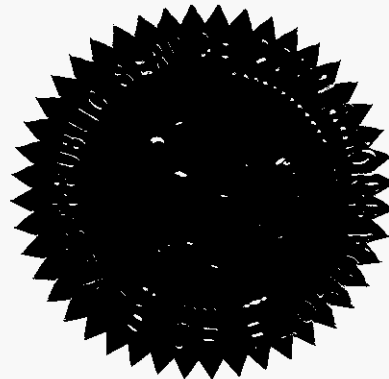


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090172-EI

In the Matter of:

PETITION TO DETERMINE NEED FOR
FLORIDA ENERGYSECURE PIPELINE
BY FLORIDA POWER & LIGHT COMPANY.



VOLUME 2

Pages 221 through 519

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PROCEEDINGS: HEARING

COMMISSIONER PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Monday, July 27, 2009

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER - DATE

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CHAIRMAN CARTER: We are back on the record.

And when we last left, staff was doing cross -- let me correct that, staff was conducting the cross-examination of Doctor Morley, right?

MS. BROWN: Yes, Mr. Chairman.

CHAIRMAN CARTER: You're recognized.

ROSEMARY MORLEY

continues his testimony under oath from Volume 1:

CONTINUED CROSS EXAMINATION

BY MS. BROWN:

Q. Just one follow-up question, Ms. Morley.

There have been several questions asked about the capital costs of the 18-inch, 36-mile oil and gas pipeline that FPL owns. I would like to ask for a late-filed exhibit to answer this question. Does FPL include any capital costs of the 18-inch, 36-mile oil/gas pipeline in its electric rate base; and, if so, what amounts are in rate base or in fuel clauses?

A. I don't know the answer to that question. We are certainly willing to file a late-filed exhibit offering all of that information. What I do know is that there was a question in discovery asking about the capital costs of gas transportation, capital costs, and if they are in FPL's rate base, and if we make a return

1 on that. And in answer to that discovery question the
2 answer was yes, we do have examples of that.

3 But in terms of the specific pipeline you
4 asked about, I don't know that answer, but we are
5 certainly ready to answer it in a late-filed exhibit.

6 **MS. BROWN:** Well, that would be great and we
7 would like that.

8 **CHAIRMAN CARTER:** For the record, and for the
9 parties and Commissioners, that will be Exhibit Number
10 96, Exhibit Number 96.

11 (Late-filed Exhibit Number 96 marked for
12 identification.)

13 **MS. BROWN:** And we could call that Rate Base
14 Recovery of 18-inch Pipeline Capital Costs.

15 **CHAIRMAN CARTER:** Okay. Ms. Brown.

16 **MS. BROWN:** I'm sorry. Mr. Chairman, we have
17 no further questions.

18 **CHAIRMAN CARTER:** Any questions from the
19 bench?

20 Doctor Morley will be with us for rebuttal, as
21 well, is that correct?

22 **MR. GOORLAND:** That's correct.

23 **CHAIRMAN CARTER:** Okay. All right, then,
24 let's do redirect, then. You're recognized.

25 **MR. GOORLAND:** At this point FPL has no

1 redirect, and we would ask that Doctor Morley's exhibits
2 be moved into the record.

3 **CHAIRMAN CARTER:** Commissioners, for the
4 record, that would be exhibits beginning at Number 13
5 going through to -- is it 33?

6 **MR. GOORLAND:** That's correct.

7 **CHAIRMAN CARTER:** Mr. Self.

8 **MR. SELF:** No objections.

9 **CHAIRMAN CARTER:** Without objection, show it
10 done.

11 Hang on a second, Doctor Morley, before you
12 go. So we're entering in Exhibits 13 through 33,
13 Commissioners. These are the ones with Doctor Morley.

14 **MR. SELF:** Mr. Chairman?

15 **CHAIRMAN CARTER:** Yes, sir.

16 **MR. SELF:** I think, for the record -- are any
17 of those rebuttal exhibits? I don't care whether we
18 move them now or later, I just --

19 **CHAIRMAN CARTER:** I'm thinking they are
20 direct. Because the way I have my sheet here is that
21 this is all for direct.

22 **MR. GOORLAND:** They are.

23 **MR. SELF:** Thank you.

24 **CHAIRMAN CARTER:** Okay. Thank you. No
25 problem.

1 Commissioners, before we allow Doctor Morley
2 to step down -- do you have any questions, Commissioner
3 Skop?

4 **COMMISSIONER SKOP:** No.

5 **CHAIRMAN CARTER:** Okay, thank you. You are on
6 recess, Doctor Morley. Be on your best behavior, okay.

7 **MR. MORROW:** I'll try.

8 **CHAIRMAN CARTER:** Call your next witness.

9 **MR. BUTLER:** Thank you, Mr. Chairman.

10 I would call Mr. Collins to the stand. And
11 Mr. Collins has not been previously sworn.

12 **CHAIRMAN CARTER:** He has not been sworn in?
13 Okay, no problem.

14 Mr. Collins, when you get there, if you would
15 be so kind to stand and raise your right hand. We'll go
16 ahead on and administer the oath to you.

17 (Witness sworn.)

18 **CHAIRMAN CARTER:** Thank you. Please be
19 seated. You may proceed.

20 **MR. BUTLER:** Thank you.

21 **CLINTON M. COLLINS**

22 was called as a witness on behalf of Florida Power and
23 Light Company, and having been duly sworn, testified as
24 follows:

25 **DIRECT EXAMINATION**

1 **BY MR. BUTLER:**

2 Q. Mr. Collins, would you please state your name
3 and business address for the record?

4 A. My name is Clinton M. Collins, and my business
5 address is 1000 Louisiana Street, Houston, Texas.

6 Q. By whom are you employed and in what capacity?

7 A. I am employed by the U.S. Gas SS Group for
8 FPL.

9 Q. And what is your position?

10 A. I am Director of Gas Infrastructure.

11 Q. Thank you.

12 Have you prepared and caused to be filed 29
13 pages of prefiled direct testimony with attached
14 Exhibits CMC-1 through CMC-3 in this proceeding?

15 A. That is correct.

16 Q. Did you also cause to be filed an errata to
17 your testimony on July 24, 2009?

18 A. That is correct.

19 Q. Do you have any further changes or revisions
20 to your prefiled direct testimony?

21 A. With respect to the errata on Page 4 of my
22 Direct Testimony, I noticed that in Line 2, the number
23 there should reflect 1.531 billion, and that is to be
24 consistent with the errata that I had submitted.

25 Q. Thank you. With those changes, if I asked you

1 the same questions contained in your direct testimony,
2 would your answers be the same?

3 **A.** They would be.

4 **MR. BUTLER:** Mr. Chairman, I would ask that
5 Mr. Collins' prefiled direct testimony be inserted into
6 the record as though read.

7 **CHAIRMAN CARTER:** The prefiled testimony of
8 the witness will be inserted into the record as though
9 read.

10 **MR. BUTLER:** Thank you. And I would note
11 that his exhibits are identified in Staff's
12 Comprehensive Exhibit List as Exhibits 10 through 12.

13 **CHAIRMAN CARTER:** For identification purposes,
14 10, 11, and 12.

15 **MR. BUTLER:** Thank you.
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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2 **FLORIDA POWER & LIGHT COMPANY**3 **DIRECT TESTIMONY OF CLINTON M. COLLINS**4 **DOCKET NO. 09____-EI**

5

6 **Q. Please state your name and business address.**7 A. My name is Clinton M. Collins. My business address is FPL Group, Inc.,
8 1000 Louisiana Street, Houston, Texas 77002.9 **Q. By whom are you employed and what is your position?**10 A. I am employed by FPL Group, Inc. as Director of Gas Infrastructure within
11 the Assets Group.12 **Q. Please describe your duties and responsibilities in that position.**13 A. My primary responsibilities for Florida Power & Light Company ("FPL" or
14 the "Company") are to provide technical support and oversight with respect to
15 natural gas-related facilities or opportunities as they are identified and pursued
16 by FPL.17 **Q. Please describe your educational background and business experience.**18 A. In 1989, I earned a Bachelor of Science degree in Construction Science from
19 the University of Louisiana-Monroe. In 1998, I earned a Master of Business
20 Administration degree from Our Lady of the Lake University located in San
21 Antonio, Texas. Prior to joining FPL Group, Inc. in June 2008, I was either
22 directly or indirectly employed for approximately 23 years by Spectra Energy
23 (Spectra) and its predecessor gas-transmission companies.**DOCUMENT NO. DATE**03072-09 4/17/09
FPSC - COMMISSION CLERK

1 In 1990, I started my professional career working full time for Panhandle
2 Eastern Pipeline Company in Indianapolis, Indiana, where I supported various
3 field construction and development activities. In 1991, I advanced into the
4 Cost Management Group in Houston, gaining experience and expertise in
5 estimating and forecasting gas infrastructure projects. During this time, I
6 supervised, scheduled and provided technical support to numerous project
7 estimators in the preparation of capital expansion and maintenance projects.
8 In 1995, I transferred into the Environmental and Construction Group where,
9 as Manager of Construction, I oversaw all construction scheduling and
10 business management activities for the construction department on the
11 systems that were owned and managed by Duke Energy Gas Transmission
12 systems. These systems included: Panhandle Eastern Pipe Line, Trunkline
13 Gas, Texas Eastern Transmission, East Tennessee Natural Gas and Algonquin
14 Gas Transmission. In 1999, I was promoted into the Project Management
15 ranks to manage overall project development activities where I estimated and
16 developed numerous market expansion projects throughout the U.S. including
17 the Southeast Supply Header (SESH) project, which was an approximately
18 270-miles pipeline located in Louisiana, Mississippi and Alabama. During
19 this assignment, I advanced to the position of Regional Director for Spectra
20 Energy, where my primary responsibilities were to provide direction and
21 oversight to a team of project and construction managers responsible for
22 southern regional capital expansions and larger maintenance projects on
23 Spectra's Texas Eastern Transmission, East Tennessee Natural Gas and

1 Gulfstream Natural Gas (Gulfstream) pipeline systems. In this role, my
2 regional team developed and estimated numerous project expansion
3 opportunities ranging up to and in excess of \$3.0 billion.

4 **Q. Are you sponsoring any exhibits in this case?**

5 A. Yes. I will be sponsoring the following exhibits, which are attached to my
6 direct testimony:

- 7 • CMC-1 Map of Florida EnergySecure Line and Related
8 Facilities
- 9 • CMC-2 FPL Right-of-Way Corridor
- 10 • CMC-3 Summary of Costs

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to provide an overview of the steps FPL will
13 undertake to construct and operate the Florida EnergySecure Line, including
14 associated facilities (the "Project"). The scope of my testimony will include:
15 (1) a technical description of the Project; (2) a description of the Project
16 engineering and construction as well as FPL's strong qualifications to
17 undertake the Project; (3) a description of the material acquisition process
18 typically encountered in a Project of this scope and magnitude; (4) a
19 description of FPL's commitment to safety and environmental stewardship
20 relating to the various construction techniques that will be employed during
21 the construction phase; (5) a description of the proposed operations and
22 maintenance of the Project; and (7) an estimate of the installed costs of the
23 Project.

1 **Q. Please summarize your testimony.**

2 A. This testimony describes in technical detail FPL's proposed \$1.588 billion
3 high-pressure natural gas transmission facility that will provide FPL's
4 customers and the state of Florida with additional pipeline capacity to meet
5 FPL's projected demand for natural gas supplies to fuel electric generation.
6 FPL proposes a 30-inch diameter, approximately 280-mile mainline pipeline
7 originating near Florida Gas Transmission, LLC's (FGT) Station No. 16 (FGT
8 Station 16) in Starke, Florida (Bradford County) to FPL's Martin Plant in
9 Martin County and approximately 23 miles of laterals ranging in diameter
10 from 20 to 24-inches to serve FPL's modernized Cape Canaveral Next
11 Generation Clean Energy Center (CCEC) and Riviera Beach Next Generation
12 Clean Energy Center (RBEC). FPL also plans to construct two compressor
13 stations, the Bradford Compressor Station and the 45th Street Terminal
14 Compressor Station and appurtenant facilities. FPL has established project
15 management skills, a highly-qualified staff and the necessary ancillary support
16 services and procedures to undertake projects of this scope and magnitude. In
17 acquiring materials and labor, FPL will manage the costs by employing a
18 competitive bidding process. FPL will comply with all regulatory, safety and
19 environmental requirements in choosing construction materials, in
20 constructing the pipeline and in operating the pipeline. The overall Project
21 construction should create little to no permanent impact to the route. Also,
22 upon completion of construction activities, all disturbed land areas will be
23 graded, seeded and returned to their original contours and natural states.

1 **TECHNICAL DESCRIPTION OF**
2 **FLORIDA ENERGYSECURE LINE**

3

4 **Q. What is the Florida EnergySecure Line?**

5 A. The Florida EnergySecure Line is a proposed intrastate pipeline that will
6 originate in Starke, Florida (Bradford County) near the existing FGT
7 Station 16 and extend south to FPL's Martin Plant where it physically
8 connects with an existing FPL pipeline, and in the future potentially could
9 connect with existing Gulfstream and FGT pipelines. Also, the Florida
10 EnergySecure Line will include two laterals to serve FPL's modernized CCEC
11 and RBEC (collectively, the Modernization Projects), as well as associated
12 metering stations, two compression stations and appropriate valving. The
13 Project will consist of a 30-inch diameter mainline pipeline with laterals
14 ranging in diameter from 20 inches to 24 inches. This high pressure natural
15 gas transmission facility will provide FPL's customers and the State with
16 access to additional unconventional supplies of natural gas and additional
17 pipeline capacity to meet the growing demand for clean fuels for electrical
18 generation, as described in more detail in the testimonies of FPL witnesses
19 Forrest and Sharra.

20 **Q. Can you please describe in more detail the Engineering and Construction**
21 **scope as it is currently proposed for the Florida EnergySecure Line?**

22 A. As shown on Exhibit CMC-1, the Florida EnergySecure Line includes
23 approximately 280 miles of mainline 30-inch coated-steel pipe, which will be

1 buried at roughly a four foot depth along the final corridor. The designed
2 maximum allowable operating pressure (MAOP) for the mainline will be 1480
3 pounds per square inch (PSIG), although it will operate at somewhat lower
4 pressures throughout the system depending on flow dynamics. The Mainline
5 will act as the feeder and will initially serve three FPL generation plants: the
6 CCEC, RBEC and the Martin Plant.

7
8 The Florida EnergySecure Line will serve the CCEC via a 24-inch coated-
9 steel lateral pipeline. This line will extend from the mainline approximately
10 17 miles to the northeast and will terminate within the boundaries of the
11 CCEC. FPL's Martin Plant will be served directly by the Florida
12 EnergySecure Line's 30-inch mainline, which will terminate within the
13 boundaries of the Martin Plant. The RBEC will be served by the Project via
14 the utilization of FPL's existing 18-inch oil/natural gas pipeline that currently
15 connects the Martin Plant with FPL's 45th Street Terminal in Palm Beach
16 County, and a new approximately 3-mile section of 20-inch pipe. By
17 employing the existing 18-inch oil/natural gas pipeline, FPL will avoid having
18 to construct approximately 36-miles of new pipeline through environmentally
19 sensitive areas in western Palm Beach County (see Exhibit CMC-1).
20 However, FPL's existing 18-inch oil/natural gas pipeline, which is fully
21 permitted, is not subject to this need proceeding.

1 The RBEC will receive the gas via a new 3-mile lateral segment of 20-inch
2 coated-steel pipeline, which will traverse due east from the 45th Street
3 Terminal to the RBEC along an existing FPL transmission and pipeline
4 corridor. This final stretch of pipeline from the 45th Street Terminal to FPL's
5 RBEC is included in this need determination.

6 **Q. Are there any other pipeline laterals required as a part of the Florida**
7 **EnergySecure Line?**

8 A. The Project also includes a new approximately 3-mile segment of 20-inch
9 pipeline lateral that will replace an existing FPL 6-inch pipeline, which
10 traverses northwest from FPL's 45th Street Terminal to an existing receipt
11 point from FGT. This 3-mile segment will be utilized to provide reliable
12 secondary service to the RBEC in those instances when fuel oil is being
13 transported from the 45th Street Terminal to the Martin Plant via the existing
14 18-inch oil/natural gas pipeline.

15 **Q. What other facilities are required as a part of the Florida EnergySecure**
16 **Line and where might they be located?**

17 A. The Project also includes two compressor stations. The Bradford Compressor
18 Station will be located near the origination of the Mainline in Bradford
19 County, near the point referred to as FGT Station 16. This compressor station
20 is needed to insure adequate pressure of the gas at the key delivery points
21 along the route.

1 The second compressor station will be located within the existing boundaries
2 of the 45th Street Terminal. This facility will provide natural gas service to
3 RBEC during those periods when the 18-inch oil/natural gas pipeline is being
4 utilized for oil transportation. In conjunction with this compressor station, an
5 additional segment of 20-inch pipe will be installed to connect this
6 compressor station to an existing FGT location approximately three miles
7 west of the 45th Street Terminal location, as illustrated in Exhibit CMC-1.
8 This compressor station and 3-mile, 20-inch pipe segment will be used solely
9 to boost receiving line pressures from FGT to provide adequate pressures and
10 volumes at the RBEC during those times when there is oil product being
11 moved through the existing 18-inch oil/natural gas pipeline.

12
13 The approximate location of the compressor sites, as they are currently
14 envisioned, would have the Bradford Compressor Station positioned to
15 connect with up to two third-party owned pipelines. As previously noted, the
16 other compressor station will be located within the boundaries of the 45th
17 Street Terminal. There are also a number of metering stations, valve stations
18 and PIG launchers and receivers that will be located along the length of the
19 Mainline and laterals to regulate and operate the system in a safe manner.

1 **Q. What are PIG launchers and receivers?**

2 A. PIG launchers and receivers are used to ensure the cleanliness of the pipeline,
3 over its many years of operation, and to allow for periodic monitoring of the
4 integrity of the pipeline. These facilities will be designed to allow for various
5 types of PIGs to be placed periodically into the pipeline for cleaning and
6 monitoring purposes. PIGs are most often propelled thru the pipeline by the
7 pressure of the natural gas without interrupting pipeline service.

8 **Q. What is the purpose of the compressor stations?**

9 A. Compressor stations are an integral part of all pipelines. The gas is
10 compressed by these stations to allow the natural gas to flow through the pipe,
11 similar to the way a pump is used to push water or other liquids through a
12 pipe. These compressors are typically located within enclosed buildings,
13 which are designed to protect the equipment from the elements as well as
14 minimize any resulting noise from the operation of the units. For the most
15 part, these stations are minimally manned by operators and are monitored
16 remotely to insure proper operation and control of all significant equipment
17 and to secure the area surrounding the compressor stations.

18 **Q. Please describe the compressor stations for the Florida EnergySecure**
19 **Line in more detail.**

20 A. The Bradford Compressor Station is currently planned to consist of
21 approximately 20,000 horsepower (HP) utilizing two turbines. Delivery
22 pressures from the upstream gas supply line will determine the actual number

1 and size of units that will be required to insure adequate downstream pressures
2 at the designated receiving locations.

3
4 The 45th Street Terminal compressor station is currently planned to consist of
5 approximately 4,700 HP utilizing two reciprocating units designed to provide
6 backup compression only when the existing 18-inch lateral between the
7 Martin Plant and the 45th Street Terminal is needed to transport fuel oil
8 supplies from the Port of Palm Beach/45th Street Terminal to FPL's Martin
9 Plant. The 45th Street Terminal compressor station will be used solely to
10 boost receiving line pressures during these short periods of product
11 movement.

12

13 **ENGINEERING AND CONSTRUCTION**

14

15 **Q. Please discuss the type of pipe that will be utilized to construct the**
16 **Florida EnergySecure Line.**

17 **A.** The Florida EnergySecure Line will be constructed of high-strength carbon
18 steel, manufactured in accordance with U.S. Department of Transportation
19 (DOT) pipeline regulations. The entire pipeline will have a corrosion-
20 resistant, non-conductive coating that forms a waterproof skin over the pipe.
21 Prior to backfilling the trench, the coating on the entire pipe will be
22 electronically tested to ensure there are no anomalies in the coating. Where
23 pipe is located beneath roads, railroads and major water bodies, an abrasion

1 resistance coating will be applied to prevent damage to the pipe when it is
2 pulled beneath these obstacles.

3 **Q. What will be the visual impact of the Florida EnergySecure Line once the**
4 **pipeline is constructed?**

5 A. There will be minimal visual evidence of the Project. Though not
6 anticipated, should the Florida EnergySecure Line cross a natural physical
7 obstruction that cannot be crossed utilizing a proven underground crossing
8 method, the installation of an over-ground support system along the corridor
9 may be deemed necessary.

10 **Q. What is the projected schedule and commercial operation date for the**
11 **Florida EnergySecure Line?**

12 A. The current Project schedule has been developed based on the Florida
13 EnergySecure Line being available for commercial operation in January 2014.
14 At a very high level, the anticipated Project schedule would be:

15

- 16 ● File NGPSA Application - third quarter of 2009;
- 17 ● Receive Site Certification Final Order from Siting Board - second
18 quarter of 2011;
- 19 ● Receive post-certification approvals - third quarter of 2012;
- 20 ● Commence field construction activities - fourth quarter of 2012;
- 21 ● Commence commissioning activities – fourth quarter of 2013;
- 22 ● Place the facilities in commercial service – first quarter of 2014.

1 This schedule allows for the majority of direct field construction of the Florida
2 EnergySecure Line and its related laterals and facilities to be performed
3 during Florida's dry season, which will significantly minimize the temporary
4 environmental impacts associated with the Project and avoid potential
5 schedule delays and cost impacts due to inclement weather, including
6 hurricanes.

7 **Q. What is the expected construction duration necessary to complete the**
8 **Florida EnergySecure Line?**

9 A. The actual construction period is expected to take approximately one year
10 from the time of initial mobilization through final commissioning and
11 cleanup. To timely and effectively execute the construction of the Project, it
12 will be subdivided into smaller segments or "spreads" for which construction
13 would proceed concurrently. By optimizing the number of "spreads," FPL
14 believes all construction can be completed within a 12 month period. FPL
15 would also expect to have the compressor stations and individual plant laterals
16 constructed during the same time period.

17 **Q. What other associated impacts could be expected from construction of the**
18 **Florida EnergySecure Line?**

19 A. Construction of the Florida EnergySecure Line requires a significant volume
20 of pipe, valves and construction equipment to be temporarily stored prior to
21 installation. FPL will identify temporary storage yards where pipe and
22 equipment can be stored and staged near the right-of-way (ROW) prior to the
23 construction activities commencing. These temporary areas will be sited to

1 minimize traffic, environmental impacts and to facilitate the most efficient
2 means of staging support materials and manpower involved in the
3 construction of the pipeline. Once construction is completed, these areas will
4 be restored to their original condition or to the recommendations of the
5 landowner.

6 **Q. Can you explain some of the typical terrain that the Florida**
7 **EnergySecure Line will encounter?**

8 A. Yes. There are four primary types of terrain or land use that would typically
9 be encountered during pipeline construction: (1) upland areas, (2) wetland
10 areas, (3) timber or forested areas and (4) residential or congested areas, all of
11 which are described in more detail below.

12

13 **Upland Areas:**

14 Upland Areas are most often identified as either actively cultivated or rotated
15 cropland, pasture land for livestock, hayfields, or rural residential areas.
16 These areas are normally dry and are typically the easiest areas to construct
17 within.

18

19 **Wetland Areas:**

20 Wetland Areas are defined by DEP as those areas that are inundated or
21 saturated by surface water or ground water at a frequency and duration
22 sufficient to support a prevalence of vegetation typically adapted to life in
23 saturated soils. Additional construction practices are often required in these

1 areas to both protect the wetland during and after construction as well as allow
2 for the safe and efficient movement of manpower and equipment during
3 construction.

4

5 **Timber or Forested Areas:**

6 Timber or Forested Areas are lands with moderate to heavy timber vegetation
7 and can be either public or private, but are often managed by large landowners
8 or land management companies. These lands are typically utilized for
9 harvestable timber and will require small areas of timber to be removed to
10 allow for construction.

11

12 **Residential or Congested Areas:**

13 Residential or Congested Areas are metropolitan areas and often require
14 significantly more complex construction techniques to address logistical
15 challenges associated with impacts to streets, businesses, residences and
16 municipal services. Often these areas require the employment of a greater
17 degree of horizontal drilling, boring and other unique construction techniques
18 to create a safe work environment and minimize or avoid impacts to existing
19 surface and subsurface conditions.

1 **Q. With the proposed Project corridor, how will each of these terrains or**
2 **land uses be addressed?**

3 A. The pipeline corridor siting process, which is part of the NGPSA and overseen
4 by the Florida DEP, is designed to affect a reasonable balance between the
5 need for a pipeline and its environmental impacts. To meet this balance and
6 to insure the least amount of overall impact, FPL proposes to co-locate the
7 1/3 mile-wide mainline corridor within the existing FPL transmission ROW or
8 adjacent to other linear facilities to the maximum extent practical to safely
9 construct the pipeline. By co-locating the pipeline it will insure the least
10 amount of overall impact. FPL focused on ensuring safety and ease of
11 maintenance while also focusing on reducing the overall impacts to wetlands,
12 timber or forested lands, public lands and residential areas. Co-location with
13 FPL's existing transmission ROW will have the added advantage of locating
14 the Mainline in or within 1/3 mile of an existing ROW, where timbering and
15 residential and commercial development has already been restricted.
16 Utilization of existing easements to the maximum extent practicable will
17 greatly reduce the overall impacts to wetlands, timber or forested lands and
18 residential areas.

19
20 In locations where the pipeline can be located within the transmission ROW,
21 the existing easement may not be adequate to support the overall workspace
22 needed for expected pipeline construction activities. In these areas, there will
23 be a need to acquire temporary construction easements along the ROW.

1 Exhibit CMC-2 illustrates a typical temporary construction workspace that
2 may be needed in these areas.

3

4 FPL is currently seeking public and regulatory input on the proposed corridor,
5 which is subject to change based on public input and the NGPSA application
6 review process.

7 **Q. What will be the short-term and long-term impact of these construction**
8 **activities on the environment?**

9 A During the development of the Project, environmental consultants will review
10 the entire pipeline corridor to identify environmentally sensitive areas as well
11 as those areas that have historic or cultural significance. As part of the
12 development of the Project through the NGPSA Siting Process, and other
13 applicable permitting processes, FPL will work with federal, state, local and
14 other interested stakeholders in an effort to avoid and/or minimize impacts
15 that would be associated with the Project. FPL will mitigate for any
16 unavoidable impacts and will meet or exceed all applicable environmental
17 regulations during construction.

18

19 The construction of the Florida EnergySecure Line will involve about 3,500
20 direct workers, nearly 140,000 tons of steel pipe, and various pieces of mobile
21 construction equipment. Every step will be guided by FPL professionals and
22 industry consultants with years of experience in building natural gas pipelines
23 that meet the highest industry and government standards for safety,

1 environmental protection and operational reliability. Great effort will be
2 taken to minimize disruption to landowners during the construction process.
3 In addition, FPL and its consultants will carefully plan every step of the
4 Project and use multiple construction crews to install the pipeline and restore
5 areas temporarily impacted by construction to their previous use as quickly
6 and efficiently as practical.

7
8 The overall Project construction should create little to no permanent impact to
9 the area. Upon completion of construction activities, all disturbed land areas
10 will be graded, seeded (as appropriate) and returned as close as possible to
11 their original contours and natural states. All restoration efforts will be in
12 compliance with applicable federal, state and local requirements. FPL will
13 remain available to respond to agency, stakeholder and landowner questions
14 and concerns throughout restoration and ongoing operations.

15 **Q. Why do you believe FPL can undertake such a Project of this magnitude?**
16 A. Although FPL has never built a natural gas pipeline of this size, FPL has built
17 a number of transmission and piping systems with much more complex
18 operating and engineering conditions than the proposed Project. As
19 previously noted, much of the pipeline that will be employed throughout Palm
20 Beach County is an existing pipeline that FPL built from the Port of Palm
21 Beach to the Martin Plant in 1979. FPL built this pipeline along a 36-mile
22 route within an existing transmission corridor and an existing railroad

1 easement. This terrain is very similar to the terrain that will be encountered
2 during construction of the Florida EnergySecure Line.

3
4 FPL also has demonstrated its ability to engineer and construct numerous
5 electric transmission corridors and power plants throughout Florida. In many
6 respects, a gas pipeline construction project is very similar to a transmission
7 line construction project. Very similar land and permitting issues are
8 encountered. Large volumes of materials, such as steel, poles, wire and cable,
9 must be stored along the corridor to facilitate construction. Many of the same
10 construction techniques required to support pipeline construction are required
11 to support construction of a transmission corridor. These construction
12 projects are literally moving assembly lines.

13

14

MATERIAL ACQUISITION AND LABOR

15

16 **Q. Based on the magnitude of the Florida EnergySecure Line, is material**
17 **acquisition a concern?**

18 **A.** Material acquisition is always a concern and represents one of the largest cost
19 risks associated with a pipeline Project of this magnitude. However, FPL will
20 effectively manage this risk by employing a competitive bidding process,
21 insuring the use of materials which are commonly available for projects of this
22 scope and securing materials well in advance of the expected date the
23 materials will be required to support construction. FPL has been successful at

1 cost-effectively purchasing large quantities of construction materials, as
2 demonstrated by many of the projects it has undertaken.

3

4 Prevailing market conditions at the time the Project is bid will dictate the most
5 preferred approach. Since steel is a commodity, there are strategies which can
6 be employed to avoid substantial material risks associated with the cyclical
7 market swings that are typical in the steel and pipe conversion business.

8 **Q. Based on the magnitude of the Florida EnergySecure Line, is contracting
9 for construction services, labor and equipment a concern?**

10 A. The most significant cost component of a pipeline project is the construction
11 process and contracting for labor and equipment. To timely and effectively
12 execute, the overall Project will be broken into segments known as "spreads,"
13 each of which is constructed concurrently. A gas pipeline of this scope is
14 typically broken into three or four spreads and then each spread is
15 competitively bid to ensure the best pricing. Each spread operates like a
16 moving assembly line, with each component of construction occurring in
17 systematic sequence for maximum efficiency and execution.

18

19 There are currently a number of companies that own equipment and have the
20 employee relationships necessary to support the construction of this Project.
21 By employing a competitive bidding process, insuring contractor availability
22 and securing these critical resources well in advance of the expected date of
23 construction, FPL will effectively manage this risk. Contractors are typically

1 secured and contracts executed with substantial lead times to support a Project
2 of this magnitude. Prevailing market conditions at the time the Project is bid
3 will dictate the most effective approach to contractor selection and execution.
4 FPL has a very successful and demonstrated ability to cost-effectively secure
5 and manage contractors on the projects it has undertaken.

6 **Q. Has FPL considered contracting with a pipeline construction**
7 **management company to support the development of this Project?**

8 A. Yes. Engaging a pipeline construction management company to provide turn-
9 key engineering and construction of the Project is an option. However, as I
10 have discussed previously, the skills necessary to oversee and effectively
11 manage the scope of a Project of this magnitude are entirely within the range
12 and technical competence of the current FPL staff and the staff of its sister
13 companies. FPL's commitment to bringing value to its customers and
14 protecting the environment is strong. In addition, FPL is among the industry
15 leaders when it comes to safety during construction and throughout continuing
16 operations.

17

18 **SAFETY, CONSTRUCTION AND OPERATION**

19

20 **Q. What will FPL do to ensure safety during construction and operation of**
21 **the Florida EnergySecure Line?**

22 A. FPL is very focused on safety in all aspects of our business, whether it is
23 building a new power generating plant, new electrical transmission line, or

1 pipeline, the safety practices, procedures and protocols are very similar.
2 Workers are trained in all aspects of safe working procedures, as they apply to
3 their particular responsibility before ever undertaking a project.

4

5 The Florida EnergySecure Line will be designed, constructed, tested, operated
6 and maintained in accordance with the requirements of federal pipeline safety
7 regulations, and will meet or exceed stringent industry standards. Examples
8 of these safety measures include the following:

9

- 10 • Even before actual construction begins, at steel rolling mills where
11 pipe is fabricated, our representatives will carefully inspect the pipe to
12 ensure that it is of high quality and meets both federal and industry
13 standards.
- 14
- 15 • Coating systems and other corrosion control techniques will be used to
16 prevent corrosion of the pipeline.
- 17
- 18 • During construction, our representatives will inspect the fabrication
19 and construction of the pipeline. Welds linking the joints of the
20 pipeline are X-rayed to ensure their integrity.

21

- 1 • Once in the ground, and before being placed into service, the pipeline
2 will be pressure-tested with water in excess of its maximum operating
3 pressure, exceeding standards set by the DOT.
- 4
- 5 • Pipeline markers will be placed to alert the public of our pipeline's
6 presence, identify pipeline rights of way and provide a telephone
7 number to be used to contact us in an emergency.
- 8
- 9 • To help protect against third-party damage, regular inspections by
10 motor vehicles and patrol aircraft will keep a watchful eye on pipeline
11 routes and adjacent areas.
- 12
- 13 • Our maintenance crews will perform facility inspections at regular
14 intervals to identify any construction in the vicinity of the pipeline and
15 to maintain the pipelines and their rights-of-way.
- 16
- 17 • Pipelines undergo periodic maintenance inspections, including leak
18 surveys, valve and safety device inspections and electronic inspections
19 using in-line inspection devices known as smart PIGs to confirm the
20 continuing integrity of the line.

21

- 1 • Our representatives will meet with local emergency response officials
2 on pipeline operations and coordinate emergency response procedures
3 in the unlikely event of an emergency
4
- 5 • The presence of the pipeline will clearly marked with signs in order to
6 reduce the possibility of damage or interference form outside parties.
7 To further reduce this possibility, the pipeline will participate in the
8 “One Call” system, which offers a toll-free number that should be
9 called before digging.
- 10 • FPL will also be continuously monitoring pressures and operating
11 conditions along the pipeline to identify potential deviations from
12 normal conditions and to allow for timely adjustment and response.
- 13 **Q. Are you familiar with Chapter 368, Florida Statutes, Chapter 25-12,**
14 **Florida Administrative Code, the Federal rules and regulations in 40**
15 **C.F.R. Parts 190 through 199, and codes and standards incorporated**
16 **therein?**
- 17 **A.** Yes. These regulations cover the design, fabrication, installation, inspection,
18 testing and safety standards for installation, operation and maintenance of gas
19 transmission and distribution systems, including gas pipelines, gas compressor
20 stations, gas metering and regulating stations.

1 **Q. Will the engineering, construction, and operation of the Project comply**
2 **with these requirements?**

3 A. Yes. I will briefly describe some of the key requirements and how FPL will
4 comply them.

5
6 First, FPL will comply with the inspection and testing of all welded members
7 in accordance with and required by the Florida Administrative Code and the
8 Federal requirements of 49 CFR Part 192. Where appropriate, welds will be
9 inspected using approved non-destructive radiographic and ultrasonic means
10 and all welders qualified in accordance with applicable state and federal
11 requirements. Appropriate records will be maintained to insure compliance
12 with these requirements.

13
14 Second, as noted above, all piping will undergo appropriate pressure testing as
15 required by the service conditions surrounding the area, and in accordance
16 with 49 CFR Part 192 to validate the integrity of the facilities prior to being
17 placed into gas service.

18
19 Third, as noted above, once the pipeline is placed into service, operational
20 procedures will be implemented to allow for periodic and timely inspection of
21 the pipeline to monitor its condition using a smart PIG, a device that can
22 travel within the pipe and monitor wall thickness and various other parameters
23 to insure the overall integrity of the pipeline over its lifetime.

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Fourth, all valves will be inspected in accordance with the class of service and the operating plan, which will be developed in accordance with 49 CFR Part 192 and the Florida Statutes.

Finally, a cathodic protection system will be designed, installed and operated in accordance with the appropriate Federal requirements of 49 CFR Part 192. Cathodic protection is a system designed to mitigate the potential for corrosion of the pipeline in all environments. The system will be designed, installed, monitored and inspected in accordance with applicable design standards included in 49 CFR Part 192.

Q. In general, what has been the history of reliability and safety for natural gas pipelines?

A. Natural gas pipelines have been safely and reliably supplying the energy needs of the U.S. for the past seventy years. Currently there are hundreds of thousands of miles of active natural gas transmission pipelines in the country, providing a critical link from the production basins to industrial, commercial and residential markets. These natural gas pipeline systems have an extremely good record of safety and reliability and today represent one of the safest modes of moving products throughout the U.S. Given the critical role that natural gas plays to Florida and the country, it is essential that these systems be safe and reliable. According to the DOT, pipelines are the safest method of transporting natural gas.

OPERATIONS AND MAINTENANCE

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Q. Once construction is completed, please describe the initial operations of the Florida EnergySecure Line.

A. At a high level, pipeline operations of the Florida EnergySecure Line will consist of monitoring and maintaining the compression and pipeline facilities at a safe and reliable level to insure adequate pressure and volume is maintained along the pipeline and at the various receiving points. The operations of the Project will be consistent with the current operations of the existing 36-mile oil/natural gas pipeline from the 45th Street Terminal located in Palm Beach County to the Martin Plant located in Martin County. This facility is operated around the clock, on a 24 hours a day, seven days a week basis. However, FPL is currently evaluating options for operating the Florida EnergySecure Line, which include the possibility of expanding existing operations to include the Florida EnergySecure Line, engaging a third-party pipeline operator, or implementing an integrated approach.

To provide for timely and responsive maintenance of the Florida EnergySecure Line, additional field maintenance locations and/or contractual arrangements with local contractors will be established prior to the pipeline being placed into service.

1 **Q. What procedures does FPL plan to employ to maintain the Florida**
2 **EnergySecure Line?**

3 A. FPL currently maintains an Integrity Management Program which insures its
4 existing pipeline laterals and other facilities are maintained in accordance with
5 Chapter 25-12 of the Florida Administrative Code and 49 CFR Part 192
6 Subpart O, "Pipeline Safety: Pipeline Integrity Management in High
7 Consequence Areas (Gas Transmission Pipelines)." Under these requirements
8 FPL conducts routine maintenance and monitoring of all existing oil and gas
9 pipelines within its system. These existing practices and procedures will be
10 amended to include the scope of the Florida EnergySecure Line and would be
11 applied either internally or to any third-party operator.

12

13

INSTALLED COSTS OF THE

14

FLORIDA ENERGYSECURE LINE

15

16 **Q. What is the cost estimate for the Florida EnergySecure Line?**

17 A. The current expected installed cost for the Florida EnergySecure Line is
18 \$1.588 billion. As shown in Exhibit CMC-3, this figure includes all costs for
19 land acquisition, pipe materials, valving, metering stations, current
20 compressor stations, development, construction labor and equipment, project
21 management, start-up and AFUDC for the Project. The costs include \$1.05
22 billion in direct material and installation costs, \$325 million in indirect costs
23 associated with development and start-up of the Project, \$100 million in

1 anticipated land costs, and \$113 million for AFUDC. Land costs are
2 estimated based on the assumption that 90 percent of the pipeline corridor will
3 be co-located with existing FPL utility transmission easements. As discussed
4 previously, it is FPL's intent to co-locate as much of the mainline and laterals
5 along existing electrical transmission corridors whenever practicable to
6 minimize land costs and environmental impacts associated with a new,
7 undeveloped corridor. However, the proposed pipeline corridor is subject to
8 change through the regulatory siting process.

9 **Q. How did FPL develop these estimates?**

10 A. FPL contracted a major pipeline engineering consultant to prepare a
11 preliminary scope and project estimate. FPL reviewed these preliminary
12 project estimates and modified them to reflect the final project scope, FPL's
13 own construction experience, along with current and future market conditions
14 anticipated in Florida. While the estimates were prepared during a period of
15 highly volatile commodity fluctuations, steel pricing was benchmarked to
16 reflect pricing consistent with other project opportunities that were evaluated.

17 **Q. Can the Florida EnergySecure Line be expanded at a later date?**

18 A. Yes. As described in more detail by FPL witness Sharra, a 30-inch pipeline
19 has the ultimate capacity to transport approximately 1.25 Bcf/d at the
20 maximum allowed design pressure. While the initial capacity will be 600
21 MMcf/d, the pipeline can be expanded at a later time. For the purposes of
22 FPL's evaluation, 200 MMcf/d increments were evaluated to correlate with
23 the expected load growth currently anticipated. Each incremental expansion

1 would require only the compression necessary to flow an additional 200
2 MMcf/d, plus interconnection costs at a new location.

3 **Q. What are the estimated costs associated with expansion of the Florida**
4 **EnergySecure Line?**

5 A. The costs of expansion are contingent on the specifics of the additional
6 compression, including year of installation and related costs, the final location
7 of the laterals and intersection with the mainline, the length of the laterals, and
8 the final pressure needed at the receiving location. At this time, we estimate
9 expansion costs varying between \$125 million to approximately \$200 million
10 for each incremental upgrade. Thus, a 200 MMcf/d expansion would
11 represent a 33 percent increase in capacity (600 MMcf/d to 800 MMcf/d) for
12 an increase in capital of only about eight percent

13 **Q. Does this conclude your testimony?**

14 A. Yes.

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
 Served: July 24, 2009

ERRATA SHEET

DIRECT TESTIMONY OF CLINTON M. COLLINS

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
27	18	Replace "\$1.588" with "\$1.531"
27	21	Replace "\$1.05" with "\$1.0"
28	1	Replace "\$113" with "\$106"

<u>EXHIBIT #</u>	<u>PAGE #</u>	<u>CORRECTION</u>
CMC-3	1	Second Column (costs) numbers are corrected

The revised exhibit is attached.

Respectfully submitted this 24th day of July, 2009.

R. Wade Litchfield, Vice President and
 Associate General Counsel
 John T. Butler, Senior Attorney
 Florida Power & Light Company
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and

1 **BY MR. BUTLER:**

2 Q. And I would ask Mr. Collins at this point to
3 summarize his testimony.

4 A. Good afternoon, Commissioners. The scope of
5 my testimony today will discuss the Florida EnergySecure
6 Line as it is currently envisioned and will focus on
7 four primary areas.

8 First, the technical description of the
9 proposed project and unique advantages that the
10 facilities offer to FPL customers in the state of
11 Florida. Second, a description of FPL's strong
12 qualifications and expertise to undertake a project of
13 this scope. Third, I will discuss the expandability of
14 the pipeline to allow for future growth. And, fourth,
15 the subsequent operations of the Florida EnergySecure
16 Line and how proposed facilities are an extension of
17 FPL's existing safe and reliable operations.

18 As with any project of this scope and
19 magnitude, considerable engineering design and
20 decision-making precedes the project final design. Like
21 building new generation capabilities or new electric
22 transmission lines, the preliminary engineering for the
23 pipeline included an evaluation to optimize the size of
24 the pipeline to allow the project to meet FPL's
25 immediate needs and still allow for reasonable growth.

1 I will discuss the engineering practices that
2 have been and will be employed as a route and geology of
3 the 30-mile corridor are better defined. I will also
4 describe the practices that will be used to ensure the
5 facilities are built and operated in a cost-efficient,
6 safe, and environmentally conscientious manner.

7 FPL is proposing to construct the 30-inch
8 diameter mainline pipeline which will originate in
9 Bradford County near the existing Florida Transmission
10 Station 16, and will traverse approximately 280 miles to
11 FPL's existing Martin Power Plant. Having the
12 EnergySecure Line connect these two major points is very
13 strategic as it essentially creates an in-state header
14 with a northern and southern hub which enhances natural
15 gas reliability and supply diversity for the state of
16 Florida and allows access to broader more abundant
17 reserves of natural gas.

18 The utilization of the proposed 30-inch main
19 line along with FPL's existing owned, operated, and
20 maintained infrastructure, which includes the existing
21 36 miles of 18-inch lateral, will be an integral part of
22 serving FPL's new modernization projects at Cape
23 Canaveral and Riveria Beach. While the initial phase of
24 the project will allow for FPL to provide the most
25 cost-effective solution for providing natural gas to

1 these modernizations, it will also provide the
2 flexibility to meet future capacity needs as they arise.

3 FPL and its affiliates have considerable
4 experience in managing very complex and schedule
5 sensitive projects in the energy industry. In many
6 respects these projects all require very similar skills
7 and management capabilities; real estate acquisition,
8 environmental due diligence and permitting, engineering,
9 procurement, logistical support, and construction
10 management, many of which must be executed within very
11 defined and constrained work areas or along linear
12 corridors.

13 The ability to manage a project of this size
14 and scope is easily reflected in the skill sets that FPL
15 displays in support of all of its projects. The
16 proposed EnergySecure Line will be simply another
17 addition to the existing 70 miles of pipeline, four fuel
18 terminals, and various pumping stations that FPL
19 currently owns and operates to support its current
20 generation needs. FPL has operated these systems safely
21 and reliably for many years.

22 Without doubt, the EnergySecure Line as
23 proposed will provide FPL customers and the state of
24 Florida with critical infrastructure that will provide a
25 reliable and cost-effective solution to meeting FPL's

1 current and future natural gas demand for electric
2 generation.

3 I thank you for your time and welcome your
4 comments.

5 **MR. BUTLER:** Thank you, Mr. Collins.

6 I tender the witness for cross-examination.

7 **CHAIRMAN CARTER:** Thank you.

8 Mr. Self.

9 **MR. SELF:** Thank you, Mr. Chairman.

10 **CROSS EXAMINATION**

11 **BY MR. SELF:**

12 Q. Good afternoon, Mr. Collins. I'm Floyd Self
13 representing FGT.

14 A. Good afternoon.

15 Q. This morning we have had some questions and
16 discussions regarding some of the existing pipeline
17 segments that FPL currently owns and operates. Were you
18 present for any of that discussion?

19 A. Yes, sir, I was.

20 Q. Okay. Would it be correct to classify those
21 pipeline segments as laterals?

22 A. They are pipelines that were built to support
23 the infrastructure of their plants. As far as what you
24 want to call them, they are pipelines to actually move
25 product from the 45th Street terminal to Martin, as well

1 as other pipelines that were built to support other
2 infrastructures that they have on their system.

3 Q. Okay. Well, looking at Page 4 of your
4 testimony, if I may. Do you have that?

5 A. Yes, sir.

6 Q. On Line 6 you talk about how the proposed
7 pipeline is a 30-inch diameter, approximately 280-mile
8 mainline pipeline, do you see that?

9 A. Yes, sir.

10 Q. And then down a couple more lines on Line 9,
11 you talk about approximately 23 miles of laterals
12 ranging in diameter from 20 to 24 inches. Do you see
13 that?

14 A. That is correct.

15 Q. How would you define a lateral?

16 A. It is any segment of the pipeline that is not,
17 in my mind, considered part of the mainline, the actual
18 physical assets connecting the two hubs. So anything
19 that is stretching off of that mainline I would refer to
20 as a lateral.

21 Q. Would it be fair to say that a lateral only
22 serves one receipt point?

23 A. No, that's not a good assumption. Laterals
24 can be run for multiple miles with various different
25 deliveries or receipts onto those laterals. It's just

1 an extension of the mainline or the mainline facilities.

2 Q. Well, then how would you define the mainline
3 pipeline, what's a mainline pipeline?

4 A. Essentially, the mainline is referred to in
5 the industry as the trunk line, the actual main capacity
6 that the pipeline flows through. There can be various
7 capacities that come onto a system or off a system off
8 of various laterals that come off of that main trunk
9 line.

10 Q. Okay. Now, with respect to mainline
11 pipelines, it's true, I believe, that FPL has never
12 constructed a 280-mile mainline pipeline before, have
13 they?

14 A. Not that I'm aware of. However, they have
15 constructed various different infrastructure within the
16 state. Roughly, now, I think they have 70 miles of
17 pipeline that they currently operate to support their
18 facilities, ranging in 30-inch diameter down to smaller
19 laterals, as far as I'm aware of, a six-inch. So they
20 have constructed many different pipelines within the
21 state to support their needs.

22 Q. All right. And those smaller pipelines,
23 generally they serve one plant, correct?

24 A. The six-inch that I just referred to primarily
25 is used to connect FGT's existing system to the 45th

1 Street Terminal, and it's primarily used for launching
2 of pigs when they are moving product up to the 45th
3 Street Terminal. But it's an integral part of FPL's
4 overall operations and how they move product through
5 their system.

6 Q. On Page 20 of your Direct, if you want to turn
7 there, the question and answer that runs from Line 6 to
8 16, you indicate that FPL is considering contracting
9 with a pipeline construction management company. If FPL
10 does, in fact -- well, first off, has FPL contracted
11 with such a management company at this point?

12 A. No, we have not. We would not move forward
13 with actually even considering something like that until
14 the project was moving forward from an execution
15 standpoint. Right now the way we have looked at the
16 project is to execute it ourselves with our internal
17 resources. However, we would not be opposed to
18 considering that, and I think that was the intent of the
19 question and the answer here is that that is an option
20 that would still be on the table for consideration if we
21 felt like it was in the best interest of executing on
22 the project.

23 Q. And if, in fact, FPL contracted with a
24 construction management company, the cost of that would
25 also be ultimately, if FPL's proposal is accepted,

1 rolled into the rate base, as well, correct?

2 **A.** That is correct. However, the costs
3 associated with executing on the project are currently
4 in the capital costs that we have developed for the
5 project, so if we opted to go in this fashion, it would
6 only be to the benefit of the customers.

7 **Q.** If you could look at Page 17 of your
8 testimony, please. Starting with Line 16, you mention
9 this Port of Palm Beach to Martin Plant pipeline that
10 was built in 1979. Do you see that there on Lines 20
11 and 21?

12 **A.** Yes, sir.

13 **Q.** Do you know if and when FPL has built any
14 other pipelines subsequent to this 1979 pipeline?

15 **A.** To my knowledge, the Martin north lateral, the
16 20-inch, 17-mile Martin north lateral was built in 1993.
17 And I believe those facilities just here recently have
18 been turned over to FGT under Phase 8 negotiations for
19 their operations. So those facilities, in fact, to my
20 knowledge, were built in 1993, but I can't confirm that
21 date.

22 **MR. SELF:** Mr. Chairman, we have no further
23 questions.

24 **CHAIRMAN CARTER:** Thank you. Commissioners,
25 I'm going to go to staff and then I'll come back to the

1 bench.

2 **MS. BROWN:** Staff has no questions.

3 **CHAIRMAN CARTER:** Okay. Give us a second
4 here.

5 Commissioner Skop, you're recognized.

6 **COMMISSIONER SKOP:** Thank you, Mr. Chair.

7 Good afternoon, Mr. Collins.

8 **THE WITNESS:** Good afternoon.

9 **COMMISSIONER SKOP:** If I could refer you to
10 Page 8 of your prefiled testimony, please. And
11 beginning with Line 2 through Line 11, they talk about
12 the second compressor station at the 45th Street
13 Terminal, and basically that facility will provide
14 natural gas service to the Riveria Beach Energy Center
15 during those periods when the 18-inch oil and natural
16 gas pipeline is being utilized for oil transportation,
17 and they also mention further down about replacing the
18 six-inch with a 20-inch pipe to connect to the FGT.

19 Can you further elaborate on that situation to
20 the extent that if you look at the large charts behind
21 you, you have what is described as the mainline
22 terminating down at the Martin Plant, and then the
23 remainder of that pipeline capacity to move it down to
24 Riveria Beach is the existing 36-mile, 18-inch pipe.

25 So it's almost as if -- I'm trying to get a

1 little clarification there, because it seems to me that
2 when that pipeline is being utilized for oil
3 transportation, they have to bypass the proposed
4 pipeline and then draw from FGT to service the Riveria
5 Beach plant. So if you could clarify that for me, I
6 would appreciate it.

7 **THE WITNESS:** Yes, sir. The normal flow now
8 before the EnergySecure Line will be built is for
9 product to move from -- as it comes into the tankers at
10 the Port of Palm Beach, it flows through a 30-inch line
11 to the 45th Street Terminal, and then from the 45th
12 Street Terminal, it is then put in the 18-inch line
13 which then transports and pumped through the 18-inch
14 line to service Martin Plant, and that's the primary use
15 for it now.

16 Once the line has product in it, and they are
17 ready to move the rest of that product up, they actually
18 put a pig, or, if you will, a cork in the pipeline.
19 They utilize an existing six-inch interconnect that they
20 have with FGT at the Turnpike. They move gas through
21 that six-inch for three miles back to the 45th Street
22 Terminal, and then they use the pressure of that gas to
23 push the pig and the remainder of that product up to the
24 Martin Terminal. So that is the normal process in the
25 utilization of that six-inch line.

1 Once the actual product all is received at the
2 Martin Terminal and the line is actually free of
3 liquids, then they open up an existing side gate valve
4 which allows that existing Martin South Interconnect to
5 feed gas into that 18-inch so it can actually feed the
6 Martin Plant from gas as well from the south. So it's
7 referred to as the Martin South Interconnect.

8 When the EnergySecure Line is put in place,
9 the majority of gas flow will be coming from the north
10 into Martin. The 18-inch primary use then will be to
11 flow gas from north to south to the 45th Street
12 Terminal. A new three miles of pipeline will be built
13 from the 45th Street Terminal to the Riviera plant to
14 provide the normal day-to-day service through the
15 EnergySecure facilities.

16 In those events when we want to move product
17 from the terminal at 45th Street, because we still have
18 the ability to take product into the 45th Street from
19 the Port of Palm Beach because the 30-inch pipeline is
20 dedicated for that service, in those events when we want
21 to move product from the 45th Street Terminal to Martin
22 for reliability purposes, we have proposed to take up
23 that existing six-inch line which currently is only used
24 to launch the pigs to take the remainder of the product
25 out of the pipeline, and we will relay that with 20-inch

1 diameter pipeline, therefore allowing us to have a full
2 interconnect with FGT at the Turnpike through the 45th
3 Street Terminal with that take up and relay of
4 three miles of 20-inch, and then the three miles that
5 exist with the EnergySecure Line from the 45th Street
6 Terminal to the Riviera plant.

7 Now, because we are unable to guarantee
8 pressures from FGT to support the event when that does
9 happen, we propose to install two small boost
10 compressions at the 45th Street Terminal to allow us to
11 guarantee that we have adequate pressures and throughput
12 from our existing interconnect with FGT at the Martin
13 south lateral.

14 **COMMISSIONER SKOP:** Thank you.

15 **CHAIRMAN CARTER:** Thank you, Commissioners.

16 Anything further from the bench?

17 Okay. Mr. Butler.

18 **MR. BUTLER:** I have very brief redirect. It's
19 going to come down considerably from that elevated level
20 just described.

21 **REDIRECT EXAMINATION**

22 **BY MR. BUTLER:**

23 **Q.** Would you please define pig and product.

24 **A.** Product is generically referred to of any
25 oil-based type product that is moved through the line.

1 It could be a one percent, or a .9 percent fuel, diesel,
2 kerosene, any type of product. We generically in the
3 industry refer to that as just a product, because
4 typically a product pipeline can be used for various
5 different types of liquids to flow through them. So I
6 hope -- does that answer your question?

7 **Q.** That does. Now we will move on to the pig.

8 **A.** Pig, I think I actually covered in one of my
9 interrogatories. But pig is not really an acronym. It
10 generically refers to any obstacle that we put in the
11 pipeline to propel down the pipeline for various
12 different reasons. For either cleaning purposes, for
13 internal inspections, for sizing to make sure that the
14 quality of the pipeline is maintained.

15 And we refer to one type of pig as a smart
16 pig, or an intelligent pig, which is actually a computer
17 that we will run through the pipeline periodically to
18 validate the integrity of the facilities and make sure
19 that there are no anomalies or coatings anywhere in the
20 system. It would be part of our normal operations to
21 make sure that we validate the integrity of those
22 facilities so that we never have any issues with them.

23 **MR. BUTLER:** Thank you, Mr. Collins.

24 That's all that I have.

25 **CHAIRMAN CARTER:** Okay. Exhibits.

1 **MR. BUTLER:** I would move the admission of
2 Exhibits 10, 11, and 12.

3 **CHAIRMAN CARTER:** Mr. Self?

4 **MR. SELF:** No objection.

5 **CHAIRMAN CARTER:** Without objection, show it
6 done.

7 (Exhibit Numbers 10, 11, and 12 admitted into
8 the record.)

9 **MR. BUTLER:** Mr. Collins does not have
10 rebuttal testimony, so I believe it would be appropriate
11 to excuse him at this point.

12 **CHAIRMAN CARTER:** Mr. Collins, this is your
13 lucky day.

14 Commissioner Skop.

15 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

16 Mr. Collins, I know that on Page 3 of your
17 prefiled testimony, CMC-3 provided a summary of the
18 costs. In terms of asking specific costs as to rate
19 impact when the proposed pipeline would go into service,
20 who would be the best witness, would it be you, or
21 witness -- I'm trying to pronounce his name.

22 **MR. BUTLER:** Enjamio.

23 **COMMISSIONER SKOP:** Yes.

24 **THE WITNESS:** Witness Enjamio.

25 **CHAIRMAN CARTER:** All right. Thank you.

1 Anything further from the bench?

2 Thank you, sir, and you are excused.

3 **MR. BUTLER:** Thank you, Mr. Chairman.

4 **CHAIRMAN CARTER:** Call your next witness.

5 **MR. PERKO:** Thank you, Mr. Chairman.

6 FPL calls Heather Stubblefield.

7 (Pause.)

8 **MR. PERKO:** Good afternoon, Ms. Stubblefield.

9 Have you been sworn?

10 **THE WITNESS:** I have not.

11 **CHAIRMAN CARTER:** Okay. Would you please
12 stand and raise your right hand.

13 (Witness sworn.)

14 **CHAIRMAN CARTER:** Thank you. Please be
15 seated.

16 **HEATHER C. STUBBLEFIELD**

17 was called as a witness on behalf of Florida Power and
18 Light, and having been duly sworn, testified as follows:

19 **DIRECT EXAMINATION**

20 **BY MR. PERKO:**

21 **Q.** And could you please state your full name and
22 business address for the record.

23 **A.** Yes. My name is Heather Stubblefield. My
24 business address is 700 Universe Boulevard, Juno Beach,
25 Florida 33408.

1 **Q.** By whom are you employed and in what capacity?

2 **A.** I am employed by Florida Power and Light
3 Company as Manager of Project Development.

4 **Q.** Ms. Stubblefield, did you prepare and have
5 occasion to file 18 pages of Direct Testimony in this
6 proceeding?

7 **A.** Yes, I did.

8 **Q.** And did you attach to that testimony three
9 exhibits labeled HCS-1, HCS-2, and HCS-3?

10 **A.** Yes.

11 **Q.** Did you prepare an errata for your testimony?

12 **A.** Yes, I did.

13 **Q.** And that was filed on July 24th?

14 **A.** Yes.

15 **Q.** Other than the changes indicated in your
16 errata, do you have any additional changes to your
17 testimony or exhibits?

18 **A.** No, I do not.

19 **Q.** If I were to ask you the questions in your
20 testimony today, would your answers be the same?

21 **A.** Yes, they would.

22 **MR. PERKO:** At this time, Mr. Chairman, I
23 would request that Ms. Stubblefield's Direct Testimony
24 be inserted into the record as though read.

25 **CHAIRMAN CARTER:** The prefiled testimony of

1 the witness will be inserted into the record as though
2 read.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2 **FLORIDA POWER & LIGHT COMPANY**3 **DIRECT TESTIMONY OF HEATHER C. STUBBLEFIELD**4 **DOCKET NO. 09 _____-EI**

5

6 **Q. Please state your name and address.**7 A. My name is Heather C. Stubblefield. My business address is Florida Power and
8 Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.9 **Q. By whom are you employed and what is your position?**10 A. I am employed by Florida Power & Light Company ("FPL" or the "Company")
11 as Manager of Project Development in the Energy Marketing and Trading
12 (EMT) Business Unit.13 **Q. Please summarize your educational background and professional**
14 **experience.**15 A. I graduated from Auburn University with a Bachelor of Arts degree in Business
16 Administration in 1986. I joined El Paso Corporation (formerly Sonat
17 Corporation) in 1988, where I held various positions in Human Resources,
18 Internal Auditing and the Sonat Marketing Company. In 2003, I joined FPL
19 Group Resources as the Director of Marketing for liquefied natural gas (LNG)
20 initiatives. In 2005, I transferred to the EMT Business Unit of FPL to support
21 project development activities.22 **Q. Please describe your duties and responsibilities as they relate to this docket.**23 A. In my current position, I am responsible for evaluating gas transportation
24 alternatives for FPL's generation expansions. This includes evaluating proposals

1 from pipeline companies, negotiating terms and conditions, and executing
2 transportation agreements that are in the best interest of FPL's customers.

3 **Q. Are you sponsoring any exhibits in this case?**

4 A. Yes. I am sponsoring the following exhibits which are attached to my direct
5 testimony:

- 6 • HCS-1 FPL's Solicitation Letter
- 7 • HCS-2 Summary of Company B, Company E and FPL Florida
8 EnergySecure Line Transportation Rates (Confidential)
- 9 • HCS-3 Letter of Intent with Company E (Confidential)

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to present and explain the natural gas
12 transportation solicitation process that FPL used to solicit proposals for gas
13 transportation to meet, at a minimum, its gas requirements for the Cape
14 Canaveral Next Generation Clean Energy Center (CCEC) and the Riviera Beach
15 Next Generation Clean Energy Center (RBEC) modernization projects and to
16 describe the results of that solicitation process.

17
18 Please note that for purposes of my testimony one (1) million cubic feet per day
19 (MMcf/d) equals 1,000 million British thermal units (Btu) per day (MMBtu/d),
20 assuming a heat content of 1,000 Btu per cubic foot of natural gas. In my
21 testimony, I refer to quantities of gas transportation in MMcf/d and refer to gas
22 transportation costs in dollars per MMBtu/d which is the industry standard unit
23 for expressing gas transportation costs.

1 **Q. Please summarize your testimony.**

2 A. FPL initiated a solicitation process to determine the best transportation
3 alternative to meet the needs of FPL's CCEC and RBEC modernization projects.
4 The process consisted of issuing a Solicitation Letter to seven pipeline
5 companies capable of providing the transportation services that FPL required.
6 FPL initially requested that the respondents consider three potential pipeline
7 alternatives for quantities of 400 MMcf/d, 800 MMcf/d and 1.0 billion cubic feet
8 per day (Bcf/d). FPL followed up the initial solicitation with an additional
9 request that the respondents submit proposals for a quantity of 600 MMcf/d.
10 The first pipeline alternative (Interstate Pipeline) was based on the respondent
11 developing a new pipeline or upgrading an existing pipeline from
12 Transcontinental Pipe Line Company's (Transco) compressor station No. 85 in
13 Choctaw County, Alabama (Transco Station 85) to FPL's CCEC and RBEC
14 facilities. The second alternative (Upstream Pipeline Segment) allowed the
15 parties to submit a proposal based on providing only the segment of the pipeline
16 needed to deliver gas from Transco Station 85 to Florida Gas Transmission,
17 LLC's (FGT) compressor station No. 16 in Bradford County, Florida (FGT
18 Station 16). The third alternative (Florida Pipeline Segment) identified in the
19 solicitation was based on the respondent providing only the segment of the
20 pipeline needed to deliver gas from FGT Station 16 to FPL's CCEC and RBEC
21 facilities. The Solicitation Letter also informed respondents of FPL's intentions
22 to develop an intrastate pipeline as an alternative to the third party proposals.
23 The segments proposed under this alternative could be combined with proposals

1 received from respondents on the Upstream Pipeline Segment to develop a total
2 pipeline project for comparison purposes.

3
4 The Solicitation Letter resulted in a significant number of proposals. Due to
5 various factors, FPL elected to focus on the proposals for 400 MMcf/d and
6 600 MMcf/d. FPL ranked the various proposals and then conducted a life-cycle
7 economic analysis of the two lowest cost proposals to determine which solution
8 offered the lowest cost to customers. The results of FPL's analysis, as confirmed
9 by the independent analysis of FPL witness Sexton, indicated that the pipeline
10 alternative that provided the lowest life-cycle cost to the customer and the
11 greatest supply diversity was a combined project which included an Upstream
12 Pipeline Segment proposed by a third party natural gas transmission company,
13 referred to as Company E for confidentiality purposes (Upstream Pipeline
14 Project), and a Florida Pipeline Segment proposed by FPL (Florida
15 EnergySecure Line).

16 **Q. Please explain the process FPL used to solicit proposals for natural gas**
17 **transportation alternatives for the CCEC and RBEC modernization**
18 **projects.**

19 A. FPL prepared a Solicitation Letter that was distributed to a number of pipeline
20 providers in the Southeast requesting gas transportation proposals to supply
21 FPL's CCEC and RBEC facilities. The Solicitation Letter outlined several
22 requirements but gave respondents the discretion to propose multiple and
23 alternative solutions to meet FPL's objectives. FPL's intent was to meet the gas

1 supply needs of CCEC and RBEC, including the baseload hourly delivery
2 requirements, to provide for increased reliability and supply diversity and to
3 allow for future generation growth in FPL's gas transportation portfolio. The
4 Solicitation Letter was issued on July 17, 2008 and requested that firm proposals
5 be submitted by September 2, 2008. The letter explained that the proposals
6 would be evaluated on overall economics including the value of the supply
7 diversity and delivery flexibility of each project. All prospective respondents
8 were encouraged to contact FPL with any questions regarding the Solicitation
9 Letter and there was significant interaction between FPL and the respondents
10 throughout the solicitation process. The process was sufficiently structured to
11 allow the respondents to understand FPL's needs and receive all the information
12 necessary to prepare their responses, which resulted in a significant number of
13 proposals.

14 **Q. Please describe the different scenarios requested by FPL in the Solicitation**
15 **Letter.**

16 A. To support FPL's desire to access unconventional onshore natural gas supplies,
17 the Company requested that all parties propose a pipeline project that would
18 provide access to natural gas supplies at Transco Station 85. As discussed by
19 FPL witness Sharra, FPL identified Transco Station 85 as the best location to
20 provide access to new natural gas supplies. The Solicitation Letter also informed
21 the respondents that FPL was considering development of an intrastate pipeline
22 (which was later designated the Florida EnergySecure Line) capable of receiving
23 gas at or near FGT Station 16. FPL asked the parties to consider responding to

1 at least one of three pipeline alternatives, but also indicated it was open to
2 evaluating other viable alternatives which might be suggested by the
3 respondents.

4
5 **Interstate Pipeline:** The first pipeline alternative was based on the respondent
6 developing a new pipeline or upgrading an existing pipeline from Transco
7 Station 85 to FPL's CCEC and RBEC facilities. Under this scenario, the
8 respondent could propose a new pipeline originating at Transco Station 85 with
9 delivery capabilities to both CCEC and RBEC. A respondent could also propose
10 an expansion of an existing pipeline system that would allow FPL to access
11 Transco Station 85 with delivery capabilities to CCEC and RBEC.

12
13 **Upstream Pipeline Segment:** The second alternative allowed the parties to
14 submit a proposal based on providing only the segment of the pipeline needed to
15 deliver gas from Transco Station 85 to FGT Station 16. This segment could be
16 combined with other proposals to create a total pipeline project capable of
17 delivering gas from Transco Station 85 to CCEC and RBEC. The proposal
18 could be based on construction of a new pipeline system or an expansion of an
19 existing pipeline system.

20
21 **Florida Pipeline Segment:** The third alternative identified in the solicitation
22 was based on the construction of a new pipeline or the upgrade of an existing
23 pipeline from FGT Station 16 to FPL's CCEC and RBEC facilities. This

1 segment could be combined with proposals received from respondents on the
2 Upstream Pipeline Segment to develop a total pipeline project for comparison
3 purposes.

4
5 In addition, FPL requested respondents consider three different quantity
6 scenarios. FPL requested proposals for 1.0 Bcf/d, 800 MMcf/d and
7 400 MMcf/d. FPL subsequently went back to all of the parties soon after the
8 proposals were received and requested additional proposals based upon a
9 600 MMcf/d scenario, which were provided to FPL by the parties. All proposals
10 were based on the parties having the facilities in service by 2012 or 2013.

11 **Q. Why did FPL go back to the respondents and request additional proposals**
12 **based on a 600 MMcf/d scenario?**

13 A. There were two reasons FPL requested 600 MMcf/d proposals. First, as
14 discussed by FPL witness Morley, FPL was revising the load forecast
15 downward. This resulted in FPL shifting the focus of the solicitation analysis
16 away from the higher quantity scenarios (1.0 Bcf/d and 800 MMcf/d) to the 600
17 MMcf/d and 400 MMcf/d scenarios. Second, FPL received proposals from only
18 a few parties for the initial 400 MMcf/d scenario requested in the Solicitation
19 Letter. Our goal was to increase the pool of responses and to determine the
20 minimum quantity that would be required by the respondents to propose a new
21 pipeline into Florida which could enhance the state's gas transportation
22 infrastructure and increase reliability.

1 **Q. What did FPL determine to be the minimum quantity required to support**
2 **proposals for new pipeline infrastructure into Florida?**

3 A. It was clear from our discussions with the respondents that a minimum quantity
4 of 600 MMcf/d would be necessary for a pipeline company to commit to build
5 new pipeline infrastructure into Florida. We made every attempt to work with
6 the parties to determine if a smaller quantity would be feasible, but all the
7 smaller scale projects resulted in significantly higher transportation costs. In
8 addition, as discussed by FPL witness Sharra, FPL determined that a 30-inch
9 diameter pipeline with an initial capacity of 600 MMcf/d was the optimum size
10 to meet current transportation capacity requirements while providing the
11 capability to economically increase capacity through the addition of
12 compression.

13 **Q. Did all parties who received a Solicitation Letter submit proposals?**

14 A. Yes. All seven parties who received a Solicitation Letter submitted proposals.
15 FPL received numerous proposals for all the volume scenarios as well as
16 multiple proposals on the Interstate Pipeline, the Upstream Pipeline Segment and
17 the Florida Pipeline Segment.

18 **Q. Please summarize the bids received.**

19 A. **Interstate Pipeline:** FPL received proposals from two companies that were
20 proposing a new interstate pipeline or an expansion of an existing pipeline
21 capable of receiving gas at Transco Station 85 and delivering gas to CCEC and
22 RBEC. The proposals ranged from 400 MMcf/d to 1.0 Bcf/d. In addition, two
23 companies submitted proposals that did not conform to the Solicitation Letter

1 because they did not provide reasonably direct access to Transco Station 85.

2

3 **Upstream Pipeline Segment:** FPL received proposals from three companies
4 for the Upstream Pipeline Segment for volumes ranging from 400 MMcf/d to
5 1.5 Bcf/d. In addition, two companies submitted proposals that did not conform
6 to the Solicitation Letter because they did not provide reasonably direct access to
7 Transco Station 85.

8

9 **Florida Pipeline Segment:** In addition to the FPL proposal, FPL received
10 proposals from two companies for the Florida Pipeline Segment. One of these
11 proposals was not considered in the final analysis because FPL was not
12 satisfied that the respondent's cost estimates were consistent with current
13 market conditions. As a result, since the respondent's proposal was based
14 upon these underlying cost estimates, FPL was not convinced that the
15 transportation rate included in the proposal provided a reasonable comparison
16 versus the transportation rates received from other respondents. In addition,
17 this proposal did not include, and the respondent was not willing to provide, a
18 firm transportation rate as requested in the Solicitation Letter and follow-up
19 discussions. Rather, the ultimate transportation rate payable by FPL under
20 this proposal would only be finalized after construction based upon actual
21 costs of project installation. As such, FPL was unwilling to consider this
22 proposal in the final analysis.

1 **Additional Proposals:** FPL also received a number of alternative
2 proposals for consideration.

3 **Q. How did FPL address the issue of non-conforming proposals?**

4 A. FPL received proposals from two companies that did not conform to FPL's
5 request in the Solicitation Letter that the primary receipt point for an Interstate
6 Pipeline proposal or an Upstream Pipeline Segment proposal be located at or
7 near Transco Station 85. This supply point was specifically chosen by FPL to
8 ensure access to onshore natural gas supply. FPL requested the applicable
9 respondents consider revising their proposals to include the incremental cost of
10 extending their proposed pipeline to Transco Station 85, but the respondents
11 declined to resubmit proposals to include this cost. In order to include these
12 proposals in the evaluation, FPL adjusted these proposals to include the
13 estimated incremental cost of accessing Transco Station 85. This cost estimate
14 was based on analysis performed by FPL witness Sexton and confirmed through
15 discussions with a pipeline company with existing infrastructure in the area. As
16 presented in FPL witness Sexton's testimony, the cost assessed to the non-
17 conforming proposals consisted of an incremental \$0.20 per MMBtu/d, which
18 was added as a demand charge, and incremental fuel retention of 0.3% to reflect
19 fuel usage on these facilities.

20 **Q. How did FPL begin the evaluation process?**

21 A. FPL reviewed the proposals individually and then met with each of the
22 respondents to discuss the proposals submitted in order to clarify any
23 outstanding questions. During these discussions, FPL's main goal was to

1 determine the firmness of the proposal, specifically the willingness of the
2 respondent to quote a fixed demand charge not subject to future adjustments.
3 These discussions were an important part of the process and allowed the parties
4 to provide follow-up information to be sure that FPL clearly understood the
5 proposals and could accurately evaluate them.

6 **Q. Did all parties submit a firm gas transportation price as requested by the**
7 **Solicitation Letter?**

8 A. No. In fact, all parties submitted proposals subject to various types of
9 adjustment or true-up factors. The respondents were unwilling to quote a firm
10 demand charge well in advance of ordering materials and hiring contractors.
11 FPL was, however, able to convince several of the respondents to commit to a
12 fixed demand charge subject only to a steel price tracker. This limited FPL's
13 exposure to a commodity risk (steel cost) that could be easily monitored and
14 locked-in once the order for pipe had been placed. The steel price tracker
15 mechanism significantly limited the risk compared to the potential price
16 adjustments originally proposed by many of the parties.

17 **Q. What analysis did FPL perform to determine the best gas transportation**
18 **alternative?**

19 A. FPL took the individual proposals submitted by the respondents and sorted them
20 into categories based on quantity and pipeline alternative (Interstate Pipeline,
21 Upstream Pipeline Segment, Florida Pipeline Segment) proposed. Proposals that
22 did not conform to the Solicitation Letter were put into a separate category to be
23 analyzed. FPL then analyzed the various components of each proposal to

1 determine an overall cost per MMBtu/d. All parties proposed transportation
2 rates based on a demand charge (subject to some type of adjustment or true-up
3 factor) and a variable charge comprised of a fuel charge and, if applicable, a
4 usage or transportation charge. For the initial analysis, these costs were
5 uniformly evaluated assuming a 100% load factor and an estimated natural gas
6 cost of \$8.50 per MMBtu/d which was used to calculate the fuel charge. Once
7 FPL determined a total cost per MMBtu/d for each proposal, the proposals
8 within each category were compared to determine the lowest cost alternative for
9 each quantity and pipeline alternative (Interstate Pipeline, Upstream Pipeline
10 Segment and Florida Pipeline Segment) proposed.

11 **Q. How did FPL evaluate the Florida EnergySecure Line proposal for the**
12 **Florida Pipeline Segment?**

13 A. FPL calculated the annual revenue requirements for the Florida Pipeline
14 Segment based on FPL's estimate of the cost of the Florida EnergySecure Line
15 proposal. The annual revenue requirements were then converted to a fixed cost
16 per MMBtu/d by dividing the annual revenue requirements by the annual
17 quantity of natural gas for each year (600 MMcf/d multiplied by 365 days for
18 year one). The variable cost per MMBtu/d was calculated based on the fuel rate
19 of the Florida EnergySecure Line, which was evaluated using the same
20 methodology utilized to calculate the variable costs for all of the other proposals.
21 Once the cost of the Florida EnergySecure Line was converted to a total cost per
22 MMBtu/d, the Florida EnergySecure Line could then be compared with the other
23 proposals.

1 **Q. What were the initial results of the solicitation analysis?**

2 A. The analysis focused on only those proposals for quantities of 600 MMcf/d and
3 400 MMcf/d, based on FPL's reduced gas transportation needs under the load
4 growth forecast presented by FPL witness Morley. For the Interstate Pipeline
5 alternative, a proposal by one of the respondents, referred to as Company B for
6 confidentiality purposes, for 400 MMcf/d or 600 MMcf/d provided the lowest
7 transportation costs to serve CCEC and RBEC. For the Upstream Pipeline
8 Segment from Transco Station 85 to FGT Station 16, Company E's proposed
9 Upstream Pipeline Project provided the lowest transportation cost for 600
10 MMcf/d. For the Florida Pipeline Segment from FGT Station 16 to CCEC and
11 RBEC, the FPL proposal, the Florida EnergySecure Line, provided the lowest
12 transportation cost for 600 MMcf/d. None of the proposals for 400 MMcf/d was
13 designed to bring new pipeline infrastructure into the state and allow access to
14 supplies at Transco Station 85. A summary of the Company B, Company E and
15 the FPL Florida EnergySecure Line gas transportation costs is provided as
16 Confidential Exhibit HCS-2.

17

18 Once it was determined that Company B provided the lowest overall cost
19 alternative for the required 400 MMcf/d, FPL focused on comparing the
20 Company B proposal to the combined Upstream Pipeline Project (Upstream
21 Pipeline Segment) and the Florida EnergySecure Line (Florida Pipeline
22 Segment) proposal to determine which pipeline solution offered the lowest cost
23 to customers when evaluated over the life-cycle of the project.

1 **Q. How did FPL determine which of the two proposals offered the lowest cost**
2 **to customers?**

3 A. For each of the two proposals FPL calculated the annual gas transportation costs
4 necessary to meet all the gas requirements for FPL's long-term resource plan, as
5 well as two alternate resource plans. The development of FPL's long-term
6 resource plans is described in the testimony of FPL witness Enjamio. The first
7 proposal, which includes the Upstream Pipeline Project and the Florida
8 EnergySecure Line, consists of two cost components: (1) revenue requirements
9 associated with FPL's Florida EnergySecure Line (including applicable fuel
10 retention) and (2) gas transportation costs and applicable fuel retention
11 (Upstream Pipeline Segment and future pipeline expansions required to supply
12 gas to the resource plan through the life of the study). The annual revenue
13 requirements include the cost of the Florida EnergySecure Line as initially
14 configured as well as the cost of additional compression required to boost the
15 capacity of the Florida EnergySecure Line to a maximum capacity of
16 1.25 Bcf/day. The gas transportation costs for the Company B proposal include
17 Company B's annual gas transportation charges (including applicable fuel
18 retention) that will be required to supply gas required by the resource plan
19 through the life of the study.

20
21 FPL witness Enjamio describes how the gas transportation costs for both
22 transportation alternatives, for each of the three resource plans, are incorporated
23 into an overall economic evaluation of both alternatives, resulting in the

1 Cumulative Present Value of Revenue Requirements (CPVRR) and the
2 estimated impact on the average customer bill.

3 **Q. Did FPL evaluate future benefits of the proposals other than cost?**

4 A. Yes. One of the important aspects of the solicitation was to determine if there
5 was an alternative that would allow FPL to access future gas transportation
6 capacity at rates that would be beneficial to our customers. For example, if FPL
7 could support a new pipeline project into Florida, could there be future benefits
8 through reduced pricing for expansions. The existing pipelines in Florida have
9 reached the point that future expansions require extensive facility upgrades that
10 result in increasingly higher transportation costs. As discussed in the testimony
11 of FPL witness Sharra, a new pipeline can be designed in a way that would
12 allow for a certain amount of future expansion at relatively inexpensive pricing.

13 **Q. What recommendation resulted from the solicitation?**

14 A. The Upstream Pipeline Project and the Florida EnergySecure Line combined
15 proposal was the recommended natural gas transportation alternative to serve
16 CCEC and RBEC. This recommendation was based on the following factors.
17 First, the Upstream Pipeline Project and the Florida EnergySecure Line
18 combined proposal provide the lowest cost to customers when evaluated over the
19 life of the project. As presented in the testimony of FPL witness Enjamio and
20 independently corroborated by FPL witness Sexton, the total savings to
21 customers over the 40 year life of the project is estimated to be \$204 to \$513
22 million (CPVRR).

1 In addition, the combined project provides for new pipeline infrastructure in
2 Florida, which will increase the reliability of FPL's gas deliveries. The new
3 pipeline also provides added diversity of supply, in the form of direct access to
4 onshore natural gas supply sources via Transco Station 85. Even though the
5 Company B proposal had the lowest overall initial transportation costs and
6 would meet the immediate needs of CCEC and RBEC, the proposal Company B
7 submitted did not allow for direct access to onshore natural gas supplies via
8 Transco Station 85 (without the addition of additional facilities by either
9 Company B or another pipeline) and would not be able to meet FPL's future
10 growth needs without further expansions. FPL has seen pipeline expansion costs
11 increase significantly over the past few years (e.g., the lowest cost proposal
12 submitted in the solicitation in response to the Interstate Pipeline alternative
13 reflects approximately a 50% increase in demand charge when compared to the
14 demand charge FPL was able to secure under our last transportation agreement
15 executed in early 2008). Given FPL's analysis of these rising expansion
16 transportation costs and the need to continue to increase the reliability of FPL's
17 gas transportation portfolio, the Upstream Pipeline Project and the Florida
18 EnergySecure Line combined project was determined to be the best solution to
19 meet FPL's current and future gas transportation needs. The combined project
20 will also provide additional competition for natural gas transportation within the
21 state that should provide for lower future pricing for all Florida natural gas
22 transporters.

1 **Q. Did FPL also have a third party evaluate the proposals?**

2 A. Yes. FPL engaged Mr. Tim Sexton of Gas Supply Consulting, Inc. to review the
3 results of the analysis. Mr. Sexton is providing testimony analyzing and
4 confirming the results of FPL's conclusion that the combined Upstream Pipeline
5 Project/Florida EnergySecure Line proposal is the best alternative available to
6 meet FPL's future gas needs.

7 **Q. Please describe FPL's planned transportation agreement with Company E**
8 **to serve the Florida EnergySecure Line.**

9 A. FPL has executed a Letter of Intent (LOI) with Company E to negotiate a
10 Precedent Agreement based upon the proposal submitted by Company E in
11 response to the Solicitation Letter. The LOI is attached as Confidential Exhibit
12 HGS-3. It expresses FPL's and Company E's intent to negotiate a Precedent
13 Agreement on or before October 1, 2009 that would provide for 600 MMcf/d of
14 gas transportation from Transco Station 85 to be delivered to the Florida
15 EnergySecure Line at FGT Station 16, beginning on January 1, 2014. The
16 agreement will provide for the necessary access to natural gas supply and
17 delivery rights required to deliver natural gas into the Florida EnergySecure
18 Line. The agreement will be similar to FPL's current firm transportation
19 agreements with FGT and Gulfstream, and FPL would request recovery of all
20 costs associated with the firm transportation on the Upstream Pipeline Project
21 through the Fuel Cost Recovery Clause.

1 **Q. Did FPL receive any additional proposals which it was unable to include in**
2 **the final analysis?**

3 A. Yes. FPL received an additional proposal from one of the respondents while
4 FPL was in the process of finalizing the economic analysis and testimony
5 preparation. This proposal was an unsolicited update from the company that had
6 submitted the next-best alternative (Company B), which would result in a lower
7 proposed gas transportation charge. Based on prior commercial dealings, FPL is
8 skeptical that Company B could or would actually deliver gas at the newly
9 reduced charge. However, even if Company B were willing and able to do so,
10 FPL estimates that the Florida EnergySecure Line/Upstream Pipeline Project
11 proposal would remain the most beneficial alternative for FPL's customers.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

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
 Served: July 24, 2009

ERRATA SHEET

DIRECT TESTIMONY OF HEATHER C. STUBBLEFIELD

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
9	3	Replace "three" with "four"

Respectfully submitted this 24th day of July, 2009.

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1

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FPSC-COMMISSION CLERK

1 **BY MR. PERKO:**

2 Q. Ms. Stubblefield, could you please provide
3 your summary.

4 A. Yes. Good afternoon, Chairman Carter and
5 Commissioners. The purpose of my testimony is to
6 explain the process that FPL used to solicit proposals
7 for gas transportation to meet, at a minimum, the gas
8 requirements of the Cape Canaveral next generation clean
9 energy center and the Riveria Beach next generation
10 clean energy center modernization projects, and to
11 describe the results of that solicitation process.

12 The solicitation process consisted of issuing
13 a solicitation letter to seven pipeline companies
14 capable of providing the transportation services that
15 FPL required. FPL requested that the respondents
16 consider three potential pipeline alternatives and a
17 number of volume scenarios.

18 The first pipeline alternative designated the
19 interstate pipeline alternative was based on the
20 respondent developing a new pipeline or upgrading an
21 existing pipeline from Transcontinental Pipeline
22 Company's, or Transco's, Compressor Station Number 85 in
23 Chocktaw County, Alabama, to FPL's modernization
24 projects.

25 The second alternative designated the upstream

1 pipeline segment allowed the parties to submit a
2 proposal based on providing only the segment of the
3 pipeline needed to deliver gas from Transco Station 85
4 to Florida Gas Transportation, or FGT's Compressor
5 Station Number 16 in Bradford County, Florida.

6 The third alternative, designated the Florida
7 pipeline segment, was based on the respondent providing
8 only the segment of the pipeline needed to deliver gas
9 from FGT's Station 16 to FPL's modernization projects.

10 The solicitation letter also informed
11 respondents of FPL's intentions to develop an intrastate
12 pipeline as an alternative to the third-party proposals.
13 The solicitation letter resulted in a significant number
14 of proposals.

15 Due to various factors, FPL elected to focus
16 on the proposals for 400 and 600 million cubic feet per
17 day. FPL evaluated the various proposals to determine
18 the lowest cost proposed for each of the three pipeline
19 scenarios. FPL then conducted a life cycle economic
20 analysis to determine which proposal, either the
21 interstate pipeline proposal, or a combined upstream
22 pipeline segment, Florida pipeline segment proposal
23 resulted in the lowest cost to customers.

24 The results of FPL's analysis as confirmed by
25 the independent analysis of FPL Witness Sexton indicated

1 that the proposal that provided the lowest life cycle
2 cost to the customer and the greatest supply diversity
3 was a combined project which included an upstream
4 pipeline segment proposed by a third-party natural gas
5 transmission company referred to as Company E for
6 confidentiality purposes and the Florida EnergySecure
7 Line proposed by FPL.

8 **MR. BUTLER:** We tender the witness for
9 cross-examination.

10 **CHAIRMAN CARTER:** Thank you.

11 Mr. Self.

12 **MR. SELF:** Thank you, Mr. Chairman.

13 **CROSS EXAMINATION**

14 **BY MR. SELF:**

15 **Q.** Good afternoon, Ms. Stubblefield. I'm Floyd
16 Self representing FGT, and I've got a couple of
17 questions about your testimony.

18 As I understand the process, the solicitation
19 process really began in early 2008, is that correct?

20 **A.** That is correct.

21 **Q.** And at that time FPL was looking forward to
22 obtaining transportation both for the Cape Canaveral and
23 Riveria Beach modernization projects, as well as for two
24 new greenfield power plants that were anticipated in the
25 2015 to 2017 time frame, is that correct?

1 **A.** Correct. The solicitation letter provided a
2 number of volume scenarios including 400, 800, and a
3 Bcf.

4 **Q.** And that was because you were contemplating
5 potentially four plants being served?

6 **A.** Correct.

7 **Q.** And, in fact, in FPL's 2008 Ten-Year Site
8 Plan, it does, in fact, list these two new greenfield
9 plants for the 2015 to 2017 time period, correct?

10 **A.** Correct.

11 **Q.** And at the time that the formal letters
12 inviting responses to FPL's solicitation were sent out
13 in July of 2008, at that time FPL was still
14 contemplating transportation for, again, the Cape and
15 Riviera Plant projects as well as the two new greenfield
16 plants, correct?

17 **A.** Correct.

18 **Q.** Now, subsequent to the issuance of those
19 July 2008 solicitation letters, you became aware that
20 the load forecasts were being reduced, is that true?

21 **A.** That is correct.

22 **Q.** And, in fact, in the subsequent 2009 Ten-Year
23 Site Plan, those two new greenfield power plants that
24 had been in the 2008 site plan are not in the 2009 site
25 plan, correct?

1 **A.** Correct.

2 **Q.** Now, I believe as a consequence of those lower
3 load forecasts you made a follow-up request to the
4 solicitation respondents that you discuss at Page 3 of
5 your direct testimony, is that correct?

6 **A.** That is correct.

7 **Q.** Now, by eliminating the two new power plants,
8 in terms of the solicitation process, the unmet
9 transportation need that you had at that point was just
10 for the Cape and Riveria plants, correct?

11 **A.** That's correct, for 400 million cubic feet per
12 day.

13 **Q.** All right. And notwithstanding the fact that
14 you only needed 400 million cubic feet a day for the
15 Cape and Riveria plants, nevertheless in the follow-up
16 solicitation that you did you were still asking for
17 600 million cubic feet, correct?

18 **A.** Right. As I stated in my testimony, one of
19 the purposes for going back and requesting the 600 a day
20 alternative was to see potentially what parties may be
21 willing to propose for new infrastructure. When we
22 received the original proposals from the respondents,
23 there was no party who was willing to propose new
24 infrastructure into the state for a quantity of only 400
25 a day. So it was important to us to see potentially,

1 since we had asked for 800 in a Bcf to see if, perhaps,
2 a 600 scenario would allow for new infrastructure to be
3 brought in the state. The feedback we got from the
4 respondents was if we could increase it to that level
5 that we would get more interest in bringing the new
6 infrastructure in, so we pursued the 600 alternative.

7 Q. And by the new infrastructure, you are talking
8 about a pipeline that would not be provided by one of
9 the incumbent pipeline companies that currently serve
10 FPL?

11 A. No, it could be provided by one of the
12 incumbent pipelines. We just wanted a new distinct
13 pipeline system or route. So one of the existing
14 pipeline companies could have proposed a project that
15 brought new infrastructure in in addition to their
16 existing infrastructure. But, again, we were trying to
17 see what we could do to bring new infrastructure into
18 the state of Florida.

19 Q. Now, as I understand from some of the other
20 witnesses, the fact that you only needed 400 million
21 cubic feet a day for the Cape and Riveria Plants leaves
22 you with this 200 million in excess capacity, correct?

23 A. I would like to clarify that point slightly.
24 We talk about the excess 200. In reality there is
25 benefit to the customers of that 200. What the dispatch

1 model will show and Witness Enjamio can describe more
2 fully is that on a daily basis that incremental 200 has
3 a lower variable cost than our existing capacity on FGT.

4 So in reality that 200 does have benefit to
5 the customer because it will be dispatched. So we will
6 be using the full 600 and we will have excess 200 left
7 on FGT at a higher variable cost.

8 Q. But that's in Mr. Enjamio's testimony,
9 correct?

10 A. Well, he can further explain what that cost
11 is, but that is how the model showed how the dispatch
12 would work with the various pipelines.

13 Q. That's not your model, correct?

14 A. No, Mr. Enjamio does the modeling for FPL.

15 MR. SELF: Okay. Mr. Chairman, I have no
16 further questions. Thank you.

17 CHAIRMAN CARTER: Thank you, Mr. Self. Staff.

18 MS. BROWN: We have no questions.

19 CHAIRMAN CARTER: Commissioner Skop, you're
20 recognized.

21 COMMISSIONER SKOP: Thank you.

22 Good afternoon, Ms. Stubblefield.

23 THE WITNESS: Good afternoon.

24 COMMISSIONER SKOP: I just wanted to draw your
25 attention to Page 3 of your prefiled testimony where it

1 discusses the various options that were contained in the
2 solicitation letter that was issued on July 17, 2008.
3 And I guess the third alternative on Lines 18 through
4 20 provides for a solicitation providing a segment from
5 FGT Station 16 to the respective modernization plants,
6 is that correct?

7 **THE WITNESS:** Correct.

8 **COMMISSIONER SKOP:** Okay. Now, also beginning
9 on Lines 21 through 22 it also stated in the
10 solicitation letter that respondents were informed of
11 FPL's intention to develop an interstate pipeline as an
12 alternative third-party proposal. Is that also correct?

13 **THE WITNESS:** That is correct.

14 **COMMISSIONER SKOP:** Okay. I guess the
15 question I have is in the need determination for the
16 modernization plants, and I guess your prefiled
17 testimony was filed on April 30th, 2008, at that time
18 was FPL contemplating an intrastate pipeline?

19 **THE WITNESS:** No, we were not contemplating it
20 at that time, as far as I can recall. Although I
21 believe it was in my testimony that we were trying to
22 introduce new infrastructure into the state.

23 **COMMISSIONER SKOP:** Right. And you mentioned
24 on Page 3 of that testimony alternatives could include
25 the addition of a new interstate pipeline.

1 **THE WITNESS:** Right.

2 **COMMISSIONER SKOP:** But, again, what somewhat
3 caught me by surprise was trying to ascertain where the
4 intrastate pipeline idea originated from in the temporal
5 time frame under which the prior need determination and
6 the current proceeding before us. So, again, I just
7 wanted to clarify that point that apparently this
8 happened after your testimony was filed and concurrent
9 with the Commission's determination of need for those
10 two modernization projects, is that your understanding?

11 **THE WITNESS:** That's correct.

12 **COMMISSIONER SKOP:** All right. Thank you.

13 **CHAIRMAN CARTER:** Thank you, Commissioner
14 Skop.

15 Commissioners, anything further from the
16 bench?

17 Redirect.

18 **MR. PERKO:** No redirect.

19 **CHAIRMAN CARTER:** Okay. Exhibits.

20 **MR. PERKO:** Excuse me, Commissioner.

21 **CHAIRMAN CARTER:** It would be 34 through 36.

22 **MR. PERKO:** That is correct.

23 **CHAIRMAN CARTER:** Okay. And you are moving
24 them into evidence. Any objections?

25 **MR. SELF:** No objections.

1 **CHAIRMAN CARTER:** Without objection, show it
2 done.

3 (Exhibit Number 34, 35, and 36 admitted into
4 the record.)

5 **CHAIRMAN CARTER:** Commissioners, we have
6 entered in Exhibits 34, 35, and 36. Thank you.

7 Now, do we have a recess or is she coming
8 back? For the witness, do I put her on recess?

9 **THE WITNESS:** I have no rebuttal testimony.

10 **MR. PERKO:** She does not have rebuttal.

11 **CHAIRMAN CARTER:** Well, you got a
12 get-out-of-jail-free card, then.

13 **THE WITNESS:** I do. Thank you.

14 **CHAIRMAN CARTER:** Have a great day.

15 **THE WITNESS:** Thank you.

16 **CHAIRMAN CARTER:** Call your next witness.

17 **MR. PERKO:** FPL calls Juan Enjamio.

18 **MR. PERKO:** Mr. Chairman, I do not believe
19 that Mr. Enjamio was sworn.

20 **CHAIRMAN CARTER:** Have you been sworn in?

21 **THE WITNESS:** No, I have not.

22 **CHAIRMAN CARTER:** Would you please raise your
23 right hand.

24 (Witness sworn.)

25 **JUAN ENJAMIO**

1 was called as a witness on behalf of Florida Power and
2 Light, and having been duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 BY MR. PERKO:

5 Q. Could you please state your full name and
6 business address for the record?

7 A. Yes. My name is Juan Enjamio. My business
8 address is 9250 West Flagler Street, Miami, Florida
9 33174.

10 Q. Did you prepare and have submitted in this
11 docket direct testimony consisting of 24 pages?

12 A. Yes, I did.

13 Q. Have you filed an errata pertaining to your
14 testimony on July 24th?

15 A. Yes, I did.

16 Q. Other than the changes indicated in your
17 errata, do you have any changes to your testimony?

18 A. No, I do not.

19 Q. And did you also attach exhibits to your
20 testimony?

21 A. Yes, I did.

22 Q. Does your errata include any changes to those
23 exhibits?

24 A. No.

25 **CHAIRMAN CARTER:** With that, Your Honor -- or,

1 Mr. Chairman, I would ask that -- I'm sorry, one more
2 question.

3 **BY MR. PERKO:**

4 Q. Mr. Enjamio, if I were to ask you the same
5 questions in your testimony today, would your answers be
6 the same?

7 A. Yes, they would.

8 **MR. PERKO:** With that, Mr. Chairman, I would
9 request that Mr. Enjamio's testimony be inserted into
10 the record as though read.

11 **CHAIRMAN CARTER:** The prefiled testimony of
12 the witness will be inserted into the record as though
13 read.

14 And just for identification purposes,
15 Commissioners, on the exhibit list for this witness is
16 37 through 45 for identification purposes. Is that
17 correct, staff?

18 **MS. BROWN:** (Indicating affirmatively.)

19 **CHAIRMAN CARTER:** Thank you. Commissioner
20 Skop.

21 **COMMISSIONER SKOP:** Thank you. Just on that
22 errata, I just wanted to ask FPL's counsel perhaps they
23 could ask the witness on Page 23 of the prefiled
24 testimony reference is made to Witness Sexton's proposed
25 cumulative present value revenue requirement and the

1 savings that would occur by using the pipeline over
2 other alternatives. And I'm contrasting that to
3 different numbers in the rebuttal of Timothy Sexton on
4 Page 7, Lines 6 through 7. It seems to be -- and I
5 don't know if it's an apple-to-apple comparison, but I
6 just wanted to make sure I'm looking at the right
7 numbers.

8 If it helps, I think that Mr. Sexton's revised
9 numbers were on the updated gas cost savings analysis,
10 and maybe those were not adopted in the direct testimony
11 here. So I just wanted to kind of clarify which those
12 two numbers are right, if they are apple-to-apple
13 numbers.

14 **CHAIRMAN CARTER:** Mr. Butler.

15 **MR. BUTLER:** I'm afraid you have stumped me
16 for the moment. I'm going to have to check into it.
17 Can I confirm that for you during the next break?

18 **COMMISSIONER SKOP:** That's fine. Thank you.

19 **MR. BUTLER:** Thank you.

20 **CHAIRMAN CARTER:** Mr. Butler, you are supposed
21 stump the band, not stump the lawyer.

22 **MR. BUTLER:** Every so afternoon it happens.
23 Sorry.

24 **CHAIRMAN CARTER:** Okay. Do you want to take a
25 moment or can we proceed? We will proceed and you can

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do that on a break. You may proceed, Mr. Perko.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF JUAN E. ENJAMIO**

4 **DOCKET NO. 09 _____-EI**

5
6 **Q. Please state your name and business address.**

7 A. My name is Juan E. Enjamio. My business address is Florida Power & Light
8 Company, 9250 West Flagler Street, Miami, Florida 33174.

9 **Q. By whom are you employed and what is your position?**

10 A. I am employed by Florida Power & Light Company ("FPL" or the
11 "Company") as Supervisor of Integrated Analysis in the Resource Assessment
12 & Planning Department.

13 **Q. Please describe your educational background and professional
14 experience.**

15 A. I graduated from the University of Florida in 1979 with a Bachelor of Science
16 degree in Electrical Engineering. I joined FPL in 1980 as a Distribution
17 Engineer. Since my initial assignment in FPL, I have held positions as a
18 Transmission System Planner, Power System Control Center Engineer, Bulk
19 Power Markets Engineer, Supervisor of Transmission Planning and
20 Supervisor of Supply and Demand Analysis. In 2004, I became Supervisor of
21 Integrated Analysis – Resource Planning.

1 **Q. Please describe your duties and responsibilities in your current position.**

2 A. In my current position as Supervisor of Integrated Analysis, I am responsible
3 for supervision and coordination of economic analyses of alternatives to meet
4 FPL's resource needs and maintain system reliability.

5 **Q. Are you sponsoring an exhibit in this case?**

6 A. Yes. I am sponsoring the following exhibits which are attached to my direct
7 testimony:

- 8 • JEE-1 Projection of FPL's 2009-2030 Resource Needs
- 9 • JEE-2 Resource Plans Utilized in the Analyses
- 10 • JEE-3 Renewable Resource Assumptions
- 11 • JEE-4 RPS Scenario Renewable Resources Added
- 12 • JEE-5 Projected FPL Energy Mix by Fuel Type
- 13 • JEE-6 Projection of FPL System Incremental Gas Use
- 14 • JEE-7 Economic Evaluation Results for Different Gas
15 Transportation Alternatives
- 16 • JEE-8 Projection of Approximate Bill Impacts for
17 Different Gas Transportation Alternatives
- 18 • JEE-9 Cost of Capital

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony is to present the results of economic analyses
21 that support FPL's petition for an affirmative determination of need for FPL to
22 construct the Florida EnergySecure Line. My testimony addresses six main
23 points. First, I will discuss FPL's projection of additional resource needs in

1 the future and how those resource needs relate to increased firm natural gas
2 transportation. Second, I present and discuss the long-term resource plan that
3 meets FPL's future resource needs and two alternate resource plans that are
4 used to quantify FPL's natural gas transportation requirements. Third, I
5 present FPL's projected gas requirements. Fourth, I present an overview of
6 the economic analysis process. Fifth, I describe the results of the economic
7 analyses that examined FPL's gas transportation alternatives and the resulting
8 projections of approximate bill impacts for each of the alternatives. Sixth, I
9 summarize the results of the economic analyses and present my conclusion
10 that the Florida EnergySecure Line / Company E Upstream Pipeline Project is
11 the most economic of the gas transportation alternatives considered and, when
12 other beneficial non-economic attributes are taken into account, the best
13 alternative for FPL's customers.

14 **Q. Please summarize your testimony.**

15 A. Based on FPL's current load forecast and consistent with its long-term
16 resource plan, which includes future generation resources previously approved
17 by the Commission (i.e. the West County Energy Center Units 1, 2 and 3, the
18 modernizations of the Cape Canaveral and Riviera steam units, the uprates of
19 FPL's existing nuclear units, Turkey Point Units 6 and 7, and the solar
20 photovoltaic and thermal projects at FPL's DeSoto, Space Center, and Martin
21 sites), FPL projects that it will need as much as 19,661 MW of new capacity
22 between 2013 and 2040. Of this total capacity, 17,357 MW is expected to be
23 incremental gas-fired capacity. This need already accounts for the addition of

1 1,121 MW of new demand side management (DSM) programs projected to be
2 added between 2009 and 2018.

3
4 In addition to FPL's long-term resource plan (Base Case), two alternate
5 scenarios were developed to analyze firm gas transportation alternatives.
6 These alternate scenarios are the Renewable Portfolio Standard (RPS)
7 Scenario resource plan (RPS Scenario) and the Nuclear Delay Scenario
8 resource plan (Nuclear Delay Scenario). The RPS Scenario assumes that the
9 state of Florida will adopt an RPS rule with a target of 20% renewable energy
10 by 2020, constrained by a 2% cap on increased retail revenues. The Nuclear
11 Delay Scenario differs in that it postulates a four-year delay in the
12 construction of Turkey Point Units 6 and 7.

13
14 In 2008, approximately 53% of all energy produced by FPL came from gas-
15 fired generating units. This percentage is projected to increase to 68% by
16 2030 and 84% by 2040. Between 2013 and 2040, FPL will need to add about
17 2,700 million cubic feet of gas transportation capacity per day (MMcf/d). As
18 described in the testimony of FPL witness Forrest, the existing gas
19 infrastructure in Florida is inadequate to meet the need for firm gas
20 transportation needs of FPL through 2040.

21
22 As a result, FPL conducted a solicitation process for gas transportation
23 capacity for FPL's initial gas requirements as well as developed its own self-

1 build project: the Florida EnergySecure Line / Company E Upstream Pipeline
2 Project. From the solicitation process, the best non-FPL alternative was
3 selected (identified as the "Company B Proposal"). The solicitation process is
4 described in the testimony of FPL witness Stubblefield.

5
6 The focus of my testimony is the economic analysis performed to compare
7 both alternatives, the Company B Proposal and the Florida EnergySecure
8 Line / Company E Upstream Pipeline Project, under the Base Case and two
9 alternate scenarios. The economic analysis consists of a life-cycle cost
10 analysis that determines the difference in cumulative present value of revenue
11 requirements (CPVRR) between the two firm gas transportation alternatives
12 under each of three resource plans. The analysis results show that selecting
13 the Florida EnergySecure Line / Company E Upstream Pipeline Project results
14 in an economic advantage ranging between \$204 million and \$513 million
15 CPVRR when compared to the Company B Proposal. This economic
16 advantage does not include any benefit to FPL's customers from short-term
17 off-system sales of gas transportation capacity. FPL witness Sexton explains
18 how the sales made possible by the Florida EnergySecure Line / Company E
19 Upstream Pipeline Project could provide additional benefits to our customers,
20 ranging from approximately \$200 million to as high as approximately \$700
21 million.

1 I conclude that based on the projected gas transportation needs and favorable
2 economics, the Florida EnergySecure Line / Company E Upstream Pipeline
3 Project is the best alternative for our customers.
4

5 **I. FPL'S PROJECTION OF RESOURCE NEEDS**
6

7 **Q. How were the projections of resource needs determined?**

8 A. The timing and magnitude of FPL's future resource needs are based on
9 generation reliability analyses using established planning criteria. While FPL
10 uses both loss of load probability (LOLP) and reserve margin criteria in its
11 system, under current assumptions the latter establishes the need for future
12 resources. The reserve margin planning criterion establishes a minimum
13 reserve margin of 20%. FPL updated its reserve margin calculations using
14 current assumptions. The most significant of these assumptions are listed
15 below:
16

17 Load forecast: By 2030, FPL's summer peak load is expected to grow
18 12,871 MW over the 2008 actual peak load. The load forecast and the
19 load forecasting process are described in FPL witness Morley's
20 testimony.
21

22 Demand side management (DSM): The DSM assumption used in this
23 analysis is based on meeting FPL's currently-approved DSM Goals
24 through 2014, plus implementing additional cost-effective DSM

1 through 2014 that was identified after the current DSM Goals were
2 established, and a projection of continued DSM additions in 2015
3 through 2018. This projection above the DSM already implemented
4 by FPL through the end of 2008 results in the addition of 1,121 MW of
5 load control and conservation measures by 2018. This projection of
6 1,121 MW of additional DSM starting in 2009 is not reflected in
7 FPL's load forecast, but is instead included as an additional resource in
8 the resource plan.

9
10 FPL is scheduled to present new projections of cost-effective DSM to
11 the Commission in June 2009. These new projections will be used to
12 determine the Company's new DSM Goals for the years 2010 through
13 2019. The analyses to develop these new projections of cost-effective
14 DSM for the new DSM Goals are a work-in-progress at the time the
15 need determination petition for the Florida EnergySecure Line is being
16 filed.

17
18 Renewable resources: The Base Case resource plan includes 110 MW
19 of solar generation from FPL's new solar projects at the DeSoto, Space
20 Center and Martin sites. These projects have already been approved
21 by the Commission.

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

3

4 1. West County Energy Center Units 1, 2, and 3 (all in service by
5 the summer of 2011). Total capacity = 3,657 MW.

6

7 2. Nuclear uprates at existing nuclear units (all in service by end
8 of 2012). Total capacity = approximately 400 MW.

9

10 3. New nuclear units - Turkey Point Units 6 and 7 will be in
11 service in 2018 and 2020, respectively. Total capacity = 2,200
12 MW.

13

14 4. Modernizations – The modernization projects at the Cape
15 Canaveral and Riviera Plants, which will become the Cape
16 Canaveral Next Generation Clean Energy Center (CCEC) and
17 Riviera Beach Next Generation Clean Energy Center (RBEC),
18 will be in service in 2013 and 2014, respectively. Incremental
19 capacity = 1,069 MW.

20

21 Power purchases: Expiration of power purchase contracts totaling
22 1,610 MW.

1 The analysis of the generation reliability needs, based on the assumptions
2 described above, indicates the need for 14,931 MW of additional resources
3 between 2021 and 2040, after incremental DSM. This need is based on
4 meeting the 20% summer reserve margin criteria. This is further illustrated in
5 Exhibit JEE-1.

6

7

II. THE RESOURCE PLANS

8

9 **Q. What resource plans did you use in your study?**

10 A. As I previously discussed, FPL used its long-term resource plan (Base Case)
11 and two alternate scenario resource plans (RPS Scenario and Nuclear Delay
12 Scenario) to analyze the economics of the Florida EnergySecure Line /
13 Company E Upstream Pipeline Project.

14 **Q. What is included in the Base Case?**

15 A. The Base Case reflects the major assumptions listed in Section I, including the
16 generation capacity additions through 2020 already approved by the
17 Commission. The need for additional resources required to maintain
18 generation reliability after 2020 in excess of the capacity provided by the
19 resources described in Section I is met with natural gas-fired combined cycle
20 units. For this plan, the combined cycle units were sized at 550 MW with
21 performance equivalent to that of "G" class advanced combustion turbine
22 technology.

1 In the final analysis, this resource plan results in the need to add 17,357 MW
2 of natural gas-fired resources between 2013 and 2040. This total includes the
3 CCEC and RBEC facilities. The results of the Base Case are described in
4 Exhibit JEE-2.

5 **Q. Why did you assume that FPL will fill the incremental generation**
6 **resource needs beyond the proposed nuclear Turkey Point Units 6 and 7**
7 **with gas-fired combined cycle units?**

8 A. The options available to FPL to meet the needs for additional generation
9 resources are limited to renewable energy resources, gas-fired combined cycle
10 units, gas-fired combustion turbine units and additional nuclear generating
11 units. I should note that, for resource planning purposes, modernizing existing
12 facilities and building new combined cycle units would impose very similar
13 gas requirements on FPL's system.

14
15 Under current assumptions, renewable energy resources whether solar, wind,
16 or biomass are not cost effective when compared to FPL's other potential
17 generation resources (gas-fired units and nuclear units). Therefore, it is
18 appropriate that FPL not include new renewable resources in its Base Case.
19 However, FPL did include an RPS plan as an alternate scenario in this study.

20
21 FPL considered whether gas-fired combustion turbines would be more cost
22 effective than combined cycle units. It was determined that for FPL's system,

1 under current assumptions, combined cycle units will be the more cost-
2 effective natural gas-fired option.

3
4 The last option considered was the addition of new nuclear units. As
5 demonstrated in the Nuclear Power Plant Cost Recovery Docket, FPL believes
6 that new nuclear units are cost effective generation alternatives that result in
7 significant fuel cost savings and emission reductions. However, FPL is
8 uncertain as to the timing of additional nuclear units following the
9 construction of Turkey Point Units 6 and 7 and determined that including
10 additional nuclear units into the resource plans utilized in the economic
11 analysis of gas transportation alternatives was not appropriate.

12 **Q. Why did FPL develop an RPS Scenario?**

13 A. The Florida Legislature is considering the adoption of RPS legislation. As
14 requested by the Legislature, the Commission developed a draft rule that it
15 recently submitted to the Legislature for its consideration. FPL believes some
16 form of RPS legislation or other similar renewable energy legislation will be
17 implemented at either the state or federal level in the near future. As a result,
18 FPL decided to include an RPS scenario in the economic analysis of the
19 Florida EnergySecure Line / Company E Upstream Pipeline Project and
20 competing gas transportation proposal.

21 **Q. How did FPL develop the RPS Scenario resource plan?**

22 A. The RPS Scenario was developed using the major assumptions listed in
23 Section I of my testimony. However, additional renewable resources were

1 added in a manner consistent with the Commission's RPS draft rule. Any
2 resource need not met with new renewable resources was met with the
3 550 MW natural gas-fired combined cycle units as previously described.

4
5 In the final analysis, the RPS Scenario results in the need to add 16,804 MW
6 of natural gas-fired resources between 2013 and 2040 in the form of combined
7 cycle units. The results of the RPS Scenario resource plan are shown in
8 Exhibit JEE-2.

9 **Q. Can you describe how you determined the additional renewable**
10 **resources added under the Commission RPS draft rule?**

11 A. It was assumed that the RPS would require that 20% of energy sales would
12 be met from renewable resources by the year 2020. However, FPL assumed
13 a cap on the cost of these renewable resources. This cap consists of 1.5% of
14 previous year's retail revenues for Class I renewable resources (solar and
15 wind) and an additional 0.5% cap for Class II renewables (all others).

16
17 To meet the 20% renewable energy standard, the analysis assumed that FPL
18 would add both solar photovoltaic and biomass renewable energy resources.
19 The costs and performance of the solar photovoltaic resources are based on
20 FPL's DeSoto Next Generation Solar Energy Center Project. At 25 MW, this
21 plant will be the largest solar photovoltaic facility in the nation when
22 completed at the end of 2009. The costs of biomass resources are based on
23 Navigant's "Florida Renewable Energy Potential Assessment" report,

1 prepared for the Commission and others in late 2008. The assumptions used
2 for solar and biomass renewable resources are listed in Exhibit JEE-3.

3
4 Under the RPS Scenario, between 2010 and 2020 FPL will add an average of
5 42 MW of solar photovoltaic resources and 28 MW of biomass resources
6 every year. It was then assumed that after 2020 FPL would continue to build
7 renewable resources following the 2010-2020 trend. This results in the
8 addition, by 2040, of 3,290 MW of renewable resources to FPL's generation
9 resource portfolio.

10
11 In determining the amount of renewable resources to be added under the 2%
12 cap, FPL assumed one of several interpretations of how the cap would be
13 applied. In FPL's analysis, the amount of renewable resources to be added
14 was constrained by the cost cap, thus preventing the 20% RPS target from
15 being met. The renewable resources added in the RPS scenario are shown in
16 Exhibit JEE-4.

17 **Q. Why did FPL develop a Nuclear Delay Scenario?**

18 A. FPL presently expects to place the new Turkey Point Units 6 and 7 into
19 service in 2018 and 2020, respectively. Nevertheless, as FPL explained in the
20 need determination proceeding for those units, there is substantial uncertainty
21 regarding the timetable for licensing and construction of new nuclear units
22 because of circumstances not within FPL's control. For example, licensing
23 could be delayed for years by unexpected intervention and litigation. There is

1 also active competition among new nuclear projects for the fabrication and
2 timely delivery of key components by the few suppliers that are capable of
3 providing them. Moreover, FPL has consistently advised the Commission that
4 it can justify proceeding with new nuclear units only if there is strong political
5 and regulatory support. Recent changes in Congress, a new administration in
6 the White House and the likely appointment of new Commissioners to the
7 Nuclear Regulatory Commission all create uncertainty as to whether the
8 support new nuclear projects have received for the past several years will
9 continue. To illustrate FPL's concern, the "Clean Energy" bill currently being
10 discussed in Congress contains no support for new nuclear projects, in spite of
11 the bill's emphasis on reducing greenhouse gas emissions and the important
12 role that nuclear power can and should play in achieving those reductions.

13
14 Because of these uncertainties, FPL elected to develop a planning scenario
15 that assumed a four-year delay of both new nuclear units so that they would be
16 brought into service in 2022 and 2024. The Florida EnergySecure Line would
17 provide valuable insurance against such a delay by ensuring that there would
18 be sufficient gas supply available to the gas-fired units needed to
19 accommodate this delay.

20 **Q. How did you develop the Nuclear Delay Scenario?**

21 A. The Nuclear Delay Scenario resource plan was also developed using the major
22 assumptions listed in Section I of my testimony. However, in this scenario,
23 the in-service dates of Turkey Point Units 6 and 7 were deferred to 2022 and

1 2024 to reflect a four-year delay as a result of factors outside of FPL's control.
2 Under this scenario, two combined cycle units, with a capacity of 1,219 MW
3 each with the same technology as the CBEC and RBCC units, were added in
4 2018 and 2020 to meet generation reliability.

5
6 Ultimately, the Nuclear Delay Scenario results in the need to add 17,030 MW
7 of natural gas-fired resources between 2013 and 2040 in the form of combined
8 cycle units. The results of the Nuclear Delay Scenario are shown in Exhibit
9 JEE-2.

11 III. GAS REQUIREMENTS

12
13 **Q. What is FPL's projected fuel mix?**

14 A. In 2008, based on historical data, 53% of FPL's net energy for load was
15 generated with natural gas. With the Base Case, the percentage of total
16 energy generated from gas is projected to grow to approximately 68% by 2030
17 and 84% by 2040. Even under the RPS Scenario, the percentage of total
18 energy generated from gas is projected to be 64% by 2030 and 76% by 2040.
19 FPL's projected energy mix by fuel type for each of the three resource plans is
20 shown in Exhibit JEE-5.

1 **Q. What is the magnitude of incremental gas requirements under the Base**
2 **Case?**

3 A. Under the Base Case, from 2013 FPL's gas need would grow to 1.6 billion
4 cubic feet per day (Bcf/d) by 2030 and 2.8 Bcf/d by 2040. A graph of the
5 incremental gas requirements of the Base Case is shown in Exhibit JEE-6.

6 **Q. What is the magnitude of incremental gas requirements under the RPS**
7 **Scenario?**

8 A. The gas requirements under the RPS Scenario are lower than the requirements
9 under the Base Case because renewable energy generation displaces gas
10 generation. Under the RPS Scenario, from 2013 FPL's gas need would grow
11 to over 1.6 Bcf/d by 2030 and to 2.7 Bcf/d by 2040. The incremental gas
12 requirements of the RPS Scenario are shown in Exhibit JEE-6.

13 **Q. What is the magnitude of incremental gas requirements under the**
14 **Nuclear Delay Scenario?**

15 A. The gas requirements under the Nuclear Delay Scenario are approximately the
16 same as those for the Base Case after 2024. There is a significant difference,
17 however, in the gas need in the earlier years because an additional 400
18 MMcf/d is needed between 2018 and 2020 due to the delays associated with
19 Turkey Point Units 6 and 7. Under this scenario, FPL's gas need will grow to
20 800 MMcf/d in the 2013-2020 period to 1.7 Bcf/d by 2030 and to 2.7 Bcf/d by
21 2040.

1 **IV. OVERVIEW OF ECONOMIC ANALYSIS PROCESS**

2

3 **Q. Which gas transportation alternatives did FPL include in its economic**
4 **analysis?**

5 **A.** In this economic analysis, FPL considered two gas transportation alternatives:
6 (1) the self-build Florida EnergySecure Line coupled with the Company E
7 Upstream Pipeline Project, and (2) the most competitive of the proposals
8 obtained under FPL's solicitation process, which was designated the
9 "Company B Proposal."

10

11 As described in detail in the testimony of FPL witnesses Sharra and Collins,
12 the Florida EnergySecure Line consists of the construction of approximately
13 300 miles of new gas pipe by FPL to be placed in service by January 2014.
14 This FPL alternative assumes the use of the Company E Upstream Pipeline
15 which will be its primary supply source. This option also includes the
16 economic benefits of future expansions of the Florida EnergySecure Line, as
17 described by FPL witness Sharra.

18

19 The Company B Proposal, and the process whereby this alternative was
20 selected as the most competitive gas transportation alternative from all the
21 proposals received under FPL's solicitation process, is described in the
22 testimony of FPL witness Stubblefield.

1 **Q. How were the economic analyses performed?**

2 A. The economic analysis of the Florida EnergySecure Line / Company E
3 Upstream Pipeline Project and the most competitive alternative (the Company
4 B Proposal) consisted of the following steps:

5

6 Step 1 - FPL defined the Base Case and the alternative scenarios as well as the
7 determination of gas requirements for each resource plan, as described earlier
8 in my testimony.

9

10 Step 2 - FPL developed the gas transportation costs. This step was carried out
11 for each resource plan for both the Florida EnergySecure Line / Company E
12 Upstream Pipeline Project and the Company B Proposal. These costs were
13 developed through the life of the study. The 40-year timeframe of the study is
14 based on the expected useful life of the Florida EnergySecure Line /
15 Company E Upstream Pipeline Project because the analysis is intended to be a
16 life-cycle cost study.

17

18 For the Florida EnergySecure Line / Company E Upstream Pipeline Project,
19 the gas transportation costs reflect the initial capital costs, the operating and
20 maintenance (O&M) costs of the line and the capital costs of increasing
21 compression to boost its capacity. Also included are the Company E
22 transportation charges and additional transportation charges incurred to obtain
23 additional firm gas transportation in the future to meet FPL's projected

1 growing gas needs after 2026 through the end of the study period. For the
2 Company B Proposal, the gas transportation costs include all Company B gas
3 transportation charges as well as additional transportation charges that will be
4 incurred to obtain additional firm gas transportation in the future to meet
5 FPL's projected growing gas needs through the end of the study period. The
6 development of the gas transportation costs is discussed in more detail in the
7 testimony of FPL witness Stubblefield.

8
9 Step 3 - FPL quantified the fuel and other variable cost savings. The two gas
10 transportation alternatives have slightly different natural gas costs. The
11 P-MAREA production-costing model from P-Plus Corporation was used to
12 determine the resulting difference in FPL's total system fuel cost. This model
13 has been used by FPL in fuel cost recovery proceedings as well as need
14 proceedings brought before the Commission. The P-MAREA model
15 simulates the operation of FPL's system on an hourly basis. The model
16 captures variable costs (such as fuel, variable O&M and environmental
17 compliance costs) in its production costing calculations, projects the annual
18 emission levels associated with the resource plans, incorporates the effects of
19 system transmission transfer limits on the dispatch of the generating units and
20 recognizes the pipelines that serve FPL's system, incorporating lateral
21 constraints to the various plants in FPL's system.

1 Step 4 - FPL aggregated all components of system cost and determined the
2 cumulative present value of revenue requirements (CPVRR) of each
3 alternative under each of the three resource plans.

4 **Q. Did you perform sensitivity analyses regarding fuel price forecasts and**
5 **emission price forecasts?**

6 A. No. The fuel consumption and fuel prices under the Florida EnergySecure
7 Line / Company E Upstream Pipeline Project and the Company B Proposal
8 are very similar. As a result, we determined that fuel price sensitivities would
9 not make a significant difference. Similarly, emissions were close to the same
10 under the Florida EnergySecure Line / Company E Upstream Pipeline Project
11 and the Company B Proposal in each resource plan. Therefore, sensitivities to
12 emission price forecasts would not have affected the economic comparison
13 between the gas transportation alternatives and were deemed unnecessary.

14 **Q. In your economic analysis, did you assume gas transportation sales from**
15 **the Florida EnergySecure Line / Company E Upstream Pipeline Project**
16 **to non-FPL customers?**

17 A. The economic analysis results discussed in my testimony do not reflect any
18 short-term gas transportation sales to non-FPL customers. However, FPL
19 witness Sexton explains in his testimony that such sales are likely to happen
20 and discusses his projections of the resulting benefits. These anticipated
21 benefits from sales to non-FPL customers, although significant in magnitude,
22 are not included in my economic analysis.

1 **Q. What financial assumptions did you use for this economic analysis?**

2 A. Exhibit JEE-9 shows the long-term financial assumptions used in this
3 economic analysis. These financial assumptions are consistent with the
4 assumptions used during the need determination proceedings of the
5 modernization of the Riviera and Cape Canaveral Plants as well as FPL's
6 solicitation for gas transportation proposals. This solicitation process is
7 described in the testimony of FPL witness Stubblefield. Although FPL's
8 projected cost of capital has been adjusted recently, in this economic analysis
9 FPL used the cost of capital assumptions in effect at the time of the
10 solicitation because the factors that affect FPL's cost of capital assumptions
11 also affect the parties that responded to FPL's solicitation and would affect
12 their bids. Using the cost of capital assumptions in effect at the time of the
13 solicitations ensures that the alternatives are comparable.

14

15 **V. RESULTS OF THE ECONOMIC ANALYSES**

16

17 **Q. What are the results of the economic analysis?**

18 A. Exhibit JEE-7 shows the economic results of the Florida EnergySecure Line /
19 Company E Upstream Pipeline Project under the three resource plans.

20

21 Under the Base Case resource plan, the economic analysis shows that the
22 Florida EnergySecure Line / Company E Upstream Pipeline Project is the
23 most economically beneficial with an advantage of \$208 million CPVRR.

1 About \$89 million of the total economic advantage is based on the comparison
2 of gas transportation costs, with fuel and other variable cost savings
3 contributing another \$119 million.

4
5 Under the RPS Scenario, the economic analysis shows that the Florida
6 EnergySecure Line / Company E Upstream Pipeline Project is the most
7 economically beneficial with an economic advantage of \$204 million CPVRR.
8 About \$89 million of the total advantage is based on the comparison of gas
9 transportation costs, with fuel and other variable cost savings contributing
10 another \$115 million.

11
12 Under the Nuclear Delay Scenario resource plan, the economic analysis shows
13 that the Florida EnergySecure Line / Company E Upstream Pipeline Project is
14 the most economically beneficial with an economic advantage of \$513 million
15 CPVRR. About \$403 million of the total economic advantage is based on the
16 comparison of gas transportation costs, with fuel and other variable cost
17 savings contributing another \$110 million.

18 **Q. Did you develop projections of the estimated bill impact to FPL**
19 **customers?**

20 A. Yes. FPL developed projections of the approximate bill impact of the two gas
21 transportation options under the three resource planning scenarios. Exhibit
22 JEE-8 shows the projections of this bill impact for an average customer using
23 1,000 kWh per month.

VI. CONCLUSIONS

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23

Q. Is the Florida EnergySecure Line / Company E Upstream Pipeline Project the best gas transportation option available to FPL and FPL's customers?

A. Yes. Natural gas is and will continue to be FPL's major fuel source for the foreseeable future, and gas-fired generation capacity will continue to be a major part of FPL's future resource plan. The existing gas infrastructure in Florida will be inadequate to meet the long-term needs for gas transportation capacity to support the anticipated increase in gas generation, to as much as 17,357 MW of new gas-fired generation by 2040, as described by FPL witnesses Forrest and Sexton. FPL's proposed Florida EnergySecure Line / Company E Upstream Pipeline Project results in CPVRR savings between \$204 million and \$513 million compared to the best non-FPL proposal obtained in FPL's solicitation process.

Based on the economic advantages of the Florida EnergySecure Line / Company E Upstream Pipeline Project as described in my testimony, the additional economic benefits presented in the testimony of FPL witness Sexton and the significant non-economic benefits described in the testimony of FPL witness Forrest, I conclude that the Florida EnergySecure Line / Company E Upstream Pipeline Project is the best alternative to meet FPL's future gas requirements.

1 Q. Does this conclude your direct testimony?

2 A. Yes.

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
Served: July 24, 2009

ERRATA SHEET

DIRECT TESTIMONY OF JUAN E. ENJAMIO

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
4	1	Replace "1,121" with "1,211"
7	4	Replace "1,121" with "1,211"
7	6	Replace "1,121" with "1,211"

Respectfully submitted this 24th day of July, 2009.

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1 **BY MR. PERKO:**

2 **Q.** Mr. Enjamio, could you please provide your
3 summary of your testimony.

4 **A.** Yes, I will. Good afternoon, Chairman Carter
5 and Commissioners. Based on FPL's current load
6 forecasts and consistent with its long-term resource
7 plan, which includes future generation resources
8 previously approved by the Commission, FPL projects that
9 it will need as much as 19,661 megawatts of new capacity
10 between 2013 and 2040. Of this total capacity, 17,357
11 megawatts is expected to be incremental gas-fired
12 capacity. This need already accounts for the addition
13 of 1,211 megawatts of new demand-side management
14 programs projected between 2009 and 2018 and FPL's
15 proposed nuclear units at Turkey Point.

16 In 2008, approximately 53 percent of all
17 energy produced by FPL came from gas-fired generating
18 units. This percentage will increase to 68 percent by
19 2030 and 84 percent by 2040. Between 2013 and 2040, FPL
20 will need to add about 2.7 billion cubic feet per day of
21 gas transportation capacity.

22 As described in the testimony of FPL Witness
23 Forest, the existing gas infrastructure in Florida is
24 inadequate to meet FPL's firm gas transportation needs.
25 As a result, FPL conducted a solicitation process for

1 gas transportation capacity for FPL's initial gas
2 requirements as well as to develop its own self-built
3 project, the Florida EnergySecure Line Company E
4 Upstream Pipeline Project, which I will refer to as the
5 EnergySecure Line.

6 From the solicitation process, the best FPL
7 alternative was selected, which was the FGT proposal.
8 The solicitation process is described in the testimony
9 of FPL Witness Stubblefield.

10 The focus of my testimony is the economic
11 analysis performed to compare both alternatives, the FGT
12 and the Florida EnergySecure Line under the base case
13 and two alternate scenarios. The economic analysis
14 consists of a lifecycle cost analysis that determines
15 for the difference in cumulative present value of
16 revenue requirements between the two firm gas
17 transportation alternatives for each (phonetic) of three
18 resource plans.

19 The proposal with lowest cumulative present
20 value of revenue requirements over the life of the
21 project will result in the lowest total cost impact to
22 FPL's customers. The analysis shows that selecting the
23 Florida EnergySecure Line results in an economic
24 advantage ranging between 204 million and \$513 million
25 cumulative in present value of revenue requirements when

1 compared to the FGT proposal. This economic advantage
2 does not include any additional benefit to FPL's
3 customers from short-term off-system sales of gas
4 transportation capacity. FPL Witness Sexton explains
5 how the sales made possible by the Florida EnergySecure
6 Line could provide additional benefits to our customers
7 ranging from approximately 200 million to as high as
8 approximately 700 million.

9 I conclude that based on the projected gas
10 transportation needs and favorable economics, that the
11 Florida EnergySecure Line project is the best
12 alternative for FPL's customers.

13 **MR. PERKO:** We tender the witness for
14 cross-examination.

15 **CHAIRMAN CARTER:** Thank you. Mr. Self.

16 **MR. SELF:** Thank you, Mr. Chairman.

17 **CROSS EXAMINATION**

18 **BY MR. SELF:**

19 **Q.** Mr. Enjamio, I'm Floyd Self representing FGT.
20 It's nice to see you in person this time.

21 **A.** Same here.

22 **Q.** In your summary you reference the
23 19,661 megawatts of new generating capacity that you are
24 anticipating between 2013 and 2040, correct?

25 **A.** Yes.

1 **Q.** And I believe I heard you say and your
2 testimony reflects that of that 19,661 megawatts,
3 17,357 megawatts will be gas-fired. Is that correct?

4 **A.** That's correct.

5 **Q.** Would it be reasonable for FPL to construct
6 this 19,661 megawatts of new generating capacity today
7 so that it will be available for the next 30 years when
8 you need it?

9 **A.** No, sir. When we add a new generating
10 resource or any kind of a large capital expenditure, we
11 basically do a cumulative present value revenue
12 requirement analysis of that particular project over its
13 projected life. It turns out to be often that you build
14 a project for an amount larger than is actually required
15 to serve the capacity at the immediate time knowing that
16 at some point in time you will grow into the size of the
17 project. But clearly FPL is not coming in front of you
18 to ask for a need to petition for 17,357 megawatts of
19 generation today, no.

20 **Q.** And, in fact, the next gas-fired generating
21 plant, according to your forecast, would come in service
22 in -- I believe it's 2021, correct?

23 **A.** That is partly correct, Commissioners. Under
24 what I call my base resource plan, the first unit,
25 gas-fired unit to come into service after the

1 reorganizations of Cape Canaveral and Riviera happens in
2 2021. I do have another scenario which I have called
3 the four-year nuclear delay scenario which assumes that
4 in case we have licensing difficulties or other things
5 that could delay the in-service date of the units we
6 would be requiring, in essence, two large combined
7 cycles units in 2018 and 2020.

8 Q. At this time, do you believe that any of the
9 circumstances that might lead to your nuclear delay
10 scenario will, in fact, occur?

11 A. No, I cannot say it will, in fact, occur. But
12 there is a significant risk of delays. The nuclear
13 licensing process is early in its development. There
14 are a lot of issues that come up. FPL is still trying
15 to do its best to bring those units in 2018 and 2020,
16 but FPL also recognizes a significant risk to that
17 schedule. So we think it's prudent to at least consider
18 an alternative in case those nuclear units are delayed,
19 and the fact that we build the Florida EnergySecure Line
20 with 600 million cubic feet of capacity with very easy
21 ability to expand would allow us to, in essence, if we
22 find out two or three years down the road that the
23 nuclear units are delayed, would allow us to, in
24 essence, to bring gas -- have the gas capacity available
25 to meet the generation units of those needs of those

1 units coming in in 2018 and 2020.

2 Q. But under either of those scenarios, whichever
3 proves true, the gas generating electric plant that you
4 are talking about under either scenario, neither of
5 those gas plants are currently authorized, correct?

6 A. No. We have not asked the Commission for
7 permission to build any of those units, no.

8 Q. Okay. Now, in general, your load forecasts
9 are based upon the population and other forecasts that
10 are prepared by Doctor Morley, correct?

11 A. That is correct.

12 Q. And so if Doctor Morley's forecasts are
13 overstated, then your generation forecasts may be
14 overstated depending upon the magnitude of the
15 overstatement of Doctor Morley's analysis, is that
16 correct?

17 A. That is correct, Mr. Self. It would be -- if
18 the load forecast is overstated, the generation plan
19 might be somewhat overstated. Similarly, if the load
20 forecast is understated, which based on the history of
21 long-term load forecasting is a more likely possibility
22 as Doctor Morley said, then our gas needs would be
23 understated and our generation requirements would be
24 understated.

25 Q. Okay. I would now like to discuss with you

1 your Exhibit JEE-7, which I believe has been identified
2 at this point as Hearing Exhibit 43. I just want to ask
3 you some questions about that document and your
4 analysis.

5 Now, as I understand the way that you
6 conducted your analysis for what is presented in this
7 exhibit, you depreciated the FPL pipeline over 40 years,
8 is that correct?

9 **A.** That is correct. We depreciated the FPL
10 EnergySecure Line over 40 years, which is the expected
11 useful life of the project.

12 **Q.** And for purposes of your analysis which is
13 reflected on JEE-8, which has been identified as Hearing
14 Exhibit 44, you assumed instantaneous adjustments to
15 electric rates each year, is that correct?

16 **A.** I assumed that the EnergySecure Line would be
17 placed in rate base in 2014.

18 **Q.** And for purposes of the analysis in JEE-8, you
19 assumed instantaneous adjustments to electric rates,
20 correct?

21 **A.** No, I would not say that, Commissioners. The
22 rate impact calculation shown in Exhibit JEE-8 are, in
23 essence, done for purposes of comparing the relative
24 impact of the two alternatives. So, in a sense, we do
25 assume that we do instantaneous ratemaking, but it's

1 just a convenience of comparing the impact of both
2 alternatives.

3 Q. And, in fact, that is what Footnote 1 says
4 about the instantaneous rate adjustments, correct?

5 A. That's right.

6 Q. Now, in actuality, the only way that you could
7 flow through such rate reductions each year would be if
8 you had a rate case, assuming this asset was in the rate
9 base?

10 A. I think the proper way to look at this is that
11 we are including -- we are requesting to include the
12 revenue requirements of this project once it's placed
13 into service to electric rate base, and we will have
14 whatever the standard treatment for electric rate base
15 is; at that time rates will be set, okay. For purposes
16 of this comparison we have assumed that the rates, the
17 reality impact on the customer changes from year to
18 year, but we are not assuming that we are going to have
19 a rate case. But this is a standard process and
20 analysis that we always use in these type of projects.
21 We look at the annual revenue requirement and,
22 therefore, presume that rate impact on the customers.

23 Q. But, in fact, you could not reflect these
24 lower costs to customers each year unless you had a rate
25 case, correct?

1 **A.** That I don't know, Mr. Self. I'm not a rate
2 expert, so I do not know how that would work.

3 **Q.** Okay. Now, in your analysis of the FGT
4 proposal that you are comparing here in your JEE-7 and
5 JEE-8, you used the rate proposal provided by FGT to FPL
6 in January of 2009, is that correct?

7 **A.** For purposes of the direct testimony, I
8 used -- I believe that's the correct date. I cannot say
9 with certainty. Ms. Stubblefield could tell us what the
10 actual date was.

11 **Q.** Well, but in terms of the information that you
12 used, you used the FGT January 2009 rate proposal,
13 correct?

14 **A.** I am assuming that is the correct date,
15 subject to check.

16 **Q.** Now, in performing your analysis of the FGT
17 rate to compare against the FPL rate, you assumed a flat
18 fixed rate for FGT over 40 years, correct?

19 **A.** That is correct.

20 **Q.** Okay. And if we can look at your Exhibit
21 JEE-8, Page 1 of 3. This is your base case analysis, is
22 that correct?

23 **A.** Yes.

24 **Q.** All right. And it begins in year 2014, is
25 that correct?

1 **A.** Yes, it is.

2 **Q.** And in columns that are labeled as 1 and 2,
3 beginning in 2014 in the first row there, the FGT, which
4 is actually Company B, for 2014 the FGT is cheaper than
5 the FPL, is that correct?

6 **A.** That is correct. If we do not assume all the
7 additional benefits of third-party sales and other
8 benefits that other FPL witnesses have discussed, the
9 FPL customer will see an increase in rates from 2014 to
10 basically 2021. Starting in 2022, the FPL customer will
11 see a benefit in rates with the FPL project. Over the
12 life of the project and use in the standard analysis
13 that we have used in this case, which is the same type
14 of economic analysis we use in all of our generation
15 resource needs proceedings that would come in front of
16 the Commission, the cumulative present value of revenue
17 requirement analysis, we show that over the life of the
18 project the FPL EnergySecure Line will result in lower
19 costs to FPL's customers.

20 **Q.** All right. But that lower rate that you
21 mentioned that would kick in in I believe it's 2022,
22 again, that would occur only if you actually had a rate
23 case in order to flow that rate through?

24 **A.** No, sir. I have explained that I'm not a rate
25 expert, but this shows a relative impact of the rates,

1 both rates. But I do not know how these rates would be
2 adjusted, and if it would require a rate case.

3 Q. All right. But the cumulative impact of the
4 FPL rates versus the FGT rates through 2022, on a
5 cumulative basis at that point the FGT proposal is still
6 cheaper than the FPL proposal, correct?

7 A. Yes, but that is not a proper economic
8 analysis, or any kind of proper economic comparison of
9 the two proposals. For any type of large capital
10 project, Commissioners, the standard that has been used
11 in front of this Commission for many years is to look at
12 the economics of the project over its useful life. And,
13 in fact, when we comparing different projects with
14 different useful lives, the standard is to use the
15 useful life of the project with the longer life, which
16 is the approach we have shown here. And as we used in
17 many other proceedings and most recently in the nuclear
18 need filing, we used the same proposal. We looked at
19 the cumulative present value of revenue requirements
20 over the life of the project. In the early years -- for
21 the nuclear case, in the early years the FPL customers
22 are worse off, but over time the FPL customers over the
23 long-term become better off.

24 And, also, if I may remind you, Commissioners,
25 this does not include a lot of the benefits that have

1 been discussed by FPL customers -- by other FPL's
2 witnesses, excuse me. We do not include the third-party
3 sales which will offset the rate impact in the early
4 years. It does not include, for example, FPL enters
5 into short-term or interruptible transportation
6 purchases to supplement its firm gas transportation
7 costs.

8 Just between April and today, FPL spent over
9 \$2.8 million in short-term or interruptible gas that
10 would be avoided by having this pipeline which have not
11 been included in the economics. So the economics that I
12 am showing here, which do show that FPL customers would
13 pay more between 2014 and 2020, or 2021, but will be
14 better off over time are conservative in that they do
15 not include all these other benefits that have been
16 discussed by others.

17 **Q.** Are you finished?

18 **A.** Yes, I am.

19 **Q.** Under your base case analysis, in what year
20 does the cumulative analysis indicate that FPL's
21 pipeline becomes more cost-effective over the FGT
22 pipeline?

23 **A.** Under my base case analysis, as we said
24 before, the FPL customer starts seeing a lower rate
25 impact in 2022, what we call the crossover point, which

1 is the point at which the cumulative present value of
2 revenue requirements shows that the customer over the
3 period of the analysis is better off is 2041,
4 approximately 27 years after the in-service date.
5 Which, once again, is a fairly normal occurrence in
6 projects of this type, on large capital projects.
7 Certainly the case in the nuclear units filing.

8 Q. So for 27 years, 2041?

9 A. But, once again, that does not include --
10 excuse me, yes, but that does not include all the other
11 benefits. If I include, for example, just the
12 third-party sales that FPL Witness Sexton has discussed
13 in his testimony, this crossover will be much shorter.
14 But in this particular case the crossover is in 2041.
15 In the same analysis shown in my direct testimony under
16 the nuclear delay scenario, the crossover would happen
17 in 2031.

18 Q. Are third-party sales a formal part of FPL's
19 application in this case?

20 A. I'm not sure if you could call them formal or
21 not. FPL recognizes there will be a benefit from
22 third-party sales. I have not included those in my
23 analysis that is shown in my direct testimony, but we do
24 believe those sales will occur. And they are quite
25 sizable, as I discuss in my testimony, somewhere between

1 200 and \$700 million.

2 And if I may, Commissioner Skop, I think I may
3 clarify the discrepancy in the numbers, if I may, for a
4 second. I think it is an issue of present value of
5 revenue requirements. I believe Mr. Sexton's present
6 value are for a different year than I did, but I will
7 confirm that.

8 **MR. SELF:** I'm finished. Thank you.

9 **COMMISSIONER EDGAR:** Thank you.

10 Are there questions from staff?

11 **MS. BROWN:** Thank you, Commissioner.

12 **CROSS EXAMINATION**

13 **BY MS. BROWN:**

14 **Q.** Good afternoon, Mr. Enjamio. We are passing
15 out two exhibits that are already in the record. One is
16 Exhibit 1 to your deposition, and the other is the
17 late-filed exhibit to your deposition that we asked for.
18 I think you're familiar with both of those.

19 **A.** Yes, I am.

20 **Q.** First, though, to Exhibit JEE-7. That
21 summarizes the results of your economic evaluation of
22 the pipeline compared to FGT's first proposal, correct?

23 **A.** Yes.

24 **Q.** And that summary shows that under the nuclear
25 delay scenario, the EnergySecure Line would realize

1 savings of approximately \$500 million, correct?

2 **A.** Yes.

3 **Q.** And that summary also shows that under the
4 base case scenario, the EnergySecure Line would realize
5 savings of approximately \$200 million, correct?

6 **A.** Yes.

7 **Q.** So under the nuclear delay scenario,
8 approximately 300 million of additional savings are
9 realized when compared to the base case, correct?

10 **A.** Yes.

11 **Q.** Could you explain why this is the case?

12 **A.** Yes, I will. Under the FPL EnergySecure Line
13 proposal as has been discussed before, even though FPL
14 has a firm need for 400 million cubic feet, the pipeline
15 has a capacity of 600 million cubic feet. Under the
16 nuclear delay scenario, when we accelerate the need for
17 new gas capacity to replace the nuclear units, in
18 essence we have 200 million cubic feet that have already
19 been paid made for in the original analysis. So those
20 200 million cubic feet are largely free of cost for the
21 FPL EnergySecure Line portion of the analysis.

22 That is not the case for the FGT analysis.
23 For the FGT proposal then we would have to accelerate or
24 include additional transportation costs in those years.
25 So I believe that is the main component of the

1 differential, the increase between the two scenarios.

2 Q. So to be clear, accelerating the need for gas
3 generation capacity is the primary driver behind the
4 additional 300 million of savings realized under the
5 nuclear delay scenario, correct?

6 A. I could agree with that, yes.

7 Q. Now, if you will refer to your Deposition
8 Exhibit 1. Does it accurately reflect the difference
9 between the revenue requirements for the EnergySecure
10 Line and FGT's proposal as given to staff in FPL's
11 response to Staff Interrogatory Number 24?

12 A. Yes, it does. Commissioners, what this
13 exhibit represents is the economics using a load
14 forecast since it was requested by staff, which reduce
15 the load forecast. FPL still believes that the load
16 forecast that is used in my analysis and presented by
17 Doctor Morley is the right forecast to use for this
18 purpose, but we conducted -- at the request of staff, we
19 conducted this analysis which shows that under the base
20 case, FPL's proposal was \$7 million less economic than
21 the FGT proposal, and \$101 million more economic than
22 the FGT proposal under the nuclear delay scenario.

23 A couple of observations I would like to make.
24 One is that, once again, these numbers do not include
25 the benefits of any third-party sales or any other

1 benefit that was described.

2 Q. Mr. Enjamio, I think you're looking at the
3 wrong exhibit.

4 A. I'm looking at Page 2 of 10.

5 Q. You should be looking at the exhibits that we
6 just passed out to you, and the one I want you to look
7 at is present value revenue requirements, Deposition
8 Exhibit 1.

9 A. Oh, I'm sorry, I'm looking at the wrong one.

10 Q. That's all right. We'll get to the other one.
11 My question was does it appear to accurately represent
12 the difference between the revenue requirements for the
13 EnergySecure Line and FGT's proposal as given to staff
14 in FPL's response to Staff Interrogatory Number 24?

15 A. Yes, it does.

16 Q. Okay. And the values in Interrogatory Number
17 24 are the values that were used to populate Exhibit
18 JEE-7, is that correct?

19 A. That's correct.

20 Q. Okay. If you would focus on the line titled
21 nuclear delay. It's the line with the triangle. In
22 what year does the EnergySecure Line become
23 cost-effective on a cumulative basis?

24 A. In approximately 2030.

25 Q. Now, please focus on the line titled base

1 case. I think you mentioned this before, but just to
2 clarify, in what year does the EnergySecure Line become
3 cost effective on a cumulative basis?

4 **A.** First, Ms. Brown, may correct my previous
5 answer? It crosses in 2031 for the nuclear delay
6 scenario. For the second line, the base case, it
7 crosses over in 2041.

8 **Q.** And is the 11-year difference also
9 attributable to the timing of the need for additional
10 gas generation capacity?

11 **A.** Yes. And the fact, as I mentioned before,
12 that, in essence, we have a period where we can
13 accelerate the amount of gas delivered on the
14 EnergySecure Line with very little cost while under the
15 FGT proposal it would require additional transportation
16 charges.

17 **Q.** All right. Now, if you would turn to
18 Late-filed Exhibit Number 1, Page 2 of 10.

19 **CHAIRMAN CARTER:** Ms. Brown, could you hold on
20 for a second?

21 **MS. BROWN:** Sure.

22 **CHAIRMAN CARTER:** Commissioner Skop.

23 **COMMISSIONER SKOP:** Thank you, Mr. Chair.

24 Just a quick point of information from staff,
25 because I'm a little confused. I see the Late-filed

1 Exhibit 1, Page 2 of 10, which I believe you are
2 questioning the witness on.

3 **MS. BROWN:** I'm just about to.

4 **COMMISSIONER SKOP:** Okay. What is the second
5 sheet?

6 **MS. BROWN:** The second sheet is Deposition
7 Exhibit 1 that we just finished questioning on. When we
8 took Mr. Enjamio's deposition we sent this exhibit to
9 him and asked questions related to it.

10 **COMMISSIONER SKOP:** All right. Thank you.

11 **CHAIRMAN CARTER:** You may proceed.

12 **BY MS. BROWN:**

13 **Q.** All right. Late-filed Exhibit 1, Page 2 of
14 10 is a summary of FPL's economic evaluation of the
15 EnergySecure Line assuming a load forecast based on the
16 University of Florida population forecast, is this
17 correct?

18 **A.** Yes, it is.

19 **Q.** And that summary shows that under the base
20 case scenario, the EnergySecure Line would actually cost
21 the ratepayer \$7 million, correct?

22 **A.** Yes, that is correct, although as I was
23 mentioning in my premature answer before, this number
24 does not include the additional benefits that we
25 discussed about like benefits of sales to third party

1 and avoidance of interruptible charges for gas
2 transportation charges.

3 Q. All right. Can you explain why the University
4 of Florida's population projection causes a more than
5 \$200 million reduction in savings?

6 A. It's, in essence, similar or a reverse of what
7 happens when you accelerated the units. It takes
8 longer, there is a longer time, in essence, where the
9 FPL EnergySecure Line is not fully utilized.

10 Q. So would it be accurate to say that the
11 cost-effectiveness of the EnergySecure Line, assuming no
12 revenue from sales, is greatly dependent on the timing
13 of future gas transportation capacity needs?

14 A. Yes. The economics of the EnergySecure Line
15 are dependent on the timing, but if I may point out,
16 Commissioners, we are looking here at what I will call a
17 load forecast sensitivity, a low load forecast
18 sensitivity. The reverse happens if we were to do a
19 high band forecast sensitivity. The economics of the
20 line would be greatly enhanced if we had a higher load
21 forecast, and the evidence shows that Doctor Morley
22 presented that the chances of overforecasting are lower
23 than the chances of underforecasting.

24 An example, I think, was mentioned before I
25 believe on Doctor Morley's testimony earlier today. We

1 experienced a peak load earlier this summer of 22,200
2 megawatts approximately. Under this load forecast we
3 would not see that level of load under 2014.

4 Now, granted that's part of the reason for the
5 very high load forecast. The high actual load this year
6 was extreme weather, but nevertheless, Mr. Forest's
7 organization has to actually operate the system. He has
8 to, in essence, have sufficient gas supplies to operate
9 the system under the higher load forecast.

10 The point I'm trying to make is there a much
11 greater risk to FPL's customers of underforecasting than
12 overforecasting. And I'll just add one last point.
13 Even under this scenario, which is a negative \$7 million
14 in the base case, 101 million positive in the nuclear
15 delay scenario for the FPL pipeline, on the average \$22
16 million to a positive of the FPL EnergySecure Line.
17 But, even if we take -- let's say we would take the base
18 case results with a negative 7 million, which I would
19 assume you would agree with me that is close to
20 break-even, in essence, the FPL customer is getting a
21 third pipeline into a state at no cost. So it's getting
22 all the benefits of third-party lines, competition,
23 supply diversity, all of that with basically no cost to
24 them. And, of course, we expect, once again, these
25 numbers, the actual impact on the customer would be

1 better than this when we include all those other
2 benefits.

3 **MS. BROWN:** Mr. Chairman, I apologize, could
4 we have five minutes?

5 **CHAIRMAN CARTER:** Yes, you may.

6 **MS. BROWN:** Thank you.

7 **CHAIRMAN CARTER:** Commissioners, this is a
8 good time for a stretch. Let's come back at twenty-four
9 after.

10 (Recess.)

11 **CHAIRMAN CARTER:** We are back on the record.
12 And when we last left, Staff, you had the ball.

13 **MS. BROWN:** Yes. Thank you, Mr. Chairman.

14 Just a few more questions, Mr. Enjamio.

15 **BY MS. BROWN:**

16 **Q.** You talked earlier several times about the
17 benefits of third-party sales of capacity off the
18 EnergySecure Line. Would you explain for us what you
19 mean by third-party sales?

20 **A.** Yes.

21 Commissioners, what I mean by third-party
22 sales is what has been referred to by others as capacity
23 release on either FGT or Gulfstream pipelines. As has
24 been discussed before, when the FPL pipeline goes into
25 service, it will have a capacity of 600 million cubic

1 feet, while FPL has a firm demand of 400 million cubic
2 feet only.

3 Now, FPL will fully utilize the
4 600 million cubic feet capacity in the FPL EnergySecure
5 Line because it, is essence, a more cost-effective way
6 of moving gas. But that may free up at times that
7 ability to free up capacity from our existing contracts
8 with Gulfstream and with FGT, so that's, in essence, my
9 definition of third-party sales.

10 Q. If FPL uses all 600 MCF on the EnergySecure
11 pipeline and releases its excess capacity held on FGT or
12 Gulfstream, will FPL recoup 100 percent of the cost it
13 paid for the capacity on FGT or Gulfstream?

14 A. No, it's my understanding that FPL would not
15 necessarily recover the full cost.

16 Q. All right. Thank you. The next questions
17 have to do with the handout. We handed out to you
18 Interrogatory Number 132 and 134. Do you see that
19 there? I think 133 is in the middle of it, but we're
20 not concerned with that one, and they have to do with
21 demand-side management savings. Would you agree that
22 your response to FPL's Response to Interrogatory 132
23 shows FPL's DSM savings assumed in this docket?

24 A. Yes.

25 Q. And would you agree that FPL's Response to

1 Interrogatory 134 illustrates FPL's achievable DSM
2 savings in Docket Number 080407, the current DSM goals
3 setting docket?

4 **A.** Yes, it does.

5 **Q.** Would you also agree that in every year FPL's
6 projected summer peak reduction and annual energy
7 reduction in this docket are greater than the achievable
8 assumed in the current DSM goals setting document?

9 **A.** Yes, I would. And the reason for that,
10 *Commissioners*, is that when I started this analysis
11 earlier this year, FPL had not conducted or started
12 its -- well, I think it had already started, but it was
13 definitely not anywhere close to completing its economic
14 analysis of DSM. So the numbers that are used in my
15 analysis do not reflect the current assumptions for the
16 economic cost-effectiveness of DSM, which those current
17 assumptions are the ones that are included in the
18 response to 134.

19 **MS. BROWN:** All right. Thank you, Mr.
20 Enjamio.

21 We have no further questions.

22 **CHAIRMAN CARTER:** Thank you, staff.

23 Commissioner Skop, you're recognized.

24 **COMMISSIONER SKOP:** Thank you, Mr. Chair.

25 Just a few quick questions. If I could draw

1 your attention to Exhibit JEE-8, please.

2 **THE WITNESS:** Yes, sir.

3 **COMMISSIONER SKOP:** With respect to years 2014
4 and beyond, does the total, or annual total revenue
5 requirement in years 2014 and beyond include the revenue
6 requirement for both the Riviera conversion project as
7 well as the Canaveral conversion project?

8 **THE WITNESS:** If you're asking, Commissioner
9 Skop, does that include the revenue requirements of the
10 actual, the two projects, the generation projects, no,
11 it does not. And the reason we did not include it is
12 that the number would, in essence, be the same for both
13 alternatives. So in terms of the comparative analysis,
14 it would not add any value.

15 **COMMISSIONER SKOP:** Okay. I guess what I was
16 trying to ascertain was -- I'm looking at the far right
17 column, which is the differential in customer bill for a
18 comparative 1000 kilowatt hours, and I understand that
19 this is a differential analysis between the FPL option
20 and the Company B's requirement in showing the
21 difference in terms of bill impact. And at least for
22 the average consumer in 2014, the average consumer would
23 see a potential bill impact, if I understand this chart
24 correctly, of probably about \$2, or 2.50, \$3 per month
25 on a stand-alone basis and then declining further on.

1 But what I was trying to do is find an all-in
2 rate impact. Again, we are in the pendency of a current
3 rate case, but in 2013/2014 you've got about
4 \$4.1 billion of capital projects coming into the rate
5 base, potentially, and I'm trying to understand ahead of
6 the curve what the potential bill impact might to be the
7 average consumer.

8 **THE WITNESS:** I understand what you are
9 looking for, Commissioner Skop, but unfortunately that
10 is not included. I don't think you can derive that from
11 my testimony.

12 **COMMISSIONER SKOP:** Okay. Is there a way to
13 perhaps get that as a late-filed exhibit?

14 **MS. BROWN:** Yes, Commissioner. We could make
15 it Late-filed Exhibit 96, is it? 97. And perhaps you
16 could describe it.

17 **COMMISSIONER SKOP:** I knew they were going to
18 do that to me. Annual total revenue requirement -- or
19 actually, excuse me, I'll just -- let me take another
20 stab at this. Economic analysis results projection of
21 appropriate bill impacts, including the modernization
22 projects. Is that short enough?

23 **MS. BROWN:** That's fine.

24 (Late-filed Exhibit 97 marked for
25 identification.)

1 **CHAIRMAN CARTER:** That was the short version?

2 **COMMISSIONER SKOP:** Yes.

3 And just one point of clarification. And I
4 think I heard it correctly, but the base case does not
5 include any revenue associated with off-system sales of
6 excess capacity, is that correct?

7 **THE WITNESS:** That is correct, Commissioner
8 Skop. It does not include third-party sales, revenues,
9 or any other benefit.

10 **COMMISSIONER SKOP:** Okay. All right. Thank
11 you.

12 **CHAIRMAN CARTER:** Anything further from the
13 bench?

14 Redirect?

15 **MR. PERKO:** Yes. Thank you, Chairman.

16 **REDIRECT EXAMINATION**

17 **BY MR. PERKO:**

18 **Q.** Mr. Enjamio, I've got a couple of questions in
19 response to Mr. Self's questions. I believe at one
20 point you testified that for the FGT rate proposal your
21 analysis assumed a fixed rate for the length of the
22 analysis. Is that correct?

23 **A.** Yes, it is correct. We did use a flat rate
24 for the FGT proposal through the length of the study.
25 We assumed the same thing for the company proposal, so

1 both proposals were treated in the same way.

2 Q. Are you aware of any benefit that FPL
3 customers have received as a result of depreciation of
4 FGT assets?

5 A. I haven't performed any actual analysis. But,
6 Commissioners, I think the implication is that if FPL
7 would have imputed a reduced rate due to depreciation at
8 the end of the 25-year contract, that would improve the
9 economics of the FGT proposal, and that is not
10 necessarily the case. If I may explain. The Company
11 proposal is a 20-year proposal, and it's also a proposal
12 for 600 million cubic feet. So if we were to apply
13 depreciation or some reduced rate derived in some way, I
14 would have to do the same thing for both the FGT
15 proposal and also for the company proposal in FPL's
16 option.

17 And given the fact that the FGT proposal --
18 excuse me, the Company proposal is actually for a
19 shorter term and is a larger amount, it is very likely
20 that the comparative economics would actually improve if
21 the depreciation or some kind of depreciation was
22 imputed so that after the end of a 25-year contract the
23 rates for both company -- I'm sorry, the FGT contract,
24 the rate for FGT would reduce, and at the end of the
25 20-year contract for the company its rate would also be

1 reduced.

2 Q. Mr. Enjamio, Ms. Brown asked you some
3 questions regarding release of capacity off the Florida
4 EnergySecure Line -- or, I'm sorry, release of capacity
5 off of FGT and Gulfstream as a result of the Florida
6 EnergySecure Line, and whether all of those costs could
7 be fully recouped. Do you recall that testimony?

8 A. Yes.

9 Q. Was that taken into account in your analysis?

10 A. Yes, it was. In fact, my analysis includes
11 the full amount of FGT costs, or the full amount of the
12 FGT transportation costs for the existing contracts.

13 Q. And to the extent that cost of released
14 capacity is recovered, will that improve the economics
15 of the Florida EnergySecure proposal?

16 A. It would improve the economics of the
17 EnergySecure proposal and reduce the cost impact in the
18 early years to FPL's customers.

19 Q. Now, Ms. Brown showed you an exhibit which is
20 a series of interrogatory responses, I believe it's 132,
21 33, and perhaps 34. Yes, 34. I just wanted to make it
22 clear. Is my understanding correct that in this docket
23 you assumed more DSM savings than any other docket?

24 A. Yes. In this docket I'm assuming a greater
25 amount of DSM programs. FPL has determined it's a

1 cost-effective amount if it's the DSM goals docket.
2 What I'd like to point out, that in terms of this docket
3 that, in essence, reduces the gas requirements to FPL,
4 and if we were to reduce the amount of DSM in my
5 analysis to what is shown in the DSM cost-effectiveness
6 goals result, it would only benefit the FPL EnergySecure
7 Line.

8 Q. Finally, Mr. Enjamio, I want to pass around
9 Page 3 of the late-filed exhibit that Ms. Brown had
10 passed around, and if you would take a look at that when
11 you get it.

12 Have you had a chance to look at it?

13 A. Yes, I have.

14 Q. Could you explain what this exhibit does?

15 A. Yes. This exhibit is, in essence, a
16 compilation of the results of all the analysis that FPL
17 has done in this docket, all the economic analysis,
18 either at FPL's own initiative or at the initiative of
19 the staff. And basically shows a total of 36 different
20 economic analysis with a range of different assumptions,
21 including higher fuel forecasts, lower fuel forecasts,
22 revised FGT proposals, and the three different resource
23 centers that we discussed. And basically what it says
24 is of the 36 cases, 34 of those show a positive result
25 to FPL with a net savings in cumulative present value of

1 revenue requirements of 352 million. The two cases that
2 are negative to FPL's proposal were the ones that were
3 discussed -- I answered some questions of Ms. Brown,
4 which basically were used in the low load forecast
5 sensitivity, and those show that the base case will be
6 minus \$7 million.

7 I pointed out before that that case basically
8 does not include any of the other benefits of
9 third-party sales and other cost benefits. So, in
10 essence, in the very worst-case of all the analysis,
11 what this shows is that FPL customers receive all the
12 benefits of third-party pipeline at essence at no cost.
13 But the main purpose of the analysis is to show the
14 robustness of the analysis that was done. So of 34
15 cases, 36 were shown to be positive to FPL's customers.

16 Q. And, Mr. Enjamio, I believe you stated that in
17 your analysis you did not account for the revenues
18 associated with off-system sales, but if you were to do
19 that, what impact would that have on those cases that
20 were negative?

21 A. Well, in Mr. Sexton's low -- what I will call
22 low case for third-party benefits, it is approximately
23 \$200 million present value, so they would definitely
24 turn those cases to a strong positive for FPL's
25 customers.

1 **MR. PERKO:** Nothing further, Mr. Chairman.

2 **CHAIRMAN CARTER:** Commissioner Skop.

3 **COMMISSIONER SKOP:** Thank you.

4 Just one further question. I guess on the
5 late-filed exhibit that was just passed out for the Line
6 Item 31, which is the base case Interrogatory 183,
7 JEE-7, with Henry Hub prices minus 10 percent. I guess
8 staff in the previous exhibit did a sensitivity analysis
9 based on a load forecast which I think resulted in the
10 base case of the negative cost differential.

11 I was wondering with respect to the fuel
12 prices, and I don't know if you're the best witness to
13 ask, perhaps it might be better reserved for Mr.
14 Sexton's rebuttal, but has anyone checked the near-term
15 fuel sensitivities in terms of what impact those might
16 have? I don't think really it is that critical to the
17 majority of the analysis, but, again, Mr. Sexton's
18 numbers get a little bit lower than most of the numbers
19 presented here. But it seems to me that the fuel
20 forecast was based on November 2008, which was -- I
21 guess Henry Hub prices back then were about 6.70 per
22 MMBtu, and since then they have fallen to about \$3.5,
23 3.6. So I was wondering in terms of term -- I know
24 there was a near-term, a mid-term, and then a long-term
25 that used an escalator factor based on the analysis, but

1 I was wondering if anyone has done any sensitivities as
2 to that near-term selection of natural gas prices and
3 how that would affect the cumulative present value
4 revenue requirement.

5 **A.** The answer is no, we have not done any such
6 sensitivity. It is my assumption that if we did such a
7 sensitivity as long as it only effects in the
8 short-term, and we assume that the long-term trend is
9 the same, then the answer would not change. But that I
10 think is a question that is best answered by either Mr.
11 Sexton or actually I would refer to Mr. Sharra to answer
12 that question.

13 **COMMISSIONER SKOP:** Okay. Thank you.

14 **CHAIRMAN CARTER:** Thank you. Exhibits.

15 **MR. PERKO:** FPL would move Exhibits 37 through
16 45 into the record.

17 **CHAIRMAN CARTER:** Mr. Self.

18 **MR. SELF:** No objection.

19 **CHAIRMAN CARTER:** Without objection, show it
20 done.

21 (Exhibit Numbers 37 through 45 admitted into
22 the record.)

23 **CHAIRMAN CARTER:** Commissioners, Exhibits 37
24 through 45. Okay. And I assume that we will see Mr.
25 Enjamio -- did I get it right?

1 **THE WITNESS:** That's right.

2 **CHAIRMAN CARTER:** I can go home now.

3 We'll probably see him again in rebuttal.

4 **THE WITNESS:** Yes.

5 **CHAIRMAN CARTER:** So you get a recess, sir.

6 Thank you. Call your next witness.

7 **MR. BUTLER:** Thank you. Mr. Chairman, I would
8 call Mr. Guest to the stand. And Mr. Guest has not been
9 previously sworn.

10 **CHAIRMAN CARTER:** Okay. I'll let him get his
11 water first.

12 Mr. Guest, will you please raise your right
13 hand.

14 (Witness sworn.)

15 **CHAIRMAN CARTER:** Please be seated.

16 **JAMES K. GUEST**

17 was called as a witness on behalf of Florida Power and
18 Light Company, and testified as follows:

19 **DIRECT EXAMINATION**

20 **BY MR. BUTLER:**

21 **Q.** Mr. Guest, would you please state your name
22 and business address for the record?

23 **A.** James K. Guest. My business address is 1155
24 15th Street Northwest, Washington, D.C. 20005, Suite
25 400.

1 **Q.** By whom are you employed and in what capacity?

2 **A.** I am an associate in the consulting firm of
3 Brown, Williams, Moorhead, and Quinn.

4 **Q.** Have you prepared and caused to be filed 14
5 pages of Prefiled Direct Testimony and four attached
6 exhibits, JKG-1 through JKG-4, in this proceeding?

7 **A.** Yes, I have.

8 **Q.** Did you also cause to be filed an errata to
9 your testimony on July 24, 2009?

10 **A.** Yes.

11 **Q.** Do you have any further changes or revisions
12 to your prefiled direct testimony beyond the errata that
13 were filed?

14 **A.** No, I do not.

15 **Q.** With those changes reflected in the errata, if
16 I asked you the same questions contained in your direct
17 testimony, would your answers be the same?

18 **A.** Yes, they would.

19 **MR. BUTLER:** Mr. Chairman, I would ask that
20 Mr. Guest's Direct Testimony, Prefiled Direct Testimony
21 be inserted into the record as though read.

22 **CHAIRMAN CARTER:** The prefiled testimony of
23 the witness will be inserted into the record as though
24 read.

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **SUPPLEMENTAL TESTIMONY OF JAMES K. GUEST**
4 **DOCKET NO. 090172-EI**
5 **MAY 29, 2009**

6
7 **Q. Please state your name and business address.**

8 A. My name is James K. Guest. My business address is 1155 15th Street, NW,
9 Suite 400, Washington, DC 20005.

10 **Q. On whose behalf are you testifying in this proceeding?**

11 A. I am testifying on behalf of Florida Power & Light Company (FPL).

12 **Q. By whom are you employed and what is your position?**

13 A. I am an Associate with the firm of Brown, Williams, Moorhead & Quinn, Inc.

14 **Q. What services does the firm offer?**

15 A. Brown, Williams, Moorhead & Quinn, Inc. provides technical and policy
16 assistance to various segments of the natural gas, electric and oil industries on
17 business and regulatory matters.

18 **Q. Please describe your educational background and professional**
19 **experience.**

20 A. I received a Bachelor of Science degree in Accounting from Indiana
21 University of Pennsylvania in 1974. Shortly after graduating, I accepted a
22 position with the Federal Energy Regulatory Commission (FERC) as a field
23 auditor in the FERC's Office of Chief Accountant. I was employed by the

1 FERC for the next 32 years accepting positions of increasing responsibility in
2 the area of financial accounting and reporting requirements for the electric
3 utility, natural gas pipeline and oil pipeline industries.

4
5 During this period, I served in a number of different positions including
6 Deputy Director of the Division of Audits in the Office of Chief Accountant;
7 Director, Division of Regulatory Accounting Policy; Deputy Chief
8 Accountant; and Chief Accountant before retiring from Federal service in
9 September 2007. In those positions, I was responsible for determining
10 individual companies' compliance with FERC's Uniform Systems of
11 Accounts (USoA) and related reporting requirements, developing and
12 directing rulemaking proposals for needed changes in those requirements,
13 providing broad policy guidance to the electric, natural gas and oil pipeline
14 industries on emerging financial accounting matters of significant import,
15 acting on industry requests for interpretive ruling on FERC USoA
16 requirements and providing counsel and advice on accounting matters to
17 senior FERC staff, the Commissioners and the Chairman.

18
19 I have spoken frequently at meetings of senior industry accounting executives,
20 state public utility commission, and staff and partners from national public
21 accounting firms to explain FERC accounting initiatives and financial
22 reporting requirements. I have also provided expert testimony on accounting
23 and utility cost-of-service matters in a number of administrative proceedings

1 before the FERC. Most recently I testified in the United States Tax Court on
2 the background and purpose of FERC's USoA and the accounting
3 classification for street lighting assets under FERC's USoA.

4

5 I am a Certified Public Accountant and a member of the American Institute of
6 Certified Public Accountants.

7 **Q. Are you sponsoring any exhibits in this case?**

8 A. Yes. I am sponsoring the following exhibits which are attached to my
9 testimony:

- 10 • JKG-1 Letter from Portland General Electric Company to FERC
11 dated March 12, 1993;
- 12 • JKG-2 Letter from FERC to Portland General Electric Company
13 dated April 14, 1993 regarding Docket No. AC93-8600;
- 14 • JKG-3 Letter from counsel for Portland General Electric Company
15 to FERC dated December 3, 2003; and
- 16 • JKG-4 Letter from FERC to counsel for Portland General Electric
17 Company dated March 4, 2004 regarding Docket
18 No. AC04-07-000.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. I was asked by FPL to comment on the appropriate accounting requirements
21 for costs related to FPL's proposed Florida EnergySecure Line (sometimes
22 referred to as the Line) under FERC's USoA for Public Utilities and
23 Licensees, which is codified at 18 C.F.R. Part 101.

1 **Q. Please summarize your supplemental testimony.**

2 A. My testimony focuses on the proper accounting classification for the costs
3 associated with FPL's proposed Florida EnergySecure Line under FERC's
4 USoA. I conclude that the cost of the proposed Florida EnergySecure Line
5 should be classified as electric utility plant and that such classification is
6 consistent with the appropriate rate treatment that should be afforded these
7 costs.

8 **Q. Does FPL follow the FERC's USoA for financial accounting and**
9 **reporting purposes?**

10 A. Yes. FPL is a public utility under the Federal Power Act (FPA). Under the
11 provisions of the FPA, FPL must follow the accounting requirements FERC
12 has prescribed in its USoA for all of its business activities, including the costs
13 related to the Florida EnergySecure Line. The Florida Public Service
14 Commission, which also regulates the accounting practices of FPL, has
15 adopted FERC's USoA with certain minor modifications considered necessary
16 to meet its regulatory needs.

17 **Q. Can you please summarize your understanding of the Florida**
18 **EnergySecure Line?**

19 A. Yes. The Florida EnergySecure Line will consist of approximately 280 miles
20 of mainline pipe, and approximately 23 miles of lateral and branch lines. The
21 mainline will begin at or near Florida Gas Transmission Company, LLC
22 (FGT) Compressor Station 16 (FGT Station 16) located in Bradford County,
23 Florida and terminate at FPL's Martin plant site, where, with FERC approval,

1 it could interconnect with other pipelines and facilitate delivery of gas for
2 FPL's gas-fired fleet of electric generating units. The Line includes two
3 laterals that will serve FPL's new Cape Canaveral Next Generation Clean
4 Energy Center and Riviera Beach Next Generation Clean Energy Center
5 (collectively, "the Modernization Projects"). The Line also includes upgrades
6 at FPL's 45th Street Terminal near the Riviera Beach Plant in Palm Beach
7 County, including an upgrade of the existing interconnection with FGT, and
8 installation of permanent compression. As initially constructed, the Florida
9 EnergySecure Line will have a capacity of 600 million cubic feet per day
10 (MMcf/d), which can be increased as required up to 1.25 billion cubic feet per
11 day (Bcf/d) with the addition of relatively inexpensive gas compression
12 upgrades.

13
14 As explained by FPL witness Sharra, initially the Line will serve primarily the
15 natural gas transportation needs of FPL's Modernization Projects, with these
16 facilities requiring approximately 400 MMcf/d in total, or nearly two-thirds of
17 the pipeline's initial capacity. The remaining 200 MMcf/d will be delivered
18 to FPL's Martin Plant for reliability purposes, but will also be offered to other
19 entities within the state in the interim until the full capacity is needed by FPL.
20 The 200 MMcf/d delivered to FPL's Martin Plant can displace deliveries from
21 FGT or Gulfstream Natural Gas System, LLC (Gulfstream) to that site, which
22 can then be redirected to other FPL facilities or to other entities within the
23 state (Sharra at Page 10).

1 **Q. Under FERC's USoA how should FPL account for the costs related to the**
2 **proposed Florida EnergySecure Line?**

3 A. Under FERC's USoA, FPL should classify the cost to construct the Line as
4 Electric Utility Plant, accumulating the costs of construction in a construction
5 work order in Account 107, Construction Work in Process – Electric, and
6 ultimately recording the costs in Account 101, Electric Plant in Service, when
7 the Line is placed in commercial operation. The depreciation, operation and
8 maintenance expenses related to the Line after it has been placed in service
9 should be charged to electric utility operating expense accounts.

10 **Q. Is it unusual to classify a gas pipeline as electric utility plant?**

11 A. No. Where a pipeline is owned by an electric utility and used to supply fuel to
12 an electric generating station, it is an asset serving the electric production
13 function and therefore should be classified as electric utility plant.

14 **Q. Does FPL's ability to potentially use the Line to provide gas**
15 **transportation service to others disqualify it from classification as electric**
16 **plant under the FERC's USoA?**

17 A. No. Based on my review of the proposed Line, as described in the testimony
18 of FPL's witnesses, the overwhelming primary purpose of the Line is to meet
19 the gas transportation needs of FPL's gas-fueled generating stations. Public
20 utilities often classify assets on the basis of their primary purpose even though
21 the assets may be used at times for other purposes. This is sometimes referred
22 to as the primary function approach to classifying costs.

1 **Q. Can you please explain the primary function approach to classifying**
2 **costs?**

3 A. Yes. Under the primary function approach, the cost of an asset shared by two
4 two or more departments or functions is classified according to its primary or
5 major function. The depreciation, operation and maintenance costs of the
6 asset are likewise classified according to the asset's primary or major function
7 and any revenue received from third parties from the asset's secondary use are
8 recognized as revenue or a reduction in the costs of the primary function.
9 This approach is typically used when the revenue from secondary use of the
10 asset is incidental to its primary use and/or the secondary use of the asset is
11 not a separate profit center line of business of the accounting entity.
12 Typically, the primary function approach carries minimal administrative
13 burden to implement.

14 **Q. Are any costs allocated to the secondary function when costs are classified**
15 **using the primary function approach?**

16 A. No. Instead of allocating costs, any revenues received from third parties from
17 its secondary use are assigned to the primary function. This recognizes that
18 the revenues, while providing an economic benefit, are really ancillary to the
19 primary use of the asset, which, for the Line, is providing gas to the FPL
20 planned gas-fired units. Similar to off-system sales of power from temporary
21 surplus capacity, the revenues serve to reduce the cost of supplying gas to the
22 gas-fired units.

- 1 **Q. Does the FERC's USoA contain references to this practice?**
- 2 A. Yes. The FERC's USoA contains Electric Plant Instructions that specify how
3 public utilities should initially recognize and account for the cost of electric
4 utility plant, how public utilities should recognize and account for changes in
5 those costs through additions, retirements and transfers, and how public
6 utilities should classify electric plant costs among the various accounts,
7 functions and categories of electric plant. Electric Plant Instruction No. 8 sets
8 forth the costs that should be included in the category, "Structures and
9 Improvements." Paragraph D of Electric Plant Instruction No. 8 refers to
10 certain plant assets that can be used to provide steam for electricity production
11 and also for heating buildings. Paragraph D of Gas Plant Instruction No. 8
12 requires all of the cost of these type assets to be classified as electric
13 production plant because that is the primary purpose for which the assets are
14 used. Similarly, Paragraph E of Electric Plant Instruction No. 14 of the USoA
15 provides that the cost of land and structures used jointly for transmission and
16 distribution are to be classified as either transmission or distribution according
17 to the major use of the asset.
- 18
- 19 Classifying revenue received from third party use of electric property based
20 on the property's primary use is addressed in the USoA instructions for
21 Account 454, Rent from Electric Property, and Account 456, Other Electric
22 Revenues. Both of these accounts are electric operating revenue accounts.
23 The instructions to Account 454 provide that it is to include rent received for

1 the use by others of property devoted to electric operations. One example is
2 the rent paid by communications companies for use of an electric distribution
3 pole to carry their communication cable. Similarly, the instructions to
4 Account 456 provide that it is to include revenue from the sale of steam to
5 third parties.

6 **Q. Are you aware of any instances in which a public utility was authorized to**
7 **classify a gas transmission line as electric utility plant?**

8 A. Yes. Portland General Electric (PGE) constructed a 17-mile gas pipeline
9 (Kelso-Beaver Pipeline) to serve its Beaver Combined Cycle Combustion
10 turbine generation facility. At or near the completion of construction, PGE
11 filed a letter with the FERC requesting "concurrence or clarification" on
12 whether or not PGE was required to file a Form 2 or Form 2-A for its pipeline
13 and whether or not PGE could report its investment in the pipeline to electric
14 utility plant Account 342, a subaccount under Account 101 - Electric Plant in
15 Service. The FERC Form 2 and 2-A are Annual Reports that major and non-
16 major interstate gas pipelines must file with the FERC under the Natural Gas
17 Act. The Annual Reports contain a basic set of financial statements (Income
18 Statement, Balance Sheet, Statement of Retained Earnings and Statement of
19 Cash Flows) together with a number of supporting schedules. They are
20 similar to an Annual Report to Stockholders but with a much greater level of
21 detail. FERC had authorized PGE to use the pipeline to transport gas only for
22 its use in Docket No. CP91-1607-000. In its response to PGE, FERC, through
23 its Chief Accountant, waived the requirement to file a Form 2 or 2-A, and

1 authorized the use of plant Account 342 - Fuel Holders, Producers and
2 Accessories. Copies of PGE's letter and FERC's response are attached to my
3 testimony as Exhibits JKG-1 and JKG-2, respectively.

4
5 In October 2003, FERC issued PGE a "blanket certificate of public
6 convenience and necessity, and approved pro-forma tariff provisions, and
7 initial rates." FERC also established PGE's share of the pipeline as an open
8 access gas pipeline. In light of that development, PGE filed another letter
9 with FERC dated December 3, 2003 requesting clarification of the proper
10 accounting for the cost related to the Kelso-Beaver Pipeline stating in
11 pertinent part:

12 "Portland believes that it would be most appropriate to grant Portland
13 a waiver of use of the gas accounts of the US of A since its portion of
14 the Kelso-Beaver Pipeline continues to service Portland's Beaver
15 generation plant. At most the pipeline would provide minimal
16 interruptible service if requested by a new shipper."

17

18 In a letter dated March 4, 2004, FERC responded stating:

19 "Under the circumstances described above, Portland should continue
20 to account for its investment in the Kelso-Beaver Pipeline and its
21 related operations and maintenance in accordance with the Uniform
22 System of Accounts' requirements for public utilities and licenses.
23 This determination, however, is subject to Portland maintaining

1 accounting records related to the pipeline so as to readily permit
2 identification of the depreciation, operations and maintenance expense
3 and all other elements necessary for the development of a cost of
4 service applicable to the pipeline.”

5

6 Copies of PGE’s letter and FERC’s response are attached to my testimony as
7 Exhibits JKG-3 and JKG-4, respectively.

8 **Q. You stated earlier that the overwhelming primary purpose of the Line**
9 **was to meet the gas transportation needs of FPL’s gas-fired generating**
10 **stations. On what did you base that conclusion?**

11 **A.** I based my conclusion on the direct testimony that the FPL witnesses filed in
12 this proceeding. I believe that testimony strongly supports the conclusion that
13 the proposed Florida EnergySecure Line has been designed to meet the gas
14 transportation needs of FPL’s gas-fired electric generation stations and is
15 intended for the benefit of its electric utility operations and the customers that
16 take electric service. For example:

- 17 • The intent of FPL’s solicitation of transportation proposals was to
18 meet the initial needs of its Cape Canaveral and Riviera Beach
19 Modernization Projects, to increase reliability and supply diversity,
20 and to allow for future generation growth (Stubblefield - Page 4,
21 Lines 4 – 23 and Page 5, Line 5).
- 22 • In 2008 approximately 53% of all energy produced by FPL came
23 from gas-fired generation and that percentage is expected to increase

- 1 to almost 70% in 2030 and 84% by 2040 (Enjamio - Page 4,
2 Lines 14-16). As a result, under FPL's base case, FPL's incremental
3 gas transportation needs will increase to 1.6 Bcf/d by 2030 and
4 2.8 Bcf/d by 2040 (Enjamio - Page 16, Lines 3-4). Therefore all of
5 the capacity in the Florida EnergySecure Line will eventually be
6 needed to meet FPL's electric utility operations.
- 7 • Attempts were made to consider proposals that were more in line
8 with the immediate needs of the Modernization Projects, but those
9 proposals were not cost-effective compared to the Florida
10 EnergySecure Line/Upstream Pipeline proposal, and did not provide
11 the ability to cost-effectively expand capacity to meet the longer-
12 term needs of FPL's generating units (Stubblefield - Page 7, Lines 7-
13 11).
 - 14 • FPL determined the size of the proposed Line to meet FPL's current
15 transportation capacity requirements for the Modernization Projects,
16 to economically increase capacity over time through addition of
17 compression as additional natural gas-fired generation is needed, and
18 to minimize the cost impact on FPL customers (Sharra - Page 15,
19 Line 18). This also indicates that the Line is intended to meet FPL
20 electric generation needs.
 - 21 • The remaining 200 MMcf/d above the 400 MMCF/d needed to meet
22 the immediate needs of the Modernization Projects may be delivered
23 to the Martin Plant for reliability purposes, which would displace

1 deliveries from FGT or Gulfstream (Sharra - Page10, Lines 12-19).
2 In that situation, the entire capacity of the Florida EnergySecure line
3 would be utilized for the production of electricity.

4 • FPL intends to pass on any proceeds it receives from the sales of
5 excess capacity to its electric customers (Sharra – Page 11, Lines
6 12 - 14). This again demonstrates that the Florida EnergySecure
7 Line is intended to be an integral part of FPL's electric production
8 operation and not a separate business segment selling gas
9 transportation services for investor profit.

10 **Q. Is the accounting classification of the costs of the Florida EnergySecure**
11 **Line as electric utility plant consistent with how the costs should be**
12 **recovered in the rates charged to FPL customers?**

13 A. Yes. Typically amounts recorded in the accounts as electric utility plant are
14 included in rate base and the return on, recovery of and the related operation
15 and maintenance expenses of the property to which those costs relate are
16 recovered in rates charged to electric customers. The proposed Florida
17 EnergySecure Line, if approved, will be used to meet the gas transportation
18 needs of its electric generation resources, the output from which will be used
19 to provide electric service to FPL's electric customers. Therefore, it is both
20 appropriate and reasonable for the cost of the Florida EnergySecure Line to be
21 afforded the same rate treatment classified as electric utility plant.

- 1 **Q.** **Considering the nature of the Line, do you see any need to identify and**
2 **assign to other functions or customer classes for ratemaking purposes,**
3 **costs associated with the 200 MMcf/d of capacity in excess of the**
4 **immediate needs of the modernization projects that may not be recovered**
5 **through third-party sales of that capacity?**
- 6 A. No I do not. FPL is proposing to undertake the Florida EnergySecure Line to
7 meet the gas transportation needs of its electric generating stations for the
8 benefit of its electric customers. As with many large capital projects and base
9 load generating stations, future growth is almost always anticipated in order to
10 take advantage of economies of scale. But in doing so, there is often excess
11 capacity involved initially. That is the case with the Florida EnergySecure
12 Line as well. However, that does not change the fact that the Line is an
13 integral part of FPL's electric production function and will be utilized, if
14 approved, for the benefit of FPL's electric customers and, by virtue of its
15 crediting of any revenues from third party use of the 200 MMcf/d to electric
16 customers, will not be a separate profit center or segment of business for FPL.
17 Under these circumstances, assignment of a portion of the costs of the Florida
18 EnergySecure Line that might be deemed above the related revenue from third
19 party sales of excess capacity to other functions or customer classes is not
20 warranted.
- 21 **Q.** **Does this conclude your testimony?**
- 22 A. Yes.

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
 Served: July 24, 2009

ERRATA SHEET

SUPPLEMENTAL TESTIMONY OF JAMES K. GUEST

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
8	11	Replace "Gas" with "Electric"

Respectfully submitted this 24th day of July, 2009.

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1 **MR. BUTLER:** And I would note that his
2 Exhibits JKG-1 through JKG-4 have been identified in
3 Staff's Comprehensive Exhibit List as Exhibits 46
4 through 49.

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1 **BY MR. BUTLER:**

2 Q. And with that, Mr. Guest, would you please
3 summarize your testimony.

4 A. Good morning -- or, good afternoon, Mr.
5 Chairman and Commissioners. Thank you for this
6 opportunity to appear before you today.

7 My testimony focuses on the proper accounting
8 for the costs associated with the proposed Florida
9 EnergySecure Line and how that accounting is consistent
10 with the appropriate rate treatment that should be
11 afforded those costs. Unlike most U.S. electric
12 utilities, Florida Power and Light serves a large
13 portion of its electric load through gas fuel
14 generation.

15 For Florida Power and Light, transporting gas
16 through its electric generating stations is a critical
17 and integral part of its ability to provide reliable
18 electric service. To meet the gas transportation needs
19 of its electric generating stations and for the benefit
20 of its electric customers, Florida Power and Light has
21 carefully and thoroughly gone about assessing those
22 needs and developing a gas transportation proposal that
23 will result in the lowest cost to its electric
24 customers. That proposal is the Florida EnergySecure
25 Line.

1 Because the Florida EnergySecure Line will be
2 an asset used in Florida Power and Light's electric
3 production function, the related costs of the pipeline
4 should be classified as electric utility plant just as
5 the cost of all other assets owned and used for that
6 purpose are classified. For the same reason, the
7 depreciation, operation, and maintenance expenses
8 related to the line after it has been placed in service
9 should be charged to electric utility operating
10 expenses.

11 Now, it's true that the addition of the
12 Florida EnergySecure Line may result in Florida Power
13 and Light temporarily holding excess gas transportation
14 capacity. But in large long-lived infrastructure
15 projects such as this, excess capacity almost always
16 exists initially in order to capture economies of scale.
17 That does not mean that costs related to that excess
18 capacity should be reclassified or allocated to
19 different departments or functions. Instead, the cost
20 of the asset and its associated operating and
21 maintenance expenses remain classified according to
22 their primary function and any revenues from third-party
23 sales of excess capacity are credited back to the costs
24 of the primary function.

25 The practice of classifying an asset's costs

1 and related expenses based on its primary function with
2 revenue crediting for its secondary use is accepted and
3 appropriate for public utilities. This is, in fact,
4 what Florida Power and Light has proposed for its
5 Florida EnergySecure Line. This accounting is supported
6 by the Uniform System of Accounts for public utilities
7 and can be put in place very efficiently without the
8 need to resort to complex cost allocations or reporting
9 requirements that would be needed if Florida
10 EnergySecure Line's assets were, for example, held in a
11 separate subsidiary company.

12 Finally, classifying the costs of the Florida
13 EnergySecure Line as electric utility plant is entirely
14 consistent with the appropriate rate treatment that
15 should be afforded these costs. Electric utility plant
16 costs and the related expenses typically are assigned
17 and collected in rates charged to electric customers.
18 Because the Florida EnergySecure Line project is being
19 undertaken for the benefit of electric customers,
20 classifying the costs as electric utility plant results
21 in assigning the costs to the customers that receive the
22 benefits, and also comports with Florida Power and
23 Light's proposal to credit electric customers with the
24 revenues received from any third-party sales of excess
25 capacity. Thank you.

1 **MR. BUTLER:** Thank you, Mr. Guest.

2 I tender the witness for cross.

3 **COMMISSIONER EDGAR:** Mr. Self.

4 **MR. SELF:** Thank you.

5 **CROSS EXAMINATION**

6 **BY MR. SELF:**

7 **Q.** Good afternoon, Mr. Guest. I'm Floyd Self
8 representing FGT, and I've got a few questions for you.
9 Have you ever previously advocated placing a 280-mile
10 long mainline natural gas transmission pipeline in
11 electric utility plant rate base before any regulatory
12 commission?

13 **A.** I have not advocated that, no. I do think
14 this is probably a fairly unusual case.

15 **Q.** Well, pipelines have -- gas transportation
16 pipelines have existed for many years, correct?

17 **A.** Yes.

18 **Q.** Can you turn to Page 9 of your testimony,
19 please?

20 **A.** I'm there.

21 **Q.** Now, in support of your analysis, you discuss
22 the Kelso Beaver Pipeline, a 17-mile pipeline that FERC
23 allowed in an electric utility to classify as electric
24 utility plant, is that correct?

25 **A.** That's correct.

1 Q. Now, presumably this 17-mile pipeline tied
2 into some other long distance mainline transportation
3 system that actually brought the natural gas to the gas
4 fields to the 17-mile line, is that true?

5 A. I believe so.

6 Q. Did the 17-mile long pipeline here serve one
7 electric plant?

8 A. I believe the pipeline served a generating
9 station as well as an LDC, I think.

10 Q. But it only served one electric plant as far
11 as you knew?

12 A. As far as I'm aware, yes.

13 Q. In your mind is this 17-mile pipeline just
14 like some of the short distance pipelines that FPL
15 currently owns and operates?

16 A. It may be similar in diameter, but I don't
17 think the particular length of the pipeline necessarily
18 dictates what the proper accounting for the pipeline
19 should be. It's really -- classification for accounting
20 purposes of the pipeline is based upon what it's going
21 to be used for, which in the case of the Florida
22 EnergySecure Line it will be used for the electric
23 production function.

24 Q. Well, I understand that. All I'm trying to
25 get to is you would agree with me that FPL today owns

1 several short distance pipelines, is that true?

2 **A.** I am aware that they own the Martin pipeline.

3 **Q.** Okay. And how long is that pipeline?

4 **A.** My understanding is it is 36 miles long.

5 **Q.** Okay. Do you know whether that pipeline
6 crosses county boundaries?

7 **A.** No, I do not.

8 **Q.** Can you identify for us any long distance,
9 200 miles or more in length, high pressure natural gas
10 transportation pipelines that serve multiple customers
11 or multiple power plants and which are included in an
12 electric utility's rate base?

13 **A.** In conducting some research for this case, it
14 was difficult to determine whether, in fact, those types
15 of facilities existed elsewhere in the United States,
16 primarily because to my knowledge there is not
17 necessarily a disclosure requirement for an entity that
18 would own such a facility to disclose that facility in
19 that kind of a description. Given that, I was not able
20 to identify a pipeline that was, as you put it, I
21 believe, over 200 miles in length that was serving
22 multiple generating stations.

23 **Q.** To your knowledge has the Florida Public
24 Service Commission ever approved a pipeline project such
25 as the one that's here for inclusion in electric rate

1 base?

2 **A.** I'm not aware that the Florida Public Service
3 Commission has approved inclusion of a pipeline, if you
4 are equating it to an over 200-mile pipeline, in rate
5 base. I am aware that the Florida Public Service
6 Commission had permitted a return to be earned on a
7 pipeline serving FPL's production function.

8 **Q.** And what do you mean by that?

9 **A.** It's my understanding that the pipeline that
10 was serving Martin Station, the 36-mile pipeline, was
11 allowed -- that the Florida Public Service Commission
12 had authorized a return to be earned on that pipeline,
13 although it was recovered through the fuel adjustment
14 clause.

15 **Q.** In your experience, would you define that
16 pipeline as a mainline transportation natural gas
17 pipeline?

18 **A.** I would defer that question to Witness
19 Collins, I think. I think he earlier had described what
20 was mainline and what wasn't mainline.

21 **Q.** Okay. In your experience working before the
22 FERC, have you ever seen the FERC approve a pipeline
23 project such as FPL is proposing here for inclusion in
24 an electric utility's rate base?

25 **A.** I don't know that the situation would have

1 been put squarely before the Commission in that fashion.
2 The Commission regulates wholesale sales for electric
3 energy, and if there was a pipeline that was included in
4 the cost of the plant from which a wholesale rate was
5 determined, I don't know that they would have
6 specifically focused on whether those costs included a
7 pipeline.

8 The one case that I'm aware of where the
9 Commission -- well, the one case I'm aware of where it
10 was considered what the proper accounting should be for
11 a pipeline owned and used by an electric utility and
12 serving a generating station was the Portland General
13 case that I referred to in my testimony, and there they
14 concluded it should be classified as electric plant.

15 **Q.** Let me ask you this question. If FPL, say,
16 had a coal-fired electric plant, and you would agree
17 with me that obviously that plant requires coal in order
18 to generate electricity, correct?

19 **A.** Yes.

20 **Q.** And if based upon where that plant was
21 located, the best way to move coal to that plant was by
22 barge, in your analysis would it be appropriate for the
23 utility to purchase that barge transportation system to
24 use it to transport coal to that power plant and include
25 it in rate base?

1 **A.** If the economics showed that that was the most
2 cost-effective and efficient way of doing it and
3 resulted in the lowest rates for the consumers, yes, it
4 would be -- those barges would be being used in the
5 electric production function and should be included in
6 electric plant and service and rate base.

7 **Q.** I'm sorry, I didn't mean to cut you off.

8 **A.** I said and rate base. I believe that was your
9 question.

10 **Q.** Okay. Now, let's say -- just to kind of
11 follow this line -- let's say that the coal that is
12 required to be burned in this power plant is a unique
13 kind of coal that's only found in Tennessee, or
14 Kentucky, it doesn't matter which state.

15 Would it be appropriate in your analysis for
16 the utility to purchase that coal mine if the coal
17 coming from that coal mine was only going to be
18 transported on that barge and only used by the electric
19 utility?

20 **A.** Your hypothetical was, I think, would it be
21 appropriate for the utility to purchase that coal mine?

22 **Q.** And include it in the rate base.

23 **A.** And include it in the rate base if it was only
24 going to transport on its own barges?

25 **Q.** And use it in only its electric generating

1 plant?

2 **A.** If economically that was the most efficient
3 way of meeting what was needed in its electric utility
4 production function, I don't see any reason why it would
5 not be appropriate to classify it as electric utility
6 plant.

7 **MR. SELF:** Okay. Thank you. No further
8 questions, Commissioner.

9 **COMMISSIONER EDGAR:** Thank you. Are there
10 questions from staff for this?

11 **MS. BROWN:** Yes, Commissioners. Could we have
12 two minutes just to go over our questions because there
13 has been some repetition?

14 **COMMISSIONER EDGAR:** You may. Should we hold
15 in spot, hold in place?

16 **MS. BROWN:** Sure.

17 **COMMISSIONER EDGAR:** We are on an informal
18 break for about two minutes.

19 **MS. BROWN:** Thank you.

20 (Brief recess.)

21 **CROSS EXAMINATION**

22 **BY MS. BROWN:**

23 **Q.** Good afternoon. Is it Doctor Guest?

24 **A.** No, it's not.

25 **Q.** Mr. Guest, if I might direct your attention

1 back to Portland General for a minute. In your
2 testimony you use it as an example of an electric
3 utility with natural gas transmission pipeline in
4 electric rate base. And you include in your exhibits
5 copies of correspondence between Portland General and
6 FERC in which the utility asks for a waiver of the
7 FERC's Uniform System of Accounts, correct?

8 **A.** Yes.

9 **Q.** Why did Portland General ask for a waiver of
10 the FERC's accounting requirements?

11 **A.** I believe Portland General felt that because
12 it was -- the pipeline in question was an interstate
13 pipeline, it had some doubt as to whether or not it
14 would be required to file a Form 2, or whether the
15 accounting requirements for interstate pipelines would
16 apply to them.

17 **Q.** And was that in part because they were only
18 going to provide minimal interruptible service on the
19 pipeline and the rest was going to serve themselves?

20 **A.** No, I don't think that was -- I don't think
21 that entered into what their thought process was. I
22 just think that that pipeline facility transported gas
23 that crossed state lines, and they had some doubt as to
24 whether they would be required to file a Form 2, which
25 is typically required for interstate gas pipelines, and

1 whether the gas accounting rules would apply to them.

2 Q. Are you aware that the Public Service
3 Commission has adopted the FERC's Uniform System of
4 Accounts in its accounting rules for electric utilities
5 and gas utilities?

6 A. That was my understanding, yes.

7 Q. Do you agree that Portland General asserted in
8 that series of letters that the waiver should be
9 approved because even if additional assets were built,
10 the vast majority would continue to serve the pipeline
11 owner's facilities?

12 MR. BUTLER: Excuse me. I would ask that Ms.
13 Brown point Mr. Guest to where specifically she is
14 referring in the exhibits she's examining him about.

15 MS. BROWN: Well, we are referring to Page 2
16 of 2, Exhibit JKG-4, and if you will give us a minute we
17 will find the other one.

18 BY MS. BROWN:

19 Q. If you will look at Page 2 of 2, JKG-4, the
20 first full paragraph. Do you see that?

21 A. Yes.

22 Q. This is a letter from you to Portland General
23 allowing for the waiver, correct? Will you read that
24 paragraph.

25 A. Portland seeks a waiver of use of the gas

1 accounts in accounting for its portion of the Kelso
2 Beaver Pipeline as it will continue to be used to
3 service Portland Beaver Generation Plant and expected
4 usage by other shippers on the pipeline if requested is
5 expected to be minimal. Now, that is the -- that is a
6 statement of what Portland seeks and what their thought
7 process may have been. The reason that their request
8 was granted, though, was because the pipeline was being
9 used to provide transportation service to Portland
10 General's electric generating station.

11 Q. I'm not sure I know the answer to this
12 question, but I am going to ask it anyway. If FPL wants
13 to account for its EnergySecure assets on its electric
14 utility books, would it need to ask for a waiver of the
15 FERC's or the Florida Commission's accounting
16 requirements? And, if so, from whom would it ask for
17 the waiver and when would it need to ask for it? I
18 apologize for the multiple question.

19 A. First of all, I think it's a legal question as
20 to whether they do or they don't need to seek a waiver,
21 and it depends on the facts and circumstances. There is
22 a provision in the system of accounts that if an
23 interpretation is doubtful, they can seek an
24 interpretive ruling from the Commission, and I would
25 assume that if the Florida PSC has adopted the FERC's

1 Uniform System of Accounts the same would be true and
2 they could make that request to the Florida PSC, or they
3 could make it to the Federal Energy Regulatory
4 Commission, or they could make it to both. They could
5 do the same for any waiver request, as well. As to
6 timing as to when they would need to request that
7 determination, it certainly wouldn't seem to me to be
8 kind of -- you wouldn't want it to be after you're
9 facing how to account for the costs.

10 Q. So you mean that it would probably be done
11 sooner rather than later? Well, if you're getting ready
12 to build a \$1.5 billion pipeline and you are uncertain
13 about how to account for it and whether or not you need
14 a waiver, wouldn't you want to ask before you built it?

15 MR. BUTLER: I'm sorry, ask whom?

16 MS. BROWN: Either the FERC or the Florida
17 Public Service Commission.

18 MR. BUTLER: Well, to the extent your question
19 refers to FERC, I think I would object to it. It's
20 asking about a jurisdiction that doesn't apply to an
21 intrastate pipeline.

22 MS. BROWN: Well, I think the question of
23 jurisdiction is still outstanding in this case.

24 MR. BUTLER: Can you read the question again?
25

1 **BY MS. BROWN:**

2 Q. The question was would FPL need to ask for a
3 waiver of the FERC's or the Florida Commission's
4 accounting requirements; and, if so, from whom and when?

5 A. I think the existing system of accounts is
6 sufficiently clear that if a pipeline owns and uses a
7 pipeline for providing transportation service to its
8 generating stations, it's a pipeline that is used in
9 electric operations and should be classified as an
10 electric utility plant.

11 Q. Okay. So are you saying a waiver would not be
12 required?

13 A. A waiver may not be required in this instance
14 because what triggered the request for a waiver in the
15 Portland General case was provisions of the Natural Gas
16 Act which I don't believe apply to the intrastate
17 pipeline here.

18 **MS. BROWN:** All right. Thank you, Mr. Guest.
19 We have no further questions.

20 **CHAIRMAN CARTER:** Thank you, staff.

21 Commissioner Skop, you're recognized.

22 **COMMISSIONER SKOP:** Thank you, Mr. Chair.

23 Mr. Guest, just three quick questions. If I
24 think I heard your testimony correctly, I believe you
25 testified that the length of an intrastate pipeline is

1 not determinative of whether rate base recovery should
2 be allowed under the FERC Uniform System of Accounts, is
3 that correct?

4 **THE WITNESS:** That's correct.

5 **COMMISSIONER SKOP:** Okay. And I think that
6 you also testified, although I don't have an order and I
7 will get to that in a second, that the Commission
8 previously allowed FPL to earn a rate of return on the
9 36-mile Martin to 45th Street Terminal pipeline, is that
10 correct, through the fuel clause?

11 **THE WITNESS:** They permitted FPL to collect a
12 return, yes.

13 **COMMISSIONER SKOP:** Okay. If either FPL or
14 staff as a late-filed could get a copy of that order to
15 definitize what treatment was given to that specific
16 pipeline, I think it's bearing upon the issue before us.

17 **MS. BROWN:** Yes, Commissioner. I think that
18 is a Commission order that the Commission can always
19 take official recognition of, and we can include it in
20 the recommendation.

21 **COMMISSIONER SKOP:** Well, if somebody could
22 research that for me.

23 **MR. BUTLER:** Also, Commissioner Skop, that is
24 essentially what we will be addressing in Late-filed
25 Exhibit 96, so we will be specifically covering that.

1 **COMMISSIONER SKOP:** Thank you. And then just
2 one final question, Mr. Guest. I guess in your
3 professional opinion, Mr. Self has asked a bunch of
4 questions relating to what other states have done, what
5 FERC has done in the past. Florida, I think, inherently
6 is a little bit different from other parts of the states
7 in our nation, so I'm going to just ask a general
8 question. If you can answer it comfortably; if not,
9 fine.

10 But in your professional opinion, should other
11 factors such as the peninsula nature of Florida, fuel
12 transportation diversification, supply interpretation
13 risk, and FPL's heavy dependence on natural gas be
14 considered within the decision-making calculus that this
15 Commission considers when whether to include the
16 proposed project in the rate base?

17 **THE WITNESS:** Yes, I do, and some of those
18 same factors I took into consideration in kind of
19 looking at how the costs should be classified for
20 accounting purposes.

21 **COMMISSIONER SKOP:** All right. Thank you.

22 **CHAIRMAN CARTER:** Thank you, Commissioner.
23 Commissioners, anything further from the bench?

24 Ms. Brown.

25 **MS. BROWN:** I have one further follow-up

1 question that I missed before, if I might ask.

2 **CHAIRMAN CARTER:** Let's see. Go ahead. Let's
3 see what you've got there.

4 **MS. BROWN:** Well, it relates to your earlier
5 discussion about the Sunshine Pipeline case.

6 **FURTHER CROSS EXAMINATION**

7 **BY MS. BROWN:**

8 Q. Are you aware of how other intrastate
9 pipelines are treated in Florida with respect to
10 corporate structure?

11 **MR. BUTLER:** I assume you're asking about
12 intrastate pipelines generally, not just ones owned by
13 an electric utility?

14 **MS. BROWN:** Yes, intrastate pipelines
15 generally.

16 **THE WITNESS:** And I'm not familiar with
17 Sunshine.

18 **MS. BROWN:** Okay. That's all right. Thanks.

19 **CHAIRMAN CARTER:** Thank you.

20 Anything further from the bench?

21 Redirect.

22 **MR. BUTLER:** Briefly, Mr. Chairman.

23 **REDIRECT EXAMINATION**

24 **BY MR. BUTLER:**

25 Q. The first, and this is truly a clarification.

1 You gave an answer to Ms. Brown toward the end of her
2 questioning that began with the phrase, if I understood
3 you correctly, if a pipeline owns and uses a pipeline.
4 Did you mean to say if a utility, an electric utility
5 owns?

6 **A.** I'm sorry, yes.

7 **Q.** I just wanted to clarify the record on that.

8 Mr. Self had asked you a question about a
9 pipeline that would serve more than one plant. In your
10 opinion, would it make a difference in terms of the
11 proper accounting for a pipeline whether the pipeline
12 served one power plant that a utility owned versus
13 serving two or more power plants owned by the same
14 utility?

15 **A.** No, it would not make a difference. Again,
16 the accounting determination is made based upon the
17 function that the assets will perform.

18 **Q.** Similarly, Mr. Self discussed, or asked you
19 whether you were aware if the 18-inch pipeline from
20 Martin to Riviera crosses a county boundary. Would it
21 make any difference in the proper accounting for a gas
22 pipeline owned by an electric utility whether it crossed
23 a county boundary or not?

24 **A.** No, it would not.

25 **Q.** He asked you about the distinction between

1 mainline and lateral pipelines. Would it make a
2 difference, in your mind, in the proper accounting
3 treatment for an electric -- of for a gas pipeline owned
4 by an electric utility whether it was characterized as a
5 mainline or a lateral?

6 **A.** No, it would not. Again, it is what function
7 is the asset performing, and if it's performing a gas
8 transportation function to the generating station, it
9 would be classified as electric plant.

10 **MR. BUTLER:** Thank you, Mr. Guest. Those are
11 all the questions I have.

12 **CHAIRMAN CARTER:** Okay. Exhibits.

13 **MR. BUTLER:** I would move the admission of
14 Exhibits 46 through 49.

15 **CHAIRMAN CARTER:** Mr. Self, any objection?

16 **MR. SELF:** No objection.

17 **CHAIRMAN CARTER:** Without objection, show it
18 done, Exhibits 46 through 49. Okay.

19 Will we see Mr. Guest again?

20 (Exhibits 46 through 49 admitted into the
21 record.)

22 **MR. BUTLER:** You will not. This is his only
23 appearance.

24 **CHAIRMAN CARTER:** Okay. Hasta la bye bye.

25 **THE WITNESS:** Thank you, Mr. Chairman.

1 **CHAIRMAN CARTER:** Have a great one. Call your
2 next witness.

3 **MR. BUTLER:** FPL calls Jonathan D. Ogur. I'm
4 sorry, Mr. Chairman, I don't believe this witness has
5 been sworn.

6 **CHAIRMAN CARTER:** Okay. Would you please
7 stand and raise your right hand.

8 (Witness sworn.)

9 **CHAIRMAN CARTER:** Please be seated.

10 **JONATHAN D. OGUR**

11 was called as a witness on behalf of Florida Power and
12 Light Company, and having been duly sworn, testified as
13 follows:

14 **DIRECT EXAMINATION**

15 **BY MR. PERKO:**

16 **Q.** Could you please state your full name and
17 business address for the record?

18 **A.** Yes. I'm Jonathan D. Ogur, and my business
19 address is 1155 15th Street Northwest, Suite 400,
20 Washington, D.C. 20005.

21 **Q.** And by whom are you employed and in what
22 position?

23 **A.** I'm an associate with Brown, Williams,
24 Moorhead, and Quinn, Incorporated, Energy Consultants.

25 **Q.** And, Mr. Ogur, did you prepare and cause to be

1 filed Supplemental Testimony consisting of 21 pages in
2 this docket?

3 **A.** Yes, I did.

4 **Q.** And along with that testimony, did you submit
5 two exhibits labeled JD-01 and JD-02?

6 **A.** Yes, that's correct.

7 **Q.** Have you filed an errata relating to your
8 testimony and exhibits on July 24th?

9 **A.** I have not.

10 **Q.** You have not. Do you have any changes or
11 additions to your testimony?

12 **A.** No, I don't.

13 **Q.** Do you have any changes or additions to your
14 exhibits?

15 **A.** No, I don't.

16 **Q.** If I were to ask you the same questions in
17 your testimony today, would your answers be the same?

18 **A.** Yes, they would.

19 **MR. PERKO:** At this time I'd like to move the
20 Prefiled Supplemental Testimony of Jonathan D. Ogur into
21 the record as if read.

22 **COMMISSIONER EDGAR:** The prefiled testimony of
23 the witness will be entered into the record as though
24 read.
25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **SUPPLEMENTAL TESTIMONY OF JONATHAN D. OGUR**

4 **DOCKET NO. 090172-EI**

5 **MAY 29, 2009**

6
7 **INTRODUCTION**

8
9 **Q. Please state your name and business address.**

10 A. My name is Jonathan D. Ogur and my business address is Brown, Williams,
11 Moorhead & Quinn, Inc., Energy Consultants, 1155 15th Street, N.W., Suite 400,
12 Washington, DC 20005.

13 **Q. Please describe your current employment.**

14 A. From 2006 until the present, I have been employed as an Associate by Brown,
15 Williams, Moorhead & Quinn, Inc., Energy Consultants ("BWMQ").

16 **Q. Please describe your educational background.**

17 A. I received an A.B. degree with a pre-med concentration in Mathematics from
18 Columbia College in 1965, a Master of Arts degree in Economics from Cornell
19 University in 1969, and a Ph.D. in Economics from Cornell University in 1970.

20 **Q. Please summarize your previous work experience.**

21 A. From 1970 to 1973, I was an Assistant Professor of Economics at Tulane University,
22 where I taught both graduate and undergraduate courses. From 1973 to 2006, I was
23 an Economist with the federal government. During that time, I worked at the

1 Federal Energy Regulatory Commission (“FERC”), the Federal Trade Commission,
2 and the Federal Communications Commission.

3 **Q. What has been the focus of your work?**

4 A. My work has focused on competition, market power, regulation, and economic
5 efficiency in a variety of industries, including natural gas pipelines, electric utilities,
6 oil pipelines, electrical equipment, airlines, and cable television.

7 **Q. Have you previously testified before a regulatory commission?**

8 A. Yes. I have presented testimony in numerous proceedings before the FERC and in a
9 proceeding before the Nebraska Public Service Commission. Exhibit JDO-1
10 provides detailed information on my previous testimony, educational background,
11 work experience, and written work.

12 **Q. Are you sponsoring any exhibits in this case?**

13 A. Yes. I am sponsoring Exhibit JDO-1 through Exhibit JDO-2, which are attached to
14 my supplemental testimony.

15 • Exhibit JDO-1 Vita of Jonathan D. Ogur

16 • Exhibit JDO-2 Market Shares and Concentration in Gas Transmission

17 Markets

18 **Q. What is the purpose of your supplemental testimony?**

19 A. The purpose of my supplemental testimony is to address issues related to the impact
20 of the Florida EnergySecure Line (“EnergySecure Line”) on economic efficiency
21 and competition in markets for gas transmission and delivered gas in Florida, to the
22 extent such issues are deemed relevant for purposes of assessing FPL’s request for a
23 determination of need.

1 **Q. What are the main conclusions of your economic analysis?**

2 A. Based on my economic analysis, I conclude that the EnergySecure Line will
3 promote economic efficiency and competition in highly concentrated gas
4 transmission markets and delivered gas markets in Florida. Before making sales of
5 EnergySecure Line gas transportation service to third-party entities, Florida Power
6 & Light Company ("FPL") would obtain Florida Public Service Commission
7 ("FPSC") approval of tariffs specifying the terms, conditions, and rules under which
8 FPL would provide service. Consistent with prior FPSC practice, any potential
9 adverse effects on local distribution companies ("LDCs") should be addressed in
10 such a tariff proceeding. It is unnecessary and would be premature to address such
11 issues in the context of a need determination proceeding. Concerns about potential
12 adverse impacts should not be a reason to reject a pipeline that is otherwise needed.

13 **Q. Would you briefly summarize the facts underlying this proceeding?**

14 A. FPL is seeking approval from the FPSC for its proposed EnergySecure Line, a new
15 Florida intrastate natural gas pipeline. The EnergySecure Line will serve the needs
16 of FPL's Cape Canaveral Next Generation Clean Energy Center ("CCEC") and
17 Riviera Beach Next Generation Clean Energy Center ("RBEC"), as well as other
18 current and future gas transportation needs of FPL and the state of Florida (Forrest
19 Testimony at 3:11-17).

20

21 The capacity of the EnergySecure Line is 600 MMcf/d. FPL has determined that
22 600 MMcf/d was the minimum quantity necessary for suppliers to commit to build a
23 new interstate pipeline into Florida (Sharra Testimony at 16:6-9). The

1 EnergySecure Line will hold 600 MMcf/d of gas transportation on a new interstate
2 pipeline ("Upstream Pipeline") to be built from a connection with Transcontinental
3 Gas Pipe Line Company (Transco) at Transco Station 85 to a connection with the
4 EnergySecure Line at FGT Station 16 (Forrest Testimony at 10:22-11:12).

5
6 On September 12, 2008, the FPSC approved the need for modernizations at CCEC
7 and RBEC. The modernizations will require approximately 400 MMcf/d of natural
8 gas transmission capacity. FPL does not currently have enough firm gas
9 transportation capacity under contract to meet this increased need for natural gas
10 (Forrest Testimony at 6:14-7:2).

11 **Q. How much gas transmission capacity does FPL hold?**

12 A. FPL currently holds 1,409 MMcf/d of firm transmission capacity, including 874
13 MMcf/d during the peak summer season on Florida Gas Transmission LLC ("FGT")
14 and 535 MMcf/d on Gulfstream Natural Gas Systems, L.L.C. ("Gulfstream")
15 (Sharra Testimony at 6: 21-7:20). FPL's firm capacity on Gulfstream will rise to
16 695 MMcf/d beginning June 1, 2009, when Gulfstream's Phase III expansion is
17 completed. FPL's firm capacity on FGT will rise to 1,274 MMcf/d when FGT's
18 Phase VIII expansion project is placed in service in the spring of 2011. As a result
19 of these two expansions, FPL will hold 1,969 MMcf/d of firm transmission capacity
20 in 2011.

21 **Q. How much capacity will the EnergySecure Line add to FPL's current capacity?**

22 A. The EnergySecure Line will have an initial capacity of 600 MMcf/d, including a
23 delivery capability of 200 MMcf/d to the CCEC and 200 MMcf/d to the RBEC. The

1 remaining 200 MMcf/d will be delivered to FPL's Martin Plant for reliability
2 purposes, but also may be offered to other entities within Florida until FPL needs the
3 full capacity (Forrest Testimony at 9:2-14). As FPL's load growth increases and
4 creates the need for additional generation on its system, the EnergySecure Line can
5 be expanded to 1,250 MMcf/d (Forrest Testimony at 11:16-22).

6
7 To put this in perspective, between 2013 and 2040, FPL projects that it will need to
8 add about 2,700 MMcf/d of gas transmission capacity (Enjamio Testimony at 4:16-
9 20). Thus, the 200 MMcf/d that may be offered to other Florida entities for a period
10 of time is less than 10 percent of FPL's projected needs for additional capacity.
11 Future expansion of the EnergySecure Line would add 650 MMcf/d of capacity (=
12 1,250-600), which is less than 25 percent of FPL's projected needs.

13 **Q. Would you briefly describe how the 200 MMcf/d delivered to the Martin Plant**
14 **will be offered to other entities within Florida?**

15 **A.** The 200 MMcf/d delivered to the Martin Plant will displace deliveries from FGT or
16 Gulfstream that can then be redirected to other FPL facilities or to other entities
17 within Florida. FPL also may sell the 200 MMcf/d on the EnergySecure Line
18 directly. Revenues received from any sales would benefit FPL's retail customers
19 via the Fuel Cost Recovery Clause and would offset a portion of the costs associated
20 with the pipeline (Forrest Testimony at 16:8-15).

1 **Economic Efficiency, Competition, and Market Power**

2

3 **Q. How would you define economic efficiency?**

4 A. Economic efficiency means producing output at the lowest cost. Applied to this
5 case, it means that FPL chooses the least-cost alternative to supply the additional
6 pipeline capacity to provide gas for its electric generation expansions. Efficiency
7 also means that the gas is obtained from diverse sources to increase the reliability of
8 supply. Source diversity can lower costs by providing alternatives to sources that
9 may be disrupted by weather conditions or may become high cost when their low
10 cost supplies are exhausted.

11 **Q. How would you define competition?**

12 A. Competition means that market power is absent or, if present, is mitigated or
13 prevented from being exercised.

14 **Q. How would you define market power?**

15 A. Market power is the ability of a seller to profitably maintain prices above the
16 competitive level for a significant period of time. 74 FERC ¶ 61,076, *Alternatives to*
17 *Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines*, Docket No.
18 RM95-6-000, *Regulation of Negotiated Transportation Services of Natural Gas*
19 *Pipelines*, Docket No. RM96-7-000, (January 31, 1996) at 61,230 (“Gas Policy
20 Statement”). Applied to this case, market power is the ability of a pipeline to charge
21 rates above the competitive level, which yield revenues that are greater than the
22 pipeline’s costs plus a reasonable return on investment. By limiting pipeline

1 revenues to recovery of prudently incurred costs plus a reasonable return on the
2 pipeline investment, the FPSC and the FERC prevent the exercise of market power.

3 **Q. Does a competition analysis distinguish between effects on competition and**
4 **effects on competitors?**

5 A. Yes. The primary focus is on effects on competition in the relevant markets. In my
6 analysis, I will distinguish between gas transmission markets and delivered gas
7 markets, between firm services and interruptible services, and between short-term
8 services and long-term services.

9
10 Effects on individual competitors are only a secondary focus of a competition
11 analysis. Increasing market competition benefits consumers by providing goods and
12 services at a lower cost, using fewer resources. Entry by new suppliers, or
13 expansion of existing low-cost suppliers, provides clear benefits because these
14 suppliers must attract new customers by offering them a better price-quality
15 combination than rival incumbent sellers offer. In general, sellers that are adversely
16 affected tend to be less efficient, high-cost suppliers that may lose sales to more
17 efficient, low-cost suppliers.

18
19 In previous proceedings, the FPSC has addressed a concern that LDCs may lose
20 large customers to a new pipeline, potentially shifting costs to the LDCs' remaining
21 customers. In re: Petition for approval of natural gas transmission pipeline tariff by
22 Peninsula Pipeline Company, Inc., Docket No. 070570-GP, Order No. PSC-07-
23 1012-TRF-GP (December 21, 2007) ("Peninsula Order"); In re: Petition for

1 approval of natural gas transmission pipeline tariff by Seacoast Gas Transmission,
2 LLC., Docket No. 080561-GP Order No. PSC-08-0747-TRF-GP (November 12,
3 2008) ("Seacoast Order"). I will address the issue of potential adverse impacts, with
4 particular reference to LDCs later in my testimony.

5
6 **GAS TRANSMISSION MARKETS**
7

8 **Q. Would you identify the relevant markets where the EnergySecure Line may**
9 **impact economic efficiency and competition?**

10 A. The EnergySecure Line may impact economic efficiency and competition in markets
11 for gas transmission services and in markets for delivered gas.

12 **Q. Would you identify the possible relevant markets for gas transmission services?**

13 A. I will analyze three sets of relevant markets for gas transmission services. At the
14 least aggregated level, there is a market for gas transmission service to each
15 individual delivery point on FPL's system, for example, the CCEC, the RBEC, the
16 Martin Plant, and any other delivery point where potential customers may be
17 located. At a more aggregated level, there is a market for gas transmission service
18 to the FPL system as a whole. Finally, at the most aggregated level, there is a
19 market for gas transmission service to the state of Florida as a whole.

1 Economic Efficiency

2

3 **Q. What is the impact of the EnergySecure Line on economic efficiency in these**
4 **relevant markets for gas transmission services?**

5 A. The EnergySecure Line will provide increased transmission capacity to supply the
6 growth in demand for natural gas due to current expansions of FPL's electric
7 generating capacity. The increased transmission capacity also will enhance
8 reliability and help meet further projected expansions of gas-fired generation.
9 Economic efficiency is promoted when increased transmission capacity is provided
10 at lowest cost. The EnergySecure Line will promote economic efficiency because it
11 is the least-cost alternative to supply increased transmission capacity over the life of
12 the project (Enjamio Testimony at 5:9-17).

13

14 As FPL's load grows and creates the need for additional generation on its system,
15 the EnergySecure Line can be expanded to 1.25 billion cubic feet per day ("Bcf/d").
16 This expansion will come at a greatly reduced price to FPL's customers because
17 minimal infrastructure will be required to add capacity. FPL will have access to
18 additional capacity on the Upstream Pipeline to supply the EnergySecure Line's
19 expansion (Forrest Testimony at 11:16-22).

20 **Q. What is the estimated value of the EnergySecure Line's added benefits**
21 **compared to the next best alternative?**

22 A. Selecting the EnergySecure Line results in added benefits ranging between \$204
23 million and \$513 million compared to the next best alternative (Enjamio Testimony

1 at 5:9-17). These added benefits do not include the possible benefits to FPL's
2 customers and Florida gas consumers from short-term off-system sales of gas
3 transportation capacity at favorable prices during the initial period before FPL uses
4 the entire capacity of the EnergySecure Line for its own gas-supply requirements.

5
6 **Competitive Effects**

7
8 **Q. What is the impact of the EnergySecure Line on competition in the relevant**
9 **markets for gas transmission services?**

10 **A.** The EnergySecure Line may increase the frequency and extent of discounting of gas
11 transmission services below the maximum cost-of-service price. Regulation by the
12 FPSC and the FERC ensures that the price of gas transmission services will be just
13 and reasonable. During off-peak periods, when there is unused capacity,
14 competitive transmission rates may be discounted. In general, discounted rates will
15 be below the maximum cost-of-service price and above variable cost.

16 **Q. Can discounted rates be higher than the competitive level?**

17 **A.** Yes. If the market for gas transmission services is sufficiently concentrated,
18 discounted rates may exceed the competitive level. In such a concentrated market,
19 the entry of an additional supplier of transmission services, the EnergySecure Line,
20 may increase competition and promote more frequent and deeper discounting than
21 occurred before entry.

1 **Q. How would you define market concentration?**

2 A. A market is concentrated when a few large sellers supply most of the products or
3 services that are traded. Applied to this case, the market for primary firm gas
4 transmission capacity is concentrated when a few large pipelines supply most of the
5 transmission capacity traded.

6 **Q. How do you measure market concentration?**

7 A. A widely-used measure of market concentration is the Herfindahl-Hirshman Index
8 (“HHI”). It is calculated by summing the squared market shares of sellers in the
9 relevant market under analysis. For example, suppose a gas transmission market is
10 supplied by two equal-sized pipelines, each with a market share of 50 percent. The
11 HHI would be 5000 [= (50x50) + (50x50)]. If one of the pipelines has a market
12 share of 75 percent, and the other has a market share of 25 percent, the HHI would
13 be 6250 [= (75x75) + (25x25)], which is higher. Thus, the HHI reflects both
14 fewness of sellers and differences in the size of their market shares.

15 **Q. Would you consider the hypothetical transmission market described above to
16 be concentrated?**

17 A. Yes. The FERC generally considers pipeline transportation markets to be
18 concentrated if the HHI exceeds 1800. Gas Policy Statement at 61,235. An HHI of
19 1800 would characterize a market with five-to-six equal-size pipelines. For
20 example, if five pipelines have a market share of 20 percent each, the HHI would
21 equal 2000 [= (20x20) + (20x20) + (20x20) + (20x20) + (20x20) = 2000], thus
22 exceeding the 1800 threshold. Market concentration above this level raises
23 competitive concerns that sellers may be able to exercise market power.

1 **Q. Is the gas transmission market into the state of Florida a concentrated market?**

2 A. Yes. As shown on Exhibit JDO-2, the HHI is about 4421. Gas transmission into the
3 state of Florida is provided by four interstate pipeline systems: FGT, Gulfstream,
4 Southern Natural Gas Company's Cypress Pipeline system ("Cypress") (which
5 connects with FGT) and Gulf South Pipeline Company, L.P. ("Gulf South") (Sexton
6 Testimony at 6:16-7:2). FGT and Gulfstream provide approximately 90% of the
7 capacity (Sexton Testimony at 6:16-7:2). FGT's capacity is approximately 2.21
8 Bcf/day, and Gulfstream, with the recent installation of its Phases III and IV
9 projects, has a capacity of about 1.25 Bcf/day (Sexton at 7:5-15). The remaining
10 two pipelines, Cypress and Gulf South have capacities of about 190 MMcf/d each.
11 Based on these approximations, the total capacity in the market is 3.84 Bcf/d [= $(2.21+1.25)/.9$].
12 Gulf South has a capacity of about 190 MMcf/d. This implies that
13 Cypress also has a capacity of 190 MMcf/d ($= 3.84-2.21-1.25-0.19$). As a result,
14 FGT's market share is about 58 percent ($2.21/3.84$), Gulfstream's market share is
15 about 33 percent ($1.25/3.84$), and Cypress and Gulf South each have market shares
16 of about five percent. Squaring and summing these market shares yields an HHI of
17 about 4421.

18 **Q. Is the gas transmission market to the FPL system a concentrated market?**

19 A. Yes, it is even more concentrated than the gas transmission market to the state of
20 Florida as a whole, as shown on Exhibit JDO-2. FGT and Gulfstream are the only
21 pipelines that currently serve the FPL system (Sexton Testimony at 10:4-610:4-6).
22 With the estimated 2011 completion of FGT's Phase VIII project, FPL will have
23 1.274 Bcf/d of firm gas transportation on that pipeline, which represents

1 approximately 66% of FPL's peak gas supply. Similarly, by the end of 2009,
2 Gulfstream will supply 695 MMcf/d of FPL's gas load, representing 33% of FPL's
3 peak gas supply. Together, this is about 1.969 Bcf/d, (Forrest Testimony at 18:4-12).
4 Thus, the HHI would be about 5,432. (See Exhibit JDO-2)

5 **Q. Are the gas transmission markets to the CCEC, RBEC, and Martin Plant**
6 **delivery points on the FPL system concentrated markets?**

7 A. Yes, they are even more concentrated than the transmission market to the FPL
8 system as a whole. FGT is the only pipeline that provides transmission service to
9 the CCEC and RBEC delivery points, and Gulfstream is the only pipeline that
10 currently provides transmission service to the Martin Plant delivery point (Forrest
11 Testimony Exhibit, Map of Florida EnergySecure Line Proposed Corridor and
12 Florida's Current and Proposed Natural Gas Infrastructure). Thus, the HHI in these
13 markets would be 10,000 (= 100x100).

14 **Q. Do you expect high concentration to persist in the future?**

15 A. Yes. It is my understanding that FGT will connect to the Martin Plant following
16 FGT's Phase VIII expansion in 2011. As a result, when the EnergySecure Line goes
17 into service, Gulfstream, FGT, and the EnergySecure Line will serve the Martin
18 Plant. Thus, under the best of circumstances, with all three pipelines of equal size,
19 the HHI will equal 3333, which exceeds the 1800 HHI threshold indicating a market
20 power concern.

1 **Q. Would you identify a factor other than concentration that affects the frequency**
2 **and extent of discounting?**

3 A. The extent of excess capacity is another factor that affects discounting frequency
4 and extent. At low levels of excess capacity, as indicated by small amounts of
5 unsubscribed capacity, the frequency and extent of discounting is reduced.

6 **Q. Is excess capacity low in the relevant gas transmission markets in this case?**

7 A. Yes. Despite the recent expansion projects on Gulfstream and Cypress, interstate
8 transportation capacity in Florida is still effectively sold out and therefore
9 constrained on a firm contractual basis (Sexton Testimony at 10:8-13). In addition,
10 FGT has executed precedent agreements with shippers accounting for 731,000
11 MMBtu/day of the 820,000 MMBtu/day of its Phase VIII expansion capacity. Thus,
12 only 89,000 MMBtu/day (approximately 89 MMcf/day or 11 percent) of this Phase
13 VIII expansion capacity is unsubscribed and available (Sexton Testimony at 12:10-
14 15).

15 **Q. Do high concentration levels and low levels of excess capacity suggest that**
16 **existing transmission suppliers, such as FGT and Gulfstream, possess market**
17 **power?**

18 A. Yes, even after recent expansions are taken into account. In large part, FERC and
19 FPSC regulation are intended to prevent such market power from being exercised.

20 **Q. Do the market shares of FGT and Gulfstream also raise market power**
21 **concerns?**

1 A. Yes. FGT's and Gulfstream's market shares, which exceed 50 percent and range up
2 to 100 percent in some of the relevant markets, also raise concerns that these
3 pipelines possesses market power.

4 **Q. Do sellers with large market shares in concentrated markets sometimes charge**
5 **different prices to different buyers?**

6 A. Yes, such price differentiation is sometimes referred to as "price discrimination."

7 **Q. Is price discrimination always an anticompetitive practice?**

8 A. No, price discrimination can promote competition by enabling sellers to retain
9 existing customers and compete for new customers.

10 **Q. How does the FERC prevent undue price discrimination by pipelines offering**
11 **discounted rates for interstate transmission services?**

12 A. To prevent undue price discrimination, the FERC requires pipelines to treat similarly
13 situated shippers similarly. Gas Policy Statement at 61,242. However, this
14 requirement does not prevent pipelines from discounting rates to retain existing
15 customers and to compete for new customers. Gas Policy Statement at 61,225-26.
16 FERC also ensures that rates do not fall below a pipeline's variable cost and thus
17 make a contribution to covering the pipeline's fixed costs. 18 CFR 284.10.

18 **Q. Does the FPSC apply a regulatory standard to prevent undue price**
19 **discrimination that is similar to the FERC standard?**

20 A. Yes. Gas transmission rates under FPSC regulation must meet the following
21 standard: "It shall be the duty of the commission to ensure that all rates and services
22 made, demanded, or received by any natural gas transmission company are just and
23 reasonable and are not unreasonably preferential, prejudicial, or unduly

1 discriminatory. Rates must be sufficient, equitable, and consistent in application to
2 each class of customers.” Natural Gas Transmission Pipeline Intrastate Regulatory
3 Act at 368.105(2).

4
5 **Extra Transportation Capacity on the EnergySecure Line**

6
7 **Q. What is your understanding regarding FPL’s plans to make extra**
8 **transportation capacity on the EnergySecure Line available to third parties?**

9 A. It is my understanding that FPL will initially have 200 MMcf/d of extra capacity on
10 the EnergySecure Line, which will enhance reliability. FPL may use that capacity
11 itself and release its capacity on FGT or Gulfstream for resale to others; or sell
12 directly to third parties. Capacity on the EnergySecure Line would be sold through
13 an open and non-discriminatory process. All revenues would be credited back to
14 FPL electric customers through the Fuel Cost Recovery Clause.

15 **Q. Based on that understanding, would FPL be providing transmission access,**
16 **subject to available capacity, on a basis that is not unreasonably preferential,**
17 **prejudicial, or unduly discriminatory?**

18 A. Yes. FPL would follow FERC requirements for any capacity releases to ensure that
19 the process is open and non-discriminatory as discussed in the supplemental
20 testimony of FPL witness Forrest. In the case of any sales, FPL would post the
21 capacity in an open and transparent manner and seek bids in order to ensure non-
22 discriminatory access to the capacity. FPL also would file tariffs governing these
23 sales with the FPSC.

1 **Q. Would releases and sales of the extra capacity promote increased efficiency and**
2 **competition?**

3 A. Yes. The FERC and FPSC requirements that FPL will follow will ensure that any
4 releases and sales will promote increased efficiency and competition.
5

6 **DELIVERED GAS MARKETS**

7

8 **Q. Would you identify the markets for delivered gas that the EnergySecure Line**
9 **may impact?**

10 A. There are three possible sets of relevant markets for delivered gas. At the least
11 aggregated level there is a market for delivered gas to each individual delivery point
12 on FPL's system, for example, the CCEC, the RBEC, the Martin Plant, and any
13 other delivery point where potential customers may be located. At a more
14 aggregated level, there is a market for delivered gas to the FPL system as a whole.
15 Finally, at the most aggregated level, there is a market for delivered gas to the state
16 of Florida as a whole.
17

18 **Economic Efficiency**

19

20 **Q. What is the impact of the EnergySecure Line on economic efficiency in these**
21 **relevant markets for delivered gas?**

22 A. In addition to the increased efficiency in the transmission markets, the EnergySecure
23 Line will also promote economic efficiency in delivered gas markets by increasing

1 fuel reliability and operational flexibility through diversification of gas supply
2 sources. The proposed pipeline into Florida would be largely supplied from shale
3 gas production in Texas, Arkansas, Oklahoma and Louisiana. The Upstream
4 Pipeline and the EnergySecure Line give FPL and other gas users in Florida
5 increased access to shale gas in the Mid-Continent to Gulf Coast supply, and to
6 newly developing and existing liquefied natural gas (LNG) regasification facilities.
7 Having access to several supply sources will protect against declining production in
8 a given supply basin (Forrest Testimony at 20:4-15).

9 **Q. Will the increased access to new gas supply sources reduce FPL's risk of gas**
10 **supply interruption?**

11 **A.** Yes. Gulfstream and FGT are designed to source gas supplies primarily from
12 traditional onshore Gulf Coast and offshore Gulf of Mexico supply sources. By
13 contrast, the EnergySecure Line will provide supplies from unconventional shale gas
14 locations in North Louisiana, Arkansas and East and Central Texas. The increased
15 diversity of supply will decrease the portion of FPL's fuel requirements that are
16 dependent on traditional Gulf Coast and Gulf of Mexico sources. As a result, a
17 smaller percentage of FPL's overall supply portfolio (and generation capacity) will
18 be impacted by isolated weather events such as hurricanes in the Gulf of Mexico
19 (Sexton at 43:3-12).

Competitive Effects

1

2

3 **Q. What is the impact of the EnergySecure Line on competition in these relevant**
4 **markets for delivered gas?**

5 A. By providing increased access to suppliers of shale gas from the Mid-Continent, the
6 EnergySecure Line will increase competition in delivered gas markets in Florida.
7 Increased competition will tend to decrease the price of delivered gas in Florida
8 markets.

9

10 FPL has identified 11 gas suppliers that have subscribed for transportation capacity
11 on one of the major pipeline expansions to Transco Station 85, where the Upstream
12 Pipeline will connect to Transco (See FPL's response to FGT's First Set of
13 Interrogatories, No. 24). These suppliers are: Devon Energy, Chesapeake Energy
14 Marketing, Connective Energy Supply, EOG Resources, Iberdrola Renewables, JW
15 Gathering, OGE Resources, Oneok Energy Resources, Quicksilver Resources, Unit
16 Petroleum, and XTO Petroleum. Discussions with individual suppliers have
17 indicated a willingness to sell gas to FPL on both a long-term basis and a short-term
18 basis at a price based on a market index.

19 **Q. Are any of these suppliers listed on FGT's or Gulfstream's Index of**
20 **Customers?**

21 A. No.

1 **Q. Is there evidence supporting the proposition that the EnergySecure Line will**
2 **cause a decrease in the price of delivered gas in Florida?**

3 A. Yes. Projects similar to the EnergySecure Line have resulted in gas price decreases
4 for FGT and Gulfstream customers (Sharra Testimony at 8:19-9:8). As an example,
5 FPL entered into a transportation agreement with the Southeast Supply Header
6 (“SESH”) pipeline project, which began delivering natural gas (sourced from on-
7 shore production fields in Texas and Louisiana) into FGT and Gulfstream beginning
8 in September 2008. After these deliveries began, FGT and Gulfstream customers
9 who purchased gas in the Mobile Bay area experienced over a 50 percent drop in the
10 overall basis premium (current premium for Mobile Bay supplies above NYMEX
11 Henry Hub). FPL projects that this differential could result in customer savings in
12 excess of \$50 million in 2009 alone.

13 **Q. Do you have concerns about potential adverse impacts on LDCs?**

14 A. In prior tariff approval proceedings, the FPSC has addressed a concern that LDCs
15 may lose large customers to a new pipeline, potentially shifting costs to the LDCs’
16 remaining customers. Peninsula Order at 4; Seacoast Order at 3.

17 **Q. Is it appropriate to address concerns regarding the potential adverse impacts**
18 **on LDCs in this proceeding?**

19 A. No. As discussed in the supplemental testimony of Sam Forrest, it is unnecessary and
20 premature to address such issues in the context of a need determination proceeding. FPL
21 would obtain FPSC approval before making sales of EnergySecure Line gas transportation
22 service to third-party entities. Consistent with prior FPSC practice, any concerns about
23 potential adverse impacts on LDCs should be addressed when the FPSC reviews FPL’s
24 tariff filing, which will specify the terms, conditions, and rules under which FPL would

1 provide service to third parties. Concerns about potential adverse impacts should not be a
2 reason to reject a pipeline that is otherwise needed.

3
4 **CONCLUSIONS**

5
6 **Q. What are the conclusions of your economic analysis?**

7 A. Based on my economic analysis, I conclude that the EnergySecure Line will
8 promote economic efficiency and competition in highly concentrated gas
9 transmission markets and delivered gas markets in Florida. The increased efficiency
10 and competition will provide significant benefits to Florida consumers. Regulation
11 by the FPSC and FERC will ensure that the price of gas transmission services will
12 be just and reasonable. FPL would obtain FPSC approval before making sales of
13 EnergySecure Line gas transportation service to third-party entities. Consistent with
14 prior FPSC practice, any potential adverse effects on LDCs should be addressed in
15 such a tariff proceeding. It is unnecessary and would be premature to address such
16 issues in the context of a need determination proceeding. Concerns about potential
17 adverse impacts should not be a reason to reject a pipeline that is otherwise needed.

18 **Q. Does this conclude your supplemental testimony?**

19 A. Yes.

1 **BY MR. PERKO:**

2 Q. Mr. Ogur, have you prepared a summary of your
3 testimony?

4 A. Yes, I have.

5 Q. Would you please provide that at this time.

6 A. Good afternoon, Mr. Chairman, Commissioners.

7 In my supplemental testimony, I analyze the
8 impact of FPL's Florida EnergySecure Line on economic
9 efficiency and competition. My analysis examines
10 Florida markets for gas transmission and delivered gas.
11 I conclude that the Florida EnergySecure Line will
12 promote economic efficiency and competition in these
13 markets.

14 Let's first consider transmission markets. In
15 these markets, the Florida EnergySecure Line will
16 promote economic efficiency because it is the least-cost
17 alternative to supply increased capacity over the life
18 of the project. It will promote competition because it
19 is a new entrant in markets whose structure is conducive
20 to the exercise of market power.

21 Gas transmission markets in Florida are
22 characterized by high concentration. There are only
23 four pipelines serving Florida, and most markets are
24 served by only one or two pipelines. These markets are
25 also characterized by low levels of excess capacity.

1 The incumbent pipelines, FGT and Gulfstream, are fully
2 subscribed. Entry by the Florida EnergySecure Line will
3 promote competition and put downward pressure on prices.

4 Next, let's consider gas markets in Florida.
5 In these markets, the Florida EnergySecure Line will
6 promote economic efficiency by increasing the diversity
7 and reliability of gas supply sources. It will increase
8 the proportion from unconventional shale gas supplies,
9 and it will decrease the proportion from conventional
10 Gulf of Mexico and Gulf Coast gas supplies.

11 The EnergySecure Line will promote competition
12 in delivered gas markets by permitting the entry of new
13 gas suppliers in Florida, and this entry will put
14 downward pressure on the delivered gas prices in
15 Florida.

16 Mr. Chairman, Commissioners, in considering
17 the issues in this proceeding, I believe it's important
18 to remember that the Florida EnergySecure Line will
19 increase economic efficiency and competition resulting
20 in substantial benefits to Florida consumers.

21 That completes my summary. Thank you for your
22 attention.

23 **MR. PERKO:** We tender the witness for
24 cross-examination.

25 **COMMISSIONER EDGAR:** Mr. Self, questions on

1 cross?

2 **MR. SELF:** No questions.

3 **COMMISSIONER EDGAR:** No questions. Okay. Are
4 there questions from staff for this witness?

5 **MS. BROWN:** Yes, we have just a few.

6 **CROSS EXAMINATION**

7 **BY MS. BROWN:**

8 **Q.** Hi, Mr. Ogur. On Page 5 of your supplemental
9 testimony you state that FPL may sell 200 MMcfs per day
10 off the EnergySecure Line directly, and then further on
11 Page 16 you use the term directly to third parties.
12 Can.

13 You explain what you mean by the term
14 directly?

15 **A.** Yes. There are two options really for the 200
16 MMcf per day of capacity on the Florida EnergySecure
17 Line that will not be used initially to supply the FPL
18 power plants. One is to release capacity on Gulfstream
19 and FGT. The other is to make sales of capacity on the
20 EnergySecure Line itself. And so directly simply refers
21 to those sales of capacity on the EnergySecure Line that
22 are made to third parties.

23 **Q.** All right, thank you. If FPL were to need all
24 capacity on the EnergySecure Line, as well as its
25 contracted capacity on FGT and Gulfstream, would this

1 encourage the discounting of pipeline capacity rates on
2 any of the pipelines?

3 **A.** Yes, I believe it would.

4 **Q.** How would that happen?

5 **A.** Well, as I point out in my testimony, if you
6 define the markets for gas transmission services in
7 Florida properly, you start with very disaggregated
8 markets to individual receipt points on the FPL system
9 and then move up to slightly more aggregated markets to
10 the FPL system as a whole, transmission to that system.

11 The entry of the Florida EnergySecure Line
12 will provide a new competitor to serve those markets,
13 and the result of that new entry will be downward
14 pressure on prices in those gas transmission markets.

15 **Q.** Even though the new EnergySecure Line will not
16 be used to compete in the gas transmission capacity
17 markets?

18 **A.** I would not agree that it would not be used to
19 compete in the gas transmission market. Again, the
20 important thing is to define that market or those
21 markets, there is really more than one, correctly. And,
22 again, starting from the least aggregated of the gas
23 transmission markets, namely to specific receipt points
24 on the FPL system, we have a new entrant to serve those
25 markets. The effect of new entry is to put powerful

1 pressure, downward pressure on prices and to promote
2 competition.

3 So I very strongly would conclude that there
4 will be additional competition from this. In the case
5 of some of the receipt points, there is only one
6 incumbent, so we would have a second supplier of gas
7 transmission services. To the FPL system as a whole,
8 there are two incumbents. We would have a third in that
9 case.

10 Q. All right, thank you.

11 Would you agree that FPL's proposed pipeline
12 is requesting regulatory treatment for the recovery of
13 pipeline costs in electric rate base which is different
14 from the regulatory treatment afforded other Florida
15 FERC regulated interstate transmission pipelines as well
16 as other Florida Public Service Commission regulated
17 intrastate transmission pipelines?

18 A. Let me break that down a little bit if I could
19 in my answer. I'm aware that it's different from the
20 regulatory treatment of the interstate pipelines, the
21 FERC regulated pipelines in Florida. I am not as
22 familiar with the regulation of the intrastate pipelines
23 in Florida.

24 Q. Do you believe that this different regulatory
25 treatment might have adverse market implications?

1 **A.** No, I don't.

2 **Q.** If FPL's proposed pipeline is approved as
3 proposed, FPL's pipeline would have the competitive
4 advantage of being treated as electric plant with the
5 regulatory assessment fee of .0072 percent while other
6 intrastate pipelines not included in electric rate base
7 would be assessed a fee of .25 percent, correct?

8 **A.** I am not familiar with the concept of a
9 regulatory assessment fee, and so I really don't know
10 the answer to that question.

11 **Q.** Right. But we're in the process of copying
12 one of those rules. It's the Commission's Rules
13 25-7.101, Regulatory Assessment Fees for Gas Utilities,
14 Intrastate Pipeline Gas Facilities, and 25-6.0131,
15 Regulatory Assessment Fees for Investor-owned Electric
16 Companies. We will pass that out to you so you can
17 look.

18 We are also passing out a Public Service
19 Commission order that established that .25 percent.

20 **MR. PERKO:** Mr. Chairman, I'm not sure that
21 this relates to the witness' direct testimony at all.
22 I'm not seeing a direct relationship here.

23 **CHAIRMAN CARTER:** Let's just kind of see where
24 we're going.

25 Ms. Brown.

1 **MS. BROWN:** Yes. The reason that I asked
2 about adverse market implications was so that I can then
3 demonstrate that perhaps there are some differences in
4 regulatory treatment.

5 **CHAIRMAN CARTER:** Well, let's kind of just let
6 it go for now, Mr. Perko. Obviously you're entitled to
7 object at any point in time, but let's just see where it
8 is going right now. Make sure that all the parties --

9 **MS. BROWN:** Actually that's the end of the
10 questions on the regulatory assessment fees and the
11 difference between them.

12 **CHAIRMAN CARTER:** Hang on for a second. Let's
13 make sure everyone is on the same page here. Does the
14 witness -- Mr. Ogur, do you have this information?

15 **THE WITNESS:** Yes, Mr. Chairman, I have the
16 order.

17 **CHAIRMAN CARTER:** Okay. There's two other
18 pages, right? Did you get those?

19 **THE WITNESS:** Yes, I have all three pages now.

20 **MS. BROWN:** All right.

21 **CHAIRMAN CARTER:** Thank you.

22 **BY MS. BROWN:**

23 **Q.** Would you agree that if FPL's pipeline is
24 approved as proposed, FPL would not be required to set
25 up a separate affiliate to own and operate the pipeline,

1 correct?

2 **A.** That's my understanding, yes.

3 **Q.** And isn't it true that by not being required
4 to set up a separate ownership arrangement with its
5 additional attendant costs, FPL would have a competitive
6 market advantage?

7 **A.** Over whom?

8 **Q.** Over other intrastate and interstate gas
9 transmission companies.

10 **A.** No, I would not agree with that.

11 **Q.** We are passing out one more exhibit for you.
12 Actually it is already in Staff's Comprehensive Exhibit.
13 It's Interrogatory Number 112. If you would take a
14 minute to read through that interrogatory.

15 **A.** This is the last document that was given to
16 me?

17 **Q.** Yes. Staff's Seventh Set of Interrogatories,
18 Interrogatory Number 112.

19 **A.** Yes. Okay, I will. (Pause.)

20 Yes, I have read that.

21 **Q.** And you see that the answer to this
22 interrogatory -- the question is what is the accounting
23 treatment for an intrastate pipeline when it is
24 structured as a separate entity as opposed to being
25 included in an electric company's rate base. And just

1 to paraphrase the answer, it begins to discuss the
2 establishment of separate financial statements, separate
3 capital structure, accounting systems to track capital
4 property, tax reporting and general accounting
5 functions. Do you see that?

6 **A.** Yes, I see that.

7 **Q.** And then if you'll look to the order that we
8 passed out. Do you see that?

9 **A.** I see the order, yes.

10 **Q.** All right. If you would look at Page 5, the
11 second full paragraph there.

12 **A.** Yes, I see that.

13 **Q.** If you would skim that order, you'll see that
14 the Commission approved the establishment of an
15 intrastate pipeline as long as it was a separate
16 affiliate from a local distribution company. Do you see
17 that?

18 **A.** Where in that order does that appear? Could
19 you direct me to the place?

20 **Q.** Give me a minute and I'll find it.

21 **A.** Sure.

22 **Q.** If I look at the first background paragraph
23 halfway down, the order states, "By Order
24 PSC-06-0023-DS-GP, we found that Peninsula, as a
25 corporation with a separate legal identity from its

1 parent, qualified as a natural gas transmission company
2 as defined in Section 368.103." Do you see that?

3 **A.** Yes, I see that.

4 **Q.** So, back to my question, isn't it true that by
5 not being required to set up a separate ownership
6 arrangement with its additional attendant costs, FPL
7 would have a competitive market advantage over at least
8 intrastate natural gas transmission pipelines?

9 **A.** Well, no, I would not agree. I think if you
10 want to talk about competitive advantages -- I mean, in
11 the first place, my main focus in my analysis is on
12 competition, promoting competition. The concept of
13 competitive advantages it seems to me relates more to
14 effects on competitors rather than effects on
15 competition. So it really is not the main focus of my
16 testimony. Nevertheless, I think in thinking about this
17 secondary effect on competitors you would have to look
18 at the relevant market in which this concern is -- this
19 effect is allegedly taking place. In other words, in my
20 analysis in my testimony, I defined specific relevant
21 markets in which the Florida EnergySecure Line will be
22 entering as a new entrant against very large entrenched
23 incumbents. And in order to have some effect on
24 intrastate competitors they would have to be in that
25 relevant market.

1 In fact, in the relevant markets that I
2 analyzed that the Florida EnergySecure Line will enter,
3 I'm not aware of any intrastate pipelines. So in that
4 sense, I don't see that there would be a competitive --
5 adverse competitive effect on other intrastate
6 competitors.

7 **Q.** If FPL is permitted to recover the costs and
8 investment associated with the EnergySecure Line in its
9 monopoly electric rate base, would the Commission's
10 action here create an incentive for other Florida
11 electric utilities to propose similar pipeline projects
12 due to the increase in earnings to shareholders versus a
13 pass-through of fuel costs?

14 **A.** I really don't know the answer to that
15 question.

16 **Q.** All right. Assuming for purposes of
17 discussion that the Commission's action here would
18 create an incentive for other electric utilities to
19 follow suit, would you agree that if other major
20 pipelines are placed into electric rate base and
21 shielded from market forces, this may have an adverse
22 effect on the natural gas markets in the state of
23 Florida?

24 **A.** I disagree with the premise of your question
25 that they would be shielded from market forces. I think

1 the Florida EnergySecure Line is very much not shielded
2 from market forces. Whether despite or even if it's
3 included in electric rate base, the Florida EnergySecure
4 Line is a new entrant trying to enter highly
5 concentrated markets now served by large incumbent
6 pipelines that have large market shares, maybe
7 exercising market power, maybe reducing rates in
8 response to the threat of entry, which could have the
9 effect of discouraging entry and making it unprofitable.

10 So I would disagree that the Florida
11 EnergySecure Line is shielded from the effects of
12 competition. I mean, we have already seen declines in
13 FGT's bid for alternatives to the Florida EnergySecure
14 Line, to some extent in response to the self-supply
15 alternative of FPL. So I would not agree that it's
16 shielded from competition.

17 **MS. BROWN:** All right. Thank you.

18 No further questions.

19 **CHAIRMAN CARTER:** Thank you, staff.

20 Anything from the bench?

21 Commissioner Skop, you're recognized, sir.

22 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

23 Good afternoon, Mr. Ogur, or Doctor Ogur.

24 **THE WITNESS:** Good afternoon, Commissioner
25 Skop.

1 **COMMISSIONER SKOP:** I noticed in your prefiled
2 testimony that you received a Ph.D in Economics from
3 Cornell, so I guess you're qualified to speak as to
4 competition and market harm potential. I know staff has
5 addressed that in great detail, but I wanted to go back
6 to something that was previously mentioned by you and
7 make sure I understand what your testimony is.

8 If the proposed pipeline project that, you
9 know, has initially excess capacity were to be used
10 solely for electric generation and the needs of FPL as a
11 utility, I think, if I understood you correctly, that
12 your testimony would be that there would be no market
13 harm associated with that to the extent that they
14 weren't seeking to penetrate other markets with the
15 excess capacity. Is that correct?

16 **THE WITNESS:** Commissioner, quite the
17 contrary. Not only would there be no market harm, there
18 would be promotion of competition in the markets that I
19 analyzed.

20 **COMMISSIONER SKOP:** Right. And that's where I
21 was trying to get to, but I'm trying to definitize it to
22 the extent that the capacity is related to core
23 operations as opposed to trying to go -- you know, bring
24 traditional LDC customers over to some other market
25 service or what have you.

1 But with respect to the current pipelines that
2 are serviced, I mean, you have FGT and you have
3 Gulfstream, and so FPL I'm sure negotiates the best deal
4 it can get for its customers by leveraging the two
5 existing pipelines. But to some degree they would be a
6 captive customer because we're capacity constrained in
7 terms of what we can bring in the state to serve
8 generation needs.

9 So I think, if I heard you correctly, the
10 additional pipeline would probably immediately have a
11 downward price pressure on additional capacity on a
12 forward-going basis, is that correct?

13 **THE WITNESS:** Yes, that's correct,
14 Commissioner.

15 **COMMISSIONER SKOP:** Okay. Now, if the excess
16 capacity were used to perhaps -- and I think I have this
17 right -- horizontally integrate into other traditional
18 LDC functions, such as, you know, looking for big box
19 retailers to take some of this excess capacity, there
20 could be potential market harm, or in your professional
21 opinion could there be potential market harm associated
22 with that to the existing gas companies operating within
23 the state?

24 **THE WITNESS:** Commissioner, I would not call
25 that market harm. Rather, I would call that potentially

1 adverse effects on other competitors rather than on
2 market competition.

3 **COMMISSIONER SKOP:** Okay.

4 **THE WITNESS:** I would make that distinction.

5 **COMMISSIONER SKOP:** That is probably fair, a
6 better one. Maybe my word choice was a little too
7 harsh. I didn't mean it that way. But, yes, certainly,
8 providing additional competition is generally a good
9 thing; but, you know, if it comes at the expense of a
10 new market entrant, again, there could be some adverse
11 effects, as I think that you mentioned. But that was
12 just what I wanted to try and clarify or flesh out based
13 upon what I heard in the staff questions.

14 Thank you.

15 **THE WITNESS:** Yes. Thank you, Commissioner.

16 **CHAIRMAN CARTER:** Thank you, Commissioners.

17 Anything further from the bench?

18 Redirect?

19 **MR. PERKO:** No redirect.

20 **CHAIRMAN CARTER:** Exhibits. I think we're
21 looking at 50 and 51. Mr. Self, any objection?

22 **MR. SELF:** No objections.

23 **CHAIRMAN CARTER:** Without objection, show it
24 done. That will be Exhibits 50 and 51.

25 (Exhibit Number 50 and 51 admitted into the

1 record.)

2 **CHAIRMAN CARTER:** Now, do we have Mr. Ogur
3 coming back for rebuttal? Okay. You are on recess.
4 Call your next witness.

5 **MR. PERKO:** FPL calls Timothy C. Sexton.
6 Mr. Sexton, have you been sworn?

7 **THE WITNESS:** No, I have not.

8 **CHAIRMAN CARTER:** Would you please stand and
9 raise your right hand.

10 (Witness sworn.)

11 **CHAIRMAN CARTER:** Thank you. Please be
12 seated.

13 **TIMOTHY C. SEXTON**

14 was called as a witness on behalf of Florida Power and
15 Light Company, and having been duly sworn, testified as
16 follows:

17 **DIRECT EXAMINATION**

18 **BY MR. PERKO:**

19 **Q.** Could you please state your full name and
20 business address for the record?

21 **A.** Yes. My name is Timothy C. Sexton, and my
22 business address is 14811 St. Mary's Lane, Houston,
23 Texas 77079.

24 **Q.** Mr. Sexton, did you prepare and cause to be
25 filed Direct Testimony consisting of 58 pages in this

1 case along with exhibits labeled TCS-1 through TCS-7?

2 A. Yes, I did.

3 Q. And did you prepare an errata sheet that was
4 filed on July 24th?

5 A. Yes, I did.

6 Q. Other than the changes noted on the errata,
7 are there any other changes to your testimony or
8 exhibits?

9 A. No, there are not.

10 Q. If I were to ask you the same questions today
11 that are in your testimony, would your answers be the
12 same?

13 A. Yes, they would.

14 MR. PERKO: At this time, Mr. Chairman, we
15 would ask to introduce the testimony, Prefiled Testimony
16 of Timothy C. Sexton into the record as if read.

17 CHAIRMAN CARTER: The prefiled testimony of
18 the witness will be inserted into the record as though
19 read.

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF TIMOTHY C. SEXTON**

4 **DOCKET NO. 09 ____ -EI**

5

6 **Q. Please state your name, position and business address.**

7 A. My name is Timothy C. Sexton. I am Vice President of Gas Supply
8 Consulting, Inc. My business address is 14811 St. Mary's, Suite 175,
9 Houston, TX 77079.

10 **Q. On whose behalf are you testifying in this proceeding?**

11 A. I am testifying on behalf of Florida Power & Light Company (FPL).

12 **Q. Please describe your education, background and qualifications.**

13 A. I received a Bachelor of Science degree in Civil Engineering from the
14 University of Texas in May 1989 and a Masters in Business Administration
15 from the University of Houston in August 1993. I am also a licensed
16 professional engineer in the state of Texas. I have been with Gas Supply
17 Consulting, Inc. since June 1994. Prior to that, I was employed by Koch
18 Gateway Pipeline Company (formerly United Gas Pipeline Company and
19 currently Gulf South Pipeline Company) in various engineering, operations,
20 planning and marketing positions culminating in the position of Regional
21 Manager of Supply Services. At Gas Supply Consulting, Inc., I perform
22 various consulting functions on behalf of client companies. Some of the
23 functions that I performed over the past several years have included:

1 (a) evaluated local natural gas supply and pipeline infrastructure to assess
2 ability of such infrastructure to receive large quantities of natural gas from
3 proposed liquefied natural gas (LNG) facilities in various states; (b) evaluated
4 large scale greenfield pipeline project infrastructure alternatives on behalf of
5 utility clients in Wisconsin; (c) represented client interests in negotiations with
6 interstate pipeline companies upstream and/or downstream of client facilities;
7 (d) acted as a technical representative in evaluating regulatory filings; and (e)
8 evaluated pipeline expansion projects and conducted feasibility studies of
9 such projects.

10

11 With respect to the Florida marketplace, I have performed numerous functions
12 on behalf of FPL on various assignments since 1998. These assignments
13 generally focused on assessment of the Florida pipeline infrastructure and its
14 ability to meet the needs of FPL generation expansions at various proposed
15 locations. I have also been engaged by the Florida Reliability Coordinating
16 Council (FRCC) since 2005 to evaluate the reliability of the fuel supply
17 infrastructure serving the state of Florida. Finally, I have directed the
18 development of natural gas supply and capacity portfolios on behalf of two
19 industrial clients with facilities in the state of Florida.

20

Q. What is the purpose of your testimony?

21

A. The purpose of my testimony is to (i) review the need for incremental pipeline
22 capacity to serve future power generation fuel requirements of FPL; (ii)
23 evaluate the capacity solicitation process undertaken by FPL to assess

1 alternatives in meeting incremental natural gas pipeline capacity demand; (iii)
2 compare the benefits provided by the proposed Florida EnergySecure Line
3 versus other alternatives available to FPL; and (iv) evaluate FPL's conclusion
4 that the best means of providing the needed incremental new transportation
5 capacity required to meet forecasted natural gas fired generation requirements
6 in 2014 and beyond is the Florida EnergySecure Line.

7 **Q. Are you sponsoring any exhibits in this proceeding?**

8 A. I am sponsoring the following exhibits which are attached to my direct
9 testimony:

- 10 • TCS-1 Resume of Timothy C. Sexton
- 11 • TCS-2 Florida Pipeline Capacity Load Factor Calculation
- 12 • TCS-3 Schematic Illustration entitled, "Capacity to Southeast
13 Markets"
- 14 • TCS-4 Chart of Projected Capacity Upstream of Transco CS
15 85
- 16 • TCS-5 State by State Comparison of Consumption of Natural
17 Gas for Electric Generation in the United States
- 18 • TCS-6 Approximate Cost of Service to Transport Natural Gas
19 from Transco CS 85 to Company B Project
20 (Confidential)
- 21 • TCS-7 Gas Cost Savings Analysis (Confidential)

1 **Q. Please summarize your testimony.**

2 A. My testimony examines the current natural gas supply alternatives available to
3 FPL including (i) the existing pipeline infrastructure in the state of Florida;
4 (ii) gas supply access available to the state via this infrastructure; and (iii) the
5 need for new natural gas pipeline capacity into Florida to meet demand
6 requirements of FPL and third party markets.

7
8 In addition, with respect to potential future natural gas supply access, my
9 testimony (i) summarizes the proposed Florida EnergySecure Line project; (ii)
10 reviews FPL's Solicitation process utilized to assess alternative means
11 available to obtain needed incremental pipeline capacity; (iii) examines FPL's
12 evaluation of proposals received from various bidders into the Solicitation;
13 and (d) develops a comparative economic analysis of the FPL-sponsored
14 project versus alternative proposals received in the Solicitation process.

15
16 Based upon the review of these subjects, my testimony concludes:

- 17 (a) The existing pipeline infrastructure does not provide sufficient excess
18 capacity to meet FPL's projected future natural gas requirements;
- 19 (b) New pipeline infrastructure will need to be constructed to meet the future
20 natural gas demand of FPL as well as third party consumers in Florida;
- 21 (c) FPL would be well served to expand natural gas supply access beyond its
22 current concentration from traditional onshore Gulf Coast and offshore
23 Gulf of Mexico sources;

1 (d) The Solicitation process utilized by FPL was an effective method of
2 analyzing pipeline alternatives available to meet FPL future natural gas
3 demand requirements;

4 (e) FPL evaluated the various proposals received in response to its
5 Solicitation process in an objective and fair manner; and

6 (f) FPL has made the correct choice in determining that the Florida
7 EnergySecure Line project is the best option to add needed natural gas
8 pipeline infrastructure to meet the needs of FPL's customers.

9 **Q. Please describe FPL's proposed pipeline project.**

10 A. FPL's pipeline project (the "Project") consists of (i) a pipeline project to be
11 developed by a pipeline operator active in the southeastern United States
12 (Company E) to transport 600,000 Million Btu per day (MMBtu/day)
13 (approximately 600 MMcf/day) of natural gas from a point near
14 Transcontinental Gas Pipeline Company LLC's (Transco) Compressor Station
15 85 (Transco Station 85) in Choctaw County, Alabama to a point near Florida
16 Gas Transmission, LLC's (FGT) Compressor Station 16 (FGT Station 16) in
17 Bradford County, Florida (the "Upstream Pipeline Project"); and (ii)
18 construction of a new FPL owned and operated intrastate pipeline (the
19 "Florida EnergySecure Line") consisting of approximately 280 miles of 30-
20 inch pipeline from an interconnection with the proposed Upstream Pipeline
21 Project in Bradford County, Florida to a delivery point at FPL's existing
22 Martin generation plants. In addition, the project also includes connections to
23 FPL's modernized Cape Canaveral Next Generation Clean Energy Center

1 (CCEC) and Riviera Beach Next Generation Clean Energy Center (RBEC)
2 facilities (Modernization Projects) via lateral line extensions. The Florida
3 EnergySecure Line has a proposed in-service date of January 2014.

4
5 The Project will initially provide an incremental 600 million cubic feet per
6 day (MMcf/day) of natural gas transportation capacity into the state of Florida
7 which can be expanded to in excess of 1.2 billion cubic feet per day (Bcf/day)
8 via compression additions. The Project will initially support the natural gas
9 fuel requirements of FPL's Modernization Projects recently approved by the
10 Florida Public Service Commission (FPSC).

11

12

EXISTING NATURAL GAS PIPELINE

13

INFRASTRUCTURE IN FLORIDA

14

15 **Q. Please identify pipelines that deliver natural gas into the state of Florida.**

16 A. Currently, natural gas supplies are delivered into the state of Florida by four
17 interstate pipeline systems. These pipelines include FGT, Gulfstream Natural
18 Gas System L.L.C. (Gulfstream), Southern Natural Gas Company's Cypress
19 Pipeline system (Cypress) and Gulf South Pipeline Company, L.P. (Gulf
20 South). With this said, Cypress has direct deliveries only to markets in the
21 Jacksonville area and Gulf South provides direct deliveries only to markets in
22 the Pensacola area. FGT and Gulfstream, on the other hand operate pipeline
23 systems that extend into various markets within the state of Florida and

1 provide approximately 90% of the gas transportation capacity available into
2 the state.

3 **Q. Please provide a brief overview of natural gas transportation capacity**
4 **into Florida via the Gulfstream and FGT systems.**

5 **A.** FGT has the capacity to transport approximately 2.21 Bcf/day into Florida and
6 Gulfstream, with the recent installation of its Phases III and IV projects, now
7 has the capacity to transport about 1.25 Bcf/day into Florida. Consequently,
8 the total transportation capacity into Florida via these two pipelines is about
9 3.5 Bcf/day. In addition, FGT has recently made a Certificate Filing with
10 FERC to initiate its Phase VIII expansion project which would serve to
11 expand its capacity into Florida markets by an incremental 820,000
12 MMBtu/day (approximately 820 MMcf/day) with a proposed in-service date
13 of April 1, 2011. Thus, after installation of FGT's Phase VIII expansion
14 project, total pipeline capacity into the state from these two pipelines will be
15 approximately 4.3 Bcf/day.

16 **Q. Please provide a description of the Florida Gas Transmission system.**

17 **A.** FGT's system extends from South Texas through Texas, Louisiana,
18 Mississippi and Alabama to its Florida markets. The system is designed to
19 gather natural gas at supply area interconnects within its Western Division
20 upstream of the Florida/Alabama state line (supplies received in Texas,
21 Louisiana, Mississippi and Alabama) for delivery to markets within its Market
22 Area in the state of Florida. As stated above, FGT's pipeline system currently

1 has the capacity to transport about 2.2 Bcf/day of gas supplies into Florida
2 from Western Division receipt points.

3 **Q. Does FGT have any pending expansion projects?**

4 A. Yes. FGT has recently filed in FERC Docket Number CP09-17-000 to
5 expand its system by 820,000 MMBtu/day (about 820 MMcf/day). This
6 project is FGT's Phase VIII Expansion Project. After installation of Phase
7 VIII facilities, FGT will maintain in excess of 3 Bcf/day of pipeline capacity
8 into the state of Florida.

9 **Q. Please describe FGT's filed Phase VIII expansion project.**

10 A. The project consists of the installation of expansion facilities necessary to
11 enable FGT to receive incremental supplies from interconnects in the Mobile
12 Bay Area and transport these quantities to various delivery locations within
13 the state of Florida.

14
15 Per FGT's filing, the Phase VIII project consists of the installation of
16 "(i) approximately 357.3 miles of new pipeline looping on its existing
17 mainline system, (ii) approximately 89.8 miles of new interstate natural gas
18 pipeline, (iii) two customer laterals totaling approximately 36.1 miles, (iv)
19 213,600 horsepower of additional mainline compression at eight existing
20 compressor stations and one new compressor station, (v) various new and
21 upgraded meter stations, and (vi) ancillary facilities." In addition, FGT is
22 seeking approval to acquire FPL's Martin Lateral and to operate this facility to
23 provide service in conjunction with the proposed expansion project. Finally,

1 the project also includes a requested authorization by FGT to “increase the
2 maximum allowable operating pressure of previously certificated facilities”.
3 FGT also notes in its filing that if its request to increase the maximum
4 allowable operating pressure of its existing facilities is denied, then the project
5 will require an additional 80.5 miles of 36-inch pipeline looping along its
6 existing mainline.

7 **Q. Please provide a description of the Gulfstream system.**

8 A. Gulfstream’s system is designed to gather natural gas from various receipt
9 points in the Mobile Bay Area to its mainline Compressor Station near Coden,
10 Alabama. The system then extends from the Coden Compressor Station
11 across the Gulf of Mexico to an onshore landing in the state of Florida near
12 Manatee, Florida. Gulfstream then extends from its onshore landing to
13 various delivery points in Florida and terminates at its delivery point to FPL’s
14 West County Energy Center in Palm Beach County, Florida. With its Phases
15 III and IV expansion projects now in service, Gulfstream has a design
16 capacity of approximately 1.25 Bcf/day into Florida.

17 **Q. Please summarize FPL’s contractual firm transportation capacity rights
18 on FGT and Gulfstream.**

19 A. As discussed in the testimony of FPL witness Sharra, FPL currently has
20 874,000 MMBtu/day (approximately 874 MMcf/day) of firm transportation
21 capacity on the FGT system which will expand to a total of 1,274,000
22 MMBtu/day (approximately 1.27 Bcf/day) after FGT’s Phase VIII expansion
23 project is in service; and has a total of about 535,000 MMBtu/day

1 (approximately 535 MMcf/day) on Gulfstream which will rise to 695,000
2 MMBtu/day (approximately 695 MMcf/day) as of June 1, 2009.

3 **Q. Does FPL hold firm transportation capacity on Gulf South or Cypress?**

4 No. As the Gulf South and Cypress systems are not configured to provide
5 deliveries directly to FPL markets in the state of Florida, FPL has no firm
6 transportation capacity on either Cypress or Gulf South.

7 **Q. Is firm interstate capacity in Florida constrained today?**

8 A. Yes. Despite the introduction of incremental capacity via Gulfstream's recent
9 Phases III and IV expansion projects as well as the introduction of incremental
10 capacity via the construction of the Cypress Project (Phase I was placed in
11 service in May 2007 and Phase II was placed in service in May 2008),
12 interstate transportation capacity in Florida is still effectively sold out and
13 therefore constrained on a firm contractual basis.

14 **Q. Is a large portion of the firm capacity into the state of Florida**
15 **underutilized and available for sale in the secondary market under non-**
16 **peak day conditions?**

17 A. No. The Florida market, dominated by gas consumption in support of electric
18 generation, is a high load factor market. In fact, based upon data compiled by
19 the Energy Information Administration (EIA) of the United States Department
20 of Energy (DOE) over the twelve month period of December 2007 through
21 November 2008 (the most recent 12 month period for which EIA data is
22 available) more than 85% of total gas consumption in Florida was to support
23 electric generation. Total natural gas demand in the state of Florida for the

1 twelve month period of December 2007 through November 2008 was about
2 939 Bcf and natural gas demand to support electric generation during this
3 period was about 801 Bcf or approximately 85% of total demand. As depicted
4 in the table attached as Exhibit TCS-2, a comparison of natural gas
5 consumption versus capacity into the state reveals that capacity into the state
6 was utilized at an annual average load factor of nearly 70% of design pipeline
7 capacity during this period. Further, during the peak summer months of June
8 through September, capacity into the state was utilized at an approximate
9 average load factor of almost 80% of available design capacity.

10
11 Perhaps most importantly, under peak demand conditions, when capacity is
12 most needed, the pipelines into the state operate at or near capacity. As an
13 example, per FGT's "Operationally Available Capacity" posting on its
14 Electronic Bulletin Board, on August 6 and 7 of 2008, FGT's system through
15 its Compressor Station 12 operated at levels in excess of 96% of design
16 capacity.

17
18 As per the provisions of its FERC Gas Tariff, one tool that FGT has to
19 manage its pipeline system is the right to issue Alert Day Notices. Section
20 13.D.2 of FGT's Tariff states that "Alert Day notices may be issued by
21 Transporter when in its sole discretion, reasonably exercised, Transporter
22 determines that the pipeline is experiencing or may experience in the next gas
23 day high or low line pack operating conditions which threaten the ability to

1 render firm services.” As further evidence of the high capacity utilization on
2 the FGT system, FGT issued approximately one hundred Alert Day Notices
3 over the past year and during the peak summer season of June through
4 September of 2008, FGT issued a total of sixty Alert Day Notices.

5 **Q. In summary, is there capacity available via the existing natural gas**
6 **pipeline infrastructure in Florida to support incremental firm natural gas**
7 **demand?**

8 A. As detailed above, the existing infrastructure is fully subscribed on a long-
9 term firm contractual basis and there is currently no existing pipeline capacity
10 available in the state to be contracted on a long-term firm basis. Further, per
11 FGT’s Phase VIII expansion filing, FGT has executed precedent agreements
12 with shippers accounting for fully 731,000 MMBtu/day of the 820,000
13 MMBtu/day of Phase VIII expansion capacity. Thus, only 89,000
14 MMBtu/day (approximately 89 MMcf/day) of this Phase VIII expansion
15 capacity is unsubscribed and available. To summarize, absent the introduction
16 of incremental pipeline capacity, the existing natural gas pipeline
17 infrastructure cannot support incremental firm natural gas demand and if
18 FGT’s Phase VIII project is considered, only 89,000 MMBtu/day of capacity
19 will be available after installation of Phase VIII facilities to support
20 incremental firm natural gas demand.

1 **NATURAL GAS SUPPLY MIX**

2 **AVAILABLE TO FLORIDA CONSUMERS**

3
4 **Q. Please provide a description of the natural gas supply mix accessible via**
5 **FGT.**

6 A. Within its Western Division, the portion of its system upstream of Compressor
7 Station 10 in Perry County, Mississippi, FGT serves to gather gas supplies
8 from traditional onshore Gulf Coast and offshore Gulf of Mexico sources and
9 has a design capacity to gather and transport about 1.33 Bcf/day of gas
10 supplies. Thus, in order to transport its design capacity into Florida, the
11 remainder of gas supplies, about 880 MMcf/day, must be received into FGT
12 between its Compressor Station 10 and the Florida border in and around the
13 Mobile Bay Area.

14
15 In addition, FGT's Phase VIII expansion project does not include any facility
16 expansions upstream of the Mobile Bay Area. As such, after its Phase VIII
17 expansion is placed into service in 2011, FGT required receipts from the
18 Mobile Bay Area under design day conditions will total about 1.7 Bcf/day.
19 These Mobile Bay Area receipts consist primarily of (i) traditional Mobile
20 Bay supplies, (ii) offshore Gulf of Mexico supplies received via the Destin
21 Pipeline Company system; and (iii) receipts from the recently constructed
22 Southeast Supply Header (SESH) system.

1 **Q. Please provide a description of the gas supply mix accessible via**
2 **Gulfstream.**

3 A. Gulfstream receives 100% of the gas supply into its system from pipeline
4 interconnection points in and around the Mobile Bay Area. Thus, the full
5 1.25 Bcf/day of supply required into Gulfstream under design day conditions
6 currently must be received into Gulfstream from (i) traditional Mobile Bay
7 area supplies, (ii) offshore Gulf of Mexico supplies received via the Destin
8 Pipeline Company system; and (iii) receipts from the recently constructed
9 SESH system.

10 **Q. In summary, what is the overall supply mix available to the Florida**
11 **market via FGT and Gulfstream?**

12 A. As discussed above, after installation of its Phase VIII facilities, FGT will
13 provide access to receipts into its system of approximately 1.33 Bcf/day of
14 traditional onshore Gulf Coast and offshore Gulf of Mexico supply sources
15 and 1.70 Bcf/day of receipts into its system in and around the Mobile Bay
16 Area and Gulfstream has its entire 1.25 Bcf/day of receipt capacity in and
17 around the Mobile Bay Area. In summary, after the installation of FGT's
18 Phase VIII expansion project, these two pipelines will provide the Florida
19 market with access to 1.33 Bcf/day of traditional Gulf of Mexico supply
20 sources and 2.95 Bcf/day of receipts in and around the Mobile Bay Area.

1 **Q. More specifically, please summarize FPL's current supply access rights**
2 **on Gulfstream and FGT.**

3 A. After initiation of service under FGT's Phase VIII expansion project, FPL's
4 primary receipt point rights on FGT will include 680,000 MMBtu/day
5 (approximately 680 MMcf/day) of receipts from points in and around the
6 Mobile Bay Area and 594,000 MMBtu/day (approximately 594 MMcf/day) of
7 receipts from traditional Gulf of Mexico supply locations. Further, FPL's
8 primary receipt point rights on Gulfstream will include 695,000 MMBtu/day
9 (approximately 695 MMcf/day) of receipts from Mobile Bay Area points. In
10 total, FPL will have firm access to about 1.4 Bcf/day of Mobile Bay Area
11 supply and about 0.6 Bcf/day of traditional Gulf Coast / Gulf of Mexico
12 supply.

13 **Q. What is the production outlook for traditional onshore Gulf Coast /**
14 **offshore Gulf of Mexico supplies in the future?**

15 A. Traditional Gulf Coast production can be separated into three distinct
16 categories of production including: (i) onshore Gulf Coast production; (ii)
17 shallow (depth less than 200 meters) offshore Gulf of Mexico production; and
18 (iii) deepwater (depth greater than 200 meters) offshore Gulf of Mexico
19 production. Production in these areas has declined over the past several years
20 and in the future, the EIA estimates production in shallow water and onshore
21 Gulf Coast fields will continue to decline slowly through 2030. More
22 specifically, within its "Annual Energy Outlook 2009," the EIA projects that
23 onshore Gulf Coast production will decline from current (2008) levels of

1 5.5 Trillion cubic feet (Tcf) to 3.3 Tcf in 2030 and further projects that
2 offshore shallow water production will decline from current levels of 1.7 Tcf
3 in 2008 to 0.9 Tcf in 2030. Meanwhile, EIA further projects that deepwater
4 production will rise from a current 2008 level of 1.4 Tcf up to a peak of
5 3.1 Tcf in 2025 and then remain at levels between 2.9 and 3.1 Tcf each year
6 through 2030. While the EIA projects that deepwater production will provide
7 somewhat of an offset to declines in onshore Gulf Coast and shallow Gulf of
8 Mexico production, deepwater increases are not projected to fully offset these
9 declines. As such, the aggregate EIA projection for these three sources will
10 steadily decline from current levels of 8.6 Tcf per year to 7.3 Tcf per year in
11 2030.

12 **Q. Are forecasts for natural gas production in Mobile Bay consistent with**
13 **Gulf of Mexico forecasts?**

14 A. Yes. EIA Production forecasts for shallow water Gulf of Mexico production
15 includes gas produced in Mobile Bay area fields. In addition, deepwater gas
16 that flows into Mobile Bay area pipelines is included in the deep water Gulf of
17 Mexico production data discussed above. With this said, data specific to
18 Alabama State Offshore production fields indicates a decline in production
19 consistent with that for the overall shallow water Gulf of Mexico production.
20 In fact, according to EIA data, Alabama State Offshore production peaked at a
21 level of 222 Bcf/year in 1998 and has steadily declined since to a level of 134
22 Bcf/year in 2007.

1 **Q. Are there any unique risks associated with onshore Gulf Coast and**
2 **offshore Gulf of Mexico production?**

3 A. Yes. Onshore Gulf Coast as well as offshore Gulf of Mexico production
4 facilities are subject to disruption due to hurricane activity in the Gulf of
5 Mexico. As an illustration, in August 2005, within its "Hurricane Katrina
6 Evacuation and Production Shut-In Statistics" report, the Minerals
7 Management Service (MMS) of the United States Department of the Interior
8 (DOI) reported that as Hurricane Katrina passed over the Gulf of Mexico
9 approximately 88% of normal daily Gulf of Mexico natural gas production
10 (about 8.8 Bcf/day out of a total 10 Bcf/day) was shut in. In addition, in the
11 following month, as Hurricane Rita passed over the Gulf of Mexico, the MMS
12 reported that approximately 80% of normal daily gas production (about 8
13 Bcf/day out of 10 Bcf/day) was shut in. Finally, the MMS reported that over
14 nine months after these two hurricanes had passed by, in June 2006,
15 approximately 11% of offshore Gulf of Mexico production had yet to return
16 online.

17
18 It is important to note that hurricane events present a unique risk to Gulf Coast
19 production while hurricanes do not present the same impact further inland.

20 **Q. Please describe supply sources available into Mobile Bay area receipt**
21 **points on Gulfstream and FGT.**

22 A. Gulfstream and FGT share many of the same supply sources in the Mobile
23 Bay Area. These sources include pipeline interconnects with (a) Transco's

1 Mobile Bay Lateral and Gulf South Pipeline Company's Mobile Bay Lateral
2 (both of which receive gas supplies from Mobile Bay Production); (b) Destin
3 Pipeline Company which receives gas supplies from offshore Gulf of Mexico
4 southeastern Louisiana Production Fields; and (c) the newly constructed
5 SESH system.

6 **Q. Are you aware of any new supply sources that will be made available to**
7 **Gulfstream and FGT in the Mobile Bay area in the near future?**

8 A. Yes. Gulf LNG Energy, a subsidiary of the El Paso Corporation is currently
9 constructing an LNG regasification facility in Pascagoula, Mississippi. As per
10 Gulf LNG's website, the Gulf LNG plant has a projected in-service date in
11 2011 and will have a peak send-out capacity of 1.3 Bcf/day. The project has
12 proposed interconnections directly with Gulfstream as well as with the
13 proposed Pascagoula Expansion Project pipeline to be jointly owned by FGT
14 and Transco. The Pascagoula Expansion Project will receive gas supplies
15 from the Gulf LNG project and will deliver to FGT's proposed Mobile Bay
16 Project, which in turn would provide access to FGT's mainline. As detailed in
17 a the joint Request for Pre-Filing Review filed in FERC Docket PF08-31-000
18 by Transco and FGT, capacity dedicated to FGT on the Pascagoula Expansion
19 Project is 340,000 MMBtu/day (approximately 340 MMcf/day).

20 **Q. Are there any issues or concerns that need to be considered in evaluating**
21 **the Gulf LNG facility as a long-term firm gas supply source for FPL?**

22 A. Yes. First, the Gulf LNG facility will be located in Pascagoula, Mississippi
23 on the Gulf Coast. As such, this facility will be subject to the same severe

1 weather conditions during hurricanes that have the potential to impact onshore
2 Gulf Coast and offshore Gulf of Mexico production sources. Further, LNG
3 trades on a worldwide market and will typically be delivered to the highest
4 value market available at any given time. For example, the EIA reported that
5 during 2008 a total of about 352 Bcf of natural gas as LNG was imported into
6 the U.S. This represented about 45% of the total 771 Bcf of LNG that the EIA
7 reported was imported during 2007. This substantial reduction in LNG
8 imports is due to the fact that United States demand for LNG competes with
9 demand in other parts of the world. As a result, if demand is greater (and
10 values are higher) for LNG elsewhere in the world than in the U.S., the LNG
11 will likely flow to the highest value market.

12 **Q. Please provide a description of the Southeast Supply Header and natural**
13 **gas supplies accessible via the Southeast Supply Header.**

14 A. SESH was placed into service during the fall of 2008 and consists of
15 274 miles of 42 and 36-inch pipeline extending from the Perryville Hub in
16 Northern Louisiana to its terminus at its interconnection with Gulfstream in
17 Coden, Alabama. The pipeline has a maximum transportation capacity of
18 1.0 Bcf/day. Approximately 95% of this 1 Bcf/day of pipeline capacity is
19 currently subscribed under long-term firm transportation agreements. As
20 such, while SESH has provided a needed addition of supply diversity to
21 Gulfstream and FGT in the Mobile Bay area, the pipeline, as currently
22 configured, is essentially sold out and unavailable to provide incremental
23 supply to the Florida market.

1 **Q. Does FPL have any contracted capacity on SESH?**

2 A. Yes. FPL has a long-term contract for 500,000 MMBtu/day (approximately
3 500 MMcf/day) of capacity on SESH from the Perryville Hub to Gulfstream
4 and FGT in the Mobile Bay area.

5 **Q. Taking into account FPL's capacity on SESH, please summarize natural
6 gas supply access available to FPL via its connected pipelines.**

7 A. As stated previously in my testimony, after initiation of service under FGT's
8 Phase VIII expansion project, FPL's primary receipt point rights on FGT and
9 Gulfstream will provide access to about 1.4 Bcf/day of Mobile Bay Area
10 receipts and 0.6 Bcf/day of traditional onshore and offshore Gulf of Mexico
11 Area receipts. With SESH capacity providing access to Perryville Hub
12 supplies, FPL's supply mix consists of about (a) 0.5 Bcf/day available from
13 the Perryville Hub via SESH or directly from Mobile Bay Area supply points;
14 (b) 0.9 Bcf/day from non-SESH Mobile Bay Area receipts; and
15 (c) 0.6 Bcf/day of traditional Gulf Coast receipts.

16 **Q. Please provide a description of natural gas available at the Perryville
17 Hub.**

18 A. In addition to receiving traditional Gulf of Mexico production, via upstream
19 connected pipelines the Perryville Hub also receives supplies of natural gas
20 from the Barnett Shale in Texas, the Haynesville Shale in North Louisiana, the
21 Woodford Shale in Southeastern Oklahoma and the Fayetteville Shale in
22 Northeast Arkansas.

1 **Q. Other than SESH, are there any other pipeline projects under**
2 **development that have the potential to provide the Southeast United**
3 **States with access to North Louisiana or East Texas Supplies?**

4 A. Yes. Boardwalk Pipeline is currently in the process of constructing three
5 expansion projects -- the Gulf Crossing Pipeline project, the East Texas to
6 Mississippi Expansion project and the Southeast Expansion Project -- that will
7 serve to transport unconventional supplies to southeast markets. In addition,
8 Kinder Morgan is currently constructing its MidContinent Express Pipeline
9 which will also provide new supply access to shippers in the Southeast. A
10 schematic illustration of SESH as well as the Boardwalk and Kinder Morgan
11 projects is attached as Exhibit TCS-3.

12 **Q. Please provide a description of Boardwalk's Gulf Crossing Pipeline, East**
13 **Texas to Mississippi Expansion and Southeast Expansion Projects.**

14 A. The Gulf Crossing Pipeline is a newly-created interstate pipeline. This project
15 consists of 357 miles of 42-inch pipeline extending from Sherman, Texas to
16 the Perryville Hub in Northern Louisiana and when completed will have a
17 capacity of approximately 1.7 Bcf/day. At the Perryville Hub, Gulf Crossing
18 can deliver to third party pipelines or directly into Boardwalk's East Texas to
19 Mississippi Expansion. The pipeline portion of the Gulf Crossing Pipeline
20 was completed and placed in service in February 2009 and initial compression
21 is scheduled to be in-service during the first quarter of 2009. The initial
22 capacity of these facilities is 1.2 Bcf/day. In addition, Boardwalk has applied
23 to the Pipeline and Hazardous Materials Safety Administration (PHMSA) of

1 the US Department of Transportation (DOT) for the authority to operate the
2 system at higher operating pressures. If this approval is obtained, capacity on
3 the system will be increased to 1.4 Bcf/day. Finally, the second phase of this
4 project, consisting of compression additions, is scheduled to be in service as
5 of the first quarter of 2010 at which time the project will have a capacity of
6 1.7 Bcf/day.

7
8 Part of Boardwalk's existing Gulf South system, the East Texas to Mississippi
9 Expansion originates at its starting point in Carthage, Texas. This project
10 consists of 242 miles of 42-inch pipeline with approximately 1.7 Bcf of peak-
11 day transmission capacity. Already in-service, the East Texas to Mississippi
12 Expansion aggregates deliveries from intra-state pipelines and carries gas
13 through the Perryville Hub. The East Texas to Mississippi Expansion
14 continues from Perryville and terminates at Harrisville, Mississippi, where the
15 gas can continue along the Southeast Expansion.

16
17 Finally, Boardwalk's Southeast Expansion is an expansion of the Gulf South
18 system and is designed to carry gas from the Perryville Hub, Gulf Crossing,
19 and the East Texas to Mississippi Expansion. This Southeast Expansion
20 originates in Harrisville, Mississippi and terminates at Transco Station 85.
21 The initial phase of the project, consisting of 111 miles of 42-inch pipeline
22 and associated compression with a capacity of 1.8 Bcf/day has been
23 constructed and is now in service. In addition, Boardwalk has applied to the

1 PHMSA for the authority to operate the system at higher operating pressures.
2 If this approval is gained, capacity on the system will be increased to 1.9
3 Bcf/day.

4 **Q. Please provide a description of the Midcontinent Express Pipeline**
5 **Project.**

6 A. Midcontinent Express Pipeline is a 50/50 joint venture between Kinder
7 Morgan Energy Partners, L.P. and Energy Transfer Partners, LLC. When the
8 project is completed, the Midcontinent Express Pipeline will consist of
9 approximately 265 miles of 42-inch, 196 miles of 36-inch and 41 miles of 30-
10 inch pipeline, associated compression and up to 13 receipt and/or delivery
11 interconnections. The project will extend from southeast Oklahoma, across
12 northeast Texas, northern Louisiana and central Mississippi, to an
13 interconnection near Transco Station 85 near Butler, Alabama. Midcontinent
14 Express is currently under construction and the first phase of the project
15 extending from Southeast Oklahoma through Delhi, Louisiana has a planned
16 in service date of April 1, 2009 with the remaining pipeline from Delhi,
17 Louisiana to Butler, Alabama planned to be in service on July 15, 2009. The
18 pipeline will have an initial capacity of up to 1.5 Bcf/day with a planned
19 future expansion bringing capacity up to 1.8 Bcf/day.

1 **Q. Please provide a summary of supply sources that will be made available**
2 **to Southeast markets via the Boardwalk projects and the MidContinent**
3 **Express projects.**

4 A. Midcontinent Express will provide access to natural gas supplies from the
5 Barnett Shale and Bossier Sands in Texas, the Fayetteville Shale in Arkansas
6 and the Woodford / Caney Shale in Oklahoma.

7
8 Boardwalk's Gulf Crossing Pipeline is designed to carry gas from the Barnett
9 and Woodford / Caney shales. Next, Boardwalk's East Texas to Mississippi
10 Expansion taps supplies from the Barnett Shale as well as Bossier Sands. Gas
11 supplies from both of these projects may continue downstream into
12 Boardwalk's Southeast Expansion Project. Exhibit TCS-4 provides an
13 illustration of upstream pipeline capacity available in the vicinity of Transco
14 Station 85 over the past few years and projected into the next few years.

15 **Q. What is the outlook for Barnett, Fayetteville, Haynesville and**
16 **Woodford/Caney shale gas supplies in the future?**

17 A. Unlike traditional Gulf Coast sources discussed previously in my testimony,
18 unconventional shale gas production has been growing rapidly over the past
19 few years and is projected to continue this rapid growth in the future.
20 According to the Texas Railroad Commission, the Barnett Shale play near
21 Fort Worth, Texas has grown from total annual production of less than
22 400 Bcf per year or an average of about 1.1 Bcf/day in 2004 to an annual total
23 in excess of 1.4 Tcf or an average of about 3.8 Bcf/day in 2008.

1 The Fayetteville, Haynesville and Woodford/Caney Shale plays have been
2 developed more recently than the Barnett Shale and production at these fields
3 has been rapidly increasing over the last several years. As per the Arkansas
4 Oil & Gas Commission, Fayetteville Shale production increased from an
5 annual total of 100 MMcf or an average of about 0.3 MMcf/day in 2004 to an
6 annual total of about 273 Bcf or an average of about 750 MMcf/day in 2008
7 and is expected to continue to grow over the next several years. Finally, the
8 Haynesville Shale and Woodford Shale production sources are in the initial
9 stages of exploration and production. With this said, these plays are also
10 expected to produce significant quantities of natural gas into the grid within
11 the next few years.

12 **Q. Do you believe that there are adequate capacity and supplies upstream of**
13 **the Transco Station 85 area to meet the demands of the FPL markets?**

14 A. Yes. As discussed previously, after installation of pipeline facilities recently
15 placed in service, currently under construction and planned in the next few
16 years, it is projected that new third party capacity to Transco near its Station
17 85 will total about 4.7 Bcf/day (1.0 Bcf/day via SESH, 1.9 Bcf/day via
18 Boardwalk Southeast Expansion and 1.8 Bcf/day via MidContinent Express).
19 This capacity coupled with Transco's traditional capacity upstream of its
20 Station 85 of approximately 4.7 Bcf/day can provide a total of about
21 9.4 Bcf/day to the Transco Station 85 area. This total capacity will be
22 sufficient to meet the demands of all of Transco's customers as well as the
23 demand on the proposed Florida EnergySecure Line.

1 With respect to gas supplies accessible via this capacity, as previously
2 mentioned, the new pipeline projects are being constructed to transport the
3 growing unconventional supply sources to southeast markets. As discussed in
4 detail above, these unconventional supply sources are projected to continue to
5 grow in the next several years and the Florida EnergySecure Line will provide
6 FPL with access to this growing resource base.

7 **Q. Do you believe that the construction of the aforementioned pipeline**
8 **projects to provide unconventional supply sources of gas to the Transco**
9 **Station 85 area will have an impact on gas costs in this area?**

10 A. Yes. I believe that the addition of these incremental natural gas supplies to
11 this area via the planned and recently constructed pipeline facilities will result
12 in downward pressure on localized gas market prices in the Transco Station 85
13 area versus other natural gas supply locations. This can be confirmed in the
14 marketplace with a review of market values within Transco's Zone 4 (Transco
15 Station 85 is within Transco's Zone 4) over the past few years as well as a
16 review of the market's view of future pricing at this location.

17
18 First, with respect to the past few years, prices of natural gas bought and sold
19 in Transco's Zone 4 during 2006 and 2007 (before the installation of SESH in
20 the fall of 2008) carried an average premium of about \$0.25/MMBtu versus
21 gas bought and sold at the Henry Hub, Louisiana. By comparison, natural gas
22 bought and sold at this location during the past twelve months (April 2008
23 through March 2009) carried an average premium of about \$0.10/MMBtu

1 versus gas bought and sold at the Henry Hub. This indicates that the
2 introduction of incremental supplies via SESH and other recently installed
3 facilities have already exerted downward pressure and resulted in lower prices
4 in the vicinity of Transco Station 85.

5
6 Additionally, a review of basis futures contracts as traded on the NYMEX
7 ClearPort Exchange indicates that prices at this location will likely continue to
8 decline over the next few years. More specifically, the Transco Zone 4 Basis
9 Swap Futures Contracts as traded on the NYMEX ClearPort Exchange reflects
10 the market value for gas bought and sold within Transco's Zone 4 versus the
11 NYMEX futures contract for gas delivered at the Henry Hub for a given
12 month. During March 2009, the average of the monthly settlement prices for
13 this Transco Zone 4 Basis Swap averaged a negative \$0.0375 per MMBtu for
14 calendar year 2010. Thus, the forward market currently projects that the value
15 of gas bought and sold within Transco's Zone 4 will continue to decline
16 versus other markets over the next few years.

17 **Q. Do you believe that increased diversity in available supply mix would**
18 **benefit FPL and the state of Florida?**

19 A. Yes. With the state of Florida generally and FPL specifically reliant to a large
20 degree on Gulf Coast supplies, I believe that the introduction of access to and
21 expanded natural gas supply mix including unconventional shale gas supplies
22 via the proposed Florida EnergySecure Line will provide supply diversity and
23 will correspondingly increase supply reliability. As discussed previously,

1 Gulf Coast production is projected to decline whereas shale gas production is
2 projected to grow in the future. In addition, Gulf Coast production remains
3 subject to disruption due to hurricane activity during the peak summer
4 demand period. Diversification of the supply mix will mitigate the impact of
5 such disruptions on the overall natural gas supply portfolio.

6

7

FPL FUEL REQUIREMENTS POSITION VS. INDUSTRY

8

9 **Q. Please describe FPL's fuel supply mix and reliance upon natural gas as a**
10 **fuel source.**

11 A. As described in Table I.A.1: Capacity Resource by Unit Type within FPL's
12 "Ten-Year Power Plant Site Plan for 2008-2017," as of December 31, 2007,
13 FPL had a total of 22,135 MW of generating capacity in its portfolio of
14 generating assets. Of this 22,135 MW of generating capacity, 2,939 MW are
15 nuclear facilities, 896 MW are coal facilities, 660 MW are oil facilities,
16 10,876 MW can be fueled by either fuel oil or natural gas and 6,765 MW can
17 only be fueled with natural gas.

18 **Q. How does the total quantity of natural gas utilized to generate electricity**
19 **in the state of Florida compare to that of other states?**

20 A. As depicted in the EIA data summarized in Exhibit TCS-5, in a comparison of
21 all fifty states, the state of Florida consumed the third largest quantity of
22 natural gas to generate electricity during 2007. States in which the total
23 amount of power generated using natural gas exceeded that of the state of

1 Florida included only Texas and California. Further, these three large use
2 states significantly outpace any other state in natural gas utilized to generate
3 electricity. In fact, the state with the fourth largest use of natural gas to
4 generate electricity, New York, utilized only about 50% as much natural gas
5 as that utilized in Florida to generate power. Perhaps more significantly, the
6 total amount of natural gas utilized to generate power in New York was less
7 than that utilized by FPL alone during 2007.

8 **Q. How does natural gas pipeline and supply access in Florida compare to**
9 **that available in Texas?**

10 A. Texas is a net exporter of natural gas to other states whereas Florida is a net
11 importer of natural gas from other states. In other words, more natural gas is
12 produced than consumed in the state of Texas whereas virtually all of the
13 natural gas consumed in the state of Florida is produced outside of the state.
14 More specifically, within its "Natural Gas Annual 2007" report, the EIA
15 reported that Florida imported a net of 915 Bcf whereas Texas exported a net
16 of 2,276 Bcf of natural gas in 2007. Because there is significantly more gas
17 produced than consumed in the state of Texas while essentially all natural gas
18 consumed in Florida must be imported into the state, it is clear that supply
19 access in Texas is greater than that available in Florida.

20

21 Further, the pipeline network in the state of Texas is well developed with
22 numerous intrastate and interstate pipelines traversing the state and providing
23 a competitive environment for natural gas access available to customers

1 within the state. In contrast, access to gas supply in the state of Florida must
2 be obtained via the interstate pipelines operating within the state. With more
3 than forty intrastate pipeline systems and twenty five interstate pipeline
4 systems operating in the state of Texas compared to the state of Florida, which
5 is primarily served by two interstate pipeline systems (Gulfstream and FGT),
6 it is clear that competitive access to transportation capacity available to end-
7 use consumers is more competitive in Texas than in Florida.

8 **Q. How does natural gas pipeline and supply access in Florida compare to**
9 **that available in California?**

10 A. Like Florida, California is a net importer of natural gas with EIA reporting net
11 natural gas imports to California of 2,103 Bcf in 2007. However, the
12 California marketplace is unique in that natural gas is primarily delivered to
13 the state border by multiple long haul interstate pipelines. The gas is then
14 transported within the state via a network of intrastate pipelines owned and
15 operated by California utilities. As reported by the EIA in its report entitled
16 "U.S. Intrastate Natural Gas Pipeline Systems – April 2007," these systems
17 include the Pacific Gas & Electric (PG&E) pipeline system with
18 approximately 3,500 miles of pipeline in service having a capacity of
19 3.2 Bcf/day, the Southern California (SoCal) Gas system with approximately
20 1,900 miles of pipeline in service and a capacity of 4 Bcf/day and the San
21 Diego Gas and Electric (SDG&E) pipeline system with approximately
22 830 miles of pipeline in service and a capacity of about 900 MMcf/day. As
23 such, unlike the Florida market, the California market is not dependent upon

1 interstate pipelines to deliver natural gas to ultimate consumers within the
2 state, but is only dependent upon such pipelines to transport the gas to the
3 state border. This in effect moves the "point of competition" for natural gas
4 supplies away from individual markets within the state to points of
5 aggregation at the state border. A consumer located on one of these utility
6 systems in California obtains access, via the utility pipeline network, to any of
7 a number of interstate pipelines delivering to the utility pipeline system, which
8 provides the end user with the potential to access multiple supply basins via
9 these upstream interstate pipeline systems. For example, Transwestern
10 Pipeline and El Paso Natural Gas receive supplies from West Texas and San
11 Juan basin sources, Kern River Gas Transmission receives supplies from
12 Rocky Mountain sources and Gas Transmission Northwest (GTN) receives
13 supplies from Canadian and Rocky Mountain sources. Each of these pipelines
14 delivers to the intrastate utility systems, providing end users within California
15 with access to any of these supply sources via the utility pipeline systems. In
16 contrast, within the state of Florida, end use markets (such as FPL generation
17 facilities) can only access supplies made available via the directly connected
18 interstate pipelines of FGT and Gulfstream, which primarily provide access
19 only to Gulf Coast and offshore Gulf of Mexico supply sources.

1 **Q. What conclusions do you make with respect to natural gas supply access**
2 **in Florida versus access to supplies available in other states that use**
3 **comparable quantities of natural gas in support of electric generation?**

4 A. As discussed in detail above, California and Texas are the only states that
5 utilize natural gas for electric generation to an extent comparable to that of the
6 state of Florida. Generation facilities in California obtain access to multiple
7 interstate pipeline and supply basin alternatives via an extensive utility
8 intrastate pipeline network operating within the state. In Texas, generation
9 facilities often have access to multiple intrastate and interstate pipeline
10 alternatives. Unlike those in Texas and California, generators operating in
11 Florida, such as FPL, typically have access only to supplies delivered by
12 either Gulfstream or FGT and primarily from only onshore Gulf Coast and
13 offshore Gulf of Mexico supply sources. Thus, I would conclude that gas
14 supply access in Florida is not as robust as that available in comparable states
15 such as Texas and California. As such, efforts to diversify the natural gas
16 supply mix and the delivery pipeline alternatives available to the state of
17 Florida will benefit FPL as well as all consumers in the state and should be
18 pursued.

NEED FOR NEW NATURAL GAS**CAPACITY IN FLORIDA**

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Q. Please describe your understanding of FPL's natural gas transportation capacity requirements supporting the Florida EnergySecure Line.

A. FPL sought and obtained approval from the FPSC in Docket Nos. 080245-EI and 080246-EI to modernize its CCEC and RBEC plants to natural gas fueled combined cycle facilities effective June 2013 and June 2014 respectively. These Modernization Projects will provide a total of 2,426 MW of new electric generation capacity and will each have a peak natural gas demand requirement of approximately 200 MMcf/day. As such, in 2014, FPL will require approximately 400 MMcf/day of incremental natural gas supply to accommodate the needs of these two units.

Q. Can this incremental natural gas demand be met utilizing existing natural gas pipeline infrastructure in the state?

A. No. As mentioned previously in my testimony, the incumbent pipelines serving the state are fully subscribed and will remain almost fully subscribed after completion of proposed expansion projects. As such, the Modernization Projects require the addition of incremental pipeline capacity.

1 **Q. Did FPL consider natural gas supply alternatives other than traditional**
2 **pipeline expansions such as the use of market area storage or LNG**
3 **imports to support its future natural gas requirements?**

4 A. Yes. My understanding is that in its initial review process, FPL considered
5 other alternative gas infrastructure options such as the use of market-area
6 storage or LNG imports to meet its incremental demand. However, these
7 alternatives represent supply alternatives rather than capacity and supply
8 alternatives to serve the market. As such, the use of either market area storage
9 or LNG imports would still require the installation of pipeline infrastructure
10 necessary to transport the imported LNG or stored supplies to the ultimate
11 markets at FPL's plant site locations.

12
13 Further, with respect to LNG imports, FPL also determined that reliance upon
14 LNG imports located at coastal locations and subject to severe hurricane
15 weather conditions did not provide the supply diversity and security that the
16 company desired when targeting unconventional supplies available at the
17 proposed inlet to the Florida EnergySecure Line project.

18
19 Finally, with respect to market area storage facilities there are no known
20 suitable geologic formations within the state of Florida to provide in-ground
21 storage. As such, the only storage that could be constructed in the state would
22 be above ground tank storage. However, FPL anticipates that the generation
23 facilities to be served by the Florida EnergySecure Line will be operated as

1 base load facilities, requiring a consistent supply source to support fuel
2 requirements. As a result, the operating parameters associated with above
3 ground in-tank storage (cycling requirements and total stored capacity
4 available) are not compatible with the baseload supply requirements of these
5 generation assets.

6 **Q. Does FPL's load forecast include any additional natural gas requirements**
7 **in support of power generation demand beyond the CCEC and RBEC**
8 **Modernization Projects?**

9 A. Yes. FPL's Base Case Resource Plan as submitted in the testimony of FPL
10 witness Enjamio indicates that FPL will require significant quantities of
11 natural gas in support of generation requirements in 2021 and beyond. In fact,
12 during the years of 2021 through 2040, FPL projects that it will require an
13 incremental 14,931 MW of natural gas fired generation capacity requiring
14 approximately 2.36 Bcf/day of natural gas as fuel to support generation
15 requirements. This 2.36 Bcf/day requirement is incremental to the
16 400 MMcf/day required in support of the Modernization Projects.

17 **Q. In addition to FPL natural gas demand increases, are third parties in the**
18 **state of Florida projected to increase natural gas consumption in support**
19 **of generation requirements?**

20 A. The 2008 Regional Load and Resource Plan published in July 2008 by the
21 Florida Reliability Coordinating Council (FRCC) included a projection of
22 future natural gas consumption in support of natural gas fired generation
23 requirements. At the time the report was published, total natural gas

1 consumption in the state of Florida in support of natural gas fired generation
2 requirements was projected to increase by approximately 23.5% between the
3 years 2012 and 2017 from an annual usage of about 1,021 Bcf/year in 2012 to
4 an annual usage of about 1,261 Bcf/year in 2017. Assuming that this 23.5%
5 increase in demand is accompanied by a 23.5% increase in required
6 transportation capacity into the state, natural gas transportation into the state
7 would need to increase from the Post FGT Phase VIII statewide capacity level
8 of 4.6 Bcf/day in 2012 to a total capacity of 5.7 Bcf/day by the year 2017.
9 FPL's proposed pipeline project would initially provide about 60% of this
10 capacity into the state upon its in-service date in 2014 and could be
11 economically expanded to support 100% of this increased incremental
12 1.1 Bcf/day of statewide demand for natural gas transportation capacity to
13 support generation requirements.

14
15 It is worth noting that since the development of the FRCC Load and Resource
16 Plan, economic conditions in the overall economy have deteriorated. As such,
17 it is reasonable to assume that natural gas demand growth for electric
18 generation in the near future may be slower than that predicted in the FRCC
19 Plan. With this said, while it is likely that natural gas demand growth for
20 electric generation may be delayed, it is unlikely that this growth will not
21 come to fruition in the long-term.

1 **Q. You have discussed natural gas demand to support electric generation. Is**
2 **there also potential growth in non electric generation related natural gas**
3 **demand in the state of Florida?**

4 A. EIA data indicates that natural gas demand for electric power generation has
5 represented roughly 80 to 85% of overall natural gas demand in the state of
6 Florida during the past five years. This EIA data also indicates that natural
7 gas demand for residential, commercial and industrial consumers has been
8 relatively flat at about 135 Bcf per year over the past five years. Although this
9 non-electric generation natural gas demand has been relatively flat over the
10 past five years, any increase in this demand will only add to the pressure for
11 additional natural gas pipeline capacity into the state in the future.

12 **Q. Will the Florida EnergySecure Line create a long-term surplus of**
13 **transportation capacity into Florida?**

14 A. No. As stated above, in its first year of operation in 2014, FPL will require
15 400 MMcf/day of the initial 600 MMcf/day of Florida EnergySecure Line
16 capacity to meet the fuel requirements of its CCEC and RBEC Modernization
17 Projects. Subsequently, as depicted in the Base Case Resource Plan in FPL
18 witness Enjamio's testimony, FPL will require the entire potential expanded
19 1.25 Bcf/day of capacity for system operations by the year 2025.

20

21 In addition, if (a) economic conditions should change such that FPL's long-
22 term load forecast reverts to conditions similar to earlier projections such as
23 those projected in its 2008 Ten-Year Power Plant Site Plan, or (b) the

1 regulatory process associated with the proposed construction of two new
2 nuclear units at Turkey Point is delayed, FPL may well utilize the remaining
3 200 MMcf/day of the initial 600 MMcf/day of capacity within the first five
4 years of pipeline operation.

5
6 Further, as illustrated in the FRCC's regional load and resource plan, the
7 FRCC projects that natural gas demand to meet electric requirements will
8 expand by approximately 16.5% or an average of about 750,000 MMBtu/day
9 (approximately 750 MMcf/day) by 2015. As mentioned above, while this
10 growth may be delayed due to current economic conditions, the overall
11 demand requirement would exceed the initial 600 MMcf/day capacity of the
12 pipeline project.

13 **Q. With respect to third party demand for natural gas in Florida, would the**
14 **Florida EnergySecure Line need to be connected to these markets to**
15 **serve this demand?**

16 A. No. As mentioned above, the proposed pipeline will be connected to FPL's
17 CCEC, RBEC and Martin Plant sites. Additionally, after installation of FGT's
18 Phase VIII project, FPL will have contractual firm transportation rights on the
19 FGT system of up to 744,000 MMBtu/day to the Martin plant, 192,000
20 MMBtu/day to the CCEC and 180,000 MMBtu/day to the RBEC. Further,
21 FPL maintains firm transportation rights of up to 350,000 MMBtu/day to the
22 Martin Plant on the Gulfstream system. In the event that a third party facility
23 requires natural gas supplies upstream of these points on the FGT or

1 Gulfstream systems, FPL would have the potential to release its firm
2 transportation capacity from these locations on FGT or Gulfstream to the third
3 party and replace such capacity with incremental capacity on the new pipeline.
4 For example, if a third party required 200 MMcf/day of transportation
5 capacity in the Tampa area (upstream of Martin on FGT or Gulfstream), FPL
6 could release 200 MMcf/day of its own transportation capacity on FGT or
7 Gulfstream currently directed to the FPL Martin Plant to such third party and
8 utilize an additional 200 MMcf/day on the new pipeline to the Martin plant to
9 displace the released capacity.

10
11 As such, the new pipeline can provide competitive access to markets
12 throughout the state of Florida utilizing a combination of FPL's existing
13 capacity portfolio as well as capacity made available through construction of
14 the new pipeline.

15
16 **ADDITIONAL BENEFITS TO FLORIDA OF BUILDING THE FLORIDA**
17 **ENERGYSECURE LINE VS. EXPANSIONS OF EXISTING SYSTEM**

18
19 **Q. In addition to the infusion of needed pipeline capacity, does the Florida**
20 **EnergySecure Line provide other enhancements to the natural gas**
21 **pipeline infrastructure within Florida?**

22 **A. Yes. The addition of this pipeline will provide other benefits including**
23 **improved reliability and security of natural gas deliveries to market areas in**

1 Peninsular Florida, including protection against mainline outages, supply
2 losses and the loss of single pipe service to some locations.

3 **Q. Please describe the protection against mainline outages that can be**
4 **provided by the new pipeline.**

5 A. As described previously in my testimony, the majority of the gas delivered to
6 Florida markets is delivered via the FGT and Gulfstream pipeline systems.
7 Portions of these pipeline systems have been looped with one or more pipes,
8 which provide a degree of protection in the event service in one pipe is
9 interrupted, while other portions of these systems rely on deliveries through a
10 single pipe. As the new pipeline will provide another source of natural gas
11 into Peninsular Florida it would be available to offset a portion of the delivery
12 capacity lost due to any potential mainline outages on the existing pipelines.

13
14 Further, with respect to potential compressor outages, it is important to note
15 that the full utilization of the existing systems is dependent upon the operation
16 of compression facilities located both within Florida as well as upstream on
17 these pipeline systems in other states. As is the case with any pipeline system
18 designed to operate at or near capacity in meeting contractual delivery
19 obligations, the interruption or loss of localized compression or transmission
20 facilities anywhere along the pipeline system can, to some degree, impact the
21 ability of the affected pipeline to meet its firm contractual service
22 requirements at downstream locations. Once again, the introduction of a new
23 large diameter pipeline into this service area will provide another delivery

1 option and will serve to mitigate the impact of any upstream compressor
2 outages on local markets.

3 **Q. The design of the new pipeline initially includes connections to only the**
4 **FPL markets of RBEC, CCEC and Martin. As such, how can the new**
5 **pipeline be utilized to provide protection against mainline outages at**
6 **other locations?**

7 A. In order to provide protection against mainline outages at other locations, the
8 new pipeline can be utilized to displace transportation quantities from
9 connected markets to upstream markets on the affected pipelines. This would
10 not require a direct connection to the existing pipeline. As discussed earlier in
11 my testimony, FPL has firm transportation rights with both Gulfstream and
12 FGT to provide service to FPL's Martin generation plant and has firm
13 transportation contract rights with FGT to its RBEC and CCEC facilities. In
14 the event that there is an outage on the Gulfstream system, FPL could flow
15 natural gas supplies to its Martin Plant via the new pipeline and displace a like
16 amount of capacity on the Gulfstream system. Similarly, in the event that
17 there is a capacity restriction on FGT due to an upstream outage, FPL could
18 flow natural gas supplies to its Martin, RBEC or CCEC facilities via the new
19 pipeline and displace a like amount of capacity on the FGT system.

20

21 In addition to displacement, because the new pipeline will be located in the
22 vicinity of both FGT and Gulfstream near FPL's Martin Plant, the pipeline
23 could in the future be connected to the FGT and/or Gulfstream systems at this

1 location to serve additional markets in Florida. (This would require blanket
2 certificate approval from the Federal Energy Regulatory Commission pursuant
3 to 18 C.F.R § 284.224). Further, due to its close proximity to FGT near the
4 RBEC, the new pipeline could in the future also be connected to the FGT
5 system near the RBEC. With direct connections, the new pipeline could be
6 utilized as an operational loop of the existing pipeline systems providing gas
7 supplies into the existing pipelines at these locations. If connections are
8 installed, in the event that there is an outage on either FGT or Gulfstream, the
9 new pipeline could be utilized to provide gas supplies into the affected
10 pipeline to serve Florida markets to offset capacity restrictions created by the
11 outage.

12 **Q. Please describe the protection against single pipe outages provided by the**
13 **new pipeline.**

14 A. FPL generation facilities at Cape Canaveral and Riviera are currently capable
15 of receiving supplies only from the FGT system. My understanding is that, at
16 each of these locations, FGT delivers into the FPL plants via a single delivery
17 lateral. As such, with the current configuration, in the event that there is a
18 failure of this delivery lateral, the plants would have no available source of
19 gas supply. After connections with the new pipeline are installed at these
20 locations, there will be two pipelines physically connected to each plant (FGT
21 and the new pipeline). This will provide protection against the total loss of
22 natural gas supplies to the plant in the event that there is a failure on one of
23 the two pipelines serving the plant.

1 **Q. Please describe the protection against supply losses that can be provided**
2 **by the new pipeline.**

3 A. As described in detail previously in my testimony, Gulfstream and FGT are
4 designed to source gas supplies primarily from traditional onshore Gulf Coast
5 and offshore Gulf of Mexico supply sources. The new pipeline will provide
6 supplies from unconventional shale gas locations in North Louisiana,
7 Arkansas and East and Central Texas. This diversity of supply created with
8 the new pipeline will decrease the portion of FPL's fuel requirements that are
9 dependent upon traditional Gulf Coast and Gulf of Mexico sources. As a
10 result, a smaller percentage of FPL's overall supply portfolio (and generation
11 capacity) will be impacted by isolated weather events such as hurricane
12 disruptions in the Gulf of Mexico.

13
14 This diversity of supply has the potential to provide an operational benefit
15 through access to non-impacted supply sources during isolated weather
16 events. In addition, recognizing that short-term or long-term reductions in
17 Gulf Coast natural gas supply due to hurricanes can result in spikes in Gulf
18 Coast supply prices, the diversity of supply created via the Florida
19 EnergySecure Line has the potential to also provide a financial benefit
20 through access to non-impacted supply sources during such events.

1 **Q. Will the new pipeline provide FPL and other Florida consumers with**
2 **increased competitive alternatives for future gas transportation capacity?**

3 A. Yes. The new pipeline will introduce competition to the connected FPL
4 markets of Riviera and Cape Canaveral where today there is no competition
5 for transportation services. In addition, the majority of Peninsular Florida
6 markets are currently accessed only by FGT. The construction of a new large
7 diameter pipeline through Peninsular Florida will provide FPL as well as other
8 Florida customers with access to a competitive large diameter pipeline
9 alternative in this portion of the state. To the benefit of all consumers in these
10 areas, the project will provide pipe-on-pipe competition for interstate pipeline
11 services and will provide consumers with options as to pipeline services in the
12 future. While the option value associated with this type of project is difficult
13 to quantify, a project that permanently alters the competitive environment for
14 services such as the Florida EnergySecure Line project has the potential to
15 reap unforeseen benefits for the participant, as well as other consumers in the
16 vicinity of the pipeline.

THE SOLICITATION PROCESS

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Q. What process did FPL use to determine that the Florida EnergySecure Line was the most favorable method to obtain incremental gas transportation capacity to support its natural gas requirements?

A. As discussed in detail in the testimony of FPL witness Stubblefield, in July 2008 FPL issued a solicitation to a broad cross section of pipeline companies for interstate transportation capacity to meet its future transportation requirements (the "Solicitation").

Q. What is your understanding of the goals of FPL's Solicitation process?

A. The goals of the Solicitation were to meet the fuel supply needs of FPL's Modernization Projects, increase physical pipeline capacity into the state of Florida, add to the reliability and diversity of supply available to the state and insure future transportation capacity availability.

Q. Were these goals addressed in the Solicitation?

A. Yes. The Solicitation clearly stated that in addition to meeting the gas delivery needs of the CCEC and RBEC, FPL's goals included finding a solution that would also ensure future gas transportation availability and diversity of supply. In addition, FPL further stated in the Solicitation that one option under consideration was the development of a new intrastate pipeline system to insure that FPL's long-term needs could be met. To this end, FPL stated in the Solicitation that "proposals to deliver supplies directly to its Cape Canaveral and Riviera markets using new or existing pipeline facilities would

1 be considered but that any perceived economic benefit of such proposals
2 would be weighed against their more limited role in meeting FPL's long-term
3 needs."

4 **Q. Please describe the pipeline project alternatives requested in the**
5 **Solicitation.**

6 A. Within the initial Solicitation, FPL requested that bidders provide proposals as
7 to one or more of three alternatives. These included: (Option 1) a pipeline
8 with a primary receipt point at Transco Station 85 and a primary delivery
9 point at FPL plants (Cape Canaveral, Riviera, et al); (Option 2(a)) a pipeline
10 with a primary receipt point at Transco Station 85 and a primary delivery
11 point near FGT Station 16; and (Option 2(b)) a pipeline with a primary receipt
12 point near FGT Station 16 and primary delivery points at the above referenced
13 FPL plants.

14
15 Once again, with respect to Option 2(b), FPL also notified the bidders that it
16 was also considering an FPL-developed intrastate pipeline as an alternative to
17 the third party proposals.

18 **Q. Please describe the transportation service quantities requested in the**
19 **Solicitation.**

20 A. The initial Solicitation included a request for three delivery quantity scenarios.
21 These scenarios included requests for (i) 1.0 Bcf/day, (ii) 800 MMcf/day and
22 (iii) 400 MMcf/day to various FPL delivery points in the state of Florida. All
23 scenarios included a requirement that 200 MMcf/day be deliverable to the

1 RBEC and approximately 200 MMcf/day be deliverable to the CCEC. In
2 addition, the scenarios required deliveries to other FPL sites at varying
3 quantities.

4
5 After issuing the initial Solicitation, FPL's internal forecast of generation
6 facility requirements was revised downward such that it was clear that the
7 1.0 Bcf/day and 800 MMcf/day service quantity levels would exceed FPL's
8 fuel requirements in the near future. It also became apparent that due to
9 economies of scale required with these projects, a 400 MMcf/day project
10 originating at Transco Station 85 would not significantly reduce overall costs
11 versus a 600 MMcf/day project from this location and would limit potential
12 for expansions in the future. As such, FPL followed up the initial Solicitation
13 with an additional request that the bidders develop updated proposals with a
14 service quantity of 600 MMcf/day.

15 **Q. Did bidders respond to FPL's Solicitation?**

16 A. Yes. FPL received proposals from seven different pipeline bidders with each
17 bidder providing multiple proposals.

18 **Q. After reviewing bids received in the Solicitation process, did FPL identify**
19 **the proposals that provided the lowest cost opportunities for FPL's**
20 **customers?**

21 A. Yes. As discussed in detail in the testimony of FPL witness Stubblefield, after
22 review of the proposals received in response to its Solicitation, FPL
23 determined that among the proposals received from third party bidders, the

1 proposal from Company B coupled with a pipeline project from the chosen
2 supply location of Transco Station 85 to Company B's proposed project
3 receipt point represented the lowest cost opportunity for FPL's customers. In
4 addition, FPL further determined that the combination of the Upstream
5 Pipeline Project with its Florida EnergySecure Line project also provided a
6 low cost alternative for its customers.

7 **Q. Did the proposal that FPL received from Company B provide access to**
8 **the preferred Transco Station 85 supply location?**

9 A. No. The proposal received from Company B did not provide access to the
10 preferred Transco Station 85 supply location.

11 **Q. As Company B did not include facilities in its proposal to transport gas**
12 **supplies from FPL's chosen supply location near Transco Station 85, did**
13 **you develop an analysis to approximate the cost of facilities to transport**
14 **supplies from Transco Station 85 to Company B's proposed project**
15 **receipt point?**

16 A. Yes. As depicted on Exhibit TCS-6, I have developed an approximate facility
17 design and cost estimate to transport 600 MMcf/day of natural gas supplies
18 from Transco Station 85 to the supply location included within the Company
19 B proposal and have developed an approximate cost of service for such
20 facilities based upon recent comparable projects. As illustrated in the Exhibit,
21 I estimate that this lateral extension would add a cost of service of
22 approximately \$0.20 per MMBtu of design capacity plus required compressor
23 fuel retention of about 0.30%.

1 **Q. In comparing the proposals received in response to its Solicitation**
2 **process, do you believe that FPL applied its evaluation criteria in an**
3 **objective and fair manner?**

4 A. Yes. FPL utilized consistent criteria in evaluating the bid proposals and
5 developed its comparison analyses of the various bids in an objective and fair
6 manner.

7 **Q. Based upon your review of the Solicitation and bid responses, do you**
8 **agree with FPL's initial assessment that the Upstream Pipeline Project as**
9 **proposed by Company E combined with the Florida EnergySecure Line**
10 **project and the proposal from Company B are the two lowest cost**
11 **opportunities available that meet the goals of the Solicitation?**

12 A. Yes. I agree with FPL's assessment that these were the two lowest cost
13 opportunities available that met the goals of the Solicitation.

14 **Q. Do you believe that FPL's Solicitation process was effective in providing**
15 **FPL with a comprehensive view of pipeline infrastructure alternatives**
16 **available in the marketplace versus the Florida EnergySecure Line**
17 **project?**

18 A. Yes. As stated above, FPL issued its Solicitation to a broad cross section of
19 pipeline companies active in the Southeastern United States. Furthermore, the
20 Solicitation, while specific with respect to the requested receipt and delivery
21 points, provided the bidders with flexibility as to facilities to install and as to
22 the structure of the bids. Through this process, FPL obtained various
23 alternative bid proposals from various bidders. In addition, after initial bids

1 were received, FPL continued discussions and negotiations with bidders that
2 presented the most cost effective alternatives and subsequently received
3 refined proposals from these bidders. I believe that this process was effective
4 in providing FPL with a full understanding of pipeline alternatives available in
5 the marketplace.

6 7 **GAS COST SAVINGS ANALYSIS**

8
9 **Q. Did you develop an independent evaluation of the overall cost of gas**
10 **impact associated with the Florida EnergySecure Line versus competitive**
11 **proposals received by FPL in its solicitation process?**

12 A. Yes. As described in the testimony of FPL witness Stubblefield, the lowest
13 cost proposal received by FPL (other than the combined Upstream Pipeline
14 Project / Florida EnergySecure Line project) was the proposal received from
15 Company B. As such, I have developed an independent comparative cost
16 analysis between this proposal from Company B and the combined Upstream
17 Pipeline Project / Florida EnergySecure Line. This comparative analysis is
18 attached as Exhibit TCS-7.

19 **Q. Did the results of this analysis favor the Florida EnergySecure Line or**
20 **Company B's pipeline expansion proposal?**

21 A. The results of this analysis, which include, in my opinion, very favorable
22 assumptions regarding costs associated with the proposal received from

1 Company B, still favor the Florida EnergySecure Line alternative. These
2 results are illustrated on Page 1 of the Exhibit TCS-7.

3 **Q. Please describe the "very favorable" assumptions you referred to above**
4 **regarding the proposal received from Company B.**

5 A. In this analysis, it is assumed that Company B's proposal will have the same
6 competitive impact on costs paid by FPL and other consumers within the state
7 of Florida as the construction of a new pipeline into this area. More
8 specifically, the analysis evaluates direct delivery costs only and there has
9 been no adjustment made to the analysis to reflect the fact that the
10 introduction of a new incremental pipeline into Peninsular Florida will
11 introduce pipe-on-pipe competition and will change the competitive landscape
12 in this portion of the state for pipeline services. Obviously, this assumption
13 gives Company B's proposal a significant "benefit of the doubt" associated
14 with the value of future competitive alternatives in the state.

15 **Q. Please describe the Gas Cost Savings analysis.**

16 A. The Gas Cost Savings Analysis compares costs that would be incurred by FPL
17 and its customers for pipeline service during the forty year project life of the
18 Florida EnergySecure Line to costs that would be incurred by FPL and its
19 customers for pipeline service utilizing the Company B proposal alternative.

20 **Q. Please provide a summary of FPL's natural gas fuel requirements for**
21 **power generation included in the Gas Cost Savings Analysis.**

22 A. The natural gas fuel requirements included in the Gas Cost Savings Analysis
23 represent the next 1,187,500 MMBtu/day (approximately 1.2 Bcf/day) of FPL

1 projected natural gas fuel requirements from FPL's load resource plan. The
2 initial demand associated with the planned CCEC and RBEC Modernization
3 Projects will occur in late 2012 or early 2013 in support of the testing and
4 certification of the CCEC facility. Subsequent to this initial demand, fuel
5 requirements increase through start up of the CCEC and RBEC as well as
6 subsequent capacity additions added in each of the years 2021 through 2026.

7 **Q. What future expansion capacity cost assumptions were utilized in the**
8 **analyses with respect to the Florida EnergySecure Line?**

9 A. The Florida EnergySecure Line project in Peninsular Florida will consist of
10 approximately 280 miles of 30-inch pipeline that will initiate at the terminus
11 of the proposed Upstream Pipeline Project and terminate at FPL's Martin
12 Plant with lateral extensions to the CCEC and RBEC. The pipeline will have
13 an initial design capacity of 600 MMcf/day and is designed to accommodate
14 low cost future expansions through the installation of one or more mid-line
15 compressor stations.

16
17 While the initial design capacity of the new pipeline will total only
18 600 MMcf/day, a high pressure (1480 psig MAOP) 30-inch pipeline with
19 supporting compression can support flows in the range of 1.2 Bcf/day to
20 1.3 Bcf/day. As a result of this expandability via compression, significant
21 market expansion can occur along this pipeline without the need to install
22 additional mainline pipeline facilities. Future low cost expandability of this

1 system is a significant benefit of this system versus expansion of the
2 incumbent pipelines.

3
4 With this said, FPL, in conjunction with its third party pipeline contractor
5 developed analyses of facilities and associated costs for the initial project
6 installation at a capacity of 600 MMcf/day as well as expansion increments
7 bringing the capacity up to levels of 800 MMcf/day, 1 Bcf/day and
8 1.25 Bcf/day. Further, based upon the facility and cost estimates provided,
9 FPL utilized its financial models to develop annual revenue requirements
10 required by the company to offset the costs of installation associated with the
11 initial project as well as each tranche of expansion capacity. I have utilized
12 these annual revenue requirement projections as provided by FPL's financial
13 model to represent the cost impact that the project installation would have on
14 FPL's customers.

15 **Q. What future expansion capacity cost assumptions were utilized in the**
16 **analyses with respect to the Upstream Pipeline Project?**

17 A. As a result of the Solicitation process, FPL and Company E have agreed to a
18 transaction reservation fee and a commodity fee with a transportation quantity
19 of 600,000 MMBtu/day (approximately 600 MMcf/day). The transactional
20 rate is utilized in the analysis for the first 600,000 MMBtu/day of
21 transportation capacity. Next, reviewing bids received from Company E in
22 response to FPL's Solicitation for the Upstream Pipeline Project at capacity
23 levels of 800,000 MMBtu/day (approximately 800 MMcf/day) and 1,000,000

1 MMBtu/day (approximately 1 Bcf/day) reveals that bids were slightly (less
2 than 5%) lower as capacity requirements increased. While this could imply
3 that successive capacity expansions of the Upstream Pipeline Project will be
4 slightly lower in cost than the first expansion, in order to be conservative in
5 cost assumptions, the Gas Cost Savings Analysis incorporates an assumption
6 that the cost of each successive expansion of the Upstream Pipeline Project
7 will have a consistent cost basis with the initial project cost. As such, we have
8 utilized a constant dollar cost equal to the negotiated transaction rates to
9 represent all Upstream Pipeline Project expansion costs through the project
10 life.

11 **Q. Do you believe that this is a conservative assumption with respect to the**
12 **cost associated with successive expansions of the Upstream Pipeline**
13 **Project?**

14 A. Yes. It is important to note that the Upstream Pipeline Project includes the
15 installation of a section of large diameter (36-inch) pipeline that could support
16 transport quantities in excess of 1 Bcf/day without the need for pipeline
17 looping. As such, with respect to this pipeline segment, successive
18 expansions will likely not require looping and/or installation of additional
19 pipeline. This would indicate that successive expansions could likely be
20 accomplished at a lower cost on the Upstream Pipeline Project than the initial
21 project. As such, I believe that holding expansion costs of the Upstream
22 Pipeline Project constant is a conservative assumption that generally
23 overstates expansion costs.

1 **Q. What future expansion capacity cost assumptions were utilized in the**
2 **analyses with respect to the proposal received from Company B?**

3 A. The rate included in Company B's 400,000 MMBtu/day proposal is utilized in
4 the analysis to represent the cost of this first 400,000 MMBtu/day of capacity.
5 Next, reviewing bids received from Company B in response to FPL's
6 Solicitation for service levels of 400,000 MMBtu/day and 600,000
7 MMBtu/day reveals that Company B's capacity bid for 600,000 MMBtu/day
8 of capacity was slightly (less than 5%) lower than it's bid for 400,000
9 MMBtu/day of capacity. As such, similar to the Upstream Pipeline Project
10 expansion assumption, in the Gas Cost Savings Analysis, an assumption has
11 been included that the cost of each successive expansion of the Company B
12 system will have a consistent cost basis with the initial project cost.

13 **Q. Did you make any assumptions with respect to FPL's ability to recover a**
14 **portion of the cost associated with any excess capacity created via the**
15 **installation of the Florida EnergySecure Line?**

16 A. Yes. As noted previously, the Florida EnergySecure Line and the Upstream
17 Pipeline Project will each have an initial capacity in January 2014 of about
18 600 MMcf/day (approximately 600,000 MMBtu/day). FPL's current load
19 forecast indicates that FPL will require about 400,000 MMBtu/day
20 (approximately 400 MMcf/day) of natural gas to support incremental
21 generation facilities in 2014. Further, timing of successive planned
22 expansions of the Florida EnergySecure Line will not exactly coincide with
23 FPL fuel requirements through the project life. As such, during the initial

1 years of the project and periodically during later years, there will be capacity
2 available on the project in excess of that needed to support FPL generation
3 requirements. As discussed in detail earlier in my testimony, in order to
4 recover costs of excess capacity, FPL can either sell excess capacity on its
5 new pipeline system to third party shippers or can utilize the excess capacity
6 on the new pipeline for its own account and release a like amount of capacity
7 on either the Gulfstream or FGT systems to third party shippers. In order to
8 reflect potential cost recoveries associated with these releases, the Gas Cost
9 Savings Analysis assumes that FPL releases excess capacity to third parties
10 and thereby recovers a portion of its capacity costs. Finally, it is worth noting
11 that the analysis values excess capacity at one price for the whole of the
12 project (i.e., the Upstream Pipeline Project capacity and the Florida
13 EnergySecure Line capacity) thereby assuming that the capacity values are
14 related to the entire path from the supply point near Transco Station 85 to the
15 ultimate delivery point locations in the state of Florida.

16 **Q. What capacity cost recovery value did you assign to the excess capacity in**
17 **the Gas Cost Savings Analysis?**

18 A. Four excess capacity cost recovery value scenarios were utilized to develop
19 four separate Gas Cost Savings Analysis cases. The Gas Cost Savings
20 Analysis identified as Case A incorporates an assumption that FPL obtains a
21 cost recovery for excess capacity equal to the average value paid for capacity
22 on the secondary market by FPL during 2008. The Gas Cost Savings Analysis
23 identified as Case B incorporates an assumption that FPL obtains a cost

1 recovery for excess capacity equal to the maximum tariff rate associated with
2 the transportation capacity in FPL's portfolio that has the highest
3 corresponding tariff rate (FGT's proposed Phase VIII expansion maximum
4 tariff recourse rate). Finally, as a worst case assumption, the Gas Cost
5 Savings Analysis identified as Case C incorporates an assumption that there is
6 no cost recovery for excess capacity.

7 **Q. What were the results of the analyses set forth in Exhibits TCS-7?**

8 A. As depicted on Exhibits TCS-7, in all three cases the Gas Cost Savings
9 Analysis favors the Florida EnergySecure Line / Upstream Pipeline Project
10 alternative. In fact, the Net Present Value of savings utilizing the Florida
11 EnergySecure Line / Upstream Pipeline Project alternative versus the
12 Company B alternative range from about \$230 million to about \$900 million.

13

14 **THE FLORIDA ENERGYSECURE LINE IS THE RIGHT CHOICE**

15

16 **Q. Is FPL's decision to initiate the Florida EnergySecure Line the right**
17 **choice for FPL and its customers?**

18 A. Yes. The Florida EnergySecure Line meets FPL's stated goals of increasing
19 physical pipeline capacity into the state of Florida, adding to the reliability
20 and diversity of supply available to the state, ensuring future transportation
21 capacity availability and meeting the fuel supply needs of FPL's CCEC and
22 RBEC Modernization Projects. In addition, the economic results depicted in
23 the Gas Cost Analyses in Exhibits TCS-7, reveal that the Florida

1 EnergySecure Line has favorable economic results versus the most
2 competitive proposal received via the Solicitation process. Finally, the Project
3 also introduces a competitive pipeline alternative and an associated option
4 value to markets in Peninsular Florida where today there is no pipeline
5 competition. While it is difficult to quantify the option value associated with
6 a project of this nature, the introduction of meaningful pipeline competition
7 into Peninsular Florida has the potential to provide unforeseen benefits for
8 FPL and its customers as well as other natural gas consumers in these areas.

9 **Q. Does this conclude your testimony?**

10 **A. Yes.**

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
 Served: July 24, 2009

ERRATA SHEET

DIRECT TESTIMONY OF TIM C. SEXTON

<u>PAGE #</u>	<u>LINE #</u>	<u>CORRECTION</u>
23	18	Replace "1.5" with "1.0"
23	19	Replace "1.8" with "1.2"
25	17	Replace "4.7" with "4.1"
25	18	Replace "1.8" with "1.2"
25	21	Replace "9.4" with "8.8"
56	18	Replace "Four" with "Three"
56	19	Replace "four" with "three"
<u>EXHIBIT #</u>	<u>PAGE #</u>	<u>CORRECTION</u>
TCS-3	3	The values in the text box entitled "MidContinent Express" are corrected. Replace "1.5" with "1.0". Replace "1.8" with "1.2". The values in the text box on the far right of the page are corrected. Replace "9.4" with "8.8". Replace "4.4" with "3.8".

The revised exhibit is attached.

Respectfully submitted this 24th day of July, 2009.

1 **BY MR. PERKO:**

2 Q. Mr. Sexton, have you prepared a summary of
3 your testimony?

4 A. Yes, I have.

5 Q. Could you provide that now, please.

6 A. I sure can.

7 Good afternoon, Chairman Carter and
8 Commissioners. The purpose of my testimony is to
9 provide a third party review of the existing natural gas
10 pipeline infrastructure as well as the natural gas
11 supply access provided by this infrastructure to Florida
12 markets. My testimony also reviews infrastructure
13 expansions that are required to meet FPL's future
14 natural gas fuel requirements. My testimony reviews
15 FPL's solicitation and proposal evaluation process that
16 resulted in the decision to pursue the Florida
17 EnergySecure Line project.

18 Finally, my testimony presents the results of
19 my independent cost savings analysis which confirm that
20 the Florida EnergySecure Line project is the most
21 cost-effective alternative to meet FPL's natural gas
22 transportation needs.

23 As I explained in my testimony, the two
24 interstate pipelines currently serving the bulk of the
25 natural gas demand in the state of Florida, Florida Gas

1 Transmission and Gulfstream, are substantially sold out
2 on a long-term firm basis and cannot provide the
3 incremental 400 million cubic feet per day of natural
4 gas needed at FPL's Cape Canaveral and Riviera Beach
5 Energy Centers without incremental expansions. As a
6 result, new pipeline capacity is needed to meet FPL's
7 incremental natural gas supply requirements.

8 As to supply access, the vast majority of gas
9 supplies available via the incumbent pipelines, FGT and
10 Gulfstream, are derived from the offshore Gulf of Mexico
11 and onshore Gulf Coast supply areas. These supply
12 sources have been declining over the past several years
13 and are projected to continue to decline in the near
14 future.

15 In contrast to these declining supply sources,
16 unconventional sources have been growing and are
17 projected to continue to grow in the future. As a
18 result, I conclude that FPL made the correct decision in
19 developing a supply diversification strategy that
20 targets these unconventional supplies available at
21 Transco Station 85, which is the upstream receipt point
22 for the Company E Interstate Pipeline that will serve
23 the Florida EnergySecure Line project.

24 With respect to the Florida EnergySecure Line
25 project itself, in addition to the direct economic

1 benefits provided by the project, my testimony concludes
2 that the project will also provide benefits associated
3 with supply diversification, protection against single
4 pipe outages, operational benefits resulting from
5 multiple delivering pipelines, and long-term economic
6 benefits of pipe-on-pipe competition.

7 As to the process undertaken by FPL to
8 determine the best option to expand natural gas pipeline
9 capacity available to meet future needs, FPL issued a
10 solicitation to a broad cross-section of pipeline
11 operators, including FGT and Gulfstream, requesting bids
12 to provide infrastructure expansion alternatives to meet
13 FPL's future natural gas supply needs. Within that
14 solicitation, FPL made it clear to the bidders that it
15 would also be considering a self-build alternative.

16 Based on my review of the solicitation and the
17 responses received, I conclude that FPL evaluated the
18 various proposals in an objective and fair manner, and
19 that the solicitation process was effective in providing
20 FPL with a full understanding of available pipeline
21 alternatives.

22 Finally, I developed an independent evaluation
23 of the overall long-term cost of gas impact associated
24 with the Florida EnergySecure Line versus the next most
25 competitive proposal received through the solicitation

1 process. As discussed in my testimony, based on the
2 results of my economic evaluation and the supply
3 diversification and reliability benefits of the Florida
4 EnergySecure Line, I conclude that FPL made the best
5 choice for its customers in selecting the Florida
6 EnergySecure Line project to meet its future gas supply
7 needs.

8 **MR. PERKO:** We tender the witness for
9 cross-examination.

10 **CHAIRMAN CARTER:** Thank you.

11 Mr. Self.

12 **MR. SELF:** No questions, Mr. Chairman.

13 **CHAIRMAN CARTER:** Staff?

14 **MS. BROWN:** No questions.

15 **CHAIRMAN CARTER:** Commissioner Skop.

16 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

17 Just to Mr. Butler, were you able to get that
18 point clarified in terms of Mr. Sexton's rebuttal
19 testimony and the cumulative present value revenue
20 requirement difference between his and the prior
21 witness?

22 **MR. BUTLER:** I think so. What we
23 understand -- first of all, to be sure we understand
24 your question. There is a figure that is essentially
25 \$580 million as a total benefit that shows up in what

1 Mr. Enjamio uses as his example. But if you look at
2 what Mr. Sexton has, there is essentially a \$600 million
3 difference subtracting one number from the other. Is
4 that the differential or the discrepancy that you were
5 pointing out?

6 **COMMISSIONER SKOP:** No. Let me be a little
7 more clear.

8 In Page 7 of Mr. Sexton's rebuttal testimony
9 on Lines 6 through 7 he indicates that the net present
10 value of savings utilizing FPL's proposed project versus
11 the Company B alternative range from 123 million to
12 757 million. And I think that differed a little bit
13 from the other witness' testimony to the extent that I
14 think the range was a little higher, 240 to 500, subject
15 to check, whatever the numbers were.

16 What I'm concerned about on this rebuttal
17 testimony is the lower number, the 123 million in
18 relation to my question about the current gas prices.
19 Again, the margin there is starting to shrink. I know
20 that FPL did extensive analysis on 36 sensitivities and
21 most of those showed present value. What I am trying to
22 do is get a better handle, though, on this particular
23 instance and how sensitive this number might be to the
24 choice of gas forecasts that was used in the near-term
25 November versus current.

1 **MR. BUTLER:** Thank you for that clarification.
2 Unfortunately, we are going to have to go back to the
3 drawing board and get you an answer, because we were
4 sort of misunderstanding a little bit what your question
5 was.

6 **CHAIRMAN CARTER:** Not a problem. Thank you.

7 **MR. BUTLER:** Certainly.

8 **COMMISSIONER SKOP:** And I will present the
9 question to Mr. Sexton.

10 **MR. BUTLER:** Okay. Thank you.

11 **CHAIRMAN CARTER:** Commissioner, you have
12 further questions for Mr. Sexton?

13 **COMMISSIONER SKOP:** Yes, Mr. Chair. Thank
14 you.

15 Again, Mr. Sexton, I don't really want to get
16 into rebuttal testimony now. I guess we will take that
17 up later. But one of the things, again, I was trying to
18 ascertain was two-fold. I know that on Page 24 of your
19 Direct Testimony you talk about the various
20 mid-continent shale reserves and their availability.

21 Under current pricing for natural gas, do you
22 expect those reserves to be developed? I know when
23 natural gas prices were higher it certainly was
24 economically feasible to go and try and extract natural
25 gas from those shale deposits, but at \$3.50 or 3.80 per

1 MMBtu is it still going to be economically feasible? Do
2 we expect those specific shale reserves to materialize
3 and be brought to market?

4 **THE WITNESS:** Well, I do in the long-run. I
5 think you're right, today the gas price is \$3.00. If
6 you look forward four or five years, it is quite a bit
7 more. The \$3.00 is a near-term price, and that
8 near-term price has resulted in a reduction in the
9 drilling rigs that are active across the industry, not
10 just with shale gas, but with conventional supplies.

11 However, one thing that you note if you look
12 at shale gas drilling and production right now, even
13 with the economic conditions that we have been going
14 through with gas prices that have been declining over
15 the past several months, the drilling is still going on.
16 The rig count has gone down quite a bit, but if you look
17 at a few public sources, look at the Texas Railroad
18 Commission, for example, what you will find is that
19 there's more active wells today than there were at the
20 end of 2008.

21 If you look at information from the Arkansas
22 Oil and Gas Commission, what you will find is that with
23 Fayetteville shale, there is more Fayetteville shale gas
24 being produced today than there was at the end of 2008.

25 If we look at the Louisiana Department of

1 Natural Resources, what you will find is that there is
2 four times as many active wells in the Hainesville shale
3 in the second quarter of 2009 versus what was going on
4 in 2008.

5 So even though the drilling rig activity has
6 reduced quite a bit, I think the shale gas -- I expect
7 that to be a major part of the future resource base, and
8 I think any projection -- if you look at DOE information
9 from the EIA, the same thing. They will project that
10 shale gas is going to be a large part of our resource
11 base in the future.

12 **COMMISSIONER SKOP:** Okay. And then, secondly,
13 I guess based on your testimony and that of Witness
14 Sharra that the Transco 85 interconnection point in
15 terms of the upstream pipeline is appropriate over that
16 of the Perryville. Is that correct for the upstream
17 pipeline?

18 **THE WITNESS:** I want to make sure I understand
19 the question. I think the Transco Station 85, we
20 believe, provides access to significant quantities of
21 shale gas. As you can see from -- as you read in the
22 testimony, a lot of pipeline capacity that's going to
23 Transco Station 85, over 3 Bcf of new capacity that was
24 supported by producers of shale gas that bought the
25 capacity to go to Station 85. So what that provides

1 access to is the direct access to the shale gas as well
2 as gas at the Perryville Hub without the need to build a
3 pipeline back to Perryville. I think it may be useful
4 to look at the map and see where these locations are.

5 **COMMISSIONER SKOP:** Well, I guess just from my
6 perspective, and, again, perhaps you can elaborate on
7 this, it seems that the Transco 85 is kind of like a
8 crossroads of being able to access gas from many
9 different directions, whereas the Perryville, although
10 it is further west and probably proximate to the shale,
11 it's not as proximate to the east coast final
12 destinations and it doesn't really kind of leverage some
13 of the intersections of not only from the Gulf, but from
14 the east and from the north. So, again, if you would
15 just elaborate on that a little bit. I think it was
16 covered a lot, extensively in the testimony.

17 **THE WITNESS:** I'm not sure I understand the
18 question with respect to east coast from Perryville or
19 from Station 85.

20 **COMMISSIONER SKOP:** Okay. It's late in the
21 day, so my framing of the question is probably not as
22 good, given our current workload that we have. But the
23 discussion was -- I guess FGT was making a substantial
24 argument that Perryville was the more appropriate
25 interconnection point in terms of taking gas as a point

1 of delivery to bring it to Florida, whereas FPL asserts
2 that for the upstream pipeline purposes that Transco
3 Station 85, by virtue of the fact that many producers
4 have subscribed to the existing pipeline that will
5 deliver it from Transco 85 to the FGT Station 16 is more
6 appropriate, and that is what I was trying to --

7 **THE WITNESS:** And if you don't mind me looking
8 at the map.

9 **COMMISSIONER SKOP:** That's fine.

10 **THE WITNESS:** Is this still working? What we
11 have done here -- this was my Exhibit TCS-9 that was
12 actually an exhibit to the rebuttal testimony. We can
13 start with this, and then this is actually a blow up of
14 TCS-9, so you can see kind of a real good shot of the
15 Perryville and Station 85's area.

16 But I think your question was first is Station
17 85 versus Perryville a more appropriate location for FPL
18 to source gas for these projects. And if you look at
19 the location of Station 85 versus the location of
20 Perryville, in order to get back to Perryville, for
21 example, you know, Station 85 you would have to go
22 another 2 or 300 miles to get back to Perryville from
23 Station 85, or about 250 miles from the start of the FGT
24 project.

25 I think what needs to be said here is that the

1 proposal to FPL that came from FGT did not provide
2 direct access to Perryville. What it provided was
3 access to the FGT system in their Zone 3 down here
4 around Mobile Bay. Now, in order to get back to
5 Perryville on the FGT system, someone has to build back
6 to Perryville. That's 300 miles of pipe. So we think
7 Station 85 is a much more appropriate smaller investment
8 to get access to shale gas.

9 And, in addition, your other question about
10 Station 85, will there be sufficient volumes of gas, and
11 I think, once again, the pipelines that have been built
12 from Perryville to Station 85 over the last few years,
13 that is 3 Bcf of new capacity that come from shale gas
14 basins all the way to Transco Station 85, and those
15 pipelines were supported by the investments of the same
16 producers of that shale gas supplies. So those
17 producers are looking to transport their gas to Station
18 85 versus other markets. They're trying to get it out
19 of east Texas and north Louisiana and down to markets in
20 the east. So I think from that perspective, Station 85
21 is an appropriate location.

22 Now, you also mentioned something about
23 northeast markets that has come up in this conversation.
24 If you're looking at northeast markets, I think you also
25 have to realize that Perryville, itself, is a hub with

1 many pipelines coming into the Perryville area as well
2 as going out of the Perryville area. Those pipelines go
3 to many markets. Some go the northeast, some go to the
4 midwest. And as with Station 85, Transco does go
5 towards the northeast markets, but you are looking at a
6 new 3 Bcf of capacity into a system at a point there
7 without new capacity going northeast at the current
8 time. So you have got 3 Bcf into this area looking for
9 a market to sell. It could sell to on-system customers
10 on Transco, but this is a great opportunity for a new
11 buyer to go into that market and pick up 400,000 or
12 600,000 of supplies.

13 **COMMISSIONER SKOP:** Thank you. And I'll
14 reserve my final question for your rebuttal. Thank you.

15 **CHAIRMAN CARTER:** Thank you.

16 Commissioners, anything further from the
17 bench?

18 Redirect?

19 **MR. PERKO:** No redirect, Your Honor.

20 **COMMISSIONER EDGAR:** Exhibits.

21 **MR. PERKO:** We would move Exhibits 52 through
22 58.

23 **CHAIRMAN CARTER:** Mr. Self, any objections?

24 **MR. SELF:** No objections.

25 **CHAIRMAN CARTER:** Without objection, show it

1 done.

2 (Exhibit Numbers 52 through 58 admitted into
3 the record.)

4 **CHAIRMAN CARTER:** Okay. You are on recess.

5 Mr. Self, do you need a couple of minutes to
6 get ready?

7 **MR. SELF:** Well, yes, sir. And, in addition,
8 I believe I have talked with the staff, there was a
9 group of exhibits that I guess I had misunderstood what
10 was going as part of the stipulated exhibit list. And
11 the staff had suggested, I think, doing it at this time.
12 Yes?

13 **CHAIRMAN CARTER:** Ms. Brown.

14 **MS. BROWN:** I thought we were going to wait
15 until the bitter end, but maybe I misunderstood, until
16 the end of rebuttal testimony.

17 **MR. SELF:** Okay. That's fine.

18 **CHAIRMAN CARTER:** Is that okay?

19 **MS. BROWN:** And we'll have a chance to read
20 from the same page by the time we get there, I promise,
21 Mr. Chairman.

22 **CHAIRMAN CARTER:** Okay. Somebody flag that so
23 when we get to that point we'll be ready for it.

24 Mr. Self, are you ready? Do you need a minute
25 to --

1 **MR. SELF:** Could we take just five minutes,
2 please?

3 **CHAIRMAN CARTER:** Commissioners, we will come
4 back at ten after.

5 (Brief recess.)

6 **CHAIRMAN CARTER:** We are back on the record.

7 We have had a meeting of the minds with the
8 parties and staff, and because we are beginning a new
9 section, FGT will be doing their case in chief and they
10 won't have an opportunity to really get going, and there
11 is a substantial amount of cross for this witness, we
12 will just start anew tomorrow morning at 9:30.

13 And, like I said to you guys earlier, make
14 sure you eat your Wheaties. Make sure you eat your
15 Wheaties, because we have got a long day tomorrow.
16 Okay.

17 We are adjourned.

18 (The hearing adjourned at 5:10 p.m.)

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STATE OF FLORIDA)
 : CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 31st day of July, 2009.



JANE FAUROT, RPR
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