

MEMORANDUM

OCTOBER 7, 1998

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RECORDS AND  
REPORTING

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (C. KEATING) *RUE WCK*

RE: DOCKET NO. 980802-EM - Petition to determine need for Cane Island Power Park Unit 3 and related facility in Osceola County by Kissimmee Utility Authority and Florida Municipal Power Agency.

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*PSC-98-1301-FOE-EM*

Attached is a FINAL ORDER GRANTING PETITION TO DETERMINE NEED FOR ELECTRICAL POWER PLANT to be issued in the above-referenced docket. (Number of pages in order - 7)

WCK/js  
Attachment  
cc: Division of Electric and Gas (Haff)  
I:980802fo.wck

*see 1,3,5,6*

*Please issue  
Today!*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to determine need for Cane Island Power Park Unit 3 and related facility in Osceola County by Kissimmee Utility Authority and Florida Municipal Power Agency.

DOCKET NO. 980802-EM  
ORDER NO. PSC-98-1301-FOF-EM  
ISSUED: October 7, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman  
J. TERRY DEASON  
E. LEON JACOBS, JR.

FINAL ORDER GRANTING PETITION TO DETERMINE NEED  
FOR ELECTRICAL POWER PLANT

APPEARANCES:

ROY C. YOUNG, ESQUIRE, Young, van Assenderp & Varnadoe, P.A.,  
225 South Adams Street, Tallahassee, Florida 32301  
On behalf of Kissimmee Utility Authority (KUA).

FREDERICK M. BRYANT, ESQUIRE, William, Bryant & Gautier, P.A.,  
2010 Delta Boulevard, Tallahassee, Florida 32303  
On behalf of Florida Municipal Power Agency (FMPA).

WILLIAM COCHRAN KEATING, IV, ESQUIRE, Florida Public Service  
Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida  
32399-0850  
On behalf of the Commission Staff.

BY THE COMMISSION:

I. CASE BACKGROUND

Kissimmee Utility Authority (KUA) is a municipal electric utility engaged in the generation, transmission, and distribution of electric power to retail customers within the State of Florida. Florida Municipal Power Agency (FMPA) is a joint agency formed pursuant to the Florida Interlocal Cooperation Act of 1969, Section 163.01, Florida Statutes, and exercises powers under the Joint Power Act, Chapter 361, Part II, Florida Statutes. FMPA has authority, among other things, to undertake and finance electric projects within and without the State of Florida. FMPA does not serve any retail load.

DOCUMENT NUMBER-DATE

11021 OCT-7 98

FPC-RECORDS/REPORTING

Pursuant to Section 403.519, Florida Statutes, KUA and FMPA jointly filed a Petition to Determine Need for Electrical Power Plant for a proposed 250 megawatt (MW) combined cycle electrical power plant. The proposed plant would have an in-service date of June 1, 2001, and would be constructed at the existing Cane Island Power Park site in Osceola County, Florida. An administrative hearing on the petition was conducted September 17, 1998. No party intervened in this docket.

## II. DECISION

Section 403.519, Florida Statutes, sets forth the matters that this Commission must consider in determining the need for an electrical power plant. The statute states, in pertinent part:

In making its determination, the commission shall take into account the need for electric system reliability and integrity, the need for adequate electricity at a reasonable cost, and whether the proposed plant is the most cost-effective alternative available. The commission shall also expressly consider the conservation measures taken by or reasonable available to the applicant or its members which might mitigate the need for the proposed plant and other matters within its jurisdiction which it deems relevant.

Section 403.519, Florida Statutes (1997).

Upon consideration of the record evidence in light of the criteria set forth in Section 403.519, Florida Statutes, we hereby grant the Kissimmee Utility Authority and Florida Municipal Power Agency's joint Petition to Determine Need for Electrical Power Plant.

### A. Need for Electric System Reliability and Integrity

We find that KUA and FMPA have both demonstrated the need for additional capacity in the year 2001 in order to maintain the reliability of their electric systems. The additional capacity from the proposed plant ("Cane Island Unit 3") will enable KUA and FMPA to satisfy their respective reliability criteria of 15% and 18% reserve margins. Further, the additional capacity will contribute to maintaining the reliability of Peninsular Florida's electric grid.

We find reasonable the base case Energy and Peak Demand forecasts used by KUA and FMPA to determine the need for their individual 50% (125 MW) shares of capacity from Cane Island Unit 3. FMPA has demonstrated a need for 125 MW of additional capacity in the year 2001 to meet its 18 percent reserve margin criterion. Even at its 15 percent minimum reserve criterion, FMPA has demonstrated this need. KUA has also demonstrated a need for additional capacity in the year 2001 to meet its reliability criterion. While KUA needs only 78 MW of additional capacity in the year 2001, KUA is expected to need its full 125 MW share of capacity from Cane Island Unit 3 by 2003. Further, additional load associated with the development of the proposed World Exposition Center in KUA's service territory may not be fully realized in KUA's base case forecasts. In any event, KUA's 125 MW share of capacity from Cane Island Unit 3 is the most cost-effective resource alternative available to meet KUA's need for capacity in 2001, as discussed below.

We find that the timing of KUA and FMPA's petition is appropriate. The petition was filed in a reasonable time to allow KUA and FMPA to obtain the necessary regulatory approvals and to begin construction in order to meet the planned June 1, 2001, in-service date for Cane Island Unit 3. Further, we find that there will be adverse consequences to KUA and FMPA customers if Cane Island Unit 3 is not completed in the requested time frame. Both utilities would be forced to take short-term measures to satisfy their need for electricity, such as buying replacement power from other utilities or power marketers. The availability and cost of short-term purchased power is unknown.

Based upon KUA and FMPA's fuel price forecast and its underlying assumptions, we find that the utilities have provided adequate assurances regarding the availability of primary and secondary fuel to serve Cane Island Unit 3 on a long-term and short-term basis at a reasonable cost. KUA and FMPA intend to make contract and spot purchases of natural gas from Florida Gas Utility to provide the primary fuel to Cane Island Unit 3. KUA and FMPA also plan to increase their on-site storage capacity for No. #2 oil, the secondary fuel, in order to allow for more than three days of full load operation of Cane Island Units 1, 2, and 3. Further, we find that KUA and FMPA have provided adequate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Cane Island Unit 3 site. Natural gas is supplied to the site via a pipeline lateral jointly owned by KUA and FMPA and operated by Florida Gas Transmission (FGT). Based on

the capacity of this lateral and FGT's Phase IV expansion plans, sufficient natural gas pipeline capacity will be available to transport natural gas to the Cane Island Unit 3 site.

Cane Island Unit 3 will not contribute to fuel diversity for KUA because over half of KUA's existing capacity is gas-fired. However, the proposed unit will contribute to FMPA's fuel diversity by increasing the All Requirements Project's gas-fired capacity from 12 percent to 21 percent. Because the capacity of the proposed combined cycle unit is small relative to the generating capacity of Peninsular Florida, the proposed unit will not materially affect fuel diversity for Peninsular Florida.

B. Need for Adequate Electricity at Reasonable Cost

As we have found, KUA and FMPA have both demonstrated the need for additional capacity in the year 2001 in order to maintain the reliability of their electric systems. As we have also found, there will be adverse consequences to KUA and FMPA customers if Cane Island Unit 3 is not completed in the requested time frame; both utilities will be forced to buy short-term purchased power, the availability and cost of which is unknown.

We find that Cane Island Unit 3 will provide adequate electricity at a reasonable cost to maintain KUA and FMPA's respective reserve margin criteria. The proposed plant has an estimated installed cost of \$449/kW, or approximately \$118 million total. The proposed plant will generate low-cost electricity by using highly efficient and proven combined cycle technology. As detailed below, we find that Cane Island Unit 3 is the most cost-effective alternative available to meet the reliability needs of KUA and FMPA.

C. Most Cost-Effective Alternative Available

We find that KUA and FMPA have demonstrated that the addition of each entities' 50% share of Cane Island Unit 3 is the most cost-effective alternative available to both entities. Both KUA and FMPA adequately explored and evaluated the availability of purchased power options from other electric utilities and non-utility generators. KUA and FMPA simultaneously issued Requests for Proposals for alternatives to Cane Island Unit 3, but none of the responsive proposals was more cost-effective than the proposed plant. Further, as discussed below, no demand-side management programs or other resources proved to be cost-effective

alternatives. Finally, KUA and FMPA adequately explored a broad range of alternative generating technologies, including conventional, advanced, and renewable technologies, none of which were more cost-effective than Cane Island Unit 3.

The 20-year cumulative present worth revenue requirements (CPWRR) of KUA's share of Cane Island Unit 3 are approximately \$784 million. On a 20-year CPWRR basis, Cane Island Unit 3 is 22.5%, or approximately \$176 million, more cost-effective than the next best alternative.

As stated above, FMPA is a joint agency, formed pursuant to statute, with the authority to undertake and finance electric projects, among other things. FMPA does not serve any retail load. Pursuant to its statutory powers, FMPA is a member of the Florida Municipal Power Pool, along with KUA, City of Lakeland, and Orlando Utilities Commission. The record shows that FMPA's share of Cane Island Unit 3 will result in CPWRR savings to FMPP of \$26.6 million over the first six years of the plant's operation alone.

KUA and FMPA provided sufficient information on the site, design, and engineering characteristics of Cane Island Unit 3 for this Commission to evaluate all aspects of the proposed unit. We find that the economic and financial assumptions used by KUA and FMPA in their integrated resource planning studies are reasonable. The assumed escalation rates, bond interest rate, present worth discount rate, and interest during construction rate used by KUA and FMPA reflect current rates and trends for inflation and tax-exempt debt. We also find that KUA and FMPA's joint fuel price forecasts for coal, No. #6 oil, No. #2 oil, nuclear energy, and natural gas are reasonable.

Further, we find that KUA and FMPA adequately considered the costs of environmental compliance in estimating the costs of Cane Island Unit 3. KUA and FMPA included a contingency factor for increased environmental compliance costs in the capital cost estimates for the proposed plant. We also find that KUA and FMPA adequately considered the costs of associated facilities and transmission improvements required in conjunction with the construction of Cane Island Unit 3. The proposed plant requires a three mile transmission line from the Cane Island Power Park site to Intercession City. The estimated costs for this transmission line were included in the evaluation of the proposed plant.

D. Conservation Measures

We find no conservation measures taken by or reasonably available to KUA or FMPA which might mitigate the need for all or part of the proposed plant. KUA and FMPA evaluated nearly 70 DSM measures, but no new cost-effective DSM programs were found which would mitigate the need for Cane Island Uni' 3.

III. CONCLUSION

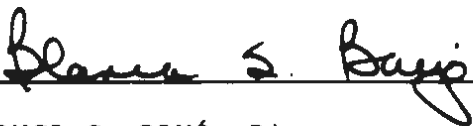
Upon consideration of the record evidence in light of the criteria set forth in Section 403.519, Florida Statutes, we hereby grant the Kissimmee Utility Authority and Florida Municipal Power Agency's joint Petition to Determine Need for Electrical Power Plant.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Kissimmee Utility Authority and Florida Municipal Power Agency's joint Petition to Determine Need for Electrical Power Plant for a proposed 250 megawatt (MW) combined cycle electrical power plant to be constructed at the existing Cane Island Power Park site in Osceola County, Florida, for commercial service by June 1, 2001, is hereby granted. It is further

ORDERED that this docket shall be closed after the time for filing an appeal has run.

By ORDER of the Florida Public Service Commission this 7th day of October, 1998.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

WCK

ORDER NO. PSC-98-1301-FOF-EM  
DOCKET NO. 980802-EM  
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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.



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