

1                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                   SUPPLEMENTAL TESTIMONY OF DONALD C. GILBERT

3                                   ON BEHALF OF

4   JEA

5   DOCKET NO. 080614

6   NOVEMBER 21, 2008

7

8   **Q.    Please state your name and business address.**

9    A.    My name is Donald C. Gilbert. My business address is 21 West Church Street,  
10          Jacksonville, Florida 32202.

11

12 **Q.    By whom are you employed and in what capacity?**

13 A.    I am employed by JEA. My title is Manager, Electric System Planning.

14

15 **Q.    Have you previously filed testimony in this proceeding?**

16 A.    Yes. My direct testimony in this proceeding was filed September 30, 2008.

17

18 **Q.    Are there any changes or corrections to the sections of the GEC Need for Power**  
19 **Application, Exhibit No. \_\_[GEC-1] that you sponsored in your direct testimony?**

20 A.    Yes. The discussion in Section 3.2 (page 3-1) should be changed to indicate that the  
21          GEC combustion turbine units are expected to be in commercial operation by the  
22          summer of 2011 and are proposed to be converted to combined cycle in 2013.

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

2 A. The purpose of my testimony is to discuss how the recent credit market developments  
3 have affected JEA and the Greenland Energy Center (GEC) combined cycle  
4 conversion project. I will also discuss potential sources of replacement power that  
5 JEA may require due to a delay of one year in the conversion of the two GEC simple  
6 cycle combustion turbines to combined cycle operation.

7

8 **Q. Are you sponsoring any exhibits as part of your supplemental testimony?**

9 A. No.

10

11 **Q. How is the current credit market affecting JEA?**

12 A. Like many other municipal utilities across the nation, JEA has minimized financing  
13 costs by utilizing variable rate financing for a portion of our overall debt financing.  
14 JEA currently holds approximately \$6 billion of total debt for its three business units  
15 (electric, water/sewer, and chilled water). Roughly \$2 billion of that debt carries a  
16 variable interest rate while the remainder is locked in with an average fixed rate of  
17 approximately 4.5 percent. Due to recent developments in the credit markets, JEA's  
18 variable rates have risen from an approximate aggregate of 2 percent to an  
19 approximate aggregate of 4 percent. This has temporarily placed a financial demand  
20 on JEA's business that required immediate action.

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1 **Q. How has JEA responded to the changes in municipal credit markets?**

2 A. As a matter of policy, JEA has deferred a large portion of capital expenditures initially  
3 planned for Fiscal Year 2009, including the planned expenditures necessary to order  
4 long lead-time items for the GEC project. Delaying these expenditures will likely  
5 delay the combined cycle conversion commercial operation date. The new  
6 commercial operation date is not expected to be later than June 1, 2013. This date  
7 may be accelerated if credit market conditions improve expeditiously.

8

9 **Q. How much of the 2009 Capital Budget is being deferred?**

10 A. Currently, JEA plans to reduce the 2009 Capital Budget by approximately  
11 \$305 million, reducing the previously approved budget from approximately  
12 \$630 million to about \$325 million.

13

14 **Q. How much of the 2009 Capital Budget reduction is related to the GEC combined  
15 cycle conversion project?**

16 A. The portion of the reduction in the 2009 Capital Budget related to the GEC combined  
17 cycle conversion project is approximately \$11.9 million.

18

19 **Q. How may the recent credit market developments affect JEA's ability to finance  
20 the GEC combined cycle conversion project?**

21 A. As discussed in the supplemental testimony of Mr. Bradley Kushner, the economics of  
22 the project remain positive. Moreover, as demonstrated in rating agency reports  
23 submitted in response to Staff's request for production of documents, JEA's credit  
24 rating remains strong. For these reasons, JEA is still confident that it will be able to

1 issue debt to cover the cost of the project. However, financing costs may be affected.  
2 Assuming the current credit challenges persist, JEA is forecasting a long-term interest  
3 rate of no more than 7 percent. Because they are based on long-term fixed rate  
4 financing, the economic analyses presented in the GEC Need for Power Application  
5 (Exhibit No. \_\_[GEC-1]) and Mr. Kushner's supplemental testimony do not include  
6 any potential benefits of a variable rate strategy that would most likely moderate the  
7 long-term finance costs.

8  
9 **Q. How will delaying the GEC conversion to combined cycle operation change**  
10 **JEA's short-term need for power?**

11 A. JEA will have to replace part of the incremental capacity associated with the GEC  
12 combined cycle conversion during the period of the delay.

13  
14 **Q. How will JEA meet the capacity requirements arising from the one year delay of**  
15 **the conversion of the two GEC simple cycle combustion turbines to combined**  
16 **cycle operation?**

17 A. JEA plans to issue a Request for Proposals (RFP) for power to meet the short-term  
18 capacity requirements caused by the one year delay in converting the two GEC simple  
19 cycle combustion turbines to combined cycle operation. Based on our previous  
20 experience with RFPs for power, JEA believes that a short-term source of capacity and  
21 energy will be available to meet the short-term need resulting from a one year delay of  
22 converting GEC to combined cycle operation.

23

1           Additionally, as discussed in my pre-filed testimony, JEA is a member of The Energy  
2           Authority (TEA), which actively trades energy with a large number of counterparties  
3           throughout the United States. TEA is generally able to acquire capacity and energy  
4           from other market participants when members, including JEA, require additional  
5           resources. TEA maintains interface capacity on the Georgia-Florida interface, which  
6           broadens the potential purchase power markets for JEA. This provides JEA with  
7           another potential source of short-term energy that can be used to meet a one year delay  
8           in the conversion of GEC to combined cycle operation.

9  
10       **Q.    Does this complete your supplemental testimony?**

11       **A.    Yes.**