

041414-EI

1 Q. What made the difference between the Cypress and the Bahamas-based  
2 alternative?

3 A. From a strategic perspective, we considered geographic diversity of supply and  
4 relative certainty in meeting Hines 4’s commercial in-service date to be the key  
5 factors. While each of the two finalists had attractive aspects, we ultimately  
6 concluded that the amount of our supply need alone would not be sufficient to anchor  
7 a new Bahamas-based LNG facility and associated pipeline. In addition, we made the  
8 judgment that there was not a sufficient degree of certainty that the Bahamas-based  
9 project could meet Hines 4’s in-service date.

10 We continue to believe that ultimately a Bahamas-based LNG project is likely to  
11 come to fruition and will be a good resource for the State of Florida. We certainly  
12 intend to give full consideration to potential Bahamas-based LNG sources when  
13 evaluating our future supply needs. The availability of a Bahamas-based LNG facility  
14 and related pipeline would further enhance the geographic diversity of PEF’s and the  
15 State of Florida’s natural gas supply. We concluded only that a purchase from a  
16 Bahamas project was not the best choice for our next planned generating unit at this  
17 time.

18  
19 Q. Please describe the economic difference between the Cypress and the Bahamas-  
20 based alternative.

21 A. Over the twenty-year contract term, the price difference between the alternatives was  
22 not significant enough to dictate that factor alone as the basis for decision. The price  
23 spread between the alternatives on a comparable volume basis of [REDACTED] MMBtu in  
24 the summer and [REDACTED] MMBtu in the winter, as reflected in Exhibit \_\_\_\_ (PRM –  
25 5), amounted to a difference of approximately [REDACTED]

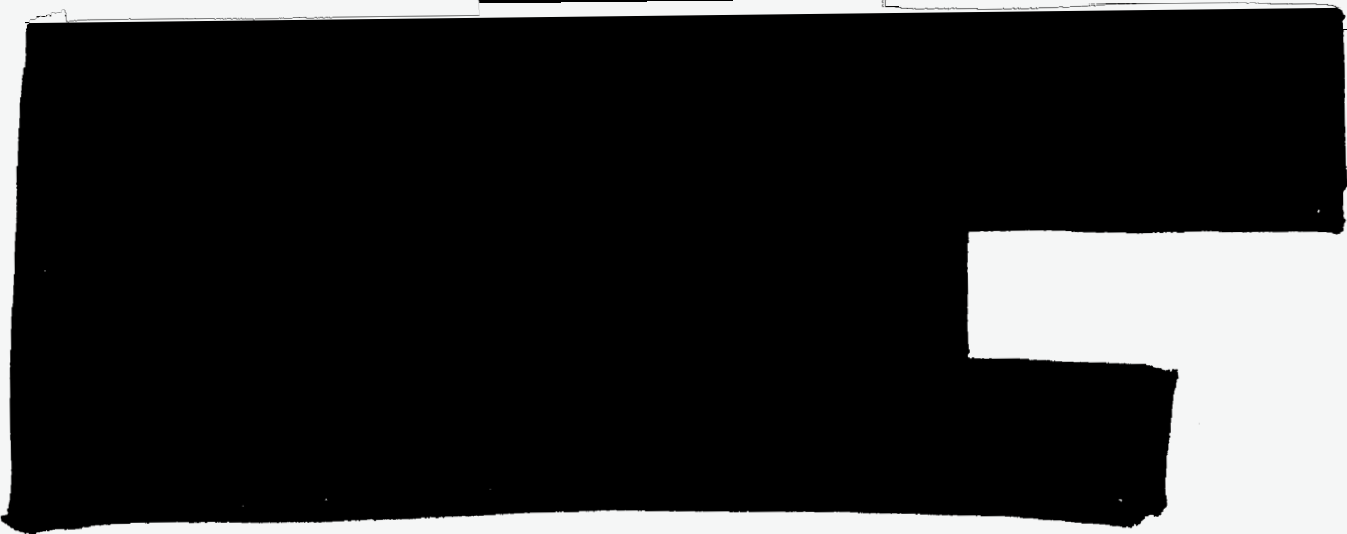
1 of the total cost difference over the life of the contract. Exhibit \_\_\_\_\_ (PRM-5)  
2 reflects quantities and timing based on the responses to the RFP issued by the  
3 Company as well as the present value amounts to reflect discounting to December 1,  
4 2004. However, since our analysis of the most cost-effective alternative weighed  
5 both price and non-price strategic factors, the strategic benefits and the greater  
6 certainty of timely completion of the BG/Cypress/FGT proposal made it the clear  
7 winner.

8 In addition, we also evaluated the economics of the Cypress project versus the  
9 current gas market in a comparable time period, as reflected in Exhibit \_\_\_\_\_ (PRM  
10 – 6). A Gulf of Mexico alternative is the market proxy in Exhibit \_\_\_\_\_ (PRM-6),  
11 using a term of twenty years beginning in May 2007 with the actual contracted  
12 volumes previously stated. Based on this analysis, the Cypress project is slightly  
13 higher in price than the Gulf of Mexico alternative.

14  
15 **Q. How does the pricing under these supply and transportation contracts compare**  
16 **with the costs assumed for these items in the Company's analysis of the Hines 4**  
17 **RFP?**

18 A. The pricing for these contracts is slightly less than that assumed in the RFP analysis  
19 of the Hines 4 self-build option. The self-build option assumed a firm transportation  
20 annual cost of [REDACTED], while the firm transportation costs in the Cypress/FGT  
21 contracts is [REDACTED]. The commodity costs in the Hines 4 RFP analysis was  
22 assumed to be the same for all of the alternatives evaluated.

PRM-5



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PRM-6



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