ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Determination of Need for an Electrical Power Plant in Okeechobee County by Okeechobee Generating Company, L.L.C.	DOCKET NO. 991462-EU FILED: Oct. 25, 1999

DIRECT TESTIMONY

OF

RONALD L. VADEN

ON BEHALF OF

OKEECHOBEE GENERATING COMPANY, L.L.C.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: PETITION FOR DETERMINATION OF NEED FOR THE OKEECHOBEE GENERATING PROJECT, FPSC DOCKET NO. 991462-EU

DIRECT TESTIMONY OF RONALD L. VADEN

Q: Please state your name and business address.

A: My name is Ronald L. Vaden, and my business address is Utilities Commission, City of New Smyrna Beach, 200 Canal Street, New Smyrna Beach, Florida 32168.

Q: By whom are you employed and in what position?

A: I am employed as Utilities Director by the Utilities Commission, City of New Smyrna Beach, Florida.

Q: Please describe your duties with the Utilities Commission, City of New Smyrna Beach, Florida.

A: As Utilities Director of the Utilities Commission, City of New Smyrna Beach ("UCNSB"), my responsibilities include the general administration of the combined electric, water, wastewater and reuse water systems, as well as Internet access services provided by the UCNSB. More specifically, my duties involve the presentation of budgets, rates, tariffs, rules, regulations, long and short range plans, financing and capital improvements,

staffing, consulting services and related items requiring UCNSB action.

QUALIFICATIONS AND EXPERIENCE

Q: Please summarize your educational background and experience.

A: In January 1987, shortly after receiving my B.S.E.E. degree from North Carolina State University, I was employed by the UCNSB as an Electrical Engineer. In January 1988, I was promoted to Electrical Engineer II, and in October 1992, to Supervising Engineer, Electrical. In December 1993, I was again promoted, this time to Supervising Engineer, Power Supply and Planning. From January to March 1996, I served as Assistant Director of Utilities, and in March 1996, I assumed my present position as Utilities Director.

Q: Have you previously testified before regulatory authorities or courts?

A: Yes. I testified in Federal Energy Regulatory Commission ("FERC") Docket No. ER93-327-000, regarding Florida Power

& Light Company; in Volusia County Circuit Court, in the condemnation trial for Florida Power Corporation's Smyrna-Cassadaga 115 kV transmission line; and before the Florida Public Service Commission in Docket No. 981042-EM, In Re: Joint Petition For Determination of Need for an Electrical Power Plant in Volusia County by the Utilities Commission, City of New Smyrna Beach, Florida, and Duke Energy New Smyrna Beach Power Company Ltd., L.L.P.

PURPOSE AND SUMMARY OF TESTIMONY

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to support the application of Okeechobee Generating Company for a determination of need for the Okeechobee Generating Project. In my role as Utilities Director for the UCNSB, I am testifying as a potential wholesale purchaser of the power generated by the plant.

Q: Please summarize your understanding of the Okeechobee Generating Project.

A: My understanding of the Okeechobee Generating Project ("the Project") is that it will be a 550 megawatt (nominal) gas-fired combined cycle power plant that will be located near the City of Okeechobee, Florida. I further understand that the Project is intended to be a "merchant" power plant that will sell its output at wholesale to other utilities and power marketers in Peninsular Florida. Finally, I understand that the Project will be interconnected to the Peninsular Florida bulk transmission system by looping the 230 kilovolt Sherman-to-Martin line of Florida Power & Light Company ("FPL") into the switchyard of the Project.

WHOLESALE COMPETITION AND BENEFITS OF MERCHANT PLANTS

Q: Does the UCNSB support an active wholesale electricity market? Why or why not?

A: Yes. The UCNSB supports an active wholesale electricity market in Peninsular Florida because the presence of numerous suppliers in the market will give the UCNSB, as well as other retail-serving utilities, additional options for meeting our customers' needs. An active,

competitive wholesale market will also tend to stabilize and reduce wholesale prices, thus enabling us to reduce our electric rates to our retail customers. It is my opinion that without wholesale merchant power competitors like Duke New Smyrna and Okeechobee Generating Company, municipalities like New Smyrna Beach will continue to suffer under artificially high, monopolistically-controlled fuel and purchased power costs. The simple truth is that the three investor-owned, retail-serving utilities in Peninsular Florida effectively control the price of wholesale power because they control the vast majority of generation in Peninsular Florida. The IOUs' plants are generally less efficient than the proposed Duke and OGC merchant plants and their fuel costs tend to be higher than that which the merchant plants are projecting. Those higher costs are passed directly on to UCNSB's ratepayers. While it is true that there is some movement by the retail-serving investor-owned utilities to more fully utilize natural gas, the change is modest and probably will not have any price reduction impacts on UCNSB's power supply costs in the foreseeable future. As

Utilities Director, I am obligated to contract for the most reliable, least-cost power supply possible for the citizens of New Smyrna Beach. True competition in the wholesale power market is the only mechanism I know of to reduce UCNSB's purchased power costs.

Q: Does UCNSB have a projected need for electric capacity and energy?

A: Yes. The UCNSB needs approximately 69 MW to 74 MW of firm electric generating capacity to serve our customers' needs over the 2000-2002 period. Even after the New Smyrna Beach Power Project comes on line in 2002, the UCNSB will continue to be active in the wholesale power market to obtain cost-effective wholesale power.

Q: Is the proposed Okeechobee Generating Project the type of facility that the UCNSB would consider utilizing to meet a portion of its future power supply needs?

A: Yes. The Okeechobee Generating Project is a highly efficient and reliable generation resource, and the UCNSB

would welcome the opportunity to add the Project to its supply side options.

Q: How will the Project benefit the UCNSB's customers?

A: By its presence in the Peninsular Florida market, the Okeechobee Generating Project will benefit the UCNSB's customers in at least two ways, lower power supply costs (and thus lower retail rates) and enhanced reliability.

Q: How will the Okeechobee Generating Project lower electricity prices for UCNSB's customers?

A: The presence and availability of the Okeechobee Generating Project will result in lower retail electric rates for the UCNSB's customers by reducing our wholesale power supply costs. This will happen in one or both of two ways: (1) wholesale competition resulting in lower overall wholesale power costs in Peninsular Florida, and (2) direct cost-effective purchases by the UCNSB from the Project. As regards the first, the Project will put competitive pressure on all wholesale power suppliers in Peninsular Florida, thereby resulting in lower wholesale

prices than if the Project is not brought into service. In other words, even if the UCNSB doesn't buy power from the Project, we expect to pay less for wholesale power just because the Project is operating in the Peninsular Florida wholesale market.

As regards the second, when a purchase from the Project is the most cost-effective alternative available to the UCNSB, we would make the purchase, thereby minimizing our power supply costs and our retail rates.

Q: Will the Okeechobee Generating Project enhance the reliability of electric service to UCNSB's customers?

A: Yes. The presence and availability of the Okeechobee Generating Project will enhance electric system reliability by providing an additional cushion of electric generating capacity that retail-serving utilities in Peninsular Florida will be able to call upon during times of need. Even if another utility actually buys the power from the Okeechobee Generating Project, the UCNSB will be able to buy power from other resources that would otherwise be committed. In addition, existing

power plants will serve as a hedge against price spikes in power emergencies. The Project will enhance the reliability of the Peninsular Florida grid. It is common knowledge that Peninsular Florida's electricity reserve margins have declined dramatically over the last 10 years. In fact, the Public Service Commission is so concerned about reserve margins that it opened up an investigatory docket on that subject. As a net purchaser of wholesale power, UCNSB shares this concern. For example, we are concerned about how Peninsular Florida will fare if there is another unusual weather event during either peak summer or winter conditions or during an off-peak period when plants are down for maintenance. It is not uncommon for relatively extreme weather events (cold fronts or heat waves) to occur in the early spring, such as the one that necessitated a capacity alert in April of 1999. The state doesn't have any experience with sustained low reserve margins like we are currently experiencing. Reliable, inexpensive wholesale power will go a long way toward relieving Peninsular Florida's

reserve margin plight and can only benefit UCNSB's customers.

Q: Are you concerned that the power from the Project will be exported out of Florida, leaving it unavailable to benefit the UCNSB?

A: No. In my opinion, and based on my experience, it is not likely that power from the Project would be exported out of Florida. In the first place, I believe that the prospect of any merchant plant's exporting any significant amount of power outside Florida is highly unlikely, for several reasons. To transmit any substantial amount of power out of Florida, such power would, at a minimum, have to be wheeled over Florida Power & Light Company's system. This would add wheeling and ancillary services charges to the cost of the electricity sold to Georgia. In addition, Florida generators must incur higher fuel transportation costs than their out-of-state competitors. There simply will not be a market in Georgia for more expensive power than Georgia's native utilities can generate domestically.

The reverse is also true: since wholesale power producers can earn more for their power in Florida where electricity costs and rates are higher, they are far more likely to sell here in Florida. Finally, the Project's location in South Florida makes the prospect of its selling out-of-state even more unlikely.

Q: Please comment on the status of wholesale competition in the Peninsular Florida wholesale power market.

A: While the Peninsular Florida wholesale power market is technically a competitive market, actual competition is very limited. For example, the UCNSB has been paying approximately $40 and $25 per megawatt hour for power purchased from Florida Power Corporation and Tampa Electric Company, respectively, for wholesale power. Due to delays in the permitting of the Duke New Smyrna Beach Power Project, UCNSB has had to turn to the wholesale power market and is projecting an <u>increase</u> in its wholesale power costs of approximately 25 percent. This price is substantially higher than it would have been if there were additional wholesale suppliers such as the

Okeechobee Generating Project in the Peninsular Florida wholesale power market.

Q: Will the presence of the Okeechobee Generating Project and other merchant power plants enhance competition in the Peninsular Florida wholesale power market?

A: Absolutely. As I previously testified, Florida is essentially a "closed competition" state. By that, I mean that the wholesale power market is controlled by the three large retail-serving, investor-owned utilities thus rendering wholesale power prices artificially high. Add to that the fact that our generation reserve margins are dangerously low, and you're left with what real estate agents call a "sellers' market." Supplies are short and demand is high and growing over time as the state's population continues to explode. Without additional supply side resources, especially resources like the Duke New Smyrna and OGC merchant plants that are basically free of long-term commitment from ratepayers, wholesale power prices will continue to rise. Based on my experience in the electric industry, I can testify that

an increase in sources of supply over what would otherwise be available will put downward pressure on prices. That is simple economics, the law of supply and demand. Additional merchant generation supply sources can only benefit Peninsular Florida's retail customers because of the price reduction effects those very efficient plants will have on the wholesale power market and because of the lack of long-term cost responsibility for the plants. Merchant plants present Peninsular Florida's ratepayers with a rare win-win situation and, to date, I have heard no plausible argument why we, as a state, should not take advantage of it.

Q: Does this conclude your testimony?

A: Yes, it does.