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In RE: Florida Power & Light Company's Petition to Determine Need for FPL Florida EnergySecure Pipeline

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e. The document attached for electronic filing is Florida Power & Light Company's Post-Hearing Brief

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to determine need for Florida EnergySecure Pipeline by Florida Power & Light Company	Docket No: 090172-EI Filed: August 10, 2009

FLORIDA POWER & LIGHT COMPANY'S POST-HEARING BRIEF

Florida Power & Light Company ("FPL" or the "Company") files with the Florida Public Service Commission (the "PSC" or the "Commission") its Post-Hearing Brief in the above-referenced docket, and states:

Introduction and Summary of Case

1. Introduction

This proceeding presents a critical resource decision for the Florida Public Service Commission and the State of Florida that is pivotal to the State's economic well being and energy security -- whether to encourage the construction of a new natural gas pipeline into the state of Florida. Fundamentally, this is a resource decision that will require the Commission to weigh the relative project economics and long term benefits of the Florida EnergySecure Line ("EnergySecure Line" or "Project") against short term benefits and long term costs presented by an alternative "band-aid" measure proposed by Florida Gas Transmission Company, LLC ("FGT"). The EnergySecure Line is a 280-mile natural gas pipeline that will serve the needs of FPL's highly efficient, modernized combined cycle Cape Canaveral Energy Center ("CCEC") and Riviera Beach Energy Center ("RBEC") (collectively, the "Modernization Projects"), as well as FPL's other gas-fired generation. FPL is building the EnergySecure Line for one purpose and one purpose only: to meet the gas requirements of its electric power plants and serve the needs of its customers.

FGT's primary purpose in this proceeding is to derail the EnergySecure Line, because it represents a competitive source of gas transportation into Florida. In its efforts to do so, FGT

has attempted to sell three basic themes, each of which is just one fallback position after another. First, FGT claims that there is no need. FGT's second line of defense is that, even if there is a need, the need doesn't justify the larger more capable infrastructure that FPL is proposing to build. FGT's last line of defense is that, even if there is a need and even if the economics justify the construction of the Florida EnergySecure Line, FPL's customers should not bear the cost. FGT's arguments are easily refuted:

- First, the need for the EnergySecure Line was firmly established in the record and FGT offered no credible evidence (or a forecast of its own) to counter this conclusion.
- Second, FPL's selection of a larger pipeline capable of supplying 400 million cubic feet per day ("MMcf/d") to meet the need of the Modernization Projects, plus an additional 200 MMcf/d at an incremental cost of only $15 million, is clearly the best and most cost-effective solution for FPL's customers. To spend $15 million less to meet only the needs of the Modernization Projects is neither practical nor economic when the incremental 200 MMcf/d capability can be used by FPL to provide lower variable-cost natural gas transportation to other FPL generating units, as well as allow FPL to release capacity on the FGT and Gulfstream systems that would be available to other users in the state.
- Third, there is no question that a utility's investors are to be fully and fairly compensated for prudent investments in plant that is used and useful in the provision of electric service. [1] The record is clear that the full 600 MMcf/d capacity (including the $15 million dollar investment in compression to produce the incremental 200

[1] In regards to FGT's questioning of the appropriateness of rate base treatment of the EnergySecure Line, it is worth noting that FGT earns a return which is embedded in the demand charges that FPL pays and is passed through to the consumers through the fuel cost recovery clause. Tr. 173, (Sharra). In fact, in FGT's last FERC e case, FGT's Return on Equity (ROE) was set at 14.93 percent. *See* Ex. 101.

MMcf/d capability that generated so much discussion during the hearing) is a prudent investment that is used and useful in the provision of electric service.[2]

In short, FGT's arguments are without merit, are not supported by the record, and are simply an effort to impede the construction of an additional natural gas delivery system into the state of Florida so as to preserve FGT's significant market position.

2. Summary of Case

There is a clear and unavoidable need for the additional gas transportation capacity that the EnergySecure Line will provide. FPL is an industry leader in demand side management, and is actively cultivating and pursuing additional renewable generation. Tr. 27-28 (Forrest); Tr. 139 (Sharra).[3] These efforts by themselves, however, are not enough. FPL must also continue building large, baseload natural gas capacity additions, which will result in 2.7 billion cubic feet ("Bcf/d") of incremental natural gas needs by 2040. Tr. 335 (Enjamio). As part of this need, on September 12, 2008 the Commission approved the need for FPL's Modernization Projects. *See* Order No. PSC-08-0591-FOF-EI. The existing natural gas transmission capacity in Florida is inadequate to meet the needs of the Modernization Projects and beyond. Tr. 143 (Sharra); Tr. 43 (Forrest); Tr. 332 (Enjamio). Moreover, increasing FPL's reliance on the two existing pipelines would not be in the best interest of FPL, its customers, or the state of Florida. Tr. 157 (Sharra).

There is no "do nothing" option for supplying the Modernization Projects. Tr. 56 (Forrest). The choices are simple: the Commission can approve the EnergySecure Line,

[2] FGT's opposition to rate base recovery of the Project costs is tactical, not substantive. FGT knows that FPL cannot justify investing in a project that is being built solely for the purpose of meeting its power plants' gas requirements unless there is a reasonable expectation that its investors will be fairly and adequately compensated by electric customers for that investment. FGT has seized on this as a pressure point, urging the Commission to hold a portion of the EnergySecure Line costs out of rate base in order to frustrate that expectation and preclude FPL from the proceeding. This argument serves FGT's interests alone, and runs roughshod over established utility ratemaking principles.

[3] References to transcript of the proceeding are indicated by "Tr.", the appropriate page number of the transcript, and the witness testifying. References to exhibits are indicated by "Ex." followed by the exhibit number.

recognizing the economies of scale that are reflected in the capital costs of the project, with the significant benefits of low-cost future expansion and other important advantages, or the Commission can reject the determination of need and associated cost recovery, in which case FPL would be forced to consider other short-term solutions that would be costlier in the long run and provide much less stability and certainty in the resource planning process. *Id.* Put another way, the need for significant additional gas capabilities to supply the Modernization Projects provides the economic platform that supports an affirmative determination of need for a third natural gas pipeline into the state. Tr. 139 (Sharra). If it is determined that FPL should meet those needs through some other means, an important opportunity will have been lost. Tr. 56 (Forrest). Specifically, the state will have lost the opportunity to bring a new pipeline and source of gas into the state on terms that are economically justified. *Id.*; Tr. 156-158 (Sharra).

The EnergySecure Line captures this once-in-a-generation opportunity to economically justify construction of a new, geographically separate pipeline in Florida. Tr. 139 (Sharra). As a third, uniquely routed, major pipeline in the state, the EnergySecure Line will provide the following benefits:

- Improved reliability of gas deliveries into Florida by reducing vulnerability to disruptions on the existing pipeline systems (Tr. 47 (Forrest));
- Increased deliverability of natural gas in the state (*Id.*);
- Enhanced competition for both gas transportation and gas supply in the state (Tr. 143 (Sharra); Tr. 410 (Ogur));
- Access for Florida to additional sources of natural gas (Tr. 50 (Forrest));
- Vitally important "insurance" against the risk that additional gas capacity will be needed sooner than currently anticipated due to, for example, delay of the in-service dates for FPL's Turkey Point 6 and 7 new nuclear units and/or more rapid load

growth (and hence gas requirements) than is currently projected (Tr. 339, 820 (Enjamio)); and

- Significant investment and economic activity in numerous counties and the state as a whole. Tr. 155-156 (Sharra).

The evidentiary record is substantial and compelling in support of granting a need determination. The record clearly shows that the EnergySecure Line is the most economic alternative to supply FPL's gas requirements for the Modernization Projects and subsequent gas-fired generation additions. Tr. 802 (Enjamio); Ex. 85. This reason alone justifies an affirmative need determination for the Project. But, construction of the EnergySecure Line is about much more than just the Project's favorable economics.

Florida is unique due to its peninsular geography and the fact that just two interstate pipelines supply the vast majority of its gas, FGT and Gulfstream Natural Gas System, LLC ("Gulfstream"). Tr. 402 (Guest). FPL is likewise unique in that it burns more gas to generate electricity than any other utility in the country, yet only has two options for gas transportation. Tr. 48-49 (Forrest). Given these unique circumstances, it is imperative to capture this opportunity for developing new pipeline infrastructure into the state on a project that makes the most economic sense for FPL's customers in the long run. FPL is already heavily dependent on gas delivery from FGT and Gulfstream. By 2011, FPL will receive approximately two billion cubic feet per day (Bcf/d) through these two incumbent pipelines. By that time, well over 60% of FPL's electric supply will come from natural gas fed by just these two pipelines whose available capacity has been almost fully subscribed. Tr. 48 (Forrest).

FPL decided to proceed with the EnergySecure Line only after extensive analyses showed that it was the most economic alternative to meet FPL's immediate and long-term gas needs. FPL conducted a solicitation that sought proposals from a wide range of major players in

the gas pipeline industry, asking them to think creatively about how best to meet FPL's gas requirements. Tr. 280-282 (Stubblefield); Ex. 34. FPL specifically requested that all participants include a proposal that would provide access to natural gas supplies at Transcontinental Gas Pipe Line ("Transco") Station 85 as that delivery point offers excellent access to gas sourced out of the mid-continent and thus gives access to new and growing unconventional sources of supply. Tr. 425 (Sexton). Transco Station 85 also provides access to supplies from traditional Gulf Coast sources in Texas, Louisiana and Alabama as well as offshore Gulf of Mexico, with multiple routing options that further enhance both supply diversity and reliability. Tr. 281-282 (Stubblefield); Tr. 425, 860 (Sexton); Ex. 54; Ex. 55; Ex. 90.

As the Commission has recognized, "[i]t is appropriate to diversify by supply basin and to pick up additional supply basins given the current dependence by Florida utilities on the Gulf of Mexico and Mobile Bay area for supply, because those two areas are showing a decline in production." *See*, Tr. 54-55 (Forrest) citing Order No. PSC-06-1057-FOF-EI at 6, issued in Docket No. 060001-EI (Dec. 22, 2006). The EnergySecure Line serves this goal by facilitating introduction of a third major pipeline into Florida which will provide additional access to unconventional on-shore natural gas supplies at a receipt point (Transco Station 85) to which FPL currently does not have direct access. Tr. 143, 155 (Sharra).

After evaluating numerous proposals, FPL determined that the EnergySecure Line, in conjunction with an interstate pipeline (the "Upstream Pipeline") that would be built, owned and operated by a third party (referred to as "Company E" for confidentiality purposes) is the most cost-effective alternative available for transporting natural gas to meet FPL's planned needs and provide the greatest supply diversity and reliability. Tr. 801 (Enjamio); Tr. 859 (Sexton).

The EnergySecure Line is sized to provide an initial capacity of 600 MMcf/d, which is the smallest initial capacity that is cost-effective for a new pipeline bringing the supply diversity

and reliability that Florida needs. Tr. 151 (Sharra); Tr. 284 (Stubblefield). Two-thirds of this initial capacity will be used by the Modernization Projects, with the remaining initial capacity used to deliver gas cost-effectively to other FPL gas-fired generation facilities and allowing FPL to release capacity on the FGT system for use by other shippers in Florida or make direct sales to third parties via an electronic bulletin board. Of course, as FPL's gas requirements grow over time, it will require more of the remaining 200 MMcf/d of the EnergySecure Line's initial capacity. Tr. 45-47 (Forrest); Tr. 374 (Guest). And, significantly, when FPL's needs exceed the 600 MMcf/d initial capacity of the EnergySecure Line, the Project can be expanded by adding compression to the mainline at a much lower cost than acquiring additional capacity from third parties, up to an ultimate capacity of approximately 1.25 Bcf/d. Tr. 152-153 (Sharra); Tr. 257-258 (Collins). The cost of this additional capacity will be much lower than FGT's cost of offering the same amount of capacity as FGT will have to lay significant amounts of new pipe in order to meet the incremental capacity requirements. Tr. 107-108 (Forrest).

FPL's economic analysis shows that the combination of the EnergySecure Line and Company E pipeline is the most cost-effective way to meet FPL's gas requirements under a wide range of scenarios. Tr. 799-800 (Enjamio); Ex. 85. All of those scenarios include recovering the full cost of the EnergySecure Line as Electric Plant in Service from the day the Project goes into service. Tr. 798-799 (Enjamio). However, because FPL will be able to use the additional 200 MMcf/d of capacity on the EnergySecure Line to supply other generating units on its system at a lower variable transportation cost than FPL is paying FGT, FPL will be able to release some of FPL's capacity commitments on FGT and Gulfstream or offer temporary capacity on the EnergySecure Line to other shippers in Florida. Tr. 60-61 (Forrest). All revenues from these short-term capacity releases or sales will be returned to FPL's customers through the Fuel Cost Recovery Clause, which will render the EnergySecure Line even more cost effective for

customers. Tr. 59-60 (Forrest); Tr. 246 (Enjamio). In other words, the Project will be more cost-effective than FPL has modeled for purposes of this proceeding and increase the EnergySecure Line's economic advantage over the alternative proposals by between $89 million and $663 million on a net present value basis. Tr. 60 (Forrest); Tr. 332, 802-803 (Enjamio); Tr. 857 (Sexton); Ex. 89. Even if the economics were neutral, however, the other benefits of the EnergySecure Line would make it the clear choice for meeting FPL's growing natural gas needs.

Recovery of the EnergySecure Line costs through electric base rates is appropriate, is consistent with the Uniform System of Accounts ("USoA"), and is essential to FPL's decision to move forward with the project. Tr. 89 (Forrest); Tr. 387-388 (Guest). As noted above, FPL is building the EnergySecure Line for one purpose and one purpose only: to meet the gas requirements of its electric power plants. Tr. 63, 737 (Forrest). As such, the EnergySecure Line is no different than other supporting equipment that is required to operate those plants, all of which FPL recovers through electric base rates. The fact that with the addition of the EnergySecure Line, FPL's gas-transportation capacity will initially exceed FPL's needs does not change that conclusion. FPL and other investor owned utilities often build assets, including power plants, whose capacity initially exceeds their reliability requirements, because it is ultimately more cost-effective due to the economies of scale gained by building the larger asset. The initial excess capacity from such plants is often marketed to wholesale purchasers or used as needed on the utility's own system in order to help bring down the cost to the utility's retail customers. Tr. 58-59 (Forrest); Tr. 387-388 (Guest). FPL is doing the same thing with the EnergySecure Line and should recover its costs in the same manner.

Moreover, as noted above, the incremental cost of sizing the EnergySecure Line to an initial capacity of 600 MMcf/d instead of 400 MMcf/d is so low as to be practically insignificant. Regardless of which of the two initial capacity levels were chosen, the best economic and

engineering outcome would be to build a 30-inch pipeline. The incremental cost for the additional 200 MMcf/d of initial capacity on a 30-inch pipeline is approximately $15 million. Tr. 105-108, 126-127 (Forrest); *see also*, Ex. 2, FPL's Response to Staff Interrogatory No. 145. This is a tiny fraction of the cost for 200 MMcf/d in the gas transportation market, emphasizing both the appropriateness of FPL's decision to build to an initial capacity of 600 MMcf/d and the tremendous economic benefits to FPL and its customers of that decision. *Id.* Furthermore, from the first day the EnergySecure Line is placed in service, the full 600 MMcf/d will be utilized as it is the lowest cost and most efficient transportation alternative, and therefore will result in variable cost benefits and fuel cost savings to FPL's customers. Tr. 818-820 (Enjamio). These variable costs and savings were taken into consideration in FPL's economic evaluations. Tr. 818 (Enjamio). Also from day one, FPL will avoid the need to purchase significant amounts of interruptible gas, will be able to release capacity valued at between $200 and $700 million, will enjoy reduced risk of supply disruptions, and will have insurance against delays in the in-service dates of the new nuclear units or potential underforecast. Tr. 354-55, 819 (Enjamio). Significantly, these benefits are in addition to the results shown in FPL's economic evaluations. Tr. 818-820 (Enjamio).

The EnergySecure Line will promote healthy competition in a market that currently only has two major pipelines, FGT and Gulfstream. Tr. 410 (Ogur). This new pipeline will give FPL valuable negotiating leverage. In fact, just the prospect of building the EnergySecure Line has already created a competitive dynamic. As discussed more thoroughly below, FGT has steadily reduced the price of its proposal as it became evident that FPL was seriously considering building a third pipeline. These reductions reflect significant factors beyond just lower steel prices, as has been claimed by FGT. Tr. 726 (Forrest); Ex. 98.

In an effort to shore up its principal lines of defense, FGT criticized several specifics about FPL's decision to proceed with the EnergySecure Line. As discussed immediately below and throughout this brief, none of FGT's criticisms is valid and none detracts from the compelling evidence supporting an affirmative determination of need for the Project.

FGT complains that FPL did not evaluate its best proposal. In fact, FPL has evaluated FGT's latest, updated proposal and found the EnergySecure Line to be more advantageous to FPL's customers by between $115 million and $400 million. Tr. 795 (Enjamio).

FGT complained that it did not have the opportunity to use an existing FPL 18-inch pipeline to connect to the Riviera plant, as FPL intends to do for the EnergySecure Line. This is disingenuous, because FGT knew of the 18-inch pipeline for years and could have easily asked FPL for permission to use it. Nothing in the solicitation process would have precluded FGT from such an approach. *See,* Ex. 34. In any event, FPL re-analyzed FGT's proposal using the 18-inch pipeline and found that the EnergySecure Line is still the best choice for FPL's customers. Tr. 795 (Enjamio).

FGT claims that FPL would be better off accessing mid-continent shale gas and other non-Gulf sources by interconnecting with the Perryville Station through the Southeast Supply Header, or "SESH," rather than at Transco Station 85. FGT misses the point by trying to make this an "either or" choice. FPL recognizes value in Perryville and already relies on it heavily by virtue of its current SESH capacity. Tr. 745 (Sharra). However, the EnergySecure Line's interconnection to Station 85 not only provides access to unconventional supplies available at Station 85, it also provides additional access to Perryville through Company E's pipeline network. Tr. 761 (Sharra). Furthermore, if FGT were to access on-shore supplies via Perryville rather than Station 85 as FPL requested in its solicitation, the economic advantage of the EnergySecure Line would actually improve by more than $100 million due to the cost of

additional capacity that would be required on SESH. In short, moving FGT's delivery point to Perryville would serve only to add costs to FGT's project and deprive FPL and its customers of important supply diversity. *See* Ex. 2, FPL's Resp. to Staff's Eighth Set of Interrogs. Nos. 137 and 138 (Bates Nos. 000000227-00000230 and 00000233).

FGT criticizes the gas forecasts used in FPL's economic analyses, while offering no alternative of its own despite being directly asked by Staff to do so. FPL uses a consistent methodology to forecast fuel prices and utilizes reputable, well-established organizations for inputs. Tr. 751 (Sharra); Tr. 858 (Sexton). FGT argues that FPL's long-term gas prices should be higher because gas supplies will become scarcer. However, given the significant technology advances in horizontal drilling, the proliferation of unconventional gas supplies throughout North America, and the number of LNG terminals being developed around the country, there is ample reason to expect that gas supplies will remain plentiful. Tr. 752 (Sharra). Regardless, the results of FPL's economic analysis would not materially change due to differences in gas prices: a 10% increase in natural gas prices would change the cost differential between the EnergySecure Line and FGT alternative by only about $5 million. Furthermore, using higher gas prices as FGT suggests would actually increase the economic advantage of the EnergySecure Line. Tr. 753 (Sharra); Tr. 733 (Forrest).

Finally, FGT argues that the load forecast used in FPL's economic analysis is too high, again without offering a viable alternative. FPL's long-term load forecast is reasonable and consistent with what FPL has used in other recent filings, including the 2009 Ten Year Site Plan. It is based on the University of Florida's ("UF's") population forecast, adjusted to take into account historical trends as well as UF's consistent trend of under-forecasting. Tr. 778 (Morley). And FPL's adjustment was very conservative, less than the five-year average of UF's under-

forecast. Even as modestly adjusted, FPL's forecast remains within the band of UF's current long-term forecast. Tr. 783 (Morley).

For the reasons discussed above and more fully explained below, the EnergySecure Line will provide a reliable, diverse gas supply for FPL's power plants at the lowest overall cost to FPL's customers. The EnergySecure Line will promote healthy competition in a market that currently only has two major pipelines. Despite all of FGT's smoke and mirrors, its motivation in this proceeding remains clear: to rid itself of a competitive threat at all costs. That may be what is best for FGT, but it is certainly not what is best for FPL's customers. The best interests of FPL's customers, and Florida consumers, will be served by the Commission granting an affirmative determination of need for the EnergySecure Line, thus allowing FPL to proceed with this important, strategic addition to Florida's gas-supply infrastructure.

Issues and Positions

ISSUE 1: Is FPL's forecast of future natural gas pipeline transmission capacity requirements reasonable for planning purposes?

FPL: **Yes. FPL's forecast of future natural gas pipeline transmission capacity is based on a load forecast that is consistent with historical experience and utilizes reasonable assumptions and methodologies previously accepted by the Commission. FPL's forecast demonstrates a need to add approximately 2.7 Bcf/d of transportation capacity between 2013 and 2040. **

FPL's forecast of future natural gas pipeline transmission capacity requirements is based on a reasonable forecast and sound statistical methods. By 2030, FPL's summer peak load is expected to grow 12,871 MW over the 2008 peak load. Tr. 201 (Morley); Ex. 26. FPL is an industry leader in demand side management ("DSM"), and is actively cultivating and pursuing additional renewable generation, but these efforts by themselves are not enough. Tr. 37-38 (Forrest). FPL must also continue building large, baseload capacity additions. FPL will need as much as 19,661 MW of new capacity between 2013 and 2040. Tr. 312, 335 (Enjamio); Ex. 38. Of this capacity, 17,357 MW is expected to be gas-fired capacity. *Id.*; Tr. 332 (Enjamio). As a result, between 2013 and 2040, FPL will need to add approximately 2,700 MMcf/d of gas transportation capacity. Tr. 325 (Enjamio); Ex. 42.

FPL's Load Forecast

FPL forecasts that the conditions leading to recent declines in load growth experienced will dissipate in the next few years. Substantial long-run growth is projected for the system, although below the level assumed in the 2008 Ten-Year Site Plan. Tr. 202 (Morley). The principal components of FPL's load forecast are total customers, summer peak, winter peak, and net energy for load ("NEL"), which FPL forecasts using econometric modeling. Tr. 185 (Morley). FPL's forecasts are reasonable and are based on sound statistical methods previously reviewed and approved by the Commission. Tr. 185, 194, 202, 204, 208 (Morley).

FPL's forecast of total customers shows an increase at an annual rate of 1.6% between 2008 and 2018 (approximately 79,000 customers per year). Tr. 194 (Morley); Ex. 19. Total customer growth between 2008 and 2025 is projected to increase at an annual rate of 1.5% (approximately 79,000 customers per year). *Id.*

FGT argues unpersuasively that FPL's load forecast is too high, without offering a viable alternative. In forecasting customers, FPL relies on UF's population projections and reviews other factors, such as economic forecasts and historical trends, which may influence population projections. Tr. 188 (Morley). Both FPL's population forecast and UF's October 2008 projections recognize the significantly slower population growth likely to be experienced for the next few years resulting from current economic conditions. However, UF's population forecast suggests the level of population growth, on a moving average basis, will be permanently below its historical average. Tr. 192-193 (Morley). FPL disagrees and has adjusted the later years based on the rebound in population growth that has historically followed recessions. Tr. 779 (Morley). This adjustment is fully consistent with historical trends and reflects a degree of pent-up demand in terms of in-migration. Due to the current economic recession, many baby boomers are delaying retirement. When the economy recovers, increased in-migration of retirees can be expected. Improvement in the relative affordability of housing should make Florida a more attractive destination for both retirees and working age adults when the economy recovers. Moreover, national surveys show that Americans continue to rank Florida as one of the most desirable places to live in the country. Tr. 192, 194, 779, 786-787 (Morley); Ex 15; Ex. 17.

For at least the last 25 years, based on a ten-year forecast horizon, UF has consistently under-forecasted the state's long-term population growth by a wide margin -- on average, by about 1.3 million residents. Tr. 780 (Morley). FPL's long term forecasts have also consistently underforecast the peak load. Tr. 218 (Morley). In fact, FPL's long term forecast underforecast the

peak for 2009, which was actually at FPL's forecasted level for 2013. *Id.* FPL's adjustment simply recognizes and compensates for these consistent trends of under-forecasting. Tr. 186, 780 (Morley). While FPL understands the significance of the current economic downturn, these short-term conditions have a minimal impact on the accuracy of FPL's long term forecast, and in fact FPL's short term sales forecast for 2009 has been spot on. Tr. 218 (Morley).

While a lower load forecast sensitivity shows a reduction in cost effectiveness of the Project, a higher load forecast would have the reverse impact, greatly enhancing the economics of the Project. The evidence shows that the chances of overforecasting are lower than the chances of underforecasting. Tr. 354 (Enjamio), Tr. 186 (Morley). As mentioned above, FPL's long term forecast underforecast the peak for 2009, which was actually at FPL's forecasted level for 2013. FPL must plan to meet customer need, and must have sufficient gas supplies to operate the system should the higher forecast occur. Thus, there is a much greater risk to FPL's customers of underforecasting than overforecasting. Tr. 361 (Enjamio).

Furthermore, even assuming UF's forecast, the "Base Case" analysis results in an impact to the customers of $7 million. That effectively is break-even, without taking into account the benefits to customers of sales to third parties and avoidance of interruptible charges for gas transportation charges. Thus, customers would still get the benefits of a new third pipeline in the state, including competition, supply diversity, at virtually no additional cost. Tr. 353 (Enjamio).

FPL's Gas Transportation Capacity Forecast

As stated above, between 2013 and 2040, FPL will need to add approximately 2.7 Bcf/d of gas transportation capacity. Tr. 325 (Enjamio); Ex. 42. In the near term, in order to meet the needs for natural gas at the modernized CCEC and RBEC alone, FPL will need an incremental 400 MMcf/d of natural gas transportation capacity. Tr. 58 (Forrest); Tr. 145 (Sharra).

The timing and magnitude of FPL's future gas transportation needs are driven by FPL's generation resource plan. Tr. 315 (Enjamio). In developing the resource plans for this proceeding, FPL assumed that the Company would meet its then-current DSM Goals and implement additional cost-effective DSM identified after the current DSM Goals were established. Tr. 315-316 (Enjamio). As it turns out, the resulting DSM savings used in the analyses are greater than the achievable DSM savings that were subsequently filed in the current DSM Goals proceeding (Docket No. 080407). Tr. 363 (Enjamio). If the lower DSM savings from the current DSM proceeding were used in the analysis, the economic benefit of the EnergySecure Line would be greater. Tr. 364-365 (Enjamio).

For the purposes of the analysis in this proceeding, FPL used its long-term resource plan ("Base Case") and two alternate scenarios to analyze firm gas transportation alternatives: (1) the "Renewable Portfolio Standard ("RPS") Scenario" based on the Commissions draft RPS rule, which included a target of 20% renewable energy by 2020, constrained by a 2% cap on increased retail revenues; and (2) the "Nuclear Delay Scenario" which models deferral of the in-service dates of FPL's new Turkey Point Units 6 and 7 nuclear units to reflect the possibility of a four-year delay as a result of factors outside of FPL's control. Tr. 318-324 (Enjamio). Under the "Base Case," from 2013, FPL's natural gas need would grow by an incremental 1.6 Bcf/d by 2030 and 2.8 Bcf/d by 2040. Tr. 325 (Enjamio); Ex. 42. Under the "RPS Scenario," FPL's incremental gas need would grow to 1.6 Bcf/d from 2013-2030 and to 2.7 Bcf/d from 2013-2040. *Id.* Finally, under the "Nuclear Delay Scenario," FPL's incremental gas need would grow to 800 MMcf/d from 2013-2020, to 1.7 Bcf/d by 2030, and to 2.7 Bcf/d by 2040. *Id.*

FGT witness Langston asserted that FPL only needs approximately 200 MMcf/d of incremental gas transportation capacity, for a total of 2,116.6 MMcf/d in 2014. Tr. 553 (Langston). Mr. Langston's calculations failed to account for the incremental 600 MMcf/d of capacity needed

for the FPL's West County Energy Center Units 1, 2 and 3 beginning in 2011. Tr. 797-798 (Enjamio). When the gas transportation needs of those units are factored in, using Mr. Langston's logic, FPL would have a total need of approximately 2.7 Bcf/d, or an incremental need of approximately 800 MMcf/d by 2014. *Id.* Mr. Langston alleged in surrebuttal testimony that this incremental need would be offset by a reduction in natural gas consumption resulting from FPL's plan to place certain older units on inactive reserve, but he presented no supporting analysis. Tr. 585-586 (Langston). In fact, Mr. Langston's assertion is unsupportable in view of the minimal amount of natural gas actually burned by those units (92.6 MMcf/d) on the peak gas consumption day he utilized in developing his original estimate of FPL's peak demand. *See* Ex. 4, Langston Depo. 46-51 (July 12, 2009); Langston Depo. Ex. No. 3.

FGT witness Schlesinger questioned FPL's projection of long-term gas transportation need based on his criticism of FPL's natural gas price forecast, which he claimed may have understated long-term natural gas prices and, as a result, overstated FPL's long-term need for natural gas transportation capacity. Tr. 662, 678 (Schlesinger). As discussed in connection with Issue No. 9 below, however, FPL's fuel price projections for this project were developed from authoritative sources using methodologies consistent with those employed in other FPL dockets before this Commission. Tr. 751-753 (Sharra); Tr. 732-733 (Forrest).

In sum, based on FPL's load forecast and resulting generation resource plan, it is reasonable to assume for planning purposes that FPL will need approximately 2.7 Bcf/d of additional natural gas transportation between 2013 and 2040. FGT has offered no alternative but unfounded criticism.

ISSUE 2: Do existing pipeline companies in Florida have sufficient excess capacity to fulfill the forecasted need for transmission capacity?

FPL: **No. The existing infrastructure is substantially subscribed on a long-term firm contractual basis. As such, absent the introduction of incremental pipeline capacity, the infrastructure cannot fulfill FPL's or Florida's need for transmission capacity.**

There is insufficient existing pipeline capacity available to serve FPL's or Florida's projected firm resource needs. Tr. 139-140 (Sharra); Tr. 457 (Sexton). Currently, natural gas supplies are delivered into Florida primarily by two interstate pipeline systems (FGT and Gulfstream), which together provide approximately 90% of the gas transportation capacity available into Florida. Tr. 451-452 (Sexton); Tr. 141 (Sharra).

FPL will require a total of 400 MMcf/d of incremental natural gas supply just to support the Modernization Projects, each of which have a peak natural gas demand requirement of approximately 200 MMcf/d. Tr. 36 (Forrest); Tr. 478 (Sexton). The incumbent pipelines are substantially subscribed and will remain so after completion of proposed expansion projects. Tr. 478 (Sexton). Neither FGT's nor Gulfstream's existing pipelines, including currently planned upgrades, can meet the firm gas requirements of the Modernization Projects. Tr. 43 (Forrest).

FGT witness Langston asserted that FGT could provide 214 MMcf/d of excess Phase VIII capacity for delivery to the RBEC, but this depends upon the election of a shipper who has a contractual option to increase its Phase VIII capacity by 75 MMcf/d. Tr. 546, 619 (Langston). Because that option does not expire until May 1, 2010 (*see* Tr. 619 (Langston)), it would not be reasonable at this time to assume that the necessary 200 MMcf/d of capacity would be available for the RBEC.

For these reasons, it is clear that existing pipeline companies serving peninsular Florida do not have sufficient capacity on their systems to meet FPL's or Florida's forecasted need for natural gas transmission capacity.

ISSUE 3: Is the proposed Florida EnergySecure Line needed to improve or maintain natural gas delivery reliability and integrity within Florida?

FPL: **Yes. The EnergySecure Line will increase natural gas deliverability within Florida by adding 600 MMcf/d of new supply. By providing additional access to unconventional onshore supplies, the EnergySecure Line will also diversify supplies and mitigate risk of supply disruptions associated with severe weather events along the Gulf Coast.**

FPL, as well as the rest of Florida, is heavily dependent on the FGT and Gulfstream systems. Tr. 48 (Forrest). Upon completion of FGT's Phase VIII expansion project, FPL will have 1.274 Bcf/d of firm gas transportation—approximately 66% of FPL's peak gas supply—on FGT's pipeline system. *Id.*; Tr. 142 (Sharra). Similarly, by the end of 2009, Gulfstream will transport 695 MMcf/d of FPL's gas load—33% of FPL's peak gas supply. Tr. 48 (Forrest); Tr. 142 (Sharra).

The introduction of the EnergySecure Line -- a third major pipeline into Florida with unique routing and the potential to be connected at multiple points with the state's existing infrastructure -- will increase the reliability of Florida's natural gas infrastructure and reduce capacity concentration of the FGT and Gulfstream systems. Tr. 49-50 (Forrest); Tr. 292 (Stubblefield); Tr. 484-486 (Sexton). The result will be enhanced reliability of pipeline operations and increased flexibility in delivery in the event of any interruption on the existing Gulfstream or FGT pipelines, and will help to make gas available when and where it is needed within the state. *Id.*; Tr. 47 (Forrest).

Importantly, having a unique physical pipeline route receiving gas from growing unconventional on-shore sources will reduce the dependence on onshore Gulf Coast and offshore Gulf of Mexico sources and will provide further protection against weather-related disruptions to the Gulf supply. Tr. 49-50 (Forrest); Tr. 488 (Sexton). The combined EnergySecure Line/Company E ("Upstream") Pipeline will provide supplies from unconventional shale gas locations in North Louisiana, Oklahoma, Arkansas, and East and Central Texas. Tr. 488 (Sexton); Tr. 154-155 (Sharra); Tr. 50 (Forrest); Ex. 90. This additional access to an expanded natural gas supply mix will provide supply diversity which, in turn, increases supply reliability. Tr. 472-473

(Sexton); Tr. 859-860 (Sexton). Because a smaller percentage of FPL's overall supply portfolio (and, therefore, generation capacity) will be dependent upon traditional Gulf Coast and Gulf of Mexico sources, FPL's supply portfolio will be less susceptible to isolated weather events (like hurricanes) in the Gulf. Tr. 488 (Sexton); Tr. 49-50 (Forrest); Tr. 140 (Sharra). For example, during the 2005 Gulf storms, over 23 Bcf of FPL's supply was impacted and had to be replaced with other, more expensive natural gas or more expensive fuels. Tr. 734 (Forrest); Ex. 82. FPL paid approximately $93 million in incremental natural gas costs to replace the disrupted fuel.[4] *Id.*

Additionally, a new pipeline will also provide another source of natural gas into Florida which will be available to offset any transportation capacity lost during outages on the existing pipelines. Tr. 484-485 (Sexton); Tr. 49 (Forrest). FPL's Cape Canaveral and Riviera plants are currently capable of receiving supplies only from the FGT system. Tr. 487 (Sexton). In each of these locations, natural gas is delivered via a single delivery lateral, with no available source of gas supply in the event of a failure of the lateral. After connections with the proposed pipeline are installed, there will be two pipelines connected to each plant (FGT and the new pipeline) which will provide protection against loss of supplies to the plant. *Id.* Similarly, in the event of a Gulfstream outage, FPL could flow natural gas to its Martin Plant via the new pipeline and displace a like amount of capacity on the Gulfstream system. Tr. 486 (Sexton). Finally, the interconnection of the EnergySecure Line with the Upstream Pipeline and FGT in the northern part of the state, and the

[4] *See,* Tr. 595 where FGT witness Langston states that "(a)ny purchaser of gas attempting to buy gas in the spot market during such a supply disruption will pay prices higher than those that can be negotiated in long-term supply contracts." This assertion ignores the fact that 99% of the supplies that were disrupted during the 2005 hurricanes were "long-term supply contracts" and FPL had no choice BUT to purchase gas in the spot market (emphasis added). Tr. 740 (Forrest). Further, Langston's assertion that FPL was exposed to higher prices because of "where FPL chooses to purchase its gas supply" points directly to the issue with the FGT system. *See,* Tr. 594 (Langston). The majority of FPL's receipt points on FGT's system are from traditional on-shore and off-shore delivery points – thus, FPL has no choice but to purchase from hurricane-prone supply basins. Tr. 462-463 (Sexton). In order to reduce this exposure to the Gulf of Mexico, additional purchases of gas transportation, such as SESH, must be added to the analysis to harden the gas supply. FGT failed to consider this additional cost in its analysis. Tr. 610 (Langston).

opportunity to interconnect with FGT and Gulfstream at the Martin Plant in the southern part of the state will provide significant operational flexibility. Tr. 49 (Forrest); Tr. 146-147 (Sharra).

For these reasons, the proposed pipeline is needed to improve or maintain natural gas delivery, reliability and integrity within Florida.

ISSUE 4: Do the proposed design, operation and maintenance procedures of the proposed Florida EnergySecure Line provide a prudent and reasonable level of safety for the public?

FPL: **Yes. The proposed pipeline will comply with all applicable engineering, construction, and operation standards, including those for safety. FPL focuses on safety in all aspects of its business. FPL brings established project management skills, a highly qualified staff, and the necessary ancillary support to undertake a project of this magnitude.**

The EnergySecure Line will be designed, constructed, tested, operated and maintained in accordance with the requirements of federal pipeline safety regulations, and will meet or exceed stringent industry standards. Tr. 249-250 (Collins). The engineering, construction, and operation of the Project will comply with Chapter 368, Florida Statutes; Chapter 25-12, F.A.C.; and 40 C.F.R. Parts 190 through 199, and the codes and standards incorporated therein. Tr. 252-254 (Collins). FPL is familiar with and will comply with all regulatory operational requirements. Tr. 758 (Sharra).

Contrary to FGT's suggestion, the mere fact that FPL has not implemented a natural gas pipeline project of this magnitude previously does not mean FPL will not safely construct and operate the EnergySecure Line. Tr. 246-247 (Collins); Tr. 758 (Sharra); Tr. 42 (Forrest). FPL is focused on safety in all aspects of its business. Whether building a new power plant, transmission line, or pipeline, the safety practices, procedures, and protocols are very similar. Tr. 249-250 (Collins). FPL has a longstanding history of safe and reliable operations of far more complex and sophisticated systems than the facilities currently proposed in the EnergySecure Line, including transmission and piping systems. Tr. 246-247, 262 (Collins); Tr. 758 (Sharra); Tr. 42 (Forrest).

FPL also has demonstrated its ability to engineer and construct numerous electric transmission lines and power plants throughout Florida. Tr. 247 (Collins); Tr. 42 (Forrest). FPL brings established project management skills, a highly-qualified staff, and the necessary ancillary support services, procedures, and staff to undertake projects of this magnitude. Tr. 42 (Forrest). FPL is also making use of key personnel within affiliate companies that have years of experience in the design, construction and operation of pipelines throughout North America. *Id.* Safe and reliable operations of the facilities proposed with the EnergySecure Line are simply an extension of FPL's current proven and reliable skill-sets and capabilities. Tr. 758 (Sharra).

For the reasons stated above, the proposed design, operation and maintenance procedures of the proposed EnergySecure Line provide a prudent and reasonable level of safety for the public.

ISSUE 5: Will the proposed Florida EnergySecure Line improve the economics of natural gas transmission within Florida to assure the economic well-being of the public?

FPL: **Yes. The EnergySecure Line will promote competition by introducing a third major pipeline into Florida. It will promote economic efficiency by cost-effectively meeting FPL's transportation needs and increasing fuel reliability and operational flexibility. It also will help boost Florida's economy and provide significant tax benefits to state and local governments.**

The Project introduces a competitive pipeline alternative into peninsular Florida where today there is no meaningful pipeline competition. Tr. 502-503 (Sexton); Tr. 50-51 (Forrest); Tr. 428, 830 (Ogur). Increasing market competition benefits consumers by providing goods and services at a lower cost, using fewer resources. Tr. 414-415 (Ogur).

The markets for long-term firm gas transmission capacity in Florida are highly concentrated and characterized by low levels of excess capacity. Tr. 429-430, 828 (Ogur). Contrary to FGT's suggestion, FERC regulation mitigates, but does not eliminate, the potential exercise of market power. Tr. 828, 843 (Ogur). Incumbent pipelines, such as FGT, possess market power and may be negotiating rates that, although less than the maximum cost-of-service

rates, are greater than the competitive level. Entry by a new pipeline will promote competition and put downward pressure on negotiated rates. Tr. 828, 831-832 (Ogur). In this case, the very announcement of the proposed pipeline has created a competitive dynamic, as evidenced by FGT's submittal of successively lower prices. Tr. 726-727 (Forrest).

In addition, projects similar to the EnergySecure Line, such as SESH, have created market dynamics that have resulted in gas price decreases for FGT and Gulfstream customers. Tr. 143-144 (Sharra); Tr. 52 (Forrest). For example, after SESH began delivering natural gas sourced from on-shore production fields in Texas and Louisiana into FGT and Gulfstream systems in September 2008, FGT and Gulfstream customers who purchased gas in the Mobile Bay area experienced over a 50 percent drop in basis premium. This differential could generate customer savings of over $50 million in 2009 alone. *Id.*

To the extent FPL makes excess capacity available to third parties, either directly or via capacity releases on existing pipelines, the EnergySecure Line also will have a significant competitive effect and promote efficiency in the broader transmission market serving Florida. Tr. 830-831 (Ogur). All shippers in Florida will have more choices and potentially more attractive prices for their gas transportation requirements. Tr. 727 (Forrest).

Finally, the EnergySecure Line promotes economic efficiency because, as discussed extensively in Issue 10 below, it provides the least cost alternative to supply increased gas transmission capacity over the life of the project. Tr. 416 (Ogur); Tr. 792-793 (Enjamio); Ex. 85-86; Tr. 857 (Sexton); Ex. 89. The EnergySecure Line is projected to result in Cumulative Present Value Revenue Requirements ("CPVRR") savings to FPL's customers ranging from $115 million to $400 million as compared to FGT's unsolicited March 18, 2009 proposal, even without consideration of the potential benefits of capacity releases or off-system sales. Tr. 802-803 (Enjamio); Ex. 85; Tr. 857 (Sexton); Ex. 89.

FGT has argued that their lowering of prices was simply the result of lower steel prices rather than the effects of competition, but that argument is implausible. Tr. 608-609 (Langston). FGT witness Langston testified that steel prices contribute "[in] round numbers, 50 percent or so" of the Phase VIII construction costs. Tr. 615 (Langston); *see also,* Tr. 622-623 (Langston). However, Exhibit 98 shows clearly that steel prices, under the most conservative assumptions, account for well less than a quarter of the Phase VIII costs.[5] Ex. 98. This illustrates FGT's strategy of throwing out any argument it can against the EnergySecure Line in order to preserve FGT's substantial market power.

Mr. Langston also asserted that including the EnergySecure Line in electric rate base would somehow provide FPL an "unfair advantage," presumably over FGT, but offered nothing but vague generalities in support. Tr. 572 (Langston). His argument ignores the primary focus of a competition analysis, which is the effect on competition in the relevant market, as opposed to individual competitors. Tr. 414, 442-443 (Ogur). FGT witness Schlesinger similarly offered nothing of substance to support his assertion that the EnergySecure Line will not enhance competition because it will serve as a "private driveway" for FPL's generation facilities. Tr. 691-692 (Schlesinger). Beyond a catchy phrase, this assertion adds nothing to the debate. He ignores the fact that initially FPL will be able to make up to 200 MMcf/d of capacity available on the market through capacity releases and/or through direct sales off the EnergySecure Line. Tr. 423-424, 831 (Ogur). And ultimately, he fails to identify any harm to FPL's customers or Florida from FPL's owning and operating a cost-effective "private driveway" to its generating facilities delivering the wide range of benefits that will result from the EnergySecure Line.

[5] The total cost in FGT's Phase VIII project cost estimate is $2,455,155,287. The material portion of the pipeline cost estimate is $560,100,000. Using the most conservative assumption that 100% of the pipe material cost is the steel cost to make the pipe, this amount represents less than 23% of the total cost estimate. *See*, Ex. 98.

Beyond enhancing competition, the Project will also bring other substantial benefits to the state. Construction and operation of the EnergySecure Line will provide a boost to state and local economies in the form of new construction jobs and substantial local purchases of materials and supplies. Tr. 155-156 (Sharra); Ex. 9; Tr. 52-53 (Forrest). The EnergySecure Line will create over 3,500 direct construction jobs and over 7,600 total direct and indirect jobs through the multiplier effect of direct spending from wages and output during construction. *Id.*; Tr. 245 (Collins). Additionally, the Project will generate over $400 million in life-cycle tax benefits to local governments, while generating approximately $20 million in Florida sales and use tax revenues. Tr. 155-156 (Sharra); Ex. 9. In total, through the indirect effects of direct spending from wages and output during construction, the Project is estimated to generate an overall beneficial state and local economic impact of $1.2 billion. Tr. 156 (Sharra).

For all of these reasons, the EnergySecure Line will improve the economics of natural gas transmission and assure the economic well-being of Florida residents.

ISSUE 6: Are the commencement and terminus of FPL's proposed facilities and laterals appropriate to serve the need identified in Issue 1?

FPL: **Yes. Commencement at FGT Station 16 will create a north Florida hub that will increase supply reliability and competition. Terminus at FPL's Martin Plant will increase reliability and enable use of an existing FPL pipeline to deliver gas to the RBEC lateral and thereby avoid construction in environmentally sensitive areas.**

For the reasons explained below, the commencement and terminus of the EnergySecure Line mainline, laterals, and other facilities are appropriate to serve FPL's (and Florida's) incremental need for gas transportation capacity.

The Upstream Pipeline and EnergySecure Mainline

The 30-inch mainline of the EnergySecure Line will be located entirely within Florida, commencing at a point near FGT Station 16 in Bradford County, Florida, and extending southeast to

FPL's Martin Plant. Tr. 147-149 (Sharra); Tr. 234 (Collins); Ex. 6. During normal operations, natural gas will flow south from the area of Transco Station 85 in Choctaw County, Alabama, via the Upstream Pipeline into Florida and connect with the proposed EnergySecure Line for delivery to FPL and other Florida customers. Tr. 148 (Sharra); Ex. 7; Ex. 10.

The Upstream Pipeline will be a new interstate pipeline originating at Transco Station 85 and terminating at the point of interconnection with the EnergySecure Line near FGT Station 16 in Bradford County, Florida.[6] Tr. 153 (Sharra); Ex. 8; Ex. 90. As discussed in Issues 3 and 10, FPL's selection of Transco Station 85 as the receipt point for the Upstream Pipeline will provide additional acces to unconventional shale gas resources in North Louisiana, Arkansas, Oklahoma, and East and Central Texas. Tr. 155 (Sharra); Ex. 90; Tr. 50 (Forrest); Tr. 470-471 (Sexton). This will provide supply diversity which, in turn, increases supply reliability. Tr. 472-473 (Sexton).

Commencement of the EnergySecure Line at FGT Station 16 will create a northern Florida receipt hub for the Upstream Pipeline, the existing FGT pipeline, the EnergySecure Line and, potentially, the Cypress Project. Tr. 147-148 (Sharra). This new hub will enhance reliability of natural gas supplies and increase pipeline-to-pipeline competition. *Id.* From the vicinity of FGT Station 16, the mainline will extend southeast to FPL's Martin Plant. As currently proposed, approximately 250 miles of the EnergySecure Line will be co-located in FPL's existing transmission corridors. Tr. 149-150 (Sharra). Co-location within the existing transmission corridors minimizes impacts to the environment and residential areas. *Id.*; Tr. 244-245 (Collins). The terminus of the mainline at FPL's Martin Plant will increase reliability of supply to that facility, and will allow (with FERC approval) interconnection with the existing Gulfstream and FGT pipelines to create a southern Florida natural gas pipeline hub. Tr. 148 (Sharra).

Laterals and Other Facilities

[6] The Upstream Pipeline will require FERC certification and is not part of this need application. Tr. 19 (Sharra)

Beginning at the Martin Plant, FPL will utilize an existing 18-inch high pressure natural gas/oil pipeline extending southeast to FPL's existing 45th Street Terminal in the City of Riviera Beach. Tr. 149 (Sharra); Tr. 268-270 (Collins); Ex. 10. Utilization of this existing 36-mile pipeline (which is not a part of this need determination request) will eliminate the need for new construction between the two points and thereby minimize environmental impacts to a sensitive and populous area. Tr. 149 (Sharra); Tr. 269-270 (Collins); Ex. 10. FPL will also construct a 17-mile 24-inch lateral pipeline to the CCEC and a 3-mile 20-inch lateral from the 45th Street Terminal to the RBEC. Tr. 235 (Collins). The proposed lateral lines are appropriately located to provide natural gas to the CCEC and RBEC. Tr. 233 (Collins); Tr. 145, 149 (Sharra).

For these reasons, the commencement and terminus of the EnergySecure Line mainline and laterals are appropriate to serve FPL's (and Florida's) incremental gas transportation needs.

ISSUE 7: Are FPL's construction cost estimates reasonable for planning purposes?

FPL: **Yes. FPL's construction cost estimates are reasonable for planning purposes. FPL's estimates are based on an estimate prepared by a major pipeline engineering consultant, modified by FPL to reflect the final project scope, FPL's experience, and current and future market conditions.**

FPL contracted Wilbros, a major pipeline engineering consultant, to prepare a preliminary scope and project estimate. Tr. 257 (Collins); Ex. 2, Staff's Third Set of Interrogatories, No. 53 (Bates 00000093). FPL reviewed these preliminary project estimates and modified them to reflect the final project scope, FPL's own construction experience, and current and future anticipated Florida market conditions. Tr. 257 (Collins). The current expected installed cost for the EnergySecure Line is $1.531 billion, including all costs for land acquisition, pipe materials, valving, metering stations, current compressor stations, development, construction labor and equipment, project management, start-up and AFUDC. Tr. 256, 259 (Collins); Ex. 12 (Revised). The costs include $1.0 billion in direct material installation costs, $325 million in indirect costs associated

with development and start-up of the Project, $100 million in anticipated land costs (based on assumption of 90% co-location with existing rights-of-way), and $106 million for AFUDC. Tr. 256-257, 259 (Collins); Ex. 12 (Revised).

For purposes of estimating costs of expansion, FPL evaluated 200 MMcf/d increments to correlate with anticipated load growth. Each incremental expansion would require only additional compression plus any interconnection costs to add a new delivery point. Tr. 257-258 (Collins); Tr. 152-153 (Sharra). FPL estimates expansion costs between approximately $125 million to $200 million for each incremental upgrade. Tr. 258 (Collins); Tr. 153 (Sharra). Thus, a 200 MMcf/d expansion would represent a 33% increase in capacity for an increased cost of only about 8%. *Id.*

ISSUE 8: Are FPL's economic assumptions reasonable for planning purposes?

FPL: **Yes. The assumptions utilized in FPL's economic analyses are based on reasonable assumptions used in other Commission dockets or are otherwise consistent with prior need determinations or other orders issued by the Commission.**

The key economic assumptions underlying FPL's analyses include: FPL's load forecast; energy savings from demand side management ("DSM"); renewable resources; new generation approved by the Commission; and power purchases. Tr. 315-317 (Enjamio). Those assumptions are reasonable and consistent with prior need determinations approved by the Commission:

Load forecast: Based on FPL's load forecast, the economic analyses for the EnergySecure Line assumed that, by 2030, FPL's summer peak load will grow 12,871 MW over the 2008 actual peak load. Tr. 201 (Morley); Ex. 26. As discussed in Issue 1, FPL's load forecast is reasonable for planning purposes.

Demand side management (DSM): As discussed in Issue 1, FPL utilized reasonable, if not conservative assumptions regarding future DSM implementation. Tr. 315-316 (Enjamio).

Renewable resources: The "Base Case" resource plan includes 110 MW of solar generation from FPL's new solar projects which have already been approved by the Commission. Tr. 316 (Enjamio); *see also,* Order No. PSC-08-0491-PAA-EI. As discussed in Issue 1, the RPS Scenario was based on the draft RPS rule that the Commission submitted to the Legislature earlier this year. Tr. 320-322 (Enjamio).

Generation resources previously approved by the Commission: The following generating units previously approved by the Commission are included in the resource plans:

- West County Energy Center Units 1, 2, and 3, with a total capacity of 3,657 MW when placed in service in 2011 (Orders Nos. PSC-06-0555-FOF-EI and PSC-08-0591-FOF-EI);
- Nuclear uprates at existing nuclear units with a total capacity of approximately 400 MW when placed in service by end of 2012 (Order No. PSC-08-0021-FOF-EI);
- Two new nuclear units - Turkey Point Units 6 and 7 – with total capacity of 2,200 MW which are assumed to be in service in 2018 and 2020, respectively, for the "Base Case" and four years later in the "Nuclear Delay Scenario" (Order No. PSC-08-0237-FOF-EI);
- The Modernization Projects at the Cape Canaveral and Riviera Plants, which will add a total incremental capacity of 1,069 MW when placed in service in 2013 and 2014, respectively (Order No. PSC-08-0591-FOF-EI). Tr. 317 (Enjamio).

Power purchases: The economic analyses assume the expiration of power purchase contracts totaling 1,610 MW. *Id.*

In conclusion, FPL's economic assumptions are reasonable for planning purposes and should be accepted by the Commission.

ISSUE 9: Are the fuel supply and transport costs used by FPL reasonable for planning purposes?

FPL: **Yes. The fuel supply and transport cost forecasts used in FPL's economic analyses are consistent with forecasts utilized by FPL and accepted by the Commission in prior proceedings.**

FPL's fuel supply and transport cost estimates are reasonable for planning purposes. Without offering alternative forecasts in response to direct requests from Staff (Tr. 705-705 (Schlesinger)), FGT contends that FPL's fuel supply forecast may have understated future natural gas prices. Tr. 662 (Schlesinger). However, this issue is largely irrelevant because FPL's demand for gas would not be significantly affected by higher gas prices over a significant range of forecasted prices. Tr. 753 (Sharra). In addition, the results of FPL's economic analysis would not materially change due to differences in gas prices: a 10% increase in natural gas prices would change the cost differential between the EnergySecure Line and FGT alternative by only about $5 million. *See* Ex. 2, FPL's Responses to Staff's Ninth Set of Interrogatories, Nos. 182 and 183. Moreover, higher gas prices would improve the economics of the EnergySecure Line because it transports gas more efficiently than FGT's proposal(s) and the dollar value of the greater efficiency increases as gas prices increase. Tr. 753 (Sharra); Tr. 733 (Forrest).

In any event, FGT's criticism of FPL's natural gas price forecast methodology is unfounded. FPL utilized projections from highly reputable sources, including the PIRA Energy Group ("PIRA"), the Department of Energy's Energy Information Administration ("EIA"), and forward commodity price curves for near-term Henry Hub and basis prices. Tr. 751 (Sharra); Tr. 732 (Forrest); Tr. 858 (Sexton). PIRA, a world-recognized consulting firm with extensive expertise in all aspects of the natural gas industry, supplies FPL with an extensive database to support its short- and long-term projections for future prices of natural gas. Tr. 751 (Sharra). FPL utilized the NYMEX Henry Hub curve and forward basis price curves to project the first few years of the

forecast (short-term) and applied escalation rates consistent with those utilized by EIA for the long-term projections. *Id.* The methodology used in this case is consistent with the methodology reviewed and accepted by the Commission in previous FPL need filings. Tr. 752 (Sharra).

FPL's forecast of the natural gas basis for different delivery points, including Transco 85, used the November 6, 2008 forward curve through 2010. Based on the limited availability of information on future markets beyond 2010, FPL reasonably assumed that, on average, the relationship between the basis at Transco Station 85 and Perryville existing in 2010 would remain unchanged through the planning horizon. *Id.* FGT witness Schlesinger asserted that growing gas dependency among power generators in the Northeast will cause natural gas prices at Transco 85 to rise above those at Perryville. Tr. 680-681 (Schlesinger). However, as Dr. Schlesinger recognized in deposition, the gas dependency of Florida power generators, who rely almost exclusively by FGT and Gulfstream, is growing rapidly as well. *See* Ex. 4, Schlesinger Depo.at 23, lines 15-20 (July 21, 2009). Moreover, Dr. Schlesinger admitted that "in isolation to other points, it's hard to know whether upward pressure [on gas prices] is greater or lesser than in other points in the region." *Id.* at 25, lines 23-25. That is exactly FPL's point. In the absence of more precise information on future basis differentials, FPL reasonably assumed that the basis differential as of the last point that market information is available (*i.e.,* 2010) will continue. Tr. 752 (Sharra).

With regard to transport costs, FPL appropriately utilized the rates proposed by FGT and Company E. Tr. 326, 794-795 (Enjamio); Ex. 44; Ex. 86. FGT criticized FPL's economic analysis because it utilized a flat rate for FGT's service throughout the life cycle analysis, while using declining revenue requirements for the EnergySecure Line. FGT claimed that this assumption failed to account for the effects of depreciation of FGT assets. Tr. 587-588 (Langston). However, there is no reason to conclude that FGT's rate would decrease over time given the fact that FGT has never reduced tariff rate schedules for FTS-1 and FTS-2 service and

has actually increased its negotiated FTS-3 rate with FPL for Phase VIII capacity. Tr. 621-622 (Langston). Further, FGT's argument ignores the fact that FPL also utilized a flat rate for the Company E proposal. Tr. 800-801 (Enjamio).

For these reasons, the fuel supply and transport costs used by FPL are reasonable for planning purposes and FGT's claims to the contrary are baseless.

ISSUE 10: Will the proposed Florida EnergySecure Line, including its connection with the upstream pipeline, provide the most cost-effective and reliable source of natural gas supply, transport, and delivery?

FPL: **Yes. The FPL proposal provides the lowest life-cycle cost to customers even without considering potential revenues from capacity releases or third party sales. By introducing a new pipeline and increasing access to on-shore supplies, the FPL proposal also represents the most reliable option of the available alternatives.**

The large incremental gas requirements of the Modernization Projects provided FPL a unique opportunity to consider whether a new major pipeline could be a cost-effective alternative to expansion of one of the incumbent pipelines. Tr. 281 (Stubblefield); Tr. 43-44 (Forrest). FPL appropriately concluded that the combined EnergySecure Line/Company E proposal provides the most cost-effective and reliable source of natural gas supply, transport, and delivery.

Cost-effectiveness

On July 17, 2008, FPL issued a Solicitation Letter to seven major pipeline companies requesting gas transportation proposals. Tr. 280-283 (Stubblefield); Ex. 34. In light of FPL's desire to access onshore natural gas supplies, FPL requested that all proposals provide access to Transco Station 85. Tr. 281 (Stubblefield); Ex. 34. FPL asked for responses to at least one of three pipeline alternatives: (1) an interstate pipeline from Transco 85 to CCEC and RBEC; (2) an upstream pipeline segment from Transco 85 to FGT 16 (to be combined with other proposals to create a total project capable of delivering gas from Transco 85 to CCEC and RBEC); and (3)

a Florida pipeline segment from FGT 16 to CCEC and RBEC. Tr. 282-283 (Stubblefield). FPL stated it was open to evaluating other suggested viable options, but explained that the proposals would be evaluated on overall economics, including the value of supply diversity and delivery flexibility. Tr. 281-282 (Stubblefield). FPL also stated that it was considering development of an intrastate pipeline capable of receiving gas at or near FGT Station 16. Tr. 281 (Stubblefield).

Based on FPL's updated load growth forecast, FPL's analysis focused on proposals for 600 MMcf/d and 400 MMcf/d of capacity. Tr. 289 (Stubblefield); Tr. 492 (Sexton). Respondents also indicated that a minimum of 600 MMcf/d would be necessary to commit to building new pipeline infrastructure into Florida. Tr. 284 (Stubblefield); Tr. 157 (Sharra); Tr. 730-731 (Forrest). In addition, FPL's internal analysis indicated that a 30-inch pipeline with an initial capacity of 600 MMcf/d provided the most cost-effective solution to meet FPL's initial requirements and afforded FPL's customers greater expansion capability at a much lower cost. Tr. 152-153 (Sharra); Tr. 284 (Stubblefield); Tr. 258 (Collins). In that regard, the cost differential between a 30-inch pipeline with an initial capacity of 600 MMcf/d and a 30-inch pipeline with an initial capacity of 400 MMcf/d is only approximately $15,000,000, or approximately 1 percent. Tr. 105-107, 126-127 (Forrest); *see also*, Ex. 2, FPL's Resp. to Staff's Eighth Set of Interrogs. No. 145 (Bates Nos. 00000266-00000267).

For the interstate pipeline alternative, FGT's proposal provided the lowest transportation costs for 400 MMcf/d or 600 MMcf/d to serve CCEC and RBEC. Tr. 289 (Stubblefield). For the Upstream Pipeline segment from Transco 85 to FGT Station 16, Company E's proposal provided the lowest transportation cost for 600 MMcf/d. *Id.* For the Florida pipeline segment from FGT Station 16 to CCEC and RBEC, the EnergySecure Line provided the lowest transportation cost for 600 MMcf/d. *Id.*; Ex. 35. Accordingly, FPL compared the FGT proposal to the EnergySecure Line/Company E proposal to determine which solution offered the lowest

CPVRR cost to customers when evaluated over the 40-year life of the project. Tr. 327-329 (Enjamio). The CPVRR life-cycle methodology has been used in multiple generation and transmission line need analyses and has long been accepted by the Commission as the proper method for evaluating the long-term costs to customers so that important resource planning decisions are not based on short-sighted considerations. Tr. 800, 814-818 (Enjamio).

The results of the economic analysis indicated that under each of the "Base Case," "RPS Scenario," and "Nuclear Delay Scenario" resource plans, the EnergySecure Line/Company E proposal is the most economically beneficial, with an advantage of $208 million, $204 million, and $513 million CPVRR, respectively. Tr. 330-331 (Enjamio); Ex. 43. Although FGT complains that FPL did not evaluate its best proposal, FPL did evaluate FGT's latest, updated proposal and found the EnergySecure Line to be more advantageous to FPL's customers by between $115 million and $400 million CPVRR. Tr. 795 (Enjamio); Ex. 85; Ex. 86.

FPL's analysis was independently reviewed by a third party expert who concurred that the EnergySecure Line/Company E proposal is the best available alternative. Tr. 495-496 (Sexton); Ex. 58. In addition, FPL's economic analysis did not include any short-term gas sales of excess capacity off the EnergySecure Line. Tr. 329 (Enjamio). Based on a Gas Cost Savings Analysis performed by FPL's third party expert, the EnergySecure Line/Company E proposal would result in savings of between $230 million and $900 million versus FGT's initial proposal and between $123 million and $757 million versus FGT's updated proposal. Tr. 502 (Sexton); Ex. 58; Tr. 857 (Sexton); Ex. 89.

Because FGT's proposal did not provide access to Transco Station 85 (Tr. 609 (Langston)), the cost of facilities to transport supplies from Transco Station 85 to FGT's receipt point was added to the cost of FGT's proposal for purposes of FPL's economic analysis. Based upon recent comparable projects, FPL estimated that a lateral extension from Transco 85 to

FGT's system would add a cost of $0.20 per MMBtu of design capacity plus required compressor fuel retention of about 0.30%. Tr. 493 (Sexton); Ex. 57. Although FGT questions this estimate based on a cost estimate provided by Transco during a recent open season, that Transco capacity is likely to be fully subscribed and any new capacity from Transco 85 to FGT would likely be priced at the cost of new facilities. Tr. 872 (Sexton). The reasonableness of FPL's cost estimate for such facilities ($0.20 per MMBtu) is confirmed by the fact that FGT itself provided an estimate of $0.48 per MMBtu with its original proposal. Tr. 614 (Langston); Ex. 2, FGT Resp. to FPL's First Request for POD No.1 (Bates No. 00000755). Moreover, earlier this year FGT estimated the total cost to connect its system with Transco Station 85 to be $332.6 million, while FPL's assumptions are based on a total cost estimate of $324.4 million. *Id.*; *see also* FGT Resp. to FPL's First Request for POD No.4 (Bates No. 00000772); Ex. 57.

FGT also asserted that its costs would have been reduced by $132 million if it had known of the availability of the FPL-owned dual-fuel pipeline from the Martin Plant to the 45th Street Terminal near the Riviera Plant. Tr. 549 (Langston). However, FPL had not identified the potential use of the 18-inch pipeline until well after proposals were received from each of the solicitation participants. Tr. 754-755 (Sharra). Further, in order to use this existing pipeline to deliver gas to RBEC, FPL will incur approximately $86 million in capital costs to upgrade this pipeline system, which is included in the EnergySecure Line economic evaluation. Tr. 755 (Sharra); Tr. 857 (Sexton). Thus, even assuming the accuracy of FGT's estimate that use of the 18-inch line would result in $132 million in savings and that FGT would have included such savings in its cost estimate, FGT's projected $132 million savings would have to be reduced by the approximately $86 million upgrade cost in order to make an apples-to-apples comparison to the EnergySecure Line. *Id.* Considering both FGT's alleged cost savings and FPL's costs

associated with the potential use of the existing FPL dual-fuel pipeline, the analysis continues to favor the EnergySecure Line under all three resource plans. Tr. 795 (Enjamio); Tr. 858 (Sexton).

In contrast to this overwhelming evidence presented by FPL, FGT failed to present any quantitative economic analysis. Rather, FGT merely pointed to the lower construction cost of its proposal. However, FGT's $1.0 billion cost estimate for its latest proposal fails to include the approximately $300 million in costs necessary to connect its system to Transco Station 85. Tr. 612 (Langston). Nor did FGT's estimate include any costs associated with the 214 MMcf/d of Phase VIII capacity assumed in its updated proposal, notwithstanding the fact that this capacity represents over 25 percent of a project that is estimated to cost $2.4 billion. Tr. 620-621 (Langston). Finally, in relying upon the use of this potentially available 214 MMcf/d of capacity, FGT ignores the fact that 75 MMcf/d of this capacity is subject to a unilateral option exercisable by a third party end-user. Tr. 618 (Langston). Thus, FGT has not included any cost in its project cost estimate to reflect contingency in the event that this 75 MMcf/d option is exercised and this capacity is not available.

FPL's conclusion that the EnergySecure Line is the most cost-effective alternative is robust. Over the course of this proceeding, FPL analyzed 36 different cases with a wide range of different assumptions. Tr. 364-365 (Enjamio). Of those 36 cases, 34 cases showed a positive result for the EnergySecure Line/Company E proposal, with an average CPVRR savings of $352 million. [7] *Id.*; *see also* Ex. 4, Enjamio Late-Filed Depo. Ex. 2, at 3.

FGT dwelled at length on the fact that the rate impact of the EnergySecure Line will be higher in the early years than the 400 MMcf/d FGT proposal. Tr. 568-569 (Langston).

[7] Although FPL's load forecast is reasonable and appropriate, at Staff's request, FPL conducted a sensitivity analysis using a reduced load forecast. As noted above, that analysis showed that , under the "Base Case", FPL's proposal was $7 million less economic than the FGT proposal – essentially breakeven-- and $101 million more economic than the FGT proposal under the Nuclear Delay Scenario. Even under the breakeven "Base Case" results, FPL customers would get, at essentially no cost, a third pipeline into the state with resulting benefits including competition and supply diversity. Tr. 355-356, 364-365 (Enjamio).

However, all of their bluster on this point is simply repackaging the unsurprising conclusion that a large project with initially excess capacity but substantial cost savings in later years is likely to be more expensive in the early years. Tr. 387 (Guest). This pattern holds regardless of the type of project involved, be it a pipeline, power plant, transmission line or other facility. The pattern is illustrated for the EnergySecure Line in Exhibit 97, where the EnergySecure Line has a higher bill impact than the FGT 400 MMcf/d proposal for seven years starting in 2014, but then returns a growing level of savings to customers over the next 20-plus years.[8]

Selecting from among alternative projects based simply on early-year savings would ill serve customers, because it could easily result in denying them the benefits of the alternative with the lowest overall cost. The CPVRR approach, which was used here and is routinely used in need determination proceedings, is specifically intended to avoid this problem by comparing on an equal footing disparate streams of benefits offered by various alternatives. Tr. 805 (Enjamio). As discussed above, the EnergySecure Line has the lowest CPVRR under a wide range of assumptions and scenarios, with present-value savings averaging over $350 million. By the Commission's conventional and appropriate measure, the EnergySecure Line is the best choice for customers.

Reliability

As discussed in Issue 3, the introduction of a third major pipeline into Florida will increase the reliability of Florida's natural gas infrastructure and reduce capacity concentration of the FGT and Gulfstream pipelines. Tr. 49 (Forrest). Among other things, the EnergySecure Line, in combination with the Company E Upstream Pipeline, will provide access to unconventional shale

[8] The bill impacts shown on Exhibit 97 do not take into account several benefits of the EnergySecure Line, both economic and non-economic. Those benefits are enumerated on the exhibit. The economic benefits – off-system sales and reduced payments to existing pipelines for interruptible capacity -- would reduce the bill impacts shown on the exhibit, but that reduction has not been quantified because the extent of the benefits is difficult to quantify at this time.

gas resources in North Louisiana, Arkansas, and East and Central Texas. Tr. 488 (Sexton). This additional access to an expanded natural gas supply mix will provide supply diversity which, in turn, increases supply reliability. Tr. 472-473 (Sexton).

As discussed in Issue 2 above, FPL has firm transportation capacity on FGT and Gulfstream which collectively provide 90 percent of the gas transportation capacity available into the state. Tr. 141 (Sharra); Tr. 451-452 (Sexton). FGT and Gulfstream provide gas supply primarily from traditional Gulf of Mexico supply sources and receipts in and around the Mobile Bay Area. Tr. 866 (Sexton). Traditional onshore Gulf Coast/offshore Gulf of Mexico and Mobile Bay production have declined over the past several years. Tr. 460-461 (Sexton). Further, onshore Gulf Coast and offshore Gulf of Mexico production facilities are subject to disruption due to hurricane activity in the Gulf of Mexico. Tr. 462 (Sexton). As FPL continues to add natural gas generation, it is critical to explore alternatives to ensure a single point of failure at a particular supply location or pipeline system does not result in a catastrophic loss of natural gas for FPL's generation. Tr. 747 (Sharra).

Unlike traditional Gulf Coast sources, unconventional shale gas production has been growing rapidly over the past few years and is projected to continue this rapid growth in the near future. Tr. 469 (Sexton). Boardwalk Pipeline has recently completed constructing three expansion projects (Gulf Crossing Pipeline, East Texas to Mississippi Expansion, and Southeast Expansion) that serve to transport unconventional supplies to southeast markets; and Kinder Morgan's MidContinent Express Pipeline will also provide new supply access to shippers in the Southeast. Tr. 466-468 (Sexton); Ex 54; Ex. 90. These unconventional supply sources are projected to continue to grow in the next several years and the EnergySecure Line will provide FPL with access to this growing resource base. Tr. 471 (Sexton).

After installation of pipeline facilities recently placed in service, currently under construction, and planned in the next few years, new third party capacity to the Transco Station 85 area will total 4.1 Bcf/d. Tr. 470, 504 (Sexton). This capacity, coupled with Transco's traditional capacity upstream of Transco Station 85 of approximately 4.7 Bcf/d, can provide a total of about 8.8 Bcf/d to the Transco Station 85 area. Tr. 470 (Sexton). This total capacity will be sufficient to meet the demands of all of Transco's customers as well as the demand on the proposed EnergySecure Line. Tr. 470 (Sexton). The addition of these incremental natural gas supplies to this area via the planned and recently constructed pipeline facilities will result in downward pressure on localized gas market prices in the Transco Station 85 area versus other natural gas supply locations. Tr. 471 (Sexton). With Florida's high current reliance on Gulf Coast supplies, the introduction of access to an expanded natural gas supply mix including unconventional shale gas supplies via the EnergySecure Line will provide supply diversity which will increase supply reliability. Tr. 472 (Sexton).

FGT suggests that FPL would be better off accessing mid-continent shale gas and other non-Gulf sources by interconnecting with the Perryville Station through the SESH, rather than at Station 85. Tr. 561 (Langston). FGT misses the point by trying to make this an "either/or" choice. Tr. 748-749 (Sharra). FPL recognizes value in Perryville and already relies on it heavily by virtue of its current SESH capacity. However, the EnergySecure Line's interconnection to Station 85 not only provides access to Station 85, but also provides additional access to Perryville through Company E's pipeline network. Tr. 761 (Sharra). Furthermore, if FGT were to access on-shore supplies via Perryville rather than Station 85 as FPL required in its solicitation, the economic advantage of the EnergySecure Line would actually *improve* by more than $100 million due to the cost of additional capacity that would be required on SESH. *See* Ex. 2, FPL's Resp. to Staff's Eighth Set of Interrog. Nos. 137 and 138. In short, moving FGT's

delivery point to Perryville would serve only to add costs to FGT's project and deprive FPL and its customers of important supply diversity and reliability.

FGT also questions the liquidity of supplies at Transco Station 85 versus Perryville. Tr. 668 (Schlesinger). First, it is important to note that the combined EnergySecure Line /Company E Upstream Pipeline Project will provide FPL with direct access to Transco Station 85 (*see* Ex. 7) whereas FGT did not provide any proposals that would provide FPL with direct access to Perryville. Tr. 609 (Langston). Rather, FGT only offered to provide access to existing interconnects on its system in the Mobile Bay Area. Tr. 609-610 (Langston). Further, as FPL witness Sexton explained, in the past year, three new pipeline alternatives to transport unconventional supplies to the Perryville area and beyond to Transco Station 85 have been placed into service. Tr. 861 (Sexton); Ex. 90; Tr. 748 (Sharra). The bulk of the new transportation capacity on these pipelines is held by natural gas producers and aggregators in the form of firm gas transportation agreements with primary delivery point rights to Transco Station 85. Tr. 861 (Sexton); Ex. 91. The existence of these long term firm transportation contracts to transport unconventional supplies to Transco Station 85 indicates that these producers will be ready, willing and able to deliver and sell supplies to this location and that these producers view the Transco Station 85 market as a desirable high value liquid market for unconventional supplies. Tr. 861, 867 (Sexton); Tr. 748 (Sharra); Ex. 92.

Conversely, sufficient capacity does not appear to exist upstream of the FGT/Gulfstream systems to provide FPL with direct access to incremental supplies at the Perryville Hub via FGT. Tr. 869-870 (Sexton). Thus, in order to obtain access to Perryville supplies via the existing FGT and/or Gulfstream systems, FPL would need to support an incremental pipeline expansion from Perryville to the FGT and/or Gulfstream systems. *Id.* Utilizing an extremely conservative assumption that SESH would be willing to construct expansion capacity based upon the same

transportation rate as the negotiated rate paid by FGT with respect to its current capacity, the total transportation cost to transport gas supplies from Perryville to FGT is approximately $0.34 per MMBtu, resulting in costs into FGT near Mobile Bay of approximately $0.20 to $0.25 above Henry Hub prices. Tr. 870 (Sexton); Ex. 94. Consequently, the Transco Station 85 location will provide superior access to Perryville Hub supplies at lower delivered costs than access to Perryville supplies via the FGT system. Tr. 870 (Sexton); Ex. 92; Ex. 94.

FGT also questions why FPL did not pursue an expansion of the SESH. Tr. 667 (Schlesinger). While FPL's strategic purchase of capacity on SESH will benefit all Florida customers by providing onshore gas supplies as well as having a positive impact on the overall cost of natural gas in the Mobile Bay area, FPL elected not to pursue an expansion of SESH to serve the Modernization Projects for several reasons. Tr. 748-749 (Sharra). First, FPL is committed to ensuring a diversified gas transportation portfolio which provides access to numerous supply sources via a network of pipeline providers. Tr. 749 (Sharra). The purpose of this diversity is to mitigate the effects of potential supply or pipeline disruptions, as well as pricing dependence. Second, FPL's current SESH commitment of 500 MMcf/d is a significant commitment on one pipeline and accounts for almost 50% of the existing SESH capacity. Finally, due to increases in construction costs, SESH has indicated to FPL that expansion of its system would be at a higher rate than the existing capacity held by FPL. *Id.*

Conclusion

FPL has demonstrated under a wide range of assumptions that the EnergySecure Line/Company E proposal is the most cost effective and reliable source of natural gas transport and delivery available to meet FPL's gas requirements. FGT has made no valid arguments to the contrary.

ISSUE 11: Is it appropriate for FPL to recover costs associated with the proposed Florida EnergySecure Line through FPL's rate base?

FPL: **Yes. The primary function of the EnergySecure Line is to serve the immediate and future natural gas transportation needs of FPL's electric generating units. Therefore, all prudently incurred costs for the EnergySecure Line should be included in FPL's electric utility rate base.**

FPL proposes to include all prudently incurred costs for the EnergySecure Line in FPL's electric utility rate base. Tr. 58 (Forrest). This ratemaking treatment is appropriate because the purpose of the EnergySecure Line is to serve the natural gas transportation needs of FPL's electric generating units. Tr. 375, 380 (Guest); Tr. 58 (Forrest).

From the outset, 400 MMcf/d of the EnergySecure Line's initial 600 MMcf/d capacity will serve FPL's Modernization Projects which will generate enough electricity to serve approximately 527,000 customers. Tr. 58 (Forrest); Tr. 145 (Sharra); Tr. 374 (Guest). As discussed in Issue 1, FPL will need to add approximately 2,700 MMcf/d of natural gas capacity between 2013 and 2040. Tr. 313 (Enjamio); Ex. 42. Thus, it is not a matter of "if" but "when" FPL will require all of the EnergySecure Line's capacity for its own needs as an electric utility. Tr. 58 (Forrest). The Commission recognized in Order No. PSC-97-0659-FOF-EM, Docket No. 961512-EM, at page 4, that "it is not unusual for a utility to grow into the capacity generating unit." Tr. 58-59 (Forrest). The EnergySecure Line should be viewed the same way because it will serve the immediate and long-term gas transportation needs of FPL's generation fleet to meet the growing electrical demands of FPL's customers. Tr. 59 (Forrest); Tr. 380 (Guest).

The EnergySecure Line was not developed as a strategic investment asset for FPL Group, Inc. Tr. 59 (Forrest). Rather, it was developed to meet FPL's obligation to serve for the benefit of FPL's electric customers. *Id.* FPL is not developing this asset with an eye to entering the gas pipeline business as a direct competitor to FGT and Gulfstream. Tr. 727 (Forrest). FPL's goal is to provide clean energy service at an affordable price to its electric customers, while ensuring the

highest level of reliability. Tr. 59 (Forrest). FPL's customers will benefit from the EnergySecure Line as it is the most cost-effective option for meeting FPL's immediate and long-term gas transportation needs, increases the diversity of gas supply, and adds to the reliability of the gas delivery system infrastructure. *Id.* Under FPL's proposal, all benefits of the EnergySecure Line will flow to FPL's electric customers. Tr. 60 (Forrest). Therefore, all costs associated with the EnergySecure Line should be included in electric rate base, just as the costs of all other assets owned and used in the generation and delivery of electric service are treated. This rate treatment is supported by and is consistent with the accounting requirements contained in FERC's Uniform System of Accounts Prescribed for Public Utilities ("USoA"), which FPL must follow. Tr. 373 (Guest). Under the USoA, the costs to construct the EnergySecure Line are appropriately classified as Electric Utility Plant because it will be an asset owned and used by FPL in the electric production function. Tr. 375 (Guest). Thus, FPL would accumulate the costs of construction in a construction work order in Account 107, Construction Work in Process—Electric, and ultimately record the costs in Account 101, Electric Plant in Service, when the Line is placed in commercial operation. The depreciation, operation and maintenance expenses related to the Line after it has been place in service should be charged to electric utility operating expense accounts. *Id.* The fact that FPL may temporarily hold excess gas transportation as a result of the EnergySecure Line does not change or otherwise invalidate these accounting classifications. Tr. 375, 382 (Guest). Because the primary function of the EnergySecure Line is to transport fuel to FPL's electric generating stations, the construction costs of the Line remain classified as electric plant and the related depreciation, operation and maintenance cost as electric expense. Any revenues received from third parties for its secondary use are credited back as a reduction of the costs of the primary function. Tr. 375-376 (Guest). This is sometimes referred to as the primary function approach to classifying costs and is typically used when the

revenue from the secondary use of the asset is incidental to its primary use or the secondary use of the asset is not a separate profit center of business. *Id.*

There are numerous instances in which public utilities have been authorized to classify pipelines as Electric Plant in Service. Tr. 378 (Guest). FPL's 18-inch 36-mile pipeline from the Martin Plant to the 45th Street Terminal was recorded as Electric Plant in Service when the pipeline went into service in 1980, and the cost of this asset was to be depreciated over a 40-year life. *See* Ex. 96. Because this pipeline was placed in service and recorded as Electric Plant in Service in 1980, it was included in the rate base used to set base rates in FPL's rate cases in the early 1980s, FPSC Docket Nos. 810002-EU, 820097-EU and 830465-EI. *Id.*

Similarly, FERC has authorized Portland General Electric ("PGE") to account for its 17-mile Kelso-Beaver interstate gas pipeline, which serves a PGE electric generating facility, as Electric Plant in Service. Tr. 378-380 (Guest). Near the completion of construction, PGE requested and received confirmation that it could record its investment in the pipeline to electric utility plant under the USoA Tr. 378-379 (Guest); Ex. 46; Ex. 47. Later, FERC issued PGE a "blanket certificate of public convenience and necessity" allowing PGE to utilize its share of the pipeline as an open access gas pipeline. Tr. 379 (Guest). PGE thus filed another request for clarification of the proper accounting for the cost of the pipeline, noting that "the pipeline would provide minimal interruptible service if requested by a new shipper." Once again, FERC confirmed that PGE "should continue to account for its investment in the Kelso-Beaver Pipeline and its related operations and maintenance in accordance with the USoA requirements for public utilities and licenses." Tr. 379-380 (Guest); Ex. 46; Ex. 47.[9]

[9] In addition to the FPL 18-inch and Portland General Electric's Kelso-Beaver pipelines discussed herein, Puget Sound Energy and Central Louisiana Electric Company own intrastate gas pipelines that serve their own electric generating stations and, therefore, have been classified as electric plant. *See* Ex. 2, FPL's Resp. to Staff's Amended Ninth Set of Interrogs. No. 157 (Bates No. 00000292).

There are numerous other examples of electric utilities recovering through their electric rates the costs associated with transporting fuel for use at their power plants.[10] For example, the Commission authorized recovery, through the fuel clause, of a lateral constructed by FPL from the FGT main line to the Martin Plant.[11] In that Order, the Commission stated:

> We find that it is appropriate in this case to recover the depreciation and return on investment in the Martin gas pipeline lateral through the fuel recovery clause until Florida Power and Light Company's next rate case. At that time, we can review whether these costs should be removed from the fuel cost recovery clause and treated as additions to utility plant-in-service recovered through base rates.

As a final example, for years FPL has been recovering through the fuel clause the capital costs of rail cars that are devoted to hauling coal for its interest in coal-fired power plants. *See, e.g.*, Order No. PSC-95-1089-FOF-EI, Docket No. 950001-EI; Order No. PSC-97-0359-FOF-EI, Docket No. 970001-EI.

It is significant that the length of a pipeline or the type of product flowing through it is not determinative of whether rate base recovery is appropriate. If the purpose of the asset is to perform a fuel transportation function to a generating plant, then it is properly classified as Electric Plant in Service. Tr. 390, 400-401, 404-405 (Guest). Other factors such as the peninsula nature of Florida, fuel transportation diversification, supply interpretation risk, and

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[10] As additional examples, this Commission has authorized FPL to recover through the fuel clause payments made to FGT for enhancements to a gas lateral associated with the Ft. Lauderdale power plant.FPL provided FGT with an upfront payment which was a contribution in aid of construction as FGT owned the lateral. FPL recognized these costs as Miscellaneous Intangible Plant and amortized the amount of $7,690,751.88 through the fuel clause from the in-service date of the lateral of March 28, 1991 through the end of the FGT transportation contract of July 31, 2005. *See*, Order No. PSC-92-1001-FOF-EI in Docket No. 92000-EI.

As well, In May 2007 FPL recorded an intangible asset on its books and records related to a gas compressor station for Turkey Point 5. FPL made a contribution in aid of construction payment to FGT which owns the compressor station and as such recorded the intangible asset. FPL is amortizing this intangible asset over 25 years consistent with Docket No. 070100-EI, Order No. PSC-07-0456-PAA-EI, which approved whole life rates for Turkey Point Unit 5.

[11] The cost of the lateral was $13,663,827.18, of which $13,292,885.62 was recorded to Account 342, Fuel holders, producers and accessories for the other production function designation of the plant, and $370,941.56 to Account 312, Boiler plant and equipment for the steam function designation. *See*, Order No. PSC-93-1331-FOF-EI in Docket No. 930001-EI.

FPL's heavy dependence on natural gas also should be considered within the decision-making calculus that this Commission considers when whether to include the proposed project in the rate base. Tr. 402 (Guest); Tr. 48 (Forrest). Like the fuel transportation facilities discussed above, the primary purpose of the EnergySecure Line is to serve the fuel transportation needs of FPL's electric generating units. Therefore, it is appropriate and reasonable for the cost of the proposed line to be afforded the same rate treatment. Tr. 375 (Guest); Tr. 58 (Forrest).

Contrary to FGT's suggestion, FPL's proposed rate base recovery will not provide FPL an unfair advantage by shielding FPL from risk of full recovery if the pipeline is underutilized. Tr. 725 (Forrest). First, it is important to remember that FPL's EnergySecure Line proposal of 600 MMcf/d is more cost-effective than FGT's 400 MMcf/d proposal, even without considering the possibility of sales or capacity releases to third parties which only serve to improve the economics to FPL's customers. Tr. 337 (Enjamio). Also, the idea of an unfair advantage implies that FPL's customers would pay for the asset until FPL finds an opportunity to sell the excess capacity to a third party at an economic advantage for FPL's shareholders, rather than retaining the benefit of the excess capacity for customers once they need it. Tr. 725 (Forrest). That is not the case here. Consistent with other assets developed, constructed and operated by FPL, the proposed pipeline is being built to serve the needs of FPL's customers and will be entirely utilized by its customers once the load increases to use the pipeline's full capacity. *Id.*; Tr. 376, 381 (Guest). In the interim, the 200 MMcf/d of additional capacity will be available for FPL to use to displace higher variable cost transportation on FGT.[12] Tr. 301-302 (Stubblefield); Tr. 346, 357 (Enjamio). As opportunities arise FPL will make capacity available to others with revenue from those sales entirely for the benefit of FPL's customers. Tr. 375 (Forrest). Because FPL is

[12] Between April and August, FPL spent over $2.8 million in interruptible gas transportation services that would have been avoided by having this pipeline in place. Tr. 346 (Enjamio).

expected to need the full initial capacity of the EnergySecure Line on a firm basis no later than 2021 and potentially as early as 2018, any sale of excess capacity is likely to be shorter term in nature and therefore poses little threat to incumbent pipelines. Tr. 728 (Forrest). In fact, the more likely scenario is that FPL will release excess FGT or Gulfstream capacity through their respective Electric Bulletin Boards to the highest net present value bid. *Id.*; Ex. 81. FGT and Gulfstream already run the risk that existing shippers will release capacity on their systems as a competitive alternative to their service. Tr. 728 (Forrest).

Furthermore, it is important to note that customers will benefit from the entire 600 MMcf/d from the first day the EnergySecure Line is placed in service. The full 600 MMcf will be utilized from day one because it is the lowest cost and most efficient transportation alternative and, therefore, will result in variable cost benefits and fuel cost savings to FPL's customers. These cost benefits and savings were considered in FPL's economic evaluations. Tr. 818-819 (Enjamio); Tr. 357 (Stubblefield). Also from day one FPL will avoid the need to purchase significant amounts of interruptible gas, will be able to release capacity on incumbent pipelines valued at between $200 and $700 million, will enjoy increase supply diversity and reduced risk of supply disrpuptions, and will have insurance against delays in the service of the new nuclear units or potential underforecast. These benefits are in addition to the results shown in FPL's economic evaluations.

Also, contrary to FGT's suggestion, there is no risk or burden on FPL's customers of including the full 600 MMcf/d in capacity in rate base. The selection of a 30-inch 600 MMcf/d pipeline diameter for the EnergySecure Line was based on a cost-benefit analysis. Tr. 151 (Sharra). A pipeline with a smaller diameter than 30 inches (e.g., 24-inches) would be close to full effective capacity at flows of 400 to 600 MMcf/d, just enough for the Modernization Projects, and a 30-inch/600 MMcf/d pipeline is a mere $15 million more in capital costs

associated with adding compression than a 30-inch pipeline capable of handling 400 MMcf/d. Tr. 107 (Forrest). Although compression could be added to a smaller pipeline, variable operating costs are significantly higher and are considered an economic operations penalty, limiting capacity growth and flexibility. Tr. 151 (Sharra). FPL proposed a 30-inch 600 MMcf/d pipeline because the capital costs of such a pipeline were only modestly higher than a 400 MMcf/d proposal that would be at full capacity on day one, and these costs are offset by savings in compression capital costs and ongoing costs incurred to operate the additional compression. Therefore, the prudent choice is for FPL to proceed with plans for a 30-inch 600 MMcf/d intrastate pipeline, particularly considering that FPL's discussions with respondents to FPL's solicitation indicated that 600 MMcf/d is the minimum quantity necessary for suppliers to commit to build a new interstate pipeline into Florida. Tr. 151 (Sharra); Tr. 284 (Stubblefield); Tr. 105-106, 126-127 (Forrest).[13]

Similarly, inclusion of the EnergySecure Line in rate base will not give FPL an unfair competitive advantage in future expansions. Tr. 384-385 (Ogur). FPL will always consider the best interests of its customers from a reliability and economic standpoint. Tr. 730 (Forrest). If the EnergySecure Line is approved, FGT and Gulfstream will be allowed to bid for future expansions of FPL's natural gas transportation needs beyond the initial 600 MMcf/d. [Forrest, RT.8] However, because future expansions are anticipated to be extremely cost-effective, alternate suppliers will be forced to be very aggressive in their pricing. *Id.* Nonetheless, if FGT or Gulfstream provide the most benefit, FPL will contract for services from them instead of the EnergySecure Line. *Id.* Further, the Commission will oversee any future expansions and

[13] Using FPL's fuel forecast, a 600 MMcf/d, 24-inch pipeline would require approximately $26 million a year in variable fuel costs to run the compressor stations. By contrast, a 30-inch pipeline with the capabilitiy to deliver 600 MMcf/d has approximately $8 million a year in variable costs. When you contrast the 24 and the 30 inch pipelines, there's about $18 million in difference in variable fuel costs, which, on a present value basis, more than makes up for the difference in the installed cost of those two projects. Tr. 131, (Forrest).

evaluate evidence to ensure that the most cost-effective alternative was selected for the expansions. Tr. 834 (Ogur). The fact that FPL will be the primary shipper on its own pipeline would likewise not create a competitive advantage. FPL generation will own and be the largest shipper on the EnergySecure Line, creating a vertical relationship. Generally, vertical relationships do not create competitive advantages. *Id.*

For the reasons explained, the primary purpose of the EnergySecure Line is to serve the natural gas transportation needs of FPL's electric generating units. Therefore, all prudently incurred costs for the EnergySecure Line should be included in FPL's electric utility rate base.

ISSUE 12: Should FPL be required to file a post-construction report that details the final cost of the EnergySecure Line within 90 days of completion?

FPL: Yes **[Stipulated]**

ISSUE 13: Should a separate entity be established to own and operate the pipeline?

FPL: **No. The EnergySecure Line was not developed as a strategic investment for FPL Group; it was developed to serve FPL's customers by providing the most cost-effective and reliable source of gas supply. A separate entity is not necessary or appropriate to achieve these benefits. **

There is no reason to establish a separate entity to own and operate the EnergySecure Line. As discussed in Issue 11 above, the EnergySecure Line was not developed as a strategic investment asset for FPL Group, Inc. Tr. 59 (Forrest). Rather, it was developed to meet FPL's obligation to serve for the benefit of FPL's customers. *Id.* FPL is one of the nation's largest consumers of natural gas and is heavily dependent on gas to meet its generation requirements. Tr. 728 (Forrest). Owning and operating a gas pipeline to help meet those requirements cost effectively and with improved supply diversity and reliability is a reasonable and prudent investment in electric plant service that is appropriately reflected in FPL's rate base. *Id.*

Within a relatively short period of time, FPL will need the entire capacity of the pipeline for its own power generation. Tr. 63 (Forrest). In the interim, FPL can either sell the excess capacity on the EnergySecure Line to third party shippers or utilize the excess capacity for its own needs and release a like amount of capacity on the FGT or Gulfstream pipelines to third party shippers. Tr. 60 (Forrest). In all likelihood, FPL will retain and use most of the excess capacity at its Martin Plant because this capacity has a lower variable cost and therefore provides customer savings. Tr. 301-302 (Enjamio). FPL would then make an off-setting amount of capacity available on either the FGT or Gulfstream systems which have greater connectivity within the State. Tr. 60 (Forrest). Any sales of excess capacity prior to FPL's utilization of the full capacity of the Project will go directly to the benefit of FPL's customers via the Fuel Cost Recovery Clause. Tr. 51, 60 (Forrest); Tr. 146 (Sharra); Tr. 412, 413 (Ogur). Establishing a separate entity is not necessary to achieve this benefit. Tr. 63 (Forrest); Tr. 382 (Guest).

Further, establishing a separate entity could unnecessarily trigger affiliate transaction rules and generate legal, administrative, and on-going expenses that ultimately would be passed on to FPL's customers. Tr. 63 (Forrest). These additional costs are unnecessary as the Commission will have regulatory oversight through the review of any tariffs governing any sales of excess capacity. *Id.* FPL's ability to potentially use the EnergySecure Line to provide gas transportation service to others does not disqualify it from classification as electric plant. Tr. 375 (Guest). FPL would still maintain accounting records related to the pipeline to permit the identification of depreciation, operation and maintenance, and other costs to develop a cost of service applicable to the pipeline. Tr. 63 (Forrest).

For these reasons, a separate entity is neither necessary nor appropriate.

ISSUE 14: If FPL owns and operates the Florida EnergySecure Line as proposed, will it be subject to the Commission's jurisdiction as an intrastate pipeline company pursuant to Chapter 368, Florida Statutes?

FPL: **The EnergySecure Line will be properly treated as electric plant, subject to FPSC jurisdiction under Chapter 366, F.S. However, if and when FPL proposes to sell excess capacity off the Line, FPL would seek FPSC approval under Chapter 368, F.S., of tariffs pursuant to which FPL would make capacity available.**

FPL is not pursuing the EnergySecure Line in order to sell gas transportation service to third parties; rather, it is being pursued to provide cost-effective, reliable and diverse gas transportation to serve FPL's own electric generation needs. Tr. 739 (Forrest). The pipeline will be an important part of FPL's infrastructure to deliver electric service. Tr. 63 (Forrest). Thus, for the reasons discussed in Issue 11, the asset itself will be properly treated as electric plant and subject to the Commission's jurisdiction under Chapter 366, Florida Statutes. Tr. 375 (Guest). However, if and when FPL proposes to make sales of gas transportation service to third parties on the EnergySecure Line during periods when the pipeline's capacity is temporarily in excess of FPL's own needs to provide natural gas to its power plants, FPL would seek approval pursuant to the Natural Gas Pipeline Intrastate Regulatory Act ("NGPIRA"), Chapter 368, Part II, Florida Statutes, of the relevant tariffs. Tr. 61-62 (Forrest). The tariffs would specify the general terms, conditions, and rules under which FPL would provide transportation service. *Id.* Rates and charges would be negotiated individually with each customer, subject to the Commission's oversight. Tr. 62 (Forrest). After executing a transportation service agreement, FPL and the third party consumers would file an affidavit with the Commission affirming the reasonableness of the rates in accordance with the principles set forth in the NGPIRA. *Id.*

ISSUE 15: If FPL owns and operates the Florida EnergySecure Line as proposed, will it " . . . provide transmission access, subject to available capacity, on a basis that is not unreasonably preferential, prejudicial, or unduly discriminatory. . . ," as section 368.105(6) requires?

FPL: **Yes. FPL will follow FERC requirements for capacity releases on interstate pipelines. If FPL sells capacity off the EnergySecure Line, FPL will post available capacity on an electronic bulletin board and make awards in a non-discriminatory manner to parties offering the highest net present value bids consistent with posted criteria.**

As described above, 400 MMcf/d of the EnergySecure Line's initial 600 MMcf/d capacity will serve FPL's CCEC and RBEC units. Tr. 58 (Forrest); Tr. 145 (Sharra). The remaining 200 MMcf/d will be delivered to FPL's Martin Plant for reliability purposes and may also be offered to other entities within Florida until FPL needs the full capacity. Tr. 39 (Forrest); Tr. 145 (Sharra). It is likely that FPL will retain and use most of the EnergySecure Line's excess capacity at the Martin Plant, releasing an offsetting amount of capacity on the FGT or Gulfstream pipelines. Tr.60 (Forrest); Tr. 301-302 (Enjamio).

With respect to capacity releases on the incumbent pipelines, FPL will follow FERC's capacity release requirements which will ensure that the process is open and non-discriminatory. Tr.60-61 (Forrest). FERC has very strict, standardized capacity release posting and bidding requirements in order to ensure that capacity is awarded in an open and nondiscriminatory manner. Capacity must be posted and accessible to all interested parties on the pipeline's Electronic Bulletin Board. Tr.61 (Forrest). Although the releasing party can set parameters for the release of capacity, the parameters must be nondiscriminatory. *Id.* FERC also dictates the rules surrounding the capacity release auction so that all releasing shippers abide by the same procedures for the auction and award of capacity. FPL would strictly adhere to these requirements. *Id.* However, FPL does not intend to make long-term releases of FGT or Gulfstream capacity as these original contracts were purchased for specific delivery needs. FPL would look to make short-term releases to bring additional value to its customers. *Id.*

To the extent opportunities arise for FPL to sell excess capacity directly off the EnergySecure Line to third parties, FPL would make the capacity available in an open, transparent and non-discriminatory manner. *Id.* FPL will post available capacity from the EnergySecure Line on an electronic bulletin board and will include such detail as the available volume of capacity, the available term, and any reserve price. Tr.727 (Forrest); Ex.81. FPL will award capacity in a non-discriminatory manner to the party(ies) offering the highest net present value bid(s) consistent with the posted criteria. Tr. 833 (Ogur); Ex. 81. This approach will ensure the maximum benefits to FPL's customers by offsetting the cost of the project. FPL will also file tariffs governing these sales with the Commission. Tr. 61-62 (Forrest). These rates would be regulated by the Commission pursuant to Section 368.105(2), F.S., which requires the Commission "to ensure that all rates and services made, demanded, or received by any natural gas transmission company are just and reasonable and are not unreasonably preferential, prejudicial, or unduly discriminatory." *Id.*; Tr. 422-23 (Ogur); Ex. 81.

FGT's assertion that approval of the EnergySecure Line would give FPL access to a pipeline that is unreasonably preferential, prejudicial, or unduly discriminatory is misguided. Tr.729 (Forrest). FPL and its customers are supposed to have priority on the EnergySecure Line as the pipeline is being proposed for the purpose of serving the natural gas transportation needs of FPL's electric generating units. *Id.* FPL is committed to offering any excess capacity in an open, transparent, and non-discriminatory basis at a level of service commensurate with that provided to FPL's generating facilities, but this is only a secondary purpose of the Project, intended to help lower its costs to FPL's customers. *Id.*; Ex. 81. Further, as one of two existing major pipelines delivering natural gas into the heart of Florida, FGT's contentions that a third pipeline owned and operated by FPL would be discriminatory ring hollow. Tr. 729 (Forrest). The Commission's focus should not be on ensuring that FGT maintains its current competitive

advantage in the market for interstate capacity serving Florida, but on ensuring that Florida' consumers (in particular FPL's customers) have access to the lowest cost alternative for supplying their power generation. Tr.729-30 (Forrest).

For the reasons stated above, FPL ownership and operation of the EnergySecure Line will provide transmission access, subject to available capacity, on a basis that is not unreasonably preferential, prejudicial, or unduly discriminatory.

ISSUE 16: Based on the resolution of the previous issues, should FPL's petition for determination of need for the EnergySecure Line, a natural gas transmission pipeline as defined in Section 403.9403(16), Florida Statutes be approved?

FPL: **Yes. The Commission should grant FPL's petition based on the applicable statutory criteria, including: the need for natural gas delivery, reliability, safety and integrity; the need for abundant, clean-burning natural gas to assure the economic well-being of the public; and the appropriate commencement and terminus of the line.**

The Commission should grant FPL's petition for determination of need for the EnergySecure Line. FPL currently does not have sufficient firm gas transportation capacity under contract to meet the increased need for natural gas to serve FPL's Modernization Projects. The need for additional gas at the CCEC and RBEC, as well as future gas-fired generating units, requires the addition of significant pipeline infrastructure. Under a wide range of assumptions, the EnergySecure Line has been shown to be the most cost-effective alternative to meet FPL's immediate and long-term gas demands, with average savings to customers of more than $350 million. The Project has the overall effect of strengthening Florida's gas infrastructure and increasing supply deliverability, diversity and reliability by providing additional access to unconventional on-shore gas supplies. The project will also provide enhanced competition for both gas transportation and gas supply in the state and significant investment and economic activity in numerous counties and the state as a whole. For these reasons and others discussed

above, the EnergySecure Line is needed to improve natural gas delivery reliability, safety, and integrity and assures the public's economic well-being. In addition, the commencement and terminus of the Project's mainline and laterals are appropriately located to serve FPL's forecasted need for natural gas transmission capacity. As such, the EnergySecure Line meets all the statutory criteria in Section 403.9422, F.S., and should be approved.

Respectfully submitted this 10th day of August, 2009.

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By: */s/John T. Butler*
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished electronically and by United States Mail this 10th day of August, 2009, to the following:

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