

ORIGINAL

**Florida  
Power**  
CORPORATION

**JAMES A. MCGEE**  
SENIOR COUNSEL

October 20, 1997

Ms. Blanca S. Bayó, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

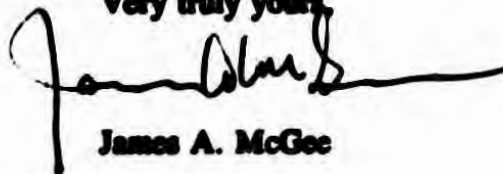
Re: Docket No. ~~9070782Q~~

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of Motion of Florida Power Corporation for Leave to File Supplemental Rebuttal Testimony.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

  
James A. McGee

- ACK 4
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CNU \_\_\_\_\_
- CTR \_\_\_\_\_
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JAM/kp  
Enclosures  
cc: Parties of Record

DOCUMENT NUMBER-DATE

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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**In re: Petition for approval of  
early termination amendment to  
negotiated qualifying facility  
contract with Orlando Cogen  
Limited, Ltd. by Florida Power  
Corporation**

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**Docket No.961184-EQ**

**Submitted for filing:  
October 20, 1997**

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY that a true copy of the enclosed Motion of Florida Power Corporation for Leave to File Supplemental Rebuttal Testimony has been furnished to the following individuals by hand delivery\* and by U.S. mail this 20th day of October, 1997:**

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**Orlando Cogen Limited**  
**8275 Exchange Road**  
**Orlando, FL 32809**

  
\_\_\_\_\_  
**Attorney**

0110-111

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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**In re: Petition for approval of an early termination amendment to a negotiated qualifying facility contract with Orlando Cogen Limited, Ltd. by Florida Power Corporation.**

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**Docket No. 987784-EQ**

**Submitted for filing:  
October 20, 1997**

**MOTION OF FLORIDA POWER CORPORATION  
FOR LEAVE TO FILE SUPPLEMENTAL REBUTTAL TESTIMONY**

Florida Power Corporation (Florida Power) hereby moves for leave to file supplemental rebuttal testimony by Lee G. Schuster to rebut the direct testimony of Paul W. Stallcup regarding Mr. Stallcup's development and application of risk adjusted discount rates. A copy of Mr. Schuster's supplemental rebuttal testimony is proffered as an attachment hereto. In support of this motion, Florida Power states as follows:

1. On pages 8 through 11 of his direct testimony, Mr. Stallcup addresses the development and use of risk adjusted discount rates (RADR) in performing his net present value analysis of the proposed OCL contract buyout. He describes his RADR as consisting of a risk premium added to the risk free discount rate. For example, Mr. Stallcup explains on page 9 of his testimony that the risk associated with Florida Power's June 1997 pre-tax marginal cost of capital of 10.20 percent

DOCUMENT NUMBER-DATE

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can be viewed as a risk free rate of 6.77 percent (the monthly average 30-year Treasury Bond rate) plus a risk premium demanded by the investment community of 3.43 percent. His entire discussion of the risk adjusted discount rates used in his analysis is completely consistent with the intuitively logical notion that a risk premium is added to the risk free rate.

2. Accordingly, when Mr. Schuster analyzed the spreadsheets underlying Mr. Stallcup's analysis<sup>1</sup> and found that the risk premium had, in fact, been subtracted from the risk free rate, he naturally concluded that Mr. Stallcup had made a mathematical error. In his rebuttal testimony, Mr. Schuster reconstructed Mr. Stallcup's analysis using the corrected risk adjusted discount rate<sup>2</sup> to show that, even under Mr. Stallcup's methodology, the proposed OCL contract buyout produces substantial net present value savings for customers.

3. Only upon Mr. Stallcup's deposition on October 10, 1997, two days after Mr. Schuster's rebuttal testimony was filed, did it become clear that Mr. Stallcup intended to calculate his RADR by subtracting the risk premium from the risk free rate, even though he admitted that he knew of no other instance where he or anyone else had calculated a RADR in this manner. Mr. Stallcup justified the use of his novel approach by referencing an academic text that not

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<sup>1</sup> Produced by Staff in response to Florida Power's discovery request after Mr. Stallcup's testimony was filed.

<sup>2</sup> The corrected RADR was simply Mr. Stallcup's risk premium added to Mr. Stallcup's risk free rate, just as described in his testimony.

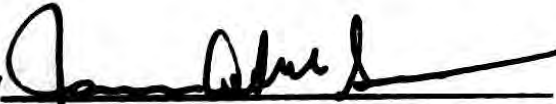
only failed to endorse a risk reduction to a rate that already contains no risk but, in fact, indicated affirmatively that the adjustment should be made to a utility's average risk (measured by its overall cost of capital). Apart from Mr. Stallcup's questionable application of the method discussed in the cited text, additional review of the literature discloses that the validity of the method itself is the subject of a debate among academic experts.

4. Mr. Stallcup's testimony gives no indication whatsoever that he had employed anything other than a standard approach to the use of risk premiums in developing his RADR, much less support for his radical application of a controversial and untested methodology. As a result, Mr. Schuster had no opportunity on rebuttal to address this questionable aspect of Mr. Stallcup's analysis, or to show the effect of a more reasonable application of Mr. Stallcup's methodology, as it is now understood, on the net present value savings to customers from the proposed OCL contract buyout. Allowing Mr. Schuster to supplement his rebuttal testimony in this manner will help remedy the failure of Mr. Stallcup's testimony to disclose essential information regarding his analysis and will aid the Commission in its understanding and consideration of this important matter.

**WHEREFORE, Florida Power Corporation respectfully requests that it be granted leave to file the proffered supplemental rebuttal testimony of Lee G. Schuster, as attached hereto.**

**Respectfully submitted,**

**OFFICE OF THE GENERAL COUNSEL  
FLORIDA POWER CORPORATION**

By 

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