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Before the
Florida Public Service Commission

In Re: Petition of the Florida Industrial)
Power Users Group to Discontinue Florida)
Power & Light Company's Oil Backout Cost)
Recovery Factor)

Docket No. 890148-EI

8

Rebuttal Testimony of Jeffry Pollock

1 Q
2 A
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PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

Jeffry Pollock, 12312 Olive Boulevard, St. Louis, Missouri.

ARE YOU THE SAME JEFFRY POLLOCK WHO HAS PREVIOUSLY SUBMITTED AN
AFFIDAVIT AND PREFILED DIRECT TESTIMONY IN THIS DOCKET ON BEHALF OF
FIPUG?

Yes.

WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

I shall respond to various allegations and misstatements contained
in the testimony of Samuel S. Waters, on behalf of FPL. Predictably,
FPL has chosen to rehash the past to support its contention that the
OBCRF should continue in effect. Specifically, FPL has relied upon
the 1982 qualification proceedings in general, and the original
Primary Purpose Test, in particular, to assert that the Project has,

1 and continues to, economically displaced oil-fired generation. That
2 test is inapplicable under present circumstances, as discussed
3 beginning on Page 19 of my direct testimony. There are, however,
4 significant flaws in FPL's application of the Test, as described
5 later in my rebuttal testimony.

6 FPL also continues to assert, without factual support, that
7 Martin coal-fired Unit Nos. 3 and 4 would have been built and placed
8 in-service in June, 1987 and December, 1988, respectively, had the
9 Project not been constructed and had firm coal-by-wire capacity not
10 been made available through the UPS Agreements. FPL's assertions
11 about the Martin units are speculative.

12 Finally, FPL has asserted a novel rate-making theory that
13 because neither FIPUG nor Public Counsel has complained about the
14 OBCRF since the qualification docket, neither party is entitled to
15 do so now. FIPUG disagrees with FPL's "estoppel" theory.

16 Q IS THIS CASE PRIMARILY ABOUT THE PAST?

17 A No. Except for the \$285 million of accelerated depreciation which
18 FIPUG contends was improperly recovered from ratepayers, this case
19 is primarily about the future.

20 Presently, FPL states that the Southern Company purchase will
21 provide a fuel cost savings to its customers of \$214,515,000 for the
22 calendar year 1989. To obtain this savings, it is presently charging
23 its customers at the rate of \$540,000,000 a year. It appears
24 that the time has come to re-examine the justification for continuing

1 this unique rate-making procedure which requires customers to pay
2 rates based on a generating plant that is not in useful service and
3 to require FPL's present customers to subsidize future customers by
4 paying the full cost of a transmission line that will be used for at
5 least twenty more years. Specifically, FIPUG contends that:

6 (1) The continuation of the OBCRF is unwarranted
7 because the extraordinary circumstances
8 giving rise to the Factor--high and escalat-
9 ing oil prices and the ever widening cost
10 differential between coal and oil-fired gen-
11 eration--no longer prevail;

12 (2) Because the primary function of the Project
13 is to enable FPL to maintain system reli-
14 ability and to import capacity needed to meet
15 the growing electrical demands of its ser-
16 vice territory, continuation of the OBCRF
17 would be contrary to Rule 25-17.016, F.A.C.;

18 (3) The continuation of the OBCRF would be un-
19 just and unreasonable because FPL is recov-
20 ering more than its actual costs (e.g., a
21 15.6% return on equity, et cetera) and be-
22 cause the inclusion of deferred capacity
23 carrying charges--in addition to the UPS
24 capacity charges--means that ratepayers are
25 not only paying for capacity which is not
26 used and useful (e.g., Martin Unit Nos. 3
27 and 4), but they are paying for the same
28 capacity twice;

29 (4) Because of the substantial capacity-related
30 benefits now and in the foreseeable future
31 derived from the Transmission Project and
32 the continuation of the UPS Agreements, an
33 equal cents per kilowatthour allocation
34 would be unduly discriminatory against high
35 load factor customers and it would now be
36 appropriate to treat the Oil Backout costs
37 the same as FPL's other non-nuclear power
38 supply-related costs; and

39 (5) If the Project is to be completely written
40 off by October, 1989 (as suggested in FPL's
41 response to FIPUG's discovery requests), the
42 Rule requires that the OBCRF be terminated,

1 and the costs must be recovered through
2 present base rates unless FPL can justify a
3 base rate increase in a separate docketed
4 proceeding before the Commission.

5 **PRIMARY PURPOSE TEST**

6 Q AT PAGES 9 THROUGH 13 OF THE TESTIMONY, MR. WATERS RESURRECTS THE
7 PRIMARY PURPOSE TEST UTILIZED BY THE COMMISSION DURING THE QUALIFI-
8 CATION HEARINGS AND CRITICIZES FIPUG FOR DISTORTING THE TEST. HOW
9 DO YOU RESPOND TO MR. WATERS' TESTIMONY?

10 A Mr. Waters has mischaracterized FIPUG's position as explained begin-
11 ning on Page 15 of my direct testimony.

12 Q AT PAGE 16 OF HIS TESTIMONY, MR. WATERS CLAIMS THAT THE PROJECT
13 WOULD PASS THE TEST TODAY BASED ON ACTUAL DATA AND ON FPL'S LATEST
14 PROJECTIONS. ARE THERE ANY PROBLEMS WITH ANY OF THE ASSUMPTIONS
15 UNDERLYING FPL'S APPLICATION OF THE PRIMARY PURPOSE TEST?

16 A Yes. As stated in my direct testimony, I am very skeptical about
17 several of the parameters and assumptions made by FPL in reconsti-
18 tuting the Primary Purpose Test. Specifically, it appeared that the
19 revenue requirements associated with the Transmission Project were
20 too low and that the claimed avoided energy cost savings were too
21 high. A review of the discovery responses received subsequent to
22 the filing of my direct testimony confirms these problems.

1 Q WHAT IS THE BASIS FOR YOUR CONTENTION THAT FPL HAS UNDERSTATED THE
2 REVENUE REQUIREMENTS OF THE TRANSMISSION PROJECT?

3 A The reason why the current \$300 million revenue requirement is
4 nearly 50% below the 1984 estimated cost of \$578 million is that the
5 former includes the effect of accelerated depreciation. According
6 to FPL's analysis, the Project would be completely written off by
7 October, 1989. This is because, with the inclusion of capacity
8 deferral benefits associated with Martin Unit Nos. 3 and 4, the
9 utility is claiming that substantial net savings--two-thirds of
10 which (or \$285 million through September, 1989)--can be taken as
11 accelerated depreciation. FPL's version of the Primary Purpose
12 Test, thus, compares actual/projected net energy cost savings
13 against the cost of the Project reduced by two-thirds of the antici-
14 pated net savings. Not only is this comparison circular reasoning,
15 it is contrary to the Test because the effects of the capacity de-
16 ferral benefits have been intertwined with the net energy cost sav-
17 ings. By contrast, the Commission (in Docket No. 820155-EU) and FPL
18 (in its direct testimony in this Docket) separated the fuel and
19 capacity costs and savings in applying the Primary Purpose Test.

20 Q WHAT WOULD THE REVENUE REQUIREMENTS OF THE PROJECT HAVE BEEN IF
21 ACCELERATED DEPRECIATION HAD NOT BEEN INCLUDED?

22 A Assuming no accelerated depreciation, the revenue requirement of the
23 Project during the first ten years of commercial operation would be
24 about \$156 million higher than FPL's estimate.

1 Q IS THERE ANY INEQUITY IN THE FACT THAT THE PROJECT WOULD BE COM-
2 PLETELY WRITTEN OFF BY OCTOBER, 1989, ACCORDING TO FPL'S ANALYSIS?

3 A Yes. The costs of the Transmission Project would be completely
4 borne by past and present ratepayers despite the fact that the
5 transmission lines will provide continuing benefits for many years
6 to come. By contrast, the often stated justification for normaliz-
7 ing income tax expense is to preserve inter-generational equity;
8 that is, to ensure that the costs of a project are spread over its
9 useful life and thereby avoid subsidization of present ratepayers by
10 future ratepayers. Just the opposite is true with respect to the
11 Oil Backout Project: unless the accelerated depreciation is re-
12 versed, present ratepayers will have subsidized future ratepayers.

13 Q WHAT IS THE SECOND FLAW WITH FPL'S APPLICATION OF THE PRIMARY PUR-
14 POSE TEST?

15 A As discussed in my direct testimony at Pages 20 through 24, FPL has
16 made the erroneous assumption that each and every kilowatthour of
17 coal-by-wire energy economically displaces oil-fired generation.
18 This assumption is unwarranted because of the operational realities
19 of the UPS Agreements and the substantial decline in oil prices
20 relative to coal. In fact, for other purposes, FPL assumes that it
21 would have to schedule at a minimum between 15% and 25% of its unit
22 capacity entitlement in its PROMOD runs. Because base energy is
23 typically the most expensive coal-by-wire purchased, it is unlikely

1 that these minimum purchases would always be more economical than
2 oil-fired generation, as FPL assumes.

3 Q ON PAGE 14 OF HIS TESTIMONY, MR. WATERS LABELS AS UNTRUE FIPUG'S
4 CONTENTION THAT THE PROJECT HAS FAILED TO MEET ITS PRINCIPAL PUR-
5 POSES DUE TO LOWER THAN PROJECTED OIL PRICES AND THAT THE COMMISSION
6 RELIED ON FPL'S FORECAST TO QUALIFY THE PROJECT. IS MR. WATERS
7 CORRECT?

8 A As to Mr. Waters' contention that the Commission relied on several
9 forecasts, not all of which were prepared by FPL, he is technically
10 correct. This is, however, a small point because it was FPL who
11 chose the specific forecasts prepared by others to be included in
12 its presentation.

13 With respect to his first contention, Mr. Waters would claim
14 the Project to be a success because, according to his measurement,
15 it resulted in significant fuel cost savings. Mr. Waters' notion of
16 success is analogous to a sports team continuing to pay top dollar
17 for a high draft choice even though his performance fails to live up
18 to the management's extraordinary expectations. What he overlooks
19 is the reality that a significant portion of the projected \$3.5
20 billion of net fuel savings--which the Commission deemed to be con-
21 servative--have failed to materialize. It was the extraordinary
22 nature of the projected net savings which, in my opinion, swayed the
23 Commission to adopt the OBCRF and to recover the costs of the Proj-
24 ect and of the UPS Agreements on an equal cents per kilowatthour

1 basis. The OBCRF is, after all, an extraordinary rate-making mech-
2 anism. Quoting the former Chairman of the Commission,

3 "Mr. McGlothlin addresses the question of how to
4 recover it. And I believe that obviously it ought
5 to be recovered on a cents per kilowatthour basis
6 because the primary purpose is reduction in energy
7 costs and if you are going to start spending money
8 to reduce energy costs, then you are going to take
9 those dollars and somehow allocate them on a de-
10 mand basis. It seems to me that the benefits are
11 misappropriated." (Transcript of Agenda Confer-
12 ence, Page 751)

13 In other words, because the projected cost savings were supposed to
14 offset the projected costs, the Project would have met the "no-
15 losers" test. In reality, the Project has failed to live up to its
16 "extraordinary" expectations because \$2.2 billion of fuel cost sav-
17 ings have failed to materialize and because the tangible costs of
18 the Project have exceeded the tangible benefits. Therefore, the
19 OBCRF--which was implemented as an extraordinary response to combat
20 extraordinary circumstances--should be terminated.

21 Q ON PAGE 15 OF HIS TESTIMONY, MR. WATERS OFFERS AN OPINION THAT IT IS
22 IMPROPER TO "REQUALIFY" A PROJECT THROUGH HINDSIGHT AND TO DO SO IS
23 DIFFICULT AND UNFAIR. IS FIPUG PROPOSING TO REQUALIFY THE PROJECT?

24 A No. Mr. Waters' testimony mischaracterizes FIPUG's position. FIPUG
25 is not saying that the Project should be requalified, nor is it
26 saying that FPL is not entitled to recover the legitimate costs
27 associated with the Project, including the carrying charges at a
28 reasonable rate of return, O&M expense and the UPS capacity and

1 wheeling charges. What FIPUG is saying is that the appropriate
2 level of these costs should be recovered through base rates.

3 **Q AT VARIOUS PLACES IN HIS TESTIMONY--SPECIFICALLY, PAGES 7-8 AND**
4 **PAGES 18-19--MR. WATERS ASSERTS THAT FIPUG HAS HAD THE OPPORTUNITY**
5 **TO CHALLENGE THE OBCRF BOTH DURING THE QUALIFICATION HEARINGS AND**
6 **DURING RECENT HEARINGS IN WHICH THE COMMISSION AUTHORIZED A SPECIFIC**
7 **FACTOR. IS THIS TESTIMONY RELEVANT?**

8 **A No. The only relevance that I see is that FPL is using the past to**
9 **assert that FIPUG's Petition merely rehashes issues which have al-**
10 **ready been decided. In other words, because the 500-kV transmission**
11 **lines were previously qualified as an oil backout project and be-**
12 **cause the Commission has already adopted specific recovery factors,**
13 **which included capacity deferral benefits, FIPUG is "estopped" from**
14 **challenging the recovery mechanism. FPL's assertion mischaracter-**
15 **izes FIPUG's Petition because, as I previously testified, this case**
16 **is not about the past, but it is primarily about the future.**

17 **Q DO YOU AGREE WITH FPL'S ESTOPPEL THEORY?**

18 **A No. I am advised by Counsel that the Commission has continuing**
19 **review over all costs recovered under the various adjustment**
20 **clauses, including the OBCRF. Further, the propriety of establish-**
21 **ing the OBCRF in 1982 and the prudence of the Transmission Project**
22 **and UPS Agreements are not at issue. Taking FPL's estoppel theory**
23 **to its logical conclusion, the Commission would be prohibited from**

1 reducing a utility's allowed return on equity in response to lower
2 interest rates and the circumstance that the utility's stock was now
3 selling at substantially above book value. Just as the Commission
4 is not estopped from reconsidering a utility's ROE in every base
5 rate case, it also has the authority to determine whether monies
6 were appropriately recovered through an adjustment clause and
7 whether the continuation of an extraordinary rate-making prac-
8 tice--i.e., the OBCRF--are warranted even though the extraordinary
9 circumstances that gave rise to this practice no longer prevail.

10 **DEFERRED CAPACITY**

11 Q BEGINNING ON PAGE 18 OF HIS TESTIMONY, MR. WATERS TESTIFIES THAT
12 FPL'S JUSTIFICATION FOR USING THE MARTIN COAL UNIT TO QUANTIFY THE
13 CAPACITY DEFERRAL BENEFITS WAS BECAUSE THESE WERE THE UNITS DEFERRED
14 AS A RESULT OF THE PROJECT AND THE RELATED UPS AGREEMENTS WITH THE
15 SOUTHERN COMPANIES. IS THIS A VALID JUSTIFICATION?

16 A No. As stated in my direct testimony (beginning at Page 34), in-
17 creasing the OBCRF to reflect the assumed costs of the Martin coal
18 units is inappropriate because:

- 19 (1) The Martin units are not used and useful--
20 both today and in the foreseeable future;
21 and
- 22 (2) Collecting deferred capacity carrying
23 charges *in addition to* the UPS capacity
24 charges is tantamount to paying twice for
25 the same capacity.

1 Further, I take issue with FPL's assumptions that:

- 2 (1) The commercial in-service dates of these
3 units would have remained the same as was
4 originally projected in 1981 despite a de-
5 cline in peak load forecasts that followed;
6 and
- 7 (2) They would have been more expensive than
8 similar units actually placed in commercial
9 operation and cost estimates provided from
10 alternative sources, including FPL's most
11 recent APH filing.

12 Q WOULD YOU PLEASE AMPLIFY YOUR CONTENTION ABOUT THE COMMERCIAL IN-
13 SERVICE DATES OF THE MARTIN COAL UNITS?

14 A Mr. Waters contends (at Page 23 of his testimony) that had FPL not
15 committed to the Project and to the UPS Agreements, it would have
16 had to construct Martin Unit Nos. 3 and 4, and these units would now
17 be in operation. Consistent with FPL's OBCRF filings, Mr. Waters
18 has assumed that these units would have been placed into service in
19 June, 1987 and December, 1988, respectively. These are the same
20 dates that were also assumed during the 1982 qualification Docket.

21 Considering all factors that have transpired since 1982, FPL's
22 assumption that the in-service dates would have remained identical
23 for so long a period ignores the dynamics of the generation planning
24 process. First, there is never any assurance that a project of this
25 magnitude--with an over \$2.8 billion price tag--could have been
26 completed in the required time frame especially since these were the
27 first coal-fired units constructed by FPL. Second, it is also not
28 clear whether FPL would have had the financial wherewithal to begin

1 constructing these units in the early 1980's, when FPL was also in
2 the midst of completing St. Lucie Unit No. 2, and it was also seek-
3 ing substantial rate relief. FPL had even requested CWIP treatment
4 for the deferred units during the implementation of the OBCRF in
5 order to maintain its financial integrity.

6 Q WOULD THE MARTIN UNITS HAVE BEEN NEEDED FOR CAPACITY IN 1987 AND
7 1989, RESPECTIVELY, BASED ON FORECASTS MADE SUBSEQUENT TO THE OIL
8 BACKOUT QUALIFICATION PROCEEDING?

9 A No. Based on FPL's own load forecasts conducted subsequent to 1982,
10 these units would not have been needed for capacity in 1987 and
11 1989, respectively, because of reduced peak load forecasts. The
12 chart below summarizes the projected reserve margins based on fore-
13 casts made by FPL during the period 1983 through 1986:

14 **FPL's Projections of Summer Peak Reserve Margins**
15 **Including the Martin and Unsited Coal-Fired Units***
16 **Made Subsequent to 1982**

<u>Year of Forecast</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	(1)	(2)	(3)	(4)
1983	29%	25%	31%	34%
1984	38	33	39	42
1985	34	29	35	35
1986	33	29	37	40

24 *In-Service Dates:

25 Martin 3 - June, 1987
26 Martin 4 - December, 1988
27 Unsited 1 - January, 1990

1 For example, with Martin Unit No. 3 in-service in June, 1987, FPL's
2 1987 summer peak reserve margin was projected to range from 29% to
3 38%. Similarly, with both the Martin units in-service, FPL's 1989
4 summer peak reserve margin was projected to range from 31% to 39%.
5 The corresponding 1990 reserve margins, with Unsited Unit No. 1
6 in-service, were projected to be 34% to 42%. These are well in
7 excess of FPL's planning reserve margin.

8 Q WHEN WOULD THE MARTIN UNITS HAVE BEEN NEEDED FOR CAPACITY BASED ON
9 FPL'S OWN PEAK DEMAND FORECASTS?

10 A As shown in the chart below, the Martin coal-fired units would not
11 have been needed until 1991 and 1992, respectively, at the earliest,
12 based on FPL's projected summer peak demands and a 15% minimum plan-
13 ning reserve margin. FPL's 1986 forecast, by comparison, shows that
14 the units would not be needed until 1994 and beyond.

15
16 **Year When Martin Unit Nos. 3 and 4**
17 **Would Have Been Needed for Capacity**
18 **Based on FPL's Projected Summer Peak Demands**
and a 15% Minimum Planning Reserve Margin

<u>Year of Forecast</u>	<u>Martin</u> <u>3</u> (1)	<u>Martin</u> <u>4</u> (2)
1983	1991	1992
1984	1993	After 1993
1985	1991	After 1994
1986	1994	After 1994

1 Q DO THE ABOVE FACTS SUGGEST THAT, EVEN IN THE ABSENCE OF THE UPS
2 AGREEMENTS, FPL COULD HAVE DEFERRED BUILDING THE MARTIN COAL-FIRED
3 UNITS?

4 A Yes. Given that FPL's own forecast suggested that it would have had
5 substantial excess generating capacity and because inflation rates
6 had begun to decline, deferral of the Martin units beyond 1987 and
7 1988 may have been both prudent and consistent with Commission policy
8 as articulated in 1982:

9 "However, no witness disagreed with the truism
10 that as long as the increased cost of construction
11 does not exceed the increased cost of capital,
12 deferral of the construction of a generation fa-
13 cility, *until the capacity is needed*, is a prudent
14 economic decision, and in the best interest of the
15 ratepayers." (Docket No. 820155-EU, Order No.
16 11217, Page 8, emphasis added)

17 Q IF FPL HAD DEFERRED THE CONSTRUCTION OF THE MARTIN AND UNSITED COAL
18 UNITS IN RESPONSE TO LOWER PEAK LOAD FORECASTS, WOULD THE UNITS HAVE
19 BEEN MORE COSTLY TO BUILD?

20 A No, not necessarily. FPL, in a 1984 analysis, identified several
21 factors which indicated that slipping the construction schedule could
22 have made the units less costly to build. For example:

23 "1. The escalation projections used to develop
24 the Oil Backout estimates are significantly
25 higher than the escalation projections used
26 in Co-Generation. Since Co-Generation cash
27 flows reflect a 5½ year deferment of Martin
28 Unit #3, planned expenditures are occurring
29 during a period of time in which FPL is pro-
30 jecting a significantly lower inflation
31 rate. Conversely, the Oil Backout cash
32 flows reflect the high inflation that we
33 experienced in the 1980-83 time frame, and

- 1 higher than currently projected inflation
2 for the 1984 to 1988 time frame.
- 3 2. The Oil Backout estimates for Martin Coal
4 reflected construction performed on a Force
5 Account Labor basis, with contracts on major
6 specialty work; i.e., turbine & boiler erection,
7 etc. To the contrary, the Co-Generation
8 estimates reflect a 100% contract package
9 (lump sum bidding) concept, which limits
10 FPL's cost overrun exposure and also reduces
11 FPL risk in general. This methodology was
12 changed to take advantage of the highly competitive
13 and depressed market conditions that exists in today's
14 power plant construction industry, which brings with it
15 significantly lower profit margins bid by major
16 contractors. This shift in lower profit margins is
17 visible on the St. Johns River Project, where bids are
18 coming in significantly lower than originally estimated.
19
20
- 21 3. The change to a contract package - lump sum
22 bidding approach, also impacts the cash flow curve
23 by pushing heavier construction expenditures out later
24 in time, to allow for the completion of engineering
25 drawings and specifications which are required for
26 obtaining lump sum bids. The force account approach
27 reflected in the Oil Backout estimates allows
28 construction to start earlier in the project cycle,
29 where engineering is approximately 35% to 45% complete,
30 versus 80% to 95% complete required for a contract
31 package job. The shifting of cash flow occurring in
32 the contract package approach (Co-Generation estimates)
33 will reduce the accumulation of AFUDC charges and
34 tend to reduce total project cost.
35
36
37
- 38 4. The Co-Generation estimates reflect lower
39 base prices for major equipment and material
40 commodities which is due to the depressed market
41 conditions and curtailment of many power generation
42 projects. In other words the significantly decreased
43 demand for power plant components has made it a
44 "buyer's market" versus the "seller's market" that
45 existed in the late 1970's and early 1980's when the
46 original Martin Coal project estimate was prepared
47 (the oil backout estimates
48

1 were based on estimates prepared by Bechtel
2 in 1979).

3 5. The Co-Generation estimates reflect a lower
4 and more realistic cost allowance for the
5 FGD System, due to a firming up of FGD
6 design concepts and associated costs. The
7 oil backout estimates, on the contrary, in-
8 cluded very conservative cost allowances for
9 an FGD system that was relatively new to the
10 power industry at the time the original Mar-
11 tin Coal Plant Conceptual estimates were
12 developed."

13 (Source: Memorandum to Mr. E. Hoffman, from:
14 Project Management Department, dated October 11,
15 1984, Attachment "B"--emphasis added)

16 Q WHAT CONCLUSIONS CAN BE DRAWN WITH RESPECT TO THE TIMING AND COST OF
17 THE MARTIN COAL-FIRED UNITS?

18 A Contrary to FPL's assertions that FIPUG misunderstands the dynamics
19 of the generation planning process, it is FPL who is guilty of "sta-
20 tic" thinking. Based on the above facts, it is certainly not a
21 forgone conclusion that the Martin coal units would have been built
22 and placed in commercial operation in June, 1987 and December, 1988,
23 respectively. Nor is it evident that these units would have been as
24 expensive particularly if the in-service dates had been delayed
25 several years. FPL's own analysis suggests that construction costs
26 would have been lower because of changes in the industry, the use of
27 a different construction procedure (i.e., 100% contract package
28 rather than force account labor), lower inflation and a lower and
29 more realistic cost allowance for the FGD System. By locking in on
30 the "very conservative cost allowances for an FGD System that was

1 relatively new to the power industry at the time the original Martin
2 coal plant conceptual estimates were developed" in 1979, FPL has
3 overstated the construction cost--and, consequently, the capacity
4 deferral benefits--of the Martin coal units.

5 Q DID FPL PREVIOUSLY ATTEMPT TO LOCK-IN THE ASSUMPTIONS ASSOCIATED
6 WITH THE CALCULATION OF DEFERRED CAPACITY BENEFITS?

7 A Yes. In Docket No. 820001-EU, FPL made such a proposal. The Com-
8 mission, however, responded that:

9 "We do not agree with that proposal. None of the
10 assumptions are such that we cannot fix them more
11 accurately through retrospection than through pro-
12 jection. We do not consider it appropriate to
13 lock ourselves into assumptions prior to the time
14 we will be applying them." (Order No. 11210, Doc-
15 ket No. 820001-EU, Page 9)

16 Q IF THE MARTIN UNITS COULD HAVE BEEN DEFERRED, EVEN IN THE ABSENCE OF
17 THE UPS AGREEMENTS, MIGHT THIS HAVE BOUGHT FPL TIME TO MORE CLOSELY
18 EXAMINE OTHER ALTERNATIVES?

19 A Yes. It is possible that FPL could have considered other supply and
20 demand-side alternatives. The supply-side alternatives might have
21 included purchasing surplus in-state coal-fired capacity (e.g.,
22 TECO), importing nonfirm energy from the Southern Company (e.g.,
23 Schedule E), promoting the development of qualifying facilities and
24 examining alternative generating technologies. FPL could also have
25 more aggressively pursued load management and interruptible rates to
26 minimize the need for additional generating capacity. Deferral,

1 thus, could have bought sufficient time to enable FPL to determine
2 whether any of the above supply and demand-side options would have
3 been cheaper prior to the time that it would have incurred substan-
4 tial expenditures to construct the Martin units.

5 **Q WAS A SIMILAR PROPOSITION RAISED IN THE QUALIFICATION DOCKET?**

6 **A Yes. FPL Witness, Mr. James E. Scalf, testified:**

7 "It would be our hopes that in that time
8 frame [between now and 1985] we might see
9 some change in the commercial availability
10 of alternatives that may produce cheaper
11 types of construction. Also, that there
12 might be some easing of the capital market
13 so that the financing would be less severe.

14 **Q (By Chairman Cresse): You have mentioned**
15 **two candidates that may possibly become**
16 **lower costs between now and 1985. Are there**
17 **any other potential cost components that you**
18 **think have a good chance of lessening in**
19 **that time frame?**

20 **A Well, we certainly would not rule out addi-**
21 **tional purchases as an alternative, to bring**
22 **them in in that time frame, if in fact there**
23 **are quantities of power that would be avail-**
24 **able and that it would be the economic deci-**
25 **sion.**

26 **Q (By Chairman Cresse): Okay. Of those**
27 **three, that is improvements in technology**
28 **that would allow you to bring the unit in at**
29 **a lower cost, a lower cost of capital and**
30 **additional coal-by-wire purchases, which do**
31 **you think is the most likely to happen be-**
32 **tween now and 1985?**

33 **A I would be in hopes that all three would.**
34 **I'm not sure that I could say which one**
35 **would be the most likely to occur.**

36 **Q (By Chairman Cresse): Do you seriously**
37 **anticipate that any of those three events**
38 **will occur?**

1 A Two I would and the third Mr. Howard might
2 be able to comment on the capital costs. I
3 think there is significant progress being
4 made in research today in some of the coal
5 conversion technologies. To mention only
6 one as looking promising would be coal con-
7 version and gasification which would then be
8 used in a combined cycle type plant, which
9 should have a much lower capital cost than
10 the conventional coal units that we see
11 today." (Docket No. 820155-EU, Hearing
12 transcript, Pages 395-396)

13 Q **IS THERE ANYTHING IRONIC ABOUT MR. WATERS' CONTENTION THAT THE MAR-**
14 **TIN UNITS WERE NEEDED FOR CAPACITY?**

15 A Yes. It is ironic in the extreme that FPL can claim that, on the
16 one hand, the Martin units (i.e., the deferred capacity) would have
17 been needed to enable FPL to meet projected load growth and to pro-
18 vide an adequate reserve margin while, on the other hand, the pri-
19 mary purpose of the Transmission Project and the coal-by-wire capac-
20 ity made available under the UPS Agreements continues to be oil
21 displacement. The two objectives cannot coexist in the same time
22 frame. It is impossible to meet increased megawatt load growth
23 while, at the same time, to economically displace oil-fired genera-
24 tion. If anything, this supports FIPUG's contention that, in the
25 future, FPL will have only limited opportunity to displace oil and
26 that all resources will be needed to meet increased megawatt load
27 growth. In other words, the primary purpose of the 500-kV transmis-
28 sion lines has fundamentally changed since the qualification Docket.

1 Q ON PAGES 24 THROUGH 27 OF HIS TESTIMONY, MR. WATERS CONTENDS THAT
2 THE MARTIN COAL-FIRED UNITS WOULD HAVE BEEN THE ONLY ALTERNATIVES
3 AVAILABLE TO FPL TO MEET ITS CAPACITY NEEDS. WOULD THIS HAVE NECES-
4 SARILY BEEN THE CASE?

5 A No, not necessarily. Mr. Waters can only speculate about what might
6 have transpired had FPL not entered into the UPS Agreements. FPL
7 did not even begin to study the alternatives until February, 1984.
8 In a report entitled "Analysis of Timing and Feasibility of Generat-
9 ing Technologies," dated February, 1984, FPL stated that:

10 "In recent years Florida Power & Light (FPL) has
11 not produced a long-range generation expansion
12 plan. This has been due to a combination of sev-
13 eral factors:

- 14 1. Our purchase of 2,000 MW of unit power from
15 the Southern Companies;
- 16 2. Forecasted load growth continuing to decline
17 due to conservation and other demand-side
18 activities;
- 19 3. FPL (and the State as a whole) is projected
20 to have sufficient capacity through the
21 early 90's.

22 For these reasons, there has not been a critical
23 need to develop a long-range expansion plan.
24 Because of the uncertainty and many options avail-
25 able to FPL, we do need to be examining the issues
26 through the generation planning process. We need
27 to know which of the emerging new technologies we
28 should be pursuing in R&D. We need to know the
29 impact of unit retirements and examine the issues
30 surrounding extending the operating life of units.
31 Joint projects and unit power purchases need to be
32 examined closely. The impact of different load
33 growth rates should be assessed." (Introduction,
34 Page 1)

1 Mr. Waters' testimony is also devoid of any discussion concerning
2 demand-side alternatives, such as load management, interruptible
3 rates and purchases from qualifying facilities. FPL had not even
4 implemented an interruptible rate program until 1988. Although he
5 discusses various supply-side alternatives, he did not provide a
6 quantitative analysis to support his position that the completion of
7 the Martin units would have been more cost-effective than cancella-
8 tion. Finally, Mr. Waters ignored the fact that FPL was not the
9 only utility in the State that faced declining load growth in the
10 mid-1980's. Other utilities--notably TECO--had plenty of additional
11 capacity for sale following the completion of Big Bend Unit No. 4.

12 In summary, Mr. Waters' contentions about the Martin coal
13 units are based on endless speculations about what would have trans-
14 pired in the absence of the UPS Agreements. Yet, it is these end-
15 less speculations about the Martin units--and not higher costs--that
16 are primarily responsible for the very high level of OBCRF recover-
17 ies experienced since the April, 1987, filing. Because rates should
18 be based on cost and not on speculation, I believe it is inappropri-
19 ate for FPL to have recovered \$285 million of accelerated depreci-
20 ation, which is attributed solely to the inclusion of capacity de-
21 ferral benefits since the April, 1987, filing.

22 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimony of Jeffry Pollock, on behalf of the Florida Industrial Power Users Group, has been furnished either by U.S. Mail or by hand delivery* to the following parties of record, this 27th day of July, 1989:

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