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January 9, 1991

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399

RE: DOCKET NO. 900796-EI

Dear Mr. Tribble:

Enclosed for filing please find the original and fifteen (15) copies of Florida Power & Light Company's Brief and Post-Hearing Statement Of Issues And Positions in the above referenced docket.

Respectfully submitted,

Matthew M. Childs, P.A.

MMC/eg

cc: All Parties Of Record

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CERTIFICATE OF SERVICE

DOCKET NO. 900796-EI

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Brief and Post-Hearing Statement Of Issues And Positions in the above referenced docket has been furnished to the following individuals by Hand Delivery or U.S. Mail on this 9th day of January, 1991:

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MATTHEW M. CHILDS

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

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DOCKET NO. 900796-EI

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In Re:

Petition of Florida Power & Light Company for Inclusion of the Scherer Unit No. 4 Purchase in Rate Base, Including An Acquisition Adjustment

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# BRIEF AND POST-HEARING STATEMENT OF ISSUES AND POSITIONS OF FLORIDA POWER & LIGHT COMPANY

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## INTRODUCTION

This Brief and Post-Hearing Statement of Issues and Positions is submitted on behalf of Florida Power & Light Company ("FPL" or "the Company") and consists of four parts. Part I is a statement of the case. It provides an overview of FPL's petition, the procedural history of the docket and a summary of FPL's position. Part II is a discussion of what FPL is requesting the Florida Public Service Commission ("the Commission") to approve in this docket, the adequacy of the proceeding, the sufficiency and quality of FPL's evidence presented in this proceeding, the impact of the recently passed amendments to the Clean Air Act on FPL's proposed purchase of a portion of Scherer Unit No. 4, and a summary of the record evidence showing that FPL's proposed purchase of Scherer Unit No. 4, on a cost per kilowatt hour basis, is the best option available to the Company to meet its future energy needs. Part III is a discussion of each specific issue stated in the Prehearing Order, Order No. 23859 ("Prehearing Order"), issued on December 11, 1990. Part IV is the conclusion.

References to the transcript of the hearings in this proceeding are designated "Tr. p.# (name)," and references to exhibits, and documents within an exhibit, are designated "Ex. #" and "Ex. #, Doc. #", respectively. Other abbreviations used in this document are designated in the text.

Finally, FPL refers to the Georgia Power Company ("GPC") and the Southern Companies (defined in Ex. 13, Doc. 2), interchangeably throughout this Brief.

## PART I - STATEMENT OF THE CASE

### A. AN OVERVIEW OF FPL's PETITION AND PROCEDURAL HISTORY OF THE DOCKET

On September 28, 1990, FPL filed its Petition for Inclusion of the Scherer Unit No. 4 Purchase in Rate Base, Including an Acquisition Adjustment. In its petition, FPL stated that it had executed a letter of intent with GPC and the Southern Companies on July 31, 1990 ("letter of intent") to purchase 76.36% of Unit No. 4 of the Robert W. Scherer Generating Plant ("Scherer Unit No. 4") from GPC.[1/] Scherer Unit No. 4 is located in Monroe County, Georgia.

The letter of intent reflects that FPL will pay GPC $615,504,000 for its portion of Scherer Unit No. 4 pursuant to the following schedule:

| Closing Date | Ownership Percentages | Estimated Payments |
|---|---|---|
| January 1, 1991[2/] | 17.73 | $147,900,000 |
| June 1, 1993 | 31.44 | 252,434,000 |
| June 1, 1994 | 16.55 | 131,740,000 |
| June 1, 1995 | 10.64 | 83,430,000 |
| Total | 76.36 | $615,504,000 |

---

1/ The Jacksonville Electric Authority ("JEA") also executed the letter of intent and intends to purchase the remaining 23.64% of Scherer Unit No. 4 from GPC.

On September 13, 1990, GPC and the Southern Companies sent FPL and JEA a letter supplementing the letter of intent (Ex. 3), and on December 10, 1990, the parties executed an agreement further supplementing the original letter of intent (Ex. 2).

2/ The letter of intent provides that if FPL does not obtain the Commission's approval of this transaction before January 1, 1991, the initial closing can be deferred to a later date -- but the Commission's approval cannot by itself delay the closing to a date later than June 30, 1991.

The purchase price of $615,504,000 (or approximately $953 per kilowatt based on a net dependable capacity of 646 MW for FPL's share of the unit) exceeds the depreciated original cost for FPL's portion of Scherer Unit No. 4 by $111,362,307 ("the acquisition adjustment").

The purpose of FPL's petition is to obtain the Commission's prior approval to include the entire actual purchase price of FPL's portion of Scherer Unit No. 4, including the acquisition adjustment, in the Company's rate base as FPL pays the installment payments identified above. (FPL did not petition for and does not seek at this time to change any rates or charges to its customers.) In support of its petition, FPL stated that its proposed purchase of a portion of Scherer Unit No. 4: (1) is a reasonable and prudent investment necessary to enable FPL to meet its forecast 1996 system load requirements; (2) will provide a reliable source of power to FPL and its customers; and (3) provides substantial benefits to FPL's customers.

FPL also requested expedited consideration of its petition because the letter of intent calls for Commission approval of FPL's proposed purchase of a portion of Scherer Unit No. 4 as a condition precedent to the closing of the proposed transaction. To facilitate the Company's request for expedited consideration of its petition, FPL incorporated in its petition the prepared written testimony of its witnesses in support of the relief requested. Thereafter, the Office of Public Counsel ("Public Counsel"), Nassau Power Corporation ("Nassau"), the

Coalition of Local Governments ("CLG") and the Florida Municipal Power Agency ("FMPA") intervened in this docket.

Public Counsel, CLG and the Commission Staff all served extensive written discovery requests on FPL. These parties, as well as Nassau, also deposed FPL's witnesses and personnel of GPC and the Southern Company Services, Inc. On December 11-13, 1990, the Commission held hearings in this proceeding. In total, ten witnesses testified at the hearings and 38 exhibits were admitted into the record.

B. SUMMARY OF FPL'S POSITION

FPL has demonstrated that purchasing a share of Scherer Unit No. 4 is the most cost-effective way FPL can meet its 1996 load requirements. To determine that the Scherer purchase is the most cost-effective alternative available, FPL has compared the purchase to the three available types of supply-side alternatives: purchased power, qualifying facilities, and construction of a new FPL-owned unit.

FPL has chosen for comparison representative, cost-effective examples of each of these three types of supply-side alternatives. For purchased power, FPL chose the Southern Companies' Scherer UPS bid, which was the clear winner of FPL's recent capacity RFP process. For qualifying facilities, FPL chose the standard offer available to qualifying facilities, both with and without a discount on payments to reflect risk. Finally, FPL chose the Martin Unit Nos. 5 and 6 integrated coal gasification combined cycle ("IGCC") facility, which has been previously identified as the most cost-effective form of new generating capacity FPL could build for itself. The alternatives were compared by calculating the present value of revenue requirements ("PVRR") for each alternative, which reflects the capital costs as well as the non-fuel operating and maintenance costs and the fuel costs for each alternative, together with the impact of that alternative on system operating costs. This is the same form of economic analysis FPL regularly uses in its capacity planning process, and it has been presented to the Commission in numerous planning hearings and need-determination proceedings.

Mr. Waters' Document No. 10 (Ex. 18) shows that the total PVRR for the standard offers and for the Martin IGCC are higher by several hundred million dollars than the PVRR for the Scherer purchase. The only alternative that has a PVRR reasonably close to the Scherer purchase is the Scherer UPS bid. Document No. 10 shows that the Scherer UPS bid has a PVRR about $15 million higher than the PVRR for the Scherer purchase (this was revised to about $6 - 7 million during the hearings, based on the December 10, 1990 supplement to the letter of intent).

This small difference in PVRR between the Scherer purchase and Scherer UPS alternatives greatly understates the benefits of the Scherer purchase, however. The PVRR analysis shown on Document No. 10 does not take into account the cost of $SO_2$ emission credits that will be needed to operate units in the Southern Companies system under the recent Clean Air Act Amendments. When this cost is included, the Scherer purchase is about $120 - 130 million less expensive in PVRR terms than the

Scherer UPS alternative. The Scherer purchase also is unique among the available alternatives in making capacity available in 1991 to support the Turkey Point Nuclear Station outages that are necessitated by the emergency power system upgrade, and in giving FPL flexibility over the next few years to respond to changes in load conditions and/or construction requirements. Finally, but very importantly, the Scherer purchase has facilitated resolution of the FPL-JEA allocation of the 500 kV transmission line interface between Florida and Georgia and also will facilitate a much-needed expansion of that interface. Expansion of those facilities will improve the reliability of FPL's system and provide additional opportunities for economy purchases and sales, not only to FPL, but to the entire state.

By demonstrating the foregoing, FPL has proved that its proposed purchase of 76.36% of Scherer Unit No. 4 is a reasonable and prudent investment that will provide significant short-term and long-term benefits to its customers. Considering the purchase price of the unit, the associated costs, as well as the overall benefits FPL and its customers will receive pursuant to this purchase, the proposed purchase of a portion of Scherer Unit No. 4 by FPL is unquestionably the best option available to FPL and its customers to meet their energy needs. For these reasons, and because this unique opportunity is not available to FPL indefinitely, the Commission should authorize the inclusion of the total actual purchase price in the Company's rate base, as the installments of that purchase price are paid by FPL.

## PART II - GENERAL POINTS

### A. THE COMMISSION SHOULD APPROVE THE INCLUSION OF THE TOTAL PURCHASE PRICE OF SCHERER UNIT NO. 4 IN FPL'S RATE BASE (ISSUE NO. 17)

#### 1. The Relief Requested

The Company is asking the Commission to authorize FPL to include the entire purchase price of its portion of Scherer Unit No. 4 in the Company's rate base, as the installments of that purchase price are paid by FPL. Tr. 14 (Woody). In conjunction with this request, FPL is asking that the Commission allow appropriate rate-making treatment of the plant acquisition adjustment -- that is, inclusion of the acquisition adjustment in rate base and amortization of the acquisition adjustment above the line. Tr. 20 (Woody). The Commission has the statutory authority to, and FPL submits that the Commission should, grant FPL the relief requested by making a finding of fact that FPL's proposed purchase of a portion of Scherer Unit No. 4 is a reasonable and prudent investment.

#### 2. The Purchase of a Share of Scherer Unit No. 4 Is a Reasonable and Prudent Investment

The Commission should grant FPL's petition because of the reliable and substantial record evidence that: (1) FPL has a need for additional capacity (Tr. 170 (Denis), 466-70 (Waters)); (2) the proposed purchase by FPL was negotiated at arm's-length (Tr. 90, 92 (Woody), 299-300 (Cepero), 651-52 (Gower)); (3) the purchase price is reasonable (Tr. 299-300 (Cepero), 651-52 (Gower)); and (4) the proposed purchase by FPL is the most cost-effective alternative and can be expected to provide the greatest overall benefits to FPL's customers of all the options available to FPL (Tr. 21 (Woody), 470-77 (Waters); Ex. 36).

The benefits which the purchase of Scherer Unit No. 4 will provide FPL and its customers include: economic savings in comparison to other alternatives (Tr. 470-72 (Waters), Ex. 36); ownership and use of a power plant unit for a period of time greater than thirty years (Tr. 24 (Woody), 311 (Cepero), 1044 (Waters)); expansion of the Southern Companies/Florida transmission interface (Tr. 298 (Cepero)); improved diversification of fuel mix (Tr. 474 (Waters)); enhancement of the reliability and integrity of FPL's electric system (Tr. 16-17 (Woody), 475-76 (Waters)); ownership of a unit with demonstrated performance and identified costs (Tr. 476 (Waters)); acquisition of valuable Clean Air Act emission credits (Tr. 297 (Cepero)); and the ability to meet short-term capacity needs (Tr. 475 (Waters)). It is unrefuted that no other alternative offers all these benefits to FPL and its customers.

For these reasons, the purchase of Scherer Unit No. 4 is a reasonable and prudent investment.

### 3. The Commission Should Approve Rate Base Treatment of the Acquisition Adjustment on a Pro Rata Basis Consistent with the Phased Purchase of the Unit (Issue No. 1)

FPL's proposed accounting for the Scherer Unit No. 4 purchase, including its treatment of the plant acquisition adjustment, complies with generally accepted accounting principles and the Uniform System of Accounts. Tr. 641-42

(Gower). Moreover, FPL's proposal to include its total investment in the unit, both the original cost to GPC and the plant acquisition adjustment, in rate base, and to include the depreciation and amortization of the acquisition adjustment above the line as an operating expense comports with sound ratemaking practices, is reasonable and should be approved by the Commission. Tr. 642 (Gower).

Both generally accepted accounting principles and the Uniform System of Accounts require FPL to capitalize the total purchase price on its books and records. Tr. 645-64 (Gower). Additionally, the Uniform System of Accounts requires that the total cost of the purchase be split between the original cost of the plant to the seller and the plant acquisition adjustment. Tr. 646 (Gower). The plant acquisition adjustment is simply the difference between the purchase price and the original cost less depreciation reflected on the books of the selling utility. Id.

The amount of the plant acquisition adjustment which is expected to result from this transaction was calculated to be $111,362,307. Ex. 28. FPL is requesting Commission approval to amortize the plant acquisition adjustment to Account 406, which is an above-the-line account. Tr. 652-53 (Gower).

The genesis of the requirement in the Uniform System of Accounts to segregate the purchase cost between original cost and plant acquisition adjustment goes back to the late 19th century and early part of the 20th century when a number of concerns arose because of transactions between affiliates involving transfers of utility assets that were made at inflated values. Tr. 650-51 (Gower). To protect ratepayers, commissions across the country adopted this accounting practice. Tr. 651 (Gower).

Those concerns do not exist with respect to this transaction. Tr. 651 (Gower). There is no affiliation between FPL and GPC. The Scherer Unit No. 4 purchase was selected, as FPL's witnesses have testified, as being the best choice among a number of alternatives that were being considered at the time. Finally, FPL and GPC engaged in extensive arm's-length negotiations to arrive at the purchase price. Tr. 651-52 (Gower).

Designation of an amount as a "plant acquisition adjustment" creates a regulatory and financial risk to the utility because of the historical practice of excluding plant acquisition adjustments from rate base and the amortization from operating expenses. Tr. 666 (Gower). The risk exists in this case only because GPC is another public utility company. Tr. 666-67 (Gower). That distinction should not control the accounting treatment here.

As Mr. Gower stated, the regulatory policy of allowing a return of, and a return on, total investment ought to be based on common-sense analysis of the facts and the cost and benefits of the particular transaction, not based on historical regulatory concerns that are not relevant to this transaction. Tr. 667.

Utilities ought to be allowed to recover their investment and earn a reasonable return on it when the investment is reasonable and prudent. Tr. 654 (Gower). Costs in excess of original costs should be free from questions of propriety and prudence where the costs arise from an arm's-length transaction. Id. Although the Uniform System of Accounts requires a segregation of costs in excess of original cost, management is accountable for the entire cost of the plant, and the prudence of investing in that plant does not depend simply on what the "original cost" was to the selling company. Id.

As demonstrated in Part II(A)(2) above, the record evidence is clear that FPL's proposed purchase of Scherer Unit No. 4 is a reasonable and prudent investment. There is a need for the facility, and its purchase is a choice which provides a number of customer benefits not otherwise available. There is no logical reason to delay approving, or to disallow, inclusion of the acquisition adjustment in rate base as the various closings occur.

Good regulatory policy ought to encourage utility managers to make decisions that produce adequate service, at the lowest long-run cost, and that produce a reasonable return to investors. Tr. 655 (Gower). That policy needs to be clear and evenly administered because of the very long planning horizon within which utilities have to operate. Tr. 655-56 (Gower).

The Commission cannot reasonably wait on all the facts to develop before making a decision. Utility companies have to put facilities in place to meet future customer needs, and that requires planning horizons of very long periods of time. Tr.

668 (Gower). Moreover, it is important for the Commission to encourage utilities to make those decisions properly. If there is a risk of an after-the-fact determination by the Commission not to allow utilities to recover the cost of these investments, then utilities will be encouraged to make short-run decisions that may not be in the best interests of their customers. Id.

Although FPL is unaware of any case which has dealt with an acquisition adjustment of this magnitude, regulators have indicated a willingness to permit recovery of and return on acquisition adjustments where those investments produced the greatest benefits to the customers. Tr. 657-59 (Gower). The precedent of those cases is relevant to this situation.

The record evidence presented in this docket clearly demonstrates that there is a need for the capacity. The transaction results from arms's-length negotiation and the price is reasonable. There are economic and other significant benefits, both quantified and nonquantified, that are unmatched by any other alternative. Furthermore, of all the alternatives discussed, the Scherer purchase has the least risks of uncertainty. See Part II(C), infra. There is no risk of unexpected licensing costs and construction costs, and there is a lower risk of unexpected operation costs. These reasons clearly justify approval of FPL's request in this docket.

4. FPL Needs the Commission's Approval to Proceed with the Scherer Purchase

It is critical to FPL that it obtain the relief requested from the Commission without delay. As FPL's witnesses testified at the hearings in this proceeding, FPL has before it right now an opportunity to purchase a portion of Scherer Unit No. 4 that will satisfy its future energy needs and will provide its customers with the greatest overall benefits of all comparable alternatives. Tr. 21 (Woody), 470-77 (Waters). However, as Mr. Woody and Mr. Cepero testified, this window of opportunity is not open indefinitely. Tr. 19-20, 117 (Woody), 305 (Cepero). Indeed, FPL may lose the opportunity to purchase Scherer Unit No. 4 from GPC if it fails to get the Commission's authorization to include the entire purchase price in its rate base. Id. The risk of proceeding without the Commission's approval is far too great. Tr. 669 (Gower).

### 5. It Would Be Inappropriate to Limit FPL's Recovery of Its Capital Investment and Return on Capital Investment (Issue No. 18)

Public Counsel's witness, Mr. Wright, proposed that the Commission limit FPL's recovery of its capital investment in the unit and associated transmission facilities to the "estimated" initial capital investment. Tr. 793-42. He also proposed that FPL's return on the invested capital be limited to current "estimated" capital costs. This proposed treatment of FPL's purchase of Scherer Unit No. 4 is inappropriate and not in the best interests of FPL's customers for the following reasons.

If the Commission were to impose such limitations on FPL, the Company's investors would unfairly have to absorb any actual costs in excess of the current estimates. Conversely, if actual costs were lower than estimated, the ratepayers would unfairly pay more than the true cost of the unit.

Imposing such limitations on FPL would create a level of financial risk which is totally inconsistent with cost-based rate regulation. The cost of this financial risk would render the proposed purchase of Scherer Unit No. 4 unacceptable. Tr. 1118 (Gower). Under cost-based rate regulation, utilities have an opportunity to recover the actual costs of their capital investments and operating expenses. Tr. 1119 (Gower). In return, utilities' investors accept lower returns on their capital than would be required for competitive enterprises due, in part, to the reduced risk. Id. In other words, utilities' customers bear a large part of the risk of cost increases resulting from a variety of causes but, in return, benefit from lower current prices for the service they receive. Id. Adopting Mr. Wright's proposed limitation -- a significant departure from the existing arrangement, which provides mutual benefit to both customers and investors -- would be analogous to requiring FPL to enter into a long-term firm fixed price contract, which would be considerably more risky than cost-based regulation. Tr. 1119-20 (Gower). It would increase the risk to utilities by creating a need to forecast for thirty years or more any additional capital investments in the unit to comply with unforeseeable regulation or to improve or maintain the plant's performance. Tr. 1120 (Gower). Likewise, the utilities would need to forecast long term capital cost rates for the same period of time. Id. As stated by Mr. Gower:

> Even the boldest forecaster-investor would likely insist upon a risk premium far beyond that inherent in the 14.5% equity capital cost rate used for planning purposes currently. Absent a sufficient risk premium, the transaction subject to Mr. Wright's proposed limitations would be unacceptable to a prudent investor; with such a risk premium, the cost of service would be unacceptable to customers (Tr. 1120).

Limiting FPL's recovery of its investment in Scherer Unit No. 4 in the manner proposed by Mr. Wright would create a strong bias against long-run decisions necessary to meet customers' needs at the lowest cost. Tr. 1119 (Gower). Mr. Wright's proposal would encourage utilities to avoid long-run decisions because of the inherent fear that they will be penalized for changes in planning estimates -- even those changes which are beyond the utilities' control. Tr. 1121 (Gower).

In summary, Mr. Wright's proposal must be rejected by the Commission because it would create financial risks that are undesirable, bias utility planning decisions against long-run decisions and not serve the best interests of FPL's customers and investors. Tr. 1123 (Gower). The Commission should approve FPL's petition in this case because FPL's proposed investment decision is based on reliable data. Tr. 1121-22 (Gower).

## B. THE COMMISSION ADEQUATELY PROTECTED THE PARTIES' RIGHTS AND INTERESTS

> Even the boldest forecaster-investor would likely insist upon a risk premium far beyond that inherent in the 14.5% equity capital cost rate used for planning purposes currently. Absent a sufficient risk premium, the transaction subject to Mr. Wright's proposed limitations would be unacceptable to a prudent investor; with such a risk premium, the cost of service would be unacceptable to customers (Tr. 1120).

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In summary, Mr. Wright's proposal must be rejected by the Commission because it would create financial risks that are undesirable, bias utility planning decisions against long-run decisions and not serve the best interests of FPL's customers and investors. Tr. 1123 (Gower). The Commission should approve FPL's petition in this case because FPL's proposed investment decision is based on reliable data. Tr. 1121-22 (Gower).

B. THE COMMISSION ADEQUATELY PROTECTED <u>THE PARTIES' RIGHTS AND INTERESTS</u>

The procedure followed by the Commission in this docket adequately protected all the parties' rights and interests. The other parties' complaints about the compressed schedule and "surprise" evidence are simply not justified.

To facilitate its request for expedited consideration of its petition, FPL incorporated in its petition the prepared written testimony of its witnesses in support of the relief requested. Thereafter, the other parties had more than ten (10) weeks to review the Company's testimony and prepare for the hearings in this proceeding.

The other parties also engaged in extensive written discovery to which FPL provided expedited responses. In total, including subparts, the other parties served 153 interrogatories and 26 requests to produce document on FPL. Every single discovery request was responded to by FPL prior to the beginning of the hearings, in most cases well before the due date for serving responses. In addition to the written discovery requests, the other parties deposed FPL witnesses Mr. Cepero, Mr. Denis, Mr. Waters and Mr. Silva, Mr. Williams from GPC and Mr. Marshall from the Southern Company Services, Inc. The transcripts of these depositions were all available before the hearings began.

It is also not justified for the intervenors to claim that FPL attempted to buttress its arguments with "surprise" evidence that the intervenors had no opportunity to evaluate. All the Company's exhibits presented at the hearings were either discovery responses, derived from discovery responses, or prepared and produced in response to requests from the other parties or Commissioners.

Of particular concern to FPL were the suggestions that FPL acted improperly in revising its analysis of the Scherer

Unit No. 4 purchase option by including in its comparative analysis the estimated economic value of the sulphur dioxide emission credits that will be allocated to Scherer Unit No. 4 under the Clean Air Act Amendments ("SO2 credits" or "emission credits"). Tr. 1017, 1019-22 (Howe). This allegation is unfounded because Mr. Waters' inclusion of the emission credits in his economic analysis of the alternatives certainly did not constitute "new" evidence.

Mr. Waters quantified the estimated economic value of the SO2 credits, and the impact of this value on his comparison of alternatives, in late-filed Exhibit No. 9 to his deposition. Moreover, the Staff explicitly asked Mr. Waters during cross-examination at the hearing to provide them with a document -- admitted into evidence as Exhibit No. 35 -- that quantified the estimated value of the emission credits. Mr. Waters' late-filed deposition exhibit was provided as the response to the Staff's request.[3/]

Aside from the information contained in Exhibit No. 36, Mr. Woody, Mr. Cepero and Mr. Waters all stated in their

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3/ The information contained in Exhibit No. 35 is also contained in Exhibit No. 36 which is a summary of sixteen alternatives considered by FPL in its cost-effectiveness analysis performed in this docket. Since FPL refers to Exhibit No. 36 on numerous occasions throughout this Brief, it has attached a copy of that exhibit as Appendix I. Please note, however, that the alternatives listed on Exhibit No. 36 are numbered on the extreme left side of the document in Appendix I to facilitate reference to the alternatives contained in that document. The alternatives are not numbered on Exhibit No. 36 as it was admitted into the record.

pre-filed direct testimony that FPL's acquisition of emission credits as part of the Scherer Unit No. 4 purchase is a significant benefit to FPL in that transaction. Tr. 17-18 (Woody), 297 (Cepero), 472 (Waters). Public Counsel's own witnesses referred to the emission credits issue. Tr. 736 (Wright), 856-57, 877-78 (Bartels). During the hearings, there was extensive discussion of the impact of the amendments to the Clean Air Act on the proposed purchase. Public Counsel had questions concerning the estimated value of the emission credits before Mr. Waters quantified and included the estimated value of these credits in his analysis. Tr. 24, 27-28 (Woody), 268-77 (Denis), 311, 327-29, 348-50, 393-94 (Cepero), 622-23 (Waters), 707 (Gower) and 877-78 (Bartels). And finally, the amendments to the Clean Air Act were not even passed until after FPL filed its pre-filed testimony and petition. It is totally without merit, therefore, for any intervenor to suggest that FPL surprised the Commission and intervenors with new evidence on the final day of the hearings that prejudiced the intervenors and that should not be considered by the Commission.

The most important point in this docket is that the Commission must make the right decision for FPL's customers. They are the people whose rights and interests need to be protected. It would be a disservice to the ratepayers if the Commission ignored substantive evidence of the benefits of purchasing Scherer Unit No. 4 -- particularly if ignoring such evidence led, perhaps, to FPL choosing a more costly and less beneficial alternative for its customers. Any evidence, therefore, that makes it clear that the purchase of Scherer Unit No. 4 will provide FPL's customers with the greatest benefits should be considered by the Commission in evaluating the alternatives.

C. FPL PRESENTED RELIABLE EVIDENCE THAT ITS PROPOSED PURCHASE OF A PORTION OF SCHERER UNIT NO. 4 IS A REASONABLE AND PRUDENT INVESTMENT AND WARRANTS APPROPRIATE RATE-MAKING TREATMENT

In reviewing FPL's proposed purchase of a share of Scherer Unit No. 4, the Commission has had before it information about the unit that is certain, accurate and reliable. There is absolutely no merit to the intervenors' argument that the Commission should not approve FPL's petition until all the definitive agreements are executed because of uncertainty over the costs created by the lack of final, executed agreements at the time of hearing. Tr. 729-33 (Wright), 858 (Bartels). In fact, FPL presented adequate reliable evidence for the Commission to make informed decisions regarding FPL's request. The Commission should feel extremely comfortable in allowing appropriate rate-making treatment of the purchase price, including the acquisition adjustment, of Scherer Unit No. 4 based on the record evidence in this docket.

The Scherer Unit. No. 4 data is for a constructed unit with a demonstrated history of reliable operation, heat rate and environmental operation. Tr. 17 (Woody), 303-04 (Cepero), 473 (Waters). Its operational history also provides a reliable basis to estimate the performance characteristics of the unit and to project fuel and operation and maintenance ("O&M")

costs. Tr. 978 (Waters). Moreover, Scherer Unit No. 4 is a sister unit to several other units at the same site that have proven track records. Tr. 473 (Waters).

In this docket, FPL: (1) testified with certainty that it will pay $615,504,000 for the unit, an amount that will not change except possibly for only a minor adjustment to reflect actual inventories at the time of each closing (Tr. 309-10 (Cepero); Ex. 2); (2) provided reliable estimates of the O&M costs for the unit (Ex. 18, Doc. 6); and (3) provided reliable estimates of transmission and fuel costs (Ex. 13, Doc. 2, p. 15; Ex. 18, Doc. 2, p. 1).

In addition to this specific information pertinent to Scherer Unit No. 4, FPL provided evidence of FPL's generation expansion plan, significant information on all underlying assumptions used by FPL in its various analyses (e.g., 1989 load forecast, fuel forecast, demand side management measures, financial assumptions and FPL's avoided unit assumptions) and extensive data relating to the comparison performed by FPL of the economics of the Scherer purchase to other alternatives available to FPL. Tr. 459-77 (Waters); Ex. 18, Docs. 1-10.

The certainty, accuracy and reliability of the record data concerning FPL's proposed purchase of a portion of Scherer Unit No. 4, and the data concerning the alternatives to the purchase option, is superior to the information normally available to the Commission in need-determination proceedings. There, the Commission is required first to evaluate all alternatives based on the estimated construction costs, estimated O & M costs and estimated fuel costs of the various alternatives. The Commission then approves one alternative based on the estimated data. Indeed, only recently, the Commission evaluated alternatives in FPL's need determination hearing for Martin Units No. 3 and 4 and the Ft. Lauderdale Repowering based on such information.

After the Commission approves a particular alternative in a need-determination proceeding, the utility constructs the unit and then, post-construction, must come back to the Commission for permission to include the actual cost of the investment in rate base. In this regard, it cannot reasonably be disputed that actual construction costs to build a power plant often exceed, in some cases by significant amounts, budgeted and estimated costs.

In this proceeding, the Commission is faced with having to make the same decision it makes in a need-determination proceeding: which of the alternatives is the most cost-effective alternative available to FPL to meet its future energy needs? But there is also a critical difference between this docket and a need-determination proceeding. Here, the best alternative is based on information that is largely fixed. The purchase price of this already-constructed unit is certain. Moreover, with regard to O&M costs, there is an operational history that provides a reliable basis for estimating these costs in the future -- more reliable than projecting O&M costs for a power plant that is not even sited, much less operating.

For the above reasons, there is no need for the Commission to wait until some future date to approve inclusion of FPL's capital investment in this project in rate base. Purchasing Scherer Unit No. 4 is the most cost-effective alternative; the total purchase price for the unit is fixed; and the amount and date of the installment payments are also known. Consequently, FPL submits that the record evidence clearly supports a decision to authorize FPL to include the total purchase price of Scherer Unit No. 4 in rate base as the installments of that purchase price are paid by FPL.[4/]

D. ACQUISITION OF EMISSION CREDITS IS A SIGNIFICANT ECONOMIC BENEFIT ACCOMPANYING FPL'S PROPOSED PURCHASE OF A PORTION OF SCHERER UNIT NO. 4

FPL successfully negotiated as part of the purchase price of Scherer Unit No. 4 that it will acquire its share of the total amount of SO2 or emission credits allocated to the unit under the amendments to the Clean Air Act -- that is, an estimated 20,746 tons of the total annual emission credits allocated to the unit. Tr. 269 (Denis), 1000 (Waters). These credits, once allocated to Scherer Unit No. 4 using the Clean Air Act formula, can be used by the owner utility anywhere on its system. Tr. 1006 (Waters). Their application is not limited to Scherer Unit No. 4.

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4/ FPL would like to make clear that it is not asking the Commission to forego review of the level of actual expenses and capital expenditures incurred in connection with purchasing and operating Scherer Unit No. 4. The Commission has the authority to subject the level of expenses and capital expenditures to its normal regulatory oversight.

The argument that FPL's acquisition of these emission credits is not a benefit of the Scherer purchase option over the Scherer UPS option is incorrect. Under a UPS arrangement, FPL will have to "lease" from the Southern Companies the emission credits that the Southern Companies will necessarily have to buy in order to operate Scherer Unit No. 4. And although the exact value of the emission credits cannot be determined precisely, it is clear that they will have a significant value.

The reason why FPL will have to pay for emission credits under a UPS agreement can be explained as follows: While it is true that Scherer Unit No. 4 and other Southern Companies units will receive a certain quantity of "free" emission credits by operation of law under the amended Clean Air Act, the Southern Companies will not receive sufficient "free" credits for all its system units to operate at capacity factor levels required to meet system energy requirements. Tr. 349 (Cepero); Ex. 15, p. 5. This would be true even if they provided no energy to FPL.

As a result, the Southern Companies will have to purchase on the market whatever quantity of additional emission credits are necessary to operate Scherer Unit No. 4 at the 90% capacity level called for by the UPS proposal. Federal law prohibits the unit from operating unless the Southern Companies have purchased the necessary emission credits.

It is the cost of these additional emission credits for which FPL can expect to pay under a UPS agreement. After all, it is unrefuted that GPC considers these emission credits to be a valuable system asset (Tr. 393-94 (Cepero)) and there is no reasonable basis for FPL to expect that the Southern Companies will "lease" the emission credits needed to run Scherer Unit No. 4 to FPL at no cost under a UPS agreement. Tr. 1008-09 (Waters).

Given the fact that FPL will acquire approximately 21,000 tons of annual emission credits as part of the purchase price of its portion of Scherer Unit No. 4 and that FPL can expect to have to pay for emission credits under a UPS agreement, it is clearly reasonable and prudent for the Commission to consider in reaching its decision the cost of "renting" those emission credits under the UPS agreement -- a cost which FPL will avoid if it purchases Scherer Unit No. 4.

Exhibit No. 36 reflects FPL's estimated value of this avoided cost and the effect of this avoided cost on the comparison of the Scherer purchase option to the Scherer UPS option. The methodology used to obtain the figures in Exhibit No. 36 can be described as follows:

First, without considering the value or cost of any emission credits, FPL's analysis in Mr. Waters' Document No. 10 (Ex. 18) shows that the Scherer purchase option produces approximately $15 million more savings in present value revenue requirements ("PVRR") than the Scherer UPS option. Tr. 471-72 (Waters); Ex. 18, Doc. 10. This $15 million is the difference between alternatives 1 and 2 of Exhibit No. 36, column 3.[5/]

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5/ This $15 million was reflected in Mr. Waters' prefiled testimony and prefiled Document No. 10 (Ex. 18). At the hearings, he submitted a new document (Ex. 22) showing an adjustment to the $15 million figure, reducing it to approximately $6.8 million. The adjustment reflected changes due to the agreement supplementing the letter of intent, dated (Footnote continued on next page.)

Second, using an estimated cost of $700 per ton of credits, FPL determined that it would have to pay approximately $131 million in PVRR under the UPS option to purchase or lease the emission credits necessary to meet the 90% capacity factor specified in the UPS proposal. Tr. 1012 (Waters); Ex. 36. (The $700 per ton cost estimate is a conservative estimate since the Environmental Protection Agency ("EPA") projects that the cost will be $1,500 per ton of credits. Tr. 1047 (Waters)). This $131 million is the difference between alternatives 2 and 15 on Exhibit No. 36, column 3. Again, this $131 million represents a cost which FPL will avoid by purchasing Scherer Unit No. 4.

Third, since the $131 million represents an additional benefit to the purchase option, it was added to the $15 million described above causing the purchase option to now be the more favorable option by a total of $146 million.

Fourth, FPL needed to account for the fact that it would have to purchase additional emission credits under the purchase option to operate Scherer Unit No. 4 at an 85% capacity factor, because under the purchase option FPL will only acquire the value of the emission credits necessary for Scherer Unit No. 4 to operate at a 72% capacity factor. Tr. 1012 (Waters). Using the same estimated cost of $700 per ton, FPL estimated the cost of these additional credits to be $18 million in PVRR. Tr.

(Footnote continued from previous page.) December 10, 1990 (Ex. 2). However, because of the time frame, Exhibit No. 36 did not reflect the adjustment to Mr. Waters' Document No. 10 (Ex. 18). For purposes of illustrating the calculations, FPL will refer to the $15 million difference originally indicated in Document No. 10 (Ex. 18) and Exhibit 36.

1012 (Waters); Ex. 36. This $18 million is the difference between alternatives 1 and 14 of Exhibit No. 36, column 3. Since this $18 million represents an additional cost to FPL under the purchase option, it was deducted from the $146 million, resulting in an overall savings to FPL and its customers of $128 million in PVRR if FPL purchases Scherer Unit No. 4 as opposed to leasing it under a UPS agreement. (The $128 million is the difference between alternatives 14 and 15 of Exhibit No. 36, column 3, and is reflected in column 4 of alternative 15.)

There can be no doubt, therefore, that acquiring these emission credits as part of the deal to purchase Scherer Unit No. 4 represents a significant economic benefit to FPL that the Commission must consider in evaluating whether purchasing a portion of Scherer Unit No. 4 is a reasonable and prudent investment, and the best alternative. Moreover, the benefit calculated above is only for the thirty-year analysis period. FPL will continue to own and benefit from the credits in perpetuity thereafter. Tr. 991-92 (Waters).

Admittedly, the UPS proposal submitted by GPC neither included or excluded the estimated value of the emission credits in the quoted cost of energy. For the reasons stated above, however, it would be poor management on the part of FPL not to expect to have to compensate GPC for its emission credits under a UPS agreement. Tr. 1008-09 (discussion between Chairman Wilson and Waters).

FPL also acknowledges that the value of these emission credits is not fixed. Their value will be subject to what the market will pay for them. However, it cannot be disputed that the credits will have some value until technological advances or unforeseen circumstances cause alternative sources of energy to be less expensive than purchasing emission credits. Tr. 1016-17 (discussion between Chairman Wilson and Waters). And it was because of this possibility that FPL used a conservative cost estimate of $700 per ton in assessing the value of the SO2 credits. In contrast, and as previously noted, EPA has estimated the price for credits will be $1,500 per ton. Tr. 1047 (Waters).

E. ENERGY DELIVERED TO FPL'S LOAD CENTER FROM FPL'S SHARE OF SCHERER UNIT NO. 4 WILL BE LESS EXPENSIVE THAN ENERGY FROM THE OTHER SUPPLY-SIDE ALTERNATIVES.

During the course of the hearing, Chairman Wilson inquired of FPL's witness Mr. Waters about the cost for electricity delivered to FPL's load center by the various supply-side alternatives under consideration. Tr. 625, 1038-40. FPL believes that such a comparison would be most useful on a cost per kWh basis. Information on the cost per kWh for the alternatives was not provided at the hearing, but may be derived through simple arithmetic from record evidence on costs and output of the alternatives.

Appendix II of this Brief is a series of spreadsheets on which the cost per kWh by year for the Scherer Unit No. 4 purchase, the Scherer UPS bid, the Martin IGCC facility, and the qualifying facility standard offer (with and without risk factor

From these figures, one can see that the Scherer purchase will be cheaper per kWh of output than any other option for virtually every year of the analysis period (only the first four years of the discounted standard offer have a lower cost, and that alternative turns around dramatically to be about twice as expensive by the end of the analysis period). This is so even though the cost of SO2 credits, discussed above, is not reflected in the unit costs shown on Appendix II. While FPL wishes to reemphasize that the most analytically comprehensive comparison of the alternatives is the total PVRR of system operating cost (shown on, e.g., Exhibit 36), the foregoing makes it clear that the Scherer purchase compares very favorably on a unit cost basis as well.

## PART III - SPECIFIC ISSUES

1. **ISSUE:** Should the difference between FPL's purchase price and Georgia Power's net original cost of Scherer Unit 4 be given rate base treatment as an acquisition adjustment on a pro rata basis consistent with the phased purchase of the unit?

   **POSITION:** Yes, because FPL has shown (1) that its proposed purchase of the Scherer Unit No. 4 is necessary and useful for FPL to provide reliable service to its customers, and (2) that the acquisition of the unit will provide FPL's customers with the greatest benefits of all the available alternatives.

### DISCUSSION

FPL's support for its position on this issue was discussed in detail as a general point in Part II(A)(3) of this Brief.

The other parties did not directly address this issue but argued, instead, that FPL's petition should be denied without addressing how the Commission should deal with the acquisition adjustment. In Parts II(B)-(E) of this Brief, FPL explains why the other parties' arguments have no merit.

2. <u>ISSUE:</u> Does FPL, as an individual utility interconnected with the statewide grid, exhibit a need for the additional capacity provided by Scherer Unit 4?

<u>POSITION</u>: Yes, it does.

<u>DISCUSSION</u>

FPL uses two reliability criteria for system planning: a summer peak reserve margin of at least 15% and a maximum loss-of-load probability of .1 day/year. Tr. 464 (Waters). FPL needs approximately 5,400 MW of resources to satisfy these criteria and to meet its projected demand through 1997. Tr. 466 (Waters). The current base expansion plan to meet this need comprises a mix of demand side management programs, qualifying facilities, purchased power and new generating capacity. <u>Id.</u> Contracted and approved resources within this mix total about 4,100 MW, leaving about 1,300 MW of resource needs to be filled by 1997. Tr. 467 (Waters). Of that 1,300 MW, FPL expects about 600 MW to be met with additional qualifying facilities. Tr. 468 (Waters). For the remaining approximately 700 MW of resources, FPL identified a 768 MW integrated coal gasification combined cycle ("IGCC") facility as the most cost-effective available option. <u>Id.</u> The IGCC facility could be phased into a 1995/1996 in-service date to meet both the 1997 need for 800 MW and an earlier (1995) shortfall of about 200 MW that appears in the expansion plan. <u>Id.</u>

The purchase of Scherer Unit No. 4 would essentially substitute for this IGCC facility (i.e., it would defer the first IGCC facility and subsequent facilities so that the effect is equivalent to not building one 646 MW unit). Tr. 470 (Waters); Ex. 18, Doc. 9.

In addition to meeting the long-range needs on FPL's system, purchasing Scherer Unit No. 4 will give FPL access to additional capacity before 1995, when it will be useful in meeting short-term needs. Tr. 17 (Woody). For example, this capacity will help FPL to meet the need created in 1991 by the outages at Turkey Point Nuclear Station for upgrading the emergency power system. Id. Moreover, the gradual increase between 1990 and 1995 in FPL's available capacity resulting from the phased Scherer purchase will give FPL flexibility to respond to changes in load conditions and/or construction requirements, such as the changes in conservation and qualifying facility forecasts that have occurred since FPL presented its expansion plan in Docket Nos. 890973-EI and 890974-EI. Id.; Tr. 468-70 (Waters).

There was essentially no dispute at the hearing over whether the Scherer Unit No. 4 purchase would meet an identified capacity need. Public Counsel's and CLG's witnesses questioned the adequacy of FPL's demand side management actions. However, as discussed under Issue No. 7 below, both of those parties apparently ignored or were unaware of FPL's comprehensive and extensive plan for demand side management, which was recently approved by this Commission.

3. **ISSUE:** Is the capacity to be provided by the purchase of Scherer Unit 4 reasonably consistent with the needs of Peninsular Florida, taking into consideration timing, impacts on the reliability and integrity of the Peninsular Florida grid, cost, fuel diversity and other relevant factors?

**POSITION:** Yes, it is.

**DISCUSSION**

There are several elements to this issue, each of which is addressed elsewhere. The role of the Scherer Unit No. 4 purchase in meeting an identified need for capacity, including the timing of that need, is addressed in Issue Nos. 2, 6, and 7. The impact of the purchase on the reliability and integrity of the grid is addressed in Issue Nos. 10 and 13, and its impact on FPL's system reliability and integrity is addressed in Issue No. 4. Fuel diversity is addressed in Issue No. 5. Finally, the cost-effectiveness of the Scherer purchase is addressed in Issue No. 8.

Only one party -- FMPA -- took a position on this issue that is not explicitly covered by the issues enumerated above. FMPA expressed "concern" in the Prehearing Order that the Scherer purchase "may have adverse effects on the reliability, integrity and utilization of the Peninsular Florida transmission grid." However, FMPA presented no witness and adduced no evidence on cross-examination in support of its position. There is no record basis for FMPA's "concern." To the contrary, the record reflects that the transmission grid will be improved by the expansion of the 500 kV interface, which the Scherer purchase will facilitate. This is discussed in detail in Issue No. 13.

FPL has demonstrated that the Scherer purchase is reasonably consistent with the needs of Peninsular Florida, and there is no evidence to the contrary.

discount) are calculated. The footnotes to each spreadsheet identify the record exhibits from which the information is taken and explain the arithmetic calculations that have been made. Simply stated, each spreadsheet takes the total yearly nominal dollar costs of the alternative reflected on that spreadsheet as the numerator and divides by a denominator representing the yearly output in kWh. This denominator is derived by multiplying the unit's capacity factor for the year in question, times the unit's capacity rating, times the number of hours in the year.

For convenience, the column from each spreadsheet showing the cost per kWh is reproduced below:

| Year | Scherer Purchase | Scherer UPS | IGCC | Std. Offer (No Risk) | Std. Offer (20% Risk) |
|---|---|---|---|---|---|
| 1994 | 4.66 | 5.03 | | | |
| 1995 | 5.01 | 5.10 | | | |
| 1996 | 5.23 | 5.25 | 10.22 | 5.74 | 5.01 |
| 1997 | 6.05 | 6.14 | 10.16 | 6.05 | 5.28 |
| 1998 | 6.04 | 6.23 | 10.09 | 6.39 | 5.58 |
| 1999 | 6.07 | 6.36 | 10.05 | 6.74 | 5.89 |
| 2000 | 6.15 | 6.48 | 10.07 | 7.14 | 6.24 |
| 2001 | 6.27 | 6.62 | 10.11 | 7.50 | 6.55 |
| 2002 | 6.41 | 6.79 | 10.40 | 7.87 | 6.86 |
| 2003 | 6.46 | 6.89 | 10.40 | 8.32 | 7.26 |
| 2004 | 6.60 | 7.04 | 10.59 | 8.80 | 7.68 |
| 2005 | 6.52 | 7.35 | 10.99 | 9.29 | 8.10 |
| 2006 | 6.63 | 7.49 | 10.93 | 9.82 | 8.57 |
| 2007 | 6.73 | 7.82 | 11.31 | 10.39 | 9.07 |
| 2008 | 6.88 | 8.03 | 11.41 | 10.99 | 9.60 |
| 2009 | 7.01 | 8.23 | 11.55 | 11.61 | 10.14 |
| 2010 | 7.24 | 8.47 | 11.75 | 12.29 | 10.74 |
| 2011 | 7.41 | 8.39 | 11.99 | 13.00 | 11.37 |
| 2012 | 7.60 | 8.65 | 12.25 | 13.76 | 12.04 |
| 2013 | 7.78 | 8.88 | 12.54 | 14.55 | 12.73 |
| 2014 | 7.98 | 9.16 | 12.88 | 15.40 | 13.48 |
| 2015 | 8.22 | 9.45 | 13.25 | 16.39 | 14.37 |
| 2016 | 8.50 | 9.77 | 13.68 | 17.38 | 15.24 |
| 2017 | 8.75 | 10.06 | 14.21 | 18.37 | 16.11 |
| 2018 | 9.06 | 10.39 | 14.81 | 19.45 | 17.06 |

4. **ISSUE**: How will the proposed purchase of Scherer Unit 4 affect the reliability and integrity of FPL's electric system?

**POSITION**: FPL's proposed purchase of an undivided share (76.36%) of Scherer Unit No. 4 will allow FPL to continue to meet its system reliability criteria and assure the integrity of FPL's electric system. Moreover, the purchase will help reduce FPL's dependence on oil at an earlier date, provide capacity in 1991 to allow for the upgrade of Turkey Point Nuclear Station emergency power system and increase FPL's capacity gradually, thus increasing FPL's flexibility for responding to changes in load conditions or construction requirements.

## DISCUSSION

The record evidence concerning this issue is unrefuted, and it clearly supports FPL's position that the proposed purchase of a portion of Scherer Unit No. 4 will improve the reliability and integrity of FPL's electric system.

In his direct testimony, Mr. Waters stated that FPL's objective in its planning process is to provide adequate resources to reliably meet its customers' future demand for electric power in a cost-effective manner. Tr. 461 (Waters). And to deal with unforeseen changes in conditions that might affect these objectives, FPL uses diversity and flexibility in its planning process. Tr. 465 (Waters).

Mr. Waters also testified that FPL uses two reliability criteria commonly accepted in the utility industry to determine the quantity of resources to maintain system reliability: (1) summer peak reserve margin, and (2) loss-of-load probability (LOLP). Tr. 464 (Waters). The undisputed record evidence shows that FPL's purchase of a portion of Scherer Unit No. 4 will allow FPL to continue to meet its system reliability criteria and will assure the integrity of FPL's electric system. Tr. 468-70 (Waters). For example, purchasing the coal-fired unit improves the diversity of FPL's fuel mix (Tr. 475 (Waters) -- a goal even supported by CLG's witness, Mr. Wells. Tr. 931 (Wells). Purchasing Scherer Unit No. 4 improves flexibility by providing early capacity capable of addressing changes in the very near term; it will provide capacity in 1991 to allow for the upgrade of Turkey Point Nuclear Station emergency power system; it will help reduce FPL's dependence on oil more quickly; it will reduce concern over volatile assumptions in the load forecast and QF supply; and it will gradually increase FPL's capacity -- increasing the Company's flexibility for responding to changes in load conditions or construction requirements. Tr. 16-17 (Woody), 475-76 (Waters).

This record evidence is unrefuted. CLG has failed to support its position on this issue. There is no evidence to suggest that the purchase of Scherer Unit No. 4 will have a negative impact on FPL's system reliability and integrity.

5. **ISSUE:** How will the proposed purchase of Scherer Unit 4 affect the adequacy of the fuel diversity for FPL's system?

**POSITION:** FPL's proposed purchase of an undivided interest in Scherer Unit No. 4 will help improve the fuel diversity of FPL's system in comparison to the present supply mix.

## DISCUSSION

The purchase of Scherer Unit No. 4 will help increase the amount of energy supplied by coal in FPL's fuel mix from about 2% currently, to about 8% in 1997. Tr. 475 (Waters); Ex. 1, Doc. 2. Moreover, FPL will begin purchasing Scherer Unit No. 4 in 1991, and these early purchases will allow FPL to begin reducing its dependence on oil at an earlier date than would be the case with the other available options. Tr. 16-17 (Woody).

There was no inconsistent evidence presented at the hearing.

6. <u>ISSUE</u>: Has FPL reasonably considered alternative supply side sources of capacity?

<u>POSITION</u>: Yes, it has.

## <u>DISCUSSION</u>

The generation expansion planning process used in evaluating the Scherer Unit No. 4 purchase looks at three sources of supply-side resources: qualifying facilities, purchased power, and new generating units. Tr. 461 (Waters). Each is discussed below.

After demand-side activities have been incorporated, FPL looks next to qualifying facilities. Tr. 461-62 (Waters). FPL's base expansion plan incorporates 538 MW of qualifying facilities that have signed contracts with FPL and have received Commission approval. Tr. 467 (Waters). FPL projects an additional 590 MW of qualifying facilities by 1997. Tr. 468 (Waters). This is based on FPL's Qualifying Facilities Forecast, which was reviewed and approved by FPL's Forecast Review Board in June 1990. Tr. 489-90 (Waters); Ex. 14. The Qualifying Facilities Forecast reflects FPL's best estimate of the number and total capacity of qualifying facilities that will be able to provide cost-effective power to the Company. <u>See</u> Tr. 316-17 (Cepero). It should be noted that FPL's expansion plan shows a need which the Scherer Unit No. 4 purchase will satisfy, <u>after</u> all of the qualifying facility capacity identified in this forecast has been taken into account; the Scherer purchase is not a substitute for those qualifying facilities. Tr. 467-68 (Waters).

While FPL has always pursued purchased power opportunities actively, 1989-90 entailed a uniquely comprehensive search for cost-effective purchased power. In June 1989, FPL issued a "Request for Power Supply Proposals." Tr. 170 (Denis). Thirty-four proposals, totalling 10,793 MW, were received from twenty-four different respondents in early 1990. Tr. 173 (Denis). These proposals were exhaustively reviewed and evaluated, based on eighteen criteria. Id.; Ex. 8, Doc. 2. The Southern Companies' proposal to sell power on a UPS basis from Scherer Unit No. 4 was determined to be the clear winner, scoring nearly 9,000 points under FPL's evaluation methodology in comparison to slightly less than 8,000 points for the second-best proposal. Tr. 175-76 (Denis); Ex. 8, Doc. 3.

Finally, FPL's generation expansion plan also considered new generating units as alternatives to the Scherer purchase. An IGCC facility was identified as the most cost-effective type of unit available to FPL. Tr. 468 (Waters). This is consistent with the new construction requirement identified in FPL's recent need-determination proceedings (Docket Nos. 890973-EI and 890974-EI). Id.

None of these identified alternatives is a desirable substitute for the Scherer purchase. As explained in Issue No. 8 below, the Scherer purchase represents the most cost-effective alternative available to FPL.

Two parties identified supply-side options which they contend were inadequately considered by FPL. Their contentions are ill-founded.

Nassau's witness Dr. Thomas contends that Nassau's qualifying facility project should be included in the expansion plan before the Indiantown Cogeneration project and the Scherer Unit No. 4 purchase. He claims that there should be a preference for the Nassau project because there supposedly is an executed standard offer contract for the project.[6/]

Cross-examination revealed that Nassau's executed "standard offer" has been unilaterally modified by Nassau. Specifically, the form interconnection agreement that is an integral part of the standard offer has been modified unilaterally to limit Nassau's obligation to pay for interconnection facilities. Tr. 426-28 (Thomas); Ex. 17. Commission practice and basic principles of contract law preclude a unilaterally modified standard offer from becoming a contract without consent to the modifications by the offering party, consent that Nassau does not have. See Ex. 17 (FPL has not executed the modified interconnection agreement). Thus, the premise to Dr. Thomas' contention is simply incorrect: Nassau does not have a contract with FPL that would entitle it to the preference he claims, even if such a preference were appropriate.

CLG's witness Mr. Wells claims in his testimony that FPL has not adequately explored thermal storage systems as a demand-side measure and that FPL could serve peak loads that might exist before these thermal storage systems were fully

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6/ Tr. 400-401. Dr. Thomas also claims that Nassau's project is more cost-effective than the Scherer purchase. That claim will be addressed in Issue No. 8 below.

implemented by building peaking units. As discussed in Issue No. 7 below, Mr. Wells in simply mistaken in his belief that FPL is not actively pursuing thermal storage. That and other demand-side activities are reflected in FPL's generation expansion plan before supply-side alternatives are even considered. Tr. 461-62 (Waters). Moreover, Mr. Wells suggests that FPL build peaking units, "which might later become part of coal gasification combined cycle units...," in order to respond to any shortfalls while the thermal storage programs are being implemented. Tr. 933-34 (Wells). As discussed above, phasing in IGCC units is exactly the option FPL considered as the cost-effective form of new generating unit that it would build if it did not purchase Scherer Unit No. 4. Tr. 468 (Waters). It is hard to understand what Mr. Wells would have FPL do differently.

In summary, FPL has demonstrated that a wide range of supply-side alternatives to the Scherer Unit No. 4 purchase were considered, and there is no substantial competent evidence to the contrary.

7. **ISSUE**: Does FPL's power supply plan reasonably consider the ability of conservation or other demand side alternatives to mitigate the need for the capacity represented by the purchase of Scherer Unit 4?

**POSITION**: Yes, it does.

**DISCUSSION**

The objective of FPL's capacity planning process is to provide adequate resources to meet customers' future demand reliably and in a cost-effective manner. Tr. 461 (Waters). Both generating and non-generating resources are considered. Id. The first type of resource considered is demand side management. Tr. 461-62 (Waters). All available, cost-effective demand side alternatives are included in FPL's expansion plan before any other types of resources are even considered. Tr. 462 (Waters).

Two witnesses questioned the adequacy of FPL's demand side management activities: Carlton Bartels (testifying for Public Counsel) and H.G. Wells (testifying for CLG). Mr. Bartels claimed to have "general concerns regarding the treatment of [demand side management] alternatives." Tr. 855. However, upon cross-examination, he admitted that he did not know how the Commission reviews and approves demand side management plans, he had not reviewed FPL's demand side management plan, and he did not know the plan's status before the Commission. Tr. 886. Small wonder he had "general concerns" about demand side management. Had Mr. Bartels bothered to look, he would have discovered that FPL prepared and submitted to the Commission a demand side management plan comprising 21 programs and that this plan has been approved by the Commission. Order No. 23560, dated October 2, 1990, Docket No. 900091-EG (notice of proposed agency action); Order No. 23667, dated October 24, 1990, Docket No. 900091-EG, (order on procedure, making Order No. 23560 final in all relevant respects).

Mr. Wells appears likewise unaware of FPL's demand side activities. He testified that FPL needs to pursue thermal storage as a demand side measure. Tr. 932-33. Had he reviewed Appendix A to Order No. 23560, he would have seen that FPL already has a Commercial/Industrial Thermal Storage program implemented, and is pursuing research and development projects for residential thermal storage systems and for commercial/industrial stored water heating (a form of thermal storage) as well.

In summary, FPL has confirmed to the Commission in this proceeding that available, cost-effective demand side activities have been reasonably considered in assessing the need for the Scherer Unit No. 4 purchase, and there is no competent, substantial evidence to the contrary.

8. <u>ISSUE</u>: Is the purchase of Scherer Unit 4 the most cost-effective means of meeting FPL's capacity needs, taking into account risk factors that are part of the cost-effectiveness analysis?

<u>POSITION</u>: Yes, it is.

<u>DISCUSSION</u>

As discussed in Issue No. 6 above, FPL considered a range of supply-side alternatives to the Scherer Unit No. 4 purchase. In order to determine whether the Scherer purchase was the most cost-effective alternative, FPL performed cost analyses of the Scherer purchase and the three other relevant alternatives: an IGCC unit built by FPL, the standard offer available to qualifying facilities[7/], and the UPS bid by the Southern Companies that won FPL's RFP process. Tr. 471-73 (Waters). For the reasons described below, the Scherer purchase is more cost-effective than any of those alternatives.

<u>Economic Analysis Methodology</u>

Each alternative was analyzed by looking at the present value of revenue requirements ("PVRR") for the capital costs, the non-fuel operating and maintenance and fuel costs of that alternative, and the fuel cost impacts of the alternative on FPL's total system operating characteristics. Tr. 464 (Waters). The system fuel costs were determined using production simulations created by the PROSCREEN computer program, which has been benchmarked to within approximately 2%

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7/ The standard offer is the basis upon which Nassau Power Corporation demands to be paid for power from its qualifying facility. <u>See</u>, <u>e.g.</u>, Tr. 398 (Thomas).

of the output of the more detailed, sophisticated PROMOD program. Tr. 501 (Waters). PROMOD is routinely used in this Commission's oil backout proceedings, with results that are consistently within 1% of actual production costs. Tr. 503 (Waters). Moreover, when one is using PROSCREEN to compare the relative economics of alternatives, as is the case here, even these small percentage variances overstate the uncertainty of the results, since the variances occur in the same direction in all the analyses. Tr. 567 (Waters).

It is important that total system operating costs be considered when alternatives are compared. Tr. 556 (Waters). If only the costs for operating the specific unit(s) in question are considered, there is no way to compensate fully for the fact that one type of unit might run far more hours than another. For example, a combustion turbine would look very economic if only the costs of running it were considered, because it would run very few hours of the year and hence have very low fuel and non-fuel operating costs. However, other units would have to be run to make up for the low level of operation, and the total cost of supplying the electric energy requirements could be much higher than for another type of unit that ran more of the time. Tr. 556-57 (Waters).

In response to Commission inquiry, FPL also has attempted to address the cost comparison of alternatives on a cost per kWh basis, the results of which are summarized in Part II(E) above.

Scherer Purchase vs. Martin IGCC

Using the PVRR cost analysis, FPL determined that the Scherer purchase will produce PVRR savings over thirty years of about $580 million in comparison to building the Martin IGCC facility for a scheduled 1996 in-service date. Tr. 471 (Waters); Ex. 36. While there are other factors which also would argue for purchasing Scherer Unit No. 4 over building the IGCC facility, this difference in system PVRR costs makes the Scherer purchase clearly superior by itself. Moreover, the magnitude of the savings means that the comparison is not very sensitive to changes in cost estimates. To erase the cost advantage of the Scherer purchase, the fuel and non-fuel operating costs assumed for Scherer Unit No. 4 would have to be off by several orders of magnitude. Tr. 980 (Waters). For example, much was made at the hearing about the different methodologies used to project fuel costs for the IGCC facility and for Scherer Unit No. 4. However, even if one were to substitute the Scherer purchase fuel cost forecast for that used with the IGCC, the Scherer purchase would still be the lower-cost alternative. Tr. 604 (Waters).

Scherer Purchase vs. Standard Offer

There is likewise a large cost savings between the Scherer purchase and the standard offer available to qualifying facilities (such as Nassau's project). FPL analyzed the standard offer with a 20% risk factor discount applied to the capital and non-fuel operating costs, and with no discount applied. Tr. 472 (Waters). The Scherer purchase is about $430 million cheaper than the "no-risk" standard offer and $215 million cheaper than the 20% risk-factor case. Ex. 36. As with the comparison to the IGCC facility, the magnitude of these savings is so large as to dwarf any uncertainties that might exist in the assumptions. Tr. 980 (Waters).

In cross-examining Mr. Waters about this comparison, considerable attention was given by Nassau to the point that the unit-specific costs for the standard offer are less than those for the Scherer purchase. However, as explained above, such a comparison is simply not relevant. It ignores the fact that the standard offer is based on a much lower capacity factor (70%) than is assumed for the Scherer purchase (about 85%). See Tr. 504-6, 523 (Waters). One should hardly be surprised that the costs of operating one unit 70% of the time are less that the costs of operating another 85% of the time. The crucial element left out of such a comparison is the impact of these different levels of operation on total system costs. Tr. 556-57 (Waters). When that impact is considered, the standard offer is several hundred million dollars more expensive. Ex. 36.

Nassau tries to avoid this conclusion by hypothesizing that Scherer Unit No. 4 would only run 70% of the time, like the standard offer unit. Exhibit 25 shows that, assuming this lower capacity factor for Scherer Unit No. 4, the standard offer is more economical. However, Nassau's analysis proves nothing. First, it ignores the effects of Nassau's location in the Jacksonville area. Moreover, the premise of Nassau's analysis (i.e., that Scherer Unit No. 4 would run at a 70% capacity factor) is clearly wrong. The high capacity factor at which Scherer Unit No. 4 will operate is precisely one of the reasons FPL is interested in buying it. Tr. 523 (Waters). Because of the low fuel cost for Scherer Unit No. 4 in comparison to FPL's existing system, FPL will want to run the unit at essentially full output whenever it is available. Tr. 508 (Waters). Artificially constraining the Scherer Unit No. 4 capacity factor to 70% ignores the value of the energy displacement this high availability makes possible. Tr. 562 (Waters).

Finally, the unit cost data presented in Appendix II to this Brief show that the cost per kWh for the undiscounted standard offer exceeds the cost for the Scherer purchase in every year of the analysis period. Even the 20% discounted standard offer is cheaper only for the first four years, after which time the unit cost increases until it is almost double the unit cost for the Scherer purchase by the end of the analysis period.

<u>Scherer Purchase vs. Scherer UPS</u>

Unsurprisingly, the closest economic comparison is between purchasing Scherer Unit No. 4 and "renting" it under the UPS bid -- unsurprising because both alternatives are being made available by the same entity, which presumably is uninterested in substantially outbidding itself. Based on refinements to the economic analysis to reflect the December 10, 1990 supplemental letter of intent between FPL, GPC, JEA and the Southern Companies, FPL determined that the Scherer purchase would save about $6 - 7 million in PVRR compared to the UPS offer. Tr. 986

(Waters); Ex. 36. Mr. Waters, who prepared the analysis, concluded from this that the two alternatives were essentially equal in terms of the PVRR economic analyses that have been performed. Tr. 986. This would be so regardless of which alternative came out slightly more or less expensive. Id.

However, the basic PVRR economic analyses tell only part of the story. The important economic distinctions between these two alternatives are not captured in those analyses, but they substantially favor the Scherer purchase.

Perhaps most important among these distinctions are the SO2 emissions allowances to which FPL will be entitled if it buys Scherer Unit No. 4. See Tr. 472 (Waters). As discussed in Part II(D) of this brief above, these credits will be a scarce, valuable commodity under the recent Clean Air Act Amendments. Southern Company has made no commitment to provide these credits as part of the UPS bid. Using a conservative cost for the credits of $700 per ton of SO2 emissions, Mr. Waters calculated that the PVRR savings associated with the Scherer purchase would increase to $128 million when he took into account the need to purchase credits from Southern Company under the UPS arrangement. Tr. 987-89, 1014-15; Ex. 36. And this only reflects the value of the credits for the thirty-year horizon of the analysis; there is a substantial residual value for FPL of owning the credits in perpetuity thereafter. Tr. 991-92 (Waters).

There is likewise substantial value to owning the unit itself after the thirty-year term of the UPS offer expires. Tr.

1044 (Waters). In essence, FPL is being offered the opportunity to buy a unit for the same or less money than it will cost to rent it, and for much less than it would cost to build a comparable new unit. See Tr. 1042 (Waters) ($950/kW cost for buying Scherer Unit No. 4 compared to about $2000/kW to build the St. Johns River Power Park plant in 1996).

There are other substantial benefits to owning Scherer Unit No. 4 in comparison to purchasing UPS from Scherer:

- facilitation of the 500kV transmission line interface expansion between Florida and Georgia;
- facilitation of a transmission allocation agreement with JEA concerning the existing 500 kV transmission line interface between Florida and Georgia, thus resolving an important allocation issue which has remained open for several years;
- availability in 1991 of capacity to support the Turkey Point Nuclear Station outages that are necessitated by the emergency power system upgrade;
- increased flexibility to respond to changes in load conditions and/or construction requirements;and
- reduces oil dependence at an earlier date.

Tr. 24-25 (Woody), 199-211 (Denis), 356-58 (Cepero).

Finally, it is worth noting that power from Scherer will be cheaper on a cost per kWh basis under the Scherer purchase alternative than it would be under the Scherer UPS bid. Appendix II to this brief shows that the cost per kWh for the Scherer purchase is lower for every single year of the analysis period than power bought on a UPS basis. While FPL does not recommend that the Commission rely primarily on the cost per kWh to assess relative economics, it is comforting to see that, in addition to all the other benefits identified above, FPL's customers will be paying less for kWh's delivered from Scherer if FPL owns it than they would if FPL rented it.

Public Counsel raised through cross-examination the fact that "Alternate Energy" is available under the Scherer UPS bid but is part of the Scherer purchase only until FPL's acquisition of Scherer Unit No. 4 is completed in 1995. See Tr. 225-30 (Denis). However, the record reflects that this is largely a distinction without a difference. FPL's interchange agreements with the Southern Companies entitle it to purchase economy energy on a split-the-savings basis that is similar to "Alternate Energy." Tr. 340, 342-43 (Cepero). Moreover, the savings being split under the Scherer UPS bid would take the Scherer Unit No. 4 operating costs as a starting point. If the unit were operated at a lower capacity factor because energy is being provided from other units, its operating costs will be higher, along with the resulting split-the-savings price. Tr. 240-41 (Denis). Finally, the issue of split-the-savings purchases from the Southern Companies may become largely moot, as Clean Air Act compliance costs and other factors drastically change the economics of those purchases and reduce their availability. Tr. 244-45 (Denis), 532, 590 (Waters).

Numerous other points were raised about the details of the economic analyses for the various alternatives. However, none of those points obscured or even significantly affected the overriding conclusion one is compelled to reach about the Scherer purchase: it is clearly the best deal for FPL and its customers. That conclusion is supported abundantly in the record, and there is no substantial competent evidence to the contrary.

9. <u>ISSUE:</u> **Will FPL be able to deliver electricity from Scherer Unit No. 4 to its load centers in the same time frames in which it is proposing to add investment to rate base?**

<u>POSITION</u>: Yes.

<u>DISCUSSION</u>

FPL's evidence that the purchase of Scherer Unit No. 4 will not necessitate expansion of the Florida/Southern transmission interface is unrefuted. Public Counsel failed to provide evidence to support its position, and no other parties took a position on the issue.

Mr. Waters testified that FPL will be able to transmit all the electricity from the Scherer unit into Florida pursuant to the schedule reflected in the letter of intent without violating the system transfer limits. Tr. 976 (Waters); Ex. 13, Doc. 3. This evidence is corroborated by the testimony of other witnesses. <u>See</u>, <u>e.g.</u>, Tr. 54, 57, 95-97 (Woody).

The sole basis for Public Counsel's position is Exhibit No. 5, which is a letter from Mr. Woody to Florida Power Corporation referring to a need to expand the Florida/Southern interface. Tr. 737-38 (Wright). On cross-examination by Public Counsel, however, Mr. Woody explained that what he meant in the letter is that FPL feels there is a need to expand the interface in order (1) to improve the reliability of its system and (2) obtain associated economic benefits for its customers; but expansion is not required to make the purchase of the Scherer unit possible. Tr. 57-58, 98 (Woody), 271 (Denis). This testimony, and the corroborative testimony of Mr. Waters (Tr. 976), was not contradicted or rebutted. As a result, there is no record basis to conclude that the proposed purchase of Scherer Unit No. 4 will require an expansion of the Florida/Southern interface.

10. <u>ISSUE:</u> If any transmission facilities and/or upgrades are required to accommodate the purchases of energy and capacity already under contract to FPL and the proposed Scherer purchase, what is the cost of such transmission facilities and/or upgrades and who will bear such cost?

<u>POSITION</u>: The existing transmission facilities are adequate to transmit power generated by FPL's share of Scherer Unit No. 4 into Florida. However, the Southern Companies have agreed in their letter of intent with FPL to use best reasonable efforts to improve and upgrade the transmission facilities comprising the intertie with Florida.

## <u>DISCUSSION</u>

As explained in Issue No. 9, the record evidence is clear and unambiguous that FPL's proposed purchase of Scherer Unit No. 4 and FPL's existing energy capacity contracts do not require expansion of the Florida/Southern transmission interface. The record is equally well established, however, that (1) FPL does want to expand the interface in order to improve the reliability of its system and obtain associated economic benefits for its customers; and (2) the Southern Companies have agreed in the letter of intent to use their best reasonable efforts to improve and upgrade the transmission facilities comprising the interface. Tr. 57-58, 98 (Woody), 271 (Denis), 298, 310 (Cepero), 976 (Waters). Specifically, FPL and the Southern Companies contemplate a third 500 kV transmission line being constructed. Tr. 310 (Cepero).

Although expansion of the interface is not required if FPL purchases the Scherer unit, the fact that FPL wants to and intends to improve the transmission tie-in to the Southern system will obviously result in a cost to the Company. Tr. 90

(Woody), 474 (Waters). FPL estimated this cost to improve the interface to be $180 million and appropriately included it as a cost of the Scherer purchase option in performing the cost-effectiveness comparisons of all the available alternatives. Tr. 474 (Waters); Ex 18, Doc. 10; Ex. 36. As discussed in Issue No. 16, the inclusion of this additional transmission cost does not change the conclusion that the Scherer purchase option is still the best alternative. Id.

The intervenors presented absolutely no evidence to refute the fact that FPL's purchase of Scherer Unit No. 4 will not require expansion of the transmission interface, and they presented no evidence to rebut FPL's estimated cost for FPL to improve the interface. While Public Counsel's witness did "question" Mr. Waters' cost estimate of $180 million, he provided no substantive evidence whatsoever to suggest that this estimate was wrong (Tr. 737-38 (Wright)), and he totally ignored any benefits which improving the transmission interface will provide to FPL and its customers. FPL's evidence is the only competent record evidence.

11. **ISSUE:** Are the fuel supply and transportation costs presented in FPL's economic analysis for Scherer Unit 4 reasonable and prudent?

**POSITION:** Yes, they are.

## DISCUSSION

The forecasts of fuel supply and transportation costs FPL used in its economic analyses of the Scherer Unit No. 4 purchase and the other supply-side alternatives evaluated here are reasonable, and differences among them are the logical product of reasonable differences in methodologies, inputs and assumptions used for each alternative. Four methodologies were used, each of which is described below. Thereafter, differences in the forecasts are explained.

### Scherer Purchase

The coal price forecasting methodology for FPL owning Scherer Unit No. 4 is based on a specific procurement strategy to be implemented in 1991. Tr. 1058 (Silva). It includes a mix of the plant's existing long-term coal supply contracts and current bids for coal supply from central Appalachia, together with projections of the prices at which coal could be procured under new long and short-term contracts. Id. The price forecast also reflects transportation cost advantages enjoyed by the Scherer plant, based on high volumes and moderate distances between the coal mines and the plant. Id. It is consistent with the methodology FPL has been using to develop long-term coal forecasts for the St. Johns River Power Park ("SJRPP"). Tr. 1060 (Silva). FPL's procurement strategy results in less volatility than market-based forecasts, and it is especially advantageous at the present time because there are a number of "hungry" coal suppliers who are very interested in receiving an assured market and are willing to provide good prices on basically fixed terms over a long period of time in return. Tr. 1060, 1079 (Silva).

Scherer UPS

The coal supply and transportation cost forecast for the Scherer UPS bid was not prepared by FPL. Rather, it was provided by the Southern Companies as part of their RFP bid. Tr. 1078 (Silva). FPL is confident that the forecast represents a feasible, low-cost estimate because the nature of the bidding process assures that the Southern Companies would not arbitrarily set a high fuel price and thus competitively disadvantage themselves. Tr. 1089-90 (Silva).

Martin IGCC Facility

The coal supply and transportation costs for the Martin IGCC facility were forecast on the basis of an assumption that the coal would be bought and delivered under a series of one-year contracts. Tr. 1060 (Silva). As such, the forecasts closely reflect expected market conditions in each year. Id. This methodology is appropriate for analysis of the Martin IGCC facility because FPL did not know at the time the forecasts were developed when the facility would be operational or when coal contracts for it would be executed. Tr. 1060-61 (Silva). Moreover, no bids for coal supply to the facility are extant, since there is currently no facility at Martin upon which such bids could be made. Id.

## Standard Offer

As noted above, the coal forecasting methodology for the SJRPP, which is the basis for the standard offer prices, is basically the same as for the Scherer purchase. The forecast is based 60% on the costs of the three existing contracts and 40% on market prices. Tr. 1080 (Silva).

## Differences in the Forecasts

Considerable attention was paid at the hearing to differences between the Scherer purchase forecast on the one hand, and the Martin IGCC and Scherer UPS forecasts on the other. These differences will be explained below.

The Scherer purchase forecast has a slightly lower 1996 coal cost per ton than the Martin IGCC forecast, and there is a considerable difference in the rates at which the coal costs increase under the two forecasts (4.99% average escalation rate for the Scherer purchase vs. 7.15% for the Martin IGCC). Ex. 23. This difference is explained by the difference in methodologies. The Martin IGCC forecast essentially reflects market prices over the analysis period, whereas the Scherer purchase forecast reflects a procurement strategy that is explicitly designed to take advantage of current market softness to shelter the unit from expected escalation in coal prices in the future. Accordingly, it is unsurprising that the Martin IGCC forecast of market-based costs is higher for 1996 and beyond. These methodological differences are reasonable, based on the different circumstances of forecasting coal prices for an unsited unit versus one that already is built. However, there is little point in discussing the hypothetical consequences of using one methodology or another for the Martin IGCC forecast; the Martin IGCC facility would be a more expensive option even if the coal costs reflected in the Scherer purchase forecast were applied to it. Tr. 604 (Waters), 1085 (Silva).

The more important contrast is between the Scherer purchase and Scherer UPS forecasts. Superficially, one might expect the forecasts for these two alternatives to be very close because they involve the same generating unit. However, closer inspection reveals that the procurement strategies under the two alternatives differ considerably and that this difference logically can be expected to result in different coal costs.

Under the Scherer UPS alternative, the Southern Companies would be buying coal for Scherer Unit No. 4 as part of the procurement strategy for their whole system. Tr. 1086 (Silva). Their goal is to minimize costs for the system as a whole, not specifically for Scherer Unit No. 4. Id; Tr. 521 (Waters). In contrast, under the joint procurement strategy FPL will utilize if it buys Scherer Unit No. 4, FPL will have the best of all worlds. It will be able to determine its own fuel procurement strategy and then have the Southern Companies implement this strategy as part of their overall volume-buying practices. Tr. 371-72 (Cepero). This will allow FPL to tailor its procurement to focus on minimizing the costs specifically for Scherer Unit No. 4, yet enjoy the volume discounts available to the Southern Companies for their system-wide purchasing. Id.; Tr. 1086 (Silva).

Secondly -- a factor that makes unit-specific purchasing so valuable -- FPL will be able to procure coal for Scherer Unit No. 4 on the basis of high, uniform and predictable delivery volumes because of the greater certainty about the unit's capacity factor if FPL owns and dispatches it than if the Southern Companies dispatch it as part of their system under the UPS arrangement. Tr. 520 (Waters), 1091-92 (Silva). This is particularly important to the procurement strategy FPL envisions for the Scherer purchase, because FPL will be able to induce "hungry" suppliers into favorable long-term contracts much more readily if it can assure those suppliers of its need for uniform, predictable requirements over the term of the contracts. Id.

There is a final point about the comparison of the Scherer purchase and Scherer UPS forecasts which was occasionally obscured at the hearing. CLG's attorney persisted in questioning FPL's witness, Mr. Silva, about FPL's ability to acquire coal at $7.50 per ton less than the Southern Companies project under the Scherer UPS bid. See, e.g., Tr. 1086. This could create the misimpression that FPL is claiming it can buy coal for $7.50 per ton less than the Southern Companies, no matter what the level of the Southern Companies' coal costs. FPL is clearly not making such a claim. Tr. 1091-92 (Silva). Rather, FPL is merely observing that it can reasonably expect to do better than the high coal costs reflected in the Scherer UPS bid.

The Scherer purchase forecast was developed independently of the Scherer UPS bid. The coal cost per ton in the Scherer purchase forecast is similar to FPL's forecast for the SJRPP units under the standard offer alternatives. See Ex. 23. What makes the Scherer purchase forecast contrast so sharply against the Scherer UPS forecast is how high the coal prices are in the Scherer UPS forecast, not how low they are for the Scherer purchase. Exhibit 23 shows that the 1996 coal cost per ton for the Martin IGCC, Scherer purchase and standard offer alternatives range between $53.50 per ton and $59.93 per ton, with the Scherer purchase forecast of $56.16 per ton being almost exactly in the middle of that range. In contrast, the 1996 Scherer UPS forecast is $65.89 per ton. This does not necessarily reflect poor procurement by the Southern Companies; it is more a question of timing. At least one existing long-term contract at Scherer has a coal price of $60 per ton, versus a current market price of about $40 per ton.[8/]

In summary, FPL has reasonably projected coal supply and transportation costs for Scherer Unit No. 4 and the other supply-side alternatives analyzed in this proceeding, and there is no substantial, competent evidence to the contrary.

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8/ Tr. 1087 (Silva). While FPL will have to participate in that contract to a limited extent if it buys Scherer Unit No. 4, the amount of coal that could be assigned to FPL's purchases from that contract under the UPS arrangement is open-ended. Tr. 1088 (Silva).

12. **ISSUE:** Does the schedule being followed by the Commission in this case afford all interested parties adequate opportunity to protect their interests?

**POSITION:** Yes, it does.

DISCUSSION

This issue was discussed in detail as a general point in Part II(B) of this Brief.

13. <u>ISSUE:</u> What effect, if any, does the Scherer Unit 4 purchase have on the Southern/Florida interface?

<u>POSITION</u>: FPL's proposed purchase of an undivided interest in Scherer Unit No. 4 will facilitate the upgrade and improvement of the Southern/Florida transmission interface.

FPL's evidence that the proposed purchase of Scherer Unit No. 4 will facilitate the upgrade or expansion of the Southern/Florida transmission interface is the only record evidence on this issue. Mr. Cepero testified, and the letter of intent supports his testimony, that the Southern Companies have agreed to utilize their best reasonable efforts to improve and upgrade the transmission facilities comprising the interface. Tr. 298, 310; Ex. 13, Doc. 2. Specifically, FPL and the Southern Companies contemplate the construction of a third 500 kV transmission line. Tr. 310 (Cepero); <u>see also</u> Tr. 472, 479 (Waters).

Mr. Cepero and Mr. Waters testified to the fact that the Scherer purchase will facilitate the expansion of the transmission interface will improve the reliability of FPL's system and provide additional opportunities for economy purchases and sales, not only to FPL, but to the entire State. Tr. 298 (Cepero), 472, 479 (Waters). The Scherer purchase is not only an inducement to the Southern Companies to build additional transmission facilities to connect their system to Florida, it is an essential element for the expansion of the Southern/Florida transmission interface. Tr. 298 (Cepero).

Although Public Counsel took no position on this issue, its witness did testify that the Scherer purchase, in his opinion, would necessitate expansion of the transmission interface -- not facilitate it. Tr. 737-38 (Wright). As is explained in Issue Nos. 9 and 10, however, this claim has no merit.

Since neither Public Counsel, CLG nor FMPA presented any substantial competent evidence to the contrary, the Commission should accept FPL's evidence and find that the Scherer purchase will indeed facilitate improvement of the Southern/Florida transmission interface.

14. **ISSUE:** Under what circumstances should the portion of the purchase price of assets in excess of book value (the "acquisition adjustment") be given "rate base treatment," such that amortization may be included in operating expenses and the unamortized acquisition adjustment may be included in rate base?

**POSITION:** Rate base treatment is appropriate when the asset is useful to the acquiring utility in providing service to its customers, and the acquisition of the assets results in benefits to those customers in comparison to the available alternatives.

**DISCUSSION**

FPL presented the only competent evidence of the standard the Commission should apply in determining whether to allow a utility to include an acquisition adjustment in its rate base. FPL's witness Mr. Gower provided detailed support for his conclusion that: where the utility has demonstrated (1) that there is a need for the facility, (2) that the purchase was negotiated at arm's-length, (3) that the purchase price is reasonable, and (4) that the purchased facility provides the greatest customer benefits of all available alternatives, the Commission should adopt a policy of allowing rate-base treatment of plant acquisition adjustments because such a policy would serve as an incentive for utility managers to make prudent and reasonable decisions. Tr. 655, 662 (Gower). (In Part II(A)(3) of this Brief, FPL showed how FPL met this standard in this docket.)

The only other party that discussed this issue was Public Counsel. Mr. Bartels' testimony, however, does not support Public Counsel's position in the Prehearing Order. Compare Tr. 867-69 (Bartels) with Prehearing Order, p. 17 (referencing Issue No. 1). He appears to suggest that the only prerequisite for the Commission permitting a utility to include an acquisition adjustment in its rate base is for the utility to show that it paid fair market value for the asset. Tr. 867, 869 (Bartels). If this is the standard Public Counsel maintains the Commission should apply in this docket, it is a more lenient standard than that proposed by Mr. Gower. FPL has unquestionably shown that the purchase price of the Scherer unit is the fair market value of the unit, and it thus has satisfied Mr. Bartel's test for rate base inclusion of the acquisition adjustment. There is no evidence to the contrary.

15. **ISSUE:** Should the Commission address in this docket transmission access disputes that may arise from the Scherer Unit 4 purchase?

**POSITION:** As a general matter, proper issues of transmission access brought before the Commission should be addressed by it. However, transmission dispute issues were raised during the course of this hearing. This issue should be dropped.

## DISCUSSION

Only two parties took a position on this issue other than FPL: Nassau and FMPA. Nassau identified Dr. Thomas to speak to the issue, but neither his direct nor cross-examination addressed it. FMPA had no witness. There was no cross-examination of other witnesses on this issue. Accordingly, FPL sees no reason why the issue needs to be, or should be, resolved.

16. **ISSUE:** Is the purchase of an undivided ownership interest in Scherer Unit No. 4 a reasonable and prudent investment necessary to enable FPL to meet its forecast 1996 system load requirements?

**DISCUSSION**: Yes, it is.

## DISCUSSION

FPL has demonstrated in Issue No. 2 that there is a need for the additional capacity provided by Scherer Unit No. 4. It has further demonstrated in Issue No. 7 that this need exists in spite of FPL pursuing available, cost-effective demand side activities under its Demand Side Management Plan for the 90's. The Scherer purchase has been compared to a range of other supply-side alternatives and found to be the most cost-effective way to meet the system load requirements that are projected to exist in the 1995-97 time frame, as discussed in Issues Nos. 6 and 8. Finally, the Scherer purchase has been shown to increase fuel diversity and to enhance the reliability and integrity of FPL's electric system, as discussed in Issue Nos. 4 and 5.

For these reasons, the purchase of an undivided ownership interest in Scherer Unit No. 4 is a reasonable and prudent investment, necessary to enable FPL to meet its forecast 1996 system load requirements.

17. **ISSUE:** Should FPL be authorized to include the purchase price of its undivided share of Scherer Unit No. 4, including acquisition adjustment, in rate base?

**POSITION:** Yes. FPL should be authorized to include its Scherer Unit No. 4 purchases in rate base, including the acquisition adjustment, as those purchases are made.

## DISCUSSION

This issue was discussed in detail in Part II of this Brief. Moreover, FPL has demonstrated in Issue No. 16 and the issues referenced in that discussion that its proposed purchase of 76.36% of Scherer Unit No. 4 is a reasonable and prudent investment that will provide significant short-term and long-term benefits to its customers. The record evidence is unrefuted that FPL will not be able to continue to meet its 1996 forecast peak load and maintain adequate levels of reliability without installing or acquiring sufficient additional generating capacity. The record evidence is also clear that FPL's proposed purchase of a portion of Scherer Unit No. 4 will provide the Company and its customers with a reliable source of power and substantial additional benefits. In Issue No. 8, and in Parts II(D) and (E) of this Brief, FPL demonstrated that the proposed purchase of a portion of Scherer Unit No. 4 by FPL is unquestionably the best option available to FPL and its customers to meet their energy needs.

In Part II(A)(3) of this Brief, FPL explained how and why its request for approval to include the total purchase price of the Scherer unit in its rate base is reasonable and comports with sound rate-making practices. The discussion of those issues also demonstrated that FPL satisfied the test to be applied in determining whether to permit the inclusion of an acquisition adjustment in a utility's rate base. And finally, in Parts II(A)(5), (B) and (C) of this Brief, FPL showed that the other parties' arguments as to why FPL should not be permitted to include the entire purchase price of the unit in its rate base have no merit.

For these reasons, the Commission should authorize FPL to include the total actual purchase price of Scherer Unit No. 4, including the acquisition adjustment, in its rate base.

18. **ISSUE:** In the event FPL's petition is approved, should the Commission impose guarantee requirements on the electrical output of the unit and delivery to FPL and limit the amount of total investment, operation and maintenance expenses and fuel costs that will be allowed for recovery through rates?

**POSITION**: No, it should not. The Commission should review FPL's estimates of the costs associated with purchasing and operating its portion of Scherer Unit No. 4 to determine if those costs are reasonable and prudent. If the Commission determines that the estimates are reasonable and that, based on these estimates, the purchase is prudent, then the Commission should approve the purchase of Scherer Unit No. 4 by FPL. Of course, the Commission may review in the future actual costs of operating the plant, such as fuel costs, to ensure the reasonableness and prudence of those actual expenditures, taking into consideration all factors surrounding the expenditures at the time they are made. But it would be inappropriate to limit such review to a comparison of the actual expenditures with the estimates that have been made at this time, as Public Counsel suggests in this issue.

**DISCUSSION**

This issue was discussed in detail in Part II(A)(5) of this Brief. In that section FPL explained why it would be inappropriate for the Commission to adopt Public Counsel's proposal (Tr. 739-42 (Wright)) to limit FPL's recovery of its capital investment in Scherer Unit No. 4 to the "estimated" initial capital investment, and to limit FPL's return on its capital investment to current "estimated" capital costs. First, imposing such limitations on FPL would create a level of financial risk which is totally inconsistent with cost-based regulation, a risk which would render the proposed purchase of Scherer Unit No. 4 unacceptable. Tr. 1118-20 (Gower). Second, imposing such limitations would create a strong bias against long-run decisions. Tr. 1119, 21 (Gower). Consequently, Public Counsel's proposal on this issue should be rejected.

## PART IV -- CONCLUSION

FPL has demonstrated that the proposed purchase of Scherer Unit No. 4 by FPL is a reasonable and prudent investment, and that the Commission should authorize the inclusion of the entire purchase price of Scherer Unit No. 4 in the Company's rate base as FPL pays the installments of that purchase price. Consequently, FPL respectfully requests that the Commission grant its petition.

Respectfully submitted,


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