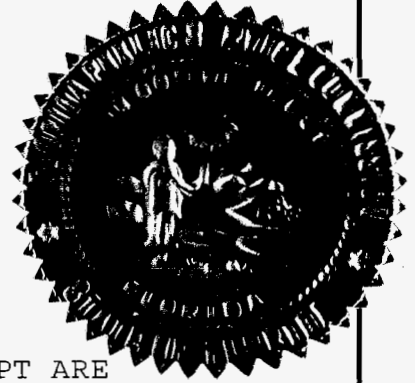


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050001-EI

In the Matter of:

FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE WITH GENERATING
PERFORMANCE INCENTIVE FACTOR.



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PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 9

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON

DATE: Tuesday, January 4, 2005

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: TRICIA DeMARTE, RPR
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(850) 413-6736

1 PARTICIPATING

2 ADRIENNE VINING, ESQUIRE; MICHAEL HAFF; TOM
3 BALLINGER, representing the Florida Public Service Commission.

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CHAIRMAN BAEZ: We'll reconvene agenda.

Commissioners, we are on Item 9.

COMMISSIONER DEASON: Mr. Chairman, this is just
Commissioners and staff. Hopefully this will go faster.

CHAIRMAN BAEZ: I am confident it will.

MS. VINING: All right. Commissioners, Item 9
addresses the remaining issue from the past fuel hearing, which
are the purchased power agreements FPL has requested approval
of for cost recovery purposes. Primary staff recommends denial
of the purchased power agreements because they are not
cost-effective. Alternate staff recommends approval of the
purchased power agreements because the benefits of the
contracts outweigh the premium paid for capacity and energy
pursuant to the contracts. However, alternate staff would note
that if the purchased power agreements are approved, any gain
on sales to third parties should be credited to FPL's
ratepayers.

CHAIRMAN BAEZ: Commissioners, questions?

COMMISSIONER DEASON: Mr. Chairman, I have a few
questions if you'd like me to kick it off.

CHAIRMAN BAEZ: By all means.

COMMISSIONER DEASON: I'm looking at Page 4 of the
recommendation. This is on the -- I believe this is under
primary staff analysis. And in the middle part of the

1 first paragraph, there's a reference to the estimate that the
2 new agreements are between 69 million and 93 million more
3 costly than a self-build alternative. And did that self-build
4 alternative include any consideration for the construction of
5 some amount of coal capacity?

6 MR. HAFF: No, Commissioner. The self-build
7 alternative was a generic four-on-one combined cycle, gas-fired
8 combined cycle unit.

9 COMMISSIONER DEASON: So I know that the UPS
10 agreements include 165 megawatts of coal; correct?

11 MR. HAFF: That's correct.

12 COMMISSIONER DEASON: Now, I know that people don't
13 build 165-megawatt coal units. They're usually much larger
14 than that. But capital costs for coal units whatever size are
15 much more than the capital costs for a gas-fired unit; correct?

16 MR. HAFF: The capital costs of a coal unit are
17 typically much higher, yes.

18 COMMISSIONER DEASON: So to the degree that there is
19 an amount of coal in the UPS agreements, that's a beneficial
20 thing and would -- and for that coal to be built, a self-build
21 option would be more costly than a gas-build option; correct?

22 MR. HAFF: All else being equal, yes. What is
23 captured in the analysis is the system fuel impacts of building
24 a gas-fired combined cycle versus this contract and all of
25 the -- it's typically done over 25 or 30 years of revenue

1 requirements. So it would incorporate the system fuel impacts
2 of whatever your alternatives are and how it impacts your
3 system.

4 COMMISSIONER DEASON: I'm looking at Page 5 of the
5 recommendation and at the bottom of the first full paragraph
6 there. There's a reference to the replacement of the
7 790 megawatts of the existing coal-fired capacity in that
8 there's a question as to the lessening of the fuel diversity on
9 the FPL system by the new UPS agreements. **And I guess that's a**
10 **factual statement,** but the concern I have is that if the UPS
11 agreements are not approved and the least-cost alternative is
12 the self-build of gas units, the result is going to be the
13 same. You're going to have less fuel -- in fact, you would
14 have even less fuel diversity because you would be giving up
15 the 165 megawatts of coal; is that correct?

16 MR. HAFF: That's correct. And it was the
17 relatively, I guess, small amount of coal capacity under the
18 new contracts versus the existing contracts which was of
19 concern, especially given the cost difference in the
20 alternatives.

21 COMMISSIONER DEASON: I guess a key ingredient in the
22 analysis here is the consideration as to the potential
23 long-term benefits of retaining the transmission capacity. I
24 think all of staff would agree with that; correct?

25 MR. HAFF: Yes.

1 COMMISSIONER DEASON: Okay. And there is some
2 analysis concerning the anticipated benefits of retaining that
3 transmission capacity. Was there any sensitivity analysis done
4 on that benefit in comparison to changes in the price of gas in
5 the long term or did we just -- what price of gas, if any, did
6 we use in trying to make that determination, or did we even do
7 that analysis?

8 MR. BALLINGER: I don't believe there was any
9 sensitivities done. I can't tell you off the top of my head
10 what price of gas was used, but it was their base forecast of
11 looking at it. They did look at a maximum and minimum
12 arbitrage amount. So they did have some span, I think, of
13 price, but it was based on historic price spreads that they had
14 seen.

15 COMMISSIONER DEASON: Well, to the extent that the
16 price spreads grow higher than in the future, that is, price of
17 gas increases greater than that of coal, would you think then
18 that that would make the strategic advantage of retaining the
19 transmission capacity even more valuable?

20 MR. BALLINGER: That's my belief, yes.

21 COMMISSIONER DEASON: I understand that the existing
22 UPS contracts or the transmission path is tied to certain
23 units, and that with the new UPS agreements, that the
24 transmission capacity would be under the open architecture
25 tariff or whatever the terminology is, and that would allow FPL

1 more flexibility to use that transmission capacity; is that
2 correct?

3 MR. BALLINGER: That was the testimony at the
4 hearing, that the existing contracts are tied specifically to
5 the units and the UPS agreement. If they get their rollover
6 rights, they can transfer those transmission agreements to
7 other paths basically with a 24-hour notice to shift it so they
8 can -- in my opinion, it opens up some access to additional
9 purchases.

10 COMMISSIONER DEASON: That's all the questions I
11 have, Mr. Chairman.

12 CHAIRMAN BAEZ: Commissioner Bradley, you had a
13 comment or a question?

14 COMMISSIONER BRADLEY: Well, are there any other
15 questions?

16 CHAIRMAN BAEZ: I have one.

17 COMMISSIONER BRADLEY: Well, why don't I wait until
18 after you ask your question?

19 CHAIRMAN BAEZ: Okay. Commissioner Davidson, did you
20 have questions?

21 COMMISSIONER DAVIDSON: Not really a question so much
22 but a comment.

23 CHAIRMAN BAEZ: If you can just let me get mine in --

24 COMMISSIONER BRADLEY: Oh, sure. Oh, I thought you
25 said you didn't have a question.

1 CHAIRMAN BAEZ: No, I was asking you. I didn't want
2 to go first. My question is real quick. There's some note
3 made of or there was certainly testimony made of sales becoming
4 made using the -- is it the transmission rights?

5 MR. HAFF: Are you talking about economy energy
6 sales?

7 CHAIRMAN BAEZ: Economy energy sales.

8 MR. HAFF: Yes. Yes, sir. I'm sorry.

9 CHAIRMAN BAEZ: You all have tried to -- at least the
10 alternative appropriately tries to rope in those savings as an
11 offset or as a benefit to the customers. I guess my question
12 is along the lines of what the probabilities are of economy
13 sales actually occurring. I mean, is it a fair probability
14 that there will be moneys flowing back to the customers, to the
15 ratepayers?

16 MR. HAFF: In other words, is your question that
17 there will be economy energy purchases --

18 CHAIRMAN BAEZ: There will be economy energy
19 purchases that will result in flowbacks or some benefits to the
20 ratepayers.

21 MR. HAFF: It will benefit and then it will offset --
22 somewhat offset the increased cost of the contracts. There's a
23 large -- a wide range of expected economy energy purchases,
24 which is the reason for the range and the cost difference.

25 CHAIRMAN BAEZ: And can you remind me again? Because

1 I forget where it was in the recommendation.

2 MR. HAFF: Florida Power & Light says that the cost
3 difference between the self-build option and the purchased
4 power agreements is between \$69 and \$93 million.

5 CHAIRMAN BAEZ: So the 69 number would be --

6 MR. HAFF: Maximum.

7 CHAIRMAN BAEZ: -- maximum economy sales.

8 MR. HAFF: Yes. My recommendation states that I
9 believe they may have overestimated somewhat the ability to buy
10 economy energy based on recent past history. And if you take
11 their minimum amount of economy energy sales, which is probably
12 at the level that the highest historical level has been for the
13 past five years, that the cost difference is really
14 \$117 million. But either way, there's still a range of cost
15 associated with these contracts.

16 CHAIRMAN BAEZ: Thank you. Commissioner Bradley and
17 Commissioner Davidson.

18 COMMISSIONER BRADLEY: Well --

19 CHAIRMAN BAEZ: Or Commissioner Davidson, you had a
20 comment. I think Commissioner Bradley maybe wants to punctuate
21 it with a motion. So if you had something to say.

22 COMMISSIONER DAVIDSON: Just a, yes, short comment.
23 I mean, I've sort of studied both of those options. And again,
24 I like having options, and both have merit and for different
25 reasons. At this stage I'm probably moving toward the

1 alternate rec. I think there's real value in maintaining sort
2 of the generation because it adds to the fuel diversity of the
3 state, and staff noted that. It is somewhat more minor than
4 the existing contracts, but we heard at the hearing there was
5 evidence that these agreements would enable the company to
6 defer a long-term commitment to build its next generating unit
7 in the state. I think if the contracts are approved, there are
8 real incentives for FPL to develop some other solid fuel
9 options like coal. And I note that they plan to report to us
10 in March of this year on that.

11 I'm a huge supporter personally of at least
12 considering coal options and trying to get to having a greater
13 coal capacity in this state. **We really have got to do**
14 something on this sort of increasing lack of fuel diversity,
15 and I think these contracts get us closer to that goal than
16 not. And I recognize that there's costs associated and bills
17 may be higher in certain respects, but sort of on balance, my
18 view is, is that the value to the state of the unquantified
19 benefits of these contracts outweigh what would be the cost
20 passed on to particular bills. **So that's where my thinking is**
21 right now on this docket.

22 CHAIRMAN BAEZ: Thank you, Commissioner.
23 Commissioner Bradley.

24 COMMISSIONER BRADLEY: Yes. Thank you, Mr. Chairman.
25 You know, I too have read in depth the issues involved in this

1 particular agenda item, and it would appear to me -- my
2 thinking is that the alternative recommendation seems to be the
3 most viable alternative and I'll tell you why.

4 We keep calling benefits from the UPS agreements
5 nonquantifiable. That's in the primary recommendation.
6 However, if Florida Power & Light self-builds a new power plant
7 in Florida, it adds to our air pollution. Also, what we're
8 doing is authorizing our utilities to spend millions of dollars
9 to comply with federal and state air quality standards, which
10 is problematic in that we need to reduce -- well, improve our
11 air quality standards. Our communities lose millions of
12 dollars going to fines and penalties and losses of federal
13 dollars for being out of compliance with those standards, so
14 that's problematic. And I'm not sure that building a new plant
15 in Florida, even a clean burning natural gas-fired plant, I'm
16 not sure if it doesn't have real quantifiable costs.

17 We're here to talk about how air quality impacts the
18 health of our citizens. The health of our citizens has very
19 real, very large monetary impacts, not just in the cost of poor
20 health and illness, but the fact that healthy, happy citizens
21 are more productive and innovative.

22 Another example, being from the Tampa Bay area, I'm
23 very familiar with water issues. We keep hearing about the
24 need for water conservation in our state, the need for new
25 water sources and supplies, and the need to protect and

1 preserve our existing water resources, but power plants consume
2 large amounts of water which could serve other uses such as
3 drinking, irrigation, and agriculture. But the massive
4 population growth and development in Florida, we need to be
5 vigilant in protecting our water resources.

6 A very real cost being borne in Tampa Bay is the new
7 desalinization plant which is adding very real dollars to every
8 area water customer's bill. The fact is a new power plant will
9 put additional strain, perhaps an unnecessary strain, on our
10 water resources. This is a very real cost to our citizens and
11 ratepayers.

12 And the final example that I thought about is this.
13 Land is a finite resource. Every acre that goes for an FPL
14 power plant before it is absolutely necessary to serve the
15 needs of this state is one less acre which could support a
16 power plant later in time, one less acre that could site a coal
17 plant or a nuclear plant or a new technology that we aren't
18 even thinking about today. Siting a power plant in Florida is
19 a complicated and an increasingly difficult procedure.
20 Allocating scarce real estate prior to there being no other
21 option imposes real costs on Florida ratepayers both today and
22 in the future.

23 My fellow Commissioners, these are some of just the
24 examples that I have thought about and why I disagree with the
25 term "nonquantifiable." Also, I can think back to -- as it

1 relates back to water, I can think back to a brief conversation
2 that Commissioner Deason and I had as it relates to water
3 allocation. You know, one of the issues before the Legislature
4 is, how do we reallocate or how do we allocate our water
5 resources? And it would appear to me that right now that there
6 may be some discussion going on about how South Florida and
7 North Florida communicate to reallocate water resources. Also,
8 when I think about the states of Georgia and Alabama, the
9 reallocation of water resources is a very real issue in this
10 region as it relates to our relationship with Alabama and
11 Georgia.

12 Another question is -- well, not a question but
13 another thing that comes to mind is I think somewhat selfish,
14 but it's something that I'm mindful of. You know, I would
15 prefer to have Georgia and Alabama dealing with the issues of
16 pollution and water resources at this juncture if they are
17 willing to do so and to not have a state that's growing as
18 rapidly as Florida to have to deal with those issues in the
19 immediate future if that can be avoided. So, you know, when I
20 think about some of the benefits that we could get from some of
21 these purchased power agreements, I think they are infinite.

22 CHAIRMAN BAEZ: Commissioner Deason.

23 COMMISSIONER DEASON: Mr. Chairman, I think we're
24 about ready to make a motion. Just let me take a moment to say
25 that I appreciate the very thorough analysis that staff has

1 done on both sides of this issue, and reading this
2 recommendation, having those issues laid out on both sides made
3 preparation much better. So I congratulate both sides for
4 doing an excellent job.

5 And when it comes to making a determination as to the
6 most cost-effective alternative, it would be nice if everything
7 could be easily quantified in dollars and cents and being
8 counted. And that's the way I like to see things, but we know
9 that's not the way things operate in the real world. And this
10 case is a very good example where you have to consider many
11 aspects. To me, the strategic advantages of approving the UPS
12 contracts outweigh any potential dollars and cents
13 considerations in terms of cost-effectiveness. I think when
14 you consider the strategic advantages, they more than outweigh
15 that. And I would also point out that changes in price of gas,
16 potential sales over the retention of the transmission
17 capacity, just some small changes, I would anticipate that
18 those perceived differences in cost-effectiveness could be
19 overcome very easily in the future.

20 I also believe that FPL is to be congratulated for
21 pursuing this with the Southern Company, and I think
22 negotiating for some advantageous provisions within the UPS
23 agreement, the fact that they were able to maintain
24 165 megawatts of coal given the situation was commendable, and
25 the fact that they've had provisions in there concerning the

1 right of first refusal, provisions concerning potential
2 increases in cost of transmission, that they had flexibility in
3 that regard. So I think all in all I have to come down on the
4 side that it is the most cost-effective alternative considering
5 all strategic considerations.

6 CHAIRMAN BAEZ: And I would echo your thoughts on the
7 strategic considerations. Since we're all putting our two
8 cents in, I'll put in mine before we do entertain a motion.

9 You know, this is one issue that for me boils down to
10 this. I've been harping on the fact that we need some fuel
11 diversity. We need some diversity in this state; that every
12 ten-year site plan that rolls around here every year, you see
13 the numbers and percentages of natural gas getting bigger and
14 bigger and bigger. And if they haven't already for some, for
15 me certainly they are close to approaching monstrous alarming
16 proportions. And I don't want to put words in my colleague's
17 mouth, but this from my mouth, one vote at least is a little
18 taste of the lengths certainly I might be willing to go to in
19 supporting more fuel diversity in this state. You know, the
20 companies both I think did a good job in protecting themselves.
21 Certainly FPL in this case did a good job of retaining and
22 creating some benefits flowing back to the customers
23 potentially.

24 And so, yes, when we talk about unquantifiable
25 benefits, I think the fact that the benefits can appear at all

1 really flow in a positive manner, but it shouldn't end here. I
2 think, again speaking for myself alone, based on what I think
3 is a growing need to really pay attention to fuel diversity
4 here, this is a small -- I mean, 165 watts might not mean much
5 today, but I think we've got to start thinking about how to get
6 more of it. And if this is a nudge in the right direction, if
7 this is a signal in the right direction of what all might be
8 important on down the road, then I'm all for it.

9 Commissioners, that's my piece. I'll entertain a
10 motion.

11 COMMISSIONER DAVIDSON: Move staff alternate rec.

12 COMMISSIONER BRADLEY: Second.

13 CHAIRMAN BAEZ: A motion and a second. All those in
14 favor say, "aye."

15 (Unanimous affirmative vote.)

16 CHAIRMAN BAEZ: Thank you all. Thank you for the
17 staff. You know, Commissioner, before you go, and a lot of the
18 staffers aren't here, but this was not an easy day. It was
19 longer than we've had in a while, and I think all of staff,
20 even those that aren't here, put in a great effort at giving us
21 some good recommendations today and I want to thank you. Will
22 you please carry that back to your folks as well. Good night.
23 We're adjourned.

24 (Agenda Item Number 9 concluded.)

25

1 STATE OF FLORIDA)
 :
2 COUNTY OF LEON) CERTIFICATE OF REPORTER

3
4 I, TRICIA DeMARTE, RPR, Official Commission Reporter,
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16 the action.

17 DATED THIS 10th DAY OF JANUARY, 2005.

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