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April 26, 1993

Mr. Steve Tribble, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

via Hand Delivery

Re: Application for Determination of Need for an  
Intrastate Natural Gas Pipeline; Docket #920807-GP

Dear Mr. Tribble:

Enclosed for filing please find an original and fifteen copies of Sunshine Pipeline's Rebuttal Testimony of Mr. R. Allan Bradley for the above-referenced docket.

\* You will also find enclosed a copy of this letter and a diskette containing the same information. Please date-stamp the copy of the letter to indicate that the original was filed and return a copy to me.

If you have any questions regarding this matter, please feel free to contact me. Thank you for your assistance in processing this filing.

\* returned upack

Respectfully,

HABEN, CULPEPPER, DUNBAR  
& FRENCH, P.A.

*Peter M. Dunbar*  
Peter M. Dunbar

PMD/tmz  
Enclosures

cc: All parties of record (w/ enclosures)

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**CERTIFICATE OF SERVICE**  
**DOCKET NO. 920807-GP**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served by U.S. Mail or hand delivery(\*) on this 26th day of April, 1993, to the following parties of record:

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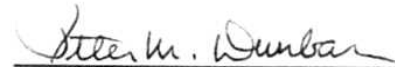
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PETER M. DUNBAR

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for )  
Determination of Need for )  
an Intrastate Natural Gas )  
Pipeline by SunShine )  
Pipeline Partners )  
\_\_\_\_\_ )

Docket No.: 920807-GP  
Filed: April 26, 1993

REBUTTAL TESTIMONY  
OF  
R. ALLAN BRADLEY  
FOR  
SUNSHINE PIPELINE PARTNERS

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REBUTTAL TESTIMONY OF  
R. ALLAN BRADLEY  
FOR  
SUNSHINE PIPELINE PARTNERS  
BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 920807-GP

Q. Please state your name and business address.

A. My name is R. Allan Bradley. My business address is Nine Greenway Plaza, Houston, Texas 77046.

Q. Please summarize your educational background and employment experience.

A. Upon completing my secondary education at Leon High School right here in Tallahassee, I attended The Georgia Institute of Technology and received a Bachelor of Science Degree in Management Science in 1973 and a Masters of Business Administration in Finance from Tulane University in 1975. Upon completing my education, I joined the Exxon Corporation as a financial analyst in the Esso Middle East Department in New York. In 1979 I was transferred to the Corporate Finance Department of Exxon Company, USA where, among other duties, I performed financial evaluations for the Natural Gas

1 Department which included evaluations of such  
2 projects as the Alaskan Gas Pipeline Project.  
3 In 1981, I joined Texas Eastern Transmission  
4 Corporation as Manager of Gas Supply Projects.  
5 While holding various positions at Texas Eastern,  
6 including Director of Strategic Planning and Vice-  
7 President Market Development, I was responsible for  
8 project development of Texas Eastern's U.S. and  
9 Canadian gas pipeline projects.  
10 In August, 1989 after Panhandle Eastern  
11 Corporation's acquisition of Texas Eastern, I  
12 joined ANR Pipeline Company (ANR), a subsidiary of  
13 The Coastal Corporation (Coastal), as Vice  
14 President of Gas Supply Projects. In 1993, I was  
15 named Senior Vice President of Coastal Gas Services  
16 Company (CGS), also a subsidiary of Coastal. CGS  
17 has primary responsibility on behalf of Coastal for  
18 the development of SunShine Pipeline Company  
19 (SunShine) in Florida. I am also Senior Vice  
20 President of Coastal Pan American Corporation, a  
21 subsidiary of Coastal involved in the international  
22 development of energy projects.  
23 Q. What are your current employment duties and  
24 responsibilities?  
25 A. I am currently assigned to SunShine as Executive

1 Vice President reporting to Mr. E. J. Burgin. My  
2 duties and responsibilities in this capacity  
3 include the continuation of SunShine's market  
4 development activities as well as executive support  
5 functions and activities in the regulatory approval  
6 process. Together with E. J. Burgin, I am  
7 responsible for coordinating all aspects of the  
8 development of the SunShine project to ensure that  
9 the pipeline is constructed and placed in service.

10 Q. Do you have past experience in developing major  
11 natural gas pipeline projects?

12 A. Yes, in both my current capacity and during  
13 previous employment. While employed at Texas  
14 Eastern, I served as a member of the technical and  
15 finance committees for the Alaska Natural Gas  
16 Transportation System. I also participated in the  
17 development of a number of major expansion projects  
18 for increasing pipeline capacity to the Northeast  
19 and in the resolution of the Niagara Import Point  
20 Pipeline. Most recently, I served on the  
21 Management Committees of the Iroquois Gas  
22 Transmission System Partnership and the Liberty  
23 Pipeline Company Partnership.

24 Q. Have you previously offered testimony before the  
25 Florida Public Service Commission?

- 1 A. No, this is my first opportunity. However, I have  
2 testified a number of times in Washington D.C.  
3 before the Federal Energy Regulatory Commission  
4 ("FERC") and in Ottawa, Canada before the Canadian  
5 National Energy Board ("NEB").
- 6 Q. Would you please describe your assignment in this  
7 proceeding?
- 8 A. I will provide rebuttal testimony on behalf of the  
9 Applicant, SunShine Pipeline Partners, which is  
10 doing business in Florida as SunShine. I will be  
11 specifically covering such issues as the economic  
12 viability of the SunShine Project, including the  
13 sufficiency of contracted capacity to proceed with  
14 the project, the financeability of the project, the  
15 appropriateness of the timing of this proceeding,  
16 as well as the consequences of regulatory delay or  
17 denial.
- 18 Q. Have you read the Direct Testimony of Dr. Paul R.  
19 Carpenter, President of Incentives Research, Inc.  
20 filed in this proceeding on April 12, 1993?
- 21 A. Yes, I have read Dr. Carpenter's testimony.
- 22 Q. Have you also read a copy of the transcript of Dr.  
23 Carpenter's oral deposition which was taken on  
24 April 20, 1993 in this proceeding?
- 25 A. Yes, I have read the written transcript of Dr.



1 Carpenter's oral deposition.

2 Q. Dr. Carpenter questions whether the firm  
3 transportation commitments SunShine has secured  
4 from shippers of natural gas at the negotiated  
5 rates provided in the executed Precedent Agreements  
6 are sufficient to make the project economically  
7 viable. Can you address this issue?

8 A. Yes. First, it is my understanding that rate  
9 design and the actual rate levels contained in the  
10 executed Precedent Agreements are not issues in  
11 this proceeding. Nevertheless, SunShine is  
12 satisfied that these negotiated rates will be  
13 sufficient to recover project costs, yield a  
14 reasonable return and yet are competitive enough to  
15 attract new shippers.

16 Second, I believe that SunShine has been successful  
17 at this stage of the project in obtaining  
18 commitments for a significant percentage of its  
19 transmission capacity. Approximately seventy-six  
20 percent (76%) of SunShine's initial capacity is  
21 already contractually subscribed and over fifty  
22 percent (50%) of the SunShine system's total  
23 planned capacity is contractually subscribed. At  
24 this stage of the project's development, these  
25 percentages are comparable to other pipeline

1 projects with which I have been associated.  
2 Furthermore, as shown by the 1992 Ten-Year Plan  
3 published by the Florida Electric Power  
4 Coordinating Group, Inc., the North American  
5 Electric Reliability Council's report Electric  
6 Supply and Demand 1992-2001 and Mr. Judah L. Rose's  
7 market forecast, there is substantial anticipated  
8 demand for natural gas and natural gas pipeline  
9 capacity. Based on these market forecasts and our  
10 ongoing discussions with potential customers in the  
11 marketplace, SunShine is quite confident that it  
12 will continue to achieve success in securing  
13 additional commitments for the remainder of its  
14 initial and expanded capacity.

15 Q. Do you believe that commitments for the  
16 unsubscribed capacity on the SunShine system are  
17 necessary before SunShine is willing to go forward  
18 with construction of the project?

19 A. No. Subject to receipt of satisfactory regulatory  
20 approvals and financing, SunShine has committed  
21 itself to construction of the project based upon  
22 the existing firm commitments and the expected  
23 addition of a proportionate amount of the  
24 forecasted demand.

25 Q. What is the basis of this representation?

1 A. During SunShine's recent Management Committee  
2 discussions, it has been the consensus of the  
3 general partners that the SunShine project is being  
4 sufficiently anchored by the contractual demand for  
5 firm transportation by two of Florida's largest  
6 public utilities, Florida Power Corporation (FPC)  
7 and Peoples Gas System (PGS). As evidenced by  
8 their respective executed Precedent Agreements,  
9 each of these parties have enthusiastically  
10 embraced the competitive benefits brought by the  
11 proposed SunShine system as a new pipeline entrant  
12 into Florida. The execution of these agreements  
13 alone are sufficient for SunShine to commit to  
14 proceed vigorously forward in order to complete  
15 this project, including obtaining regulatory  
16 authorizations, financing, undertaking construction  
17 and placing the project in-service.

18 Q. Is SunShine maintaining its option to terminate the  
19 Precedent Agreements in the event it does not have  
20 219,000 MMBtu per day of firm capacity commitment?

21 A. No. I have been authorized by SunShine's  
22 Management Committee to represent that the general  
23 partnership is committed to going forward with the  
24 project at the current level of volumes under  
25 contract and will not wait until 219,000 MMBtu per

1 day is committed for firm transportation service on  
2 the in-service date of the SunShine system in order  
3 to proceed with the project. In effect the  
4 SunShine Project sponsors have already made a  
5 determination that there is a need for the SunShine  
6 pipeline. We are not asking this Commission to  
7 make a determination that the Sunshine Project  
8 sponsors have not already made for themselves.

9 Q. Does the current contracted capacity make the  
10 SunShine Project economically viable?

11 A. Obviously, the economics of this project do improve  
12 with greater volume committed under contract and  
13 SunShine firmly expects to receive such new  
14 commitments for firm transportation over the near-  
15 term, intermediate-term and long-term. If you ask  
16 me "Do the SunShine Project sponsors believe that  
17 the project is economically viable based on current  
18 contracted capacity and the market evidence of  
19 demand not yet contracted?" the answer is an  
20 emphatic "Yes". Furthermore, the fact that two of  
21 Florida's largest utilities have contracted for  
22 capacity on SunShine is an indication that they  
23 believe the project to be economically viable. FPC  
24 and PGS are not unsophisticated purchasers, but  
25 buyers that recognize that a transaction must be

1 economically realistic to the seller as well as the  
2 buyer in order to be relied upon for long term  
3 decision-making.

4 Q. Dr. Carpenter has characterized SunShine's  
5 Precedent Agreements with FPC and PGS as tenuous.  
6 Do you agree with his characterization?

7 A. No. At this stage of any gas pipeline project's  
8 development, it is common practice for shipper firm  
9 capacity subscriptions in Precedent Agreements to  
10 include conditional milestones which, if not  
11 achieved, may provide one or both contracting  
12 parties the option to terminate such agreement.  
13 The milestones in SunShine's Precedent Agreements  
14 are not unusual or generally different than what I  
15 have observed for other pipeline projects. Indeed,  
16 I would say that SunShine and its customers have  
17 fewer options to terminate their Precedent  
18 Agreements than Florida Gas Transmission Company  
19 ("FGT") has provided for in its Phase III Expansion  
20 Precedent Agreements. Furthermore, as I have just  
21 indicated SunShine has waived its option to  
22 terminate if the 219,000 MMBtu threshold is not  
23 met.

24 Nevertheless, the mere presence of termination  
25 options in SunShine's Precedent Agreements do not

1           indicate a lack of commitment by the parties to the  
2           success of the project, but rather express a  
3           realistic acknowledgement that unresolved future  
4           events can impact on the parties ability to perform  
5           or willingness to perform the firm obligations  
6           undertaken.       For example, the receipt and  
7           acceptance of regulatory approvals are conditions  
8           normally required before either party can make  
9           irrevocable commitments to respectively provide and  
10          pay for firm gas transportation service.

11    Q.    Dr. Carpenter argues that the letters of intent  
12          that SunShine has submitted are not evidence of  
13          market commitment to the SunShine Project and  
14          should not be considered by the Commission. Do you  
15          agree with this position?

16    A.    Dr. Carpenter is correct that letters of intent do  
17          not evidence the same degree of commitment that are  
18          evidenced by Precedent Agreements. However, I do  
19          not think that they should be disregarded. These  
20          letters are representative of both shipper interest  
21          and some level of commitment. SunShine expects  
22          that several of these letters of intent will be  
23          converted into executed Precedent Agreements in the  
24          very near future. At the very least, these letters  
25          of intent evidence the existence of a potential

1 market, the market's legitimate interest in doing  
2 business on the SunShine system and SunShine's  
3 commitment to securing new shippers.

4 Q. Why did SunShine file its application for a  
5 Determination of Need with the Commission prior to  
6 the time that it had secured Precedent Agreements  
7 for all of its planned capacity?

8 A. In my experience, the timing for filing an  
9 application for regulatory approval of a new  
10 pipeline project as opposed to an extension or  
11 expansion is critical. A filing for regulatory  
12 approval, and even more, the actual receipt of  
13 approval must be accomplished within a time frame  
14 that coincides with when the potential market must  
15 make decisions on how to serve its requirements.  
16 By making a regulatory filing the project sponsors  
17 are signalling the market that they have committed  
18 resources to the success of the project. This adds  
19 credibility to the project from the viewpoint of  
20 potential customers and adds to the comfort-level  
21 they have in choosing an alternative source of  
22 service as opposed to the existing pipeline.  
23 With the anchor load committed, SunShine believed  
24 that it was time to signal the market that it was  
25 committed to proceed and that there was a credible

- 1 alternative to FGT for service.
- 2 Q. If SunShine believes the project is economically  
3 viable and is committed to the construction of the  
4 SunShine Project, has it commenced contacting  
5 prospective lenders in order to secure financing?
- 6 A. No. SunShine anticipates that the SunShine system  
7 ultimately will be project financed and that it  
8 will start the process of actually pursuing debt  
9 financing approximately six months before actual  
10 construction is scheduled to commence.
- 11 Q. Is this unusual timing?
- 12 A. No, not in my experience with pipeline projects.  
13 Before submitting proposed financing terms, lenders  
14 generally will want to know, at the very least, the  
15 terms of regulatory approvals, including  
16 environmental mitigation measures imposed, the  
17 terms of the transportation contracts, the terms of  
18 any upstream transportation and gas supply  
19 contracts entered into by project customers, terms  
20 of construction contracts and other ancillary  
21 contracts associated with physical construction of  
22 the project. It is generally not until just prior  
23 to construction that these elements are clear and  
24 in place.
- 25 Q. In your opinion, is there any reason to believe



1           that the SunShine Project will not be able to  
2           secure project financing?

3    A.   No.   SunShine has attracted a solid core market  
4           during the pre-certification stage.  The issuance  
5           and acceptance of all regulatory approvals will  
6           give the project a meaningful market boost and  
7           allow SunShine to add significantly to the  
8           contractual commitment of firm transportation  
9           volume sufficient to attract the requisite project  
10          financing.    Most prospective customers are  
11          utilities, municipalities or major industrial  
12          users, and SunShine has every reason to believe  
13          that those shippers will be creditworthy.

14   Q.   You have represented that SunShine is committed to  
15          going forward with the project and will waive the  
16          219,000 MMBtu per day volumetric requirement  
17          provided in the Conditions Precedent portion of the  
18          Precedent Agreement.  FPC, in its capacity as a  
19          shipper on the SunShine system, has identical  
20          rights to terminate its commitment to transport  
21          firm volumes on or before August 1, 1993.  What  
22          gives the general partnership the comfort that FPC  
23          will similarly waive its rights so that this  
24          condition will not operate to terminate the  
25          agreement?

1 A. FPC does indeed wear two hats in the SunShine  
2 Project, both as an equity investor and as the  
3 project's major shipper. In my opinion, FPC's  
4 interests in each of these roles is best served by  
5 having the Commission provide regulatory approval  
6 in order to make the SunShine Project a reality.  
7 FPC has made a tremendous and courageous commitment  
8 to this project and stands second to no entity in  
9 wanting to see the SunShine Project through to  
10 successful completion. The economic benefits that  
11 FPC receives from its Precedent Agreement  
12 disintegrate with the demise of the SunShine  
13 Project. In order to attempt replacement of its  
14 firm transportation arrangement with SunShine, FPC  
15 will have to undertake negotiations with the only  
16 pipeline game in town, FGT, which will be operating  
17 in a monopolistic environment and having an already  
18 fully subscribed Phase III expansion. Therefore, I  
19 think we can take FPC at its word that it sincerely  
20 does not want to find itself in this situation.  
21 The option provided to FPC in its Precedent  
22 Agreement is merely support that FPC acted  
23 scrupulously as a major shipper in negotiating such  
24 Agreement. Mr. Pollard has testified on behalf of  
25 FPC to this effect and I understand that he will

1 add to his previous representations through  
2 rebuttal testimony.

3 Q. Can you cite examples of FPC's commitment to  
4 SunShine?

5 A. Yes. While the most significant commitment has  
6 been as a shipper through the execution of the  
7 Precedent Agreements, FPC has nevertheless been  
8 behind the SunShine Project with considerable  
9 support since its inception. FPC was active in the  
10 legislative process, has made positive  
11 contributions in market identification and  
12 development and has consulted on issues, problems  
13 and other hurdles requiring attention or resolution  
14 in the project development process. I do not  
15 believe anyone can seriously challenge FPC's  
16 commitment to this project or second guess its  
17 motives for being a part of it. FPC wants the best  
18 transportation service available in the near,  
19 intermediate and long term for itself and its  
20 utility customers. Assisting in bringing  
21 competition for transmission services to the State  
22 of Florida is the most viable means of  
23 accomplishing this result. FPC's commitment in the  
24 Precedent Agreement is in no way tied to its  
25 present or future participation as an equity

- 1 partner, and, therefore, I do not believe that they  
2 will exercise any right as a Shipper that would  
3 have the effect of killing the project.
- 4 Q. If FPC significantly reduced its equity interest in  
5 SunShine Pipeline Partners or eliminated its  
6 interest altogether, would either of these events  
7 have any effect on whether the SunShine Project  
8 could be financed in your opinion?
- 9 A. No. As I indicated, SunShine anticipates that the  
10 project will be successfully project financed.
- 11 Q. Do you have any indication from Coastal that it  
12 would not continue to pursue the project if it did  
13 not have FPC as a partner?
- 14 A. No. Quite the contrary, I have every expectation  
15 that Coastal would continue to pursue the project.  
16 As Mr. Burgin indicated in his deposition, there  
17 have been strong indications of interest from other  
18 parties about joining the SunShine partnership. We  
19 have every reason to believe that by the time this  
20 project moves to the financing stage, Coastal will  
21 have no more than a fifty percent (50%) interest  
22 irrespective of whether FPC maintains its equity  
23 position.
- 24 Q. In your opinion, is SunShine willing to accept a  
25 regulatory approval that conditions construction of

- 1           the project on obtaining financing?
- 2    A.    Yes.  Although it is important to both prospective  
3           lenders and SunShine that there is full and  
4           complete discretion in arranging the terms of such  
5           financing.
- 6    Q.    Dr. Carpenter argues that with the advent of FERC  
7           Order No. 636, shippers do not have to rely on new  
8           pipeline entrants in order to obtain competitive  
9           pipeline capacity.  Do you agree?
- 10   A.    No, not in the circumstance that exists in Florida  
11           today and as forecasted for the future.  Dr.  
12           Carpenter argues that under the capacity releasing  
13           features of FERC Order No. 636, new shippers will  
14           be able to obtain pipeline capacity on FGT at  
15           competitive rates.  The problem with this is that  
16           in order for a new shipper to obtain capacity on  
17           FGT an existing shipper must relinquish its  
18           physical pipeline capacity.  FERC Order No. 636  
19           does not create new physical pipeline capacity.  It  
20           only provides for the resale of that existing  
21           capacity a shipper is willing to relinquish.  Based  
22           on its FERC filings and representations in these  
23           hearings, it appears that capacity on FGT is  
24           currently utilized at an annual load factor of  
25           greater than ninety percent (90%).  This does not

1 indicate a substantial likelihood that existing FGT  
2 capacity will be made available for release by  
3 existing shippers. Furthermore, the market  
4 forecasts indicate a need for more pipeline  
5 capacity, not the replacement of one shipper for  
6 another within the existing capacity constraints.  
7 If FGT did not believe this was true, then it would  
8 not have pursued its Phase III expansion.  
9 In summary, Order No. 636 capacity releasing  
10 features may provide a competitive secondary market  
11 for pipeline competition, but it does not provide  
12 competition for primary markets.

13 Q. Is just the mere threat of the entry of a competing  
14 pipeline such as SunShine sufficient to provide the  
15 market with all the benefits of new competition for  
16 transmission services?

17 A. Certainly not. SunShine's potential entry into  
18 Florida has indeed provided some substantial  
19 benefits to shippers of natural gas. Dr. Carpenter  
20 acknowledged that the perceived competition with  
21 SunShine has already resulted in FGT giving  
22 shippers such as Florida Power & Light lower rates  
23 for transportation service its Phase III expansion.  
24 However, with SunShine as a reality rather than  
25 just a perceived threat, there will be competitive

1 benefits for future markets for interruptible  
2 transportation shippers and for all shippers with  
3 respect to the menu of pipeline services available.

4 Q. If SunShine was to heed Dr. Carpenter's advice and  
5 withdraw its filing for a determination of need  
6 until a later day when more market is secured under  
7 firm agreements, what do you think would be the  
8 result?

9 A. I think that a delay could be disastrous and  
10 tantamount to outright denial. Certainly, SunShine  
11 would like to have more market committed, but as I  
12 have already stated, the project already has  
13 sufficient demand under contract in order to go  
14 forward. SunShine believes that the project is  
15 economically viable and that it is timely for  
16 consideration of regulatory approval. The Florida  
17 Legislature obviously concurred that this project  
18 was timely and passed enabling legislation which  
19 was signed into law last June by Governor Chiles.  
20 The natural gas markets, both FGT's and SunShine's,  
21 obviously concur that the time is right for  
22 competition to be injected into Florida and have  
23 all benefitted by the mere threat of SunShine's  
24 entry. These benefits can only continue to enure  
25 to the marketplace and be sustained over the long

1 the long term by the real presence of a new  
2 transmission system, not the speculative threat of  
3 new entry. Unless SunShine becomes a reality in  
4 the near future, its credibility and ability to  
5 market future transmission services, and that of  
6 any successor project developer will be completely  
7 undermined.

8 Q. Are there any adverse consequences to SunShine and  
9 its customers if the petition is denied or if  
10 construction is delayed?

11 A. Yes. If SunShine's Application is denied, all of  
12 the benefits that SunShine's witnesses and FPC's  
13 witnesses have identified in these proceedings  
14 would be lost, perhaps forever. The benefits of  
15 competition, including reduced rates to customers,  
16 improved terms and conditions of natural gas  
17 delivery, and improved services generally, would be  
18 lost. Customers would lose the benefits of  
19 enhanced reliability and deliverability of natural  
20 gas brought about when there is more than just one  
21 pipeline into the State. Natural gas would not be  
22 as abundant in Florida, so its use would  
23 necessarily be less than would occur if the  
24 SunShine Pipeline were built. That would mean the  
25 loss of the significant environmental benefits that



1 are associated with natural gas when compared to  
2 alternative fuels. If SunShine's Application is  
3 denied, Florida may not be able to assure the  
4 availability of natural gas supplies concurrent  
5 with its needs and consistent with its  
6 environmental policies.

7 As I stated earlier, I believe delaying  
8 construction of the Sunshine Pipeline would be  
9 tantamount to a denial because the circumstances  
10 that exist today which made it possible for  
11 SunShine to obtain precedent agreements and letters  
12 of intent with natural gas customers are not likely  
13 to re-occur. I believe Florida has a window of  
14 opportunity to realize all of the benefits that  
15 will come with competition for natural gas  
16 transportation and that window of opportunity will  
17 not last very long and may not return in the  
18 future.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes, it does.