea, but did FP&L invent the equity
25 penalty?

1 A I don't believe -- no, I don't believe FP&L invented
2 the equity penalty. I think the concept of imputed debt and
3 its logical consequences goes back to late '80s, early '90s as
4 far as I can determine when utilities first started entering
5 into contracts with IPPs in significant quantities. And after
6 a while, a variety of people recognized that those had many of
7 the same economic characteristics as debt and that that, in
8 fact, ended up changing the effective capital structure. I
9 don't think FP&L invented that concept. Although I will say
10 that FPL has been applying that economic logic certainly since
11 the early '90s as far as I can tell from skimming the
12 historical record.

13 Q How many, how many companies in the United States put
14 energy and capacity out for bid, if you know?

15 A I don't know.

16 Q Are you aware of any other companies in this country
17 that use this equity penalty as the basis for analyzing bids?

18 A Yes.

19 Q Florida Power Corporation?

20 A Yes.

21 Q Any others?

22 A I don't personally know of any, although I have been
23 told in the course of various discussions that others do around
24 the country, but I don't know.

25 Q How many have you been told do?

1 A I don't know.

2 Q Back to the purchased power agreement, it provides
3 that FP&L would pay both capacity and energy payments to the
4 IPP; correct?

5 A Yes.

6 Q Okay. So if the IPP were not dispatched, FP&L would
7 not pay, pay any energy payments to the IPP under the contract;
8 correct?

9 A If the plant were not dispatched, there were no,
10 there would be no energy payments. That's correct.

11 Q Okay. So FPL also controls or at least in its draft
12 PPA controlled the dispatch rights of the IPP under, under the
13 draft agreement?

14 A Yes. We had a strong preference for controlling
15 dispatchability of any project to make sure it could be
16 integrated properly into our overall system.

17 Q All right. And you would agree that, that FP&L
18 controls then whether or not it makes energy payments to the
19 IPP under the contract given those dispatch rates?

20 A Yes and no. To the extent that we dispatch the
21 plant, then, yes, we'll make the energy payment. But, of
22 course, the reason that we're dispatching the plant is to meet
23 load. And we don't control the load; we have an obligation to
24 serve it. So yes and no.

25 MR. MOYLE: If I could just have one minute. I think

1 I'm done.

2 (Pause.)

3 BY MR. MOYLE:

4 Q Just one final question on this equity penalty.

5 The -- obviously it affects deals that have a longer term in it
6 than as compared to deals that have a shorter term; correct?

7 A Other things equal, a longer term deal is going to
8 have more imputed debt, yes.

9 Q Okay. During the course of evaluating these
10 proposals did you ever see the E-mail that I think was
11 introduced the other day in which the equity penalty is
12 referred to not, not, not the icing, not the cake, but maybe a
13 candle or words to that effect?

14 A I have seen that E-mail, yes.

15 Q Okay. Did you see it at the time that you were doing
16 these evaluations of the bids?

17 A No.

18 Q You've seen it more recently?

19 A Yes.

20 MR. MOYLE: Okay. Thank you. I have no, no further
21 questions.

22 CHAIRMAN JABER: Thank you, Mr. Moyle.

23 Mr. McGlothlin?

24 CROSS EXAMINATION

25 BY MR. McGLOTHLIN:

1 Q Mr. Dewhurst, you are the Chief Financial Officer; is
2 that correct?

3 A Yes, I am.

4 Q A moment ago you told Mr. Moyle that Florida Power &
5 Light Company has been applying the economic logic of this
6 equity adjustment for the last decade or so; is that correct?

7 A I believe that's correct.

8 Q Tell me, when a power purpose contract that FPL has
9 with another entity expires, does FPL have the practice of
10 revamping its capital structure to add more debt to replace
11 that imputed debt that is no longer on the off books?

12 A Broadly speaking, yes. It may not be on that exact
13 day, but in general at any given point in time we will have a
14 target capital structure that we believe is appropriate for the
15 overall position and risk mix of the company, and we will seek
16 to maintain that going forward in time until circumstances
17 change.

18 So the expiration of a particular obligation, whether
19 it be a specific debt instrument or a PPA that would change
20 that capital structure, would cause us then to readjust the
21 capital structure accordingly.

22 Q Is the expiration of a PPA an explicit part of the
23 calculation of the capital structure that you then try to meet?

24 A Yes. In the sense that whenever we review the
25 capital structure, we look on an adjusted basis; i.e., we

1 adjust the debt for the imputation associated with PPAs. So,
2 yes, absolutely.

3 Q Okay. With that in mind, you're familiar with the
4 prefiled testimony of Mr. Silva, are you not?

5 A Yes.

6 Q Early in his testimony he describes that FPL intends
7 to -- well, FPL will see the expiration of power purchases from
8 2,620 megawatts currently to something like 382 megawatts by
9 2010. In that vein, would it not be appropriate to regard an
10 additional 1,900 megawatts of power purchase contracts as
11 simply replacing or offsetting the diminishing amount of
12 imputed debt involved in those power contracts?

13 A No, it wouldn't.

14 Q And why not?

15 A Because the time frames are completely different. If
16 we go forward with a PPA here, we're going to have incremental
17 imputed debt right from day one. Those other contracts don't
18 roll off for some time.

19 Q You've told Mr. Moyle that at one point you were
20 comparing the, whether it's the medium list or the short list,
21 the remaining proposals with FPL's self-build options, and you
22 were commenting on the distance in dollars between FPL's
23 self-build and the remaining proposals.

24 To be clear, in that statement you were including the
25 impact of the equity adjustment on that distance, were you not?

1 A Absolutely, yes.

2 MR. McGLOTHLIN: That's all the questions I have.

3 CHAIRMAN JABER: Thank you, Mr. McGlothlin.

4 Mr. Perry?

5 CROSS EXAMINATION

6 BY MR. PERRY:

7 Q Good morning, Mr. Dewhurst.

8 A Good morning.

9 Q My name is Timothy Perry. I represent the Florida
10 Industrial Power Users Group.

11 A Good morning.

12 Q Do you recall discussing with Mr. Moyle the
13 completion security requirement a moment ago?

14 A Yes, I do.

15 Q Okay. Is it your understanding that the completion
16 security requirement helps to mitigate the cost of replacement
17 power if an IPP or a bidder cannot perform or cannot complete
18 their project on time?

19 A Yes.

20 Q And I believe you said that FPL doesn't have a
21 completion security requirement with itself per se, but is
22 ready to purchase power in the open market if it can complete
23 its self-build project on time; is that correct?

24 A Yes, we would have to.

25 Q Do you know if you would attempt to recover the full

1 cost of that replacement power from the ratepayers?

2 A I don't know sitting here today. That would depend
3 upon -- you're posing a hypothetical. We have no reason to
4 believe that the projects will not complete on time,
5 particularly given the track record. So I don't know, I can't
6 say.

7 Q Okay. The same for the performance security
8 requirement, you don't have a performance security requirement
9 yourself per se, but you would go on the open market if you
10 could not perform; is that correct?

11 A That's correct.

12 Q And you don't -- do you know whether or not you
13 would, can attempt to recover the full amount of the
14 replacement power from the ratepayers?

15 A Sitting here today, again, you're asking a
16 hypothetical question. So without sort of being in that
17 circumstance, I'm not sure I know.

18 Q But you don't have any plan or contingency for that
19 basis?

20 A I think our normal plan would be to seek recovery of
21 all costs that we would incur in the normal course of doing
22 business, and it would then be the Commission's responsibility
23 and right to determine whether those, you know, as I understand
24 it, had been prudently incurred.

25 MR. PERRY: Okay. Nothing further.

1 CHAIRMAN JABER: Staff?

2 MR. HARRIS: Thank you.

3 CROSS EXAMINATION

4 BY MR. HARRIS:

5 Q Good morning. Larry Harris on behalf of the
6 Commission.

7 A Good morning.

8 Q Mr. Dewhurst, would you agree that the purpose of
9 this proceeding is to determine whether the FPL self-build
10 options, that is the Martin and Manatee plants, are the most
11 cost-effective alternatives to meet the identified capacity
12 needs from the perspective of FPL's ratepayers?

13 A Yes and no. Strictly my understanding is that
14 they're to determine whether the Commission should grant the
15 petition of need. But as part of that, a key piece clearly is
16 are these the most cost-effective alternatives for customers?

17 Q When FPL Group submits financial statements related
18 to utility operations and this is submitted to the Securities
19 and Exchange Commission, do the actual account balances
20 submitted reflect the imputed debt associated with purchased
21 power contracts?

22 A No, they do not. The imputed debt is an off-balance
23 sheet obligation.

24 Q Okay. When FPL Group submits the same financial data
25 to the Securities and Exchange Commission regarding

1 nonregulated operations, do those account balances, the actual
2 account balances reflect purchased power agreements?

3 A I'm sorry. Could you repeat the question? I'm not
4 quite clear what you're referring to now.

5 Q The same financial statements that would be submitted
6 to the Securities and Exchange Commission, I believe you
7 testified for the regulated utility the account balances would
8 not reflect the imputed debt; is that correct?

9 A Correct.

10 Q Okay. For the nonregulated utilities that FPL Group
11 is associated with -- nonregulated operations, not utilities --
12 nonregulated operations, would those actual account balances
13 reflect any type of imputed debt?

14 A No, they would not. If, if FPL Energy had a PPA with
15 a third party, any imputed debt associated with that would not
16 be directly reflected in the balances.

17 Q Okay. Would the imputed debt be treated the same on
18 both sets of statements, that is as a footnote to the actual
19 account balances?

20 A Under current GAAP, generally accepted accounting
21 principles, the kinds of obligations that we've been describing
22 here, i.e., purchased power, fixed capacity payments, are
23 treated as commitments or contingencies. They're not included
24 in the actual balances of the accounts. But if they're
25 significant, they're required to be disclosed in the footnotes.

1 Q So it would be the same for both?

2 A And that would be the same. That's a matter of GAAP.

3 Q Would you agree that because of the Standard & Poor's
4 methodology that looks at the consolidated core, the
5 consolidated entity, the FPL Group entity, that the degree of
6 leverage at the group level, the consolidated level would have
7 an impact on the rating of the regulated utility?

8 A Yes. Under S&P's consolidated methodology overall
9 group leverage has an impact on the rating of all, all
10 companies and entities in the family.

11 Q And would you agree that when the rating agencies
12 look at the regulated utility, they would take into account the
13 risk associated with the activities of other subsidiaries of
14 FPL Group?

15 A Yes, I would.

16 Q When FPL Group or its nonutility subsidiaries make
17 nonregulated investments and these investments have a much
18 lower percentage of equity, and that much lower percentage is
19 relating to the equity percentage of the FPL Group holding
20 company, who would bear the cost of rebalancing the capital
21 structure of the entity if that cost or when that cost was
22 recognized?

23 A I'm sorry. Could you repeat the question?

24 Q Sure. FPL Group has a, a capital structure, and some
25 of its nonregulated, nonutility subsidiaries enter into

1 investments or projects with a much lower percentage of equity.
2 Who would bear the cost of rebalancing the capital structure in
3 that event?

4 A I think I have to sort of question the -- there's an
5 implicit premise in there, which is that the same capital
6 structure is appropriate for all businesses, and that's not
7 necessarily true.

8 So, for example, I could see a situation in which we
9 made an investment in an FPL Energy project that carried
10 substantially higher debt ratio than others within FPL Energy
11 or a substantially higher debt ratio than FPL, and that would
12 have no negative impact on overall group credit. So I think --
13 there's not necessarily a cost I guess is my answer.

14 Q Okay. I guess I don't understand that answer then.

15 To my way of thinking -- and I'm not, you know, a
16 financial expert. To my way of thinking, if FPL Group has a
17 capital structure and a number of nonregulated entities
18 underneath it and those nonregulated entities go out and enter
19 into a bunch of either contracts or agreements or arrangements
20 at very low equity, equity financing, wouldn't that have some
21 effect on FPL Group's overall capital structure?

22 A It might or it might not. It would depend upon what
23 the, how much equity we put into the specific project relative
24 to its risk characteristics.

25 In other words, if we put in enough equity to

1 compensate, if you like, for the risk characteristics of that
2 particular project or business, it wouldn't have any effect.
3 If we put in more, it would be favorable to everybody's credit.
4 If we put in less, it would be unfavorable to everybody's
5 credit. So there's no necessary connection. You need to --
6 you'd need to know a lot more before you could specify.

7 Q So a rating agency would look at the level of risk
8 and then whether the equity that was put in was sufficient to
9 compensate for that risk; is that correct?

10 A Yes. That's a fair statement.

11 Q If the consolidated group, FPL Group or its
12 nonutility subsidiaries, make the same type of nonregulated
13 investments and this is a lower equity level than that
14 maintained by the FPL Group capital structure -- I'm sorry.
15 I'll withdraw that question.

16 I'll move to a new area. Did Standard & Poor's
17 calculate the equity penalty adjustment that FPL is proposing
18 to use in this proceeding?

19 A No, they did not.

20 Q Did Standard & Poor's make any recommendations to FPL
21 or participate in the development of the economic evaluations
22 that are being presented to the Commission at this time?

23 A No. They made no recommendations. The input that
24 they provided us was their assessment of what risk adjustment
25 factor would be applied in the imputed debt calculation for the

1 kinds of PPAs that were likely to be contemplated here.

2 Q And it's my understanding that -- from previous
3 testimony, not yours, previous testimony in this docket -- that
4 the other rating agencies have similar evaluations, but they
5 have not revealed the way they make those calculations. Would
6 that be correct?

7 A Yes. That's correct. Standard & Poor's is the only
8 one that's reasonably explicit about how they do the
9 calculations.

10 Q Do you have your direct testimony handy?

11 A Yes, sir.

12 Q Could you refer to Page 12? And beginning with
13 approximately Page or, I'm sorry, Line 19, there's a little
14 discussion about Bidder X.

15 A Yes, I see that.

16 Q And beginning on Page or Line 22, you begin a
17 discussion about the total debt to total capitalization of
18 Bidder X; is that correct?

19 A That's correct.

20 Q And I believe you state that it's either 75 or
21 78 percent -- 75 percent or 78.5 percent; is that correct?

22 A That's correct.

23 Q I'd like to pass out an exhibit. And once we get it
24 passed out, I'd like to get you to take a look at it.

25 MR. HARRIS: And, Madam Chairman, I'd like to ask

1 that it be marked for identification once the witness has had a
2 chance to review it and describe it.

3 CHAIRMAN JABER: When Wayne makes his way over here,
4 Mr. Harris, we'll --

5 MR. HARRIS: I didn't want to say it that way, Madam
6 Chairman. And I'll give counsel a chance to review this, if
7 that's okay.

8 THE WITNESS: Thank you.

9 (Pause.)

10 BY MR. HARRIS:

11 Q Mr. Dewhurst, do you recognize this?

12 A Yes, I do.

13 Q Could you briefly describe what it may be?

14 A There are two documents here. The second document is
15 a copy of the E-mail from Standard & Poor's to one of the
16 members of my staff describing the range of risk adjustment
17 factor that would likely be applied to the kinds of PPAs that
18 we were contemplating in the RFP. And the first is a
19 late-filed deposition exhibit requested by staff providing some
20 summary book value statistics on FPL Group capital structure.

21 Q Regarding the first then, the document requested by
22 staff, do you know when that was requested?

23 A I recall that was requested at my deposition.

24 Q And do you know why staff requested that?

25 A No, I don't.

1 Q Okay. Mr. Dewhurst, will you agree that the schedule
2 you prepared for staff indicates that the equity ratio for FPL
3 Group Capital is 18.9 percent as of June 30th, 2002?

4 A On an unadjusted book basis, yes, I would agree with
5 that.

6 Q And would that mean that, using the information on
7 that schedule, that the total debt to total capitalization
8 ratio would be approximately 81 percent?

9 A Again, on an unadjusted book basis, yes, that's
10 correct.

11 Q And comparing that schedule with the ratio from
12 Bidder X in your testimony on Page 12, would you agree that
13 the, the equity ratio of FPL Group Capital is higher than that
14 of Bidder X as of June 30th, 2002? On March 31st for Bidder X.

15 A On an unadjusted book basis, yes, I would.

16 Q Okay. Given that, would you say that FPL Group
17 Capital was better off or worse off than Bidder X based on that
18 equity ratio from a rating perspective?

19 A I think that ratio is irrelevant from a rating agency
20 perspective.

21 Q And why is that?

22 A Because, as I discussed earlier, when a rating agency
23 evaluates creditworthiness, it looks to the total financial
24 picture of the entity that it's evaluating. It doesn't look at
25 any individual data point as the only data point, and it

1 certainly, as we've just been discussing extensively, makes
2 adjustments to specific financial parameters to reflect other
3 aspects of a company's overall financial situation that are
4 relevant.

5 Q Would the fact that a, that an individual entity was
6 part of a larger consolidated entity or a stand-alone entity be
7 a factor that would be considered?

8 A Yes.

9 Q Would it be fair to say that Florida Power & Light
10 does not always agree with the concerns expressed by rating
11 agencies regarding how the risk exposure at the holding company
12 level or the consolidated entity level impacts the
13 creditworthiness of that regulated utility?

14 A Yes, that would be a fair statement. We often
15 disagree with S&P on a number of factors, including that one.

16 Q And would it also be fair to say that, that the
17 company might also disagree with Standard & Poor's or the other
18 rating agencies regarding how the debt leverage of the
19 nonregulated investments affects creditworthiness?

20 A Yes. That would be another area where we would be,
21 typically we would be pushing the rating agencies.

22 Another example would be the regulatory environment
23 here in Florida. We are always pushing to indicate the, the
24 good nature of the regulatory environment. So there are a
25 number of different areas where we would disagree with S&P.

1 Q Would it be fair to say that your testimony is that
2 the Commission should rely upon Standard & Poor's remarks
3 regarding the imputed debt and the effect on FPL, but should
4 not take into account other remarks by Standard & Poor's,
5 including the amount of debt leverage at the holding company
6 level and the amount of debt leverage that are financing
7 nonutility investments?

8 A Could you repeat the first part of that question,
9 please?

10 Q Sure. I believe that the company and you are
11 testifying or presenting that the Commission should rely on the
12 statements made by Standard & Poor's regarding the equity
13 penalty adjustment; is that correct?

14 A No, that's not correct. We are not proposing that
15 the Commission should rely on Standard & Poor's for the equity
16 penalty adjustment. We believe that the Commission should be
17 looking to us to justify that. We believe we have on the basis
18 of its fundamental economics.

19 S&P comes into -- let me try and distinguish between
20 two pieces of the issue. First, the question of imputed debt.
21 It seems to me that that is, I know people disagree, but it
22 seems to me that's incontrovertible. It's a basic matter of
23 economics, it's been recognized by a lot of different people
24 for well over ten years, it's been described in different
25 memos, it's been used in various cases. That there is imputed

1 debt associated with fixed capacity payment obligations seems
2 to me to be quite clear.

3 That's a separate issue from how should we reflect
4 that in our analysis. As I indicated before, the problem comes
5 because the analysis, the underlying economic analysis that
6 we've done presumes a constant capital structure going forward,
7 which is fine for the self-build and turnkey options, but
8 doesn't work when you apply it to the PPA alternatives. So we
9 have used the equity penalty to adjust for that.

10 So it seems to me that we're not relying on S&P, not
11 asking the Commission to rely on S&P for that element of it.
12 We believe that we have made reasonable economic modeling
13 assumptions in applying that to get the alternatives back on a
14 consistent basis. We have used S&P as an indicator to help us
15 get a handle on this risk adjustment factor which we use in our
16 modeling, but we're not asking the Commission to rely on S&P to
17 approve or disapprove the methodology. We think the
18 methodology needs to stand or fall on its own weight. We think
19 it makes sound economic sense. We think we've applied the
20 methodology correctly. But that's, I think, the issue here.

21 Q I'm sorry. Maybe I, maybe I asked the wrong
22 question.

23 My understanding -- and thank you for your
24 explanation. My understanding then is that the impact of the
25 off-balance sheet adjustments was raised by Standard & Poor's

1 as a rating issue; is that correct?

2 A It's -- the impact of off-balance sheet obligations
3 is a part of the overall financial picture of the company which
4 S&P addresses, yes.

5 Q Would it be fair to say that were S&P's and the other
6 financial rating companies not concerned about the impacts of
7 this particular type of off-balance sheet obligation, Florida
8 Power & Light would not feel obligated to ask the Commission to
9 make that adjustment?

10 A It might or it might not. I would hope, I would hope
11 it would. However, the reason I'm hesitating is ultimately
12 what we're coming back to is how do capital markets view these
13 things? We're using rating agencies as a very important proxy
14 for how investors are likely to view things. So -- but at the
15 same time, you know, rating agencies aren't perfect any more
16 than the rest of us are perfect. They have, you know,
17 disagreements amongst themselves. There's a range in here.

18 So I think we are saying that the rating agencies are
19 an important reference point for the Commission to refer to,
20 and I think it's perfectly appropriate to take note of what the
21 rating agencies say as it's indicative of how investors may
22 react. But I'm not suggesting that just because a rating
23 agency says X, that's what the Commission should conclude is
24 the case. It seems to me we all have to exercise independent
25 judgment.

1 And as we were talking earlier, there are areas where
2 we disagree with S&P over the various financial parameters. We
3 think they have a more pessimistic view of the regulatory
4 structure in Florida than we do. So there's a, you know,
5 there's a balance that has to be struck there.

6 Q Thank you. Would you agree that Florida Power &
7 Light Group and its subsidiaries are on credit watch with
8 negative implications?

9 A With S&P, yes, that's correct.

10 Q Could you briefly describe what that means?

11 A What that means is that S&P is currently undergoing a
12 reevaluation of our overall credit position. In other words,
13 they are not withdrawing their current ratings, but they have
14 put the investment community on notice that they are rethinking
15 them. And I believe the actual S&P announcement was that the
16 result could be an affirmation or a downgrade. In principle
17 the result could also be an upgrade. But they're working
18 through right now what their current view is.

19 Q And would it be fair to say this, this treatment,
20 this credit watch with negative implications was put in place
21 on approximately or about April 18th of 2002?

22 A Subject to check, about then, yes.

23 Q And was that at the same approximate time that
24 Florida Power or, I'm sorry, that the announcement that the
25 company was going to purchase an 88 percent interest in the

1 Seabrook nuclear plant was made?

2 A Yes. There were two key things that S&P told us at
3 the time. One was the announcement of the decision to acquire
4 the interest in Seabrook, and the second was the outcome of the
5 rate settlement which had occurred right at that time. And
6 they were concerned with the credit implications of the
7 \$250 million rate reduction.

8 Q So it would be your testimony that one of the events
9 was a regulated utility event and the other was a nonregulated
10 entity event?

11 A Yes. That's a fair characterization.

12 Q And are you familiar with a FPL Group announcement I
13 think at the end of September regarding a certain tax ruling,
14 IRS ruling?

15 A Yes.

16 Q Okay. And briefly what was that ruling?

17 A Briefly we -- taking advantage of a calculation
18 methodology that the IRS allowed, we were able to go back and
19 recalculate the allocation of certain expenses between capital
20 and current expense. The net effect was that we were able to
21 expense more currently, we could carry that back for several
22 years and were, therefore, able to claim a refund, which should
23 total approximately \$300 million.

24 Q And was this the --

25 A It's a one-time favorable catch effect.

1 Q Was the regulated utility or nonregulated utility?

2 CHAIRMAN JABER: Excuse me. I'm sorry. You were
3 able to claim a refund for what period?

4 THE WITNESS: I think it goes back for three or four
5 years. I'm not exactly sure.

6 CHAIRMAN JABER: Has the company received that
7 refund?

8 THE WITNESS: We've received \$229 million of that.

9 CHAIRMAN JABER: When did you receive that?

10 THE WITNESS: I would say a few days before the
11 announcement, so mid-September.

12 CHAIRMAN JABER: A few days before which
13 announcement?

14 THE WITNESS: The announcement -- the press release
15 that was referred to earlier which had a discussion of events
16 that will affect our third quarter reporting. That's one that
17 we believe is significant for investors.

18 CHAIRMAN JABER: Thank you.

19 BY MR. HARRIS:

20 Q And this related to the regulated utility or
21 nonregulated entity?

22 A That piece specifically was applying the methodology
23 to the regulated utility. We're now going and looking and
24 seeing what the effect of that methodology is on the rest of
25 the businesses.

1 Q Do you, do you know approximately when Florida Power
2 & Light began working on that tax refund?

3 A That's a project that we've been working on for a
4 couple of months. I'm not sure exactly.

5 Q Would it be fair to say that it's been since the
6 beginning of the year?

7 A I don't know that I could say that, no.

8 MR. HARRIS: May I have a few moments?

9 (Pause.)

10 MR. HARRIS: We have nothing further. Thank you.

11 MR. TWOMEY: Madam --

12 CHAIRMAN JABER: Mr. Harris, I don't think I ever
13 identified your exhibit for you.

14 MR. HARRIS: I believe that's correct, Commissioner.

15 CHAIRMAN JABER: Okay. Late-filed deposition Exhibit
16 2 from Mr. Dewhurst's testimony will be identified as Exhibit
17 28.

18 (Exhibit 28 marked for identification.)

19 CHAIRMAN JABER: Commissioners, do you have any
20 questions?

21 MR. TWOMEY: Madam Chairman, if you would please
22 indulge me, I actually have two very short questions.

23 CHAIRMAN JABER: You know, we don't -- were you not
24 sitting there when I asked if you had questions?

25 MR. TWOMEY: I was sitting back there.

1 CHAIRMAN JABER: Two questions, Mr. Twomey, only
2 because you weren't sitting at the table. But let me give you
3 a heads-up; we're not doing any sort of recross. So if you're
4 not sitting there, you snooze, you lose.

5 MR. TWOMEY: I appreciate that. Thank you.

6 CHAIRMAN JABER: Okay.

7 CROSS EXAMINATION

8 BY MR. TWOMEY:

9 Q Mr. Dewhurst, first, with respect to your discussion
10 with Mr. Moyle regarding your October press release related to
11 FPL Group's restructuring of unregulated businesses, you recall
12 that; right?

13 A Yes, sir.

14 Q Okay. The press release -- the first element of the
15 restructuring read, and I quote, "Successful contract
16 renegotiations should significantly reduce overall commitments
17 for gas turbines and other related equipment resulting in a
18 termination charge of \$10 million after tax."

19 And my question with respect to that is what was the
20 overall commitment for gas turbines prior to the contract
21 renegotiations and the \$10 million termination charge and what
22 is the remaining FPL Group commitment for gas turbines?

23 MR. LITCHFIELD: I'll object to the question to the
24 extent that it may require the disclosure of confidential
25 information from a contract. I don't know whether this witness

1 knows the answer, but the basis of my objection is that --

2 CHAIRMAN JABER: You know, let me tell you, it's the
3 same caution I gave you yesterday. Put your objection on the
4 record. Do not speculate about what the witness knows or
5 doesn't know because it could be interpreted that you're
6 leading your witness.

7 MR. LITCHFIELD: I apologize. I apologize.

8 CHAIRMAN JABER: What is your objection?

9 MR. LITCHFIELD: My objection is that the question as
10 framed may require this witness to disclose confidential
11 information that is part of a contract, the terms of which may
12 be confidential.

13 CHAIRMAN JABER: Mr. Twomey, your response?

14 MR. TWOMEY: Now that he's been, it's been suggested
15 that it might be confidential, I think the answer to that,
16 Madam Chair, is that the witness can state whether he knows
17 whether it's subject to confidentiality or not and, if not,
18 state the answer --

19 CHAIRMAN JABER: I'll allow it.

20 MR. TWOMEY: -- if he knows.

21 CHAIRMAN JABER: I'll allow it.

22 THE WITNESS: Could you repeat the question, please?

23 BY MR. TWOMEY:

24 Q Yes, sir. With respect to the, the element of
25 renegotiating the turbine contract with, I think it was General

1 Electric, how many turbines were, was FPL Group committed to
2 prior to the renegotiations and the \$10 million termination
3 charge, and how many, if any, turbines is FPL Group committed
4 to after the renegotiations?

5 A Prior to this renegotiation, immediately prior to
6 this renegotiation, we had commitments for, I believe the
7 number is 32. As of the moment we have commitments for seven.

8 Q Okay, sir. Thank you. And my last question, if the
9 Florida Public Service Commission approves the Martin and
10 Manatee need determinations being sought here, will FP&L commit
11 to being bound by the cost data contained in its winning
12 self-build bids when it later seeks rate recovery of the
13 capital and operating costs of the units from this Commission?

14 A Sitting here today I would say, no, we would not.

15 Q No, you would not be bound by the --

16 A We would expect to continue in the present structure,
17 which is we will estimate those projects as best we can, we'll
18 put in a contingency, we'll construct those projects as best we
19 can. If there is any difference, whether it's over or under,
20 we would expect to bring that forward to the Commission as part
21 of rate base. At that time the Commission, if there were to be
22 an overrun, could determine whether that was appropriate or
23 not.

24 MR. TWOMEY: Okay. Thank you, sir, and thank you,
25 Madam Chair.

1 CHAIRMAN JABER: Commissioners, did you have any
2 questions? Okay. Redirect?

3 MR. LITCHFIELD: Thank you.

4 REDIRECT EXAMINATION

5 BY MR. LITCHFIELD:

6 Q Mr. Dewhurst, you recall Mr. Moyle asking you whether
7 you were an expert, do you not?

8 A Yes, I do.

9 Q Are you the Chief Financial Officer of Florida Power
10 & Light Company?

11 A Yes, I am.

12 Q And you've testified to two principle issues in this
13 case, have you not?

14 A I have.

15 Q What is your prior education and experience that
16 would qualify you to serve as CFO of FP&L?

17 A Academic background, I have an advanced degree in
18 management with a specialization in finance. I have practiced
19 in various forms for approximately 20 years primarily in the
20 consulting and investing fields.

21 I have extensive experience in dealing with all
22 manner of financial issues from MNA activity to basic
23 structuring of companies.

24 Q How does that background and experience bear on the
25 issues that you're addressing in this case?

1 A With respect to the nonprice factors, I have
2 extensive experience in either directly undertaking bids,
3 participating in bids, helping companies evaluate business
4 deals, all of which involve, in my view, the application of
5 sensible business judgment. So I think I have both practical
6 experience in seeing how other companies make decisions and as
7 well as the range of criteria that should go into basic
8 business decisions.

9 With respect to the equity penalty, there I think I'm
10 relying more on my fundamental understanding of finance and
11 economic analysis, as well as the reviews that I've conducted
12 since I've been with Florida Power & Light of the specific
13 issues associated with the equity penalty in this industry and
14 in this particular environment.

15 Q Thank you. Mr. Moyle asked you about the settlement
16 that was entered into between Bidder X and Florida Power &
17 Light; correct?

18 A Yes.

19 Q Do you know who approached whom?

20 A My understanding is Bidder X approached us.

21 Q Do you know when Florida Power & Light Company was
22 approached by Bidder X?

23 A I believe it was in early August.

24 MR. MOYLE: I guess I -- with respect to this I was
25 under the impression that we were having limited discussion

1 related to the, you know, to the settlement. If we're going to
2 go beyond that, I'd like to have an opportunity to explore it a
3 little further as well.

4 CHAIRMAN JABER: Mr. Moyle -- Mr. Litchfield, your
5 response?

6 MR. LITCHFIELD: I think the discussion was to be
7 self-contained and limited. However, Mr. Moyle has asked a
8 question with respect to the existence of a settlement, and I
9 think in fairness the record should reflect who approached whom
10 and when that settlement was entered into and when, when Bidder
11 X approached Florida Power & Light Company to avoid Mr. Moyle
12 being able to unfairly characterize the settlement as having
13 been obtained by FPL at a time prior to filing testimony in
14 order to somehow improperly eliminate a bidder that would
15 otherwise have been on the short list.

16 CHAIRMAN JABER: I'll allow the question.

17 THE WITNESS: Could you repeat the question?

18 MR. LITCHFIELD: I think the question has been asked
19 and answered. I think Mr. Moyle's objection was to a point
20 untimely, but I think we can move on.

21 CHAIRMAN JABER: I didn't hear the answer, for what
22 that's worth to you, so.

23 MR. LITCHFIELD: I'll ask the question again.

24 BY MR. LITCHFIELD:

25 Q Do you know when Bidder X approached Florida Power &

1 Light Company for purposes of pursuing a settlement?

2 A I believe it was in early August.

3 Q Okay. When Mr. Moyle asked you to explain the
4 rationale that led to the conclusion that El Paso and Florida
5 Power Corporation would be included on the short list, you gave
6 an explanation. He asked you to explain and you did explain.
7 And I'd like to know what exhibit you were referring to when
8 you gave that explanation for the record?

9 A I was looking at RS-7 from Mr. Silva's testimony. I
10 believe it's the same chart that's in the June 18th
11 presentation that I believe became an exhibit yesterday, but I
12 believe the numbers are the same. It's the same information
13 that was conveyed to us on June 18th.

14 Q Mr. Moyle asked you, I think, a couple of instances a
15 question in which he inserted the term "FP&L Group." When he
16 used that term, what did you understand that to mean?

17 A I believed he was referring to FPL Group. When I
18 heard the term "Group," I assumed it referred to FPL Group.

19 Q If no settlement had been reached with Bidder X,
20 Mr. Dewhurst, would FPL's recommendation to this Commission be
21 any different?

22 A No. As I described earlier, the decision to drop
23 Bidder X was, to me, one of those things that you refer to as a
24 no-brainer. It was apparent in June 18th. I said so at the
25 time. And, frankly, I'd be embarrassed to be up here today

1 proposing a purchased power agreement with a company in that
2 particular situation.

3 Q Mr. Moyle also asked you whether FPL is currently
4 engaged in business with any entity whose credit rating is
5 below investment grade. Do you recall that?

6 A Yes, I do.

7 Q And do you recall indicating that we, that FPL
8 currently has a business relationship with AES?

9 A That's correct.

10 Q And AES is currently not investment-grade quality;
11 correct?

12 A That's correct.

13 Q When FPL entered into the relationship with AES, what
14 was AES's quality?

15 MR. MOYLE: Let me object. It's a leading question,
16 leading the witness.

17 MR. LITCHFIELD: I'm asking, I'm asking what AES's
18 credit quality was when we entered into the business
19 relationship.

20 CHAIRMAN JABER: I'll allow the question.

21 THE WITNESS: At the time we entered into the
22 business relationship it was investment grade.

23 BY MR. LITCHFIELD:

24 Q Mr. Harris asked you whether it was the Commission's
25 responsibility to determine whether the proposals submitted

1 were the most cost-effective. Do you recall that?

2 A Yes, I do.

3 Q Are there any factors other than price that the
4 company would consider before bringing a recommendation to the
5 Commission?

6 A Yes, there are. As I indicated in my testimony, as
7 Mr. Silva indicated, there were a variety of nonprice factors
8 which we believe should be considered in evaluating any of the
9 competing supply alternatives.

10 Q Would any such nonprice factors in this case have
11 trumped the price factor in your opinion?

12 A In this case, no. To me this one was very clear.
13 The self-build options were both better economically and at
14 least as good, if not better, on the nonprice factors. So we
15 never really got into a detailed evaluation of all the specific
16 nonprice factors. The basic driver was the economics, but
17 certainly it was clear that on the nonprice factors the
18 self-build options looked very good.

19 Q Mr. Harris asked you about the submissions of Florida
20 Power & Light Company to the SEC. Do you recall that line of
21 questioning?

22 A Yes, I do.

23 Q And he asked you specifically whether the imputed
24 debt amounts were reflected on FPL's balance sheets; correct?

25 A That's correct.

1 Q And your answer, I believe, was that, no, they are by
2 definition off-balance sheet obligations; correct?

3 A I believe I said that. Yes.

4 Q He indicated also that the debt imputations and
5 purchased power obligations were reflected in the SEC
6 footnotes. Do you recall that? In the footnotes to the
7 Florida Power & Light Company's financial statements filed with
8 the SEC. Do you recall that?

9 A Yes. I should clarify something here. What's in the
10 footnotes is a description of the capacity payments, the
11 commitments themselves, not the S&P calculation of how much
12 debt that that would translate to.

13 Q Why is that information provided in the disclosures
14 to the SEC?

15 A Because, as I indicated earlier, we are required to
16 disclose significant commitments and contingencies that a
17 reasonable investor might want to consider in thinking about
18 the purchase or sale of the securities, and those commitments
19 are very significant and, therefore, meet that test.

20 CHAIRMAN JABER: Is that an opportunity to also
21 disclose how a regulatory agency may allow for cost recovery
22 associated with a purchased power agreement?

23 THE WITNESS: That fact would not be disclosed at
24 that particular point. But that fact is very clearly disclosed
25 in other parts of the K and the Q. Again, because it's

1 important for an investor to understand the risk
2 characteristics, so the fact that the fuel and capacity clauses
3 exist, those are in there, we described them, so that
4 information is definitely available to investors.

5 CHAIRMAN JABER: And you also have investor
6 conferences, meetings, don't you?

7 THE WITNESS: We do.

8 CHAIRMAN JABER: Where you explain what the
9 regulatory environment is and what the, and the mechanisms for
10 cost recovery would be.

11 THE WITNESS: Yes, we do.

12 CHAIRMAN JABER: How often is that done?

13 THE WITNESS: I would say I meet with investors or
14 sale side analysts several times a months. Those may be
15 individual meetings, small group meetings or, you know, large
16 meetings with presentations. Several times a year we'll do
17 major presentations. Maybe once a year we'll do an overall
18 investor conference, that kind of thing. But we spend a lot of
19 time trying to communicate.

20 CHAIRMAN JABER: It gives them an opportunity to ask
21 you questions about things that would make them uncomfortable
22 about your particular stock?

23 THE WITNESS: Absolutely. Absolutely.

24 CHAIRMAN JABER: Mr. Litchfield?

25 BY MR. LITCHFIELD:

1 Q Do you recall Mr. Harris asking you about the input
2 that S&P had into the evaluation process?

3 A Yes, generally.

4 Q And I think you indicated the input was the
5 communication with respect to the risk factor that was used in
6 the equity penalty computation, did you not?

7 A That's correct.

8 Q What was the amount of the risk factor that S&P
9 recommended?

10 A In the, the feedback from S&P, which is reflected in
11 the E-mail, they indicated that based on the characteristics of
12 the kind of deal that we were looking at that a 40 to
13 60 percent risk adjustment factor would be applied. We chose
14 to use 40 percent in our analysis to be on the conservative end
15 of that.

16 Q You were asked by a couple of different attorneys
17 here today, Mr. Dewhurst, with respect to the completion
18 security requirement in the purchased power agreement; correct?

19 A Yes.

20 Q And then you were asked with respect to a possible
21 situation where Florida Power & Light Company had to go into
22 the market to replace power. Do you recall that question?

23 A Yes, I do.

24 Q Well, let me ask it this way. If Florida Power &
25 Light Company were to fail to meet the required in-service

1 dates for its self-build options and had to go into the market
2 to purchase replacement power, is FPL guaranteed recovery of
3 those costs?

4 A No, it's not.

5 Q Mr. Harris asked you several questions concerning the
6 impact of FPL Group's unregulated activities on the utility's
7 credit ratings. Do you recall that?

8 A Yes, I do.

9 Q What can you tell me with respect to the, the impact
10 of FPL's unregulated activities, whether FPL chooses its
11 self-build option or an outside supplier?

12 A Those factors, whatever they are, would be the same
13 in either case, and that's why in my view they're not relevant
14 to the issue at hand, which is how to reflect the difference in
15 the economic characteristics of the PPA alternatives and the
16 self-build and turnkey alternatives. So they would exist
17 whichever way we go. So they would not have an impact on
18 whether we should be applying the equity penalty or not.

19 MR. LITCHFIELD: That's all I have.

20 CHAIRMAN JABER: Okay. Exhibits.

21 Mr. Dewhurst, thank you.

22 THE WITNESS: Thank you.

23 CHAIRMAN JABER: CPV Exhibits 26 and 27.

24 MR. MOYLE: We would move those in.

25 MR. LITCHFIELD: We, we would -- I don't think we

1 have an objection to the E-mail from Mr. Waters to Mr. Evanson
2 going in, although I would indicate that this was the, this was
3 asked of Mr. Waters in Mr. Waters deposition. I think
4 Mr. Moyle could have had Mr. Waters here to properly
5 authenticate this E-mail. Certainly we'd be willing to have
6 Mr. Water's deposition go into the record to accompany this
7 E-mail, but otherwise we have no objection.

8 CHAIRMAN JABER: Let me make sure I understand which
9 E-mail you're referring to. The objection I thought that was
10 outstanding related to the last page of this document, that
11 E-mail from Mr. -- is that what you're talking about now?

12 MR. LITCHFIELD: Yes.

13 CHAIRMAN JABER: Okay. And are you withdrawing that
14 objection; is that what you're saying?

15 MR. LITCHFIELD: Yes.

16 CHAIRMAN JABER: Okay. Well, then without objection,
17 I'll admit Exhibit 26 into the record.

18 (Exhibit 26 admitted into the record.)

19 CHAIRMAN JABER: Exhibit 27 is the press release.

20 MR. MOYLE: Yes, ma'am.

21 CHAIRMAN JABER: Without objection, Exhibit 27 is
22 admitted into the record.

23 (Exhibit 27 admitted into the record.)

24 MR. HARRIS: We'd move Exhibit 28.

25 CHAIRMAN JABER: Without objection, Exhibit 28 is

1 admitted into the record.

2 (Exhibit 28 admitted into the record.)

3 MR. GUYTON: Is Mr. Dewhurst -- I'm sorry. Is
4 Mr. Dewhurst excused?

5 CHAIRMAN JABER: Yes. Yes.

6 MR. GUYTON: Thank you.

7 CHAIRMAN JABER: The next witness is Mr. Yeager. And
8 while you bring him up, FP&L, we will take a ten-minute break.

9 (Recess taken.)

10 CHAIRMAN JABER: We are ready to get started. Call
11 your next witness.

12 MR. BUTLER: We'd call Mr. Yeager. And I believe
13 that Mr. Yeager has previously been sworn.

14 WILLIAM YEAGER

15 was called as a witness on behalf of Florida Power & Light
16 Company and, having been duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BUTLER:

19 Q Mr. Yeager, would you please state your name and
20 address for the record.

21 A Yes. William Yeager, 700 Universe Boulevard, Juno
22 Beach, Florida.

23 Q By whom are you employed and in what capacity?

24 A By Florida Power & Light as the General Manager of
25 Florida Projects.

1 Q Do you have before you prefiled direct testimony
2 consisting of 29 pages, I'm sorry, excuse me, 26 pages and
3 attached documents WLY-1 through WLY-14?

4 A Yes, I do.

5 Q Were the testimony and exhibits prepared under your
6 direction, supervision or control?

7 A Yes, they were.

8 MR. BUTLER: I'd ask that the next exhibit number,
9 which I believe is 29, be assigned as a composite to his
10 documents.

11 CHAIRMAN JABER: Sure. Hearing Exhibit 29 will be
12 identified for WLY-1 through -- what's the last number?

13 MR. BUTLER: 14.

14 CHAIRMAN JABER: Thank you. Through WLY-14.

15 (Exhibit 29 marked for identification.)

16 BY MR. BUTLER:

17 Q Mr. Yeager, are you also sponsoring portions of FPL's
18 Need Study in this proceeding?

19 A Yes. I sponsor Appendix L and cosponsor Section III,
20 V and VII of the Need Study.

21 Q Have you prepared an errata sheet to your prefiled
22 direct testimony?

23 A Yes, I have.

24 Q As revised by the errata sheet, do you adopt this
25 prefiled testimony as your testimony in this proceeding?

1 A Yes, I do.

2 MR. BUTLER: I'd ask that Mr. Yeager's prefiled
3 direct testimony be inserted into the record as though read.

4 CHAIRMAN JABER: Prefiled direct testimony of William
5 L Yeager as revised by the errata sheet will be inserted into
6 the record as though read.

7 MR. BUTLER: Thank you.

8

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF WILLIAM L. YEAGER**

4 **DOCKET NOS. 020262-EI, 020263-EI**

5 **JULY 16, 2002**

6
7 **Q. Please state your name and business address.**

8 A. My name is William L. Yeager. My business address is Florida Power &
9 Light Company, Power Generation Division, 700 Universe Boulevard, Juno
10 Beach, Florida, 33408-0420.

11
12 **Q. By whom are you employed and what is your position?**

13 A. I am employed by Florida Power & Light Company (“FPL” or the
14 “Company”) as General Manager of Florida Projects.

15
16 **Q. Please describe your duties and responsibilities in that position.**

17 A. I am responsible for the overall management and direction of licensing,
18 engineering, procurement, construction and start-up activities associated with
19 new supply-side generation projects for the Company. This includes the
20 proposed Martin Unit 8 and Manatee Unit 3 combined cycle generation
21 projects.

22
23 **Q. Please describe your educational background and business experience.**

24 A. I received a Bachelor of Mechanical Engineering from the Georgia Institute of

1 Technology in 1982. I am a registered professional Engineer in the State of
2 Florida and a member of the American Society of Mechanical Engineers.

3

4 I began my career as a mechanical engineer with FPL in 1982. In 1987, I was
5 lead engineer for the preliminary engineering phase of Lauderdale Units 4&5,
6 two 400 MW combined cycle repowered units that came on line in 1992.

7

8 From 1988 to 1991, I was the Project Engineering Manager for FPL's Martin
9 Units 3&4, two 400 MW combined cycle capacity additions. This project is
10 noteworthy in the history of power generation because the four General
11 Electric (GE) Model 7221 combustion turbines were the first to utilize the
12 DLN2 dry low NO_x combustion system. The project overcame significant
13 issues associated with this first of a kind installation – exceeding all
14 performance and reliability targets and finishing under budget and on
15 schedule.

16

17 Following completion of Martin Units 3&4, I spent the next four years in
18 various management capacities at the FPL Martin Plant site, increasing my
19 operational knowledge of combined cycle and conventional oil/gas-fired
20 power plants. I then spent two years as Operations Manager for ESI (now
21 FPL Energy), an unregulated affiliate of FPL, and two years as FPL's
22 Manager of Combustion Turbines. From 1999 through 2001, I was Plant
23 General Manager of FPL's Manatee Plant.

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. I describe the site and unit characteristics for the combined cycle power plants
3 proposed for FPL's Martin and Manatee plant sites, including the size,
4 number and types of units, their heat rates and operating characteristics (i.e.,
5 equivalent availability factor, equivalent forced outage rate, capacity factor,
6 and operating costs), the fuel types, the estimated cost of each installation, and
7 the projected in-service dates. I discuss FPL's experience with building and
8 operating combined cycle generating plants and demonstrate that the
9 assumptions made for the Martin and Manatee projects are reasonable and
10 achievable.

11
12 **Q. Are you sponsoring an exhibit in this case?**

13 A. Yes. It consists of the following documents:

14	Document WLY-1	Typical 4x1 CC Unit Process Diagram
15	Document WLY-2	FPL Operational Combined Cycle Plants & FPL
16		Combined Cycle Construction Projects In Progress
17	Document WLY-3	Martin Plant Vicinity Map
18	Document WLY-4	Martin Unit 8 Project Boundary
19	Document WLY-5	Martin Unit 8 Typical Power Block Area
20	Document WLY-6	Martin Unit 8 Fact Sheet
21	Document WLY-7	Overall Water Balance for the Martin Site
22	Document WLY-8	Martin Unit 8 / Manatee Unit 3 Expected
23		Construction Schedule

1 Document WLY-9 Martin Unit 8 / Manatee Unit 3 Construction Cost
 2 Components
 3 Document WLY-10 Manatee Plant Vicinity Map
 4 Document WLY-11 Manatee Unit 3 Project Boundary
 5 Document WLY-12 Manatee Unit 3 Typical Power Block Area
 6 Document WLY-13 Manatee Unit 3 Fact Sheet
 7 Document WLY-14 Overall Water Balance for the Manatee Site
 8

9 **Q. Are you sponsoring any part of the Need Study for this proceeding?**

10 A. Yes. I sponsor Appendix L, and co-sponsor Sections III and VIII of the Need
 11 Study.
 12

13 **I. Overview of Combined Cycle Technology**

14
 15 **A. Description of Technology**
 16

17 **Q. Would you please describe the combined cycle technology that will be
 18 used for the Martin and Manatee Projects?**

19 A. Referring to Document WLY-1, a combined cycle unit is a hybrid of
 20 combustion turbines (CTs), heat recovery steam generators (HRSGs), and a
 21 steam-driven turbine generator (STG). Each of the combustion turbines
 22 compress outside air into a combustion area where fuel, typically natural gas
 23 or light oil, is burned. The hot gases from the burning fuel air mixture drive a

1 turbine, which, in turn, directly rotates a generator to produce electricity. The
2 exhaust gas produced by each turbine, which is on the order of 1,100°F, is
3 passed through a HRSG, before exiting the stack at approximately 200°F. The
4 energy extracted by the HRSG produces steam, which is used to drive a STG.
5 The utilization of waste heat from the combustion turbines provides an overall
6 plant efficiency that is much better than that of the CTs or the conventional
7 STG alone.

8
9 Each CT/HRSG combination is called a “train.” The number of CT/HRSG
10 trains used establishes the general size of the STG. In the case of the
11 proposed Martin Unit 8 and Manatee Unit 3, four CT/HRSG trains will be
12 connected to one STG; hence the terminology “four on one” (4x1) combined
13 cycle plant.

14
15 **B. Operating Advantages**

16
17 **Q. What level of operating efficiency is anticipated for the Martin and**
18 **Manatee Projects?**

19 A. Each of the proposed FPL combined cycle units is based on the use of GE “F”
20 Class advanced combustion turbines. The primary difference between these
21 GE 7FA CTs and conventional CTs is their efficiency. This difference results
22 from higher firing temperatures made possible by advances in design. FPL
23 has selected designs based on advanced CTs because they are more

1 economical than conventional CTs at the capacity factors at which they are
2 expected to operate on the FPL system.

3
4 In general, combined cycle plants can be expected to achieve fuel conversion
5 rates of less than 7,000 Btu/kWh, as opposed to values in the 10,000 Btu/kWh
6 range for more conventional steam-electric generating units. This is a fuel
7 efficiency improvement of about 30 percent. FPL anticipates that the new
8 Martin and Manatee combined cycle units will achieve a full load base heat
9 rate of 6,850 Btu/kWh (@ 75°F).

10

11 **Q. Are there other operational advantages to combined cycle technology?**

12 A. Yes. Another advantage of the multi-train combined cycle arrangement is that
13 it allows for greater flexibility in matching unit output to system operating
14 characteristics over time. As designed, the proposed Martin Unit 8 and
15 Manatee Unit 3 each can function as either a base load or intermediate unit as
16 required by the Company's system.

17

18 **C. FPL's History of Building and Operating Combined Cycle Plants**

19

20 **Q. Does FPL have experience in building combined cycle plants?**

21 A. Yes, FPL has extensive experience in building combined cycle plants. FPL's
22 first combined cycle plant (Putnam Units 1&2) went into service in 1976. As
23 shown in Document WLY-2, FPL has already placed 4,717 MW (net summer)

1 of combined cycle capacity in service and the repowering of Sanford Unit 4 is
2 scheduled to be complete by June 2003.

3

4 **Q. Please describe FPL's history of operating combined cycle plants.**

5 A. As I just mentioned, FPL has 4,717 MW (net summer) of combined-cycle
6 equipment presently in-service, including 14 GE 7FA CTs. Our expertise with
7 this equipment and our commitment to total operational quality enabled us to
8 achieve an operating run of 203 consecutive days—a world record for F
9 technology GE equipment at that time.

10

11 In addition to its combined cycle operating experience, FPL has extensive
12 experience operating simple-cycle CTs, which comprise the “front end” of the
13 combined cycle technology. FPL has operated eight GE 7FA CTs in simple-
14 cycle mode at its Fort Myers and Martin plant sites in Florida. FPL also has
15 been operating 48 smaller simple-cycle units for approximately 30 years.

16

17 **Q. Please characterize FPL's track record in building and operating
18 combined cycle units.**

19 A. FPL has consistently completed all combined cycle construction projects in
20 time to supply the needs of the customer. This is commendable, given the
21 complexities that are inherent in the design and construction of the repowering
22 projects that I just mentioned.

1 In meeting our obligation to serve, we have also demonstrated our ability to
2 construct reliable and efficient plants. For example, in 1994 we began
3 commercial operation of two new combined cycle units at our Martin plant
4 and, just two years later, were awarded *Power* magazine's Power Plant of the
5 Year Award for world-class performance in O&M and availability. In
6 addition, this plant has excellent environmental characteristics.

7
8 To ensure ongoing best-in-class performance in today's highly competitive
9 electricity generating industry, FPL focuses on excellence in people,
10 technology and business and operating processes.

11
12 FPL promotes a shift team concept in its power plants that emphasizes
13 empowerment, engagement and accountability, with an understanding that
14 each employee has the necessary knowledge, skill and motivation to perform
15 any required task. This multifunctional, team-driven and well-trained
16 workforce is the key to our ability to consistently meet and often exceed plant
17 performance objectives.

18
19 With world-class operational skills upon which to draw, we maximize the
20 value of our growing assets by utilizing the best practices that underlie FPL's
21 industry-leading positions. Our fossil-fueled fleet reached an all-time high of
22 90% availability in 2000 and 2001, ranking well above the 2000 industry
23 average of 84% and placing FPL among the nation's best performers.

1 **Q. Please describe how FPL monitors the operational performance of its**
2 **power plants.**

3 A. Technology is also helping us optimize plant operations, gain process
4 efficiencies and leverage the deployment of technical skills as demand for
5 services increases. An example is our Fleet Performance and Diagnostics
6 Center (FPDC) in Juno Beach, Florida. The FPDC gives us the capability to
7 monitor every fossil-fueled plant in the FPL system. We can compare the
8 performance of like components on similar generating units, determine how
9 we can make improvements and prevent problems before they occur. Live
10 video links can be established between the FPDC and plant control rooms to
11 immediately discuss, prevent and solve problems. Last year, FPL was
12 presented with an Industry Excellence Award from the Southeast Electric
13 Exchange for the FPDC. The proposed Martin Unit 8 and Manatee Unit 3
14 combined cycle projects will be connected to the FPDC.

15
16 **II. Martin Combined Cycle Project**

17
18 **A. Site Description**

19
20 **Q. Please describe the existing facilities at the Martin Plant site.**

21 A. The Martin Plant has reliably supplied electric power to FPL's customers
22 since 1980, when Unit 1 began operation. The Martin Plant site occupies

1 11,300 acres near Indiantown, Florida. A vicinity map of the Martin Plant site
2 is presented on Document WLY-3.

3
4 The generating capacity of the Martin Plant has increased over the years
5 through the addition of new units to meet increasing demand for electricity.
6 Generating units at the Martin Plant site (and their current net peak summer
7 capacity) presently include: Units 1 (814 MW) and 2 (799 MW), which are
8 residual oil/natural gas-fired steam units; Units 3 and 4 (natural gas-fired
9 combined cycle units, with a peak summer capability of 467 MW and 468
10 MW, respectively) and Units 8A and 8B (natural gas-fired/light oil, simple
11 cycle combustion turbines, each with a peak summer capability of 159 MW).
12 The Martin Plant site currently has a total summer net generating capability of
13 approximately 2,846 MW. The site includes a 6,800-acre cooling pond that
14 serves Units 1, 2, 3, and 4.

15
16 **Q. Has the Martin Plant site previously been identified for unit expansion?**

17 **A.** Yes. The Martin Plant site has long been identified as a possible site for
18 additional generating capacity. When site certification for Units 3 and 4 was
19 issued in 1991, the Governor and Cabinet, acting as the Siting Board, also
20 recognized the Martin Plant site's suitability for further capacity expansions.
21 The Martin Plant site has been identified as a preferred location for additional
22 generating capacity in each of FPL's Ten Year Power Plant Site Plans for the
23 past decade.

1 **Q. Please discuss the proposed location of Martin Unit 8 relative to the**
2 **existing units on-site.**

3 A. The project boundary for the Martin Unit 8 project is shown on Document
4 WLY-4. The portion of the Martin Plant site that will be occupied by
5 temporary and permanent project facilities comprises approximately 44 acres
6 within the defined project area of approximately 110 acres. The entire project
7 area is within the existing certified portion of the site. Existing Units 1, 2, 3,
8 and 4 will remain in operation and will not be impacted by the project.

9
10 The location of the new combined cycle Unit 8 at the existing Martin Plant
11 site and the selection of the combined cycle technology will maximize the
12 beneficial use of the site while minimizing environmental, land use, and cost
13 impacts otherwise associated with development of a large power plant. The
14 Project will utilize a number of existing facilities, while increasing the
15 generating capacity of the site without increasing the overall size of the site.

16
17 **B. Martin Unit 8 Project**

18
19 **Q. Please describe the proposed Martin Unit 8 project in more detail.**

20 A. The project involves converting the existing Units 8A and 8B CTs from
21 simple cycle to combined cycle and the construction of two new CTs
22 designated 8C and 8D. The unit's general arrangement resulting from this
23 marriage of new and existing CTs is shown on Document WLY-5.

1 Unit 8 will be a 4x1 combined cycle unit consisting of four 159-MW GE "F"
2 Class advanced CTs, with dry low-NO_x combustors and four HRSGs, which
3 will use the waste heat from the CTs to produce steam to be utilized in a new
4 steam turbine generator. By utilizing the otherwise wasted heat from the CTs
5 in four new HRSGs, the resulting combined cycle unit will be much more
6 efficient than the existing Martin 8A & 8B simple cycle CTs.

7
8 Each CT unit will utilize inlet air evaporative cooling. Direct inlet fogging
9 systems achieve adiabatic cooling using water to form fine droplets (fog). The
10 result of the fogging is a cooler, more moisture-laden air stream. This allows
11 additional power to be produced more efficiently. For the GE Frame 7FA CT,
12 an 8°F average decrease in temperature would result in a 3.0 percent increase
13 in power and an associated 1.2 percent decrease in heat rate. Thus, while
14 power increases, the production of power is more efficient with lower
15 emissions per MWh generated.

16
17 The inlet foggers would normally be utilized when the ambient air
18 temperature is greater than 60°F. Since the average annual temperature for
19 the Martin site is approximately 75°F, the output and heat rate benefits of
20 fogger operation are included in the base rating of 984 MW (net summer) for
21 Martin Unit 8.

22
23 Duct burners are also proposed for each HRSG. The duct burners can be fired

1 during peak demand periods to add an additional 96 MW of capacity to the
2 unit at an incremental heat rate of 8,770 Btu/kWh.

3
4 An additional 27 MW of output can also be achieved by raising the fuel flow
5 to the CT for "peak firing mode" operation. Peak firing reduces the heat rate
6 of the entire unit and the expected incremental heat rate for peak firing is
7 5,600 Btu/kWh. However, peak firing will shorten the normal replacement
8 period for some CT components, so it will normally be reserved for peak need
9 periods and not routinely dispatched ahead of duct firing - even though the
10 incremental heat rate for this mode of operation is less than the incremental
11 heat rate for all forms of fossil power generation.

12
13 Martin Unit 8, with a summer generating capacity of approximately 1,107
14 MW (net) from the base operation, duct burning, and peak firing capabilities
15 described above, will be among the most efficient electric generators in
16 Florida. It will result in a summer net increase of approximately 789 MW in
17 the Martin Plant site's capacity after accounting for the 318 MW already
18 being provided by CT Units 8A and 8B. The expected operating
19 characteristics of Martin Unit 8 are shown in Document WLY-6.

20
21 **Q. Please describe the potential air emissions of the Martin Unit 8 project.**

22 A. Protecting the environment while providing safe, reliable and adequate power
23 to customers is of great importance to FPL. FPL's Martin Plant will continue

1 to comply with all applicable regulatory standards through construction and
2 operation of Martin Unit 8.

3
4 The project will have lower overall impacts than were previously reviewed
5 and found acceptable in the 1991 "ultimate site capacity" certification for the
6 Martin Plant site. The use of clean fuels and combustion controls will
7 minimize air emissions from Martin Unit 8 and ensure compliance with
8 applicable emission-limiting standards. Using clean fuels minimizes
9 emissions of sulfur dioxide, particulate matter and other fuel-bound
10 contaminants. Combustion controls similarly minimize the formation of
11 nitrogen oxides (NO_x) and the combustor design will similarly limit the
12 formation of carbon monoxide and volatile organic compounds. When firing
13 natural gas, NO_x emissions will be controlled using dry low-NO_x combustion
14 technology and selective catalytic reduction (SCR), which will limit NO_x
15 emissions to 2.5 parts per million volume dry (ppmvd) (@ 15% O₂ on natural
16 gas). Water injection and SCR will be used to reduce NO_x emissions during
17 CC operation when firing light oil. These design alternatives maximize
18 control of air emissions while balancing economic, environmental, and energy
19 impacts, consistent with regulatory requirements for emission rates reflecting
20 use of the "best available control technology." Taken together, the design of
21 Martin Unit 8 will incorporate features that will make it one of the most
22 efficient and clean power plants in Florida.

1 **C. Fuel Types**

2

3 **Q. What types of fuel will Martin Unit 8 be capable of using?**

4 A. The project will be capable of using two fuel types: natural gas and light oil.

5 The testimony of Mr. Gerard Yupp provides the details for the transportation
6 alternatives to supply the proposed Martin Unit 8 with fuel.

7

8 **D. Water Supply – Access and Availability**

9

10 **Q. What are the water requirements for the Martin Unit 8 project and how**
11 **will they be met?**

12 A. The overall water balance for the Martin site is shown on Document WLY-7.
13 Primary water uses for Martin Unit 8 will be for condenser cooling,
14 combustion turbine inlet foggers, steam cycle makeup and service water.
15 Water also will be used on a limited basis for NO_x control when using light
16 oil. Condenser cooling for the steam cycle portion of Unit 8 will be
17 accomplished with water from the existing cooling pond. Service and process
18 water for the project will come from the cooling pond. Make up water to the
19 pond will continue to come from the St. Lucie Canal in accordance with the
20 current South Florida Water Management District consumptive use allocation
21 for the site.

1 **E. Electric Transmission Interconnection Facilities**

2

3 **Q. How will the Martin Unit 8 project be interconnected to FPL's**
4 **transmission network?**

5 A. The electricity generated by Martin Unit 8 will interconnect with FPL's
6 existing transmission network at the Martin site's existing system substation.

7

8 **F. Proposed Construction Schedule**

9

10 **Q. What is the proposed construction schedule for the Martin Unit 8**
11 **project?**

12 A. A summary of construction milestone dates is shown on Document WLY-8.
13 FPL will begin construction upon receipt of the necessary federal and state
14 certifications and permits. The expected construction duration for the Martin
15 Unit 8 project is 24 months, based on our experience constructing Martin
16 Units 3&4 and the rate of progress for our current construction projects at our
17 Fort Myers and Sanford plants. Therefore, with a planned in-service date of
18 June 2005 to help meet FPL's load requirements, FPL anticipates that
19 construction must commence on or before June 1, 2003.

20

21 **Q. What is the current status of the certifications and permits required to**
22 **begin construction of Martin Unit 8?**

1 A. As of July 10, 2002, the Martin 8 site certification application has been
2 deemed sufficient by the Florida Department of Environmental Protection
3 (FDEP). The state-mandated land use hearing for the project was held and the
4 Administrative Law Judge has forwarded a favorable Recommended Order to
5 the Governor and Cabinet for review and approval.

6

7 **G. Estimated Construction Costs**

8

9 **Q. What does FPL estimate that the Martin Unit 8 will cost?**

10 A. In the economic analysis, the expected installed cost for the Martin Unit 8 is
11 \$439 million (2005 dollars), exclusive of transmission integration. This cost
12 includes \$389 million for the power block, \$7 million for the transmission
13 interconnection, and \$43 million in allowances for funds used during
14 construction (AFUDC) to an in-service date of June 2005. The components of
15 the total plant cost are shown in Document WLY-9.

16

17 **Q. Are these estimated costs for Martin Unit 8 consistent with the estimated
18 costs in the 2002 Supplemental Request for Proposals (Supplemental
19 RFP)?**

20 A. Yes, these plant costs are consistent with FPL's estimates in Table VI-1 of the
21 Supplemental RFP.

1 **III. Manatee Combined Cycle Expansion Project**

2

3 **A. Site Description**

4

5 **Q. Please describe the existing facilities at the Manatee Plant site.**

6 A. As shown on Document WLY-10, the Manatee Plant is located in Manatee
7 County, just east of Parrish, Florida. The plant was originally constructed in
8 the mid-1970s, with the commercial in-service dates for Units 1 and 2 in
9 October 1976 and December 1977, respectively.

10

11 The peak summer capacity (net) of the existing units are as follows:

12

- Unit 1 – 809 MW (peak summer capacity)

13

- Steam electric generating unit firing residual oil

14

- Unit 2 – 810 MW (peak summer capacity)

15

- Steam electric generating unit firing residual oil

16

17 **Q. Is the Manatee site suitable for the Manatee Unit 3 project?**

18 A. Yes. The location of the new combined cycle Unit 3 at the existing Manatee
19 Plant site and the selection of the combined cycle technology will maximize
20 the beneficial use of the site while minimizing environmental, land use, and
21 cost impacts otherwise associated with development of a large power plant.
22 The new CTs and associated HRSGs will be located in an area that has
23 already been affected by existing uses at the plant. The project will utilize a

1 number of existing facilities, while increasing the generating capacity of the
2 site without increasing the overall size of the site.

3

4 **B. Manatee Unit 3 Project**

5

6 **Q. Please describe the Manatee Unit 3 project in more detail.**

7 A. The project will be located west of the existing Units 1 and 2 on the existing
8 9,500-acre Manatee Plant site. Document WLY-11 presents the boundary of
9 the project area, which comprises approximately 73 acres. The new CTs and
10 associated HRSGs will be located in an area that has already been affected by
11 existing uses at the plant.

12

13 The proposed Manatee Unit 3 will be a 4x1 combined cycle unit consisting of
14 four 159-MW GE "F" Class advanced CTs, with dry low-NO_x combustors and
15 four HRSGs, which will use the waste heat from the CTs to produce steam to
16 be used in a new steam turbine generator. The proposed power block
17 arrangement is shown on Document WLY-12.

18

19 Like Martin Unit 8, the inlets of each combustion turbine will be outfitted
20 with an evaporative cooling (fogging) system. Based on the average annual
21 temperature for the Manatee site, the output and heat rate benefits associated
22 with fogger operation are included in the base rating of 984 MW (net summer)
23 for Manatee Unit 3.

1 Duct burners are also proposed for each HRSG. The duct burners can be fired
2 during peak demand periods to add an additional 96 MW of capacity to the
3 base unit at an incremental heat rate of 8,770 Btu/kWh.

4
5 An additional 27 MW can also be achieved by raising the fuel flow to the CT
6 for “peak firing mode” operation. Since peak firing reduces the heat rate of the
7 entire unit, the expected incremental heat rate for peak firing is 5,600
8 Btu/kWh. However, peak firing will shorten the normal replacement period
9 for some CT components, so it will normally be reserved for peak need
10 periods and not routinely dispatched ahead of duct firing.

11
12 Manatee Unit 3 will have a total peak summer generating capacity of
13 1,107 MW (net) from the base operation, duct burning, and peak firing
14 capabilities described above. The expected operating characteristics of
15 Manatee Unit 3 are shown in Document WLY-13.

16
17 **Q. Please describe the potential air emissions of the Manatee Unit 3 project.**

18 A. FPL’s Manatee Plant will continue to comply with all applicable regulatory
19 standards through construction and operation of Manatee Unit 3.

20
21 The use of natural gas and combustion controls will minimize air emissions
22 and ensure compliance with applicable emission-limitation standards. Using
23 natural gas minimizes emissions of sulfur dioxide, particulate matter and other

1 fuel-bound contaminants. Combustion controls similarly minimize the
2 formation of NO_x and the combustor design will similarly limit the formation
3 of carbon monoxide and volatile organic compounds. NO_x emissions will be
4 controlled using dry low-NO_x combustion technology and SCR, which will
5 limit NO_x emissions to 2.5 ppmvd (@ 15% O₂ on natural gas). The design of
6 Manatee Unit 3 will incorporate features that will make it one of the most
7 efficient and clean power plants in Florida.

8
9 **C. Fuel Types**

10
11 **Q. What types of fuel will Manatee Unit 3 be capable of using?**

12 A. The CTs and HRSG duct burners will be capable of using only natural gas.
13 Please refer to the testimony of Mr. Gerard Yupp for discussion of the
14 transportation alternatives to supply the proposed Martin Unit 8 with fuel.

15
16 **D. Water Supply – Access and Availability**

17
18 **Q. What are the water requirements for the Manatee Unit 8 project and how
19 will they be met?**

20 A. The water supply for the Manatee project will be similar to that of the Martin
21 project, in that water will be obtained from an existing 4,000-acre cooling
22 pond. With make up water provided from the Little Manatee River, this
23 cooling pond will continue to be the source of cooling, service and process

1 water for the Manatee Plant after the addition of Unit 3. Total site
2 consumptive use will continue to be in accordance with the current Southwest
3 Florida Water Management District water use agreement. The overall water
4 balance for the Manatee Plant, including Unit 3, is shown in Document WLY-
5 14.

6
7 **E. Electric Transmission Interconnection Facilities**

8
9 **Q. How will the Manatee Unit 3 project be interconnected to FPL's**
10 **transmission network?**

11 A. The project will connect to the existing on-site system substation via a new tie
12 line. The existing on-site system substation will be expanded to accommodate
13 the new interconnection to FPL's electric transmission system.

14
15 **F. Proposed Construction Schedule**

16
17 **Q. What is the proposed construction schedule for the Manatee Unit 3**
18 **project?**

19 A. Manatee Unit 3 will be a sister to Martin Unit 8, so the expected construction
20 duration will also be 24 months. With a planned in-service date of June 2005
21 to help meet FPL's load requirements, FPL anticipates that the Manatee Unit
22 3 construction must commence on or before June 1, 2003. A summary of the
23 construction milestone dates is shown on document WLY-8.

1 **Q. What is the current status of the certifications and permits required to**
2 **begin construction of Manatee Unit 3?**

3 A. As of July 10, 2002, the Manatee Unit 3 site certification application has been
4 deemed sufficient by the FDEP. Zoning and site plan approval requests have
5 been filed with Manatee County in support of the state-mandated land use
6 hearing. The Manatee County Planning Commission has recommended
7 approval of the Rezoning, General Development Plan and Preliminary Site
8 Plan.

9
10 **G. Estimated Construction Costs**

11
12 **Q. What does FPL estimate that Manatee Unit 3 will cost?**

13 A. In the economic analysis, the expected installed cost for the proposed Manatee
14 Unit 3 is \$551 million, exclusive of transmission integration. This cost
15 includes \$482 million for the power block, \$10 million for the transmission
16 interconnection, and \$59 million in allowances for funds used during
17 construction (AFUDC) to an in-service date of June 2005. The components of
18 the total plant cost are shown in Document WLY-9.

19
20 **Q. Are these estimated costs for the Manatee Unit 3 project consistent with**
21 **the estimated costs in the 2002 Supplemental RFP?**

22 A. Yes, these plant costs are consistent with FPL's estimates in Table VI-2 of the
23 Supplemental RFP.

1 **IV. Consequences of Delay**

2
3 **Q. What consequences would be likely if the need determination for either**
4 **project were delayed?**

5 A. In order to achieve our reliability criteria for summer 2005, FPL has set an in-
6 service date of June 2005 for both projects. Each project has a projected 24
7 month construction schedule, which dictates that construction begin on or
8 before June 1, 2003. Consistent with this schedule for commencing
9 construction, FPL needs to receive a site certification for each project by the
10 end of May 2003, with the air permit to be issued concurrently or shortly after
11 site certification. This remains a realistic timetable for the site certification,
12 but with less than one month between the expected date upon which all
13 approvals would be received, and the actual date that construction must begin
14 to support a June 2005 in-service date, it is imperative that the FDEP receive
15 all agency reports (including the Commission's Need Determination) report in
16 a timely matter. Based on FPL's experience with the FDEP site certification
17 process, FPL asks the Commission to vote to issue affirmative Need
18 Determinations by no later than November 19, 2002.

19
20 If the licensing of the project is delayed beyond June 1, 2003, FPL may not be
21 able to meet its system reliability criteria in 2005. Also, the introduction of
22 new low cost energy would be delayed to the detriment of FPL's customers.

1 **V. Conclusion**

2

3 **Q. What level of confidence does FPL have in the cost projections and**
4 **construction schedules for the plants discussed herein?**

5 A. In establishing the construction schedule and capital cost estimates for these
6 plants, FPL has drawn upon its design and construction experience in Florida.
7 We are confident that our current design philosophy and construction
8 processes will allow us to complete these power blocks and associated
9 transmission interconnections on schedule and in accordance with the
10 expected construction costs, which our analyses have shown to be the best
11 alternatives for our customers.

12

13 **Q. Please summarize your testimony.**

14 A. FPL's Martin Unit 8 and Manatee Unit 3 projects will use highly efficient
15 low-emission combined cycle technology, with which FPL has a great deal of
16 experience building and operating. FPL is confident of the accuracy of our
17 construction cost estimates and projected unit capabilities.

18

19 The Martin and Manatee sites are ideal locations for these projects because of
20 the existing electric generating plant, gas transmission and electric
21 transmission infrastructure, and minimal expected incremental environmental
22 impacts compared to "greenfield" sites. There are no water supply, fuel

1 supply, transmission or other constraints that will interfere with FPL's ability
2 to successfully construct and operate either facility.

3

4 **Q. Does this conclude your testimony?**

5 **A. Yes.**

Errata Sheet
Direct Testimony of William L. Yeager
Docket Nos. 020262-EI and 020263-EI

Page, Line	Correction
4, line 10	Change "Sections III and VIII" to "Sections III, V and VII"

1 BY MR. BUTLER:

2 Q Mr. Yeager, would you please summarize your
3 testimony?

4 A Yes. Good morning, Madam Chair and Commissioners.

5 CHAIRMAN JABER: Good morning.

6 THE WITNESS: I'd like to start off with a little bit
7 of background about the Power Generation Division and what our
8 experiences are.

9 We currently operate 4,700 megawatts of combined
10 cycle at five sites in Florida, and we'll be adding another 957
11 megawatts next year. FPL was one of the first companies to get
12 into the combined cycle operations with our Putnam Plant in
13 1976. This year we've completed the Ft. Myers repowering
14 project, we're in the process of building the Sanford
15 repowering projects, which the first stage was completed
16 earlier this year.

17 Our fossil fleet has a six percent higher
18 availability than the nation average, industry average, placing
19 us as the, one of the premiere operating companies in the U.S.
20 In fact, we've been recognized in a number of ways for our
21 operating and construction experience.

22 For example, in 1994 we were acknowledged by Power
23 magazine for the construction expertise with the Power Plant of
24 the Year Award for the Martin 3 and 4 project, which is a
25 project that's very similar to the ones that we're talking

1 about in these proceedings.

2 Power Generation's role is to develop the,
3 independently develop the self-build options for the 2005 and
4 2006 needs. And based on the, an inner design process that we
5 used, we've determined that four-on-one combined cycles at the
6 Martin site and the Manatee site would be the best alternatives
7 for the self-build options.

8 We have a, we have a very large experience in, in
9 combined cycles, and with that experience we, we, we know that
10 our costs of performance are both very realistic and
11 achievable. And we base this on the experience in constructing
12 and operating and the lessons learned from our Ft. Lauderdale
13 repowering project, our Martin 3 and 4 combined cycle projects,
14 the Ft. Myers and Sanford repowering projects.

15 A very important point of combined cycle, and it's
16 really the heart and the most critical component is the
17 combustion turbine. And the combustion turbines that we're
18 using on these projects are General Electric 7FAs. And Florida
19 Power & Light has the most experience of any company in the
20 world on operating 7FAs. In fact, we have the first four that
21 General Electric built, which is our Martin 3 and 4, the CTs
22 used in our Martin 3 and 4 project.

23 The, the forced and the planned outage component
24 numbers that we used in the self-build option are consistent
25 with the operating experience that we've had at Martin and, in

1 addition to that, the improvements that General Electric has
2 made in these, these latest generation of seven up phase.

3 With the techniques that we've utilized at Martin
4 3 and 4 we can confidently predict that we will have a one
5 percent forced outage rate and a 97 percent availability.

6 Now some of the parties in this proceeding have
7 stated that we are very aggressive in our numbers, and that
8 would be true compared to the industry average. But FPL
9 consistently far exceeds the industry average in all these
10 components, so we're very confident in these numbers.

11 There's an additional factor, some additional facts
12 about the units. They're very favorable environmental
13 attributes. They're both at existing sites, which minimize the
14 impact on the environment. They've been designed to minimize
15 air emissions. The water usage will come out of the existing
16 cooling ponds and, in fact, is within the allocations that
17 those two sites currently have. And in the -- the progress
18 that we've made through the permitting so far has been very
19 favorable with no issues that would affect either the cost or
20 scheduling, you know, estimates.

21 So in conclusion, Power Generation is a world-class
22 constructor and operator of power plants, we have extensive
23 combined cycle experience of over 25 years and consistently
24 we're better than the industry averages. Our cost and
25 performance is very realistic and achievable, and the sites

1 have very favorable environmental aspects. That concludes my
2 statement.

3 MR. BUTLER: Thank you, Mr. Yeager. I tender
4 Mr. Yeager for cross-examination.

5 CHAIRMAN JABER: Thank you. Mr. Moyle?

6 CROSS EXAMINATION

7 BY MR. MOYLE:

8 Q Good morning, Mr. Yeager. I'm Jon Moyle. I have a
9 few questions for you this morning.

10 A Good morning.

11 Q PGD, that's a term we've used in the last couple of
12 days, we've thrown it around. Could you tell the Commission
13 what that is?

14 A Yes. PGD is for Power Generation Division. It's the
15 part of the company that I'm in that operates and -- well,
16 currently operates and has constructed combined power plants
17 for the company.

18 Q How long have you been in this division?

19 A I've been in the division for 20 years.

20 Q Did I hear you correctly in your opening statement to
21 admit that your numbers were aggressive as compared to the
22 industry average?

23 A No. What I said is we've been, other parties have
24 said that our numbers are aggressive. And compared to the
25 industry averages, if you compared our numbers to the industry

1 averages, ours are better than the industry averages like
2 the -- but that's based on our existing units' performance.

3 Q Okay. So you didn't use the word aggressive, but
4 yours are --

5 A Are consistent with our abilities and proven
6 performance in operating power plants.

7 Q Which is better than the industry average?

8 A That's correct.

9 Q Okay. Did PGD want to win this, this RFP? Did they
10 want to be selected?

11 A What, what Power Generation's role is is to build and
12 operate the power plants in the best way that we can.

13 Q Yeah. I understand that that is, that's what you do.
14 But my question -- and you've been in here, I think, the last
15 couple of days. We try to do yes and nos and then an
16 explanation. So if I could just restate my question. Did PGD
17 want to win this RFP and have its self-build proposal selected?

18 A Yes. We would -- you know, we were trying to do
19 something that would give us the opportunity to build this.

20 Q Okay. And that's because this is a competition;
21 correct?

22 A No. This is not a competition. We -- what we are
23 trying to do is develop the best possible alternative for our
24 customers. If the one that is a self-build option turns out to
25 be the best for our customers, that's what we'll do. If it's

1 not, then, you know -- the goal is to do the best thing for the
2 customers.

3 Q Okay. So is it your testimony that you don't view
4 this, this RFP process and the bid rule as a competition
5 between, between outside proposals and FP&L's self-build
6 alternatives?

7 A No, I don't view it as a competition.

8 Q Now I think you testified in your opening statement a
9 little bit about this GE F-class turbine; is that right? Did I
10 get it right?

11 A It's a GE 7FA.

12 Q 7FA. And you guys are the world leader in using
13 this; correct?

14 A That's correct.

15 Q How many, how many turbines do you have in the fleet
16 right now, this GE 7FA class?

17 A We have -- let me make sure I have the numbers
18 correct. We have 18 in operation and four that are, or six
19 that are under construction right now.

20 Q 24 total; is that right?

21 A That's correct.

22 Q Are these machines expensive to repair?

23 A Yes, there's a -- right. There, there are, you know,
24 pretty significant operating and maintenance costs associated
25 with a combustion turbine.

1 Q I was looking at your testimony, Page 13. You have
2 some reference in there to a peak firing, Lines 4 through 11.
3 What is, what is peak firing?

4 A Peak firing is a mode of operation that General
5 Electric offers that you operate -- you increase the fuel flow
6 into the unit and it makes additional power, and they call that
7 peak burn.

8 Q I'm sorry. You increase the fuel flow and it does
9 what?

10 A And it increases the output of the unit.

11 Q Do you use this mode of operation in your 20, I'm
12 sorry, your 18 that you have in operation today?

13 A We have used it in some of them. It's a newer, it's
14 a newer option that they've offered. So we have used it in the
15 very newest projects that we have, the Martin 8 simple cycle
16 units.

17 Q So how many have you used today?

18 A It's in Martin 8, and I believe it's also in the Ft.
19 Myers and Sanford repowering units. So so far it's been in 12.

20 Q Okay. And are you planning on using it in the plants
21 that are the subject of this need determination, are you
22 planning on using this peak firing?

23 A Yes.

24 Q Okay. And if I read your testimony, it says that you
25 can get some extra megawatts out of peak firing; is that

1 correct?

2 A Yes. That's correct.

3 Q Okay. Do you know if using peak firing conforms to
4 the manufacturer's guidelines for operating these combustion
5 turbines?

6 A Yes. That's one of the operating modes that they
7 have offered to us in these turbines.

8 Q So they've agreed to back up the peak firing and it
9 doesn't impact the warranties in any way, shape or form if you
10 run these units on peak firing mode?

11 A That's correct.

12 Q When we talked previously over the telephone, I
13 talked to you a little bit about how you came up with your,
14 your numbers for, for these projects. Do you recall that?

15 A Yes, sir.

16 Q And I think you told me that your numbers were done
17 in a construction model where you took estimates and entered
18 estimates into the construction model and turned the model on
19 and that's sort of how you came up with your numbers; correct?

20 A Yes. What we -- we have a model that outlines all of
21 the different components of a combined cycle, all of the major
22 equipment, all of the smaller pieces of equipment, the labor,
23 various labor components, overheads and other factors. And we,
24 we, yeah, that's how we estimate these projects.

25 Q Okay. We also talked about, about contracts,

1 contracts and estimates. And I believe you agreed with me that
2 contracts are more binding than estimates in your opinion;
3 isn't that correct?

4 A I don't -- I don't believe I --

5 Q Let me ask -- the question is vague.

6 As we sit here today, do you believe that contracts
7 are more, are more binding than estimates?

8 A Yes, I believe they're more binding. They give you
9 more certainty on the costs, but they don't necessarily give
10 you more certainty on the lowest price for the project.

11 Q They give you -- the contracts will give you more
12 certainty on the costs; is that right?

13 A Yes.

14 Q Let's talk about all the, all the things that you
15 need for a power plant, the major pieces of equipment. Could
16 you just briefly run through those for me? And you don't need
17 to describe them. Just list them.

18 A The major pieces of equipment? Combustion turbine,
19 heat recovery steam generators, steam turbines. That's
20 probably the major, what you would consider the major ones.

21 Q And then what else do you need to build this power
22 plant? You need gas, don't you?

23 A Yeah. You need natural gas, you need, you know,
24 smaller pieces of equipment, you need land.

25 Q Okay. You need somebody to build it.

1 A Yeah. Construction companies, engineering companies.

2 Q Okay. As we sit here today, do either of these units
3 have a, have a contract in place for the CT combustion turbine?

4 A We do not have a contract in place for the CT, the
5 combustion turbine. We do have firm pricing.

6 Q I'm sorry. Say that again.

7 A No, we do not have a contract in place for the CTs
8 for these projects. We do have firm pricing for those CTs.

9 Q What is -- what -- how -- I'm not sure I understand
10 the distinction.

11 A The distinction is because of the agreement that FPL
12 Group has for combustion turbines, we have firm pricing for the
13 turbines that we would require for this project.

14 Q Okay. So you're relying on the agreement that FPL
15 Group has for the turbines; is that right?

16 A That's right.

17 Q Okay. Were you here in the room when Mr. Dewhurst
18 was asked some questions about that agreement?

19 A Yes, I was here.

20 Q Okay. Do you know, have the turbines for these units
21 been identified?

22 A No. The turbines have not been identified. That
23 process takes place when you meet with General Electric, you
24 scope out what the requirements are and then they're identified
25 specifically.

1 Q Do you know if FP&L would have had to take a larger
2 cancellation charge if it's not using six of GE's turbines
3 pursuant to that Florida Power Corporation, I'm sorry, Florida
4 Power & Light Group contract?

5 A No, I don't know.

6 Q You don't know one way or the other?

7 A Right.

8 Q Do you think that that was part of the negotiations
9 with GE with respect to whether the Manatee and the Martin
10 plant would use six turbines when they renegotiated this master
11 turbine contract?

12 MR. BUTLER: I object. It's calling for speculation.

13 CHAIRMAN JABER: Mr. Moyle, your response, or do you
14 want to rephrase the question?

15 MR. MOYLE: Well, let me see if I can lay a
16 predicate.

17 BY MR. MOYLE:

18 Q Have you ever been involved in negotiations with
19 turbine manufacturers?

20 A Yes, I have.

21 Q Do they usually encompass a wide variety of plans on
22 a going-forward basis in terms of how many turbines do you need
23 in the next ten years, those types of discussions, if you were
24 having, having a master contract?

25 A Yes, they usually include that.

1 Q Okay. Have you been involved in any discussions
2 related to the, the master contract for turbines that FPL Group
3 has?

4 A I was involved in the original master agreement from
5 a number of years ago. I have not been involved in the changes
6 lately.

7 Q Given that, that predicate, would you believe that in
8 a renegotiation over a master contract that whether FP&L was
9 going to take six turbines for the Manatee and the Martin Unit
10 would have been raised given your previous experience?

11 MR. BUTLER: I'm going to renew my objection. Simply
12 the fact that Mr. Yeager has some experience in negotiating
13 contracts doesn't give him special insight into specifically
14 what is the case with respect to the contract that Mr. Moyle is
15 referring to.

16 CHAIRMAN JABER: Mr. Moyle?

17 MR. MOYLE: I think I'm asking him given his previous
18 experience would he expect that that would be an issue to be
19 raised.

20 CHAIRMAN JABER: I'll allow the question.

21 THE WITNESS: I would expect that the number of
22 turbines would be part of a discussion like that.

23 BY MR. MOYLE:

24 Q Okay. We got off on a little tangent there. But I
25 was asking you about the major pieces of equipment. You said,

1 I think, the other major piece of equipment is a heat recovery
2 --

3 A A heat recovery steam generator.

4 Q Okay. Do you have contracts for those at either of
5 these facilities?

6 A No, we do not have contracts. We do have firm bids
7 for those particular pieces of equipment.

8 Q Your counsel will have a chance to follow up with you
9 on some of these things, but if you would just answer my
10 questions yes or no, I'd appreciate it.

11 The firm bids is that -- tell me what the firm bids
12 are.

13 MR. BUTLER: Excuse me. I don't think that's fair.
14 I mean, you've asked that he give yes and no answers. That's
15 appropriate. He's providing very valid explanation that goes
16 exactly to what Mr. Moyle is asking about. He's not taking a
17 lot of time doing it. And simply telling a witness you have to
18 say yes or no and that's it is inappropriate.

19 CHAIRMAN JABER: Remind me what your name is again.
20 Is it --

21 MR. BUTLER: John Butler.

22 CHAIRMAN JABER: Mr. Butler. I would appreciate a
23 yes or no answer first and I'll allow the elaboration. I don't
24 think that a friendly reminder from counsel -- and I may remind
25 you later on of this opportunity that you'll have when CPV puts

1 its case on -- is inappropriate. I don't think it's
2 inappropriate. Go ahead.

3 BY MR. MOYLE:

4 Q Okay. Heat recovery units, you don't have contracts
5 for those, do you?

6 A No.

7 Q What are you relying on?

8 A We're relying on the, the, the firm price bids that
9 we have gotten.

10 Q When did you get these bids?

11 A Well, let me, let me restate. We're relying now. At
12 the time we were relying on estimates when we put the original
13 numbers together.

14 Q Okay. So the number is based in your case are on
15 estimates. But now you're relying on something else; is that
16 right?

17 A When we put the case together, estimates, they'd been
18 confirmed by the bids that we received.

19 Q Were the, were the bids, do they match up exactly to
20 the estimates?

21 A No, they were slightly lower.

22 Q But you don't have a -- you haven't entered into
23 negotiations with any of these folks and signed a contract,
24 have you?

25 A We've entered into negotiations. We have not signed

1 a contract.

2 Q Do you know who's going to supply them? Have you
3 identified a supplier?

4 A We still have a number of suppliers at this point
5 that we're discussing.

6 Q Have you gone through and done a financial viability
7 analysis of all the suppliers?

8 A That's part of our evaluation, yes.

9 Q So to the extent that you've received a very low
10 number and you've determined that that entity is not
11 financially viable, you probably won't go with them, would you?

12 A Yeah. The financial viability of the entity is
13 important to whether we would utilize their equipment.

14 Q Steam turbines. Do you have contracts for steam
15 turbines as we sit here today?

16 A No, we do not have a contract for the steam turbine
17 for this. We do have a master agreement that FPL Group has, so
18 we have firm pricing availability of the steam turbines.

19 Q So is it your testimony that you didn't use
20 estimates, that you used the number in that master agreement?

21 A Yes.

22 Q With respect to contracts for natural gas, you don't
23 have a firm transportation agreement for natural gas as we sit
24 here today, do you, for either of these units?

25 A No, not that I'm aware of. I'm not really a part of

1 that area, but, no, I don't believe so.

2 Q The engineer and -- engineering is a large cost, is
3 it not, of building these two units?

4 A Yes, it's a large cost.

5 Q You don't have a contract for the engineering work to
6 be done for these units?

7 A No, we don't have a contract. We're in the late
8 stages of negotiation on those contracts.

9 Q Okay. And the construction, you don't have contracts
10 for the construction of these units?

11 A No, we're not -- in construction we're in the same
12 late stage of negotiations.

13 Q So as we sit here today, what do you have contracts
14 for related to these two plants besides your contracts with
15 your, with your lawyers to, you know, move these cases forward?

16 A We have the lawyers and some of the environmental
17 consultants, that type of thing.

18 Q Okay. Now on the environmental stuff, you and I
19 talked during your deposition. Tell me when you started doing
20 the environmental work for the Manatee Unit.

21 A The environmental unit for the Manatee Unit was begun
22 in December of 2001.

23 Q Okay. And how about for the Martin Unit, anything
24 related to what you'd have to file for the site certification?

25 A When we --

1 Q When was that work done?

2 A The --

3 Q First started. I'm sorry.

4 A For Martin, the first start for the four-on-one was
5 in December. Work had been done earlier for a two-on-one
6 option in the, in the summer of 2001.

7 Q In the summer of what?

8 A 2001.

9 Q Okay. So am I correct in that the work that was
10 first started to take these plants through site certification
11 was begun before the initial RFP was ever issued?

12 A Yes, that's correct.

13 Q And was that because FP&L had decided at that point
14 in time that it was going to self-build these units?

15 A The reason for doing -- no, that is not -- the reason
16 for starting it at that time was to make it possible to build
17 these units in the time frame we needed to get the process
18 started if we were going to be able to build them.

19 Q Page 12 of your testimony, you have some stuff in
20 here about inlet air evaporative cooling. Can you just
21 describe that for me generally?

22 A Yes. Inlet air evaporative cooling -- a combustion
23 turbine and, therefore, combined cycles output is very
24 dependent on the ambient air temperature. The cooler the
25 temperature, the more megawatts the unit makes. So evaporative

1 cooling is a way of cooling down the inlet air so it will
2 generate more power.

3 Q So if you use these inlet airs, you get more power
4 out of the unit; is that correct?

5 A That's correct.

6 Q Are you using these inlet air evaporative cooling,
7 are you using this on any of your machines currently?

8 A Yes. Most of our combustion turbines have this
9 technology.

10 Q How many -- per combustion turbine how many
11 additional megawatts would you get out of it if you have this
12 technology in place?

13 A Per turbine, if we're talking about compared to a
14 normal hot summer day, it's, let's see, it's about, it's in the
15 neighborhood of 5 megawatts.

16 Q 5 megawatts. And how many combustion turbines do you
17 have in your system?

18 A Total -- let me do some addition here. I believe 70.
19 That's quick math though. It's in that range. If I -- I may
20 have forgotten one in there.

21 Q I'm not going to hold you to exact numbers. But out
22 of these 70, how many have this, this technology roughly?

23 A About half.

24 Q So if my math is correct then, is it, is it true then
25 that if FP&L installed this technology on the remaining 35,

1 that they would realize potentially an additional
2 175 megawatts?

3 A No. When you were asking me about the output, it was
4 on the 7FA, the larger size ones. We have that installed on
5 all of those. The ones that we don't are some very small, 36
6 of the very small ones. And you -- if you could do it
7 cost-effectively, it would be probably less than one megawatt
8 each, and there would be some environmental requirements that
9 you would have to meet before you would be able to do it.

10 Q Okay. So worst-case scenario would be 36 megawatts,
11 if you've only got one megawatt each?

12 A Yes, in that range.

13 Q Okay. Have you done an analysis as to what the cost
14 of doing these inlet air evaporative cooling technology of
15 putting it on these 36 units would be as compared to moving
16 forward in 2005 with your Martin expansion?

17 A We've done some cost -- yes, we've done some cost.
18 We decided not to do it because we don't think it would be
19 permissible.

20 Q Did you talk with DEP about that?

21 A We talked to our legal experts. No, we did not talk
22 to DEP. We talked to our legal experts.

23 Q What's the, what's the problem? What's the
24 environmental problem?

25 A These units, they're very old technology. And if you

1 tried to increase the output, you would have to go through a
2 best available control technology type of analysis. And it
3 would be prohibitively expensive to try to bring those into the
4 new, new, you know, the new requirements.

5 Q Okay. So you'd have to, you'd have to clean the
6 plants up and bring them into current compliance if you made
7 these changes; is that right?

8 A That's right.

9 Q There was some discussion yesterday about
10 interconnection, and there was a transmission witness up here
11 and I asked him a bunch of questions about interconnection and
12 he didn't know much about it. Do you know anything about
13 interconnection?

14 A No, not very much.

15 Q So you don't know anything about the queuing process
16 and how those decisions are made about what costs would be
17 borne by entities that are lined up in the queue?

18 A I know very little; very general knowledge of it.

19 Q Okay. Do you know how FP&L treated its self-build
20 projects in terms of costs associated with, with
21 interconnection?

22 A Yes, I do.

23 Q Okay. Explain, explain to me how they did?

24 A The process that we use, we have a person in Rene
25 Silva's organization that we request to be entered into the

1 queue and then get cost estimates and then, I guess, ultimately
2 interconnect studies done. So we use that process to get our
3 cost estimates for what's in our interconnect, our interconnect
4 estimates.

5 Q Do y'all have signed interconnection agreements for
6 these two units?

7 A No, we do not.

8 Q Okay. Let me ask you if you know this. Let's say
9 there, there are three bidders -- let's say there are four
10 bidders in the queue: A, B, C and D. Bidder A has an executed
11 interconnection agreement, as does Bidder B. Bidder C does not
12 and Bidder D does not.

13 If FP&L were Bidder E when it performed the analysis,
14 would it consider itself fifth in line or third in line?

15 A I don't know.

16 Q Do you know whether, whether the interconnection cost
17 for the bids submitted by outside bidders was treated in the
18 same way in which FP&L's self-builds -- I don't think you do
19 because you can't answer that question; correct?

20 A Right. No, I don't.

21 Q Page 24 of your testimony. There's -- at the top of
22 the page there's something entitled "Consequences of Delay."
23 You're not here today telling this Commission that they have no
24 choice with respect to this case in that if they do not approve
25 your need determinations, that FP&L will not be able to meet

1 its firm load, are you?

2 A No, I'm not telling the Commission that.

3 Q Okay. So with respect to keeping the lights on, if
4 this Commission decided that for whatever reason FP&L didn't
5 carry forth its burden, the lights wouldn't go out, would they?

6 A I'm not sure I understand your question.

7 Q If this need, if these need determinations weren't
8 approved, you're not, you're not testifying that, that the
9 lights will go out; correct?

10 A I'm not testifying, nor am I qualified to testify
11 about that.

12 Q Okay.

13 CHAIRMAN JABER: Mr. Yeager, on that page I had a
14 question as well. The entire page has estimated time lines.

15 THE WITNESS: Yes.

16 CHAIRMAN JABER: Assuming that the Commission agrees
17 that there is a need that's been demonstrated by FP&L, do your
18 estimated time lines include the possibility that this
19 Commission would require FP&L to rebid any of these projects?

20 THE WITNESS: No. These time lines assume that the
21 need determination would be made at this, you know, kind of the
22 schedule that we've established for this, this hearing.

23 If the -- if there was a rebid, the units would not
24 be able to be permitted in that, in that time line because the
25 need, I guess the need is kind of the critical path into the,

1 in the power or the Power Plant Siting Act process at the
2 moment.

3 CHAIRMAN JABER: The plants would not be able to be
4 permitted within the estimated in-service dates; is that, is
5 that correct?

6 THE WITNESS: Yes. That's correct.

7 CHAIRMAN JABER: Does that take into account the
8 possibility of an expedited RFP process or expedited
9 permitting?

10 THE WITNESS: Yeah. In fact, we've already taken --
11 because we rebid, we had to do an expedited, in fact, get kind
12 of a special agreement with the DEP hearing officer to shorten
13 some of their typical dates. So we're already on an expedited
14 permitting schedule.

15 CHAIRMAN JABER: Uh-huh. Okay. So then you are --
16 said differently, you are saying if for whatever reason this
17 Commission decides that there was a problem with FP&L meeting
18 the requirements for bidding, then these projects really cannot
19 be completed by the in-service date.

20 THE WITNESS: Yes. I'm sorry. I understood his
21 question to be would we be able to keep the lights on, and
22 that's the part I said I wasn't qualified to answer.

23 But I can answer that we would, we would not be able
24 to build the plants in time.

25 CHAIRMAN JABER: Thank you, Mr. Yeager.

1 BY MR. MOYLE:

2 Q And that my have been my fault for using a term
3 that's often used around, around these parts.

4 So if I understand it, then the Commission really in
5 order for FP&L to meet its 20 percent reserve margin given the
6 time frames we're under here has no choice but to approve these
7 need determinations, would that be correct, if FP&L were to, to
8 meet its 20 percent reserve margin requirements in 2005?

9 A In order to get these projects on in 2005, right,
10 we're at the end of the time. I don't know what other options
11 there are for the 20 percent reserve margin.

12 Q Wouldn't you agree that's kind of a tough position
13 to, to put the Commission in?

14 A I, I guess that's a -- I guess I would agree that,
15 yes, we've, it is definitely a tough position. We started a
16 lot earlier trying not to be in this position, but because of
17 the, the two-step process that we went through, we find
18 ourselves here.

19 Q Do you have information as to why the supplemental
20 RFP was issued?

21 A Not directly that I was involved with.

22 Q Do you have any indirect information?

23 A I'm trying to think of what -- I guess what I heard
24 at the time was there was a reason to ensure that we were
25 getting the very best possible alternatives that we decided to

1 go back out to make sure that we were, in fact, receiving the
2 best alternatives. That's my understanding.

3 Q Did you hear anything about a concern about the
4 failure to list the Manatee Unit as the next avoided unit as
5 part of a reason for rebidding?

6 A I had seen that type of concern in some of the press
7 releases from other entities. I'm sure all of those type of
8 things went into a decision that we made.

9 Q And do you know who made that decision ultimately?
10 Was it Mr. Evanson?

11 A Yeah. It was -- ultimately he would be accountable,
12 I guess, for anything. I think that was really the, either Sam
13 Waters or Rene Silva's really decision at the time.

14 Q And they had to get Mr. Evanson's approval?

15 A He would have, he would have to approve that. Sure.

16 MR. MOYLE: May I approach?

17 CHAIRMAN JABER: Uh-huh. Yes.

18 BY MR. MOYLE:

19 Q Now I'm showing you a document that the top of it,
20 it's entitled "Power Generation Business Unit." I think when I
21 asked you the question how long you'd been with PGD, you said
22 20 years; is that right?

23 A That's correct.

24 Q Okay. Does this look like a document that PGD or a
25 predecessor to that would, would prepare?

1 A Yes, it does.

2 Q Okay. Let me refer you to Page 2 of the document.
3 Over in the column entitled "Impact," there are four bullet
4 points. Would, would you please read those four bullet points
5 into the record?

6 A Okay. "Regional competitor units are being
7 economically dispatched to serve FPL's native load ahead of
8 FPL's installed fossil capacity. This results in frequent
9 cycling of PGBU's large units designed for base load,
10 accelerating their deterioration and requiring increased
11 maintenance cost.

12 "PGD's capacity factor for 1990/91 averaged only
13 35 percent versus 50 percent for regional IOUs.

14 "Under-utilization of assets means higher total cost
15 on a cents per kW basis, due to less generation, to distribute
16 fixed costs, and higher plant cycling costs.

17 "Higher costs will impact our ability to compete for
18 customers in a future open access environment."

19 Q Okay. When this document was prepared, do you know
20 those statements to be true? Have you ever seen this document
21 before?

22 A I may have. It looks like an early '90s business
23 plan. So I probably have seen it, but it's been a long time.

24 Q Okay. In the early '90s did you believe these
25 statements to be true, if you can answer that question?

1 A In the early '90s did I believe personally these
2 statements to be true?

3 Q Yes.

4 A I probably did.

5 Q Tell me if, if I'm understanding this correctly. The
6 second bullet point, for example, says that your capacity
7 factor averaged only 35 percent versus 50 percent for the
8 regional IOUs. I interpret that to mean that the IOUs, the
9 regional IOUs were doing better than you with respect to how
10 they were running. Is that correct?

11 A No. It's not correct that they were doing better.
12 There -- we had a different fuel mix than they had, so that was
13 the reason for their higher capacity factors.

14 Q The, the first bullet point about regional
15 competitors being more economically dispatched to serve FP&L's
16 native load, would, would part of the solution to that, would
17 it be to update your fleet with more efficient technology?

18 A That could, yes, that could be part of the solution.
19 In fact, we did repowerings to do that. What we were trying to
20 do here, if I'm remembering it, is trying to figure out how to
21 reduce our costs so we would reduce the cost to our customers.
22 That's what this was about.

23 Q Okay. And I think all of these bullets, in my view
24 anyway, go to that point.

25 So if, if I was looking at FP&L's fleet of plants and

1 I wanted to be more able to compete in a market, wouldn't it
2 make sense for me to do everything I could to install my own
3 efficient updated plants to be able to compete better in that
4 arena?

5 A I'm not sure I understand what your question is going
6 for.

7 Q I'm asking as -- in your view does it make sense if
8 FP&L in 19, early '90s is having difficulty because of some, a
9 variety of factors competing, would one possible solution be to
10 try to update your fleet with the most efficient combined cycle
11 technology so that you then could be using those facilities,
12 those new combustion turbine combined cycle facilities ahead of
13 some facilities that were not so efficient? If you can answer
14 yes or no, I'd appreciate it.

15 CHAIRMAN JABER: I think he's trying to understand
16 the question.

17 THE WITNESS: Yeah. I'm not sure -- I'm still not
18 following what I would say yes or no to.

19 BY MR. MOYLE:

20 Q Sometimes lawyers get real close to cases and they
21 think they're being real clear and they're not.

22 I read this document to indicate that FP&L has some
23 concerns about its competitive fleet. Would that be a correct
24 reading?

25 A That's a correct reading.

1 Q Okay. And if I were to develop a plan as to how FP&L
2 might be more competitive, do you think a component of that
3 plan, given all you know about, about this business, would be
4 to try to make sure that you, you being FP&L, uses and installs
5 and owns newer power plants that are more efficient as much as
6 it can?

7 A Yes. We would, of course, want to install the
8 newest, most cost-effective project that we could. Sure.

9 Q And the reason would be because the new combined
10 cycle technology, once it's installed, will act to displace
11 some of the units that are less efficient; correct?

12 A The reason is if we're going to build new power
13 plants to meet the needs of our customers, then we would want
14 it to be the most cost-effective thing that we could. It's not
15 to displace the older particularly. We still have a use for
16 the older plants.

17 Q Do you think that by FP&L self-building its Martin
18 and Manatee facilities, that in having complete control over
19 that, that that puts FP&L in a better competitive position as
20 compared to some of the other regional IOUs?

21 A Yes, I guess it would put us in a better competitive
22 position. What I do know for sure is that it puts us in a
23 position to continue to drop down the costs of the power
24 plants.

25 For example, at our Martin 3 and 4 we've

1 significantly reduced costs from what we originally assumed it
2 would be, so.

3 Q Okay. Let me ask you to flip to Page 3. Under
4 "Impact" down there on the bottom of the page there's another
5 bullet point, the first one. Would you please just read that
6 into the record?

7 A The one that starts with, "The sale"?

8 Q Yes.

9 A Okay. "The sale of energy purchased from NUGs
10 results in a lost opportunity for FPL to earn a return on
11 investment."

12 Q Do you know what was being conveyed in that bullet
13 point?

14 A No, not really.

15 Q Okay. And what are NUGs?

16 A Nonutility generators.

17 Q They're the same as IPPs, aren't they?

18 A I think so. I'm not really sure. The NUG was a term
19 used years ago, and I'm not sure if that's exactly the same
20 thing as IPPs.

21 Q All right. That might be a little unfair.

22 Over to the left, the first bullet point, the same
23 level, it says, "NUGs, including nonregulated independent power
24 producers, are actively bidding and winning contracts to build
25 new generation," I'm sorry, "to build new capacity. In 1991

1 more than 50 percent of new generation capacity in the U.S.
2 came from NUGs."

3 Do you understand how, how FP&L has a lost
4 opportunity to earn a return on investment if it decided to
5 enter into a contract with the IPP as a result of this bid
6 process?

7 A Yes. I guess if, if we -- we won't get a return on
8 something that we don't own.

9 Q Do you think that would be a significant factor in,
10 in considering which way to go in this process, whether you're
11 going to earn return on an investment on something?

12 A I believe it's a factor. I don't know if that
13 necessarily means you make the decision to build or not to
14 build. You know, I think there's a lot of other factors that
15 go into making that decision.

16 Q Do you know if this factor was ever disclosed to the
17 bidders in the RFP?

18 A Was that a factor -- I'm sorry. I misunderstood.

19 Q Okay.

20 A The, in this RFP was that a factor? No, I don't
21 think that was a factor.

22 Q It wasn't a factor in your mind; correct?

23 A It wasn't a factor in my mind, that's correct. And I
24 don't believe -- consistently we were given direction from
25 upper management that this was what is the best option for the

1 customer and that was our sole criteria.

2 MR. MOYLE: I have nothing further.

3 CHAIRMAN JABER: Thank you, Mr. Moyle.

4 Mr. McGlothlin?

5 CROSS EXAMINATION

6 BY MR. MCGLOTHLIN:

7 Q Mr. Yeager, first a few questions about the operating
8 characteristics that were assigned to the FPL self-build
9 proposals.

10 There's been some discussion about the heat rate
11 that's assumed for the Manatee 3 and Martin 8 units. And
12 everyone has heard the figure of 6,850. And as I understand
13 it, FPL regards that as representing some degradation beyond
14 new and clean; is that correct?

15 A Yes, that's correct.

16 Q Would you elaborate on exactly what scenario this is
17 designed to represent?

18 A Yes. The degradation that we use is, it's
19 essentially the General Electric degradation curves. And
20 there's two components: There is a nonrecoverable component
21 and a recoverable component. And we've taken both of those
22 into account when we've assigned the degradation to this unit.

23 Q Obviously if this is a degraded number, there has to
24 be some starting point that represents new and clean. What is
25 that number?

1 A The starting point for this unit was 67, just
2 slightly over 6,750.

3 Q Is that a heat rate that is warranted by the
4 manufacturer?

5 A The heat rate for the combustion turbine is warranted
6 by the manufacturer. The rest of the -- the heat rate for the
7 whole combined cycle is really based on the assembly of all the
8 different HRSG, steam turbine, piping, those others components
9 to arrive at the entire heat rate, and we don't have a
10 manufacturer that has that all together.

11 Q So this is an FPL number and not a vendor number;
12 correct?

13 A It's -- the summary number is an FPL number. That's
14 correct.

15 Q If I understand correctly, this 6,850 is, represents
16 maximum loading; is that correct?

17 A I'm not sure when say "maximum loading" what --

18 Q Full output.

19 A Oh, I'm sorry. Yes. Yes. It's full base loaded
20 output without the, the duct firing and without the peaking
21 mode.

22 Q And there must be some assumptions about temperature
23 and humidity that are taken into account?

24 A Yes. It's 75 degrees ambient and it's either 50 or
25 60 percent humidity. I can't remember. I can look.

1 Q The realized heat rate would vary with different
2 conditions, would it not?

3 A Yes. That's correct.

4 Q So you would not expect to see the 6,850 realized for
5 every hour of the year?

6 A No. It wouldn't be realized for every hour, but
7 that's the average of those sites. That's the average
8 conditions over the year for those sites. That's why we used
9 that particular --

10 Q The 75 and the 56 are average conditions?

11 A (Nods affirmatively.)

12 Q All right. You said the 6,850 represents full
13 output. Full output represents the lowest heat rate condition,
14 does it not?

15 A Yes. That's correct.

16 Q What is the range of operation in terms of output for
17 which these units are capable?

18 A They can go as slow as about 220 megawatts and as
19 high, of course, as the 1,107, I guess.

20 Q And I've heard engineers refer to the heat rate
21 curve. There must be a heat rate that corresponds to the
22 minimum operating conditions. What is that?

23 A I don't know the exact number. It's, it's, of
24 course, a higher number than the 6,850. I don't know the exact
25 number off the top of my head.

1 Q Can you give me an approximate number?

2 A It's very close -- it's probably within the
3 neighborhood of 6,900 because it represents -- yeah, it's in
4 that range, about 6,900.

5 Q Once in operation FPL would have the ability to vary
6 the output of this unit or these units to correspond to
7 economic criteria, would it not?

8 A That's correct.

9 Q So you would expect to see some range of operation
10 between the 220 minimum and the 1,107 maximum?

11 A Yes, that's correct.

12 Q And the unit would be operating at the corresponding
13 heat rate for each of those points between the, on the curve?

14 A Yes, that's correct.

15 Q Now we've referred to the four-on-one configuration.
16 That's four combustion turbines connected to a single steam
17 turbine; is that correct?

18 A Yes. That's what that means.

19 Q Now you said that FPL can vary the output of the
20 unit. Will that happen by reducing the output of the steam
21 turbine and/or reducing the output of the combustion turbines?

22 A The way that you accomplish that on a combined cycle
23 is reduce the output of the combustion turbines. The steam
24 turbine just sort of follows.

25 Q I see. With four combustion turbines connected to

1 the single steam turbine would it be possible to reduce the
2 output of the overall configuration by shutting down one or
3 more of the CTs?

4 A Yes, that would be possible.

5 Q And that's how it would happen, would it not?

6 A There -- it can do partially with just reducing the
7 output of the, of the CTs, and then you start turning CTs off
8 to get to the very lowest.

9 Q If the minimum output or operating condition is
10 220 megawatts, how many CTs have been shut down at that point?

11 A Three have been shut down.

12 Q And just to state the obvious for a second, to
13 increase from minimum operating conditions, it would be
14 necessary to start each of those three CTs that were shut down
15 for the purpose of reducing the output.

16 A Yes, that's correct.

17 Q The 6,850 value, does FPL expect to see that over the
18 life of the unit?

19 A We expect to see it somewhat better over the life of
20 the unit like we've experienced with our Martin 3 and 4 unit.

21 Q Explain how that could be.

22 A The combustion turbine technology continues to
23 evolve. And as they evolve it, it, the, there's a backfit of
24 new parts and things like that into the old units.

25 For example, Martin 3 and 4's original heat rate was

1 about 500 worse than it is today because of that evolution.

2 Q Okay. Assuming no backfits, generally is it true
3 that the, the new and clean condition or the slightly degraded
4 condition would degrade further somewhat over the life of the
5 unit?

6 MR. BUTLER: I'm going to object to the form of the
7 question. It's a compound question. It seemed like the first
8 half of it was whether you would have a degradation from new
9 and clean, but then the second half seemed to be whether it
10 would be a degradation from slightly degraded, and it's a
11 confusing question as a result.

12 MR. McGLOTHLIN: The intent was to impose the -- let
13 me just rephrase.

14 BY MR. McGLOTHLIN:

15 Q Absent some type of backfitting or improved
16 technology, would you expect to see the 6,850 deteriorate or
17 degrade somewhat over the life of the unit?

18 A No. The 6,850 represents the average of the output
19 over the life -- maybe it's saying by the end of the life it
20 would be worse than 6,850. At the beginning, it would be
21 somewhat better. So it averages 6,850 over its life.

22 Q You said that it's possible to reduce the output of a
23 four-on-one by reducing, by shutting down CTs. In addition to
24 economic considerations, would there be some environmental
25 reasons that would lead the company to do that with the

1 four-on-one?

2 A No, not that I can think of.

3 Q Assuming that the four-on-one is shut down and cold,
4 walk me through how FPL would go through the start-up
5 sequencing of such a unit.

6 A From a cold start the first thing you would do is
7 start one of the CTs, use that to warm up one of the HRSGs, and
8 then begin to introduce steam into the steam turbine. You
9 probably would start a second CT to speed the process up and
10 then ultimately get the steam turbine running and then begin to
11 put the other two CTs on. It would be something along those
12 lines.

13 Q How large is a steam turbine in a four-on-one
14 configuration?

15 A It's a 400 megawatt roughly size.

16 Q And that's roughly twice the size of a steam turbine
17 that you would see in a more typical two-on-one configuration,
18 is it not?

19 A It's twice the size of a two-on-one; right.

20 Q Would one expect that a steam turbine of that size to
21 require a longer time to start up than with your two-on-one
22 configuration?

23 A Typically, yes, you would expect that.

24 Q What assumption has -- what, what assumption have you
25 made about the start-up time from a cold shut down for the

1 four-on-one configuration?

2 A The start-up time, I believe, was in the neighborhood
3 of ten hours.

4 Q Is it fair to say that there are some tradeoffs to
5 consider when evaluating whether to build two two-on-ones, for
6 instance, as opposed to a four-on-one consideration?

7 A Yes. Any design decision has tradeoffs like that.
8 Right.

9 Q And one benefit would be the efficiency of a
10 four-on-one?

11 A A four-on-one is not inherently more efficient than a
12 two-on-one.

13 Q Would it be fair to say that a four-on-one, the
14 decision to go with a four-on-one requires some loss of
15 operating flexibility compared to two two-on-ones?

16 A Yes. From a start-up time I think that would be the
17 really only, only flexibility issue.

18 Q What about the ramp rates for increasing or
19 decreasing the output of the four-on-one relative to the
20 others?

21 A The four-on-one to ramp it, twice what a two-on-one
22 would. So if you had two two-on-ones, you would end up with
23 the same amount of ramp rates. I don't believe that's an
24 issue.

25 Q I want to refer you to the table that's attached to

1 your testimony, Document Number WLY-2, Page 1 of 1. In that
2 table you list the operational combined cycle power plants.
3 Which of those incorporate the GE 7A combustion turbines.

4 A The GE 7FA are in the Martin Unit 4, Martin Unit 3,
5 Sanford 5 and Ft. Myers 2.

6 Q And are the 7FA combustion turbines in Martin 3 and
7 4 of the same design or the same vintage as the ones that would
8 be incorporated in the four-on-one?

9 A They're both 7FA. They have evolved the design, so I
10 would guess it -- I would say not fully, not fully the same but
11 almost.

12 Q If I were to -- if you were to confine the answer to
13 those 7FAs that are identical to the ones that are contemplated
14 for the four-on-one, where do they appear on the table?

15 A Ft. Myers and Sanford are identical. The reason I
16 hedged on Martin is we've upgraded Martin 3 and 4, so they're
17 almost identical. There's very few things that aren't the
18 same.

19 Q And according to the table, FPL's experience in the
20 four-on-one unit is limited to the Sanford repowering; is that
21 correct?

22 A Sanford repowering, Ft. Myers repowering -- there are
23 other CTs that we have that aren't on this table. These were
24 the combined cycle ones.

25 Q Yes. My question is a four-on-one configuration.

1 A Oh, I'm sorry. I miss -- yes, the four-on-one in
2 Sanford.

3 Q And how much operation have you had, operational
4 experience have you had with the Sanford site?

5 A Since June.

6 Q I have several questions that relate to the peak
7 firing mode that Mr. Moyle touched on.

8 You mentioned in an answer that this is something
9 fairly new that GE has offered. Has that, was that offer to
10 the industry generally or is this something that is unique to
11 FP&L? What form did that offer take?

12 A My understanding, it's a general, general
13 industry-wide offering.

14 Q Are you aware of anyone else in the country who is
15 either doing this or plans to use the peak firing mode?

16 A I'm not personally. I do know that it is being used
17 other places because GE gave us information about, you know,
18 that it has been reliable tested, that type of thing.

19 Q What firing temperature does FPL plan to utilize in
20 order to reach this peak firing mode?

21 A I'm not positive of the exact temperature. I know
22 the normal temperature is 2,420 degrees. I think the peak mode
23 is another 50, but I'm not positive.

24 Q Another 50, did you say?

25 A Another 50 degrees. But like I say, I'm not positive

1 that's the amount.

2 Q Okay. And do you know whether that firing
3 temperature plan by FPL falls within the design criteria or the
4 warranty specifications that GE provides for the unit?

5 A Yes. Why I'm not positive is GE sets up the controls
6 for the unit to do firing. I think that they increase the
7 firing temperature by 50. I'm not sure exactly how much they
8 increase it by. But it is one of their offerings and it fits
9 within the contract and warranties.

10 Q And I believe this is described to some extent in
11 your testimony, but this peak firing mode would have the effect
12 of increasing the need for maintenance on the unit, would it
13 not?

14 A Yes. There are factors when you peak fire that it's
15 almost like running the unit two hours for every one that you
16 are, and I don't remember the exact number. But we -- it does
17 increase or decrease the life of parts by a certain factor,
18 which is included in our operating estimates.

19 Q Would it have the effect of increasing the variable
20 O&M attributable to the unit compared to a unit that is not in
21 the peak firing mode?

22 A In our case, no. It would -- that's not where we put
23 that increased cost, in variable O&M. We put it in fixed O&M.

24 Q Would 3.7 cents per megawatt hour be sufficient to
25 recover your variable O&M for that unit?

1 A Yes. That's adequate to cover the variable O&M per
2 units.

3 Q Because you've put some variable costs in the fixed
4 component?

5 A There's -- the way that fixed and variable is broken
6 up is, varies with different organizations. The way we broke
7 it up, the 3.7 includes certain things and we've got that
8 covered. All the rest of the costs are in fixed costs.

9 Q Including some that varied with the output of the
10 unit; am I correct?

11 A Including some that varied with the output of the
12 unit. Right.

13 Q Assume for purposes of my question that we have two
14 units, each of which runs the same number of hours per start.
15 Would the unit that runs 50 percent of the hours in a year have
16 more or less O&M requirements than one that has, that runs
17 75 percent of the hours of the year?

18 A The one that runs 50 percent would have lower O&M
19 requirements than the one that runs 75 percent of the year.

20 Q In that example do you believe it would be lower by
21 more than 3.7 cents per megawatt hour?

22 A Yes.

23 Q Mr. Yeager, with respect to the Sanford and Ft. Myers
24 repowering, what has your operating experience been with those
25 units compared to the assumptions regarding availability and

1 heat rate that you have attributed to the proposed units in
2 this case?

3 A The availability -- they have such few hours on it,
4 I'm not sure that it relates. Ft. Myers right now has run
5 slightly better than we've projected, Sanford is slightly worse
6 in the first three months, I guess, than as compared to a
7 lifetime average.

8 From performance, the units are repowered units.
9 They have -- Ft. Myers is very close to what Martin and Manatee
10 is, which was expected, and Sanford is -- well, both of them
11 are very close to what Martin and Manatee are and essentially
12 what we'd expected them to be based on, you know, considering
13 they're repowered units.

14 Q What about the performance of the 7FA combustion
15 turbines? Have you had any difficulties with those in either
16 of the repowerings?

17 A The performance, no. The performance has been very
18 good on those. They've, in fact, exceeded the guarantees.

19 Q Have you experienced any outages or delays with the,
20 with the combustion turbines at Sanford?

21 A At Sanford, yes, we had one CT, Sanford 5, that had a
22 compressor rub that's, that damaged it. It was down for
23 approximately a month.

24 Q On a four-on-one, if, if one of the CTs experiences a
25 difficulty and is either shut down or limited in its output,

1 that affects the overall forced outage rate or equivalent
2 forced outage rate of the unit, is it not, does it not?

3 A Yes. That affects the forced outage rate.

4 Q And the equivalent forced outage rate excluding
5 planned outages as you've predicted for these units is one
6 percent?

7 A Yes, that's correct.

8 Q Mr. Yeager, in your testimony you testified that
9 these units would provide benefits of low cost power to FPL's
10 customers. Would you agree that will happen only if the
11 assumptions that you've made with respect to the operation of
12 the unit hold true?

13 A Yes, that would be true.

14 Q An earlier witness testified that with respect to the
15 construction costs, FPL would not at this point commit to those
16 construction costs. Would FPL agree to be held to these
17 performance parameters that you've assumed for the unit for
18 ratemaking purposes?

19 A That's the kind of decision that is at a higher level
20 than I am, so.

21 Q To your knowledge has FPL done so?

22 A Not that I'm aware of, no.

23 MR. McGLOTHLIN: Those are all my questions.

24 CHAIRMAN JABER: Thank you, Mr. McGlothlin.

25 MR. PERRY: I have no questions.

1 CHAIRMAN JABER: Mr. Twomey, no questions. Staff?

2 MS. BROWN: No questions.

3 CHAIRMAN JABER: Commissioners? Commissioner Deason?

4 COMMISSIONER DEASON: Mr. Yeager, do you still have
5 the exhibit which was, which was handed out to you by
6 Mr. Moyle? And it's a multipage exhibit and it discusses the
7 Power Generation business unit and its mission statement and I
8 think some, some business plans.

9 THE WITNESS: Yes, sir.

10 COMMISSIONER DEASON: Okay. I know this is an older
11 document. I was looking at it a little more closely. This was
12 developed, it appears, in the early '90s; is that correct?

13 THE WITNESS: It appears it was probably -- there's a
14 date on the bottom, 1992.

15 COMMISSIONER DEASON: Okay. Are you familiar with
16 the contents of this?

17 THE WITNESS: Very generally. I wasn't involved in
18 developing it.

19 COMMISSIONER DEASON: Very generally. Okay. Well,
20 to the extent that you are aware, can you turn to Page 8? And
21 this page contains performance measures and targets. And I
22 noticed that near the top of the page in that first section
23 there's an amount stated there for equivalent availability
24 factor. There's a historical amount for 1992 and then there
25 are some target amounts from 1993 through 1997. And then a

1 couple of lines down from there there's an equivalent forced
2 outage rate and, likewise, there's an historical amount for '92
3 and then some targets for '93 through '97. And I've just
4 compared that to what your targets, your performance targets
5 are for the proposed units of one percent forced outage rate
6 and a 97 percent availability.

7 First of all, it would seem to me that these are --
8 of course, these are older numbers and I guess these are
9 average rates which reflect average operations of your whole
10 fleet of plants, some newer, some older, and that could have
11 some effect.

12 THE WITNESS: Sure.

13 COMMISSIONER DEASON: And I would also assume that
14 the, the plants you're planning to, to build, that you've
15 proposed to self-build, they're a newer technology and perhaps
16 of a more advanced design. But it just struck me that there
17 were -- your one percent forced outage rate is significantly
18 lower than what was shown here even for your targets for
19 '93 through '97 and, likewise, your, your 97 percent
20 availability factor is, likewise is higher than even your
21 targeted amounts for '93 through '97. Can you explain those
22 differences?

23 THE WITNESS: Yes. This -- in 1992 we believed these
24 targets were as good as you could get. Today this year's
25 equivalent forced outage rate right now for our fleet is one

1 percent. Last year I believe it finished at 1. -- I think it
2 was 1.4 or five percent. I can't remember which.

3 So like you correctly pointed out, we have, that's a
4 mix of older and newer units, and our entire fleet is
5 essentially at one percent today. So these units are more
6 comparable with the way Martin 3 and 4 is, which are the other
7 7FA units that we have. They've run at .14 percent for the
8 last three years. So we're very confident because we've seen
9 with Martin 3 and 4 that we can do much, much better than one
10 percent. So one percent is a good conservative number to
11 assume.

12 COMMISSIONER DEASON: And can you also explain the,
13 the equivalent availability factor of 97 percent in comparison
14 to these historical numbers and the historical targets?

15 THE WITNESS: Yes. It's the same type of story. I
16 believe the equivalent availability -- I don't know exactly
17 what it is this year. I think it's a little bit over
18 90 percent, and it's been this way for the last three or four
19 years. But that's like, once again, I talked about the whole
20 fleet of units. Martin 3 and 4, because of the, because of
21 some of the things that we have learned doing it; for example,
22 we've extended the outages, combustion outages from 8,000 hours
23 to 12,000 hours. A combustion inspection now takes four
24 hours -- four days less than it used to, less than half of what
25 it used to. There's been a whole number of process

1 improvements essentially that we've employed that allow us to
2 forecast the 97 percent, and it's very realistic based on the
3 combined cycle type of units.

4 COMMISSIONER DEASON: So would it be fair to say then
5 that the, that the subject matter of this, of this exhibit,
6 which was trying to set targets for improvement in a number of
7 things, that those targets have been, now have been met or even
8 exceeded in your operations?

9 THE WITNESS: Yes. Right. They've all been far
10 exceeded. And our O&M costs, our O&M cost today is no more
11 than it was in 1992, even though we've put on all of these
12 additional units and all of the other factors, that we far
13 exceeded those old numbers and the projections for -- even by
14 '97 we had exceeded those types of numbers.

15 COMMISSIONER DEASON: Thank you.

16 CHAIRMAN JABER: Thank you, Commissioner Deason.

17 Mr. Yeager, you're excused for now. I understand you
18 have rebuttal testimony; correct?

19 THE WITNESS: Yes.

20 MR. BUTLER: Madam Chairman, I had a few redirect.

21 CHAIRMAN JABER: Wishful thinking. Go right ahead.

22 MR. BUTLER: I'll try to keep it short.

23 CHAIRMAN JABER: It's fine. Go ahead.

24 REDIRECT EXAMINATION

25 BY MR. BUTLER:

1 Q Mr. Yeager, you were asked by Mr. McGlothlin about
2 the split between fixed and variable O&M costs that FPL
3 employs.

4 Would you please explain why FPL has for its purposes
5 here included some O&M costs that vary with unit output in the
6 fixed O&M component?

7 A Yes. Like I said, there's a number of different ways
8 in the industry that you break up fixed and variable costs. We
9 have broken them up the way that we budget for them internally.
10 So we look at what the projected out, or the projected service
11 hours will be of the unit and, therefore, can make an estimate
12 of that cost and we put that into fixed.

13 When it's all done, we've incorporated all the costs,
14 you know, whether they're -- in other ways people would look at
15 them as fixed or varying with the output of the unit. But
16 they're all covered, it's just they're put in different buckets
17 based on the way we internally budget.

18 Q Would FPL expect the Martin and Manatee projects that
19 are in question here to be run as base load units?

20 A Yes. We, we would expect that, and I believe Dr.
21 Sim's models showed that.

22 Q You were asked, excuse me, I think it was by
23 Mr. Moyle, whether FPL would be able to achieve its 2005 date
24 if it had to rebid and wasn't able to get a need determination
25 on the current schedule. Do you know whether FPL would be able

1 to make a 2006 in-service date if it had to go through a rebid
2 process?

3 A If the -- if we were assuming that Martin was the one
4 that was going to be -- or either one, I guess, but Martin is
5 the one that people have been talking about -- if we did an
6 expedited process, we could meet 2006.

7 Q Mr. Moyle asked you whether FPL could meet its
8 20 percent reserve margin in the event that the proposed
9 in-service dates for the Martin 8 and Manatee 3 units are not
10 met. I think you indicated you weren't sure of the options
11 that would be available if, be available to do that.

12 I'd like to ask you to assume that instead of
13 recommending its self-build options in this proceeding for
14 Commission approval, FPL were here today asking the Commission
15 to approve a portfolio of purchased power options to meet those
16 needs, and also to assume that the Commission were to reject
17 that purchased power proposal for whatever reason. In such a
18 case, would FPL, the Commission and FPL's customers be in any
19 different position than we are here in terms of being able to
20 meet the 20 percent reserve margin?

21 MR. MOYLE: I'm going to object to the form of the
22 question on the grounds that it's leading and it asks him to
23 assume a number of facts that are not in evidence. I don't
24 believe this expert is a witness either. It seems to me it's a
25 hypothetical. And to the extent he's an expert, maybe. But,

1 otherwise, I'd register those objections.

2 CHAIRMAN JABER: I'll allow the question.

3 THE WITNESS: I think any -- whether we came in with
4 our options or a combination of ours and other options, we
5 would be in the same, same situation. I don't believe anybody
6 could build them in time if we were to go through another
7 process.

8 MR. BUTLER: That's all the redirect that I have.

9 Thank you.

10 CHAIRMAN JABER: Thank you, Mr. Butler.

11 I have one identified exhibit. It's FPL Exhibit 29.

12 MR. BUTLER: We -- I'm sorry.

13 CHAIRMAN JABER: Mr. Moyle, did you have an objection
14 to that exhibit?

15 MR. MOYLE: No. I was confused because I know I have
16 one up there.

17 CHAIRMAN JABER: You didn't ask for it to be
18 identified. The Power Generation Business Unit document?

19 MR. MOYLE: Yes, ma'am.

20 CHAIRMAN JABER: We'll get to that in a minute.
21 Exhibit 29 without objection is admitted into the
22 record.

23 (Exhibit 29 admitted into the record.)

24 CHAIRMAN JABER: You didn't ask for it to be
25 identified. Do you want it identified?

1 MR. MOYLE: Please, could I have it identified and
2 admitted into evidence?

3 CHAIRMAN JABER: The -- I can't read the date on the
4 bottom, Mr. Moyle. Can you give me a short description of what
5 this is?

6 MR. MOYLE: I think I would call it Power Generation
7 Business Unit - Unit Description and Mission Statement.

8 MR. BUTLER: I would like in the description for it
9 to be clear that this is a 1992 document.

10 CHAIRMAN JABER: Yeah. Is that what that date is? I
11 cannot read what that is.

12 MR. MOYLE: I believe it is. It looks like it's
13 10/29/92 to me at the bottom, with the benefit of contacts.

14 CHAIRMAN JABER: Okay. Hearing Exhibit 30 is
15 identified as the Power Generation Business Unit Mission
16 Statement dated October 1992, and without objection that will
17 be admitted into the record.

18 (Exhibit 30 marked for identification and admitted
19 into the record.)

20 MR. BUTLER: One other exhibit, too, that we would
21 request be admitted, Chairman Jaber, is that this is the end of
22 our direct case and we would at this point move the admission
23 of the Need Study and Appendices, which is Exhibit 3 as they've
24 been amended by the various erratas.

25 CHAIRMAN JABER: Thank you for the reminder, Mr.

1 Butler. Without objection, Exhibit 3 is admitted into the
2 record.

3 (Exhibit 3 admitted into the record.)

4 CHAIRMAN JABER: Before we break for lunch, let me
5 revisit one outstanding motion. There was a motion in limine
6 to exclude new testimony by PACE Witness Kenneth Slater.
7 Mr. McGlothlin, you and counsel for FP&L were going to discuss
8 further. Can you update me on that?

9 MR. MCGLOTHLIN: We've had a brief discussion. Our
10 first agreement was, was that Mr. Slater would be permitted to
11 incorporate the answers given during his very recent
12 deposition, and we would not object to FPL's ability to respond
13 to anything that's new during their rebuttal.

14 The deposition transcript I do not have, but I think
15 that transcript or our participation in it will, will fairly
16 outline the parameters of our understanding. And I think it's
17 an acceptable workout from our standpoint.

18 CHAIRMAN JABER: Okay. In that regard then I think
19 it's appropriate at this time to go ahead and deny FP&L's
20 motion in limine to exclude new testimony by Mr. Slater, with
21 the understanding that to the degree you all want to make the
22 deposition transcript an exhibit, we'll do that. To the degree
23 you want to ask questions of your rebuttal witnesses in
24 response to any new testimony you hear from Mr. Slater, I'll
25 give you that leeway as well.

1 MR. GUYTON: Okay. Thank you.

2 CHAIRMAN JABER: This was the only motion
3 outstanding; correct? That that's my recollection. All right.

4 MS. BROWN: I think so.

5 CHAIRMAN JABER: And the final thing I want to take
6 up before we break for lunch is the possibility of having
7 Mr. Maurey be our next witness when we come back. Is that a
8 problem?

9 MR. GUYTON: No problem with us.

10 CHAIRMAN JABER: Mr. Moyle?

11 MR. MOYLE: My only concern is I think Mr. Finnerty
12 has a flight at what time? A 3:45 flight to get back to
13 Massachusetts, and he needs to get, get back there, so.

14 CHAIRMAN JABER: That's fine. We won't risk it then.
15 We'll go ahead and put Mr. Finnerty on the stand first and then
16 Mr. Maurey.

17 MR. MOYLE: Okay.

18 CHAIRMAN JABER: Okay. Thank you. Come back at
19 1:30.

20 (Recess taken.)

21 (Transcript continues in sequence with Volume 8.)
22
23
24
25

1 STATE OF FLORIDA)
 2 : CERTIFICATE OF REPORTER
 3 COUNTY OF LEON)

4
 5 I, LINDA BOLES, RPR, Official Commission
 6 Reporter, do hereby certify that the foregoing proceeding was
 heard at the time and place herein stated.

7 IT IS FURTHER CERTIFIED that I stenographically
 8 reported the said proceedings; that the same has been
 9 transcribed under my direct supervision; and that this
 transcript constitutes a true transcription of my notes of said
 proceedings.

10 I FURTHER CERTIFY that I am not a relative, employee,
 11 attorney or counsel of any of the parties, nor am I a relative
 12 or employee of any of the parties' attorneys or counsel
 connected with the action, nor am I financially interested in
 the action.

13 DATED THIS 7TH DAY OF OCTOBER, 2002.

14
 15 *Linda Boles*
 16 _____
 17 LINDA BOLES, RPR
 18 FPSC Official Commissioner Reporter
 19 (850) 413-6734

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