

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Determination
of Need for Citrus County Combined Cycle
Power Plant, by Duke Energy Florida, Inc.

Docket No. 140110-EU

In re: Petition for Determination
of Cost Effective Generation Alternative
to Meet Need Prior to 2018, by Duke
Energy Florida, Inc.

Docket No. 140111-EI

Submitted: August 22, 2014

**NRG FLORIDA LP'S NOTICE OF FILING
ERRATA TO THE DIRECT TESTIMONY OF JEFFRY POLLOCK**

NRG Florida LP hereby gives notice of filing errata and revised pages to the July 14, 2014 direct testimony of Jeffry Pollock as follows:

- Page 8, line 23: The reference to a \$60 million dollar overstatement is deleted.
- Page 9, lines 4-6: The 3rd bullet has been reworded.
- Page 10, lines 18-19: The reference to a \$60 million dollar overstatement is deleted. Additionally, the referenced exhibit is changed from Exhibit__(BMHB-8) to Exhibit__(BMHB-9).
- Page 12, lines 19-21: Answer has been reworded.
- Page 13, lines 1-2: Deleted entirely which includes Footnote No. 2.

Dated: August 22, 2014.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished to the following by electronic mail this 22nd day of August, 2014:

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/s/ Marsha E. Rule

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1 Seminole Electric Cooperative (Seminole) under a five-year contract that ended
2 in May 2014. I understand that the Station previously sold power to DEF's
3 predecessor, Progress Energy Florida (PEF) from 2006 to 2009 and to Seminole
4 for the five years after achieving commercial operation. This experience
5 demonstrates how the Osceola station has provided a reliable source of power in
6 Florida.

7 **Cost-Effectiveness**

8 **Q IS ACQUISITION 1 COST-EFFECTIVE?**

9 A Yes. DEF admits that Acquisition 1 is a lower cost and more cost-effective option
10 than the proposed self-build projects. This is demonstrated in Exhibit____(BMHB-
11 8), which provides a summary of DEF's cost-effectiveness analysis. Specifically,
12 this exhibit quantifies the 30-year cumulative net present value revenue
13 requirement (NPVRR) differential between each "package" of alternative
14 resources and a package consisting of the proposed self-build projects. Based
15 on DEF's analysis, Acquisition 1 is \$49 million less costly than DEF's proposed
16 self-build projects. Acquisition 1 is also the only non self-build alternative that is
17 more cost-effective, according to DEF's analysis.

18 **Q DOES NRG AGREE WITH THE ASSUMPTIONS USED BY DEF IN**
19 **EVALUATING ALTERNATIVE RESOURCES, SUCH AS ACQUISITION 1?**

20 A No. As discussed later, there are three errors in DEF's evaluation. The three
21 errors are:

- 22 • DEF over-stated the fixed costs associated with Acquisition 1
23 ~~by about \$60 million~~ because it ignored the existing fuel supply
24 arrangements and assumed that additional firm gas

- 1 transportation capacity would be needed.³
- 2 • It misapplied FERC's Competitive Analysis (market power)
- 3 Screen in eliminating Acquisition 1 as a viable alternative.
- 4 • It ~~would included equity costs by imputing impute~~ additional
- 5 debt to the projected cost ~~of under long-term~~ purchased power
- 6 agreements (PPAs).

7 Further, DEF erred because it did not include any incremental fuel delivery or

8 service costs in its analysis of the self-build projects.⁴ Collectively, these errors

9 bias the evaluation in favor of DEF's self-build projects. However, when the

10 correct assumptions are used, Acquisition 1 is not only more cost effective, it is a

11 lower cost, low risk, viable alternative to DEF's self-build projects.

12 **Q DID DEF CONSIDER ANY OF THE ADVANTAGES OF ACQUISITION 1**

13 **RELATIVE TO NEW SELF-BUILD CAPACITY IN ITS EVALUATION?**

14 A DEF apparently overlooked some of the advantages of Acquisition 1. As

15 previously stated, Acquisition 1 is an existing facility. It has been operational

16 since 2001. Further, it is a more modern facility than the 261 MW of capacity that

17 DEF is planning to retire over the next three years, including the three existing

18 steam units at the Suwannee site. Thus, Acquisition 1 can provide the peaking

19 capacity that DEF alleges it needs more efficiently than DEF's existing CTs and

20 would avoid the significant additional capital costs associated with DEF's

21 proposed new self-build generation capacity.

22 **Q IS THERE ANY OTHER ADVANTAGE OF ACQUISITION 1?**

23 A Yes. The purchase price of Acquisition 1 would be fixed; that is, the amount paid

³ DEF's Response to NRG Interrogatory No. 76.

⁴ DEF's Response to Calpine's Production of Documents Request No. 6 and DEF's Response to NRG's Production of Documents Request No. 7, which contain competitively sensitive confidential information.

1 by DEF would be negotiated and this amount would be reflected in DEF's rate
2 base. By contrast, DEF will seek recovery of the entire cost of constructing the
3 Suwannee and Hines projects. Thus, even though DEF is now estimating a total
4 construction cost of \$197 million for the Suwannee CTs and \$160 million for the
5 Hines Chiller Uprate, because these projects are not subject to the determination
6 of need process, DEF may seek recovery of any additional costs actually
7 incurred if it can demonstrate that they were prudently incurred. Thus,
8 Acquisition 1 avoids the risk to DEF and its customers associated with cost over-
9 runs.

10 **Q HOW DID DEF OVERSTATE THE GAS TRANSPORTATION COSTS**
11 **ASSOCIATED WITH ACQUISITION 1?**

12 A DEF apparently ignored the existing fuel supply arrangements at Osceola station.
13 The existing fuel supply arrangements are discussed in Mr. Dauer's testimony.
14 Mr. Dauer explains that the combination of firm gas transportation and oil backup
15 would suffice to provide a cost-effective and reliable supply of peaking capacity.
16 Further, Mr. Dauer concluded that the additional firm transportation capacity that
17 DEF had assumed in its evaluation of Acquisition 1 was unnecessary and too
18 costly. Thus, correcting DEF's first error, Acquisition 1 would be ~~about \$60~~
19 ~~million~~ more cost-effective than is shown in Exhibit___(BMHB-89).

20 **Q IF ACQUISITION 1 HAS SO MANY ADVANTAGES, WHY DID DEF REJECT**
21 **IT?**

22 A In addition to over-stating the fixed costs, DEF's second error was the
23 assumption that Acquisition 1 could not be consummated because of market
24 power concerns. However, as discussed in Mr. Morris's testimony, these

1 purported capacity needs.

2 **Imputed Debt Adjustment**

3 **Q DOES DEF MAKE ANY OTHER ADJUSTMENTS IN DETERMINING THE**
4 **COST-EFFECTIVENESS OF ALTERNATIVE RESOURCES?**

5 A Yes. DEF asserts that the fixed payments associated with PPAs are the
6 equivalent of a future debt obligation (*i.e.*, “imputed debt”). Accordingly, to
7 maintain the same debt-to-equity ratio, DEF calculates the incremental cost of
8 equity that would be needed to support the imputed debt.⁵ This incremental
9 equity cost is added to the other “tangible” costs associated with PPAs.

10 **Q HAVE YOU BEEN ABLE TO DETERMINE SPECIFICALLY HOW DEF**
11 **CALCULATED THE INCREMENTAL COST OF EQUITY?**

12 A No. Although NRG requested the detailed calculations supporting DEF’s
13 evaluation of alternative PPAs, DEF’s responses did not reveal how the
14 incremental cost of equity was calculated. This includes the other NRG
15 Production of Documents Requests referenced in DEF’s response.⁶
16 Consequently, I reserve the right to supplement my testimony based on
17 discovery requests and responses thereto filed after the testimony due date.

18 **Q IS THE INCREMENTAL EQUITY COST SIGNIFICANT?**

19 A Yes. ~~In-Although~~ DEF’s did not impute additional costs due to the short-term
20 nature of the cost-effectiveness analysis, the incremental equity cost associated
21 with PPAs evaluated, the impact on longer-term PPAs can be significant. ranged

⁵ Docket No. 140111, Direct Testimony of Benjamin M. H. Borsch at 39.

⁶ Docket No. 140111, DEF’s Response to NRG’s Interrogatory No. 111 and Production of Documents Request No. 20.

1 | ~~from \$175 million to \$562 million NPVRR.⁷ But for this adjustment, other PPAs~~
2 | ~~(including a PPA with NRG) would have been more cost effective.~~

3 | **Q DO YOU AGREE WITH DEF'S IMPUTED DEBT ADJUSTMENT?**

4 | A No. As discussed below, this adjustment assumes that DEF will incur real costs
5 | associated with a long-term PPA, which is not the case. Further, it erroneously
6 | assumes that PPAs are the sole cause of a utility's deteriorating credit metrics.
7 | Finally, the Commission has previously rejected an imputed debt adjustment for
8 | PPAs in past rate cases, including PEF's 2009 rate case.

9 | **Q DOES A UTILITY AUTOMATICALLY INCUR ADDITIONAL EQUITY COSTS**
10 | **WHEN IT ENTERS INTO LONG-TERM PURCHASED POWER AGREEMENTS,**
11 | **AS INFERRED BY DEF'S COST-EFFECTIVENESS ANALYSIS?**

12 | A No. DEF will not automatically incur additional equity costs to support long-term
13 | PPAs. The additional equity cost is purely hypothetical. It is not a real cost.

14 | **Q DOES DEF ISSUE ANY ADDITIONAL CAPITAL WHEN IT INCURS**
15 | **OBLIGATIONS UNDER A PURCHASED POWER AGREEMENT?**

16 | A No. DEF does not issue either additional debt or equity associated with a PPA.
17 | Further, there are no actual PPA-related debt and equity costs under normal
18 | regulatory accounting.

19 | **Q ARE THERE ANY CIRCUMSTANCES WHEN A UTILITY THAT PURCHASES**
20 | **POWER COULD EXPERIENCE HIGHER BORROWING COSTS?**

21 | A Yes. All other things being equal, a lower credit rating would increase DEF's

⁷ ~~Docket No. 140111, Direct Testimony of Benjamin M. H. Borsch at Exhibit ____ (BMHB)-8 (Errata).~~