

PROGRESS ENERGY FLORIDA

DOCKET NO. 04393-EI

**SUPPLEMENTAL
DIRECT TESTIMONY OF**

SAMUEL S. WATERS

1 **Q. Please state your name, employer, and business address.**

2 **A.** My name is Samuel S. Waters and I am employed by Progress Energy Carolinas
3 (PEC). My business address is 410 S. Wilmington Street, Raleigh, North Carolina,
4 27602.

5

6 **Q. Have your position, duties or responsibilities changed since you last filed**
7 **testimony in this docket.**

8 **A.** No.

9

10 **Q. What is the purpose of your revised supplemental testimony?**

11 **A.** My direct testimony provided an estimate of cost savings over the five year term of the
12 proposed Unit Power Sales (UPS) Agreements. Since my direct testimony was filed on
13 April 15, 2005, it has come to my attention that certain inputs to my original analysis
14 were incorrect. The purpose of this supplemental testimony is to provide a revised
15 estimate based on an updated analysis with corrected inputs.

16

17 **Q. Have you prepared an exhibit for your revised supplemental testimony?**

18 **A.** Yes. My Exhibit No. ___ (SSW-4R) replaces Exhibit No. (SSW-4) submitted with my
19 prior testimony.

DOCUMENT NUMBER

04570 MAY 10 05

FPSC-COMMISSION CLERK

1 **Q. What inputs to your analysis have you revised since your prior testimony?**

2 A. My economic analysis for the five year term of the agreements includes a comparison
3 of the cumulative NPV revenue requirements for alternative resource plans: (1) a base
4 case without the UPS purchases; and (2) an alternative resource plan with the UPS
5 purchases included. In my original analysis, the annual revenue requirements for units
6 included in the both the base case and alternative UPS resource plans were too high.
7 In addition, the original analysis assumed 12 months of revenue requirements even
8 though, in some years, certain units were only projected to be online for a portion of
9 the year. My updated analysis includes the correct annual revenue requirements and
10 accounts for appropriately accounts for partial years.

11
12 **Q. Please provide the results of your updated analysis?**

13 A. Using the correct inputs, I now estimate the cost savings during the five year terms of
14 the agreements to be \$44 million CPVRR, rather than the \$133 million presented in
15 my prior testimony. My revised Exhibit No. __ (SSW-4R) presents the year-by-year
16 cumulative PVRR based on my revised analysis.

17
18 **Q. Does this revised estimate affect the projected net cost to customers analysis
19 presented in your direct testimony of April 15, 2005.**

20 A. No. In my original testimony, I explained that based on a 45 year analysis, the
21 contracts are projected to result in a net cost to customers of between \$5 million and
22 \$11 million, CPVRR, as shown in my original exhibit Exhibit No. ___ (SSW-3). This
23 estimate does not change because the economic result accounts for costs and benefits
24 well beyond the 45 year study period, essentially to infinity, because economic
25 carrying charges were used to obtain the bottom line result. This analysis using the
26 economic carrying charge rate was a completely separate and independent analysis

1 than the one used to generate the year-by-year savings. My revised Exhibit No.
2 ____ (SSW-4R) attempts to show the year-by-year economics, and if carried out to
3 essentially an infinite time period, should produce the same bottom line. The year-by-
4 year results do show that, at any given point of time, truncation of the analysis would
5 produce a result that may differ from the end result produced by the economic carrying
6 charge analysis.

7
8 **Q. Do you have any other corrections or revisions to your direct testimony?**

9 A. No.

10
11 **Q. Does your revised estimate of cost savings during the five-year term of the UPS**
12 **agreements affect your opinion regarding whether the agreements should be**
13 **approved?**

14 A. No. While the projected savings are not as high I had originally projected, I still
15 project significant savings over the five terms of the agreements when the
16 Company's resource plan is more certain. While there may be a moderate net cost
17 over the 45 year horizon resulting from this contract, the range of predicted
18 benefits, depending on the assumptions made in calculating them, are relatively
19 small compared to the overall value of the purchases. In my judgment this range of
20 potential economic benefits/costs is acceptable, particularly light of the strategic
21 benefits of the contracts. As explained in my prior testimony, these strategic
22 benefits include: fuel diversity; preservation of PEF's transmission path to the
23 north; access to economy energy purchases and sales; increased reliability; cost
24 certainty; increased access to coal resources; and planning flexibility.

25

1 **Q. Does this conclude your supplemental testimony?**

2 A. Yes.

Savings of UPS Contracts With Economy Purchase Savings

CPVRR, 2010\$ (millions)

