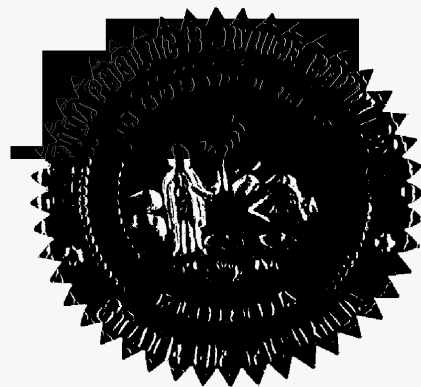


BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:) DOCKET NO. 041393-EI
 PETITION FOR APPROVAL OF TWO UNIT)
 POWER SALES AGREEMENTS WITH SOUTHERN)
 COMPANY SERVICES, INC. FOR PURPOSES)
 OF COST RECOVERY THROUGH CAPACITY)
 AND FUEL COST RECOVERY CLAUSES, BY)
 PROGRESS ENERGY FLORIDA, INC.)



VOLUME NUMBER 2

Page 77 through 137

PROCEEDINGS: HEARING

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

DATE: THURSDAY, JUNE 2, 2005

TIME: COMMENCED AT 9:30 A.M.

PLACE: FPSC
 4075 ESPLANADE WAY
 ROOM 152
 TALLAHASSEE, FLORIDA

REPORTED BY: NANCY S. METZKE, RPR, CCR

APPEARANCES: (As heretofore noted.)

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I N D E X

NAME PAGE NO.

SAMUEL S. WATERS

Examination by Mr. Bushee 80

EXHIBITS - VOLUME 2

NUMBER		ID.	ADMTD.
#18	(Late-filed) Calculations based on cross examination hypothetical	11	
#19	July 1, 2004 e-mail from Roger Kramer to Dan Roeder	13	
#20	April 21, 2004 e-mail from Mr. Waters to John Krisp and others	16	
#21	(Confidential) Burns & McDonnell study	22	
#22	(Confidential) Gas prices in base plan	30	
#23	(Confidential) 9/19/04 Natural Gas Supply and Variable Transportation Cost	31	
#24	(Confidential) 2/11/05 Natural Gas Supply and Variable Transportation Cost	32	
#25	E-mail from Tom Davis to Lynn Taylor	46	

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P R O C E E D I N G S

CHAIRMAN BRAULIO: We're back on the record.

Mr. Bushee, you can continue, sir.

MR. BUSHEE: Thank you.

CROSS EXAMINATION (CONTINUED)

BY MR. BUSHEE:

Q Mr. Waters, you will recall before the break that we were looking at Table H-4.

A Yes.

Q And, specifically, I'd like to direct your attention to Line 11.

A Okay.

Q And if you follow that across to the far right-hand side, you will see a number there.

A Yes.

Q And that would give us a cumulative one-year number?

A Yes, 12 months.

Q And would I be correct that, if we multiplied that number by five, that would give us a cumulative five-year number?

1 A For the example calculation, yes.

2 Q Now under the Franklin agreement, it would be
3 possible to have more than one start in a day, would it not?

4 A It is possible, yes.

5 Q I want to give you a hypothetical; and it's, again,
6 going to be somewhat difficult, given the confidential
7 nature. But if you would look at the text that contains the
8 assumptions. Do you understand what I'm referring to?

9 A Yes.

10 Q And you will see two numbers.

11 A Yes.

12 Q If you added ten to the first number and you added
13 five to the second number, that's the hypothetical I would
14 like to have you keep in mind.

15 A Okay.

16 Q Can you readily calculate what that would do to the
17 start payment?

18 A No, not from -- not without some calculations. I
19 couldn't do that in my head.

20 Q Would you accept that it would significantly
21 increase the start payment?

22 A I guess I'll accept that, subject to check. Again,
23 we're only dealing with an example calculation here. I mean
24 I need to point out, in those numbers that you've pointed to,
25 if you multiplied both those numbers by 12 to get the annual

1 number of starts, that is a lot of starts because that's what
2 we're talking about. They're talking about that number or
3 those numbers each month, and I would consider that unlikely
4 just in the example.

5 Q Well, the start costs would be paid by Progress'
6 ratepayers if incurred, correct?

7 A If the contracts are approved, that's correct.

8 Q And Progress wouldn't bear any risk, or Progress'
9 shareholders wouldn't bear any risk of those payments, would
10 it?

11 A The only risk would be any non-recovery risk that
12 there might be after review of the actual operation, so
13 there's always that risk.

14 Q Would you accept, subject to check, if we changed
15 the assumptions, as we had discussed, that that would roughly
16 double the start payment?

17 A Subject to check, as a hypothetical, I guess I can
18 accept that. I don't -- you know, again we're talking about
19 an example calculation, so I'm not sure what the impact would
20 be. But if we doubled those -- with the numbers you've said,
21 add ten to the first, and add -- what was the --

22 Q Five.

23 A Five to the second one? If you do the math -- I
24 don't want to give away the numbers. But if you think about
25 the frequency of the starts and think about that on a per-day

1 basis, the additions you've just made, again, is a very
2 significant number. We're talking about a lot of starts,
3 essentially almost constant cycling of the unit. And I think
4 if you look at the experience at Progress, because we have
5 more gas in our system than I suspect Southern does, I would
6 not expect that number of starts. **If this were to use actual**
7 numbers, I don't think we'd be in that neighborhood at all.

8 Q But you can't say with a certainty that that would
9 be a wrong number?

10 A The additions you've made?

11 Q Yes.

12 A I feel fairly certain that that wouldn't happen. I
13 can't -- you know, I don't have anything with me that I could
14 point to except the actual operation has not been anything in
15 that vicinity for the units that we have, and I don't suspect
16 that that's the way this would be operated.

17 Q But we're talking about the Franklin unit and not a
18 hypothetical unit; is that correct?

19 A Well, I'm talking about the Hines units, for
20 example, which are combined cycles of similar technology.
21 And we do know how those operate, and I don't think we'd be
22 operating at those levels.

23 Q So it's your testimony that the assumption I gave
24 you is impossible?

25 A No, I can't -- can never say impossible. That's a

1 function of a lot of things, including the relative
2 relationship between gas and coal prices. But I'm saying
3 under the assumptions, as I know them today and the
4 circumstances as I know them today, I don't foresee that
5 happening.

6 COMMISSIONER DEASON: Let me ask a question at this
7 point.

8 In your opinion, would there be any material
9 difference between the number of starts for the Franklin
10 unit and the number of starts you would incur if you
11 engaged in the self-built option of a similar unit,
12 being a combined-cycle, gas-fired unit?

13 THE WITNESS: I would not expect any real material
14 difference. There may be a small difference. In fact,
15 I might expect the Franklin unit to start a little bit
16 less because of location. But since they are similar
17 technologies, I would expect similar efficiencies and
18 similar starts over the course of a year. **It should be**
19 very similar.

20 MR. BUSHEE: Mr. Chairman, I would like to ask for
21 a late-filed exhibit that would do the calculations
22 using the assumptions that I have given Mr. Waters. And
23 the reason I'm asking for that is, because of the nature
24 of the confidential information, it's very difficult to
25 go through this on the stand. We can't walk through

1 calculations or discuss it. I think that might be
2 helpful for the record.

3 CHAIRMAN BRAULIO: Mr. Perko.

4 MR. PERKO: Your Honor, I'd object. I have no
5 opportunity to cross examine the witness, or -- I
6 mean --

7 CHAIRMAN BRAULIO: I'm sorry?

8 MR. PERKO: I'd have no opportunity to cross
9 examine the witness on direct or after the hearing. I
10 mean it's -- I'd have no basis to test the assumptions
11 in the late-filed exhibit.

12 CHAIRMAN BRAULIO: Is there any way -- the subject
13 open on redirect, if you've been following the cross
14 examination. To that extent, what would be your
15 continuing objection to the late-filed exhibit, if
16 it's -- if what we're talking about -- and, Mr. Bushee,
17 you can correct me if I'm wrong -- if what we're talking
18 about is a mere calculation using different assumptions.

19 MR. BUSHEE: If I may, Mr. Chairman, I'm not sure
20 Mr. Perko understood. I'm not asking for Mr. Brubaker
21 to do that but rather Mr. Waters to provide that
22 information, so there would be no need for Mr. Perko --

23 CHAIRMAN BRAULIO: Mr. Perko, was that your --

24 MR. PERKO: I misunderstood, Your Honor, but I
25 would also question the relevance of the exhibit given

1 the fact that the testimony is that these are examples
2 and not real data.

3 CHAIRMAN BRAULIO: Well, and I think that that's
4 been made clear by the witness, but I'm not about to
5 disallow the exhibit based on relevance. I think it's
6 relevant to the hypothetical that Mr. Bushee properly
7 set out for his purposes, and I'm going to allow the
8 late-filed exhibit to be constructed, if Mr. Waters can
9 at least give us some time frame as to when he can
10 produce that.

11 THE WITNESS: Well, I guess that will depend on how
12 long the hearing goes, but I think based on --

13 CHAIRMAN BRAULIO: It won't be going long, I hope.

14 THE WITNESS: I hope not either. Based on this
15 table, I think I can do that -- turn that around in a
16 day or so. It shouldn't be --

17 CHAIRMAN BRAULIO: Okay. We'll mark the late-filed
18 exhibit as Number 18, and it will be identified as a
19 late-filed exhibit showing calculations based on cross
20 examination hypothetical.

21 MR. BUSHEE: Mr. Chairman, as I understand the
22 exhibit, it would simply take this table and change the
23 assumptions to the ones that I had mentioned during
24 cross examination.

25 CHAIRMAN BRAULIO: Right. And that's --

1 Mr. Waters, are you clear on that?

2 THE WITNESS: That's my understanding. Just to be
3 clear, I want to make sure I've got the right numbers:
4 Add ten to the first number; add five to the second
5 number.

6 MR. BUSHEE: That is correct.

7 THE WITNESS: Okay.

8 CHAIRMAN BRAULIO: Are we clear? Show that marked
9 as Exhibit 18.

10 CHAIRMAN BRAULIO: Go ahead, Mr. Bushee, I'm sorry.

11 BY MR. BUSHEE (Continuing):

12 Q Mr. Waters, am I correct that Progress does not pay
13 start costs when it enters into a purchase agreement with a
14 QF or qualified facility?

15 A No, that's not necessarily the case. Each contract
16 would be different, but I have seen examples of contracts
17 that charge start-up costs, particularly as I mentioned, with
18 gas turbines, for example.

19 Q Does Progress have a standard QF agreement?

20 A There is what's known as a standard-offer contract
21 that's offered at regular intervals, which is available to
22 certain QFs. So I guess, in that sense, that would be a
23 standard QF contract. Now when it comes to negotiated
24 contracts with any other QFs or other facilities, there would
25 not be a standard form necessarily to that.

1 Q Does the standard offer contain start costs?

2 A I'm not familiar enough with the standard offer,
3 Mr. Bushee, to tell you whether or not it includes start
4 costs. But it is limited to very small facilities, and I
5 think it's probably a much simpler type of contract than you
6 would see with a larger facility.

7 Q If we provided a copy of the standard offer to you
8 during the break, would you have an opportunity to determine
9 whether start costs are included?

10 A Sure.

11 Q I'll leave that question for now then.

12 We started this line of questioning with an e-mail
13 from Mr. Roeder. Do you still have that handy?

14 A Yes.

15 Q Would you read for me aloud the last sentence of
16 the first paragraph which begins with, "These
17 considerations?"

18 A "These considerations may be something we want to
19 look at with a more detailed production costing model
20 analysis like we do when we are evaluating RFPs."

21 MR. BUSHEE: Mr. Chairman, I'd move for admission
22 of this e-mail which has been marked as Exhibit 17.

23 CHAIRMAN BRAULIO: Mr. Bushee, we can take the
24 exhibits up at the end of the -- that's usually what we
25 do is, just take them all up one by one. That will give

1 Mr. Perko a chance to respond, and we won't be bogged --
2 we won't bog down the cross examination that way.

3 MR. BUSHEE: Thank you, Mr. Chairman.

4 BY MR. BUSHEE (Continuing):

5 Q Mr. Waters, I'm going to show you another e-mail
6 which I will ask be marked as Exhibit 19, and this is a
7 July 1, 2004 e-mail from Roger Kramer to Dan Roeder, and I'll
8 pause for a moment while we're providing copies of this
9 document?

10 CHAIRMAN BRAULIO: Show that marked as 19.

11 MR. BUSHEE: Mr. Chairman, I would also like to
12 inquire before I start whether Progress believes this
13 e-mail to be confidential.

14 CHAIRMAN BRAULIO: Mr. Waters, have you --

15 THE WITNESS: I would say no, Commissioner. I
16 don't see anything in here that reveals any of the
17 specific contract. I don't believe it's --

18 CHAIRMAN BRAULIO: Then I'd ask Mr. Perko to just
19 confirm.

20 MR. PERKO: That's my understanding, Mr. Chairman.
21 I would note that the spreadsheet, which is not
22 attached, would have confidential information, so if
23 that --

24 CHAIRMAN BRAULIO: To the extent we've made that
25 clarification, the e-mail transmission itself is not

1 confidential and you can treat it as such, Mr. Bushee.

2 MR. BUSHEE: Thank you, Mr. Chairman. We will not
3 inquire on the attached spreadsheet, so we shouldn't
4 wander into any problems.

5 CHAIRMAN BRAULIO: Very well. Show that marked as
6 19, if I hadn't done so before.

7 BY MR. BUSHEE (Continuing):

8 Q Mr. Waters, do you have what has been marked as
9 Exhibit 19 in front of you?

10 A Yes, I do.

11 Q Would you please look at what is the second
12 paragraph under the file attachment? It's a sentence that
13 begins: "I also do not see."

14 A Yes.

15 Q Would you please read just that one sentence aloud,
16 the first sentence?

17 A It says: "I also do not see any evidence that
18 supports that this is a good deal or that even Southern
19 thinks the pricing is lower cost than ours."

20 Q Would you look at the last paragraph? There is an
21 acronym SPOD. Could you tell me what that stands for?

22 A System planning and operations department.

23 Q And could you tell me what BAP?

24 A Business analysis package.

25 Q I'm sorry? I didn't hear.

1 A Business analysis package.

2 Q Business analysis package?

3 A Yes.

4 Q And would you read the second sentence of that last
5 paragraph beginning with "Our analysis?"

6 A Our analysis has shown that this is not an economic
7 deal, other considerations aside; therefore, someone else is
8 going to have to carry -- to carrying the water on this one.

9 Q Could you tell me who Vinnie is in this paragraph?

10 A The reference is to Vinnie Dolan who is vice
11 president of regulatory at Progress Energy.

12 Q And who actually approved Progress entering into
13 these agreements?

14 A There is a rather comprehensive approval process.
15 It goes through several steps, so no single individual
16 approves it. There is first a management review. The
17 business analysis package referred to is a standard
18 presentation of both purchases and sales. It goes through
19 management review which requires, I would say, without having
20 the document, probably some -- 20 some signatures. It then
21 goes to a risk management committee for their sign off, and
22 then it goes -- ultimately, at this magnitude, it went to the
23 board of directors for approval. So it went through several
24 steps.

25 Q At the very top of the e-mail you see the words

1 "well said."

2 A Yes.

3 Q And that message was from Roger Kramer?

4 A That's correct.

5 Q Can we correctly infer that Mr. Kramer agrees with
6 Mr. Roeder?

7 MR. PERKO: Objection, Your Honor. Calls for
8 speculation.

9 CHAIRMAN BRAULIO: Can you restate your question?

10 BY MR. BUSHEE (Continuing):

11 Q Do you believe that Mr. Kramer agrees with the
12 observations that Mr. Roeder has made?

13 MR. PERKO: Your Honor, the document reads for
14 itself. I don't think Mr. Waters can get in the mind of
15 Mr. Kramer.

16 CHAIRMAN BRAULIO: I'm going to sustain the
17 objection.

18 MR. BUSHEE: I would like to mark -- I would like
19 to mark as Exhibit 20 an April 21st, 2004, e-mail from
20 Mr. Waters to John Krisp and others. And we'll pause
21 for a moment while we're distributing copies of this
22 document.

23 CHAIRMAN BRAULIO: Mr. Bushee, will you be seeking
24 confirmation of some confidential treatment?

25 MR. BUSHEE: Yes, Mr. Chairman. I will ask whether

1 the e-mail is confidential and if the attachment is
2 confidential. If the attachment is confidential, I
3 believe we can do it just with the e-mail.

4 THE WITNESS: I would say the e-mail is not
5 confidential. I believe there is some confidential
6 material in the presentation itself. I'd have to go
7 through it, but I'm pretty certain there's some in the
8 presentation.

9 CHAIRMAN BRAULIO: Mr. Perko.

10 MR. PERKO: That's my understanding.

11 CHAIRMAN BRAULIO: And no objection to treating the
12 e-mail as non-confidential?

13 MR. PERKO: The e-mail itself, no.

14 CHAIRMAN BRAULIO: Very well.

15 Mr. Bushee, the e-mail itself can be treated as not
16 confidential. The attachment -- the attached, I guess
17 it would be a presentation it seems, is still
18 confidential.

19 MR. BUSHEE: At this point I think the easiest way
20 to avoid running into trouble would be to simply mark
21 the exhibit as the e-mail without the attachment

22 CHAIRMAN BRAULIO: Do you want -- Very well. We
23 can do that. Show Exhibit 20 to be only the e-mail. As
24 listed and not include the attachment.

25 BY MR. BUSHEE (Continuing):

1 Q Mr. Waters, do you have the e-mail in front of you?

2 A Yes.

3 Q Would you look at the second bullet -- excuse me,
4 the third bullet, the one that begins with pet coke?

5 A Pet coke, yes.

6 Q Would you tell me what pet coke stands for?

7 A Petroleum coke. It's a petroleum byproduct that is
8 roughly a coal substitute.

9 Q And would you tell me what IGCC stands for?

10 A Integrated coal gasification combined cycle.

11 Q And would you tell me what AFB is?

12 A Atmospheric fluidized bed.

13 Q That bullet says that more study is required. Has
14 that study been done?

15 A We are in the process of running through this
16 entire study looking at everything from pulverized coal and
17 nuclear to the alternative options in this year's planning
18 cycle, so that's currently underway.

19 Q Would you read the bullet that appears right below
20 the one that we just talked about?

21 A Beginning "fuel diversity?"

22 Q Yes.

23 MR. PERKO: Your Honor -- or Mr. Chairman, I'd just
24 insert an objection. I think we're going to be here all
25 day if we have the witness reading e-mails over and over

1 again. I think the documents speak for themselves.

2 CHAIRMAN BRAULIO: That's the normal practice. I'm
3 going to overrule the objection.

4 Go ahead, Mr Bushee.

5 BY MR. BUSHEE (Continuing):

6 Q Mr. Waters, would you please read the bullet that
7 begins with fuel diversity?

8 A "Fuel diversity may be a problem, but it's not ours
9 to solve. FPL is in much worse shape. We should not take
10 the lead in fixing the state."

11 Q Is it Progress' position that the Commission should
12 simply ignore fuel diversity?

13 A Absolutely not. I think it's a broader issue than
14 just for Progress or any one utility. I think that's the
15 point of this, is that it needs sort of a combined look to
16 see how we might address fuel diversity in the state.

17 Q Would you agree with me that the price of natural
18 gas has been volatile over the last five years?

19 A Yes, I guess under generally accepted definitions
20 of that term I would call it volatile.

21 Q Are you familiar with the term "sensitivity
22 analysis?"

23 A Yes.

24 Q And would you agree with me that a sensitivity
25 analysis is an analysis done to see how an end result would

1 be affected if a certain variable is changed?

2 A Yes.

3 Q For example, a sensitivity analysis of the price of
4 natural gas could determine how the price of power under one
5 of these agreements would be affected by changes in the price
6 of natural gas?

7 A I'm sorry. I had a little trouble picking that up.
8 I think I would agree with the statement that it would affect
9 the price of the agreement. It would also affect, obviously,
10 the cost of the self-build plan, if what you're talking about
11 is just varying natural gas prices. I think you have to look
12 at what we're comparing here. If I compare, for instance,
13 Franklin, to my self-build option, gas prices would affect
14 both equally. My expectation would be as higher gas
15 prices -- the only non-moving part to that analysis is the
16 Scherer portion, the coal portion, so that the deal ought to
17 improve with higher gas prices.

18 Q With respect to -- and I think we're all going to
19 have to talk into the microphones as the ventilation -- Are
20 you able to hear me okay?

21 A Yes, that's fine.

22 Q Okay. With respect to the proposed agreements,
23 Progress did not perform a sensitivity analysis concerning
24 the price of natural gas, did it?

25 A That's correct. But basically for the reasons I

1 just gave. If I -- comparing two options, for example,
2 combined cycle to combined cycle, raising gas prices has very
3 little impact on the relative impacts; and knowing I have a
4 coal portion here and I do not have coal in that five-year
5 window in the self-build plan, my expectation would be that
6 the Southern deal would look better as gas prices go higher.

7 MR. BUSHEE: Mr. Chairman, I'd move that the answer
8 be struck. I simply asked him if they performed a
9 sensitivity analysis.

10 CHAIRMAN BRAULIO: Mr. Bushee, I think it's -- in
11 our practice, it's the witness' prerogative to try and
12 clarify his -- allowed to elaborate his answer, and I'm
13 going to overrule the motion to strike.

14 And, Mr. Waters, if I can remind you as a witness,
15 that begin your answers yes or no, just to make sure
16 that Mr. Bushee got the answer that he --

17 THE WITNESS: Yes.

18 CHAIRMAN BRAULIO: Perhaps not the answer that he
19 wants but the answer that he needs to go forward.

20 THE WITNESS: Yes.

21 CHAIRMAN BRAULIO: And you can go ahead and
22 elaborate as you see fit.

23 THE WITNESS: Okay.

24 CHAIRMAN BRAULIO: Go ahead, sir.

25 MR. BUSHEE: Thank you, Mr. Chairman.

1 I would also like now to mark as Exhibit Number 21,
2 and this is a Burns & McDonnell study which has a
3 February 5th, 2004 cover letter. The study is a solid
4 fuel resource feasibility study.

5 CHAIRMAN BRAULIO: Can you repeat the date?

6 MR. BUSHEE: The date on the cover letter was
7 February 5th, 2004. I believe that this study is
8 confidential. We are distributing copies now, and I'll
9 treat it as confidential unless counsel advises me
10 otherwise.

11 MR. PERKO: I believe this study is confidential,
12 Mr. Chairman.

13 CHAIRMAN BRAULIO: Very well. It will remain
14 treated as confidential and be marked as Confidential
15 Exhibit 21.

16 BY MR. BUSHEE (Continuing):

17 Q Mr. Waters, am I correct that this study evaluates
18 the option for developing a new solid fuel generation
19 facility in Florida?

20 A Basically, yes. It's a costing study looking at
21 solid fuel options. There's also -- for comparability
22 purposes, they also did an estimate for combined cycle so
23 that we knew we had apples and apples for the comparison.

24 Q Would you please turn to Page 3-29? And,
25 specifically, I'm looking at Section 3.6, and I'll give you a

1 moment to find that.

2 A Okay, I have that.

3 Q And I'd like you to direct your attention to the
4 text above Table 3-3, and I think I should give you a moment
5 just to read it and become familiar with it.

6 (WITNESS REVIEWED DOCUMENT).

7 A Okay.

8 Q And would you agree with me that, based on that
9 text, the Table 3-3 that we'll talk about in a moment
10 contains two gas price forecasts?

11 A Yes.

12 Q And would you tell me what those two gas price
13 forecasts are?

14 A According to the text, the one forecast is the gas
15 forecast used by Progress in the Hines 4 power supply RFP.
16 The other forecast is what they are calling a reference gas
17 or a gas cost sensitivity forecast that Burns & McDonnell
18 prepared.

19 Q Now would you look at Table 3-3, and for each year
20 after 2007, so beginning with 2008, would you agree that the
21 reference forecast is higher than the RFP forecast?

22 A Yes.

23 Q And I'd ask if you could give me roughly the
24 difference in those forecasts, pausing for a second just to
25 make sure that nobody considers that differential to be

1 confidential.

2 A Yes, I don't think the differential would be
3 confidential, but I would say on the order of 20 percent
4 higher in the reference case.

5 Q Would you now turn to Page 4-11?

6 (WITNESS COMPLIED).

7 CHAIRMAN BRAULIO: Mr. Bushee, that was 4 dash.

8 MR. BUSHEE: 4-11.

9 CHAIRMAN BRAULIO: Eleven?

10 MR. BUSHEE: Yes.

11 CHAIRMAN BRAULIO: Thank you.

12 THE WITNESS: Okay. Figure 4-7?

13 BY MR. BUSHEE (Continuing):

14 Q Yes.

15 A Okay.

16 Q And just to make sure we're all on the same page,
17 would you just read the caption for Figure 4-7?

18 A It says, Levelized 20 Year Busbar Costs, 500
19 Megawatt Brownfield Sites with Alternative Technologies and
20 Fuels.

21 Q Now bearing in mind the confidential nature of the
22 document, I don't want to ask you any of the figures that are
23 here, would you tell me what is the highest cost technology
24 shown on this table?

25 A It would be five hundred megawatt combined cycle

1 natural gas and I assume that means reference gas forecast.

2 Q And would you tell me what the lowest cost
3 technology is?

4 A Five hundred CFB, which would be circulating
5 fluidized bed, pet coke Brownfield.

6 Q And I'm going to ask, again, subject to any
7 concerns that the answer may be confidential, if you can tell
8 me what the differential is between those two alternatives.
9 And if there's any doubt, just -- we'll move on.

10 A Between the two, roughly, again, 20 percent, I
11 think, in the figures on here. I have to point out though
12 that, you know, in interpreting these graphs, when it says
13 levelized busbar costs, you have to be very careful
14 interpreting these numbers because these are not comparable
15 to what you would get in a -- even a less detailed model like
16 Strategist. Because these, as it says, are levelized busbar
17 costs.

18 This is what we would refer to in our process as
19 screening curves. You normally do not compare different
20 technologies in screening curves. You compare like
21 technologies. Like coal options could be compared using
22 screening curves because they all have the relative
23 same -- relatively same fuel cost.

24 Once you have different fuel costs, you have to
25 account for the fact that they have different capacity

1 factors when they are finally put in the system, and that
2 will change the economics; and this does not show that. So
3 you cannot read from this that any particular result will
4 come out of a detailed economic analysis.

5 Q Wouldn't you expect that a base-load coal unit
6 would have a higher capacity factor than a combined cycle
7 unit?

8 A Yes, and I think that's my point; that given that,
9 if you compare them at equal capacity factors, you're going
10 to get very different looks at the economics. It will not
11 give you a true picture of the overall economics in comparing
12 the two.

13 Q Let's turn to Page 4-12 and Figure 4-8.

14 A Okay.

15 Q And just so that we're all on the same page, so to
16 speak, would you just read the caption for 4-8?

17 A The caption is: Levelized 20 Year Busbar Costs,
18 1000 Megawatt Brownfield Sites with Alternative Technologies
19 and Fuels.

20 Q And what is the highest cost technology?

21 A The five hundred megawatt combined cycle gas
22 turbine natural gas reference, if I'm reading the
23 abbreviations correctly.

24 Q And what is the lowest cost?

25 A A thousand circulating fluidized bed, pet coke

1 Brownfield site.

2 Q Is it your understanding that when the -- well,
3 strike that. Let me ask it this way: Do you believe that in
4 comparing the technologies that the same capacity factor was
5 used?

6 A Frankly, I'm not sure what was used in this
7 analysis. This is Burns & McDonnell's analysis. And we did
8 very detailed analyses on these technologies, which is, you
9 know, what we were in control of and what we ran. And this
10 in no way relates to the studies that we ran other than we
11 used some of the inputs from this study.

12 Q And this study was performed on behalf of Progress
13 Energy, was it not?

14 A Yes.

15 Q I would like to -- would you please turn to Page
16 1-14? Do you have that in front of you?

17 A Yes.

18 Q And you'll see a number of bullets at the top of
19 the page.

20 A Yes.

21 Q And those represent key milestone dates working
22 backwards from a January 2011 commercial operation date to
23 construct a new solid fuel generation resource; is that
24 correct?

25 A Yes.

1 Q And do those series of bullets reflect a seven-year
2 period from the initiation of the siting study to commercial
3 operation?

4 A That's correct.

5 Q Has Progress initiated any siting studies for solid
6 fuel facilities?

7 A Yes, we have.

8 Q And which would those be?

9 A I'm sorry. What was the --

10 Q And, again, if this is confidential information,
11 please let me know.

12 What siting studies has Progress initiated?

13 A Without getting into details, it's basically a scan
14 of Florida to find suitable sites from a transportation
15 issue, from a water perspective, from a transmission
16 perspective. So it's basically a screening of potential
17 sites for coal technologies.

18 Q And when did Progress initiate that study?

19 A That was initiated -- my group does not do the
20 siting studies, let me put that caveat on it. I believe it
21 was initiated after we completed our base-load studies last
22 year, at the end of 2004, so basically the start of 2005.

23 Q Has Progress done any initial environmental work
24 for a coal -- or excuse me, solid fuel facility?

25 A When you say initial environmental work, are you

1 talking about site-specific environmental work?

2 Q Yes.

3 A No, we've not selected a site at this point.

4 Q And you haven't done any initial permitting work,
5 obviously?

6 A Correct.

7 Could I ask you a question, Mr. Bushee? Is there
8 a section missing from this report? I was looking for
9 Section 7.

10 Q I don't believe there is. If it is, it's not by
11 design.

12 A I hope we didn't provide it that way.

13 Q I've just been informed that the answer is we were
14 not provided with a Section 7.

15 A Okay, and I assume that the -- okay. Well, there's
16 nothing then I can do with Section 7. It had that same
17 schedule in it that you referred me to.

18 Q Okay. I think we'll move on to a new document.
19 And as we're getting ready to pass that out, let me ask you a
20 question. In evaluating the proposed UPS agreements,
21 Progress developed a base case, correct?

22 A Correct. A base case, you're referring to
23 base -- what I would call a self-build resource plan?

24 Q Yes. Is it correct that is what Progress would do
25 absent the UPS agreements?

1 A Yes.

2 Q Okay.

3 MR. BUSHEE: I would like to mark as Exhibit 22 a
4 document that was provided in discovery, and it has a
5 cover sheet on it that says Gas Prices Used to Develop
6 Base Plan Used in UPS Analysis. Now that is not part of
7 the document. That's the cover sheet that identifies
8 what's attached. We'll take a moment as that's being
9 handed out.

10 MR. PERKO: Mr. Chairman, I believe --

11 CHAIRMAN BRAULIO: Mr. Perko.

12 MR. PERKO: The first three columns -- or first
13 four columns after the dates are confidential, is my
14 understanding.

15 THE WITNESS: That's my understanding as well.
16 That should be confidential.

17 MR. BUSHEE: I'm now told that the cover page I
18 thought was on it is, in fact, not there so this exhibit
19 has the caption Natural Gas Supply and Variable
20 Transportation Cost, and it's further labeled 0401
21 3/08/04 revision.

22 CHAIRMAN BRAULIO: Show that marked as confidential
23 Exhibit 22.

24 Mr. Bushee, did you hear the -- did you hear the
25 clarification on this particular exhibit? It is the

1 first four columns in particular that are confidential,
2 first four columns after the date.

3 MR. BUSHEE: Yes, I did, Mr. Chairman.

4 CHAIRMAN BRAULIO: Okay.

5 MR. BUSHEE: I'm also going to ask to mark as
6 Exhibit 23 a document which is captioned Natural Gas
7 Supply and Variable Transportation Cost, and this one
8 says 0404 09/19/04 Revision.

9 MR. PERKO: Mr. Chairman, I believe the same four
10 columns would be confidential on that document as well
11 as the last two.

12 THE WITNESS: Actually it would be the first five
13 columns, I think, on this second exhibit.

14 CHAIRMAN BRAULIO: Can you speak up, Mr. Waters?

15 THE WITNESS: I'm sorry. I think the first five
16 columns on Exhibit 23 -- there's an extra column under
17 the heading Base Cost compared to the Exhibit 22. So I
18 think the first five columns would be confidential.

19 CHAIRMAN BRAULIO: The first five and the last two?

20 THE WITNESS: And the last two.

21 CHAIRMAN BRAULIO: Mr. Bushee, are you clear?

22 MR. BUSHEE: Yes, I am.

23 CHAIRMAN BRAULIO: Show that marked as Exhibit 23.

24 MR. BUSHEE: And then, finally, I would like to
25 mark as Exhibit Number 24 a document that's captioned

1 Natural Gas Supply and Variable Transportation Cost.

2 And this one right under the caption says 02/11/05 April
3 2005 GFF.

4 THE WITNESS: And, Commissioners, in Exhibit 24, it
5 would be the first six columns, if they were adding
6 another source, as well as the last two that are
7 confidential.

8 CHAIRMAN BRAULIO: Show that marked as Confidential
9 Exhibit 24.

10 Go ahead, Mr. Bushee. Ask your questions.

11 BY MR. BUSHEE (Continuing):

12 Q Mr. Waters, do you have Exhibits 22, 23, and 24 in
13 front of you?

14 A Yes, I do.

15 Q At no point during the questions am I going to try
16 to ask for an answer that has a numerical answer.

17 A Okay.

18 Q So if you perceive that's what I'm asking, please
19 ask me to clarify because that way we can be sure we don't
20 get into confidential.

21 I think the best way to start is I'll ask you what
22 each of these documents is so that we're all understanding
23 them. Turning first to Exhibit 22, am I correct that that is
24 the base plan natural gas forecast?

25 A When you say the base plan, you're referring to the

1 analysis done versus the Southern UPS agreements, that plan?

2 Q Yes.

3 A I believe that's correct, yes.

4 Q And when I look at Exhibit 23, am I correct that
5 that is a Progress gas price forecast from September of 2004?

6 A Yes.

7 Q And when I look at Exhibit 24, am I correct that
8 that is a Progress gas price forecast from February of 2005?

9 A It says February. I believe it's probably March.
10 It says at the bottom -- the signatures on it were in March,
11 so I guess that's when it became more official. But that's
12 basically correct, yes.

13 Q Thank you.

14 What I'd like to do is to compare the various
15 forecasts. And, again, so as not to get specific numbers,
16 perhaps we can get a sense of the magnitude of the
17 difference, whether you care to express it as a percentage or
18 an actual number. Probably a percentage would be best.

19 Looking at the year 2007 on each of these
20 documents, can you tell me how far -- or how much the
21 projected gas prices increased from the base plan in Exhibit
22 22 to the September 2004 forecast which is Exhibit 23?

23 A Yeah, I will use the column entitled Regular Supply
24 Cost, the third column, to do the comparison.

25 Q That would be good.

1 A Looking at 2007, let's say, the September revision
2 is roughly 20 to 25 percent higher.

3 Q And then would you compare the base plan in Exhibit
4 22 against the February or March '05 figure in Exhibit 24?

5 A For 2007?

6 Q Yes.

7 A Okay. The April or the March, or February,
8 forecast for 2005, I would say is roughly 60, 65 percent
9 higher than the Exhibit 22 in 2007.

10 Q And let me assure you, I'm not going to do this for
11 every year, but would you do the same comparison for the year
12 2008?

13 A Okay, 2008, going from the Exhibit 22 to
14 Exhibit 23, about a 10- to 12-percent increase. Going from
15 Exhibit 20 -- was it, 22 to 24 is the other comparison?

16 Q Yes.

17 A Okay, 22 to 24, in 2008, again, roughly, 55-
18 60-percent, somewhere in that vicinity, increase between the
19 two.

20 Q And then just one last comparison, if you would do
21 the same comparison for the year 2015.

22 A 2015, again, using the same column, going from
23 Exhibit 22 to 23, a 15- to 20-percent increase from 22 to 23.
24 From 22 to 24, I'll say about 45-percent-or-so increase.

25 Q Thank you.

1 MR. BUSHEE: I have no further questions on these
2 documents, Mr. Chairman. I'll ask the same question
3 again. I'm about to change to a new line.

4 CHAIRMAN BRAULIO: Commissioners, what's your
5 pleasure? Would you like to break for lunch for 45
6 minutes? Will that work for you? I think this is
7 probably a good time to take a 45-minute break, and that
8 will let everyone regroup, and we'll come back at 12:45.

9 MR. BUSHEE: Thank you.

10 CHAIRMAN BRAULIO: We're in recess.

11 (LUNCH RECESS).

12 CHAIRMAN BRAULIO: We'll go back on the record.

13 Mr. Bushee, we were still on Mr. Waters' cross.

14 BY MR. BUSHEE (Continuing):

15 Q Mr. Waters, would natural gas prices affect the
16 base plan?

17 A Because of uncertainty over the schedule of a coal
18 unit, I would say probably not. What the base plan shows is
19 from 2015 on its all-coal units essentially. There is a
20 combined cycle stuck in there somewhere, but it might affect
21 it beyond 2015. I would not expect to see it have much
22 impact before 2015 because of scheduling more than economics.
23 I think we have some questions about whether seven or eight
24 years is a reasonable estimate for scheduling on a coal unit.
25 But given that, the only way it could affect the time period

1 prior to 2015 is if we assume that we can basically get a
2 coal plant in quickly.

3 Q Has Progress rerun its base plan using more
4 up-to-date gas forecasts such as we discussed just before the
5 lunch break?

6 A Yes, and the base plan is very similar except now
7 there are no gas units beyond 2015. It's basically all coal
8 from that point forward.

9 Q Progress' cost benefit analysis in this proceeding
10 does not include any cost for transmission upgrades, does it?

11 A Speaking specifically of the Southern purchases?

12 Q Yes.

13 A That is correct, no cost for transmission upgrades.

14 Q To implement the Franklin agreement, Progress has
15 requested Southern to redirect the path of its rollover
16 rights from the existing Miller and Scherer units, has it
17 not?

18 A Redirect from Miller, not Scherer, that would be
19 correct. Yes.

20 Q For Southern to determine whether it can redirect
21 transmission, it has to perform what's known as a system
22 impact study, does it not?

23 A Yes.

24 Q And you've requested Southern to perform such a
25 study?

1 A Yes, we have. There's a roughly 60-day period
2 where they have that time to perform the system impact study,
3 and we're within that window now.

4 Q When does the 60-day period expire?

5 A I don't know from memory, Mr. Bushee. I'd have to
6 go look at the overall schedule, but I think we're about two
7 to three weeks into the 60-day schedule now.

8 Q Would you accept, subject to check, that Progress
9 signed the system impact study letter with Southern on April
10 25th?

11 A That sounds right, yes.

12 Q Then give or take a day, the system impact study
13 should be done on or about June 25th?

14 A That's about right, yes.

15 Q Now one possible result of the system impact study
16 is that Southern could say that transmission is not available
17 in sufficient amounts; is that correct?

18 A That's correct, yes. And that condition is covered
19 in the contract, if they should come back and say we
20 cannot -- we do not have adequate transmission or that system
21 upgrades are required. That is addressed specifically in the
22 contract. And I don't want to give away any confidentiality
23 provisions, but if you were to look at Section 7.4.2 of the
24 Franklin contract and 7.4.3, it goes through a series of
25 steps what happens at that point should we find that either

1 transmission is not available or that significant upgrades
2 are required. And there are some remedial actions that could
3 be taken that basically protect Progress' customers from any
4 additional costs.

5 Q Well, without referring to the contract and
6 potentially raising confidential issues, just as a matter of
7 common sense, if there's no transmission, then you can't take
8 power under the Franklin agreement, can you?

9 A That being the case, yes. And in that event, if we
10 cannot take power, the contract is basically void at that
11 point.

12 Q So we don't know sitting here -- in fact, we won't
13 know until roughly June 22nd whether a condition precedent
14 for this contract has been satisfied?

15 A Correct. I want to point out what happens if it
16 goes the other way. I think it's fair to point out that the
17 Franklin plant, if you look at it's location versus Miller,
18 it's essentially between Miller and us, so you -- you know, a
19 common sense approach might be to say that it's on the
20 transmission path and there's probably -- power is going to
21 flow in the same direction.

22 But whether or not that's the case, if Southern
23 comes back and says there's no impact, we are expected to
24 work out a final transmission agreement within 15 days of
25 that notification. And that's in their tariff. So at that

1 point we own the transmission, and we're either going to have
2 to sign on or give it up. I see those as our only
3 alternatives, and in that case we would have lost the
4 rollover rights that we exercised.

5 Q In addition to Southern possibly saying there isn't
6 transmission, Southern could also come back and say that
7 certain system improvements are required, could it not?

8 A Yes.

9 Q And if system improvements are required, Progress
10 would have to pay for those; is that correct?

11 A No, I don't think that's correct. I think if you
12 go to the provisions of the contract, there is -- I guess the
13 way to put it is we might pay for some of the upgrades, but
14 there are some offsets potentially in the contract. So the
15 net of it could be zero cost, and we wouldn't know that, of
16 course, until we knew the upgrades; but that gets into the
17 specific terms of the contract. Yes, we could pay for the
18 upgrades, but there are other provisions that may alleviate
19 that.

20 Q And I guess part of the answer is that the
21 provisions may alleviate but won't necessarily alleviate
22 additional costs?

23 A Well, to the extent they don't, again, it calls
24 into other provisions of the contract. But, ultimately, we
25 have outs in this contract. I guess that's the way to look

1 at it. If the total costs of these upgrades are to the point
2 where they -- well, I'm getting too specific on the terms.
3 But at some point we have outs, I'll put it that way.

4 Q By out, do you mean that you could terminate the
5 contract?

6 A Yes.

7 Q But we won't know until roughly June 25th whether
8 the -- whether system improvements would be needed such that
9 you would want to terminate the contract?

10 A Yes, I think that's -- well, we may know earlier,
11 but their deadline should be June 25th.

12 Q And if there was no transmission to facilitate
13 these agreements, then the Commission would really have
14 nothing to decide, would it?

15 A You're assuming we cancel the contract at that
16 point?

17 Q Yes.

18 A Yes, there would be nothing to decide if we were to
19 cancel the contract.

20 Q And if the costs associated with system
21 improvements, and recognizing that we don't know whether
22 there will be, but if there were costs significant to cause
23 Progress to terminate the agreement, the Commission would
24 have nothing to decide, would it?

25 A That's correct.

1 Q We talked about the Strategist model earlier. Do
2 you recall that conversation?

3 A Yes.

4 Q And would you say that you're generally familiar
5 with Strategist?

6 A I would say generally familiar. I'm not familiar
7 with specific inputs and outputs. I don't run the model, but
8 I am familiar with the way it works.

9 Q And that's where my questions are geared, is to
10 understand your level of familiarity. So you don't actually
11 do the runs of Strategist yourself?

12 A That's correct.

13 Q But you perhaps supervise the runs?

14 A Yes.

15 Q Okay. Would you agree that to really understand
16 the Progress cost benefit analysis that one would have to
17 have access to Strategist?

18 A No. I think to understand them, if you have a
19 general working knowledge of the business and you've
20 performed these studies on a frequent basis, you should be
21 able to understand the results based on the inputs and
22 outputs without having access to Strategist.

23 Q But if you wanted to see how different variables
24 affected the analysis, you'd need to do your own Strategist
25 runs?

1 A Starting from a base case, yes.

2 Q Okay. Strategist is a proprietary model?

3 A Yes, it is.

4 Q And by that, do you mean that you would have to
5 have a license to use Strategist?

6 A Either a license, or I think you can obtain access
7 to the program on a contract basis. For example, have runs
8 either made for you or access the program on a short-term
9 basis.

10 Q And there would be a cost involved in doing that?

11 A Yes.

12 Q Okay. So if White Springs wanted to use
13 Strategist, it would have to either purchase a license or
14 obtain access on a contract basis?

15 A I believe that's correct, yes.

16 Q Who would they contact to do that? I mean the
17 company.

18 A New Energy Associates.

19 Q Okay. Assuming that this is not a confidential
20 information, how much does it cost to get a Strategist
21 license?

22 A I don't know, Mr. Bushee. That would depend on how
23 long you wanted the term. For instance, multiple years is
24 cheaper than a single year which -- and then a month's access
25 may be at a different cost. And that is not in my budget, so

1 I don't pay for the program. We have another group that does
2 that. I'm not really familiar with the licensing costs.

3 Q Fair enough.

4 Would you agree that it would take some period of
5 time, whether it's days or weeks, probably days, to arrange
6 for access to Strategist if one wanted to get that access?

7 A I would agree that it might take days, and I'm
8 talking here a couple of days. I have been involved in
9 proceedings before where we have helped to expedite access on
10 a limited basis where New Energy or the predecessor made runs
11 for the client based on changes they requested in the data,
12 and that was done on a more expedited basis.

13 Q And once you obtained access to Strategist, it
14 would take some period of time, be it days or whatever, to
15 install the software on a computer system and get it running;
16 wouldn't that be correct?

17 A Yes, I think so. If you took that approach rather
18 than having them run the models for you.

19 Q And there would be some period of time to validate
20 that the model was set up correctly?

21 A Yes.

22 Q Progress ran a series of Strategist runs, did it
23 not, in performing the analysis in this proceeding?

24 A Well, yes, over a period of time. If you look at
25 the entire time over which this deal was negotiated, there

1 were -- there was a long series of analyses done from
2 beginning to end. And Strategist was an essential part of
3 that.

4 Q And over what period of time did you do your
5 Strategist runs?

6 A I would say around February, March '04
7 through -- probably through October.

8 Q I'm going to change subjects and talk about
9 Progress' consideration of alternatives or lack of
10 consideration. Progress was not required to contract with
11 the Southern Company for the power represented by these two
12 agreements, was it?

13 A No, not required.

14 Q In other words, you could have selected any
15 resource that you identified that met your needs?

16 A Generally speaking, yes. I think this is one of
17 those instances where I think we have a unique opportunity to
18 proceed, and I feel very strongly that if we don't proceed at
19 this time this deal will not be there. So when you say other
20 alternatives, it's really a matter of what's available at the
21 time. I think, from a planning perspective, my obligation is
22 to try and do what's best for customers; and we did that by
23 proceeding with this agreement.

24 Q Would you turn to your direct testimony at Page 6?

25 (WITNESS COMPLIED).

1 A Yes.

2 Q And at Line 2 and continuing from there, you state
3 that it's not feasible to construct a new pulverized coal
4 plant to meet the June 2010 target date?

5 A Yes.

6 Q And that's based on your view that Progress
7 requires about eight years lead time to complete all of the
8 required activities to bring a coal plant on-line?

9 A That's correct.

10 Q So using that estimate, you would have needed to
11 begin the process in 2002 to have a coal plant on-line in
12 2010?

13 A Right.

14 Q I'd like to mark as, I believe it's Exhibit 25, an
15 e-mail dated June 26th, 2003 from Tom Davis to Lynn Taylor;
16 and we'll take a moment to distribute copies. Again, we
17 understand that some or all of this e-mail is confidential,
18 so we'll request guidance from counsel as to whether portions
19 may not be confidential.

20 Do you have the e-mail in front of you?

21 A Yes. I'm trying to think of anything that might be
22 confidential. I think the spreadsheet, if that were used,
23 would probably have confidential information. I don't
24 believe the e-mail has any since this is a backwards
25 calculation of a gas price. It's not part of the forecast,

1 so I think it's probably not confidential.

2 Q With that understanding, we will not ask questions
3 on the spreadsheet and simply ask some questions on the body
4 of the e-mail.

5 CHAIRMAN BRAULIO: Show that marked as Exhibit 25.

6 BY MR. BUSHEE (Continuing):

7 Q Now this e-mail forwards, does it not, a June 12th,
8 2003 e-mail from Mr. Roeder?

9 A Yes.

10 Q And would you look at the second paragraph of
11 Mr. Roeder's e-mail, and in that paragraph, does not
12 Mr. Roeder suggest that it takes six years to build a coal
13 unit?

14 MR. PERKO: Objection, Your Honor. The document
15 speaks for itself.

16 CHAIRMAN BRAULIO: I'm going to let Mr. Bushee ask
17 the question and let Mr. Waters answer with as much
18 interpretation in context as he wishes.

19 Can you repeat your question, Mr. Bushee?

20 BY MR. BUSHEE (Continuing):

21 Q Mr. Waters, looking at the second paragraph of
22 Mr. Roeder's e-mail --

23 A Yes.

24 Q -- would you read the first sentence?

25 A "If it takes six years to build a coal unit, that

1 makes 2009 the first year it can come into the plan." And
2 the way to interpret that -- it's fairly straightforward at
3 this point, and this is something we do. The other source of
4 data that we use for technologies is the EPRI Technology
5 Assessment Guide.

6 And without getting into confidentiality issues
7 there, I would say that the TAG data is generic. To some
8 extent, we can modify it to be regional. But it does not
9 typically take into account the lead time -- all of the lead
10 time necessary to build any given technology. For instance,
11 if you were to look at that same source for combustion
12 turbines and combined cycles, you would also show very short
13 lead times, because typically they don't account the time
14 that we have to spend as Progress Energy up front in the
15 siting and licensing part of the process.

16 So this lead time is little more than construction.
17 There's a little bit of extra front-end time, but it's
18 basically construction plus a little bit of time. The
19 Burns & McDonnell study is more representative of the actual
20 time. That's why we went and contracted for that data.

21 It is more Progress Energy specific. It is more
22 site specific and certainly Florida specific. So we have the
23 real -- I think the real lead times, a closer estimate of the
24 cost.

25 I'd point out just as an example. The TAG would

1 not include time to do an RFP, you know, as one example. And
2 that's something we would have to do in construction of the
3 coal unit. So there would be extra time on the front end.

4 So this is just using some generic data and coming
5 up with an answer; but, basically, it does not really say
6 that we could build a coal unit in six years. We couldn't.

7 Q Burns & McDonnell, that study said seven years, did
8 it not?

9 A It said seven years, and that's why I was looking
10 for Chapter 7 because there's a caveat on that. And I know
11 we provided multiple copies of that document and, you know,
12 maybe we need to come back to that later. I guess we can
13 distribute one of the other companies that had Chapter 7.
14 But Burns & McDonnell says clearly in Chapter 7 that is a
15 very aggressive schedule, and that's the way they
16 characterized it. And I would agree with that; it's very
17 aggressive.

18 Q If Mr. Roeder was correct in 2003 that a plant
19 could be built in six years, then 2009 would be the earliest
20 that it could be built; is that correct?

21 A If he was correct, yes, but he's not.

22 MR. BUSHEE: Could we go off the record for just a
23 second, Mr. Chairman?

24 CHAIRMAN BRAULIO: Go off the record.

25 (DISCUSSION OFF THE RECORD).

1 CHAIRMAN BRAULIO: We'll go back on the record.

2 BY MR. BUSHEE (Continuing):

3 Q Would you turn to page -- well, you're on Page 6 --
4 at Line 7 of your testimony where you state that you're
5 unaware of any merchant coal generation in Florida other than
6 the one facility that you were negotiating with. Do you see
7 that?

8 A Yes.

9 Q Progress wouldn't be limited to looking for coal
10 capacity just in Florida, however, would it?

11 A No, that's true. I'm not aware of any existing
12 coal capacity outside of Florida either, but I was addressing
13 Florida at this point.

14 Q Have you done a comprehensive review to determine
15 whether there might be coal capacity outside of Florida that
16 could be available?

17 A Only in consulting with our wholesale marketing
18 group and asking them, you know, what the market was and
19 what's available. Beyond that -- you know, that's their job
20 to stay in touch with the market, so I rely on their judgment
21 on that.

22 Q But the answer is you haven't done a comprehensive
23 review of what might be available for coal capacity?

24 A No, not personally.

25 Q Are you aware of any coal plants that are currently

1 in planning that could be available in the 2010 to 2015 time
2 frame?

3 A Well, in that time frame, yes, I think there are a
4 number of plants that are in planning stages, including --
5 I've seen plans announced within Florida for FPL in the 2012
6 time frame, but I mean that's a pretty broad range. There
7 are, I believe, some plants in the planning stage.

8 Q What plants in the planning stage are you aware of
9 besides the one that you just mentioned?

10 A Well, from memory, I don't remember all the
11 in-service dates. A number of utilities, I think from
12 municipals and cooperatives in Florida have announced plans
13 for coal units roughly in that time frame. And I believe
14 there have even been plants discussed in Georgia in that time
15 frame, but I'm not sure of exact in-service dates.

16 Q Are you familiar with an organization called LS
17 Power?

18 A I'm heard of it, yes.

19 Q Are you familiar with their Longleaf project?

20 A Not real familiar, no. I know they've got requests
21 posted on Oasis for transmission service.

22 Q Looking at, again, Page 6, starting at Line 10, you
23 state that Progress has not received any proposals for coal
24 generation in response to its recent requests for proposals.
25 Do you see that?

1 A Yes.

2 Q And by that I assume you're talking about the RFP
3 for the Hines 4 unit?

4 A And Hines 3.

5 Q Okay. Did those RFPs specifically ask for capacity
6 in the 2010 to 2015 time frame?

7 A No, they were targeted at the specific units that
8 were laid out in those proposals, those RFPs.

9 Q The time frame for power delivery under the RFP was
10 less than seven years after the RFP was published, was it
11 not?

12 A Correct. That's a result of the avoided unit or
13 the target unit being a combined cycle unit.

14 Q How much less than seven years was the time frame?

15 A The RFPs would be roughly three to four years ahead
16 of the need.

17 Q So accepting your assertion that a coal unit takes
18 eight years to permit and build, it would not be possible to
19 submit a new coal proposal in response to an RFP, would it?

20 A Certainly not starting from scratch, unless
21 somebody had already -- at this point, if you were to go,
22 again, back to the Burns & McDonnell study, if you were to
23 look at five years from now, you would have had to have
24 siting, some significant licensing done and, I think, even be
25 into equipment acquisition at this point to be able to get

1 the project in service on June 1st, 2010.

2 Q The RFPs that we just discussed were not undertaken
3 in connection with the expiration or replacement of the
4 existing UPS agreement, was it?

5 A No.

6 Q And certainly Progress didn't conduct an RFP to see
7 whether there were alternatives to the two proposed
8 agreements in this proceeding, did it?

9 A Correct.

10 Q Earlier you stated that you're director of resource
11 planning for Progress Carolinas. Can I correctly infer that
12 you're familiar with the Progress Carolinas' resource
13 planning practices?

14 A Yes.

15 Q Are you familiar with Progress Carolinas' May 17th,
16 2005, RFP?

17 A Yes, I am.

18 Q Are you involved with that RFP?

19 A Yes.

20 Q And what is your involvement with that RFP?

21 A The person -- the lead person responsible for that
22 RFP reports to me.

23 Q Is it correct that that RFP seeks proposals for 282
24 megawatts?

25 A Yes, that's the, I believe, summer rating -- or,

1 excuse me, winter rating for the unit that was posted, yes.

2 Q Is it your understanding that Progress is not
3 required to conduct an RFP for that 282 megawatts?

4 A Yes.

5 Q I'd like to refer back to Exhibit 19. Do you have
6 that in front of you?

7 A Yes.

8 Q And that e-mail indicates that Mr. Roeder has
9 performed an economic analysis of the UPS agreements with
10 Southern, does it not?

11 A Yes.

12 Q Would you please read aloud the sentence right
13 under the file marker that begins, "As I mentioned."

14 A "As I mentioned," that sentence?

15 Q Yes.

16 A "As I mentioned during the conference call, I don't
17 see the need to rush into doing this deal. It doesn't start
18 until 2010."

19 Q And would you continue?

20 A "So there should be plenty of time to find
21 alternatives, paren, an RFP would probably be the best way to
22 do this, close paren."

23 Q I'd like to talk about the ten-year site plan for a
24 moment. Am I correct that the purpose of a ten-year site
25 plan is to identify, generically, resources that might be

1 available?

2 A No. I would say that the purpose of the site plan
3 is to identify what our base plan is. It's to identify where
4 we plan on building. I would look at it as basically
5 providing a couple of functions. One is a checkpoint for the
6 Commission to check and see that we're planning properly to
7 meet future needs, and it also -- it serves as something of a
8 heads-up to local agencies to see where we're building and
9 what we're building nearby.

10 Q Would you turn to Page 7 of your direct testimony
11 please?

12 (WITNESS COMPLIED).

13 A Okay.

14 Q And at Line 1.

15 A Yes.

16 Q And you state there that, for purposes of the
17 analysis, we use the same industry standard models and
18 assumptions typically used for developing the ten-year site
19 plans?

20 A Yes.

21 Q Which analysis are you referring to there?

22 A I'm talking about the overall process where we
23 basically use the Strategist model to develop the economics.
24 In the more general sense, in the ten-year site plan, we'll
25 compare alternatives within Strategist and identify a base or

1 self-build plan for the purposes of the site plan. In this
2 case it's a similar analysis. We use Strategist to identify
3 the base plan versus the Southern plan.

4 Q And the industry models that you're talking about
5 there don't identify specific resources that might be
6 available; is that correct?

7 A No, those would be inputs.

8 Q And the Progress analysis in this proceeding
9 compares the cost of the proposed UPS agreements against the
10 generic self-build alternatives; is that correct?

11 A Yes, that's correct.

12 Q Is it conceptually possible that Progress could
13 enter into a UPS agreement for the years 2010 to 2013 and
14 then build a coal unit to come on line after that time?

15 A I don't know. I think that's a question for the
16 Southern wholesale marketers, as to whether or not they would
17 be willing to do something like that.

18 Q The question I asked, of course, is whether it was
19 conceptually possible as to whether it could actually be
20 done.

21 A Well, putting conception -- anything is
22 conceptually possible, but I'm not sure whether it's
23 practically possible.

24 Q Did Progress ever do an analysis of bringing a coal
25 plant on line in 2013 and having the proposed agreements

1 terminate then?

2 A We did not. We did an analysis of bringing the
3 coal unit on in 2013, independent of the Southern analysis,
4 and that was the function or the focus of the 2004 base load
5 study that we performed where we looked at not only
6 pulverized coal but nuclear and coal gasification and so on.
7 The decision was made, following that study, not to bring in
8 a pulverized coal in 2013 because of the overall economic
9 picture. When we looked at that on a long-term basis, it was
10 more economic over the life cycle, but it took many years to
11 break even versus a combined cycle. So that was done
12 independently of the Southern purchase, and I think the
13 results would be very similar. If we looked at it as a
14 replacement for the Southern purchase, I don't think you'd
15 get a different answer.

16 Q Did Progress consider whether power might be
17 available for -- rather from QFs?

18 A We always consider whether power is available from
19 QFs, but QFs are a limited resource, and we tend to operate
20 off the known rather than to speculate as to what might
21 develop. In other words, we work off contracts we have or
22 facilities that we know about rather than assuming they will
23 develop new facilities.

24 Q But Progress didn't do a comprehensive analysis of
25 what QF power might be available?

1 A I don't think I'd agree with that. I think if
2 you're asking did we speculate there might be a new market in
3 QFs or that new facilities might develop, no, we did not do
4 that. But we do know what's out there, and we do know what
5 we have under contract. We know when the contracts end, and
6 we do an analysis of what would be available and when on that
7 basis.

8 Q Did you contact the existing QF facilities that
9 might have power available to see if they would be interested
10 in selling in the 2010 to 2015 time frame?

11 A No.

12 Q Is it true that Progress didn't consider additional
13 demand-side management beyond what is listed in the ten-year
14 site plan?

15 A In this analysis, that's correct; and that is
16 because the goals for demand-side management are set with
17 Commission approval on a five-year cycle. We do a very
18 comprehensive study of demand-side management, and then once
19 those goals are put into place and approved, we take that as
20 more of an input to the process at that point.

21 Q Is it --

22 A But the -- I'm sorry. I wanted to just add that
23 the purpose of the goal-setting is to identify the maximum
24 cost effective level of DSM, and that's how the goals are
25 set. So that becomes part of our base plan.

1 Q And if you identified an opportunity that was cost
2 effective, is it your testimony that you wouldn't take
3 advantage of that if it exceeded the goal in the ten-year
4 site plan?

5 A No, we would absolutely look at it if an
6 opportunity became available or even, you know, we could
7 change existing programs. I think I mentioned earlier, I
8 feel like my obligation is to do what's best for customers.
9 If there's an opportunity, I will pursue it. And I think
10 that's the reason we're here. That's what we're trying to do
11 with the Southern contract. We will look at opportunities.

12 Q For example, has Progress considered whether
13 time-of-use rates might result in significant conservation?

14 A I can't address that from first-hand knowledge.
15 That would be part of the overall DSM plant management, and
16 so I don't have knowledge of that specific program one way or
17 the other.

18 Q Is it true that if you conserved a megawatt that
19 you wouldn't have to contract for that megawatt?

20 A Yes. Generally speaking, that's true.

21 Q I'd like to talk about transmission issues a little
22 bit more. If you'd turn to Page 12 in your direct testimony.

23 (WITNESS COMPLIED).

24 A Okay.

25 Q And specifically at Line 6.

1 A Yes.

2 Q You assert that the UPS agreements allow for the
3 preservation of Progress' transmission path to the north.
4 It's true, is it not, that the UPS agreements do not govern
5 access to that transmission path?

6 A That is true. They are linked, but in today's
7 world, they are separate agreements.

8 Q Would you turn to Page 14 of your direct testimony
9 and specifically Lines 22 to 23?

10 (WITNESS COMPLIED).

11 A Yes.

12 Q And there you discuss the Florida/Georgia
13 interface?

14 A Yes.

15 Q Isn't it true that Progress' rights to use the
16 Florida/Georgia interface are independent of these UPS
17 agreements?

18 A I will say yes. I think we have to be a little
19 careful here because the interface by itself is something
20 that does not necessarily provide any benefit. You have to
21 have a path to the interface. So while there's an allocation
22 at the border, you've got to get there first. So I would say
23 they are linked, although not directly or contractually
24 linked, but there's certainly a physical basis for linkage.

25 Q And, in fact, the rights at the Florida/Georgia

1 interface are established with a separate agreement, are they
2 not?

3 A Yes.

4 Q And if Progress entered into a different agreement
5 with Southern, it could still use its rights at the
6 interface, could it not?

7 A I believe that's correct, yes.

8 Q Or for that matter, if it entered into a different
9 agreement with anybody that could deliver power across the
10 Southern system, it could still use those rates, could it
11 not?

12 A Yes, I think, provided there's a path to the border
13 and that transmission service can be arranged, they can use
14 the interface, yes.

15 (WHEREUPON, THE TRANSCRIPT CONTINUES IN SEQUENCE IN
16 VOLUME 3).

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CERTIFICATE

1
2
3 STATE OF FLORIDA)
4 COUNTY OF LEON)

5
6 I, NANCY S. METZKE, Certified Shorthand Reporter
7 and Registered Professional Reporter, certify that I was
8 authorized to and did stenographically report the foregoing
9 proceedings and that the transcript is a true and complete
10 record of my stenographic notes.

11 DATED this 2nd day of June, 2005.

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NANCY S. METZKE, CCR, RPR