

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Joint Petition for Determination of Need for Proposed Electrical Power Plant and Related Facilities, Indiantown Project, by Florida Power & Light and Indiantown Cogeneration, L.P.)	DOCKET NO. 900709-EQ
)	ORDER NO. 23830
)	ISSUED: 12-4-90
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Pursuant to Notice a Prehearing Conference was held on November 27, 1990, in Tallahassee, Florida, before Chairman Michael McK. Wilson, Hearing Officer.

APPEARANCES:

CHARLES GUYTON, ESQUIRE and MATTHEW CHILDS, ESQUIRE, Steel, Hector and Davis, 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301-1804
On behalf of Florida Power & Light Company

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On behalf of Indiantown Cogeneration, L.P.

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On behalf of Florida Municipal Power Agency

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On behalf of the Commission Staff

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DOCUMENT NUMBER-DATE
10711 DEC -4 1990
PSC-RECORDS/REPORTING

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PREHEARING ORDER

Background

On August 9, 1990, Florida Power & Light Company (FPL) and Indiantown Cogeneration, L.P. (ICL) filed a joint petition for a determination of need for a proposed electrical power plant and related facilities located in Martin County, Florida pursuant to Section 403.519, Florida Statutes. The proposed facility will be located near Indiantown, Florida and will be owned and operated by ICL. The proposed unit has a projected in-service date of December 1, 1995. On August 27, 1990 FPL filed a petition seeking approval of the power sales agreement executed by FPL and ICL concerning this same project. By Order, the two dockets were consolidated for the purpose of hearing. The Florida Municipal Power Agency (FMPA), a wholesale customer of FPL sought and was granted intervention in the need determination docket. On November 1, 1990 the Commission determined that Nassau Power Corporation (Nassau) by virtue of its June 13 filing of an executed standard offer power sales contract had first priority with respect to the right to 435 megawatts of electricity required by utilities in lieu of the 1996 statewide avoided unit. On November 6, 1990 Nassau filed amended petitions to intervene in both the need determination and contract approval docket. At the Prehearing Conference, both petitions were granted.

Use of Prefiled Testimony

All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and exhibits, unless there is a sustainable objection. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his testimony at the time he or she takes the stand.

Use of Depositions and Interrogatories

If any party seeks to introduce an interrogatory or a deposition, or a portion thereof, the request will be subject to proper objections and the appropriate evidentiary rules will govern. The parties will be free to utilize any exhibits requested at the time of the depositions, subject to the same conditions.

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Order of Witnesses

The witness schedule is set forth below in order of appearance by the witness' name, subject matter, and the issues which will be covered by his or her testimony.

ICL

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
J. P. Kearney	Overview of ICL and Indiantown Project; corporate strengths and experience of ICL and PGE/Bechtel; policy matters.	1, 7, 13, 17
S.A. Sorrentino	Details of Indiantown Project; project site; plant facilities; power sales agreement; steam customer; fuel supply; interconnection; associated facilities; project cost and schedule; benefits of project.	1,7,8,9, 10,13,15, 17
J. R. Cooper	Project financing structure; ability to finance project.	1,7,13,17

FPL

G. R. Cepero	Requests and supports findings sought by FPL regarding the ICL contracts.	1,7,8,10, 17
S. S. Waters	FPL's need for power from Indiantown Cogeneration, L.P. (ICL) Economics of the ICL contract and other generating alternatives Other benefits of the ICL contract	1-9,11-14, 16,17

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EXHIBITS

<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
()	Kearney	Portions of Exhibit 1 of joint petition to determine need for electrical power plant (August, 1990)
(JPK-1)	Kearney	Sections 1.1.1 to 1.1.3 Organization Structure
(JPK-2)	Kearney	Bechtel Cogeneration Projects
(JPK-3)	Kearney	PGE/Bechtel Generating Company Advanced Projects (revised)
()	Kearney	Map of PGE/Bechtel Generating Company Projects
()	Sorrentino	Portions of Exhibit 1 to joint petition to determine need for electrical power plant (August, 1990)
()	Sorrentino	Section 1.0 (portions relating to ICL) Sections 1.3.1 to 1.3.8 Section 1.3.10 Section 1.6
()	Sorrentino	Photograph of Plant Site
(SAS-1)	Sorrentino	Location Map
(SAS-2)	Sorrentino	Site Plan

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<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
<u>(SAS-3)</u>	Sorrentino	Comparison Between ICL Contract and Standard Offer Contract
<u>(SAS-4)</u>	Sorrentino	ICL Project Schedule
<u>(SAS-5)</u>	Sorrentino	Agreement in Principle with Caulkins Citrus
<u>(SAS-6)</u>	Sorrentino	Letter of Intent with Caulkins Citrus
<u>(SAS-8)</u>	Sorrentino	Letter of Intent with CXS Railroad
<u>(SAS-9)</u>	Sorrentino	Letter of Intent with Indiantown Gas
<u>()</u>	Cooper	Portions of Exhibit 1 of joint petition to determine need for electrical power plant (August, 1990) - Section 1.3.9
<u>(GRC-1)</u>	Cepero Document No. 1	Composite Agreement for the purchase of firm capacity and energy between Indiantown Cogeneration, L.P. and Florida Power & Light Company
	Document No. 2	Graph Illustrating Performance Based capacity pricing provisions of the ICL/FPL Agreement

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<u>EXHIBIT</u>	<u>WITNESS</u>	<u>DESCRIPTION</u>
<u>(SSW-1)</u>	Waters Document No. 1	Composite Summary of FPL's Summer Peak Demand, Winter Peak Demand and Net Energy for Load Forecast
	Document No. 2	FPL's Fuel Forecast
	Document No. 3	FPL's Annual Targets for Non-Firm Service Programs
	Document No. 4	FPL's Financial and Economic Assumptions
	Document No. 5	Summary of FPL Assumptions on Cost and Performance of New Generating Units
	Document No. 6	Loss of Load Probability Graph
	Document No. 7	FPL Expansion Plans with and without Potential Qualifying Facilities
	Document No. 8	Graph of Relative Economics of ICL Project and FPL's 1996 IGCC Unit

STATEMENTS OF BASIC POSITIONS

Florida Power & Light Company (FPL): The joint petition for determination of need for the Indiantown project should be granted. The project meets all the statutory criteria for the Commission's determination of need, and the only alternative being championed is much less beneficial and is more risky than the Indiantown project.

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Judged from virtually any perspective - first in time, negotiated versus standard offer contract, viability, risk, cost and total benefit, probability of performance, stage of development - the Indiantown project, in conjunction with the proposed purchase of Scherer Unit No. 4, presents the better alternative to meet FPL's capacity needs.

Indiantown Cogeneration, L.P. (ICL): Indiantown Cogeneration, L.P. (ICL) has negotiated a comprehensive and detailed Agreement for Purchase and Sale of Capacity and Energy ("Agreement") with Florida Power & Light Company (FPL). Under the Agreement, ICL will provide 270-330 MW of firm capacity and energy to FPL from its Indiantown Project, a coal-fired cogeneration plant located in Martin County, Florida. The anticipated commercial operation date for the project is December 1, 1995. The capacity provided by the project will contribute to deferral of a 1996 IGCC unit that FPL would otherwise have required. The project will supply up to 215,000 pounds/hour of steam to Caulkins Citrus processing plant, and will be a qualifying facility under PURPA.

The Indiantown Project is the most cost-effective alternative available to FPL for meeting a portion of its 1996 capacity need, saving over \$90 million compared to FPL's avoided cost for a comparable amount of IGCC capacity. The project also provides savings of approximately \$67 million compared to the statewide avoided unit priced with no risk factor, before quantification of the value of ICL's location, dispatchability and other benefits.

The Indiantown Project and related Agreement include a number of benefits and risk reduction factors that provide significant value to FPL and its ratepayers compared to standard offer contracts.

The benefits and risk reduction factors, which are discussed in more detail under Issues 1 and 13, include: (a) project sponsors with substantial experience in all phases of the electric power business; (b) a project at a relatively advanced stage of project development; (c) a location close to FPL's load center, which reduces losses and minimizes impact on the transmission grid and improves system reliability; (d) dispatchability by FPL; (e) a proven coal technology that uses a stable, domestically-sourced fuel; (f) pay-for-performance provisions with substantial incentives for high capacity factor and on-peak performance; (g)

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operational and other provisions designed to ensure the capability for high capacity factor operation; and (h) numerous financial provisions, restrictions, and security provisions designed to protect FPL and its ratepayers.

STAFF: Staff takes no basic position on the Joint Petition at this time. Staff reserves the right to take a position on any or all issues after the completion of discovery.

Florida Municipal Power Agency (FMPA): FMPA concurs with Florida Power & Light Company's (FPL) stated need for additional generation capacity in 1996 and ensuing years. As a wholesale customer of FPL, FMPA is dependent upon FPL having an adequate source of generation and transmission facilities in order for FPL to meet its contractual obligations to FMPA. Without an adequate source of wholesale power, FMPA and the municipalities that FMPA supplies will experience serious economic consequences as well as public health and safety problems.

STATEMENT OF ISSUES AND POSITIONS

ISSUES OF FACT

Sufficiency of the Data

ISSUE 1: Has ICL provided sufficient information on the site, technology and status of project development of the Indiantown Project to enable the Commission to evaluate its proposal?

FPL: Yes. (Waters)

ICL: Yes. The plant site is located in southwestern Martin County, about three miles northwest of Indiantown, and adjacent to Caulkins Citrus processing plant, the steam customer for the facility. ICL has options to purchase the two parcels of land comprising the site, which totals approximately 325 acres. The site is adjacent to the CSX Railroad. The existing Martin-Indiantown 230 kV transmission line, to which the project will be interconnected, crosses the site. The plant will use proven pulverized coal technology, which uses a stable,

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domestically-sourced fuel. The Site Certification Application for the plant, which is based on preliminary engineering design data, is scheduled for submission for DER in December, 1990.

The project's sponsors are subsidiaries of Pacific Gas & Electric Company and Bechtel Group, Inc., who together have significant experience in all aspects of the electric generation business, including the construction and operation of power plants. The sponsors have agreed to a structure which will include a minimum of 10% equity and the project is being structured to make it readily financeable on a project finance basis.

The project is at an advanced stage of development. ICL has a power sales agreement signed after 18 months of negotiation; an agreement in principle with its steam customer; a letter of intent from the CSX railroad for fuel transport; a letter of intent from Indiantown Gas for gas supply for start-up operations and supplemental firing; and expressions of interest from a number of potential coal suppliers. (Kearney, Sorrentino, Cooper)

FMPA: No position at this time.

STAFF: Yes.

ISSUE 2: Are the reliability criteria used by FPL to determine its need for 270-330 MW of capacity in 1996 to be satisfied by the proposed Indiantown Project reasonably adequate for planning purposes?

FPL: Yes. FPL used two reliability criteria: a summer peak reserve margin of 15% and a maximum loss of load probability of 0.1 days per year. These criteria are commonly used in the utility industry, and the Commission has previously found FPL's use of them to be reasonable. (Waters)

ICL: Agree with FPL.

FMPA: No position at this time.

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STAFF: Yes.

ISSUE 3: Is the load forecast used by FPL to determine its need for 270-330 MW of capacity in 1996 to be satisfied by the proposed Indiantown Project reasonably adequate for planning purposes?

FPL: Yes. The Commission has previously found the use of this load forecast by FPL to be reasonably adequate for planning purposes, and the use of an updated forecast would not significantly impact the results of FPL's analysis. (Waters)

ICL: Agree with FPL.

FMPA: No position at this time.

STAFF: Yes.

FPL's Need For Additional Capacity

ISSUE 4: Does FPL, as an individual utility interconnected with the statewide grid, exhibit a need for additional capacity in 1996?

FPL: Yes. FPL exhibits a need for approximately 900 MW of additional capacity in 1996 to be able to achieve its reliability criteria. (Waters)

ICL: Agree with FPL.

FMPA: Yes. FMPA is uncertain as to whether or not the Indiantown Project best meets FPL's need.

STAFF: Yes.

ISSUE 5: Does FPL, as an individual utility interconnected with the statewide grid, have a need by 1996 for the additional 270-330 MW of capacity represented by the Indiantown Project?

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FPL: Yes. FPL has a need for the ICL capacity in 1996 and beyond. (Waters)

ICL: Agree with FPL.

FMPA: No position at this time.

STAFF: No position at this time.

ISSUE 6: Are there any adverse consequences to FPL and its customers if the proposed Indiantown Project is not completed in the approximate time frame provided in the power purchase agreement with ICL?

FPL: Absent ICL's contribution of additional capacity to meet FPL's need, system reliability would degrade to unacceptable levels. FPL's Loss of Load Probability (LOLP) criteria would not be met, and the likelihood of service interruptions due to capacity shortfalls would increase. (Waters)

ICL: Agree with FPL.

FMPA: Yes. FMPA will suffer adverse consequences if the Indiantown Project is determined to be most appropriate project to satisfy FPL's needs and if that project is not completed in the approximate time frame contemplated.

STAFF: No position at this time.

ISSUE 7: Would the proposed Indiantown Project and the purchase of power pursuant to the ICL/FPL contract contribute to the reliability and integrity of FPL's electric system?

FPL: Yes. The Indiantown project would significantly contribute to FPL's electric system reliability and integrity, (Waters) and the ICL/FPL contract has a number of features specifically designed to help ensure the ICL project will be a reliable source of electricity for FPL's system. (Cepero)

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ICL: Yes. The ICL Project and contract will provide a highly reliable source of power to FPL. The project is located close to FPL's load center and can be easily integrated into the electric grid in a way that will contribute to system integrity and reliability. As a coal-fired facility, the project makes use of a stable, domestically-sourced fuel supply which increases reliability. The project's sponsors have significant experience in all aspects of the electric power generation business and have agreed to a financial structure with a minimum of 10% equity. In addition to dispatchability, the agreement between FPL and ICL contains a number of operational provisions, pay-for-performance provisions, and security provisions that are designed to ensure its timely commercial operation and reliable, long-term operation. (Kearney, Sorrentino, Cooper)

FMPA: No position at this time.

STAFF: No position at this time.

Adequate Electricity at Reasonable Cost

ISSUE 8: Would the proposed Indiantown Project and the proposed purchase power agreement between ICL and FPL reliably provide electricity to FPL at a reasonable cost to assist FPL in providing reliable service to its customers?

FPL: Yes. The ICL Project has an excellent location that enhances system reliability and integrity. The ICL/FPL agreement has a number of provisions that provide assurance of reliability and performance. The costs to be paid by FPL are well below FPL's avoided costs and the costs of the statewide avoided unit. (Waters, Cepero)

ICL: Yes. The Indiantown Project will be designed for reliable, high capacity factor operation. The unit design and maintenance plans will be reviewed by independent engineers to ensure that the facility is capable of maintaining a minimum 87% capacity billing factor. The combination of dispatchability by FPL and pay-for-performance provisions with substantial incentives for

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high capacity factor operation and on-peak performance will ensure that the facility will be available to meet FPL's needs. This capacity and energy comes at a reasonable cost, at savings of approximately \$90 million compared to FPL's own avoided unit. (Sorrentino)

FMPA: No position at this time.

STAFF: No position at this time.

ISSUE 9: Is the fuel price forecast used by FPL to compare power supply alternatives reasonable for planning purposes?

FPL: Yes. The Commission has previously found this forecast to be reasonable. (Waters)

ICL: ICL understands that the fuel price forecast methodology used by FPL and the resultant forecast used to compare power supply alternatives were recently found appropriate for planning purposes in the need determination proceedings for the repowering of Lauderdale Unit Nos. 4 and 5 (Docket No. 890973-EI) and the construction of Martin Unit Nos. 3 and 4 (Docket No. 890974-EI). While that forecast was used to evaluate alternatives to the Indiantown Project, it is not used directly to forecast the energy cost from the project, since that energy cost is fixed by the terms of the power sales agreement.

FMPA: No position at this time.

STAFF: Yes.

ISSUE 10: Does ICL's fuel selection and fuel procurement plan provide adequate assurances regarding the availability of fuel for the Indiantown Project?

FPL: Yes. (Cepero)

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ICL: Yes. ICL plans to procure coal, a stable, domestically-sourced fuel, from one or more coal suppliers in the Southern Appalachian coal region of Kentucky, Virginia and West Virginia. ICL intends to issue a request for proposals for fuel supply during mid-1991. Based on a preliminary solicitation of statements of qualification, ICL has already received expressions of interest from a number of potential coal suppliers. ICL is contractually obligated to FPL to provide a minimum of 50% of the plant's coal requirement of approximately 1,000,000 tons/year under firm long-term contracts, and anticipates that a substantially higher percentage may be contracted for on a firm basis. ICL has a letter of intent from the CSX Railroad, whose rail line is adjacent to the site, to provide fuel transportation. In addition, ICL has a letter of intent from Indiantown Gas for gas supply for start-up and supplemental firing. (Sorrentino)

FMPA: No position at this time.

STAFF: No position at this time.

ISSUE 11: Will the Indiantown Project contribute toward maintaining adequate fuel diversity for FPL's system?

FPL: Yes. (Waters)

ICL: Agree with FPL.

FMPA: No position at this time.

STAFF: Yes.

Cost-Effective Alternatives

ISSUE 12: Has FPL reasonably considered alternative supply side sources of capacity?

FPL: Yes. FPL has considered a wide variety of alternative supply side sources of capacity including: numerous utility constructed generation alternatives, power

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purchases from other utilities, power purchases from other qualifying facilities, power purchases from independent power producers and purchases of existing utility plants. This analysis shows the purchase of power from the Indiantown project to be an essential part of FPL's most cost-effective and prudent means of meeting its need for additional capacity. (Waters)

ICL: Yes. ICL understands that FPL has considered numerous alternative supply side sources of capacity, including utility-constructed units and other QF-supplied capacity.

FMPA: No position at this time.

STAFF: No position at this time.

ISSUE 13: Is the Indiantown Project and the purchased power agreement between ICL and FPL the most cost-effective means of meeting 270-330 MW of FPL's 1996 capacity need, taking into account risk factors that are part of the cost-effectiveness analysis?

FPL: Yes. The combination of the Indiantown Project and the proposed Scherer Unit No. 4 purchase is the most cost effective means of meeting FPL's 1996 need for capacity. Given the stage of ICL's project development, the benefits of the negotiated contract with ICL and the need to reduce risk and uncertainty in the system planning process, the ICL project and the proposed Scherer Unit No. 4 purchase is the most cost effective alternative in meet FPL's need for additional capacity in 1996. (Waters)

ICL: Yes. The Indiantown Project and the purchased power agreement between ICL and FPL is the most cost-effective means of meeting 270-330 MW of FPL's 1996 capacity need. The Indiantown Project provides savings of \$90 million compared to FPL's own avoided cost.

The Indiantown Project also provides savings of \$67 compared to the full cost of the statewide avoided unit when both units are assumed to run at the 70% capacity

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factor required by a standard offer contract. The Indiantown Project has been calculated to cost \$61 million more than the statewide avoided unit when a 20% risk factor is included in the avoided unit pricing. However, the calculated savings versus the statewide avoided unit do not include: (1) the value of location near FPL's load center, which is significant when compared to standard offer projects located in extreme North Florida; (2) the value of the Indiantown Project's expected on-peak performance; or (3) the value of FPL and its ratepayers of the dispatchability of the Indiantown Project. When the value of location is quantified, the Indiantown Project saves \$136 million compared to 300 megawatts of standard offer capacity located in northeast Florida.

The calculated savings versus the statewide avoided unit also do not include any quantification of the numerous features of the Indiantown Project and its power sales agreement that reduce the risks associated with the project and provide benefits to FPL and its ratepayers.

These project-related factors include, in addition to the favorable location near FPL's load center, sponsorship by an organization with substantial experience in all phases of the electric power business and a proven coal-fired technology which uses a stable, domestically-sourced fuel. They also include the fact that the project is at a relatively advanced stage of development. For example, ICL has a power sales agreement signed after 18 months of negotiation; an agreement in principle with its steam customer; options to purchase the property on which the plant will be located; a letter of intent from the CSX railroad for fuel transportation; a letter of intent from Indiantown Gas for gas supply for start-up operations and supplemental firing; and expressions of interest from a number of potential coal suppliers. ICL plans to file its Site Certification Application with DER during December, 1990.

The agreement-related factors include-in addition to dispatchability by FPL- the following: the contract is on a pay-for-performance basis with substantial

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incentives for high capacity factor and on-peak performance; maintenance scheduling will be coordinated with FPL; ICL's construction and maintenance plans will be reviewed by independent engineers to ensure the capability for high capacity factor operation; ICL has agreed with FPL to meet contractual milestones and to provide \$9 million as security for \$750,000 per month in liquidated damages if ICL fails to begin commercial operation according to the terms and conditions of the agreement; and ICL has agreed to provide substantial financial assurances to FPL to support long-term operation of the project, including a \$5 million cash reserve fund to ensure continued QF status, a \$30 million cash reserve fund to support major overhauls of the plant, a second mortgage on the project in favor of FPL, a 10% minimum equity requirement, and other financial provisions and restrictions. (Kearney, Sorrentino, Cooper)

FMPA: No position at this time.

STAFF: No position.

Conservation

ISSUE 14: Did FPL's power supply plan reasonably consider the ability of conservation or other demand side alternatives to mitigate the need by 1996 for the capacity represented by the Indiantown Project?

FPL: Yes. FPL reflected in its load forecast an incremental demand reduction from its approved conservation programs of 126 MW. FPL also reflected 1,003 MW of demand reduction capability from its demand side management programs-residential load control, commercial/industrial load control and interruptible rates. These estimates were developed using Commission approved methodologies and cost effectiveness calculations. (Waters)

ICL: ICL adopts the position of FPL on this issue.

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FMPA: No position.

STAFF: No position at this time.

Associated Facilities

ISSUE 15: What off-site associated facilities are required in connection with the development of the Indiantown Project?

FPL: FPL adopts the position of ICL on this issue.

ICL: The Project will interconnect with the existing Martin-Indiantown 230 kV transmission line which crosses the plant site. No off-site transmission facilities will be required. An approximate 20-mile water transmission line will be required in existing railroad right of way to transport agricultural waste water to the site from the Taylor Creek-Nubbin Slough. (Sorrentino)

FMPA: No position at this time.

STAFF: No position at this time.

Peninsular Florida Issue

ISSUE 16: Is the capacity to be provided by the Indiantown Project 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?

FPL: Yes. FPL's need for additional capacity in 1996 is part of a statewide need for capacity in that same year. By contributing to the reliability of FPL's system, the project will also contribute to the reliability of the interconnected Peninsular Florida system in a cost-effective manner and will contribute to maintaining fuel diversity. (Waters)

ICL: ICL adopts the position of FPL on this issue.

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FMPA: No position at this time though FMPA believes it is more prudent that FPL locate new generation facilities in close proximity to its major south Florida load centers to avoid or mitigate the current transmission constraints over the North Florida transmission grid.

STAFF: Yes. FPL's need for additional capacity in 1996 is part of a statewide need for capacity in the same year.

Ultimate Issue

ISSUE 17: Based on the resolution of the above issues, should the joint petition of ICL and FPL for determination of need for the Indiantown Project be granted?

FPL: Yes. The Indiantown project meets all the statutory criteria for determination of need and presents a unique and desirable opportunity to meet a part of FPL's need for additional capacity in 1996 and beyond. (Waters, Cepero)

ICL: Yes. The Indiantown Project will provide a reliable, cost effective source of power to FPL to contribute to meeting its 1996 capacity needs. (Kearney, Sorrentino, Cooper)

FMPA: No position at this time.

STAFF: No position.

E. Stipulated Issues

None at this time.

F. Pending Motions

None.

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G. Other Matters

Subsequent to the Prehearing Conference, Nassau Power Corporation withdrew from this docket. This Prehearing Order has been edited to reflect this fact.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that these proceedings shall be governed by this Order unless modified by the Commission.

By ORDER of Chairman Michael McK. Wilson, as Hearing Officer
this 4th day of DECEMBER, 1990.


MICHAEL MCK. WILSON,
Chairman and Hearing Officer

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