BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NOS. 020262-EI, 020263-EI
FLORIDA POWER & LIGHT COMPANY

SEPTEMBER 11, 2002

IN RE: PETITION FOR DETERMINATION OF NEED FOR PROPOSED ELECTRICAL POWER PLANT IN MARTIN COUNTY OF FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR DETERMINATION OF NEED FOR PROPOSED ELECTRICAL POWER PLANT IN MANATEE COUNTY OF FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF:

ALAN S. TAYLOR

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Q. Please state your name and business address.

A. My name is Alan S. Taylor, and my business address is 5511 Northfork Court, Boulder, Colorado, 80301.

Q. Did you submit prefiled direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I will address various allegations and criticisms that were raised by intervener witnesses Kenneth Slater and Douglas Egan and Florida Public Service Commission (FPSC) staff witness Andrew Maurey. To summarize, the intervener witnesses contend that FPL's solicitation process and economic evaluation were not fair and may have yielded incorrect results. On the contrary, I believe that FPL employed a good, sound, unbiased process, using state-of-the-art utility planning models to perform a rigorous and fair analysis of its power supply options. FPL's economic conclusions were supported by my independent evaluation of the responses to FPL's supplemental request for

proposals (Supplemental RFP). I am an expert in conducting power supply solicitations, having been involved with numerous such solicitations around the country over the last ten years. As an independent evaluator in FPL's solicitation, I used my own model to evaluate the responses to FPL's Supplemental RFP and concluded that the Martin Unit 8 and Manatee Unit 3 projects represented the best, lowest-cost resources for meeting FPL's 2005-2006 resource needs.

Q. Please describe the specific allegations that were made by the intervener witnesses.

A. I will start with those introduced by Mr. Slater. Mr. Slater raised several criticisms of the economic evaluation and utility simulation modeling process in an effort to challenge the results of the evaluation. His criticisms can be segregated into two general categories: modeling issues and risk-assessment issues. In the modeling area, he took issue with start-up costs, seasonal variations in generating unit operating characteristics, variable operation and maintenance (O&M) expenses, and operating assumptions for the FPL facilities as well as for future resources. In the risk-assessment area, he dismissed the use of an equity penalty and discussed the trade-offs inherent in buy-versus-build decisions.

Q. Starting with the modeling issues, what was Mr. Slater's concern with start-up costs?

A. Mr. Slater expressed concern that FPL's utility simulation model, EGEAS, does not calculate the number of start-ups for generation facilities when it executes its utility dispatch and production costing procedures. Mr. Slater was concerned that the costs for facility start-ups were calculated outside of the model and added to the fixed costs for each resource option.

Q. Is there any merit in his concern?

A. No. This is too small of a cost issue to have affected the modeling results.

Q. How did FPL calculate start-up costs?

A. FPL used the same procedure for all bids and self-build options. For intermediate/baseload resources (such as natural-gas-fired combined-cycle facilities – which was the type of technology proposed in virtually all of the bids and in the self-build options), FPL assumed six starts per year. These combined-cycle units are operated for most hours of the year; thus, they have few start-ups because they are rarely taken off-line. The FPL modeling team adopted its start-up assumptions after discussing typical facility operations with those individuals who dispatch FPL's system. Again, the same assumption was used across all combined-cycle facilities. It is plausible that combined-cycle facilities with higher-than-average variable costs might be dispatched less (i.e., run for fewer hours during the year). Such facilities might be taken off-line at night when utility load requirements decrease, only to be restarted the next morning to serve the daytime loads. This would

translate into more start-ups per year. The FPL self-build options had competitive, low variable costs; thus, they are likely to run all the time and continue to operate through each night. However, some of the higher-variable-cost proposals would not be run as consistently and arguably could have been modeled with a greater number of start-ups per year, resulting in greater annual start-up costs. This was not done. Such proposals were given the benefit of the doubt and modeled with the same six starts per year as all other combined-cycle resources.

Q. So you believe that the start-up costs of some of the outside proposals may have been underestimated, thereby making the proposals look more attractive than they would have – had FPL employed more precise start-up modeling?

A. Yes. However, start-up costs are still a rather small component of a project's total costs, so I do not believe that the more precise modeling would have made an appreciable difference in the evaluation results. This brings me to a more important point. Resource solicitations are complex evaluation projects with numerous areas of analysis. In any one area, one could always spend more time to develop more precise results. The ultimate goal is to model everything at a sufficient level of detail to determine reasonably accurate results for a selection decision. I believe that FPL did that. One must avoid putting too much time and effort into one small analytic area in pursuit of precision, only to rob other analytic areas of the attention that they require to

contribute to the overall reliability of the evaluation results. The objective of any evaluation team should be to establish a balance between the various analytic areas. Start-up costs represent but one small area.

Q. Do you believe that FPL established an appropriate balance in its evaluation?

A. Yes. Had FPL used a simulation model that internally determined the number of generating unit start-ups, as Mr. Slater seems to advocate, such precision would have come at the expense of more important aspects of the evaluation. I am familiar with such utility planning models, and they are rather slow and time-intensive – appropriate for some types of analysis but not others. Because FPL chose to use EGEAS, the evaluation team was able to evaluate literally tens of thousands of combinations of proposals in an attempt to find the lowest-cost portfolios of resources that would meet FPL's capacity needs. Using slower models to capture small nuances and differences in start-up costs would have severely limited the number of proposal combinations that FPL could have evaluated – perhaps to a few dozen. Recognizing that the possible universe of proposal combinations in FPL's solicitation numbered well over a hundred thousand, it would have been improper to pursue excessive precision in start-up costs and sacrifice the evaluation of a sufficiently broad set of proposal combinations. I believe that FPL struck the right balance in its evaluation efforts.

Q. Mr. Slater stated that combined-cycle facilities have seasonal variations that were not captured in the EGEAS modeling. Do you agree?

A. Yes, although, for all of the same reasons as I discussed above, I believe that such nuances would not have had a significant impact on the evaluation results. The same level of precision was employed consistently by FPL in modeling its existing fleet of resources, the outside proposals, and its new self-build options. Therefore, the same advantages would have been reflected in all alternatives, adding no value to the effort to differentiate among alternatives. Conversely, to have run EGEAS in a monthly dispatch mode instead of annual would likely have increased the model runtime twelve-fold, allowing significantly less time for evaluating portfolios of proposals. I believe that FPL used EGEAS appropriately in its resource evaluation and modeled all resources (both outside and self-build) with a consistent and appropriate level of precision.

Q. Mr. Slater expressed concern that the variable O&M costs for the FPL self-build options were too low and therefore distorted the evaluation results. Do you agree with him?

A. No. First, let me define variable O&M costs. These are the non-fuel-related expenses associated with generating energy from an electric power plant and are expressed in $/MWh. Such costs might include consumables (e.g., chemicals for water treatment, lubricants for pumps and motors) and, perhaps, certain labor costs that might increase with the amount of generation that is

produced by a facility. The variable O&M charge in a power supply contract dictates how much money will be paid to a facility owner for every MWh of generation that the facility actually produces.

That said, my response to the "low FPL variable O&M cost" concern is two-fold. First, all of the variable O&M costs – for both outside proposals and self-build resources – were modeled exactly the same way. The variable O&M costs were modeled exactly as they were proposed. Second, the cost structure for recouping the total O&M expenses of a facility is entirely up to the power provider.

In my years of evaluating power supply proposals, I have seen a wide range of fixed and variable pricing. Some bidders seek to recover their O&M expenses through higher fixed charges (e.g., capacity prices) and offer low variable O&M prices; others offer lower fixed charges but higher variable charges. In the end, it is up to the bidder to decide what its preferred ratio should be. FPL's Power Generation Division (PGD) chose to place more of the total O&M costs for the self-build options in the projections for fixed charges. That was PGD's decision, and it was clearly published in the Supplemental RFP. Outside bidders were free to adopt whatever pricing structures they felt would be appropriate.

Q. Mr. Slater believes that the FPL self-build options have overly optimistic operating characteristics, such as unit availability and heat rates, and that these estimates distorted the evaluation results. Do you agree?

A. No. Let us start with the heat rates. Heat rates are a measure of a generating facility's efficiency. Mr. Slater complains that PGD offered heat rate estimates that reflect brand new unit generating unit conditions, whereas bidders were required to submit guaranteed heat rates that presumably would reflect on-going conditions over the duration of the proposed contract. I raised this very issue with FPL during the initial solicitation. I wanted to make sure that we had an apples-to-apples comparison between PGD's heat rate estimates and the heat rates offered in bidders' proposals. PGD's original estimates seemed aggressive, so I encouraged FPL's Resource Planning group to question PGD and ensure that the values were representative of what PGD expected over the life of the facilities. PGD acknowledged that its original estimates for capacities and heat rates reflected brand new conditions and submitted revised estimates that reflected capacity and heat rate degradation. Thus, the Martin and Manatee options in both solicitations were in fact evaluated with lower capacity values and higher heat rates (i.e., lower operating efficiencies) than originally provided. These revised values do not represent brand new conditions; instead they reflect the degradation and deterioration expected with on-going power plant operations.

Q. What did the evaluation team assume about the outside bidders' proposed operating capabilities?

A. The evaluation team assumed that all capacities and heat rates included in the outside proposals were for average on-going operations and reflected values that the bidders could stand behind. Thus, the outside proposals were given the benefit of the doubt. In fact, when FPL commenced negotiations with one of the bidders, FPL learned that the heat rates included in the bidder's proposal represented brand new conditions and had to be adjusted.

Q. Mr. Slater also complained that the availability assumptions for the Martin and Manatee facilities were too optimistic and therefore distorted the results of the evaluation. Do you agree?

A. No. As stated in Dr. Steven Sim's rebuttal testimony, the implicit availability assumptions for the Martin and Manatee facilities was less than 95% and was comparable to the assumptions used for the outside proposals. I understand that FPL has a strong track record in the operation of power plants and believe the utility is capable of achieving the estimated availabilities with the Martin and Manatee projects. However, my primary focus is on the second part of the question – whether aggressive availability estimates distorted the evaluation results. I have a great deal of experience with production cost models and, based on that experience, I believe that using lower availability estimates for Martin and Manatee would not have significantly affected the overall FPL system production costs in EGEAS. Particularly considering that

these units are being simulated in a utility system with a 20% reserve margin, it is unlikely that decreasing the availability percentage for these plants from the mid 90s to, say, the low 90s would have much of an impact on FPL's production costs. Given FPL's 20% system reserve margin, there is enough additional capacity available to economically replace any lost capacity or energy from the marginal unavailability of the Martin or Manatee projects.

Q. What basis do you have for such a claim?

A. In fact, Mr. Slater himself performed an analysis that concluded that FPL could lose both of the proposed facilities in 2005 and suffer no more than $3,000 in expected unsupplied energy costs. This is the equivalent of reducing both units' availability assumptions to zero. While I do not agree with the results of Mr. Slater's analysis, his own numbers indicate that one could reduce the assumptions for the Martin and Manatee availability percentages from the mid 90s to zero with virtually no annual cost impact. Thus, I am inclined to believe that the availability percentages could be reduced from the mid 90s to the low 90s with no significant impact on the EGEAS production costs.

Q. Mr. Slater took issue with FPL's use of a "greenfield" "filler" plant in the evaluation of short-term proposals. He also noted that the filler unit was assumed to be supplied with firm transportation service from the more expensive Florida Gas Transmission (FGT) pipeline rather than

Gulfstream and contends that such assumptions skewed FPL's evaluation results in favor of the utility's self-build units. Do you agree?

A. No. I reviewed FPL's assumptions for future resources (i.e., the filler units that might be developed on the heels of the expiration of a short-term purchase contract) and believe that they were reasonable. Nonetheless, I too was interested to know how the results of the evaluation might be affected by costs assumptions for the filler unit. Mr. Slater argues that FPL should have examined the effect of the filler unit being a less expensive "brownfield" unit – such as a deferral of one of FPL's self-build units – and assumed a supply of gas from the less expensive Gulfstream pipeline. That is exactly what I did.

Q. You performed the very analysis that Mr. Slater advocated?

A. Yes. As part of my independent evaluation, I performed a sensitivity analysis whereby I replaced the filler unit in Sedway Consulting's Response Surface Model with the Manatee project, supplied from the Gulfstream pipeline. This is described in Sedway Consulting's Independent Evaluation Report that was provided as an exhibit to my testimony in Document No. AST-2. In that report, the base case analysis yielded the conclusion that the All-FPL portfolio was less expensive than the next best portfolio that did not include both FPL units by $135 million. The sensitivity analysis – with the lower cost filler unit – still showed that the All-FPL portfolio was less expensive by a margin of $125 million.

Q. You have addressed the modeling issues raised by Mr. Slater. What were Mr. Slater's concerns regarding the risk-assessment issues?

A. He complained that FPL's use of an equity penalty skewed the results of the evaluation and that purchase power contracts have certain risk-shifting benefits that were not similarly quantified.

Q. Do you agree with his contentions?

A. No. On the issue of the equity penalty, it is important to note that this is a real cost, not some construct that was developed by FPL. Rating agencies are the source of this issue. They view some portion of a utility's purchase power capacity payment obligations as the equivalent of debt. FPL quantified the equity penalty associated with each top-ranked power supply proposal using the same procedure as I have seen employed by other utilities seeking power supplies. The assumptions and formula are consistent with the statements that have been published by Standard and Poor's on this matter.

Q. What about the issue of purchase power contracts having certain risk-shifting benefits that Mr. Slater argues are not reflected in FPL's evaluation?

A. I agree that there may be certain risk-shifting benefits associated with purchase power contracts relative to utility ownership. However, such risks and benefits are difficult to quantify, cannot practicably be modeled, and may cut both ways or be offset by other non-quantifiable risk factors that favor

self-build options. Instead, such risks are usually considered in resource selection decisions as non-price factors.

Q. Please describe these hard-to-quantify risks.

A. One example is the risk of obsolescence for current technology. If a utility opts to purchase power under a short-term contract (e.g., for the next five years), it may find that less expensive construction options (or lower market prices) are available at the end of the short-term contract. However, construction costs and market prices may be higher than expected at the end of five years as well; so this risk cuts both ways. It is a judgment call. In recent history, technology improvements have reduced the cost of new generation, at least in real (i.e., non-inflation) terms. Assuming this trend continues and that inflation stays low, one might argue that short-term purchases provide a means for a utility to wait for better, less expensive technology. In effect, the short-term power supplier is accepting the risk that current technology may be rendered obsolete by new developments in the future. On the other hand, if inflation takes off, the purchasing utility may wish it had built its own power plant at the original construction costs.

Q. But weren't future power costs included in FPL's evaluation in the form of the filler unit assumptions?

A. Yes. So, essentially, this risk was quantified for one specific future scenario in FPL's evaluation. However, the unquantified risk that I am describing

involves the consideration of a full range of costs and the possibility that future costs may be higher or lower than the filler unit costs. To some extent, a lower-cost assessment was captured by the sensitivity analysis that I performed. There is always a chance that future costs could be lower. However, I believe that FPL's filler cost assumptions were reasonable and the actual future costs could also be higher than the evaluation envisioned. FPL assumed that construction costs for future resources would escalate at 1.7% per year. If inflation heats up, future power development costs may be much higher than what was assumed in FPL's analysis.

Q. This risk is most relevant when considering short-term versus long-term resource decisions, right?

A. Yes.

Q. Were attractive short-term bids offered in FPL's solicitation?

A. There was a small 50 MW system sale that was offered for a term of three or five years. However, the most economically-competitive proposals were large offers beginning in 2006 for terms of 25 years.

Q. So the obsolescence risk is moot for these large proposals that were the most competitive?

A. Yes. When comparing 25-year purchase power opportunities and 25-year self-build options, the purchases do not provide any protection against

technology obsolescence. Both avenues are long-term commitments to current generating technologies. In fact, in some respects, owning the facility is better than purchasing its output from another owner. If retrofitting technology opportunities arise that may improve the facility (e.g., make it more efficient), a utility owner can invest in the facility and its customers will reap all of the benefits. If the facility is owned by another company, that firm can choose to forego the investment and continue to earn its expected return under the existing contract or make the investment and reap the benefits for its owners, not FPL's customers.

Q. Are there other hard-to-quantify risks inherent in either build or buy decisions?

A. Yes. Mr. Slater identifies construction cost risk, operating cost risk, and performance risk. Once a contract is executed, those issues that are specifically addressed in the contract may indeed contribute to reduce the risk regarding those specific issues. However, there are three important points here. First, if the utility builds the facility and the costs are lower than projected, the customers will only pay the actual costs, not the higher projections. Conversely, in a power supply contract, if the seller's costs are lower than expected, the seller reaps the cost savings; the utility buyer and its customers still pay the higher prices specified in the contract. Second, the prices and conditions identified in a power supply proposal do not constitute a contract and may change during negotiations. Indeed, when FPL entered

negotiations with one of the shortlisted bidders, it learned that the proposed power supply costs would be higher than what was provided in the letter of the proposal. Thus, the price certainty offered in power supply agreements is not firm until a contract is signed. Third, even after a contract is signed, there may be contract terms that permit adjustments, attempts by suppliers to renegotiate unforeseen costs, or litigation – particularly if the supplier becomes financially insolvent or otherwise finds it economically advantageous to attempt to amend or avoid its obligations under the power purchase agreement. So, even signing a contract does not remove all risk from the utility and its customers.

Q. What do you conclude about the points raised in Mr. Slater's testimony?

A. I believe that his points concerning modeling issues and the use of EGEAS were off the mark. I believe that FPL employed a rigorous, balanced, unbiased evaluation process that yielded reliable results and was corroborated by an independent evaluation.

The pursuit for greater precision in start-up costs or seasonal variations in power plant operations would have added little value and instead sacrificed much more important parts of the evaluation – such as the broader review of many different combinations of proposals.

The FPL self-build options were modeled with heat rates and capacities that

were representative of average on-going operating conditions, not the brand new conditions that Mr. Slater claimed. The FPL evaluation effort gave outside bidders the benefit of the doubt on this issue. The variable O&M costs for the facilities were reasonable and were incorporated into the analysis just like the variable O&M costs proposed by outside bidders. Each bidder had the choice to structure its fixed and variable charges as it saw fit.

Equity penalties represent a real financial cost associated with the way rating agencies assess the impact of power purchase agreements on a utility's balance sheet. Given the events of the last year in the energy/financial markets, the importance of an energy company maintaining a strong balance sheet has rarely been greater. Although there are other risks associated with the buy-versus-build decision, they are hard to quantify and, in some instances, cut both ways. I do not believe that one should discard a quantifiable cost such as the equity penalty just because there are unquantified risks. Unquantified risks can be considered by decisionmakers in a qualified fashion.

Q. Turning now to Mr. Egan's testimony, what specific allegations were made that you wish to address?

A. Mr. Egan contends that FPL's Supplemental RFP was unfair and included commercially unreasonable terms. He suggests that the Supplemental RFP should have included weights assigned to various criteria and objects to FPL's

oversight role in the entire solicitation process. In addition, he raises some of the same equity penalty and risk-shifting issues that Mr. Slater discusses and which I have already addressed.

Q. Concerning FPL's Supplemental RFP, do you believe that the Supplemental RFP was fair?

A. Yes.

Q. Do you believe that it included commercially unreasonable terms?

A. No. The contracting requirements that were included in FPL's Supplemental RFP were similar to those that I have seen in other utility RFPs. Also, I believe that there are two important points to recognize with RFP contract terms. First, bidders have the option to object to RFP contract terms. In fact, with FPL's Supplemental RFP and most other RFPs that I have seen, bidders are required to include any significant exceptions to the RFP's terms in their proposals. The basic contract terms are included in an RFP to facilitate eventual negotiations. If there is no prior understanding of what basic guarantees or provisions that a buying utility must have in a power supply contract, the early negotiations with a potential power supplier are likely to be unnecessarily difficult. The seller may feel ambushed by a list of requirements that were not factored into the pricing of the proposed power sale. Having a mutual understanding of the parties' general contract positions from the start of the proposal evaluation process is essential and ensures that

all proposals are evaluated consistently. Also, if a potential bidder does not like the contract terms in an RFP, the option always exists not to bid at all. The level of participation in FPL's solicitation suggests that the Supplemental RFP terms were not commercially unreasonable.

Q. Mr. Egan states that the regulatory cost recovery provision in FPL's Supplemental RFP (where contract payments may be reduced if the Commission disallows recovery of the contract's costs) shifts inordinate risk to the bidder. He asserts that this provision makes project financing difficult, if not impossible, and proves that FPL does not want to award a contract to a bidder. Do you agree with his assertion?

A. No. First, I have seen similar provisions in other utility RFPs. It is understandable that a utility does not want to be liable for power supply costs that its regulatory commission will not allow to be recovered. Similarly, it is understandable that a developer does not want to build a facility, only to have contract payments reduced by regulatory fiat. An appropriate balance needs to be struck in the final contract. Second, from the standpoint of a potential bidder in FPL's solicitation, there was always the option to take exception to the provision.

Q. Mr. Egan suggests that FPL's Supplemental RFP should have revealed all of the evaluation criteria and included weights assigned to each criterion. Do you think that this makes sense?

A. No. I have been involved in solicitations where efforts were made to develop prespecified scoring systems, weights for various evaluation criteria, and formulaic approaches for the selection of proposals. This concept was popular in the mid-90s. Although it lends a perception of "transparency" to the evaluation process, I can say from experience that the process is difficult to engineer, prone to gaming, and does not necessarily result in the best selection of resources. The industry has generally moved away from this concept.

Q. Why don't prespecified weights work in power supply evaluations?

A. Basically, they do not work because one finds that the weights need to be flexible and responsive to the proposals that are submitted for evaluation. To lock in the weights before the proposals are reviewed can have unintended consequences and distort the eventual evaluation results. If two proposals are similarly priced but have significant differences in their risks, they may be ranked rather closely in a scoring system that was weighted predominantly on price. A different scoring system that was weighted heavily toward a specific risk may result in the selection of projects that are low-risk in that one area but much higher cost or higher risk in other areas. In the end, I believe that it is best to grant the evaluation team the necessary flexibility to make its selection based on the types of proposals received and leave that team with the burden of defending its evaluation decision at the end of the process.

Q. Mr. Egan expresses frustration that FPL was the administrator and judge in the solicitation process, suggesting that this provides FPL with an unfair advantage. Do you agree?

A. No. FPL bears two substantial burdens in this process – one is the obligation to serve its customers and the second is the burden of proof in the regulatory process that the company is pursuing the best resource alternatives for meeting its customers' needs. Ultimately, FPL is the firm that must live with the outcome. Therefore, it must have the power and authority to review proposals, assess the economic and non-economic benefits and risks of each offer, reach its conclusions, negotiate power supply contracts if outside bidders submit competitive proposals, and move ahead with the best resource plan. The checks and balances of the process come from the Commission and intervener review of the entire solicitation process. In addition, the use of an independent evaluator and the oversight afforded the Commission Staff in this instance further enhanced the process by providing a second, independent review of the resource options and the evaluation decisions.

Q. Do you think that some other entity – the Commission or an independent evaluator – could insert itself into the process and replace the utility in one or more parts of the solicitation to ensure perfect independence in the decisionmaking or negotiating tasks?

A. No. The utility will need to live with the results of the solicitation. I believe it would be unwise to force the utility to accept some other entity's decisions.

The burden of proof rests on the utility, and the regulatory oversight is the appropriate mechanism for ensuring that the utility conducts a fair solicitation and selects the best resources for its customers. To insert some other entity into the process and force the utility to live with the consequences of decisions or negotiated contracts in which it did not have full authority could be disastrous – particularly if the selected resources failed to materialize for whatever reason.

Q. Do you believe that FPL conducted a fair solicitation process?

A. Yes.

Q. Were you ever instructed to come to a particular conclusion?

A. Never. Instead, I was encouraged to make suggestions for improvements anywhere in the process, and I was charged with the task of performing an independent economic evaluation and presenting what my analysis indicated were the least-cost resource options to meet FPL's capacity needs.

Q. Do you believe that it is surprising that a utility such as FPL might win in its own solicitation?

A. I stand by the results of the evaluation. The numbers are what the numbers are. I think that it is perfectly reasonable that FPL has been able to compete with the nation's top independent power producers. It has extensive experience and expertise in developing and operating generation facilities.

Like many utilities around the country, it has improved and streamlined its operations to become a lower cost provider. In a sense, I would say that FPL's customers are already enjoying the benefits of a competitive wholesale electricity market, even if the customers are served by new ratebased facilities – because these new facilities have to compete with the best offers from the marketplace. That said, while I had no pre-conceived notions as to how FPL would fare in this process, I am not surprised that FPL would be able to put forth self-build options that are more cost-effective than any of the other bids received in response to its solicitation. FPL is an organization that can offer competitively-priced generation facilities, but it must do so each time or accept superior offers from the marketplace.

Q. What do you conclude about the points raised in Mr. Egan's testimony?

A. I believe that FPL's Supplemental RFP was fair. It included contractual terms that were reasonable for an RFP, and all bidders had the opportunity to take exceptions to these terms in their proposals. The number of proposals that were submitted in response to the Supplemental RFP suggests that it was a good document. I believe that it went into sufficient detail concerning the evaluation process and the criteria that FPL intended to use in selecting the best resources. I would recommend against adopting a formulaic scoring system with criteria weights that would be documented in the RFP. What benefits such systems may yield in seeming objectivity and transparency are outweighed by the rigidity of that system and the potential for incorrect

selections and gaming.

The evaluation itself was conducted fairly, and I found no evidence of preferential treatment. I have performed numerous power supply solicitations and believe that FPL's economic analysis was rigorous and consistent with the modeling practices at other utilities.

Q. Concerning FPSC Staff witness Maurey's testimony, is there an element in his testimony on which you wish to comment?

A. Yes. Mr. Maurey asserts that the equity penalty concept should not be approved by the Commission because it has not been reflected in regulatory orders associated with resource solicitation analyses in other states. I would like to address his premise and then his conclusion. As for the lack of equity penalty discussions in other commission's orders, I would not conclude that a lack of discussion indicates that the equity penalty concept was not employed. For example, I was involved in a solicitation in the Midwest in which the utility included an equity penalty in its evaluation process. The solicitation culminated with orders from the regulatory commissions of Illinois, Iowa, and South Dakota – none of which included references to the equity penalty concept because it was not a significant factor in the evaluation. Also, some states have implemented a deregulated market structure in which vertically integrated utilities have been dismantled; thus, decisions concerning self-build options versus power purchases have been eliminated.

As for Mr. Maurey's conclusion that the equity penalty concept should be dismissed, I wish to reiterate my statement that recent market events have resulted in considerable recent attention being paid to energy companies' balance sheets and their off-balance-sheet obligations. Even if one presumes that other states have not focused on the equity penalty issue in the past, I would not be surprised to see more state commission's examining the equity penalty issue in solicitation decisions from this point forward.

Q. What do you conclude about FPL's solicitation?

A. I conclude that the All-FPL portfolio is the least-cost portfolio and concur with FPL's decision to move forward with Martin Unit 8 and Manatee Unit 3. The solicitation process yielded the best results for FPL's customers while treating developers fairly. The FPL Supplemental RFP was sufficiently detailed to provide necessary information to bidders. The economic evaluation methodology and assumptions were appropriate and unbiased, and the independent evaluation procedures provided a cross-check of FPL's bid representation in EGEAS and confirmed FPL's EGEAS results.

Q. Does this conclude your rebuttal testimony?

A. Yes.