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BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

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5 In the Matter of the Application for All  
6 Approvals Necessary for the Transfer of  
7 Ownership and Operational Control of the  
8 Point Beach Nuclear Plant from Wisconsin  
9 Electric Power Company (d/b/a We  
10 Energies) to FPL Energy Point Beach, LLC,  
11 a subsidiary of FPL Group Capital, Inc.

Docket No. 6630-EI-113

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**PUBLIC DIRECT TESTIMONY OF JOHN J. REED  
ON BEHALF OF WISCONSIN ELECTRIC POWER COMPANY**

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**I. INTRODUCTION AND QUALIFICATIONS**

19 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

20 A. My name is John J. Reed. My business address is 313 Boston Post Road West,  
21 Suite 210, Marlborough, MA, 01752.

22 **Q. BY WHOM ARE YOU PRESENTLY EMPLOYED AND IN WHAT CAPACITY?**

23 A. I am Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. and  
24 CE Capital Advisors, Inc. (together "CEA").

25 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

26 A. I am a graduate of the Wharton School, University of Pennsylvania, and have passed the  
27 NASD Series 7, 24 and 63 securities license exams.

28 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

29 A. I have more than 30 years of experience in the energy industry, and have worked as an  
30 executive in and consultant to the energy industry for the past 25 years. Over the past  
31 decade, I have directed the financial advisory services of CEA, Navigant Consulting and  
32 Reed Consulting Group, and I have been involved in the purchase or sale of more than

1 \$20 billion of electric generation facilities. I have served as Vice Chairman and Co-CEO  
2 of the nation’s largest publicly traded consulting firm, and as Chief Economist for the  
3 nation’s largest gas utility.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A. I have been asked by Wisconsin Electric Power Company (“Wisconsin Electric” or the  
6 “Company”; doing business as We Energies) to provide this direct testimony presenting  
7 the terms of the proposed Asset Sale Agreement (“ASA”) for the sale of the Point Beach  
8 Nuclear Plant (“Point Beach”) to FPL Energy Point Beach, LLC (“FPLE Point Beach”)<sup>1</sup>  
9 and the terms of the proposed Power Purchase Agreement (“PPA”) governing the sale of  
10 power by FPLE Point Beach to Wisconsin Electric. I have also been asked to comment  
11 on how the terms of these two agreements compare to the corresponding agreements in  
12 past nuclear plant sales. Finally, I will present the total value of the transaction. I will be  
13 sponsoring two exhibits: the ASA and associated schedules and exhibits provided as  
14 Exhibit\_\_(JJR-1) and the PPA provided as Confidential Exhibit \_\_(JJR-2), Schedules  
15 1 and 2.

16 **Q. ARE YOU FAMILIAR WITH OTHER NUCLEAR PLANT SALES?**

17 A. Yes, I have been involved in most of the 25 nuclear plant sales that have taken place in  
18 the U.S. On behalf of the utility plant sellers, I have been extensively involved with the  
19 sales of Pilgrim, Oyster Creek, Salem, Peach Bottom, Hope Creek, Nine Mile Point Units  
20 1 and 2, Ginna, Duane Arnold Energy Center (“DAEC”), Palisades, Point Beach Units 1  
21 and 2, and a small share of Seabrook. I have worked for bidders on several other nuclear  
22 plant sales.

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<sup>1</sup> Asset Sale Agreement by and among Wisconsin Electric, FPLE Point Beach as Buyer and FPL Group Capital, Inc as Buyer’s Parent dated December 19, 2006.

1 **II. CONCLUSIONS**

2 **Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING THE**  
3 **TRANSACTION OVERALL?**

4 A. Quite simply, the proposed transaction is highly beneficial for Wisconsin Electric and its  
5 customers, providing a much better cost and risk profile than other alternatives available  
6 for Point Beach. With regard to the ASA, the sale of Point Beach reflects extraordinarily  
7 favorable terms, with a purchase price that is expected to top \$1 billion, with adjustments,  
8 the full transfer of decommissioning liability for a competitive and reasonable amount of  
9 transferred funds, the assumption of the entire workforce and its partially unfunded  
10 retirement obligations, and the assumption of all post-closing and most pre-closing  
11 environmental liabilities, among other terms. In addition, the pre-closing operational  
12 support from FPLE Point Beach and the conditions to closing are favorable to  
13 Wisconsin Electric, and help ensure that the full value of the transaction will be realized.  
14 To my knowledge, the proposed PPA represents the longest term power buy-back  
15 agreement ever achieved by a nuclear plant seller, and includes pricing that is comparable  
16 to Wisconsin Electric's projected cost of continued ownership of the assets, and that  
17 represents far less risk to Wisconsin Electric and its customers. Compared to either  
18 (i) retaining Point Beach; or (ii) selling Point Beach without a PPA and buying  
19 replacement power from the market, this contract offers incremental value to customers.  
20 These PPA terms are among the best that any nuclear plant seller has achieved to date.  
21 Other proposed features of the transaction, such as the Wind Development Option (as  
22 discussed in the testimony of Mr. Kuester), and the Generation Development Option

1 (“GDO”), whereby the Company has the option to participate in future generation  
2 developed at the site, also provide significant benefits to customers.

3 Taken together, the transaction terms represent the results of an extraordinarily successful  
4 auction process. This set of terms places this transaction at the top of the range of results  
5 achieved to date in nuclear transactions and is beneficial to Wisconsin Electric and its  
6 customers. The total value of the transaction (ranging from approximately \$1.4 billion to  
7 \$1.6 billion depending on tax treatments, as discussed later in my testimony) and the  
8 various terms of the transaction documents provide enormous benefits to customers and  
9 should be approved by the Public Service Commission of Wisconsin (“PSCW” or  
10 “Commission”).

### 11 **III. ASSET SALE AGREEMENT**

#### 12 **Assets**

#### 13 **Q. PLEASE DESCRIBE POINT BEACH.**

14 A. Point Beach consists of two fully licensed and operational 2 loop Pressurized Water  
15 Reactors (“PWRs”) (Unit 1 and Unit 2; each, a “Unit”) and associated electric generation  
16 equipment. The two Units, which commenced commercial operation in 1970 and 1973,  
17 have a combined average net capacity of 1,036 MW. Both Units have been relicensed,  
18 with their current operating licenses expiring in 2030 and 2033. Point Beach operates  
19 within the Midwest Independent System Operator, Inc. (“MISO”) market. The plant’s  
20 site encompasses approximately 1,260 acres, all owned by Wisconsin Electric.

21 Point Beach is owned by Wisconsin Electric and operated by the Nuclear Management  
22 Company (the “NMC”).

1 NMC has operated Point Beach since 2000. NMC holds Point Beach’s Nuclear  
2 Regulatory Commission (“NRC”) operating licenses and approximately one-half of the  
3 personnel employed at Point Beach are NMC employees. Point Beach’s workforce  
4 currently consists of more than 650 employees – approximately 300 of whom are  
5 employed by Wisconsin Electric and the remainder are employed by NMC.

6 The Wisconsin Electric employees are members of the International Brotherhood of  
7 Electrical Workers (“IBEW”) Local 2150 and are represented through a collective  
8 bargaining agreement (“CBA”). Of the NMC employees, approximately 180 are  
9 represented by the IBEW Local 2150 through three separate CBAs (*i.e.*, Planners and  
10 Schedulers; Professionals Group; and Training, Radiological Protection and Chemical  
11 Engineers) and 182 are management.<sup>2</sup>

12 Point Beach also has a combustion turbine generator (the “CT”), which was installed in  
13 June 1969, and is located within the secured area of the site. The CT has a summer rating  
14 of approximately 15 MW and is normally used for spinning reserve, station blackout, and  
15 peaking purposes.

16 **Q. PLEASE DESCRIBE THE ASSETS BEING SOLD.**

17 A. The ASA (provided as Exhibit \_\_\_\_ (JJR-1)) provides for Wisconsin Electric to convey to  
18 FPLE Point Beach all of the assets it owns that are primarily related to the ownership,  
19 maintenance or operation of Point Beach. The assets being sold fall into one of five  
20 principal categories:

21 1. Land and Real Property – The 1,260 acres of contiguous land in  
22 Two Creeks, Wisconsin which comprise the site as well as the small parcel of land in

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<sup>2</sup> In total, FPLE Point Beach will assume all four CBAs associated with Point Beach.

1 the town of Gibson, Wisconsin, on which the Inland Meteorological Tower sits.

2 These parcels include all of the buildings, facilities and structures associated with the  
3 Plant (including the two reactors and the CT).

4 2. Inventories – Wisconsin Electric projects that as of August 31, 2007, there  
5 will be:

- 6 • \$24 million in non-fuel inventories, located mostly on-site.
- 7 • \$136 million in nuclear fuel inventories at various locations, in various  
8 stages of the conversion process, to which Wisconsin Electric has title and which are  
9 intended to ultimately be utilized by one of the two reactors at Point Beach.

10 3. Personal Property – Machinery, equipment, computer hardware and  
11 software, vehicles, and other miscellaneous property owned by Wisconsin Electric and  
12 used primarily in connection with the ownership, maintenance or operation of  
13 Point Beach (including emergency warning system assets).

14 4. Records, Contracts and Other Agreements – This consists of  
15 Wisconsin Electric's rights, as they relate to the ownership, maintenance or operation of  
16 Point Beach, pursuant to any contracts (fuel and non-fuel) to which it is a party. It also  
17 includes all transferable permits, licenses, books and records, and agreements.

18 5. Qualified Decommissioning Funds – If Wisconsin Electric receives a  
19 Private Letter Ruling from the IRS ("PLR") by the closing date that permits  
20 Wisconsin Electric to transfer a portion of its qualified decommissioning trust fund to  
21 FPLE Point Beach without adverse tax consequences, Wisconsin Electric will transfer  
22 \$360 million from the qualified decommissioning trust fund to FPLE Point Beach, while  
23 retaining the excess funds from that same qualified trust (the qualified decommissioning

1 trust funds are projected to have a market value of \$578 million at the time of closing).  
2 If the requested PLR is not received by the closing date, Wisconsin Electric will transfer  
3 the entire qualified decommissioning trust fund to FPLE Point Beach, and in return,  
4 FPLE Point Beach will increase its purchase price by 25% of the difference between its  
5 decommissioning target amount of \$360 million and the amount in the qualified  
6 decommissioning trust at closing, or an amount that is expected to add approximately  
7 \$50 million to FPLE Point Beach's purchase price.

8 **Purchase Price and Adjustments**

9 **Q. PLEASE INDICATE THE PURCHASE PRICE FPLE POINT BEACH IS**  
10 **PAYING FOR THE PLANT, AS WELL AS ANY ASSOCIATED PURCHASE**  
11 **PRICE ADJUSTMENTS WHICH MAY OCCUR.**

12 A. The purchase price for the plant, nuclear fuel inventories, non-nuclear fuel inventories  
13 and land is \$998 million. If the requested PLR discussed in the previous question and  
14 answer is not received prior to closing, the purchase price will be increased pursuant to  
15 the terms of the ASA. In either case, it will be the highest price, on a \$/kW basis, ever  
16 achieved in a nuclear transaction, and will be more than double the net book value of the  
17 assets being sold (net book value of the assets is projected to be \$487.8 million at  
18 closing).

19 In addition, the ASA provides for several purchase price adjustments, including:

20 • Nuclear Fuel Inventory – The purchase price will be adjusted up or down, on  
21 a dollar-for-dollar basis, to the extent that the net book value of nuclear fuel owned by  
22 Wisconsin Electric is greater or less than \$136.1 million as of the closing date.

1           • Non-Fuel Inventories - The purchase price will be adjusted up or down, on a  
2 dollar-for-dollar basis, to the extent that the book value of non-fuel inventories owned by  
3 Wisconsin Electric is greater or less than \$24 million as of the closing date.

4           • Capital Expenditures – The purchase price will be increased, on a dollar-for-  
5 dollar basis, by the amount of any capital expenditures made with respect to Point Beach  
6 between signing and closing, provided the expenditures are described in the capital  
7 budget in the ASA (Seller Disclosure Schedule Section 5.1(a)). These expenditures are  
8 projected to total \$17.2 million between December 2006 and August 2007. FPLE  
9 Point Beach will also reimburse Wisconsin Electric for any capital expenditures made  
10 which are necessary to comply with applicable laws, NRC licenses, NRC commitments  
11 or permits or are made in accordance with prudent utility practice.

12           • Cost to Dispose of Low Level Radiological Waste - The purchase price will  
13 be adjusted up or down, on a dollar-for-dollar basis, to the extent that the cost to dispose  
14 of all low level radiological waste on site is greater or less than \$8.8 million as of the  
15 closing date.

16           • Closing Date Adjustment – If the closing occurs after July 1, 2007 and on or  
17 before August 30, 2007, the Purchase Price will be adjusted upward by \$250,000 for each  
18 day that the closing occurs prior to August 31, 2007. The purchase price will be adjusted  
19 downward by \$200,000 for each day that the closing does not occur after  
20 September 30, 2007 and on or before October 30, 2007. If the closing has not occurred  
21 on or before October 30, 2007, the purchase price will be adjusted downward in the  
22 amount of \$100,000 for each day that the closing does not occur after October 30, 2007.

1           • Capacity Test – At the time of closing, a test will be conducted to determine  
2 the monthly net capability of the two Point Beach units.<sup>3</sup> The purchase price will be  
3 adjusted up or down by \$2,150 for each kilowatt by which the monthly net capability of  
4 the units is greater or less than 1,030 megawatts.

5           • IRS Private Letter Ruling – As mentioned above, if the requested PLR is not  
6 received by the closing date, the purchase price will be increased by 25% of the  
7 difference between FPLE Point Beach’s decommissioning target amount of \$360 million  
8 and the amount in the qualified decommissioning trust at closing, or an amount that is  
9 expected to add approximately \$50 million to FPLE Point Beach’s purchase price.

10 Accordingly, Wisconsin Electric will transfer the entire qualified decommissioning trust  
11 fund. This structure provides Wisconsin Electric the greatest access to the value of the  
12 funds in the qualified trust by providing time to receive a PLR, while at the same time  
13 having a fixed purchase price adjustment if no PLR is received. In either case, PLR or no  
14 PLR, value which was “locked” in the qualified decommissioning trust can be freed up,  
15 providing additional value to Wisconsin Electric customers.

16 **Q. WHAT IS THE RATIONALE FOR THESE PURCHASE PRICE**  
17 **ADJUSTMENTS?**

18 A. In formulating a binding offer to acquire a plant, bidders must incorporate specific  
19 assumptions regarding inventories, capital expenditures, costs to dispose of low level  
20 radiological waste, a closing date (vis-à-vis the opportunity to generate revenues under  
21 the PPA and the impact on bidder plans regarding future operation of the plant), and the  
22 amount of decommissioning funds transferred. These assumptions have significant

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<sup>3</sup> The capacity test will be done in accordance with MAIN Guide No.3 a and will not include the combustion turbine.

1 implications for the value of a plant. These assumptions are specified so that all bidders  
2 value the plant using common inputs and the resulting bids can be evaluated on a  
3 comparable basis. Purchase price adjustments to reflect actual deviations from the  
4 assumptions (positive and negative) ensure that the economic bargain of the transaction  
5 negotiated by a seller and a buyer are retained.

6 The specific purchase price adjustments in the Point Beach transaction are reasonable and  
7 customary. In fact, on an economic basis, they are better than those achieved in other  
8 transactions.

9 **Assumed Liabilities**

10 **Q. WILL WISCONSIN ELECTRIC TRANSFER THE LIABILITY TO**  
11 **DECOMMISSION THE SITE AND ITS FACILITIES?**

12 A. Yes. The Company will transfer to FPLE Point Beach full liability for decommissioning  
13 the site and its facilities. In addition, after the closing date, Wisconsin Electric will  
14 transfer the liability to dispose of any nuclear material located at the site.

15 **Q. YOU PREVIOUSLY DESCRIBED THE TREATMENT OF THE QUALIFIED**  
16 **DECOMMISSIONING TRUST IN THE PROPOSED TRANSACTION.**  
17 **WILL WISCONSIN ELECTRIC BE ALLOWED TO RETAIN ANY OF THE**  
18 **\$303.7 MILLION OF FUNDS IN THE NON-QUALIFIED DECOMMISSIONING**  
19 **TRUST?**

20 A. Yes. Regardless of the outcome of the PLR, Wisconsin Electric will retain all of the  
21 funds in the non-qualified decommissioning trust.

1 **Q. WHAT PENSION AND OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)**  
2 **LIABILITIES WILL BE TRANSFERRED?**

3 A. Wisconsin Electric’s actuary, Towers Perrin, estimates that the pension liability  
4 associated with the employees transferring with the sale to be \$48 million and the  
5 corresponding OPEB liability to be \$10.6 million, both as of August 31, 2007.

6 **Q. CAN YOU QUANTIFY THE VALUE OF TRANSFERRING THE PENSION AND**  
7 **OPEB LIABILITIES?**

8 A. Yes. Wisconsin Electric will transfer \$26.2 million in pension assets to FPLE  
9 Point Beach and will transfer no OPEB assets. If Wisconsin Electric were required to  
10 provide assets to match 100% of the pension and OPEB liabilities, it would need to make  
11 a cash payment to FPLE Point Beach at closing of \$21.8 million to true-up the pension  
12 assets and \$10.6 million to true-up the OPEB assets. Not having to make these payments  
13 adds a total of \$32.4 million in value to the transaction.

14 **Q. WHAT ENVIRONMENTAL LIABILITIES IS WISCONSIN ELECTRIC**  
15 **TRANSFERRING TO FPLE POINT BEACH?**

16 A. Wisconsin Electric will transfer all post-closing environmental liabilities associated with  
17 Point Beach, both on-site and off-site. Wisconsin Electric will transfer all liabilities  
18 associated with the release of hazardous substances at the Point Beach site on or prior to  
19 the closing date. Wisconsin Electric will also transfer all liabilities associated with the  
20 off-site transportation, disposal, storage, and release of hazardous substances on or prior  
21 to the closing date.

1 **Covenants**

2 **Q. PLEASE DESCRIBE THE WORKFORCE RELATED TERMS OF THE**  
3 **PROPOSED TRANSACTION.**

4 A. FPLE Point Beach will offer employment in the same position and at the same wages to  
5 all Point Beach employees. As noted earlier, FPLE Point Beach will assume the four  
6 CBAs covering Local 2150 union employees working at Point Beach and, in compliance  
7 with the applicable statutes, for a period not less than 30 months after closing (or as  
8 modified by the relevant CBA), will provide wage or base salary rates no less than those  
9 provided prior to the sale, along with substantially equivalent benefits (*i.e.*, pension,  
10 retiree medical, and life insurance). With respect to non-union employees, FPLE  
11 Point Beach will offer continued employment to the existing Point Beach workforce for  
12 18 months, and has committed to provide the same 30-month commitment regarding  
13 wages and benefits.

14 As I mentioned above, FPLE Point Beach will also ensure that there are sufficient assets  
15 available to meet all of the pension and OPEB liabilities associated with the transferring  
16 employees.

17 **Q. WHEN NEGOTIATING THE TERMS OF SALE FOR THE PROPOSED**  
18 **TRANSACTION, DID WISCONSIN ELECTRIC AND ITS ADVISORS LEND**  
19 **ANY WEIGHT TO DECISIONS THE COMMISSION HAS MADE IN THE PAST**  
20 **REGARDING THE SALE OF THE KEWAUNEE NUCLEAR POWER PLANT**  
21 **(“KEWAUNEE”) IN WISCONSIN?**

22 A. Yes. From the beginning of the auction process, Wisconsin Electric’s objective has been  
23 to pursue the alternative for Point Beach which provides the most value to its customers,

1 and, in the case of a sale scenario, to structure a transaction that addresses the issues  
2 about which the Commission expressed concern in the sale of Kewaunee to Dominion in  
3 2005.

4 **Q. ARE THERE OTHER TERMS OF SALE IN THE ASA YOU WOULD LIKE TO**  
5 **HIGHLIGHT?**

6 A. Yes. I would like to point out that the Company retained its pre-closing rights to its  
7 litigation with the Department of Energy ("DOE") regarding the DOE's failure to take  
8 spent nuclear fuel. FPLE Point Beach assumes the right to pursue litigation for any  
9 claims arising post-closing.

10 **Q. WERE ADDITIONAL AGREEMENTS EXECUTED THAT ENSURE THE**  
11 **PLANT WILL BE RUN SAFELY AND EFFICIENTLY DURING THE PERIOD**  
12 **OF TIME BETWEEN SIGNING AND CLOSING?**

13 A. Yes. In an effort to ensure that Point Beach continues to be run safely and efficiently  
14 between signing and closing, Wisconsin Electric and FPLE Point Beach have entered into  
15 two additional agreements:

16 • Transition Advisory Support Services Agreement ("TASSA") – The TASSA  
17 requires FPLE Point Beach to provide personnel, advice and assistance to  
18 Wisconsin Electric in monitoring safety margins and performance of the plant in support  
19 of Wisconsin Electric's efforts to improve operations, increase efficiency and reduce  
20 costs during the transition period while Point Beach continues to be operated by the  
21 NMC. FPLE Point Beach's advisory services will focus on the following seven  
22 functional areas: Senior Nuclear Management, Engineering, Radiological Protection,

1 Operations, Nuclear Fuels Management, Support Services, and Power Uprate.<sup>4</sup>

2 This agreement will remain in place until one of the following occurs: transaction  
3 closing, the effective date of the Interim Operating Agreement (“IOA”), or the ASA is  
4 terminated. FPLE Point Beach will provide these services at no charge through  
5 September 15, 2007, after which it will charge Wisconsin Electric a monthly fee of  
6 \$160,000. Any additional personnel above the original seven and the four supplemental  
7 personnel will come with a charge of \$25,000/month per employee during any period.

8 • IOA – At any time after FPLE Point Beach has received its necessary  
9 approvals to become the operator of the Plant and after the Plant’s Unit 1 spring 2007  
10 refueling outage has been completed, Wisconsin Electric, at its sole discretion, can cause  
11 an IOA to become effective. At such time, FPLE Point Beach will take over as operator  
12 of Point Beach. The IOA would then remain in place until the earliest of (1) the  
13 transaction closing, (2) December 31, 2009, or (3) another mutually agreed upon date.  
14 By executing this agreement, Wisconsin Electric has protected its customers from any  
15 risk associated with a possible deterioration of the NMC and its ability to operate  
16 Point Beach effectively and safely between signing and closing.

17 **Closing / Post-Closing**

18 **Q. PLEASE IDENTIFY ANY MILESTONE DATES ASSOCIATED WITH THE**  
19 **ASA.**

20 A. The milestone dates associated with the ASA are as follows:

21 • Assumed Closing Date – The ASA assumes a closing date of  
22 August 31, 2007. All purchase price adjustments relating to early or late closing use

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<sup>4</sup> FPLE Point Beach will provide up seven full-time personnel to provide TASSA support with the opportunity for additional support as needed.

1 August 31, 2007 as the target or assumed closing date. In addition, the value of nuclear  
2 fuel inventories and non-nuclear fuel inventories were projected as of August 31, 2007.

3 • Termination Date – The ASA may be terminated if the closing has not  
4 occurred on or before June 19, 2008 (*i.e.*, 18 months following the date the ASA was  
5 executed), unless at that date all conditions to closing have been fulfilled other than the  
6 required regulatory approvals of one or both of the parties, in which case the termination  
7 date is extended to December 19, 2008 (*i.e.*, 24 months following the date the ASA was  
8 executed). Also, if one party’s failure to fulfill any obligations under the ASA is the  
9 cause of the failure to close, that party may not terminate the agreement.

10 **Q. IS A PARENT GUARANTY BEING PROVIDED AS SECURITY OR CREDIT**  
11 **SUPPORT FOR COMPLIANCE WITH FPLE POINT BEACH’S OBLIGATIONS**  
12 **UNDER THE ASA?**

13 A. Yes. FPL Group Capital, Inc. is providing such a guaranty for FPLE Point Beach.  
14 FPL Group Capital has annual revenues of \$2.3 billion and assets of \$10.5 billion.  
15 FPL Group Capital’s credit ratings are as follows:

16 Standard & Poor’s<sup>5</sup>: A (Corporate)

17 Moody’s Investors Service<sup>6</sup>: A2 (Debentures)

18 If, at any time, FPL Group Capital’s senior unsecured debt rating falls below investment  
19 grade (investment is grade defined as BBB- or better by Standard & Poor’s, and Baa3 or  
20 better by Moody’s Investors Service), FPLE Point Beach is required to supplement the  
21 parent guaranty with a standby letter of credit in the full amount of the purchase price.

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<sup>5</sup> Standard & Poor’s credit rating for FPL Group Capital as of January 18, 2006 (see [www.standardandpoors.com](http://www.standardandpoors.com); credit ratings search).

<sup>6</sup> Moody’s Investors Service, “Credit Opinion: FPL Group Capital”, November 1, 2006.

1 **Q. ARE THERE POTENTIAL LIABILITIES ASSOCIATED WITH POINT BEACH**  
2 **FOR WHICH WISCONSIN ELECTRIC WILL BE RESPONSIBLE AFTER THE**  
3 **CLOSING?**

4 A. There are only a few, and only relating to pre-closing operations of the facilities and the  
5 representations and warranties made by Wisconsin Electric in the ASA. The survival  
6 period for most of the representations and warranties contained in the ASA is 12 months  
7 after the closing date. For exceptions to this survival period see ASA Section 7.1.

8 **Q. WHAT ARE THE INDEMNIFICATION PROVISIONS IN THE ASA?**

9 A. FPLE Point Beach will indemnify Wisconsin Electric against any losses resulting from:

- 10 1. Inaccuracy or breach of any representation and/or warranty  
11 of FPLE Point Beach;
- 12 2. Any breach by or failure of FPLE Point Beach to perform  
13 the covenants in the ASA;
- 14 3. All liabilities assumed by FPLE Point Beach as part of this  
15 transaction;
- 16 4. Any third party claim against Wisconsin Electric due to  
17 FPLE Point Beach's operation of Point Beach after the  
18 closing date.

19 Wisconsin Electric will indemnify FPLE Point Beach against any losses resulting from:

- 20 1. Inaccuracy or breach of any representation and/or warranty  
21 of Wisconsin Electric;
- 22 2. Any breach by or failure of Wisconsin Electric to perform  
23 the covenants in the ASA;



1 **IV. PPA**

2 **Q. PLEASE PROVIDE A HIGH LEVEL OVERVIEW OF THE PPA STRUCTURE**  
3 **AS NEGOTIATED WITH FPLE POINT BEACH.**

4 A. As described in more detail below, Wisconsin Electric will purchase all of the capacity,  
5 energy, and ancillary services associated with existing plant, as well as those same  
6 products associated with any future power uprates (“uprates”) at Point Beach that  
7 Wisconsin Electric opts to purchase under its PPA with FPLE Point Beach.  
8 Wisconsin Electric and FPLE Point Beach have negotiated and executed two separate  
9 PPAs of differing terms, one with a term through the current license life of Point Beach,  
10 *i.e.*, through 2030 and 2033 for Units 1 and 2, respectively (the “Life-of-License PPA”),  
11 and the other with a term of 16 years from the date of the transaction closing for Unit 1  
12 and 17 years from the date of the transaction closing for Unit 2 (the “Alternative PPA”).  
13 Other than the term of the contract, along with any term-dependent provisions, the only  
14 other difference between the two PPAs is the pricing for delivered energy. The purchase  
15 price of \$998 million that Wisconsin Electric will receive will not change depending on  
16 which PPA is selected. Negotiating these two different PPAs was done to enable the  
17 Company to elect whichever PPA term was deemed to offer the greatest benefit to  
18 customers after full review by the PSCW. There are both risks and benefits associated  
19 with the term of the PPAs, and input from the various participants in the proceeding will  
20 be helpful in optimizing the total transaction value.

21 Inasmuch as the only differences between the two executed PPAs relate to term and  
22 pricing, and to account for the fact that only one of the PPAs will survive after closing of  
23 the transaction, for the majority of the discussion below I refer to the two PPAs

1 generically as the “PPA”. For any discussion regarding the differences between the two  
2 PPAs, I refer to them herein as the “Life-of-License PPA” for that agreement which  
3 extends through the licensed life of Point Beach, and the “Alternative PPA” for that  
4 agreement with a term of 16/17 years. A copy of the Life-of-License PPA and  
5 Alternative PPA are provided as Confidential Exhibit \_\_\_\_ (JJR-2), Schedules 1 and 2,  
6 respectively.

7 **Q. WHAT IS THE FOCUS OF YOUR TESTIMONY REGARDING THE PPA?**

8 A. This section of my testimony describes the structure of both of the PPAs that  
9 Wisconsin Electric has negotiated with FPLE Point Beach as part of the proposed sale of  
10 Point Beach, I also offer an assessment of the benefits to Wisconsin Electric customers  
11 from either PPA, both in terms of the benefits of the contract itself, as well as in  
12 comparison to Wisconsin Electric's continued ownership of Point Beach. Specifically,  
13 my testimony herein regarding the PPAs is organized as follows: (1) the delivery  
14 obligations under the PPA; (2) the PPA pricing; (3) the customer benefits of the PPA; and  
15 (4) a comparison of the Life-of-License PPA to the Alternative PPA.

16 **Q. CAN YOU PROVIDE A SUMMARY OF YOUR CONCLUSIONS ABOUT THE**  
17 **PPA?**

18 A. Yes. First, either PPA offers highly favorable commercial terms for Wisconsin Electric,  
19 as the power purchaser, in terms of the risk transfer achieved, the level of security  
20 attained, the term of the agreement, and the optionality retained regarding the PPA term  
21 until the time of closing; all at a cost that compares favorably to Wisconsin Electric’s cost  
22 of continued ownership (“CCO”) and is below projected electric market prices. Each of

1 these terms provides customer benefits over the term of the agreement and contributes to  
2 the total transaction value offered through this sale.

3 **Delivery Obligations**

4 **Q. IS FPLE POINT BEACH OBLIGATED TO DELIVER THE POWER PRODUCTS**  
5 **TO WISCONSIN ELECTRIC UNDER EITHER PPA?**

6 A. Yes. Either PPA requires that FPLE Point Beach provide, and that Wisconsin Electric  
7 accept, all of the capacity, energy, and ancillary services associated with Point Beach's  
8 current capacity, as well as those products associated with any uprates performed by  
9 FPLE Point Beach which Wisconsin Electric opts to purchase. As discussed in detail  
10 later in my testimony, all of these products are paid for on the basis of delivered energy.  
11 There are no fixed charges assessed to Wisconsin Electric. In addition, either PPA  
12 requires that FPLE Point Beach transfer to Wisconsin Electric the economic benefits  
13 associated with any of the Plant's attributes (*e.g.*, green credits) which may become  
14 tradable or marketable in the future. For the first seven calendar years of either PPA,  
15 Wisconsin Electric enjoys 100% of those potential benefits; thereafter, the parties will  
16 share those benefits on a 50/50 basis for the remaining term of the agreement.

17 **Q. WHAT CONTRACTUAL MECHANISMS ENSURE THAT FPLE POINT BEACH**  
18 **WILL MEET ITS OBLIGATIONS?**

19 A. The pricing in either PPA, which is FPLE Point Beach's revenue stream, is designed as  
20 an incentive mechanism for performance in every year of the PPA, and this pricing is  
21 shaped to provide enhanced incentives during peak periods of each year. In addition to  
22 these incentives, either PPA includes liquidated damages provisions for failure to meet  
23 certain capacity-related and energy delivery-related requirements. These are discussed in

1 greater detail below and are important to consider when evaluating the delivery  
2 obligations of FPLE Point Beach.

3 **Q. WHAT ARE FPLE POINT BEACH’S CAPACITY OBLIGATIONS UNDER THE**  
4 **PPAs?**

5 A. Either PPA requires that the capacity from Unit 1 and Unit 2 must satisfy the resource  
6 adequacy requirements currently in Module E of the MISO open access tariff<sup>7</sup> for the  
7 term of the agreement (“Accredited Capacity”) or else the seller (*i.e.*, FPLE Point Beach  
8 under either PPA) is subject to liquidated damages.<sup>8</sup> In addition, the CT capacity shall be  
9 included as part of the Accredited Capacity delivered from the Facilities, and FPLE Point  
10 Beach must use commercially reasonable efforts to ensure the Accredited Capacity  
11 associated with the CT is at least 15 MW during the summer months, unless it is replaced  
12 or retired pursuant to a two-year notice provision.

13 **Q. WOULD THESE PPAs BE CONSIDERED “FIRM” CAPACITY PPAs?**

14 A. Yes. Rights to the capacity from the units continue to belong to Wisconsin Electric.  
15 From a financial perspective, in the event that Point Beach loses its capacity  
16 accreditation, and FPLE Point Beach does not provide replacement Accredited Capacity,  
17 FPLE Point Beach will owe liquidated damages to Wisconsin Electric. Specifically,  
18 FPLE Point Beach must either: (1) provide Accredited Capacity from the Plant in an  
19 amount equal to Wisconsin Electric’s capacity amount specified in Exhibit B of either  
20 PPA; (2) replace any shortfall in Accredited Capacity up to the Exhibit B capacity  
21 amount as defined in either PPA, as described below; or (3) failing items (1) and (2),

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<sup>7</sup> Midwest Independent Transmission System Operator, Inc., Open Access Transmission and Energy Market Tariff.

<sup>8</sup> As discussed below, FPLE Point Beach may provide replacement Accredited Capacity and thus forgo liquidated damages.

1 FPLE Point Beach must pay to Wisconsin Electric [REDACTED]  
2 for each MW-month of shortfall, subject to an annual cap of [REDACTED].

3 **Q. HOW ARE LIQUIDATED DAMAGES RECOVERED AND WHAT IS THE**  
4 **EFFECT OF THE ANNUAL CAP?**

5 A. Any amounts due for liquidated damages will be netted against any payments that  
6 Wisconsin Electric would owe on a delivered energy basis. To the extent the Accredited  
7 Capacity liquidated damages exceed the monies otherwise owed to FPLE Point Beach for  
8 energy delivered in a given month, then FPLE Point Beach would pay those liquidated  
9 damages, up to the [REDACTED] cap, to Wisconsin Electric. Thus, there are  
10 significant incentives built into the PPA to ensure that Wisconsin Electric's customers are  
11 protected from a loss of Accredited Capacity at the Facilities.<sup>9</sup>

12 **Q. HOW DOES THIS COMPARE TO THE CAPACITY COMMITMENTS IN THE**  
13 **PPAs OF OTHER RECENT NUCLEAR TRANSACTIONS?**

14 A. This liquidated damages metric for Point Beach is the same as that used in the PPA  
15 associated with the sale of the DAEC, which was executed by Interstate Power and Light  
16 and was approved by the Iowa Utilities Board. In the case of Duane Arnold, the power  
17 seller's payments are credited against other contract revenues; however, it cannot result  
18 in a net payment from the power seller to the power buyer. In the Point Beach PPA,  
19 Wisconsin Electric has the added protection of potential liquidated damage payments,  
20 up to the [REDACTED] annual cap. Overall, the Accredited Capacity

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<sup>9</sup> "Facilities" is defined in the PPA as "Point Beach excluding any Uprate not accepted by Buyer pursuant to Section 2.9(a); provided, that after the Unit 1 Termination Date (if not the same as the Unit 2 Termination Date), the term "Facilities" shall exclude Unit 1 for the remainder of the Term of this Agreement; provided, further, that if for any reason this Agreement terminates earlier with respect to Unit 2, but not Unit 1, then after the Unit 2 Termination Date, the term "Facilities" shall exclude Unit 2 for the remainder of the Term of this Agreement."

1 requirements in either PPA and associated liquidated damages are the most stringent of  
2 any such terms resulting from a competitive nuclear auction.

3 **Q. WHAT PERFORMANCE OBLIGATIONS DO THE PPAs IMPOSE ON THE**  
4 **POWER SELLER WITH REGARD TO ENERGY DELIVERY?**

5 A. In addition to the obvious incentives created by shaped delivered energy-based payments,  
6 during each of the summer months of June, July, and August, FPLE Point Beach must  
7 achieve a monthly target capacity factor of [REDACTED]. In the event FPLE  
8 Point Beach fails to achieve this target capacity factor through either plant performance  
9 or replacement energy, it must make a payment to Wisconsin Electric for the energy  
10 shortfall at a rate of [REDACTED] (“Peak Adjustment Payment”). This Peak  
11 Adjustment Payment of [REDACTED] will escalate at 3% every year after  
12 2007.

13 **Q. DOES THIS PEAK ADJUSTMENT PAYMENT PROVIDE SUFFICIENT**  
14 **PROTECTION?**

15 A. Yes. Again, this feature is incremental to the shaped energy-only payments in providing  
16 an economic incentive to FPLE Point Beach for strong PPA performance during the  
17 summer months when energy prices tend to be at their highest. In the event the Company  
18 does not receive energy at a [REDACTED] capacity factor, it will not only avoid all of  
19 the shaped payment, but customers will also enjoy a partial offset to any replacement  
20 power costs.

21 **Q. HOW DOES THIS CONTRACT PROVISION ENABLE A PARTIAL OFF-SET**  
22 **OF REPLACEMENT POWER COSTS FOR CUSTOMERS?**

23 A. If, for example, FPLE Point Beach only delivers energy at a 90% capacity factor in

1 July 2008, then the Peak Adjustment Payment in Exhibit G would be triggered. In this  
2 case, the target capacity factor shortfall would be a [ ] difference (*i.e.*, the  
3 90% actual performance subtracted from the [ ] target). The energy  
4 shortfall would be the product of the summer capacity of Units 1 and 2 for July (*i.e.*,  
5 1,026 MW) and the reduction in operating hours attributable to the target capacity  
6 shortfall (*i.e.*, 52 hours is 7% of the hours in July), which is 53,434 MWh. For each of  
7 these MWh, Wisconsin Electric will have avoided the shaped energy payment of [ ]  
8 [ ] and will also be paid [ ] (yielding a total  
9 payment of [ ]. This gives the Company a [ ]  
10 [ ] “credit” against replacement power costs during that shortfall period. Compared  
11 with the continued ownership scenario where the Company still bears all the fixed costs  
12 of the facility, and must pay all those costs in addition to all of the replacement power  
13 costs, this is a far more beneficial position for the Company and its customers.

14 **Q. HOW DOES THIS COMPARE WITH THE ENERGY DELIVERY**  
15 **COMMITMENT IN THE PPAs OF OTHER RECENT NUCLEAR**  
16 **TRANSACTIONS?**

17 A. This mechanism is similar to that recently achieved by Consumers Energy Company  
18 (“Consumers”) in its PPA with Entergy Nuclear for the Palisades Nuclear Plant. To my  
19 knowledge, Consumers was the first to ever get this supplemental Peak Adjustment  
20 Payment. However, Wisconsin Electric was able to achieve a peak period that is one  
21 month longer than the peak period for Consumers and has a slightly higher target  
22 capacity factor.

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<sup>10</sup> Assuming the hours are proportionately distributed between peak and off-peak hours.

1 **Q. WHAT OTHER FINANCIAL PROTECTIONS EXIST IN THE PPAs FOR**  
2 **WISCONSIN ELECTRIC’S CUSTOMERS?**

3 A. Under specific circumstances, FPLE Point Beach would have to provide to  
4 Wisconsin Electric performance security in the amount of [REDACTED],  
5 and this would escalate at 3% per year starting in 2024 through the term of the Life-of-  
6 License PPA.<sup>11</sup> Specifically, if, at any time during the term of either PPA, the credit  
7 rating of FPLE Point Beach or Group Capital falls below investment grade status, or if  
8 the maturity of debt exceeding [REDACTED] or [REDACTED] of the shareholders’  
9 equity of FPLE Point Beach or Group Capital is accelerated due to payment default or  
10 failure to comply with a financial covenant, then FPLE Point Beach must provide  
11 Wisconsin Electric either a letter of credit in the amount of [REDACTED],  
12 a parent guaranty from Group Capital, or other collateral acceptable to Wisconsin  
13 Electric. In this way, Wisconsin Electric’s customers are sufficiently insulated from non-  
14 performance by FPLE Point Beach under either PPA. In addition, in my discussion of  
15 PPA pricing below, I provide specific examples of the economic benefit to  
16 Wisconsin Electric’s customers, as compared to Wisconsin Electric maintaining  
17 ownership of the Facilities, in the event of a prolonged outage at Point Beach.

18 **Q. HOW DOES THIS LEVEL OF SECURITY COMPARE WITH THAT IN OTHER**  
19 **PPAs ASSOCIATED WITH NUCLEAR DIVESTITURES?**

20 A. Compared to the PPAs from the last two competitive auctions, both of which also had  
21 performance-based PPA pricing, this compares quite favorably. The Duane Arnold PPA,  
22 which was for approximately 418 MW, requires posting of a \$30 million letter of credit if

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<sup>11</sup> Under the Alternative PPA, the 3% escalation does not apply.

1 the security requirement is triggered. For Palisades, which is a 798 MW plant, \$30  
2 million is also the required level in that transaction if security provisions are triggered.  
3 Clearly, the  threshold in the Point Beach transaction is  
4 proportionately much higher. While I am aware that some other contracts have required  
5 higher security amounts relative to the size of the plant, those contracts also have  
6 significant fixed payments due from the power buyer and overall had an entirely different  
7 risk profile.

8 **Q. DURING THE TERM OF EITHER PPA, CAN FPLE POINT BEACH SELL ANY**  
9 **OF THE OUTPUT OF POINT BEACH TO A PARTY OTHER THAN**  
10 **WISCONSIN ELECTRIC?**

11 A. No, with three exceptions. The first exception is the output associated with any future  
12 uprate that Wisconsin Electric does not accept. The second is that Wisconsin Electric  
13 requires only the capacity from the CT. In the event the CT is operated to deliver energy,  
14 that energy would be sold outside the PPA by FPLE Point Beach. The third is that, if a  
15 Force Majeure event prevents Wisconsin Electric from performing its obligations, then  
16 FPLE Point Beach may sell to third parties energy and ancillary services from Point  
17 Beach but only for the duration of the Force Majeure. But for these three exceptions, for  
18 the term of either PPA, FPLE Point Beach must provide 100% of the capacity and energy  
19 from the Plant to Wisconsin Electric. The language in either PPA is very exact as to the  
20 purchase and sale obligations of both parties. Sections 2.1 and 2.2 of either PPA  
21 explicitly state that for each product FPLE Point Beach shall sell and deliver to  
22 Wisconsin Electric, and Wisconsin Electric shall accept and purchase from FPLE  
23 Point Beach, the output from Point Beach, and that FPLE Point Beach shall not commit

1 to sell Wisconsin Electric's entitlement to the output of Point Beach to any third party  
2 during the term of the PPA.

3 **Q. WOULD YOU PLEASE EXPLAIN HOW UPRATES ARE TREATED IN THE**  
4 **PPAs?**

5 A. Yes. Uprates fall into two categories, each of which has slightly different obligations.  
6 The first is referred to as the planned uprate for Point Beach of approximately 90 MW  
7 ("Planned Uprate"). The second is the group of any incremental uprates after the Planned  
8 Uprate ("Future Uprates").

9 **Q. HOW DO THESE UPRATES DIFFER?**

10 A. The only real difference is the reimbursement of transmission costs. For both types of  
11 uprates, FPLE Point Beach must offer the power to Wisconsin Electric at the PPA price  
12 and terms, and Wisconsin Electric has the right to decline such offer. The Planned  
13 Uprate represents approximately 90 MW of incremental capacity that Wisconsin Electric  
14 had planned to undertake and which was represented in its resource planning efforts.  
15 As such, the Company wanted to ensure that this effort would be pursued. Given that the  
16 transmission costs associated with this project are not certain and that Wisconsin Electric  
17 wanted a new owner to undertake this project, for the Planned Uprate, the Company will  
18 reimburse the new owner for transmission system upgrade costs it incurs as a result of  
19 that uprate. All costs at the Plant associated with the Planned Uprate are the  
20 responsibility of FPLE Point Beach. However, if Wisconsin Electric does not believe  
21 that the all-in cost will be economic with the transmission upgrade costs, then the  
22 Company may decline the Planned Uprate, allowing FPLE Point Beach to assume the

1 transmission upgrade costs and sell the power products associated with the Planned  
2 Uprate to a third party.

3 Energy, capacity, and ancillary services associated with any other Future Uprates will  
4 also be offered by FPLE Point Beach to Wisconsin Electric pursuant to the terms of the  
5 PPA with no reimbursement by Wisconsin Electric of FPLE Point Beach's allocated  
6 transmission costs. However, Wisconsin Electric retains the option to decline these  
7 potential Future Uprates as well.

8 **Q. UNDER WHAT CIRCUMSTANCES CAN WISCONSIN ELECTRIC DECLINE**  
9 **A FUTURE UPRATE?**

10 A. If Wisconsin Electric, in its sole discretion, believes a Future Uprate would either cause  
11 transmission disruptions or impose incremental transmission costs to Wisconsin Electric,  
12 or materially diminish the capacity factor of the Facilities, then Wisconsin Electric may  
13 decline the Future Uprate. However, based on current market projections, any Future  
14 Uprates are expected to be below market, and are therefore expected to add to the value  
15 of the PPA. FPLE Point Beach expects to pursue an uprate that is 44 MW larger than the  
16 planned 90 MW uprate; this additional uprate could add \$15 million of value to the Life-  
17 of-License PPA relative to the CCO.

18 **Q. IF WISCONSIN ELECTRIC DECLINES A FUTURE UPRATE, HOW WILL**  
19 **ENERGY FROM THE FACILITIES BE APPORTIONED?**

20 A. In the event that Wisconsin Electric declines a Future Uprate, all Energy generated by  
21 Point Beach must first satisfy Wisconsin Electric's capacity amount as defined in either  
22 PPA before it can be sold to a third party. This "first through the meter" concept ensures

1 that Wisconsin Electric will not be negatively affected by any Future Uprate it chooses to  
2 decline.

3 **Q. WHAT HAPPENS AT THE END OF THE TERM OF THE PPA?**

4 A. FPLE Point Beach must offer the energy, capacity, and ancillary services from  
5 Point Beach to Wisconsin Electric at least eighteen months prior to the termination of the  
6 PPA before offering similar products to a third party. This “Right of First Offer” is  
7 provided in Section 2.10 of either PPA. The Company has the same rights under the  
8 Life-of-License PPA and the Alternative PPA if FPLE Point Beach were to seek and be  
9 granted any additional NRC license extensions beyond the current license life of the  
10 Facilities.

11 **Q. DOES EITHER PPA ALLOW FOR THE REPLACEMENT OF ANY**  
12 **SHORTFALL IN ENERGY OR CAPACITY?**

13 A. Yes. Specifically, in either PPA, FPLE Point Beach may provide Wisconsin Electric  
14 with replacement energy during any scheduled or unscheduled outage, but only to the  
15 extent of any derate.<sup>12</sup> Replacement energy will be provided on the same pricing terms as  
16 the output of the Facilities. If FPLE Point Beach chooses to replace energy, it must do so  
17 in week-long increments (*i.e.*, seven consecutive days), and after the first week of  
18 replacement energy, FPLE Point Beach must provide Wisconsin Electric with two days  
19 notice regarding its decision to provide or not provide replacement energy for subsequent  
20 weeks.

21 In terms of replacement capacity, as mentioned above, FPLE Point Beach must either  
22 replace Accredited Capacity up to any shortfall from the Facilities, or FPLE Point Beach

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<sup>12</sup> A derate is defined in either PPA as an event or condition which causes the net energy output to be less than 95% of Wisconsin Electric’s capacity amount.

1 must pay to Wisconsin Electric  for each MW-month  
2 of shortfall. FPLE Point Beach must provide replacement capacity for no less than  
3 twelve months or other time period required under regional reliability standards.

4 **Q. CAN FPLE POINT BEACH SUPPLY WISCONSIN ELECTRIC**  
5 **REPLACEMENT POWER ONLY IN THOSE HOURS WHEN THE PPA PRICE**  
6 **IS ABOVE THE MARKET PRICE AND LEAVE WISCONSIN ELECTRIC TO**  
7 **REPLACE POWER DURING THE MORE VOLATILE PEAK HOURS OF THE**  
8 **DAY?**

9 A. No, it cannot. As stated above, and in Section 2.4 of either PPA, if FPLE Point Beach  
10 elects to provide replacement energy, it may only do so in seven consecutive day  
11 increments, and then only with two business days notice for subsequent weeks.  
12 The week-long replacement requirement, as opposed to some shorter period, was  
13 developed specifically to avoid hour-by-hour, or even day-by-day, gaming or arbitrage  
14 opportunities, and also provides Wisconsin Electric with a reasonable planning period for  
15 replacement resources.

16 **Q. WILL WISCONSIN ELECTRIC RETAIN THE RIGHTS TO ANCILLARY**  
17 **SERVICES FROM POINT BEACH AND ANY REVENUES ASSOCIATED WITH**  
18 **ANCILLARY SERVICES?**

19 A. Yes. Under either PPA, the sale of capacity and energy from Point Beach to  
20 Wisconsin Electric, as well as replacement energy and capacity, will include any  
21 associated ancillary services. There will be no additional charge to Wisconsin Electric  
22 for these services. FPLE Point Beach will transfer to Wisconsin Electric any revenue it  
23 earns from third parties for ancillary services. Ancillary services, as defined in either

1 PPA, include reactive power and frequency response service. In addition, if, during the  
2 term of either PPA, there is a change in law that causes any other aspect of Point Beach  
3 to become a tradable attribute, Wisconsin Electric has the rights to 100% of those “future  
4 attributes” for the first seven calendar years of the PPA, with any future attributes after  
5 seven years being split 50/50. These provisions in either PPA related to ancillary  
6 services and future attributes ensure that Wisconsin Electric’s customers will enjoy the  
7 operational and economic benefits of all attributes that Point Beach is capable of  
8 producing today through the first seven calendar years of the PPA and have the  
9 opportunity to share equally in the value of any future attributes for the remaining term of  
10 the PPA.

11 **Q. ARE THE ENERGY AND CAPACITY ASSOCIATED WITH THE CT**  
12 **INCLUDED WITH THE DELIVERED PRODUCTS DISCUSSED ABOVE?**

13 A. The capacity of the CT is to be provided by FPLE Point Beach to Wisconsin Electric as  
14 part of the Accredited Capacity from the Facilities. To allow Wisconsin Electric  
15 sufficient time for resource planning, FPLE Point Beach may only retire or replace the  
16 existing CT with two years notice to Wisconsin Electric. There is no requirement that  
17 FPLE Point Beach sell any energy produced by the CT to Wisconsin Electric.

18 **PPA Pricing**

19 **Q. HOW ARE PAYMENTS FOR ENERGY, CAPACITY, AND ANCILLARY**  
20 **SERVICES STRUCTURED IN THE PPAs?**

21 A. While all products are provided to Wisconsin Electric, payments are made only on the  
22 basis of a delivered energy charge, for power delivered and scheduled pursuant to a  
23 confirmed MISO transaction. The average annual delivered energy charge applicable for

1 each year of the PPA is specified in Exhibit A of either PPA. While the delivered energy  
2 charge is determined for each calendar year of the contract, (\$x/MWh in 2007, \$y/MWh  
3 in 2008, \$z/MWh in 2009, etc.) it is “shaped” on a monthly basis, as described below,  
4 and within each month the payments are higher for peak hours than for off-peak hours.  
5 The delivered energy charge represents the only charge to Wisconsin Electric for all of  
6 the products and services delivered by FPLE Point Beach under either PPA. In other  
7 words, either PPA is structured as a “pay-for-performance” PPA in which  
8 Wisconsin Electric only pays if it receives energy from the Facilities (or replacement  
9 energy, as applicable). So in a month when Wisconsin Electric will have Point Beach as  
10 an Accredited Capacity resource, but during which there are no deliveries of energy  
11 under the PPA, the Company pays nothing to FPLE Point Beach.

12 **Q. ARE THERE ANY SEPARATE CHARGES FOR CAPACITY OR ANCILLARY**  
13 **SERVICES?**

14 A. No. The delivered energy charge represents the sole payment to be made under either  
15 PPA.

16 **Q. WHAT ARE THE OBJECTIVES OF SHAPING THE DELIVERED ENERGY**  
17 **CHARGE?**

18 A. As mentioned above, the delivered energy charge is shaped on a monthly basis according  
19 to the shaping factors provided in Exhibit C of either PPA. These shaping factors are  
20 designed to reflect changes in the market value of power during different periods of the  
21 year. In general, shaping the PPA prices achieves two main goals: (1) the shaped  
22 revenue stream provides significant economic incentives for FPLE Point Beach to ensure  
23 top performance when the Company most needs the power (*i.e.*, the peak months and

1 hours when both the demand and market prices tend to be high); and (2) the shaped  
2 payment means that Wisconsin Electric's "avoided cost" (*i.e.*, revenue not paid when  
3 Point Beach fails to produce output) provides a more symmetrical offset to replacement  
4 power costs.

5 **Q. CAN YOU GIVE AN EXAMPLE OF HOW THE SHAPING FACTORS WORK?**

6 A. Yes. During 2008, the price per Exhibit A for the first full year of the Life-of-License  
7 PPA is [REDACTED] delivered. However, because of the shaping factors,  
8 for each MWh that FPLE Point Beach delivers during an off-peak hour of an off-peak  
9 month such as March, Wisconsin Electric only pays [REDACTED] under the  
10 Life-of-License PPA. Conversely, for an on-peak hour during an on-peak month  
11 such as July, Wisconsin Electric pays (or avoids if the power is not delivered)  
12 [REDACTED] under the Life-of-License PPA.

13 **Q. HOW DOES THIS MECHANISM PROVIDE INCENTIVES TO FPLE**  
14 **POINT BEACH?**

15 A. If, for example, Point Beach needs a short duration maintenance outage or derate for  
16 minor repairs and there is discretion as to the timing of that repair, the shaping factors  
17 will provide incentives to FPLE Point Beach to schedule the maintenance to occur as  
18 much as possible during the off-peak periods (*i.e.*, nights and weekends and the months  
19 with the lowest off-peak shaping factors). This maximizes revenue for FPLE  
20 Point Beach and provides power to Wisconsin Electric when the market value is most  
21 likely to be high. In short, there is economic alignment of interests between the parties.

22 **Q. ARE THERE ADDITIONAL RESTRICTIONS ON MAINTENANCE**  
23 **SCHEDULING?**

1 A. Yes. Either PPA stipulates that scheduled maintenance outages may not occur during the  
2 summer months of June, July, and August.

3 **Q. HOW WILL THE PLANT BE TREATED IN MISO UNDER EITHER PPA?**

4 A. Point Beach will continue to be a designated network resource, and FPLE Point Beach  
5 will offer Point Beach into the MISO energy markets. Wisconsin Electric and FPLE  
6 Point Beach will enter into a MISO market contract whereby the ownership of the output  
7 of Point Beach will be transferred from FPLE Point Beach to Wisconsin Electric.

8 The effect of the MISO market contract is that MISO will pay Wisconsin Electric for the  
9 energy produced by Point Beach as is currently the case. Wisconsin Electric will pay  
10 FPLE Point Beach the price specified in either PPA.

11 **Customer Benefits of PPA and Risk Transfer**<sup>13</sup>

12 **Q. HOW DO THE COST STREAMS UNDER THE VARIOUS OPTIONS COMPARE**  
13 **WITH EACH OTHER?**

14 A. Table 1 (and Figure 1) below show that both the Life-of-License PPA and Alternative  
15 PPA options have front-end loaded benefits for Wisconsin Electric and its customers.<sup>14</sup>  
16 The Life-of-License PPA's annual average price is below the CCO until 2024, and is, on  
17 average below the projected "base" market price until 2029. In addition, pricing under  
18 either PPA is the same through 2012, but for the years 2013 through 2022, the pricing  
19 under the Life-of-License PPA is below that of the Alternative PPA. While the  
20 Alternative PPA is below the projected "base" market price and below the CCO for its  
21 16/17 year term, Wisconsin Electric would have to purchase power at the market price or

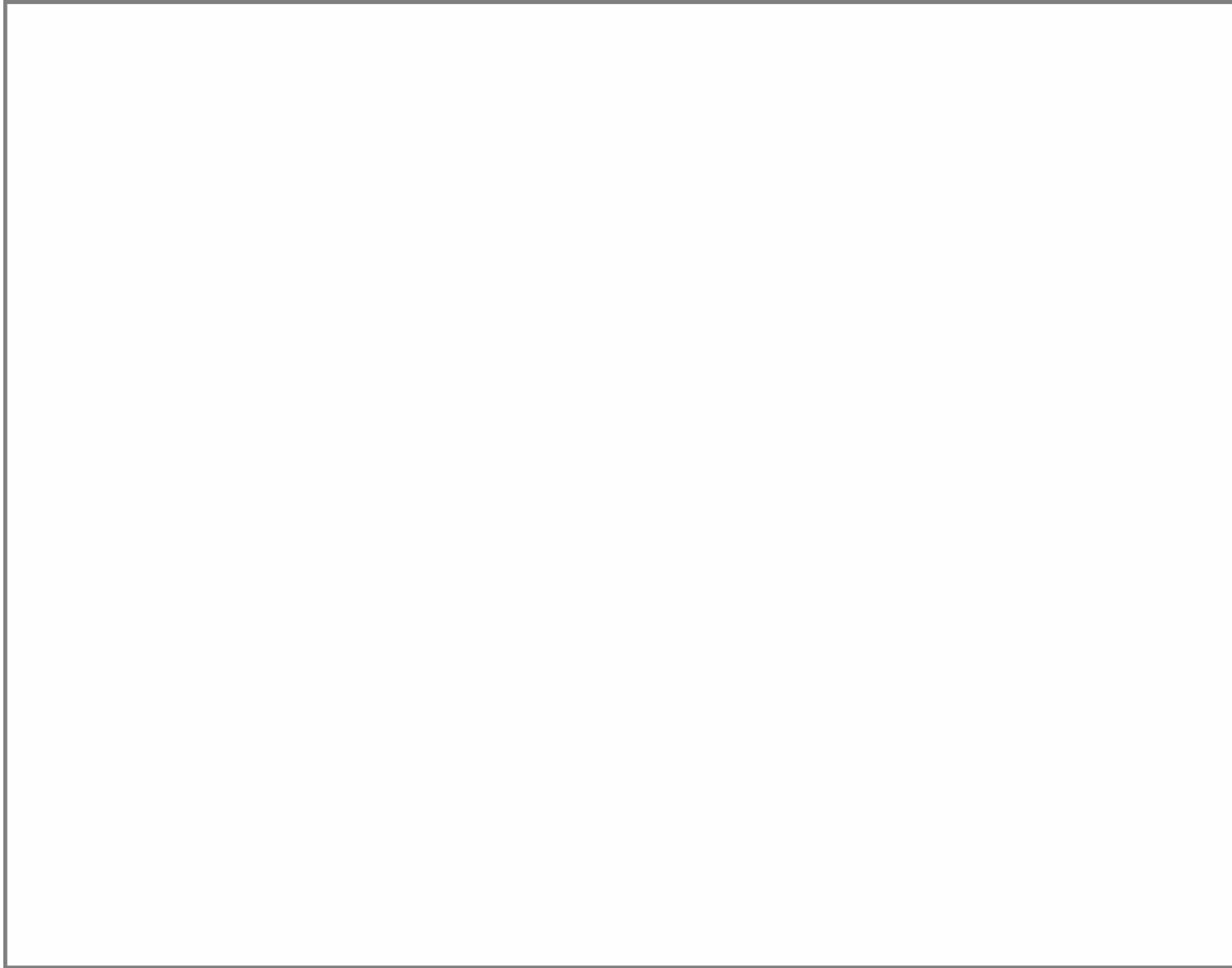
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<sup>13</sup> The quantification of the customer benefits from the PPA and from transferring risk from Wisconsin Electric to FPLE Point Beach does not include monetization of the risk transferred nor does it include the effect of Wisconsin's Gross Receipts Tax or the cost of imputed debt. I discuss the Gross Receipts Tax and risk transfer later in my testimony and Mr. Schubilske discusses the debt imputation issue.

<sup>14</sup> The data underlining Table 1 and Figure 1 are the exact same; the presentation is simply different.



***FIGURE 1:***



1 **Q. HOW WAS THE MARKET FORECAST DEPICTED IN FIGURE 1 ABOVE**  
2 **DEVELOPED, AND WHO WAS RESPONSIBLE FOR THIS EFFORT?**

3 A. In anticipation that projected capacity and energy market price data would be required to  
4 perform various analyses associated with the auction, Wisconsin Electric hired an  
5 independent third-party forecasting company, New Energy Associates, to provide its  
6 long-term forecast for the Wisconsin Electric market (see the testimony of  
7 Mr. Richardson).<sup>15</sup>

8 **Q. WHAT IS THE ECONOMIC EFFECT OF THE LIFE-OF-LICENSE PPA FOR**  
9 **WISCONSIN ELECTRIC'S CUSTOMERS?**

10 A. To fully evaluate the economic benefit of the Life-of-License PPA for Wisconsin  
11 Electric's customers, I have evaluated the Life-of-License PPA value in two ways, as  
12 shown on Table 2 below. First, to measure projected customer savings, the Life-of-  
13 License PPA was compared with the CCO through the end of the Plant's current license  
14 life.<sup>16</sup> On this basis, the Life-of-License PPA compares favorably on a present value  
15 basis with CCO, as customers would realize approximately \$75 million in present value  
16 savings versus a continued ownership scenario. Table 2 shows the cumulative savings of  
17 the Life-of-License PPA versus the CCO for each year from 2007 to 2033.  
18 In addition, comparing the PPA prices to the projected "base" market price forecast for  
19 the full term of the Life-of-License PPA demonstrates that having the Life-of-License  
20 PPA, rather than selling the plant and replacing that power in the market offers

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<sup>15</sup> As shown in Table 1, New Energy Associates prepared three market price forecasts, a "base", "high" and "low" forecast. For purposes of my testimony, I have relied upon the "base" market price forecast unless otherwise specified.

<sup>16</sup> The development of the CCO is discussed in greater detail by Witnesses Schubilske and Weaver.

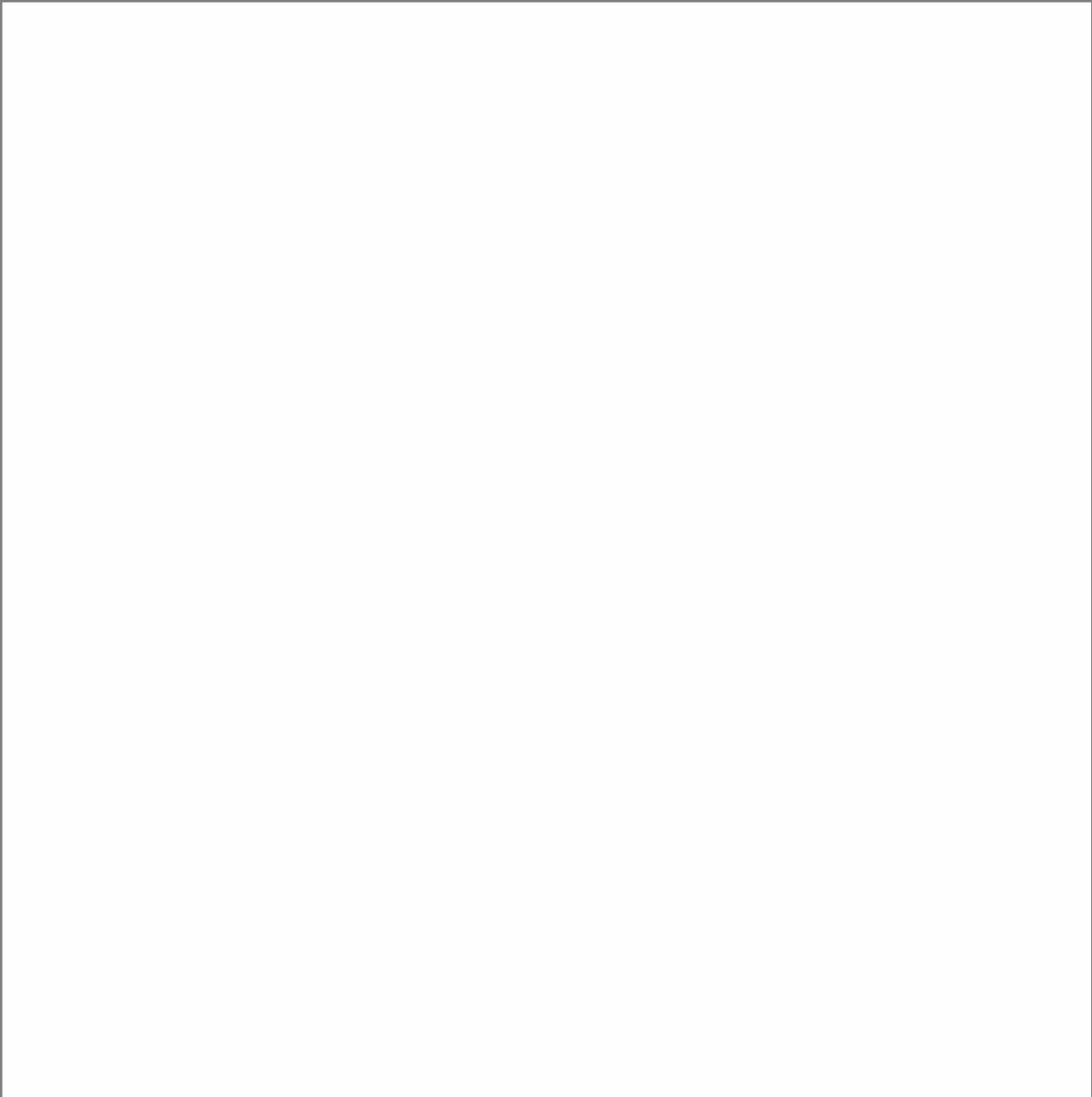
1 approximately \$672 million on a cumulative present value basis for the period from 2007  
2 to 2033.

3 **TABLE 2:**

4

5

6



7 **Q. WHICH OF THESE CALCULATIONS IS THE APPROPRIATE METRIC?**

8 A. Each of the valuations is meaningful in determining the overall value of the Life-of-  
9 License PPA. The analysis indicates that the Life-of-License PPA offers incremental

1 value compared to either (i) retaining the Plant; or (ii) selling the Plant without a PPA and  
2 buying replacement power from the market.

3 **Q. PLEASE EXPLAIN THE DISCOUNT RATES USED IN YOUR PRESENT**  
4 **VALUE ANALYSIS.**

5 A. I used the Company’s approved weighted average cost of capital (*i.e.*, 8.52%) as the  
6 discount rate through 2024; however, to reflect the higher risks associated with out-year  
7 projections, I increased the discount rate by 150 basis points for values in years 2025 and  
8 beyond.

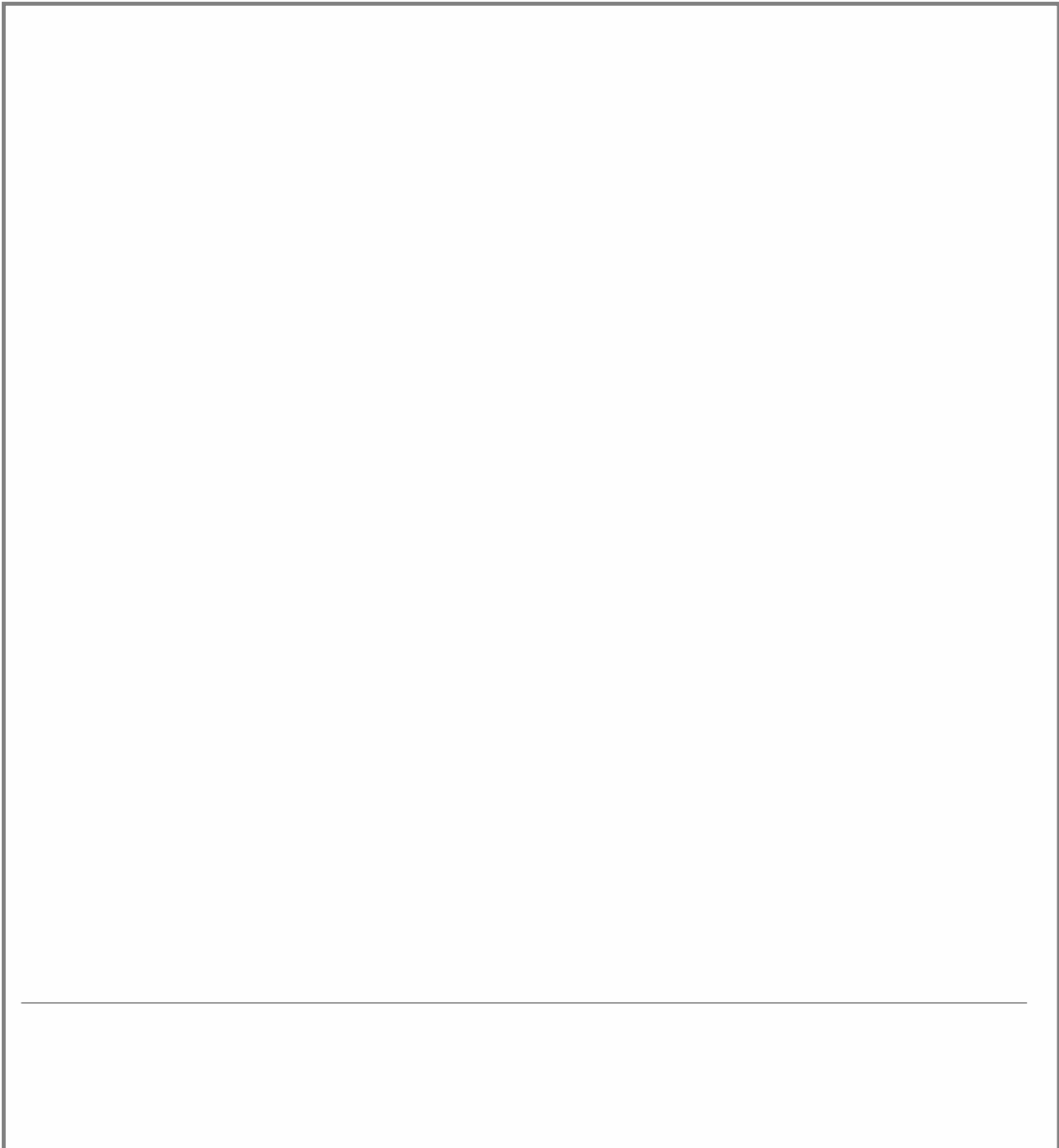
9 **Q. HOW DOES THE LIFE-OF-LICENSE PPA COMPARE TO THE**  
10 **ALTERNATIVE PPA?**

11 A. In order to compare contracts of different durations, one must look at the total cost for a  
12 single period. Accordingly, the valuation of the Life-of-License PPA versus the  
13 Alternative PPA relies on the total present value cost to Wisconsin Electric through the  
14 end of Point Beach’s current license. In other words, for the Life-of-License PPA, the  
15 present value cost is based on the pricing set forth in that PPA through 2030 and 2033 for  
16 Units 1 and 2, respectively. For the Alternative PPA, the present value cost is based on  
17 the pricing set forth in the Alternative PPA through the 16-year term for Unit 1 and the  
18 17-year term for Unit 2, and then the value associated with the purchases of power that  
19 the Company would need to make at the market forecast price through 2030 and 2033 for  
20 each of the respective Units since the Alternative PPA would have expired. The  
21 comparative analysis of the Alternative PPA is presented in Table 3 below.

22

1  
2  
3

**TABLE 3:**



4

5       The Alternative PPA is below the CCO and below the projected market price for its  
6       entire term (i.e., through August 31, 2023 for Unit 1 and through August 31, 2024 for  
7       Unit 2) offering customers a projected savings of approximately \$31 million compared to  
8       CCO through that limited period. However, once the Alternative PPA expires,

1 Wisconsin Electric would be exposed to market prices for the balance of Point Beach's  
2 license life, meaning that, in total, there would be a present value cost of the Alternative  
3 PPA as compared to the CCO through 2033 (assuming that Wisconsin Electric paid  
4 market prices once the Alternative PPA expired) of approximately \$75 million.

5 In addition, the present value savings of the Alternative PPA as compared to the market  
6 price through 2033 would be \$521 million, or \$151 million dollars *less* valuable than the  
7 Life-of-License PPA.

8 As with the Alternative PPA, the Life-of-License PPA offers front-end loaded benefits to  
9 Wisconsin Electric and its customers. The annual average price of the Life-of-License  
10 PPA is below CCO until the year 2024, and is below market until the year 2029.

11 After those years, the benefits will diminish on a cumulative basis if Point Beach  
12 continues to operate at high capacity factors until the moment its license expires; a feat  
13 never achieved by any nuclear plant. However, as shown in Tables 2 and 3, even with  
14 the projected diminution in benefits in the latter years, overall on a present value basis the  
15 Life-of-License PPA offers positive value to customers, and significantly more value than  
16 the Alternative PPA through 2033. Further, I note that the benefits of the risk transferred  
17 through performance-based pricing and shaped-pricing persist through the term of either  
18 agreement.

19 **Q. ARE THERE ANY OTHER COSTS ASSOCIATED WITH THE LIFE-OF-**  
20 **LICENSE PPA OR ALTERNATIVE PPA?**

21 A. Yes. Wisconsin Electric expects that either the Life-of-License PPA or Alternative PPA  
22 will trigger a higher level of Gross Receipts Tax ("GRT") than would apply to a utility-  
23 owned plant. Currently Wisconsin Electric pays GRT of 1.59% for utility-produced

1 power. Under either PPA structure, incremental tax of 1.59% would apply through 2009,  
2 which has the affect of a double taxation on the power produced and sold from  
3 Point Beach. The level of GRT is scheduled to increase to 3.19% in 2010, when an  
4 abatement that is currently in effect expires. If the abatement expires as scheduled, and if  
5 the GRT double taxation structure continues to apply for the duration of the Life-of-  
6 License PPA, the present value of incremental taxes associated with the Life-of-License  
7 PPA is expected to be \$125.7 million.

8 Of course, all of the proceeds of this tax go to the Wisconsin state government, and  
9 provide benefits to the state's citizens. Therefore, it is unclear whether the incremental  
10 taxes should be considered a "detriment" associated with either PPA, but a change in the  
11 tax law may be warranted. If the tax law, or the application were to change, the  
12 consequences of that change would flow directly through the PPA to Wisconsin Electric.

13 I have carefully reviewed the Kewaunee sale proceeding before the PSCW, and this  
14 incremental tax, which also applies to Kewaunee's PPA, was never described in that  
15 proceeding as a detriment or cost associated with the PPA. However, if one were to  
16 consider the entire amount of the incremental GRT to be a detriment associated with the  
17 PPA, it would result in the Life-of-License PPA having a total cost that is \$50.3 million  
18 above CCO. Regardless, the overall transaction value would continue to be highly  
19 positive and the level of net economic benefits from the transaction extraordinary.

20 **Q. WHAT ARE THE MAIN AREAS OF RISK TRANSFERRED BY**  
21 **WISCONSIN ELECTRIC TO FPLE POINT BEACH UNDER THE PPAs?**

22 A. Risks are transferred in two general categories under either PPA. First, all costs  
23 associated with the Plant are the responsibility of the new owner. These include all fixed

1 costs, all capital expenditures, risks associated with cost escalation, fuel costs, and costs  
2 to implement regulatory requirements. Secondly, payments to FPLE Point Beach under  
3 either PPA are both performance-based and shaped to better reflect the market value of  
4 power and, accordingly, the cost of replacement power should Wisconsin Electric need to  
5 purchase from another resource. This shifts nearly all of the operational risk and all of  
6 the fixed costs associated with Point Beach from Wisconsin Electric and its customers to  
7 FPLE Point Beach.

8 **Q. HOW DOES THIS DIFFER FROM A CONTINUED OWNERSHIP SCENARIO?**

9 A. As noted above, either PPA is a pay-for-performance contract under which  
10 Wisconsin Electric only pays based on delivered energy. This differs from today, where  
11 customers pay the fixed costs related to the Plant whether Point Beach is operating or not.  
12 Under either PPA, customers will not pay such costs if Point Beach is not generating  
13 power and FPLE Point Beach is not providing replacement power. In other words, as the  
14 new owner of Point Beach, FPLE Point Beach is not only at risk during an extended  
15 outage at the Plant for the repair costs, but it must also bear the significant fixed costs of  
16 Point Beach without earning any offsetting revenues. Either PPA eliminates this risk for  
17 Wisconsin Electric.

18 **Q. CAN YOU PROVIDE AN ILLUSTRATIVE EXAMPLE QUANTIFYING THE**  
19 **ECONOMIC IMPACT OF THIS RISK?**

20 A. Yes. The total fixed costs for Point Beach in 2008 are projected to be approximately  
21 \$267.4 million.<sup>17</sup> Absent a sale and a PPA as described, customers would pay this fixed  
22 cost amount regardless of whether the Plant was generating or not. Based on a

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<sup>17</sup> Projected fixed costs are calculated as costs related to O&M, depreciation, and return on capital invested and income taxes.

1 2008 projected generation level of 7,453 GWh, this fixed cost amount is equivalent to  
2 approximately \$35.87/MWh or 91.45% of the average 2008 CCO for Point Beach of  
3 \$39.23/MWh. Thus, under a continued ownership scenario, customers would be paying  
4 for over 91% of the cost of operating Point Beach even if the plant was not operating.  
5 When this is taken into consideration along with the cost of replacing power during a  
6 derate or unexpected outage, the economic impact of this risk transfer becomes quite  
7 substantial.

8 **Q. HOW WOULD THIS DIFFER UNDER THE PPAs?**

9 A. For example, in 2008 without a sale of Point Beach and an accompanying PPA as  
10 described, if the Plant generated only 70% of its projected output of 7,453 GWh (*i.e.*,  
11 approximately 5,217 GWh), Wisconsin Electric customers would still pay the fixed costs  
12 of approximately \$267.4 million, plus the variable costs (primarily fuel) of approximately  
13 \$32.1 million, for a total of \$299.4 million for Point Beach output. In addition, customers  
14 would pay for replacement power costs for the 2,236 GWh not generated by the Plant.  
15 However, pursuant to either PPA pricing structure, customers would only pay for  
16 delivered energy under the PPA, which would amount to approximately \$204.7 million  
17 for the Point Beach output (this reflects Life-of-License PPA pricing adjusted to 2008  
18 levels), plus the same replacement power costs for the 2,236 GWh not generated by the  
19 Plant (this example assumes that FPLE Point Beach does not supply replacement power).  
20 This would represent a cost savings of about \$94.8 million under the Life-of-License  
21 PPA (or approximately 32%) as compared to the continued ownership structure, without  
22 even taking into consideration the Peak Adjustment Payments FPLE Point Beach would

1 have to make to Wisconsin Electric for not achieving a 97% capacity factor during the  
2 summer.

3 **Q. WHAT IF POINT BEACH WERE IN AN EXTENDED OUTAGE?**

4 A. In an extended outage of six months, the savings would be even greater, ranging from  
5 \$151 million to \$181 million, depending on the scenario assumed. Table 4 below shows  
6 the cost savings to Wisconsin Electric's customers under three different scenarios, each  
7 assuming a six month outage in the beginning of 2009: (1) the projected cost to  
8 Wisconsin Electric under continued ownership of the plant; (2) the projected cost to  
9 Wisconsin Electric under the Life-of-License PPA if FPLE Point Beach chooses to  
10 replace energy; and (3) the projected cost to Wisconsin Electric under the Life-of-License  
11 PPA if FPLE Point Beach forgoes the replacement option. As shown in Table 4, the  
12 “negative” cost (*i.e.*, customer benefit) of \$15 million associated with the Life-of-License  
13 PPA when FPLE Point Beach does not replace power reflects the liquidated damages  
14 FPLE Point Beach must pay to Wisconsin Electric under the Peak Adjustment Payment.



16 **TABLE 4:**

17

18

19

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1 **Q. WHAT CAPITAL EXPENDITURE RISKS ARE WISCONSIN ELECTRIC**  
2 **EXPOSED TO AS THE OWNER OF POINT BEACH?**

3 A. The biggest risk related to capital expenditures is the potential for significant and  
4 unanticipated costs. In addition to the normal factors that affect any plant, nuclear plants  
5 are subject to a unique set of unforeseeable requirements resulting from changes in  
6 NRC regulations and the specific safety and security standards to which nuclear facilities  
7 are held. One example of significant unforeseen capital expenditures is the cost  
8 associated with vessel head inspections and replacements that stemmed from the  
9 experience at the Davis Besse nuclear facility in Ohio. In the case of Point Beach, this  
10 single change in the NRC's requirements cost \$55.7 million in associated capital projects.  
11 Currently, Wisconsin Electric and its customers bear those types of risks. Under the  
12 PPA, risks of that nature are borne entirely by FPLE Point Beach.

13 **Q. PLEASE DISCUSS THE RISK RELATED TO ESCALATION IN COSTS.**

14 A. Similar to capital expenditure risk, other costs, such as materials and labor, can increase  
15 due to both the expansion of project scopes, as well as inflation in costs. As mentioned  
16 above, the price of either PPA over the term of the contract is fixed, regardless of the  
17 actual cost to operate the Facilities. Thus, Wisconsin Electric's customers are insulated  
18 from these potentially rising costs. In addition, as members have left NMC, the  
19 efficiencies available through that operating company become more tenuous.  
20 If Wisconsin Electric continues to own the Plant with NMC as operator, the Company  
21 and its customers face increased costs associated with NMC retention of highly qualified  
22 staff, as well as general increases in overhead.

1 **Comparison of Life-of-License PPA and Alternative PPA**

2 **Q. WHAT WOULD BE THE TOTAL ECONOMIC IMPACT OF CHOOSING THE**  
3 **ALTERNATIVE PPA?**

4 A. As discussed earlier, the Alternative PPA offers greater savings compared to CCO when  
5 one considers ***only*** the economic impact for the term of the Alternative PPA (*i.e.*, through  
6 August 2025) relative to the full term of the Life-of-License PPA (*i.e.*, through end of  
7 license life in 2030 and 2033 for each of the units, respectively). However, such a  
8 comparison is incomplete and does not tell the whole story. The full economic impact of  
9 choosing the Alternative PPA versus the Life-of-License PPA should be viewed from the  
10 perspective of the total cost incurred during the period through end of the Plant’s current  
11 license. The total costs through end of the Plant’s current license life for the Life-of-  
12 License PPA compared with the total costs of the Alternative PPA through the end of its  
13 term followed by market purchases thereafter through 2033 is represented in Table 5.  
14 Please note that the present value varies depending on whether the “base”, “high” or  
15 “low” projected market price forecast is utilized.

16 **TABLE 5:**

17 ***Comparison of Life-of-License PPA to Alternative PPA (\$ millions)***

	<b><u>Cost Relative to Life-of-License PPA</u></b>
Life-of-License PPA (2007 to 2033)	\$0
Alternative PPA through 2024, “base” projected market prices 2024 through 2033	\$151 higher
Alternative PPA through 2024, “low” projected market prices 2024 through 2033	\$89 higher
Alternative PPA through 2024, “high” projected market prices 2024 through 2033	\$211 higher

1 In all cases, the Alternative PPA represents higher total cost when compared with the  
2 Life-of-License PPA for the duration of the current license life of Point Beach. Based on  
3 these data, the Life-of-License PPA offers \$151 million greater customer benefit versus  
4 the Alternative PPA.

5 **Q. WHAT OTHER DIFFERENCES ARE THERE BETWEEN THE LIFE-OF-**  
6 **LICENSE PPA AND ALTERNATIVE PPA?**

7 A. Besides the pricing and of course the term, the only other differences between the Life-  
8 of-License PPA and the Alternative PPA are: (1) there is no escalation in the FPLE  
9 Point Beach's performance security after 2024 in the Alternative PPA, since the contract  
10 ends in that year (see Section 8.1); and (2) the term is changed in the Alternative PPA to  
11 end on the 16<sup>th</sup> anniversary of the effective date for Unit 1 and on the 17<sup>th</sup> anniversary for  
12 Unit 2, unless such date occurs during the peak period (June, July, August) in which case  
13 the termination date would be extended to September 1<sup>st</sup> of that year (see Section 13.1).

14 **Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE LIFE-OF-LICENSE PPA?**

15 A. Both the economic and commercial terms of the Life-of-License PPA are extraordinary  
16 and offer a shift of risk from Wisconsin Electric to FPLE Point Beach, economic benefits,  
17 and security that are very favorable for Wisconsin Electric and its customers.

18 **IV. TRANSACTION VALUE AND CONCLUSIONS**

19 **Q. WHAT IS THE TOTAL VALUE OF THE DIRECTLY QUANTIFIABLE**  
20 **ELEMENTS OF THE PROPOSED TRANSACTION?**

21 A. As shown in Table 6 below, I estimate the total pre-tax value of the proposed transaction  
22 to be \$1,622.9 million (assuming a PLR regarding the removal of excess qualified  
23 decommissioning trust funds is obtained prior to closing) and \$1,477.0 million (assuming

no such PLR is obtained prior to closing), as compared to the \$487.8 million value of the plant if it remained under Wisconsin Electric's ownership.

**TABLE 6:**  
**Point Beach Total Transaction Value (\$ millions)**

	<b>PLR Case</b>	<b>No PLR Case</b>
Purchase Price Offered	\$ 998.0	\$ 998.0
Premium If PLR Not Received	\$ 0.0	\$ 50.0
CAPEX Adjustment	\$ 17.2	\$ 17.2
<i>Total Purchase Price</i>	\$ 1,015.2	\$ 1,065.2
Retained Qualified Decomm. Trust Value	\$ 195.9	\$ 0.0
Non-Qualified Decomm. Trust Funds Released	\$ 303.7	\$ 303.7
<i>Total Cash Value to Company</i>	\$ 1,514.8	\$ 1,368.9
Extended PPA Value through 2033	\$ 75.4	\$ 75.4
Pension and OPEB Obligations Assumed	\$ 32.4	\$ 32.4
Environmental Liabilities Transferred	\$ 0.3	\$ 0.3
<b>Total Value of Bid (Gross)</b>	<b>\$ 1,622.9</b>	<b>\$ 1,477.0</b>
Gross Receipts Tax on PPA	\$ (125.7)	\$ (125.7)
<b>Total Value of Bid After GRT Consideration (Gross)</b>	<b>\$ 1,497.2</b>	<b>\$ 1,351.3</b>

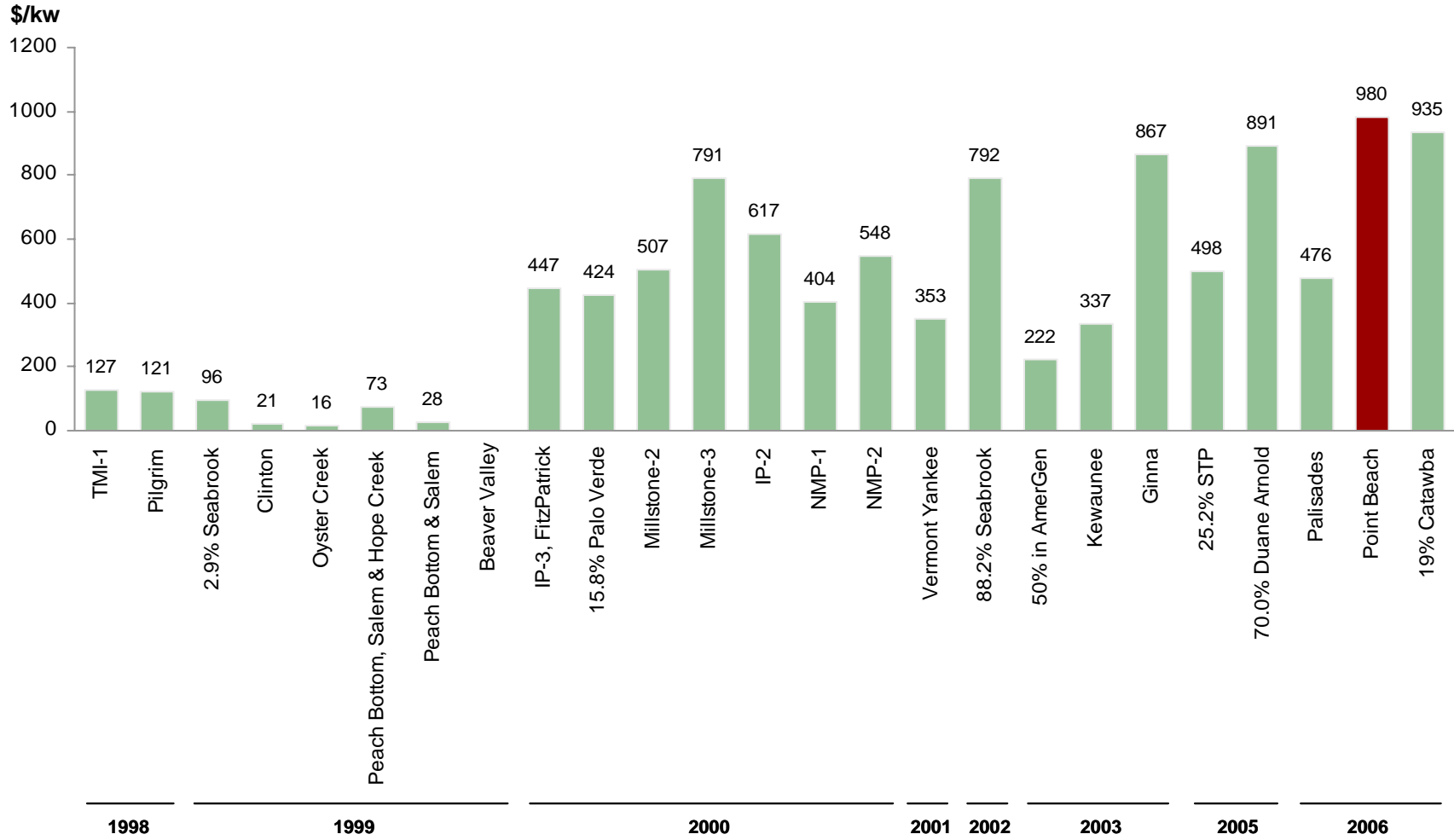
The level of net economic benefits from the transaction is truly extraordinary on its own, as well as compared to other nuclear plant sales.

**Q. HOW DO THE TERMS OF SALE IN THE ASA COMPARE TO THOSE OF RECENT NUCLEAR PLANT SALES?**

A. Figure 2 below shows the purchase prices (on a \$/kW basis) for the last 25 nuclear plant transactions (including the proposed Point Beach transaction). As I mentioned earlier, in either the PLR or no-PLR case, the proposed transaction is the highest purchase price ever realized in the sale of a nuclear plant.<sup>18</sup>

<sup>18</sup> The \$980/kW valuation multiple for Point Beach is equal to \$998 million in purchase price plus \$17.2 million for FPL Point Beach's reimbursement to Wisconsin Electric for capital expenditures between December 19, 2006 and the closing date, divided by 1,036 MW divided by 1,000. This assumes that a favorable PLR is received by the IRS and that qualified decommissioning funds are released for the benefit of customers. In the event this is not the case, the purchase price would be increased based on a formula set forth in the ASA.

**FIGURE 2:**  
*Purchase Price of Recent Nuclear Sales (\$/kW)*



1 In addition to the purchase price, several key terms of this transaction are the most  
2 favorable ever achieved in the sale of a nuclear plant. For example:

3       • The Life-of-License PPA, at 26 years, is the longest PPA ever achieved in  
4 conjunction with the sale of a nuclear plant. The Life-of-License PPA will provide  
5 Wisconsin Electric's customers with exclusive access to the output of Point Beach for  
6 26 years (including any uprates at the plant), at prices comparable to what it would have  
7 cost if Wisconsin Electric continued to own the plant, while at the same time, shedding  
8 the operating risk, decommissioning risk and volatility of costs associated with owning a  
9 nuclear plant. PPAs in most other nuclear transactions have not been developed on an  
10 energy-only basis at rates below CCO. Further, other transactions frequently provide less  
11 than all of the plant's power to the sellers' customers, and none have been entered into  
12 for the entire remaining life of an extended NRC license. For example, no PPA was  
13 included in the Seabrook transaction, several transactions in New York were for less than  
14 100% of the seller's interest in the facility, and the recent sales of Kewaunee and Duane  
15 Arnold had PPAs that lasted for less than 10 years.

16       • The proposed transaction transfers post-closing environmental liabilities to  
17 FPLE Point Beach. In addition, FPLE Point Beach will assume all pre-closing  
18 environmental liabilities associated with hazardous waste, both on-site and off-site.  
19 No nuclear plant sale has seen the seller realize this level of environmental liability  
20 transfer.

21       • The unique option to keep the amount of decommissioning funds transferred  
22 to FPLE Point Beach open until closing, in order to preserve the benefits for customers if  
23 a PLR is received, is the first of its kind in the sale of a nuclear plant. In the event that a

1 PLR is received, \$360 million of funds will be transferred to FPLE Point Beach from the  
2 qualified decommissioning trust fund. The amount of decommissioning funds  
3 Wisconsin Electric will retain, *i.e.*, the surplus in the qualified decommissioning trust  
4 fund plus the entire non-qualified decommissioning trust fund, will be the largest amount  
5 of decommissioning funds ever retained in a nuclear plant sale.

6 • The proposed transaction also provides Wisconsin Electric the right to  
7 participate, subject to certain provisions, as an equity partner in any new electric  
8 generation plant developed on the 1,260 acre Point Beach site.

9 **Q. WHAT ARE THE OTHER KEY PROVISIONS OF THE TRANSACTION**  
10 **WHICH PROVIDE SECURITY AND VALUE TO WISCONSIN ELECTRIC'S**  
11 **CUSTOMERS?**

12 A. As discussed earlier in my testimony, either PPA has several significant value-enhancing  
13 and risk-reducing characteristics:

14 • Either PPA provides for a [ ] target capacity factor for the  
15 summer months (defined as June, July and August). Failure to meet the target will result  
16 in a [ ] penalty for the shortfall, escalating at 3% per year starting in  
17 2007;

18 • Either PPA requires that the capacity from Unit 1 and Unit 2 be Accredited  
19 Capacity. Failure to meet this capacity requirement, coupled with failure to replace the  
20 capacity, results in liquidated damages owed to Wisconsin Electric by FPLE Point Beach  
21 of [ ] for each MW-month of shortfall, subject to an annual  
22 cap.

1 **Q. HOW WOULD YOU CHARACTERIZE THE OVERALL RESULTS OF THE**  
2 **POINT BEACH AUCTION?**

3 A. I reviewed 24 other nuclear generation transactions that took place nationally from 1998  
4 through 2006. Based on my knowledge of these other transactions, most of which I had  
5 some level of involvement in for either the seller or a bidder, I believe that the  
6 Point Beach transaction has a total value, on both an absolute and a \$/kW basis, that  
7 exceeds any of the industry's past transactions.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes, it does.