514

1 BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

2

3 DOCKET NO. 060635-EU

4 In the Matter of

5 PETITION FOR DETERMINATION OF NEED FOR

ELECTRICAL POWER PLANT IN TAYLOR COUNTY

6 BY FLORIDA MUNICIPAL POWER AGENCY, JEA,

REEDY CREEK IMPROVEMENT DISTRICT, AND

7 CITY OF TALLAHASSEE.

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9 VOLUME 6

10 Pages 514 through 642

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14

15 PROCEEDINGS: HEARING

16

BEFORE: CHAIRMAN LISA POLAK EDGAR

17 COMMISSIONER ISILIO ARRIAGA

COMMISSIONER MATTHEW M. CARTER, II

18 COMMISSIONER KATRINA J. TEW

19 DATE: Thursday, January 11, 2007

20 TIME: Commenced at 9:30 a.m.

21 PLACE: Betty Easley Conference Center

Room 148

22 4075 Esplanade Way

Tallahassee, Florida

23

REPORTED BY: MARY ALLEN NEEL, RPR, FPR

24

APPEARANCES: (As heretofore noted.)

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from

3 Volume 5.)

4 CHAIRMAN EDGAR: Okay. We will go back on the

5 record. Thank you all. I know it's been a long day.

6 My under -- I'm sorry. That's okay. My

7 understanding -- right before we went on break, I said

8 let's talk about schedules, and I understand that some

9 of those procedural discussions have occurred -- is that

10 we are good to go tomorrow, that we may take a witness

11 or two, or maybe even three if something else comes up,

12 out of order, which, of course, we will work through

13 together, but as I said, I'm certainly amenable to.

14 And we will just go for a little while longer

15 today and then break for the evening, come back fresh

16 tomorrow at 9:30, and push through as hard as we can. I

17 have a commitment at 1:00 that I do need to still honor,

18 so I'm going to, as we have the last two days, aim to

19 take kind of a late lunch break and work it that way.

20 If there are scheduling issues that come up, work with

21 our staff, and we'll see what we can do.

22 Any questions or concerns?

23 MS. BROWNLESS: Just a question. Will we have

24 a full day of hearing tomorrow, Your Honor?

25 CHAIRMAN EDGAR: That is my intention.

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1 MS. BROWNLESS: Thank you.

2 CHAIRMAN EDGAR: Okay. Mr. Jacobs.

3 MR. JACOBS: Thank you, Madam Chair.

4 CONTINUED CROSS-EXAMINATION

5 BY MR. JACOBS:

6 Q. Mr. May, just a few more questions, and I

7 think we'll be done.

8 We were talking just prior to our break about

9 the idea that there are transmission costs, and you

10 clarified for me, and I thank you for that, that while

11 there is a lump sum charge to FMPA, you really are going

12 to kind of allocate that at the same rate that you do

13 for your normal transmission charges under the contract

14 that you have. Is that correct?

15 A. No, that is not correct.

16 Q. Okay. Why don't you explain to me then how

17 your transmission charges that are associated with TEC

18 are going to be consumed?

19 A. Okay. The transmission charges, the

20 35 million or 39 million, or whatever the number ends up

21 being, will be financed as part of the project. We

22 will -- if those charges -- we have the -- there's a

23 possibility of those charges either being designated by

24 Progress Energy as direct costs, which would be our

25 costs, or network upgrades.

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1 Indications are at this point that they'll be

2 classified as network upgrades. Being network upgrades

3 means that they would belong to Progress Energy, and

4 under our network service payment, which we pay both

5 Progress Energy and Florida Power & Light for access to

6 their transmission grid through a tariff based on our

7 demand, we would continue to pay that tariff, but on our

8 monthly bill from Progress Energy, we would receive a

9 portion of that $39 million back.

10 And so over a period as short as five years,

11 we could -- or even shorter if Progress Energy wants to

12 allocate it back, if we have enough transmission

13 charges, we could receive the cost of that back, which,

14 of course, we would pass on to our customers.

15 Q. I see. Thank you. I understand that now.

16 Individual customers who take service from an

17 FMPA member then, will they see -- they won't see a

18 difference in any transmission charge in their billing

19 per se?

20 A. The individual cus -- our individual members

21 pay for transmission charges through our demand rate.

22 Q. Okay. That then I guess moots my next line of

23 questioning, but let me ask you this. In your

24 deposition, I believe you stated that one of the ways

25 you promote DSM is by sending price signals to your

521

1 members. Based on your response here, we would assume

2 that that's only through fuel charges that those price

3 signals are transmitted?

4 A. Well, we send price signals to our customers

5 through their bill for demand charges and energy

6 charges, which is adjusted on a monthly basis.

7 Q. Okay. My real focus is, then it would not be

8 the case that a customer would want to respond -- would

9 want to look at some way of avoiding transmission

10 charges, because they probably wouldn't see those

11 charges -- any difference in those charges committed

12 through a price signal?

13 A. Avoid transmission charges?

14 Q. Yes.

15 A. I don't understand.

16 Q. It sounds like a customer would not receive

17 information about transmission through its demand

18 charges, as I've understood your explanation here.

19 A. By customer, do you mean a retail customer or

20 a member?

21 Q. No, a member.

22 A. Because we're cost based, any changes in our

23 transmission costs are reflected in the demand rate.

24 Q. I understand. Let me move on.

25 You were involved in the planning and

522

1 implementation of the Treasure Coast facility, were you

2 not?

3 A. Yes.

4 Q. And that is a combined cycle natural gas

5 plant; is that correct?

6 A. That's correct.

7 Q. Were you involved in any sensitivity analysis

8 done for Treasure Coast with regard to its alternative

9 being a coal plant?

10 A. No, we did not evaluate coal for -- as an

11 alternative for Treasure Coast in 2008.

12 Q. Okay. Have you done any analysis with regard

13 to your expansion needs that are being incorporated into

14 Taylor Energy Center? Have you done any analysis of

15 making Treasure Coast the site of those expansion plans?

16 A. I don't quite understand your question.

17 Q. For the capacity needs that are being met by

18 your ownership in Taylor, Taylor Energy Center, have you

19 done an analysis of putting a unit at Treasure Coast to

20 meet those needs?

21 A. Yes, we have.

22 Q. And what was the result of that analysis?

23 A. Well, compared to Taylor Energy Center in

24 2012, the coal plant was significantly less costly than

25 the Taylor -- than a second combined cycle unit

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1 anywhere.

2 Q. Okay. But Treasure Coast in 2008 was less

3 expensive? The gas option in 2008 was less expensive?

4 A. It was not feasible for us to build a coal

5 plant in the three-year time frame we had to get

6 Treasure Coast built for 2008.

7 Q. I see. My question, though, was -- oh, I'm

8 sorry. You answered earlier you really didn't do an

9 analysis of gas versus coal in the Treasure Coast

10 analysis.

11 Was there analysis done for Taylor Energy

12 Center -- let me strike that for one moment. At the

13 site for Treasure Coast, is there an opportunity --

14 facilitieswise and infrastructurewise, can there be an

15 additional unit built there?

16 A. That site is permitted -- yes.

17 Q. Okay.

18 A. The simple answer is yes.

19 Q. Would it have been a reasonable analysis to

20 look at your site for Treasure Coast as a brownfield

21 opportunity to build the whole facility that is now

22 planned for Taylor? Would that have been an option, as

23 a brownfield option at your site for Treasure Coast?

24 A. For FMPA, we actually did the analysis of not

25 taking 300 megawatts of Taylor Energy Center and

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1 building a combined cycle unit. It was more costly.

2 Q. I see. In 2008? I'm sorry, in 2012?

3 A. In 2012, it was more costly. And further, it

4 would be located on Florida Power & Light's transmission

5 network, and we needed something, some type of capacity

6 connected to Progress Energy's network to help meet our

7 load that's connected to Progress Energy.

8 Q. Are you aware of the -- this may be out of

9 your purview. If so, please just let me know. But are

10 you aware of the all-gas analysis that was done by the

11 City of Tallahassee?

12 A. I'm vaguely aware. I'm not familiar with it.

13 Q. In that analysis, the gas, the all-gas option

14 was the base case analysis; is that correct?

15 A. I'm not familiar with it. I can't comment on

16 that analysis.

17 MR. JACOBS: Okay. Just one moment. I think

18 I may be done.

19 Thank you.

20 CHAIRMAN EDGAR: Are there questions from

21 staff?

22 MS. FLEMING: Yes, and we'll be very brief.

23 CROSS-EXAMINATION

24 BY MS. FLEMING:

25 Q. Good afternoon, Mr. May.

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1 A. Hi.

2 Q. In your deposition, you stated that FMPA has

3 an 80-megawatt purchased power agreement with Southern

4 Company set to expire in 2013; correct?

5 A. Correct, yes.

6 Q. And you further testified that FMPA hasn't

7 made a decision as of yet whether to extend that

8 contract; correct?

9 A. Yes, that's correct.

10 Q. If FMPA chooses to extend this contract, how

11 will it affect FMPA's need for capacity in Taylor

12 Energy?

13 A. It would not affect it at all, because our

14 need for Taylor Energy for capacity in the time frame

15 2012 and 2013 far exceeds the 80 megawatts that we have

16 available through that contract.

17 Q. What is FMPA doing to review the availability

18 of additional cost-effective purchased power

19 opportunities on a continuing basis?

20 A. Our planning process is to evaluate over 20

21 years what type of capacity that we need to meet, to

22 have a mix that fits our load profile and minimizes our

23 costs with respect to fuel costs and timing of those

24 generating units.

25 At the point that we see that, based on lead

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1 times, we need to pursue a certain type of capacity, we

2 will issue a request for proposals for that type of

3 capacity. For instance, for the Treasure Coast, we

4 issued a request for proposals for based intermediate

5 capacity connected to FPL or Progress Energy. And

6 knowing what kind of capacity we needed and the timing

7 of that capacity, we evaluated proposals compared to a

8 self-build option. We did the same thing for Taylor

9 Energy Center and for the peaking purchase that we

10 recently executed with Southern Company to purchase

11 capacity through Southern Company.

12 So that's generally our process of going to

13 the market to find out if there is from the market --

14 whether they're building it or capacity exists that we

15 can purchase from existing capacity to eliminate our

16 need to build something.

17 Q. We've heard that FMPA has approval for

18 participation in the Taylor Energy Center through the

19 permitting process, but not yet as to the construction

20 phase. Does that mean that the applicants will have

21 another chance to decide if they want to proceed with

22 participation in the Taylor Energy Center at the

23 construction phase?

24 A. Yes.

25 Q. And at that point, when the applicants make a

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1 determination whether they want to proceed, what factors

2 will FMPA review in order to determine if it's still in

3 the members' best interest to participate in this Taylor

4 Energy Center?

5 A. Because we do an integrated resource plan at

6 this point about every two years, we evaluate with the

7 most current information that we have all of our options

8 going forward, including the Taylor Energy Center. So

9 therefore, we would be continuing to do that evaluation.

10 At this point, the savings that we receive

11 from the Taylor Energy Center are substantially greater

12 than the next best option that we have looked at as a

13 self-build option, and even greater than that, from a

14 purchased power perspective based on proposals we've

15 received. We would at that point in time evaluate

16 whether it's still cost-effective for FMPA to pursue

17 this coal unit and make a decision at that point.

18 Q. Would you agree that it is prudent for

19 utilities to continuously evaluate whether participating

20 in a particular generation plant continues to be

21 cost-effective?

22 A. Yes, I think we should.

23 Q. Now, earlier there was some discussion

24 regarding a 2006 rate impact analysis, but we didn't

25 really get into the details of that. What were the

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1 results of that rate impact analysis?

2 A. The results of that rate impact analysis in

3 all cases that we evaluated were that over the long

4 period of time -- and long period of time at that point

5 was 20 years from 2004 or 2006. From the period of time

6 that the coal unit went in service, the rates to FMPA

7 customers were lower than the next best option. And

8 even in the 2006 case, that was reconfirmed that that

9 was the same conclusion, that the rates were lower than

10 any of the other options.

11 And we evaluated quite a few options. In the

12 2004 case, we started with nothing but combustion

13 turbines, just gas turbines, and said, "Okay. If that's

14 all we could build, what is our cost to our customers?"

15 We refined that to add more efficient units, combined

16 cycle units, up to a level that was reasonable for the

17 mix that we needed for our load and confirmed that, yes,

18 adding combined cycle units reduces our rates from

19 nothing -- from just adding combustion turbines.

20 The next thing we did was evaluate, in a

21 feasible range of achieving it, adding coal. Of course,

22 the Taylor Energy Center was that option. And it

23 further reduced our rates. So we looked at a great deal

24 of options, and in both 2004 and 2006, it was confirmed

25 that adding the coal unit reduced our rates.

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1 MS. FLEMING: Okay. Thank you. No further

2 questions.

3 CHAIRMAN EDGAR: Ms. Raepple?

4 MS. RAEPPLE: Thank you.

5 REDIRECT EXAMINATION

6 BY MS. RAEPPLE:

7 Q. Mr. May, are FMPA's members cities?

8 A. Yes.

9 Q. Do those cities' governing bodies make their

10 own independent decisions on what DSM measures are

11 appropriate to be implemented within their area?

12 A. Yes, they do.

13 Q. To determine if there are any DSM measures

14 available that might mitigate the need, that might

15 mitigate FMPA's need for the capacity to be provided by

16 the Taylor Energy Center, is it essential that FMPA's

17 total load be considered in the aggregate?

18 A. Yes, because those DSM measures would be based

19 on our adjustments to the total load that FMPA has, and

20 therefore a reduction in the peak demand for FMPA as

21 opposed to the individual cities.

22 Q. Are the DSM measures currently implemented by

23 FMPA's members reflected in FMPA's load forecasts?

24 A. Yes, they are, because we use -- our load

25 forecasts are based on two predominant measures. One

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1 is, we take their historical loads, individual cities'

2 historical loads on an hourly basis, as well as the

3 econometric data, population, average income, things of

4 that nature, for each of the 15 cities to predict how

5 those cities would grow. So to the extent that cities

6 implement DSM programs, it's reflected in the actual

7 load piece that's implemented, that's used.

8 Q. In questioning from Mr. Jacobs, you talked

9 about ESCOs. What's an ESCO?

10 A. ESCO is energy services company, which is a

11 consulting company to analyze commercial and industrial

12 energy use.

13 Q. And are those commercial and industrial

14 customers that the ESCO works with for-profit companies?

15 A. Yes, they are.

16 Q. And does the ESCO show them how they could

17 save money on their utility bill?

18 A. Yes.

19 Q. Does any utility have the ability to require

20 customers to implement cost-saving measures to lower

21 their utility bill?

22 A. Not to my knowledge. It's up to the

23 individual customer to make those decisions and

24 implement measures that could save money and reduce

25 their energy consumption.

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1 Q. And that is the information you provide to

2 them?

3 A. Well, that's the information that the ESCO

4 provides.

5 Q. That the ESCO provides? And finally, in

6 questions that Mr. Jacobs posed, you responded, talking

7 about sending price signals through demand and energy

8 charges. Could you just define for us the difference

9 between demand and energy charges, please?

10 A. We have certain costs that are costs that we

11 will incur whether there's a single megawatt-hour or

12 kilowatt-hour of energy consumed, the cost to build a

13 power plant, the cost of offices, the cost of

14 transmission. Those costs are rolled together, and

15 based on our total demand, our peak demand, our

16 coincident peak, we calculate what the demand rate would

17 be to recover those costs, and that's the demand rate

18 that's charged to the cities.

19 Our variable cost, which is based on fuel cost

20 and therefore the efficiency of the generating units,

21 our operating and maintenance cost, which varies, there

22 again, based on how the units are operating, how much

23 they're operating, we predict those total costs and the

24 total amount of energy to be consumed by the cities and

25 calculate an average energy rate to recover those costs,

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1 and so that's the energy cost that is charged to our

2 individual cities.

3 Q. So is the difference between demand and energy

4 basically the difference between fixed and variable

5 costs?

6 A. Very much, yes.

7 MS. RAEPPLE: Thank you. I have nothing

8 further.

9 CHAIRMAN EDGAR: Let's take up the exhibits.

10 MS. RAEPPLE: Yes. At this time, I would move

11 into the record Exhibits 9, 10, 11, 12, and 13.

12 CHAIRMAN EDGAR: Exhibits 9, 10, 11, 12, and

13 13 will be entered into the record.

14 (Exhibits Number 9, 10, 11, 12, and 13 were

15 admitted into evidence.)

16 CHAIRMAN EDGAR: And then, Ms. Brownless,

17 Exhibit --

18 MS. BROWNLESS: Madam Chair, we would also

19 like to move Exhibit 103.

20 CHAIRMAN EDGAR: Any objection?

21 MS. RAEPPLE: No objection.

22 CHAIRMAN EDGAR: No objection. Okay. Show

23 Exhibit 103 entered into the record.

24 (Exhibit Number 103 was admitted into

25 evidence.)

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1 CHAIRMAN EDGAR: And the witness is excused.

2 Thank you.

3 Okay. I note that it is a little after five

4 o'clock, and we have gone through three witnesses. I do

5 believe the next witness is stipulated; is that correct?

6 MS. FLEMING: That's correct.

7 CHAIRMAN EDGAR: Okay. So what do we need to

8 do in order to move through that witness?

9 MS. BRUBAKER: I would recommend that we,

10 acknowledging the stipulated nature, go ahead and move

11 the testimony into the record as though read, and also

12 the exhibits.

13 CHAIRMAN EDGAR: Okay. The exhibits from

14 witness Nunes will be entered into the record, or

15 proffered by witness Nunes will be entered into the

16 record, and his prefiled testimony will be entered into

17 the record as though read, which means that we have

18 moved through four witnesses today. So we're getting

19 there.

20 (Exhibits Number 14 and 15 were admitted into

21 evidence.)

22 MS. RAEPPLE: I believe we may be able to

23 stipulate some additional witnesses at this time.

24 CHAIRMAN EDGAR: All right. Well, let's go

25 ahead and see if we can do that. Thank you for the

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1 suggestion, Ms. Raepple.

2 MS. RAEPPLE: We are prepared to stipulate

3 Steve Urse if it's okay with the other parties.

4 MS. BRUBAKER: Staff has no objection.

5 MS. BROWNLESS: Your Honor, Mr. Urse would

6 like to present his testimony.

7 CHAIRMAN EDGAR: Okay. Then we will -- at

8 this point, then we will not stipulate witness Urse, and

9 we'll see where we are tomorrow. Okay.

10 MS. BROWNLESS: My understanding is Mr. Fetter

11 is only available today and that we can quickly do

12 Mr. Fetter.

13 MS. RAEPPLE: That is correct. He is only

14 available today. Are there any other witnesses that can

15 be stipulated? We could stipulate Dale Bryk and Hale

16 Powell.

17 MS. FLEMING: Staff doesn't have any

18 objections to either one.

19 MS. BROWNLESS: And with regard to Ms. Bryk,

20 the stipulation, as we understand it, would include the

21 one exhibit that was not stricken, which is her third

22 exhibit.

23 MS. RAEPPLE: That is correct.

24 CHAIRMAN EDGAR: Okay. So we can go ahead and

25 stipulate the witness, Ms. Bryk, and her prefiled

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1 testimony will be entered into the record as though

2 read, and the exhibit that was proffered with her

3 testimony will be entered into the record.

4 MS. BRUBAKER: That's Exhibit 60.

5 CHAIRMAN EDGAR: Thank you.

6 (Exhibit Number 60 was admitted into

7 evidence.)

8 MR. PERKO: Madam Chairman, just to confirm,

9 I'm not sure that we ever confirmed that Ms. Deevey was

10 stipulated and excused.

11 MS. FLEMING: Yes, we did.

12 MS. BROWNLESS: And do we need to move her

13 exhibits into the record as well, Your Honor?

14 MS. BRUBAKER: We originally planned to take

15 it up as it came up in turn in testimony. If you would

16 like to do it now, we certainly can do so.

17 CHAIRMAN EDGAR: Yes. Initially, that was my

18 intention, to take up the witnesses as we go, but

19 truthfully, if there are some things that we can take

20 care of that we all agree on, let's go ahead and do that

21 so that we know where we are starting tomorrow.

22 Okay. So witness Deevey, my understanding is

23 that her -- I'm guessing her testimony can be entered

24 into the record as though read. And were there

25 exhibits?

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1 MR. PABEN: Yes.

2 CHAIRMAN EDGAR: Okay. Let me get there.

3 MS. FLEMING: Ms. Deevey's exhibits were 75

4 through 81.

5 CHAIRMAN EDGAR: Okay. Thank you. So

6 Exhibits 75 through 81 will be entered into the record.

7 (Exhibits Number 75 through 81 were admitted

8 into evidence.)

9 MS. FLEMING: And Madam Chairman, if I may,

10 since we're moving in stipulated exhibits, I do note

11 that Breton and Heller and Norfolk and Pletka have been

12 stipulated, so I would suggest at this time we move in

13 their exhibits. Breton's exhibits are 32, 33, 34, 35.

14 CHAIRMAN EDGAR: Okay. Exhibits 32 through 35

15 will be entered into the record.

16 (Exhibits Number 32 through 35 were admitted

17 into evidence.)

18 MS. FLEMING: Heller's exhibits are 43 through

19 45.

20 CHAIRMAN EDGAR: Exhibits 43 through 45 will

21 be entered into the record.

22 (Exhibits Number 43 through 45 were admitted

23 into evidence.)

24 MS. FLEMING: Witness Norfolk's exhibits are

25 46 through 48.

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1 CHAIRMAN EDGAR: Exhibits 46, 47, and 48 will

2 be entered into the record.

3 (Exhibit Number 46 through 48 were admitted

4 into evidence.)

5 MS. FLEMING: And witness Pletka, 49 through

6 51.

7 CHAIRMAN EDGAR: Exhibits 49, 50, and 51 will

8 be entered into the record.

9 (Exhibits Number 49 through 51 were admitted

10 into evidence.)

11 MS. BRUBAKER: And for clarity of the record,

12 that their testimony would also be entered into the

13 record as through read?

14 CHAIRMAN EDGAR: And the prefiled testimony of

15 those witnesses will also be entered into the record as

16 though read.

17 Okay. Are there --

18 MS. RAEPPLE: There's also rebuttal for

19 Mr. Pletka.

20 CHAIRMAN EDGAR: Rebuttal for witness Pletka,

21 yes. Can we go ahead and do that as well? Yes. Okay.

22 The rebuttal prefiled testimony of witness Pletka will

23 be entered into the record as though read. Are there

24 exhibits for the rebuttal testimony?

25 MS. BRUBAKER: No. They're all -- I think

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1 we've --

2 CHAIRMAN EDGAR: We have covered them.

3 MS. BRUBAKER: -- covered everything. There's

4 also --

5 CHAIRMAN EDGAR: And witness -- I'm sorry.

6 MS. BRUBAKER: I'm sorry.

7 CHAIRMAN EDGAR: That's okay. That's all

8 right.

9 MS. BRUBAKER: I think we're about to repeat

10 each other.

11 CHAIRMAN EDGAR: I hope so. Witness Para?

12 MS. BRUBAKER: We weren't.

13 CHAIRMAN EDGAR: We weren't.

14 MS. BRUBAKER: Just rebuttal, no exhibits.

15 CHAIRMAN EDGAR: I'm sorry?

16 MS. BRUBAKER: He had rebuttal testimony,

17 only. There were no exhibits, so if we can just move

18 the rebuttal testimony into the record.

19 CHAIRMAN EDGAR: So the prefiled rebuttal

20 testimony of witness Para will be entered into the

21 record as though read.

22 Now, does -- yes, Ms. Raepple.

23 MS. RAEPPLE: I was just going to say, the

24 only -- the witness that we haven't yet addressed is the

25 potential of stipulating Hale Powell, which we are

539

1 offering.

2 MS. BRUBAKER: And staff has no objection.

3 MR. JACOBS: We would like -- excuse me, Madam

4 Chairman. We would like to have Mr. Powell testify.

5 CHAIRMAN EDGAR: Okay. All right. Then

6 again, we will leave that for tomorrow.

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1 CHAIRMAN EDGAR: Any other procedural type

2 matters that we are in a position to be able to address

3 now?

4 MS. BROWNLESS: Are we putting Mr. Fetter on

5 today, Your Honor?

6 CHAIRMAN EDGAR: Thank you. Yes, we can do

7 that.

8 MS. BROWNLESS: And we have copies of our

9 exhibits, ma'am.

10 CHAIRMAN EDGAR: Okay. Oh, good. Okay. Is

11 there any objection to calling witness Fetter at this

12 time? No. Okay.

13 MS. RAEPPLE: All right. Steven Fetter.

14 Thereupon,

15 STEVEN M. FETTER

16 was called as a witness and, having been first duly

17 sworn, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. RAEPPLE:

20 Q. State your name and business address, please.

21 A. Steven M. Fetter, 1489 West Warm Springs Road,

22 Suite 110, Henderson, Nevada, 89014.

23 Q. Have you been sworn?

24 A. Yes, I have been.

25 Q. Did you submit prefiled testimony on

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1 September 19, 2006, in this proceeding consisting of

2 seven pages?

3 A. Yes, I did.

4 Q. Do you have any changes or additions to your

5 testimony?

6 A. No, I do not.

7 Q. If I were to ask you those same questions set

8 forth in your testimony today, would your answers be the

9 same?

10 A. Yes, they would.

11 Q. Are you sponsoring any exhibits to your

12 testimony?

13 A. One exhibit, SMF Number 1, my resumé.

14 Q. Which is Exhibit Number 59. Do you have any

15 changes to that exhibit?

16 A. I believe my -- the e-mail address on the

17 resumé, it has changed. It should read now

18 regunf@gmail.com.

19 MS. RAEPPLE: Thank you. Madam Chairman, I

20 request that Mr. Fetter's testimony be inserted into the

21 record as though read.

22 CHAIRMAN EDGAR: The prefiled testimony will

23 be entered into the record as though read.

24 BY MS. RAEPPLE:

25 Q. Have you prepared a summary of your testimony?

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1 A. Yes, I have.

2 Q. Would you please present that summary?

3 A. Yes, I will.

4 Based upon my experience as chairman of a

5 state public utility commission, head of the utility

6 ratings practice at a major credit rating agency, and

7 consultant to utilities, commissions, and consumer

8 advocates, I offer my view that the Florida Public

9 Service Commission in its consideration of the need for

10 the coal-fired Taylor Energy Center should give

11 significant weight to the benefits gained through the

12 addition of generating facilities that enhance the

13 diversity of fuels utilized within the state.

14 Fuel diversity refers to an electric utility's

15 procurement of power supply encompassing a range of

16 types of electric generation facilities, fuel sources,

17 or purchased power agreements. Fuel diversification

18 allows a utility to minimize the risks that accompany

19 its operations and enable it to withstand the up and

20 downs that are unanticipated specifically, but certainly

21 foreseeable generally. Such risks include fuel price

22 and supply volatility and price and supply effects from

23 international political events, regional weather

24 patterns, or unforeseen events. Basically, fuel

25 diversity supports the mitigation of price and supply

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1 risks and the achievement of an appropriate level of

2 reliability and service quality for a utility and its

3 customers on an ongoing basis.

4 Analysis of the framework of the Taylor Energy

5 Center shows that the proposed project would be an

6 effective means of meeting the state's growing power

7 supply needs, while diversifying fuel use in a way that

8 reduces supply and price volatility and overall risk for

9 the utilities and their customers.

10 Thank you.

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1 MS. RAEPPLE: Tender the witness for

2 cross-examination.

3 CHAIRMAN EDGAR: Thank you. Mr. Simms.

4 MR. SIMMS: Thank you, Madam Chairman.

5 CROSS-EXAMINATION

6 BY MR. SIMMS:

7 Q. Just a few questions. Good evening,

8 Mr. Fetter.

9 A. Hello, Mr. Simms.

10 Q. In your testimony, you describe yourself as an

11 advisor to the utility industry based on your financial,

12 regulatory, legislative, and legal experience. And I

13 believe that appears in your testimony, or language to

14 that effect, at page 3, lines 9 through 10. Just

15 recognizing that that's a description of your

16 background; is that right?

17 A. That is the description.

18 Q. And your testimony in this proceeding relates

19 primarily to fuel diversity, and in particular, the

20 addition of coal as a fuel resource; is that right?

21 A. Well, I talk about fuel diversity generally

22 and indicate that the coal-fired Taylor Energy Center

23 would increase the diversity of the participants to the

24 project.

25 Q. Okay. So your testimony in this proceeding is

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1 that the addition of coal is a positive benefit for

2 these participants?

3 A. Yes. It increases the diversity and the

4 positive benefits that come with a more diverse

5 portfolio of supply.

6 Q. And as a consultant in the energy regulatory

7 field and based on your broad experience, are you

8 generally familiar with issues regarding costs

9 associated with the possible regulation of CO2?

10 A. I've followed it over the last several years

11 at the federal level waiting for action to be taken.

12 Q. In your professional opinion, do you agree in

13 general that regulation of CO2 is likely to have the

14 greatest impact on coal-fired power plants?

15 A. Well, it's hard to tell what the future holds

16 with regard to legislative activity. Certainly at the

17 federal level, where right now the White House is held

18 by one party and the Congress is held by another, I

19 don't expect a lot of positive movement on legislation

20 based on that situation.

21 Q. Excuse me. I understand. That's really not

22 the question. I'm not asking you about the likelihood

23 of CO2 regulation. My question is really getting at, if

24 there is CO2 regulation, are coal-fired power plants

25 subject to the most exposure from a cost perspective?

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1 A. Well, it would depend what the structure of

2 any legislation was. And as I indicated, with the great

3 differential between power within Washington, D.C. right

4 now, it's hard to predict how any legislation, if it

5 were to pass, would shape up.

6 Q. Okay. Were there CO2 regulation, would you

7 agree that coal-fired power plants are likely to have a

8 greater cost exposure than, for example, natural gas or

9 nuclear energy, specifically related to the regulation

10 of CO2?

11 A. As I said, it depends what the structure of

12 any legislation would be. I would think coal would be

13 -- do you want me to finish, or do you --

14 Q. Yes, please. I'm sorry.

15 A. -- want to interrupt?

16 Q. No. I'm sorry. Please finish.

17 A. I would expect coal to be more of a focus of

18 potential legislation than nuclear or natural gas, but

19 it's hard to see how the structure of any legislation

20 would be done.

21 Q. So you're suggesting that it would be feasible

22 to have a regulatory structure for CO2 emissions that

23 would create a greater cost exposure to a natural gas

24 plant than to a coal plant?

25 A. You said I see it as feasible?

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1 Q. Yes.

2 A. As I said, I think it's going to be very

3 difficult for legislation related to the subject area to

4 pass.

5 Q. That wasn't my question. I'm sorry. I'm

6 asking about the degree of potential cost exposure

7 between a coal plant, for example, and a natural gas

8 plant. And as I understand your answer, you're telling

9 me that it is feasible that a CO2 regulatory framework

10 could be established that would create a greater cost

11 exposure for a natural gas plant than it would for a

12 coal plant. Is that what you're saying?

13 A. And that's why the cost participants did a

14 scenario which factored in the potential for such

15 legislation.

16 Q. I understand what you're saying, and it's not

17 answering the question that I'm asking, which is, as

18 between coal plants and natural gas plants, which is

19 going to have more cost exposure when it comes to CO2

20 regulation?

21 A. And I would say it depends on the structure of

22 the legislation.

23 Q. And my response is, so you're saying that it

24 would be possible to structure regulation of CO2 that

25 would be more costly for natural gas plants than it

634

1 would be for coal plants? Just a yes or no answer to

2 that question is what I'm looking for.

3 A. Well, if you don't let -- you earlier asked if

4 it would be greater exposure for coal versus natural

5 gas, and now you've flipped it and said I'm saying that

6 it would be greater exposure for natural gas versus

7 coal. And there is a midpoint in there where, depending

8 on how the legislation is structured, it might be a wash

9 on how those plants are treated.

10 Q. I see. So your position is that CO2

11 regulation could be enacted that would have the same

12 effect for a similar megawatt size power production on a

13 coal plant and a natural gas plant?

14 A. I guess my view, the greater likelihood is

15 that legislation won't pass, which means it would be a

16 wash on both types of plants.

17 MR. SIMMS: Okay. It seems like I'm not going

18 to get an answer to the questions that I'm asking, so I

19 will pass along to the next interviewer.

20 CHAIRMAN EDGAR: Okay. Ms. Paben?

21 Mr. Jacobs.

22 MR. JACOBS: Thank you, Madam Chair.

23 CROSS-EXAMINATION

24 BY MR. JACOBS:

25 Q. Good afternoon, Mr. Fetter.

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1 A. Hello, Mr. Jacobs.

2 Q. In your analysis, you based your conclusions

3 on the fuel price projections that were acquired from

4 Hill & Associates on behalf of the applicants?

5 A. I'm sorry. Could you ask the question again,

6 Mr. Jacobs?

7 Q. Your analysis with regard to the preferable --

8 strike that. Your analysis as to fuel diversity and its

9 benefits in this particular case, did you base that on

10 the fuel projections that were done by Hill & Associates

11 on behalf of the applicants?

12 A. Well, my testimony is based on the benefits of

13 fuel diversity. I leave it to Mr. Preston to defend the

14 positive impact of his fuel forecasts.

15 Q. I see. So you're speaking from a more generic

16 nature, that it's beneficial to have fuel diversity?

17 A. I'm speaking from an operational basis for

18 utilities, and also from the view of the financial

19 community, that they view that greater fuel diversity

20 results in minimization of risks of utility operations.

21 Q. Are you aware and would you recognize that

22 there would be some accountability to that fuel

23 diversity; i.e., is there a measure of

24 cost-effectiveness that you would apply to fuel

25 diversity?

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1 A. By cost-effectiveness -- the project

2 participants have put forward their case that their

3 project is cost-effective, and so to the extent that

4 it's cost-effective, then my fuel diversity views are

5 beneficial.

6 Q. I see. So then to the extent that the data

7 that supports the parties' determination of

8 cost-effectiveness are upheld, then your views as to

9 fuel diversity would follow; is that a fair statement?

10 A. They would. And putting on my old regulatory

11 hat, I viewed my regulatory charge as making a judgment

12 whether the parties' behavior fell within a range of

13 reasonable action, and that is how I view this

14 Commission should appropriately look at the case that's

15 being put forward.

16 Q. Now, are you aware that in this case, one of

17 the fundamental elements justifying fuel diversity is

18 the volatility in natural gas prices? Is that your

19 understanding?

20 A. Yes. There has been great volatility in

21 natural gas prices, and I would expect that that would

22 continue based on the nature of the natural gas process

23 and also, as I said in my summary, unforeseen events,

24 which we cannot predict with specificity today, but

25 which, as we certainly saw in the last year or two,

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1 things could happen that no one could have ever

2 predicted.

3 Q. And so you would not -- let me make sure I ask

4 my question correctly. Let me be specific. Are you

5 aware in this case of the projections that natural gas

6 prices could moderate downward over the course of the

7 planning cycle for this plant?

8 A. I've reviewed the participants' testimony in

9 this case generally. I have not looked at it with great

10 specificity.

11 Q. Okay. Now, let me ask you this. Are you

12 aware of the volatility in the coal market, commodity

13 coal markets?

14 A. My understanding from my 20 years of

15 experience is that any volatility in the coal markets

16 would be less pronounced than within the natural gas

17 markets.

18 Q. And so based on that, you would not perceive

19 that there would be a need for diversity away from coal

20 based on that rationale? In other words, you would not

21 recommend the parties would need a diversity strategy

22 that takes them away from coal, because you believe the

23 volatility is lessened in that market.

24 A. Well, if I was testifying for utilities that

25 had 90 percent coal or 95 percent coal, I would testify

638

1 that greater fuel diversity away from coal would be

2 beneficial. But that's not the situation here. Here's

3 heavily natural gas. Some of the utilities have heavy

4 involvement in purchased power agreements. And so I

5 view their movement away from that predominance of

6 natural gas, and for the utilities that have heavy

7 purchased power involvement, I view it as a positive,

8 the direction they're going.

9 Q. I want to be as precise as I can. I'm trying

10 to get to the point of, you would invoke the idea of

11 fuel diversity as a reasonable strategy based on whether

12 or not somebody is heavily weighted in one fuel or not

13 or whether or not there's volatility in that fuel market

14 or not?

15 A. Well, certainly your first comment, as I said,

16 you know, I would recommend moving away from coal if

17 that was heavily predominant among a utility's

18 operations. At the same time, natural gas I view as

19 more volatile than the coal markets. But even with that

20 statement, if a company was 95 percent coal, I would

21 encourage it, recommend that it move towards some degree

22 of natural gas, notwithstanding the greater volatility

23 within the natural gas markets.

24 Q. Okay. Let's stay with the scenario in this

25 matter. If we agree -- and we'll set that as an aside.

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1 If we agree that there is a heavy preponderance of

2 natural gas transmission and the goal would be to

3 diversify away, in your analysis, that would be the

4 preferred option even if the choice is coal and even if

5 that coal market has volatility in and of itself?

6 A. Yes.

7 MR. JACOBS: Okay. Do you -- one moment. I

8 may be able to conclude, Madam Chair.

9 Thank you.

10 THE WITNESS: Thank you, Mr. Jacobs.

11 CHAIRMAN EDGAR: Are there questions from

12 staff?

13 MS. FLEMING: No questions.

14 CHAIRMAN EDGAR: Thank you.

15 MS. RAEPPLE: No redirect.

16 CHAIRMAN EDGAR: No redirect? Okay. We have

17 an exhibit.

18 MS. RAEPPLE: We, yes, we do. We have Exhibit

19 59. We move that exhibit into the record, please.

20 CHAIRMAN EDGAR: Okay. Exhibit 59 will be

21 entered into the record with the correction that the

22 witness put on the record.

23 (Exhibit Number 59 was admitted into

24 evidence.)

25 CHAIRMAN EDGAR: Thank you. You're excused.

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1 Thank very much, and thank you for your patience today.

2 MS. RAEPPLE: Madam Chairman, there is one

3 more witness who I understand from the attorneys for the

4 intervenors they have just a very few questions that we

5 might be able to get done yet today if you are up to

6 staying a little bit.

7 CHAIRMAN EDGAR: Which witness is that?

8 MS. RAEPPLE: Don Gilbert.

9 MS. BROWNLESS: No, we have several questions

10 for Mr. Gilbert. We have extensive questions for

11 Mr. Gilbert.

12 CHAIRMAN EDGAR: Okay. I appreciate the

13 suggestion.

14 MS. RAEPPLE: Oh, well, I misunderstood on the

15 break.

16 MR. JACOBS: We spoke, and I had not

17 conferred, so that was my error.

18 MS. RAEPPLE: I thought she was in on the

19 discussion. I apologize.

20 CHAIRMAN EDGAR: That's okay. I appreciate

21 the suggestion, and I understand the response.

22 And again, thank you, everybody, for your

23 patience, but I think it's about time to call it a day.

24 Ms. Brubaker, anything else we need to do, should do,

25 could do, can do today without going into another

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1 witness?

2 MS. BRUBAKER: I'm not aware of anything else

3 that needs attention at this time.

4 CHAIRMAN EDGAR: All right. Again, we have a

5 lot of work to do tomorrow. I again request, as I know

6 we will have, participation and cooperation so that we

7 can work through it all together and do what we need

8 today. And we will be back at 9:30 tomorrow morning.

9 We are on break until tomorrow.

10 (Proceedings recessed at 5:32 p.m.)

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1 CERTIFICATE OF REPORTER

2

3 STATE OF FLORIDA:

4 COUNTY OF LEON:

5 I, MARY ALLEN NEEL, Registered Professional

6 Reporter, do hereby certify that the foregoing

7 proceedings were taken before me at the time and place

8 therein designated; that my shorthand notes were

9 thereafter translated under my supervision; and the

10 foregoing pages numbered 514 through 641 are a true and

11 correct record of the aforesaid proceedings.

12 I FURTHER CERTIFY that I am not a relative,

13 employee, attorney or counsel of any of the parties, nor

14 relative or employee of such attorney or counsel, or

15 financially interested in the foregoing action.

16 DATED THIS 12th day of January, 2007.

17

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