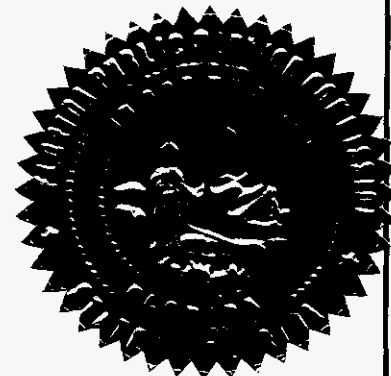


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 041414-EI

In the Matter of

PETITION FOR APPROVAL OF LONG-TERM
FUEL SUPPLY AND TRANSPORTATION
CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND
TRANSPORTATION, BY PROGRESS ENERGY
FLORIDA, INC.



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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON
COMMISSIONER LISA P. EDGAR

DATE: Friday, April 29, 2005

TIME: Commenced at 9:30 a.m.
Concluded at 1:50 p.m.

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

REPORTED BY: JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6732

FLORIDA PUBLIC SERVICE COMMISSION

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5 Inc.

6 PATRICIA A. CHRISTENSEN, ESQUIRE, Office of Public
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9 of Office of Public Counsel.

10 DAVID LYLES CRUTHIRDS, ESQUIRE, 4302 Chenna Drive,
11 Houston, Texas 77096, appearing on behalf of BG LNG Services,
12 LLC.

13 ADRIENNE VINING, ESQUIRE, FPSC General Counsel's
14 Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida
15 32399-0850, appearing on behalf of the Commission Staff.

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P R O C E E D I N G S

1
2 CHAIRMAN BAEZ: Good morning.

3 Counsel, please read the notice.

4 MS. VINING: Pursuant to notice issued April 1st,
5 2005, the Florida Public Service Commission set this time and
6 place for a hearing in Docket Number 041414-EI.

7 CHAIRMAN BAEZ: And we will take appearances.

8 Ms. Christensen.

9 MS. CHRISTENSEN: Patty Christensen on behalf of the
10 Office of Public Counsel.

11 MR. CRUTHIRDS: David Cruthirds on behalf of BG LNG
12 Services, LLC.

13 MS. TRIPLETT: Dianne Triplett on behalf of Progress
14 Energy Florida.

15 MR. BURNETT: Good morning, Commissioners. John
16 Burnett on behalf of Progress Energy Florida.

17 CHAIRMAN BAEZ: Good morning.

18 MS. VINING: Adrienne Vining appearing on behalf of
19 the Commission.

20 CHAIRMAN BAEZ: Ms. Vining, do we have preliminary
21 matters that we need to attend to?

22 MS. VINING: Well, I will just say for the record
23 there are no pending motions, and there is one pending
24 confidentiality request that was filed on the 27th, but I
25 believe Commissioner Bradley signed an order this morning

1 addressing that request.

2 CHAIRMAN BAEZ: All right. And it has been made
3 known to all the parties as to how we need to treat the
4 information in question?

5 MS. VINING: Yes.

6 CHAIRMAN BAEZ: Great. We can move on to some
7 exhibits, I guess.

8 MS. VINING: Yes. Staff has prepared a composite
9 stipulated exhibit list which everybody should have. And this
10 exhibit list identifies two staff composite exhibits, one which
11 is nonconfidential and one which is confidential, and everybody
12 should have copies of both of those. So at this time we would
13 ask that the comprehensive exhibit list be marked for
14 identification purposes as Exhibit 1.

15 CHAIRMAN BAEZ: Show the exhibit list marked as
16 Exhibit 1. And if there are no objections, we can also
17 acknowledge Exhibits 2 and 3. Has everyone had a chance to
18 look at those?

19 MR. BURNETT: Yes, Commissioner.

20 CHAIRMAN BAEZ: No objections?

21 MR. BURNETT: No objection.

22 MS. CHRISTENSEN: Yes, Commissioner. No objections.

23 (Exhibit 2 and 3 marked for identification and
24 admitted into the record.)

25 MS. VINING: At this point we would ask that the

1 comprehensive exhibit list be moved into the record.

2 CHAIRMAN BAEZ: I'm sorry, I didn't hear you.

3 MS. VINING: I'm sorry. At this time we would ask
4 that the comprehensive exhibit list be moved into the record.

5 CHAIRMAN BAEZ: Without objection, show that Exhibit
6 1 will be moved into the record.

7 (Exhibit 1 marked for identification and admitted
8 into the record.)

9 CHAIRMAN BAEZ: Is there anything else before we
10 start?

11 MS. VINING: Well, do you want to go ahead and
12 premark all the testimony exhibits as stated on Exhibit 1?

13 CHAIRMAN BAEZ: Yes. For the record show that all
14 the prefiled exhibits of the witnesses have been marked as
15 Exhibits 4 through 14 as contained in Exhibit 1.

16 (Exhibits 4 through 14 marked for identification.)

17 CHAIRMAN BAEZ: And we have one excused witness, is
18 that correct?

19 MS. VINING: That is correct. Mr. Caldwell has been
20 excused.

21 CHAIRMAN BAEZ: And I'm holding -- someone passed out
22 his testimony.

23 MS. VINING: Yes, someone from Progress Energy passed
24 it out just so you would have it, since he is technically the
25 first witness. But it is my understanding that he has been

1 excused. So at this point his testimony could be entered into
2 the record and his exhibits.

3 CHAIRMAN BAEZ: Without objection, show the direct
4 testimony of Robert F. Caldwell moved into the record as though
5 read. And he has exhibits?

6 MS. VINING: Exhibit 4 is with his testimony.

7 CHAIRMAN BAEZ: Also show Exhibit 4 moved into the
8 record.

9 (Exhibit Number 4 admitted into the record.)

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FPSC DOCKET NO.**IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND
TRANSPORTATION CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND TRANSPORTATION****DIRECT TESTIMONY OF
ROBERT F. CALDWELL****I. INTRODUCTION AND QUALIFICATIONS**

1 **Q. Please state your name, employer, and business address.**

2 A. My name is Robert F. Caldwell and I am employed by Progress Energy. My
3 business address is 410 S. Wilmington Street, Raleigh, North Carolina, 27601.

4

5 **Q. Please tell us your position with Progress Energy and describe your duties and
6 responsibilities in that position.**

7 A. I am Vice President of Regulated Commercial Operations for Progress Energy
8 Florida, Inc. ("PEF" or the "Company") and Progress Energy Carolinas, Inc.
9 ("PEC"). I am responsible for managing and providing oversight and strategic
10 direction for the wholesale trading and marketing business. Through January 1,
11 2005, my responsibilities also include managing natural gas and oil procurement
12 and logistics.

13

14 **Q. Please summarize your educational background and employment experience.**

15 A. I have been a Certified Public Accountant since 1979. From 1977 to 1979, I
16 worked for Arthur Anderson & Company as a Senior Auditor in Detroit, Michigan.

1 I joined SEMCO Energy, Inc., a natural gas distribution company in
2 Michigan, in 1979, working as the Subsidiary Secretary-Treasurer and Controller
3 of the company until 1985. In 1985, I became Secretary-Treasurer, and in 1989,
4 became Vice President and Secretary, a position I held until 1991.

5 In 1991, I became Senior Vice President of SEMCO Energy. From 1993 to
6 1996, I also held the position of Executive Vice President and COO. I assumed the
7 position of Executive Vice President and CFO in 1996 through 1997.

8 In February 1998, I joined Progress Energy, based in Raleigh, North Carolina,
9 as Vice President of Strategic Planning. I became Vice President of Gas Supply &
10 Transmission in December 1998, and subsequently assumed the title of Vice
11 President of Term Marketing in June 2000, a position I held until July 2002. I
12 assumed my current position as Vice President of Regulated Commercial
13 Operations in July 2002.

14
15 **Q. Have you previously testified before this Commission?**

16 A. No. I have previously testified before the Michigan Public Service Commission
17 and the North Carolina Utilities Commission.

18
19 **Q. Are you sponsoring any exhibits to your testimony?**

20 A. Yes, I am sponsoring the following exhibit to my testimony:

21 **RFC-1 Visual Aid Map**

22 This exhibit was prepared under my direction, and it is true and accurate.

23
24 **II. PURPOSE OF TESTIMONY**

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

1 A. The purpose of my testimony is to introduce to the Commission our plan for adding
2 additional gas supply and transportation resources to our fuel supply portfolio. We
3 are presenting new supply and transportation contracts for Commission approval.
4 These contracts will enable us to secure firm gas and pipeline transportation for
5 Hines Unit 4, augment the gas supply for other plants in our fleet, enhance the
6 diversity and reliability of our gas supply portfolio, and gain additional siting
7 flexibility for future generation needs.

8
9 **Q. Please briefly describe resources being added.**

10 A. PEF has entered long-term fuel supply contracts with BG LNG Services, LLC
11 (“BG”) for the regasified LNG supply for Hines Unit 4, as well as additional fuel
12 for our natural gas fired fleet. BG is a wholly owned subsidiary of BG Group and
13 the largest LNG importer into the United States. We will purchase regasified LNG
14 from BG out of the existing regasification facility at Elba Island, near Savannah,
15 Georgia.

16 In addition, PEF has contracted with Southern Natural Gas Company
17 (“Southern Natural”) for firm transportation through an expansion of its existing
18 pipeline system (the “Cypress project”) to be built from Elba Island to a point of
19 interconnection with the Florida Gas Transmission (“FGT”) pipeline in Clay
20 County, Florida, and with FGT for transportation from the point of interconnection
21 with Southern Natural to the Hines Energy Complex in Polk County, Florida.

22
23 **Q. Please describe the Company’s presentation in support of these contracts.**

24 A. I will be discussing the strategic benefit of these contracts. Ms. Pamela Murphy
25 addresses the contracts in detail, as well as the process that led to their selection in

1 her testimony. Mr. Sam Waters will discuss the benefits of these contracts to
2 generation expansion from a system planning perspective. Mr. Bruce Hughes of
3 Southern Natural will address the development of the Cypress project.

4
5 **III. THE BENEFITS OF THE GAS SUPPLY AND**
6 **TRANSPORTATION CONTRACTS**

7 **Q. Describe the benefits of these new resources to PEF and Florida.**

8 A. We believe the BG/Cypress/FGT package is the best alternative to meet our
9 expanding natural gas supply and firm transportation needs for a number of
10 reasons. First and foremost, these natural gas supply and pipeline transportation
11 contracts provide the greatest degree of certainty that we will have firm supply and
12 pipeline transportation ready when Hines Unit 4 comes on-line in December of
13 2007. Second, this solution meets our need to provide geographic diversity and
14 enhanced reliability of our natural gas supply. Third, these resources increase our
15 operating flexibility and create value for additional generation sites in conjunction
16 with the commitment to meet the needs of Hines Unit 4. And finally, this solution
17 allows us to achieve all of these goals at the best overall value and benefit for our
18 customers.

19 The Elba Island LNG terminal is an existing facility with the capacity to
20 handle the volumes we have purchased under the BG LNG supply contracts. BG
21 has contractually committed to supply gas to us on a firm basis. This, coupled with
22 Southern Natural's and FGT's ability to expand their pipeline systems, in our
23 judgment, offers a greater degree of certainty of success to meet our Hines 4 in-
24 service date requirements than other alternatives. Exhibit ____ (RFC-1) is a map
25 that gives an overview of the gas pipelines in the southeast and the proposed
26 extension.

1 Second, another interstate pipeline connection and an east coast gas supply
2 provide geographic diversity of supply and enhanced reliability. The four
3 hurricanes that hit Florida in August and September demonstrate the need for
4 geographic supply diversity. LNG coming into Elba island also reduces our
5 dependence on Mobile Bay/Destin Gulf of Mexico supply even under normal
6 operating situations. The BG/Cypress/FGT combination provides excellent
7 geographic diversity of supply which enhances reliability.

8 Third, is the operating flexibility we will have as a result of the Cypress/FGT
9 expansion. We will be able to transport gas from Elba Island to other generating
10 stations on our system, such as Anclote and Suwannee, as well as to support our
11 long term power purchase agreement of the Shady Hills generating plant in Pasco
12 County.

13 In addition to the current operating flexibility provided by these contracts,
14 they also give us options for future gas-fired generation resources we add to our
15 system, such as additional Hines units or potentially units near our existing
16 Suwannee generating station.

17
18 **Q. What is the benefit of a third gas transportation pipeline to Florida?**

19 A. The Cypress pipeline extension will bring regasified LNG to the State of Florida as
20 a major new source of supply. As a result of these contracts, a portion of the
21 natural gas used in PEF's system will shift from the Gulf of Mexico to the east
22 coast of the United States. This will achieve one of our major long-term fuel
23 supply objectives of diversifying the risks associated with our fuel supply.
24

1 **Q. How does the Cypress pipeline extension project relate to the in-service date of**
2 **Hines Unit 4?**

3 A. We are confident that these resources will provide a firm supply and firm pipeline
4 transportation capacity when Hines Unit 4 comes on-line in December 2007. The
5 Elba Island LNG terminal is an existing facility with the capacity to handle the
6 volumes we have purchased under the BG contract. The amount of our
7 transportation capacity subscription in the Cypress pipeline will be a sufficient
8 anchor to support development of the pipeline extension on the time schedule we
9 need to meet the in-service date of Hines Unit 4.

10
11 **Q. What are the long-term benefits of these new resources?**

12 A. The Cypress and FGT expansions and the opportunities they open for additional
13 purchases of LNG should have a dampening impact on fuel price and transportation
14 price over the long term. These benefits would be augmented when a fourth
15 pipeline for LNG is built to Florida from the south.

16 The Cypress and FGT expansions permit us to consider additional sites for
17 future gas-fired generation as new units are needed to meet increased demand.

18
19 **Q. Did you consider Bahamas-based supply and transportation?**

20 A. Yes, we seriously pursued that option but ultimately concluded it was not the best
21 alternative for our system at this time. The magnitude of our supply need would
22 not support development of a Bahamas LNG facility on its own, which steered us
23 toward the existing facility at Elba Island. Having said that, I do believe Florida
24 would benefit from a Bahamas-based supply. We will continue to consider that as
25 a good resource option in the future. At this time, however, we believe that the

1 contracts we present today for your approval will yield the best overall value from a
2 short and long-term perspective.

3

4 **Q. Please characterize the value of these contracts.**

5 A. The BG/Cypress/FGT contracts provide the best overall value and benefits to our
6 customers, based on both the economic and non-economic values I have just
7 outlined. As such, I believe these contracts should be approved by the
8 Commission.

9

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

11 A. Yes, it does.

12

1 CHAIRMAN BAEZ: And are the rest of the witnesses in
2 the room? They better be, it's a one-day hearing.

3 MR. BURNETT: Yes, Chairman, they are.

4 CHAIRMAN BAEZ: Great, Mr. Burnett. Can we have them
5 stand up and we will swear them in quickly.

6 (Witnesses sworn.)

7 CHAIRMAN BAEZ: Mr. Burnett, you can call your first
8 witness.

9 MR. BURNETT: Chairman, are we going to have
10 openings? I had a brief opening.

11 CHAIRMAN BAEZ: I'm sorry, you're right. I'm trying
12 to move this a little faster than everybody else wants.

13 MR. BURNETT: I promise I will be brief, sir.

14 CHAIRMAN BAEZ: Go ahead. You've got ten minutes by
15 the rule book, the less you use the better it looks.

16 MR. BURNETT: Understood, sir.

17 Well, good morning. And in the sake of brevity, I
18 will move right along. As the Commission is aware, this
19 Commission has approved the construction of Progress Energy
20 Florida's Hines 4 Generating Unit, and Progress Energy is
21 proceeding to construct the Hines 4 unit at the Polk County
22 Hines Energy Complex. The Hines 4 expected in-service date is
23 December of 2007.

24 To meet the fuel supply needs for Hines 4 and other
25 gas-fired units on Progress Energy's system, Progress Energy

1 has entered into a long-term gas supply contract with BG LNG
2 Services, and has entered into long-term gas transportation
3 contracts with Florida Gas Transportation and Southern Natural
4 Gas Company. Collectively, the BG, Cypress, and FGT contracts
5 require that PEF obtain Commission approval of those contracts
6 as a condition precedent to PEF's performance under those
7 contracts. PEF is here today to ask the Commission to approve
8 those contracts as reasonable and prudent.

9 Now, what exactly does PEF want the Commission to
10 approve as reasonable and prudent? With respect to the
11 essential terms of the contracts, PEF is asking the Commission
12 to approve the market-based pricing index and the adder used
13 for gas pricing in the supply contract, as well as the
14 negotiated rates used in the Cypress/FGT transportation
15 contracts. PEF is also asking the Commission to approve the
16 volumes of gas that PEF will take under the supply contract, as
17 well as the durational terms of the contracts. Finally, PEF is
18 asking the Commission to approve the basic general terms and
19 provisions of each of the three contracts.

20 PEF is asking the Commission to preapprove these
21 essential and general terms in the contracts because each of
22 them are ripe now for evaluation, and the reasonableness and
23 prudence of those terms and conditions will not vary over time,
24 nor will they change based on facts that will only be known in
25 the future. What PEF is not asking the Commission to do,

1 however, is to preapprove any action that PEF may take under
2 certain terms and conditions of the contracts that are not
3 currently ripe for this Commission's review.

4 For example, PEF is not asking the Commission to
5 preapprove any price hedging activity that PEF may engage in
6 under the contracts. Rather, such activity would be subject to
7 the Commission's review for reasonableness and prudence in
8 PEF's annual fuel adjustment clause docket. Furthermore, PEF
9 is not asking the Commission to preapprove any aspect of PEF's
10 day-to-day management of those contracts, and that management
11 would also be subject to the Commission's continuing review for
12 reasonableness and prudence.

13 Now that I have discussed why PEF is here, I will
14 very briefly discuss how PEF got here. In deciding what gas
15 supply and transportation options best met the needs of PEF and
16 its ratepayers, PEF sent three independent requests for
17 proposals to a total of 45 potential gas suppliers. Based on
18 the responses received, PEF narrowed possible selections to
19 three potential alternatives, the BG/Cypress/FGT alternative, a
20 Bahamas-based supply alternative, and an alternative using a
21 Gulf of Mexico supply and transportation source.

22 PEF evaluated each of these potential alternatives on
23 both price and nonprice factors, such as the certainty of
24 meeting Hines 4 in-service date, the overall economics,
25 operational flexibility, and supply diversity. Based on these

1 factors, PEF concluded that the BG/Cypress/FGT alternative
2 provides it and its ratepayers the best combination of both
3 qualitative and quantitative benefits.

4 As explained in detail by PEF's witnesses in their
5 direct testimony, the BG/Cypress/FGT alternative provides a
6 high degree of certainty of meeting the in-service date for
7 Hines 4. The Cypress contracts also provide PEF and the state
8 of Florida as a whole a new supply source by bringing a third
9 major natural gas pipeline into Florida. In addition to
10 operational flexibility, the Cypress contracts provide PEF
11 supply diversity both from a gas supply source aspect and a
12 supply diversity location aspect. Finally, the Cypress
13 contracts provide PEF with long-term gas supply and
14 transportation commitments at highly competitive prices.

15 As mentioned in the beginning of my statement,
16 however, the BG/Cypress/FGT contracts mandate that PEF must
17 obtain Commission approval of the contracts no later than June
18 15th, 2005 as a condition precedent to performance. Such a
19 requirement is no surprise because each of the parties to the
20 contracts wish to have adequate advanced assurances, given the
21 magnitude of the venture and the amount of capital investment
22 required for this first-of-a-kind project, to bring regasified
23 LNG into the state of Florida.

24 In conclusion, the BG/Cypress/FGT contracts that PEF
25 has brought before the Commission today are reasonable and

1 prudent and provide PEF and its ratepayers the best overall
2 value based on price and nonprice factors. Therefore, PEF
3 respectfully requests that the Commission approve the
4 BG/Cypress/FGT contracts as reasonable and prudent. Thank you
5 very much.

6 CHAIRMAN BAEZ: Thank you, Mr. Burnett.

7 Ms. Christensen, do you have an opening?

8 MS. CHRISTENSEN: No opening, Commissioner.

9 CHAIRMAN BAEZ: Mr. Cruthirds.

10 MR. CRUTHIRDS: BG has no opening statement. Thank
11 you.

12 CHAIRMAN BAEZ: Thank you very much.

13 Mr. Burnett, we can call a witness now.

14 MR. BURNETT: Thank you, sir. We call Pamela Murphy.

15 CHAIRMAN BAEZ: Good morning, Ms. Murphy.

16 THE WITNESS: Good morning.

17 **PAMELA MURPHY**

18 **was called as a witness on behalf of Progress Energy Florida,**
19 **and having been previously duly sworn, testified as follows:**

20 **DIRECT EXAMINATION**

21 BY MR. BURNETT:

22 Q Ms. Murphy, will you please introduce yourself to the
23 Commission and provide your business address?

24 A My name is Pamela R. Murphy. My business address is
25 Post Office Box 1551, Raleigh, North Carolina 27602.

1 Q Ms. Murphy, who do you work for and what is your
2 position?

3 A I am employed by Progress Energy Carolinas, Inc. in
4 the capacity of Director, Gas and Oil Trading.

5 Q Have you filed prefiled direct testimony, exhibits,
6 and subsequent corrections to that direct testimony and
7 exhibits in this proceeding?

8 A Yes, I have.

9 Q We passed out a document to you just a second ago.
10 Is this your corrected prefiled testimony and exhibits in this
11 proceeding?

12 A Yes, it is.

13 Q Do you have any changes to make to your corrected
14 prefiled testimony and exhibits?

15 A No, I do not.

16 Q Ms. Murphy, if I asked you the same questions in your
17 corrected prefiled testimony today, would you give the same
18 answers that are in your corrected prefiled testimony?

19 A Yes, I would.

20 MR. BURNETT: Commissioners, we request that the
21 corrected prefiled testimony of Ms. Murphy be moved into
22 evidence as if it were read on the record today.

23 CHAIRMAN BAEZ: Ms. Vining, help me. Well, I have
24 one question. The corrected prefiled, it is not in addition to
25 the original, correct?

1 MR. BURNETT: Yes, sir, it is in lieu of.

2 CHAIRMAN BAEZ: In lieu of. And, Ms. Vining, do we
3 need to enter the nonconfidential and confidential, we do that
4 together or --

5 MS. VINING: I would think that you could just enter
6 the confidential version because the transcript will have
7 confidential portions in it anyway. But it is at your
8 prerogative if you want to have both of them in there.

9 CHAIRMAN BAEZ: Well, whatever version needs to be in
10 the record. Mr. Melson, I don't know, I'm having a bad day
11 today. I apologize. Someone can throw me a rope.

12 MS. VINING: Well, I would think for sure the
13 confidential version needs to be in record, but the court
14 reporter could use the redacted version for the public version
15 of the transcript.

16 MR. MELSON: I think what normally happens is the
17 redacted version goes into the transcript, and any confidential
18 pages, or if there is confidential information on a number of
19 pages that is probably best separately marked as an exhibit so
20 that if and when a record goes up on appeal the court has got
21 it, but it is separately segregated.

22 CHAIRMAN BAEZ: So then we should mark the
23 confidential version of the amended direct testimony as an
24 exhibit, as an additional exhibit?

25 MR. MELSON: I would think so, and insert the

1 nonconfidential version into the record.

2 CHAIRMAN BAEZ: Very well. And I apologize to the
3 parties, I should have been better prepared for this.

4 Without objection, show the amended direct testimony,
5 the redacted version of Witness Murphy's testimony moved into
6 the record as though read, and we will show the confidential
7 version of that testimony marked as Exhibit --

8 MS. VINING: It should be 15.

9 CHAIRMAN BAEZ: Exhibit 15, Confidential Exhibit 15.

10 MR. BURNETT: Thank you.

11 (Exhibit 15 marked for identification.)

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FPSC DOCKET NO.**IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND
TRANSPORTATION CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND TRANSPORTATION****DIRECT TESTIMONY OF
PAMELA R. MURPHY****I. INTRODUCTION AND QUALIFICATIONS**

1 **Q. Please state your name and business address.**

2 A. My name is Pamela R. Murphy. My business address is P.O. Box 1551, Raleigh,
3 North Carolina 27602.

4

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

6 A. I am employed by Progress Energy Carolinas, Inc. ("PEC") in the capacity of
7 Director, Gas & Oil Trading.

8

9 **Q. Please summarize your educational background and work experience.**

10 A. I graduated in 1984 from West Virginia State College with a Bachelor's Degree in
11 Accounting. I have been in the natural gas industry for approximately 29 years. My
12 previous positions have been with several subsidiaries of the Columbia Energy Group
13 (now known as Nisource, Inc.). Part of my experience was with the energy marketing
14 and trading organization, Columbia Energy Services, where I was Vice President of
15 Operations. Prior to this position, I was Director of Marketing for Columbia Natural
16 Resources, the exploration and production company of the Columbia Energy Group.

- 1 **PRM – 1 A Firm Gas Supply Contract with BG LNG Services, LLC for Hines**
2 **Unit 4**
- 3 **PRM – 2 A Precedent Agreement for Firm Transportation with Southern**
4 **Natural Gas Company**
- 5 **PRM – 3 Firm Gas Transportation Contracts with Florida Gas Transmission**
6 **Company**
- 7 **PRM – 4 A Visual Aid Map**
- 8 **PRM – 5 Analysis of Gas Supply Alternatives on Comparable Volume Basis**
- 9 **PRM – 6 Analysis of Contracts Versus Current Market Option**

10 Each of these exhibits was prepared under my direction, and each is true and accurate.

11

12 **III. THE GAS SUPPLY AND TRANSPORTATION CONTRACTS**

13 **Q. Please describe the major components of the firm gas supply and transportation**
14 **agreements.**

15 A. PEF has entered into a series of agreements designed to provide firm natural gas
16 supply from BG LNG Services, LLC (“BG”), in the form of liquefied natural gas
17 (“LNG”) regasified at the Elba Island LNG terminal near Savannah, Georgia, and firm
18 transportation of the BG gas supply from Elba Island to the Hines Energy Complex in
19 central Florida, as well as to other gas-fired plants on our system. Transportation will
20 be provided through the interconnection of a new pipeline extension by Southern
21 Natural Gas Company (“Southern Natural”) and an expansion of the existing Florida
22 Gas Transmission (“FGT”) pipeline. Southern Natural’s pipeline extension is
23 referred to as the Cypress project or the Cypress pipeline.

24 I have prepared the map contained in my Exhibit _____ (PRM – 4) as a visual
25 aid to assist in presenting PEF’s gas supply and transportation plan.

1 **Q. Are these contracts the most cost-effective alternative?**

2 A. Yes. When analyzed on price and non-price factors, the BG/Cypress/FGT contracts
3 are the most cost-effective alternative from both a unit-specific and system
4 perspective. The contracts provide a greater degree of certainty of meeting the
5 commercial in-service date of Hines 4 than other new construction alternatives; they
6 achieve our objective of geographically diversifying our natural gas supply portfolio,
7 and they provide additional options for meeting future supply and transportation
8 needs as our system expands. It is important that the Commission approve these
9 contracts now so that Southern Natural and FGT can proceed on schedule to meet the
10 commercial in-service date of Hines 4.

11

12 **Q. Please describe the natural gas supply contract.**

13 A. The natural gas supply contract requires BG to deliver regasified LNG to PEF at the
14 Elba Island terminal for a term of 20 years from the date of the completion of both the
15 Cypress pipeline project and the FGT expansion. The natural gas supply contract is
16 designed to meet the fuel supply needs for Hines 4 beginning May 1, 2007 as well as
17 for volumes of gas above the projected consumption at Hines 4 to other of our gas-
18 fired units beginning May 1, 2008 and increasing May 1, 2009.

19

20 **Q. Why did PEF contract for gas supply beyond the requirements of Hines 4?**

21 A. While the majority of the gas supply delivered under the BG contract will be used to
22 meet the fuel requirements of Hines 4, the additional volumes and transportation
23 capacity will capture the benefits of geographic supply diversity for our gas-fired fleet
24 as a whole. The FGT upgrade necessary to connect the Cypress pipeline with the
25 Hines Energy Complex provided an opportunity to contract for additional commodity

1 volumes and firm transportation that can be used to serve other PEF plants, such as
2 our Anclote plant and the new tolling agreement with Shady Hills, on a firm basis.

3
4 **Q. What volumes of gas are to be supplied under the BG contract?**

5 A. The following seasonal volumes have been contracted for Hines 4 projected for May
6 1, 2007 :

7 [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 These seasonal volumes will compliment PEF's existing natural gas portfolio.

11 The Company has contracted for the following additional seasonal gas supply and
12 transportation (under the Southern Natural/FGT contracts) commencing May 1, 2008:

13 [REDACTED]
14 [REDACTED]

15 Commencing May 1, 2009, the Company contracted for an additional seasonal gas
16 supply and transportation above the volumes in 2008:

17 [REDACTED]
18 [REDACTED]

19 Beginning May 1, 2009, the total supply and transportation volume will be [REDACTED]

20 [REDACTED] The supply commitments
21 and their timing match our firm transportation commitments.

22
23 **Q. What is the pricing structure for the BG contract?**

24 A. The contract price is indexed to Henry Hub gas as reported in the [REDACTED]
25 [REDACTED]

1 [REDACTED] This index provides a reasonable basis for long-term pricing. The [REDACTED]
2 [REDACTED] and should help mitigate the price volatility
3 in the "basis" adder for gas supplied from the Mobile Bay - Destin production areas.
4

5 **Q. When do the Hines 4 supply and transportation contracts begin?**

6 A. The Hines 4 supply and transportation contracts begin upon completion of the
7 Cypress pipeline and FGT expansion. The projected completion date of the Cypress
8 pipeline and FGT expansion is May 2007. The projected in-service date for Hines 4
9 is December of that year. The May start date will provide the commitment necessary
10 for Southern Natural and FGT to proceed with their pipeline extensions or expansions
11 to meet the commercial in-service date of Hines 4.
12

13 **Q. Will the BG supply contract require any upgrades at the Elba Island LNG
14 terminal facility?**

15 A. No. There is sufficient capacity at the Elba Island facility to handle the BG supply
16 contract with PEF. The Elba Island LNG terminal facility is currently being upgraded
17 but our contract is not tied to the expansion.
18

19 **Q. Will the BG supply contract require any other regulatory approvals?**

20 A. No. Gas supply contracts do not require Federal Energy Regulatory Commission
21 ("FERC") approval.
22

23 **Q. Please describe the natural gas transportation contracts.**

24 A. PEF's contract with Southern Natural provides for firm transportation of the gas
25 supplied under the BG contract through an extension of their existing pipeline

1 network. The extension will be built to connect the Elba Island LNG terminal to a
2 point of interconnection with the FGT pipeline in Clay County, Florida. It is
3 scheduled to be in-service in May, 2007 to dovetail with the Hines 4 gas supply
4 contract.

5 PEF's firm transportation contract with FGT will complete the route from the
6 interconnection point with the Cypress pipeline to the Hines Energy Complex in Polk
7 County initially, and later to other of the Company's gas-fired units as well. FGT's
8 expansion of its existing pipeline system to the proposed interconnection point in
9 Clay County also has a synchronized in-service date in May, 2007.

10 These contracts have twenty-year terms projected to begin in May of 2007.

11
12 **Q. What level of transportation capacity will PEF take under the Southern Natural
13 and FGT contracts?**

14 A. PEF's contractual firm transportation capacity has been structured to match the
15 natural gas purchases under the BG supply contract and is therefore the same as those
16 described in my earlier answer.

17
18 **Q. What is the pricing structure for the transportation contracts?**

19 A. The contracts follow the standard format of a fixed monthly reservation charge,
20 expressed on a dollar per MMBtu basis. For the Southern Natural contract, the
21 monthly reservation charge is a [REDACTED] per MMBtu. For the FGT
22 contract, the monthly reservation charge is the applicable monthly rate specified in
23 FGT's FTS-2 tariff for the summer period [REDACTED]
24 [REDACTED]
25

1 **Q. Will the transportation contracts require additional regulatory approval?**

2 A. Yes. Both the Southern Natural Cypress pipeline extension and the FGT pipeline
3 expansion projects will require FERC approval. Under our contracts, Southern
4 Natural and FGT will be responsible for obtaining this approval. Mr. Hughes
5 addresses this in his testimony.

6

7 **Q. What process was used to select the BG/Cypress/FGT alternative?**

8 A. The Company conducted a series of RFPs for the gas supply required by Hines 4. The
9 process began by soliciting proposals from all entities who could potentially meet the
10 fuel requirements of Hines 4. From this group six proposals were received, with
11 supply sources in the Gulf of Mexico, the Bahamas, and Elba Island. Some of the
12 bids proposed a bundled transportation and commodity arrangement and some were
13 for the commodity only. For the commodity-only bids, PEF contacted the relevant
14 pipeline companies to see if a workable arrangement for transportation could be
15 coupled with the commodity bid.

16

17 **Q. What criteria were used to evaluate the bids received?**

18 A. The bids were evaluated on the basis of the following factors:

- 19 • **Certainty of a Proposal's Success:** This factor considered a proposal's ability to
20 deliver gas supply to Hines 4 at or near the unit's in-service date of December
21 2007.
- 22 • **Economics:** This factor considered the all-in price for commodity and
23 transportation components associated with the proposal.

- 1 • Operational Flexibility: This factor considered the degree of flexibility provided
2 by a proposal's contract terms and conditions to serve other existing and
3 potential plants in PEF's fleet.
- 4 • Supply Diversity: This factor considered the degree to which a proposal could
5 reduce PEF's reliance on the Mobile Bay - Destin supply area. This geographic
6 diversity provides operational flexibility to manage supply disruption caused by
7 hurricanes and thereby enhances system reliability.

8
9 **Q. When was the RFP conducted?**

10 A. A series of RFPs were distributed to potential bidders between August 2003, April
11 2004, and June 2004. Two alternatives were identified as the most promising; the
12 BG/Cypress/FGT combination, and a proposal from a Bahamas-based LNG supplier.
13 They were evaluated against each other and against a Gulf of Mexico-based
14 alternative. Over the ensuing months we engaged in contract negotiations with each
15 of these potential suppliers, resulting in the contracts we present here.

16
17 **Q. Why did the Company select the BG/Cypress/FGT combination?**

18 A. The BG/Cypress/FGT contract package is the most cost-effective alternative
19 considering price and non-price strategic factors to meet our expanding natural gas
20 and transportation needs. The contracts fulfill our natural gas supply and
21 transportation policy to secure both gas supply and transportation for our baseload
22 plants through firm long-term contracts. They confer several strategic benefits. First,
23 the contracts provide a greater degree of certainty of meeting the commercial in-
24 service date for Hines 4 of the new construction alternatives. Elba Island is an
25 existing and operating LNG facility with the capacity to handle the gas supply under

1 the BG contract. BG, in turn, has contractually represented to PEF that they have
2 LNG supplies and terminal capacity at Elba Island to perform its obligation under the
3 natural gas supply contract. Our firm transportation contract with Southern Natural
4 subscribes [REDACTED] of the Cypress pipeline capacity. We have reason to
5 be confident that the project will be completed on time, as Mr. Hughes addresses
6 more fully in his testimony. In total, we believe that the BG/Cypress/FGT alternative
7 has the highest certainty of success of the LNG alternatives available to meet our
8 Hines 4 needs.

9
10 **Q. Does the BG/Cypress/FGT project present completion risks?**

11 A. To a degree, yes. As with all construction projects, there are risks associated with the
12 BG/Cypress/FGT project. However, we believe that the degree of risk for the Cypress
13 pipeline and the FGT expansion is much less than for a Bahamas-based project at this
14 time. The Elba Island terminal is an existing and operating facility. BG currently has
15 terminal capacity that is more than sufficient to deliver PEF's contracted gas supply
16 on a firm basis. Southern Natural has already completed some of the preliminary
17 right-of-way work associated with the Cypress pipeline. Mr. Hughes will address this
18 more fully in his testimony. We are confident that they will be able to accomplish
19 this on schedule.

20
21 **Q. Please describe the Company's plan to monitor timely completion of the pipeline
22 extensions.**

23 A. Our plan is to conduct monthly meetings with Southern Natural to review the progress
24 associated with the project timelines that are necessary in order to place the Cypress
25 pipeline into service by May 1, 2007. These project timelines are discussed in Mr.

1 Hughes' testimony. Our monthly meetings will also give the Company an
2 opportunity to assess Southern Natural's due diligence in achieving these milestones.
3 As discussed in the testimony of Bruce Hughes of Southern Natural, Federal Energy
4 Regulatory Commission ("FERC") approval for a project of this size generally
5 requires twelve to fourteen months. Construction will require approximately nine
6 months. Southern Natural will prepare and file an application with the FERC in the
7 second quarter of 2005. In addition, our contract with Southern Natural contains
8 several reporting milestones that will keep us informed of the progress of the pipeline
9 extension. They include the receipt and acceptance by Southern Natural of the
10 following: (1) [REDACTED]
11 [REDACTED]
12 [REDACTED]; (2) Preliminary Determination from the
13 FERC on or before [REDACTED]; and (3) all governmental authorizations from
14 the FERC, the United States Army Corps of Engineers, the U.S. Fish and Wildlife
15 Service, and any other state and federal regulatory agencies to construct, install, and
16 operate the Cypress pipeline on or before [REDACTED]. We will carefully
17 monitor the milestones of the project with Southern Natural to ensure they comply
18 with the conditions precedent contained in our contract. In the unlikely event it
19 appears Southern Natural will not make the scheduled in-service date of May 1, 2007,
20 we will turn to existing resources to bridge the gap with the in-service date of the
21 Hines 4 Unit. This degree of latitude is acceptable because our monitoring efforts
22 will enable us to know well in advance whether short-term alternatives need to be
23 arranged.

1 **Q. Please explain the significance of geographic diversity.**

2 A. The BG/Cypress/FGT combination will provide geographic diversity to our fuel supply
3 sources. At present, approximately [REDACTED] of our gas supply is from sources in the
4 Mobile Bay – Destin production area of the Gulf of Mexico. Adding Elba Island as a
5 receipt point to receive the gas under our BG contract to our supply portfolio will shift
6 approximately [REDACTED] of our total gas supply to sources other than the Mobile Bay –
7 Destin production area. In addition, this receipt point located on the Atlantic coast
8 will diversify the risk of supply interruption due to hurricanes and other weather
9 disturbances in the Gulf of Mexico, or any other supply disruptions. When a fourth
10 pipeline is constructed bringing LNG to Florida from the south, the geographic
11 diversity of the east coast fuel supply will be further maximized.

12
13 **Q. Earlier you mentioned the operational flexibility that would be provided by the**
14 **BG/Cypress/FGT contracts. Please explain what you meant.**

15 A. Operational flexibility is a strategic benefit unique to these contracts. The contracts
16 provide additional flexibility for our system. They give us the ability to serve a part
17 of the fuel requirements for our Anclote Plant and the new tolling contract with Shady
18 Hills on a firm basis. The Cypress pipeline will allow the Company to consider siting
19 future generation at or near its existing Suwannee plant site.

20 Additionally, there is the benefit of geographic supply diversity as a means of
21 mitigating supply disruptions caused by hurricanes or other inclement weather in the
22 Gulf of Mexico. Having supply sources on different coasts enhances system
23 reliability because it is unlikely they would both suffer supply interruptions at the
24 same time.

25

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 ____
10 (PRM - 6). A Gulf of Mexico alternative is the market proxy in Exhibit ____
11 (PRM-6), using a term of twenty years beginning in May 2007 with the actual
12 contracted volumes previously stated. Based on this analysis, the Cypress project is
13 slightly 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.

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IV. CONCLUSION

Q. Please recap your testimony.

A. The BG/Cypress/FGT package is the best overall choice for the gas supply and transportation requirements of our next planned generating unit, Hines 4. These contracts provide a great degree of certainty of meeting the commercial in-service date of Hines 4; they achieve our objective of geographically diversifying our natural gas supply portfolio, and they provide additional opportunity to serve our Anclote plant as well as provide additional options for future supply and transportation needs. In view of these important benefits, we believe that the combination of the price and non-price factors make this the most cost-effective choice for Hines 4, as well as PEF's system as whole. They will allow us to deliver the best long-term value to our customers in meeting their future need for reliable electric service. It is important that the Commission approve these contracts now so that Southern Natural and FGT can proceed on schedule to meet the commercial in-service date of Hines 4.

Q. Does this conclude your testimony?

A. Yes, it does.

1 BY MR. BURNETT:

2 Q Ms. Murphy, do you have a summary of your corrected
3 prefiled testimony?

4 A Yes, I do.

5 Q Will you please summarize your corrected prefiled
6 testimony for the Commission?

7 A Yes. My name is Pamela R. Murphy, and I'm employed
8 by Progress Energy Carolinas in the capacity of Director, Gas
9 and Oil Trading. PEF has entered into three new long-term fuel
10 supply and transportation contracts to provide natural gas to
11 the Hines Energy Complex in central Florida, as well as to
12 other gas-fired plants in our system. To determine what option
13 PEF would use to provide additional gas to the Hines Energy
14 Complex, the company utilized an extensive RFP process. Three
15 separate RFPs were sent in August 2003, April 2004, and June
16 2004. Proposals were solicited from a total of 45 potential
17 domestic and LNG suppliers, and the company narrowed the
18 possible choices to three potential alternatives.

19 Ultimately, PEF found that the BG/Cypress/FGT
20 alternative to be the most reasonable and cost-effective option
21 based on price and nonprice factors. Under the BG/Cypress/FGT
22 alternative, BG LNG Services, LLC, or BG, has contracted to
23 provide firm natural gas supply in the form of liquefied
24 natural gas, or LNG, that will be regasified at the Elba Island
25 LNG terminal near Savannah, Georgia. Transportation for the

1 regasified LNG will be provided through the interconnection of
2 a new pipeline extension by Southern Natural Gas Company
3 identified as Cypress, and an expansion of an existing Florida
4 Gas Transmission, or FGT, pipeline.

5 PEF was able to negotiate very favorable terms for
6 the BG/Cypress/FGT contracts. Under the BG supply contract,
7 the gas price is tied to an industry-wide gas index which will
8 ensure that PEF pays a competitive market-based rate throughout
9 the entire term of the supply contract. In addition, the BG
10 contract includes certain price hedging mechanisms which will
11 allow PEF to shift its price to maintain competitive supply
12 prices for the benefit of its ratepayers.

13 PEF has also, through contractual provisions, shifted
14 some of the risk typically associated with LNG supply contracts
15 away from PEF and onto the fuel supplier. These, and other
16 favorable contract terms in the BG supply contract provide PEF
17 a competitive and reliable long-term supply of fuel for Hines 4
18 and other gas-fired units on PEF's system.

19 The long-term transportation contracts with Southern
20 Natural and FGT are also favorable to PEF and its ratepayers.
21 Considering strategic factors, such as certainty of success,
22 geographical diversity, and operational flexibility, the
23 Cypress/FGT transportation contracts represent a reasonable,
24 prudent, and cost-effective choice that provides the ratepayers
25 the best overall gas transportation option for Hines 4 and

1 other system needs. Also, the pricing provisions in the
2 Cypress/FGT transportation contracts are based on negotiated
3 rates which provide PEF competitive long-term transportation
4 prices.

5 As to nonprice factors, the BG/Cypress/FGT contracts
6 provide a great degree of certainty of natural gas supply and
7 pipeline transportation to meet the commercial in-service date
8 of Hines 4, as well as provide additional supply for the PEF
9 system. Also, the BG/Cypress/FGT contracts provide PEF
10 geographic diversity and help PEF decrease its reliance on the
11 Gulf of Mexico supply sources.

12 Finally, the Cypress alternative brings another major
13 interstate pipeline to the state of Florida and an additional
14 supply source to the state. In summary, the BG/Cypress/FGT
15 contracts provide PEF with long-term competitive gas supply and
16 transportation commitments and also provide PEF with geographic
17 supply diversity and enhanced system operational flexibility.
18 In view of these important benefits, the combination of both
19 price and nonprice factors make the BG/Cypress/FGT alternative
20 the most cost-effective choice for Hines 4 as well as PEF's
21 system as a whole.

22 MR. BURNETT: Commissioners, before we tender Ms.
23 Murphy for cross-examination, I just wanted to mention the fact
24 that several of the questions may call for Ms. Murphy to get
25 into some confidential information, so we ask for your

1 forgiveness in advance if Ms. Murphy has to try to do her best
2 to work around providing that information.

3 CHAIRMAN BAEZ: I think we knew that going in,
4 judging from the amount of red paper laying around. So do your
5 best, Ms. Murphy.

6 MR. BURNETT: Yes, sir. We tender Ms. Murphy for
7 cross-examination.

8 CHAIRMAN BAEZ: Very well. Ms. Christensen.

9 CROSS EXAMINATION

10 BY MS. CHRISTENSEN:

11 Q Good morning, Ms. Murphy.

12 A Good morning.

13 Q If any of my questions call for a confidential
14 answer, if you can do your best to answer around the
15 confidential information, or just let me know, we will try to
16 work it.

17 A I will try.

18 Q There are a few areas of the proposed contract,
19 particularly with BG, that I would like to address
20 specifically, and the first area is the force majeure clause.

21 Ms. Murphy, are there any exclusions made in the
22 contract regarding the force majeure clause?

23 A Exclusions. What do you mean by exclusions, where
24 they can't claim force majeure?

25 Q Correct. Normally in other contracts would be

1 exclusions. Have you made certain modifications to the force
2 majeure clause to exclude certain activities?

3 A Event, yes, we have.

4 Q And can you please explain what those events are?

5 A Well, not without getting into confidential
6 information, unfortunately.

7 Q Okay. Well, let me ask you this. There are certain
8 events -- you would agree there are certain events that
9 normally would be in a force majeure clause which have been
10 excluded under this contract?

11 A I think the standard force majeure events are in the
12 contract. However, we have excluded certain events in an area
13 in the contract, or an area upstream of a certain location,
14 which as I said earlier in my summary, falls back to the
15 supplier, and they cannot claim a force majeure event
16 associated with those events. However, anything that is
17 downstream of a certain location, PEF has assumed those risks.

18 Q Okay. Let's take a hypothetical event. If Progress
19 were to experience an event that was excluded from the force
20 majeure, and I don't know whether or not this is an event that
21 is excluded, like for some reason the pipeline breaks on your
22 side of that certain demarcation point, is PEF -- and PEF is
23 unable to take delivery of the gas, I want to ask you a couple
24 of questions regarding that scenario.

25 If PEF is required to buy additional gas on the open

1 market because it is unable to take delivery, would PEF pass
2 the cost of those additional gas purchases and the cost of the
3 undeliverable gas under the contract to the customers?

4 A Probably the best way is I will go ahead and give you
5 some examples that I don't feel are confidential. If a
6 pipeline, let's say Southern Natural, experiences a problem on
7 their pipeline, and we have to claim force majeure, which PEF
8 has that right, we would not have to buy BG's gas. But to the
9 extent that it's not a force majeure from BG, they can't claim
10 force majeure against us, let's say because of one of their
11 events, and we have to go out and buy replacement gas, then BG
12 is responsible for paying the incremental difference of the
13 replacement gas or alternate fuel if replacement gas is not
14 available. Did that help?

15 Q I think that answers one of my future questions, but
16 I want to make sure that if there -- were there events that
17 were excluded on your side of the demarcation point which might
18 create a situation where you were unable to take gas and would
19 have to buy gas from an alternative source, if there was a
20 problem on the pipeline for some reason and you weren't able to
21 take gas, is that scenario possible? And, if so, who would
22 bear the cost of getting the additional gas?

23 A If it is a force majeure condition for PEF, we do not
24 have to take BG's gas. So basically we would go out and buy
25 replacement gas because it is our force majeure, or actually a

1 force majeure condition for the pipeline. So we would have to
2 go out and buy replacement gas, and that cost would go through
3 the fuel adjustment clause. Is that what you are asking?

4 Q Well, I think I'm asking slightly different. What if
5 there was an event that was excluded from the force majeure
6 which would render you unable to take the delivery through the
7 Cypress pipeline?

8 A I can't think of one. The only exclusion we have
9 really under the contract is if the -- you know, we are not
10 allowed to not take their gas because we can go out and buy it
11 cheaper someplace else, so I'm not following your questioning.
12 I apologize.

13 Q All right. So it is your understanding there is no
14 exclusion that would create a situation where you couldn't take
15 or receive gas through the Cypress pipeline?

16 A I can't think of one.

17 Q Okay. And I think you may have already answered
18 this, but I want to make sure that I'm clear on this. If BG is
19 unable to procure an alternative source of gas, and PEF has to
20 procure the gas from another source, can you explain how the
21 customers are protected from paying that additional cost in
22 that scenario?

23 A I'm sorry, could you repeat the question?

24 Q If there was an event that was not an exclusion under
25 force majeure, but BG was unable to provide gas and unable to

1 procure an alternative source for PEF, and PEF had to go to the
2 market to procure gas, can you explain how the customers are
3 protected under that scenario?

4 A Yes, I can. The customers, if we had to go out and
5 buy replacement gas, BG is responsible for the incremental
6 difference of the price of the contract versus what we had to
7 go out and buy the gas for. And if we couldn't find
8 replacement gas and we had to use alternate fuel oil, then they
9 would pay for that price, as well. Only if replacement gas was
10 not available. So it is the incremental difference. So, for
11 example, if the contract price is five dollars and I had to go
12 out and pay six dollars for the gas, then basically they are
13 going to pay that additional dollar to PEF to protect them.

14 Q Okay. And let me assume -- for sake of argument,
15 let's assume the contract price was five and for whatever
16 reason the price of natural gas is slightly lower than that,
17 does the contract provide for where the incremental price, the
18 current market price is lower?

19 A I don't believe. I think we would just go out and
20 buy at it four dollars, and we would not have to pay them the
21 difference.

22 Q Okay. Let me ask you a few questions regarding fuel
23 cost. Am I correct that if the Commission approves the
24 contract, in PEF's view, this creates a preapproval for the
25 pricing mechanism under the BG contract, the market indices,

1 plus the adder that is identified in the contract, the
2 transportation contracts associated with Cypress and FGT, and
3 the volumes associated with all of these contracts, am I
4 correct in that?

5 A That is what we are asking for approval of.

6 Q Is there any other items that PEF believes will be
7 preapproved if the Commission approves these contracts?

8 A I'm not aware of any other ones that we are asking
9 for.

10 Q Okay. Am I also correct that there are pricing
11 optionalities built into this contract?

12 A Yes, there are.

13 Q And under the contract, does PEF have the ability to
14 switch to different indices based on pricing conditions?

15 A Yes, we do, by mutual agreement of BG.

16 Q Okay. Are there any limitations as to the number of
17 times you can switch indices in a given month or in a given
18 year?

19 A No, there are no limitations under the contract.

20 Q Okay. And you mentioned that it has to be by mutual
21 agreement with BG?

22 A That's correct.

23 Q If BG does not agree to change the indices, can you
24 go to the financial markets?

25 A Yes, we can.

1 Q And can you explain how you would use the financial
2 markets to the benefit of the customers?

3 A Sure. If for some reason, let's say, we saw an
4 opportunity in some forward contract months to lock in a fixed
5 price and BG was not willing to do that, we would go to the
6 NYMEX futures and we would buy contracts there which are based
7 on a Henry Hub price, and we would lock in the price through
8 financial instruments.

9 Q And are those types of activities normally considered
10 part of your hedging program?

11 A Yes, that is correct.

12 Q And would you agree that these types of hedging
13 activities, if they are done in a contract, are the types of
14 cost that would be looked at in the annual fuel clause?

15 A Yes, that is correct.

16 Q Am I also correct that under the contract PEF has the
17 ability to buy additional gas from BG for its system?

18 A There is an option in there that we can buy
19 additional gas from BG, as well.

20 Q And would you agree that the fuel costs associated
21 with any additional gas purchases made under these contracts
22 beyond the required amounts set out in the contracts, would be
23 subject to the scrutiny of the annual fuel adjustment clause
24 proceeding?

25 A Yes, it would.

1 Q Okay. Now, in your testimony and in your filings in
2 this case you have made it clear that you consider geographic
3 diversity to be an important factor that you considered when
4 you were seeking additional future sources of fuel, is that
5 correct?

6 A Yes, it is.

7 Q Is there any way for you to place a value in terms of
8 price that would serve to benefit customers as a result of the
9 conscious decision on the part of the company to pay more for
10 diversified portfolio fuel sources?

11 A Well, first of all, based --

12 MR. BURNETT: I object to the form of that question.
13 I think it assumes a fact that is not in evidence with respect
14 to the statement of paying more for the portfolio.

15 CHAIRMAN BAEZ: Ms. Christensen.

16 BY MS. CHRISTENSEN:

17 Q Well, let me -- I think we can probably just get to
18 the heart of the question, which is if you -- can you put a
19 quantification or quantify the value that PEF places on
20 obtaining geographic diversity in gas supply, bringing gas
21 supply into the state. And then the second part of that
22 question would be, would that value -- how would PEF balance
23 that with if there was a lower cost alternative that did not
24 create the geographic diversity?

25 A Well, first of all, we did not quantify the nonprice

1 factors. We did, however, base our evaluation of all of the
2 three alternatives on those nonprice factors, as well. But
3 with regard to a lower price, after doing the Gulf of Mexico
4 alternative and the Cypress alternative, they basically came
5 out substantially the same price. So then my job is to make
6 sure the overall value is evaluated, as well, and that is where
7 the nonprice factors made the Cypress contracts the clear
8 winner in this case.

9 Q So I just want to make sure I'm understanding your
10 answer correctly, that there may have been a slight cost
11 differential, in other words, Gulf may have been slightly less
12 costly than the Cypress model. But once you start adding in
13 other additional factors on an overall cost/benefit analysis,
14 the Cypress deal, for lack of a better word --

15 A That is correct. No, the Cypress deal clearly was
16 the winner based -- when you add the nonprice factors that we
17 couldn't get with the Gulf of Mexico supply alternative.

18 Q As a result of this contract, will the company, in
19 your opinion, be paying more in order to achieve diversity that
20 comes with the contract, or the same amount, or less, if you
21 can quantify it?

22 A I think, based on our analysis, that is under PRM-6,
23 I think if you look at those numbers, the Cypress deal is about
24 \$226,000 more than the Gulf of Mexico alternative that we
25 looked at, which is insignificant when you look at the nonprice

1 factors that are added to the Cypress contracts that provide
2 the supply diversity, the enhanced reliability to Gulf of
3 Mexico storms that would cause production platforms to go down,
4 the flexibility of serving additional plants on PEF's system,
5 as well as probably future PEF plants. It is a third major
6 interstate pipeline coming into the state of Florida. It has
7 so many valuable options that we very well just could not
8 overlook.

9 Q Okay. And I think you were addressing it a little
10 bit, but how important is it, in PEF's opinion, to achieve
11 diversity, the type of geographic diversity that comes from
12 this contract?

13 A Well, it was listed as one of the four nonprice -- or
14 one of the three nonprice factors we looked at. One was the
15 certainty of the project's success, the maximized supply
16 diversity, which was reducing our dependence on the Mobile
17 Bay/Destin area, and then the operational flexibility to serve
18 existing and future PEF plants. So it was very important.

19 Q If the Commission approves this contract for
20 Progress, and FPL is successful in implementing its plans to
21 require its LNG from the Bahamas, is there any additional
22 benefit to Florida consumers that might play out over the long
23 run where we have the largest electric company in the state,
24 FPL, receiving LNG from the Bahamas, while the second largest
25 electric company, PEF, is receiving LNG from Elba Island in

1 Georgia?

2 A Well, I think that Florida Power Corporation has not
3 written off the Bahamas. I think we want to look at that at
4 future options. However, we couldn't look at it for this
5 option because it wasn't going to be ready for the in-service
6 date of Hines 4. But I think the overall value of bringing
7 even another pipeline to the state of Florida is huge, because
8 it just gives another supply source, it gives optionality, and
9 it brings competition to the state.

10 Q Let's assume both LNG projects, the Bahamas and
11 obviously Elba Island is up and running and the pipeline is
12 brought into Florida, and both are operational for both
13 Progress and FPL. Would Progress be able to make spot
14 purchases from the Bahamas' pipeline?

15 A We certainly hope that they will have additional gas
16 coming into the state of Florida on a spot basis.

17 Q And if you know, would FPL be able to make spot
18 purchases from the Elba Island pipeline?

19 A I do believe that BG does have some capacity going
20 into FGT's system that is not fully subscribed to right now.
21 So, yes, they should be able to make spot purchases.

22 Q Looking at the state as a whole, not just your
23 customer body, please give me your thoughts regarding the risk
24 that would come from a future arrangement where both companies,
25 Florida Power and Light and PEF, will be receiving their LNG

1 from the same supplier, if there is any risk?

2 A I'm not sure who their supplier is going to end up
3 being because they really haven't come out with any kind of
4 announcement as to who the winner is going to be out of the
5 Bahamas, even though it looks like the Bahamian government is
6 sort of leading that right now if you read the Freeport News.
7 I can't say whether we are going to have the same supplier or
8 not, but I would say probably not.

9 Q Well, assume for me, if you will, a scenario where
10 Progress receives LNG from Elba Island and FPL receives LNG
11 from the Bahamas. Does this take any pressure off the pricing
12 of natural gas from the Mobile/Destin area?

13 A I think anytime you bring a new supply source into
14 the state of Florida that lessens the pressure on buying all of
15 your gas in one location which is in the Gulf of Mexico or any
16 on-shore production. So whether it actually has an effect, I
17 think supply and demand really determine whether there is going
18 to be a lessening effect on gas or not. With supply exceeding
19 demand, sure, there will be a pressure down on prices, but it's
20 hard to say. But I would hope that with that additional LNG
21 coming into the state of Florida, it would have a downward
22 pressure on prices for Florida.

23 Q Okay. If the Mobile/Destin natural gas prices go
24 down for an extended period of time, what is the impact on the
25 prices Progress will pay for LNG under the terms of this

1 proposed contract?

2 A Pretty much the same, because the contract is tied to
3 an industry-wide U.S. market index. We do have an adder
4 associated with that, but it is very small. It represents
5 three-quarters of one percent of the overall price of the
6 Cypress contracts, and so, therefore, I feel like we are going
7 to be paying the same price as everybody else is.

8 Q So let me see if I understand correctly. If the
9 price of natural gas goes down in the Mobile/Destin natural gas
10 area, the price in the contract, you believe, would go down
11 since it is based on the indicia out of that area?

12 A Well, the Henry Hub is actually the industry-wide
13 that starts -- let me start over again. The pricing starts
14 really at Henry Hub, and then the locational differences are
15 the basis adders. If Mobile Bay goes down from a basis adder,
16 more than likely you are going to see Henry Hub actually
17 concurrently go down as well, because everything starts with
18 Henry Hub and then works its way out from a basis adder
19 location.

20 So, for instance, if you buy gas in FGT Zone 1, it's
21 a Henry Hub plus a basis, or could very well be Henry Hub minus
22 a basis, but normally it is Henry Hub plus a basis, because you
23 have to get it from Henry Hub to that particular location. So,
24 I think if the Mobile Bay/Destin production area pricing goes
25 down, then you are also going to see probably a concurrent

1 Henry Hub price go down, as well. As well as the basis
2 probably will go down.

3 Q Okay. And you would agree that probably the opposite
4 scenario would be true, as well, that if Mobile Bay went up,
5 you would see a corresponding increase in the Henry Hub and
6 probably that would increase the price in the contract, as
7 well?

8 A Absolutely.

9 MS. CHRISTENSEN: I have no further questions.

10 CHAIRMAN BAEZ: Mr. Cruthirds.

11 MR. CRUTHIRDS: BG has no cross for the witness.

12 CHAIRMAN BAEZ: Very well. Ms. Vining.

13 MS. VINING: Thank you.

14 CROSS EXAMINATION

15 BY MS. VINING:

16 Q Good morning, Ms. Murphy.

17 A Good morning.

18 Q And I will reiterate what Ms. Christensen said. If
19 at any point any of my questions would elicit confidential
20 information or you just can't answer, please let me know.

21 A Okay.

22 Q I know you went into this in your summary, but could
23 you state again what the dates of the three RFPs were that
24 Progress distributed to solicit natural gas supplies for Hines
25 Unit 4?

1 A Yes. They were August 2003, April 2004, and June
2 2004.

3 Q What was the purpose of the August 2003 RFP?

4 A It was just to solicit market information with LNG
5 suppliers, just to see where they were, what was the status of
6 the projects, what were they willing to commit to on a term
7 basis, what was their force majeure conditions, what risks were
8 they willing to assume and not assume. We were just really
9 trying to gain market intelligence on LNG.

10 Q And what did you learn from the results of that RFP?

11 A That, first of all, the Gulf of Mexico suppliers were
12 not ready to commit because their projects really had not taken
13 off. It varied with regard to the risks that the LNG suppliers
14 were willing to take. Some were willing to take more risks
15 than the others. That was probably some of the highlights.

16 Q Now, if you could turn -- you should have Composite
17 Stip 3 in the red folder next to you. If you could turn in
18 that exhibit to Page 515. Do you have it?

19 A Yes, I do.

20 Q Now, that is part of Progress' response to Staff's
21 POD Number 30. What is listed on that page, is this a
22 potential counter-party's response to the August 2003 RFP?

23 A Yes, it is.

24 Q Did Progress follow up on this response?

25 A Yes, we did.

1 Q And what form did that follow-up take?

2 A Probably phone calls and e-mails. That was -- I
3 believe we had a response that you had asked one of those
4 questions, and we did respond to that in one of your 167
5 questions that you gave to us. I can't remember exactly the
6 times and the dates and what manner in which we followed up
7 with, but we did follow up on this one.

8 Q Can you tell me, generally speaking, why then
9 Progress didn't solicit this counter-party in the April 2004
10 RFP?

11 A I think because later we were told that the (redacted
12 confidential name) project was actually put on hold from
13 (redacted confidential name) perspective -- I'm sorry, from --

14 MR. BURNETT: Commissioner, if I may move to strike
15 the names that Ms. Murphy just spoke on the record as being
16 confidential, and ask Ms. Murphy to please generically refer to
17 them.

18 CHAIRMAN BAEZ: Motion granted.

19 A The counter-party had told us that the project that
20 they were looking to build in the Gulf of Mexico was going to
21 be delayed because they did not begin construction in the time
22 frame that is mentioned in this response.

23 Q So they would not be able to provide service to Hines
24 Unit 4 by the stated in-service date for that unit?

25 A That is correct.

1 Q Did Progress ever consider utilizing short-term
2 contracts to perhaps bridge the gap between when the in-service
3 date of Hines 4 is and when this potential supplier could
4 provide service?

5 A No, we didn't, because there was not an indication
6 from this supplier as to when they thought construction would
7 actually begin, so it was uncertain as to how long the bridge
8 would actually end up being. Which is the same scenario we ran
9 into with the Bahamas counter-party. There was just too much
10 uncertainty as to when they were actually going to start
11 construction and build an undersea pipeline to Florida.

12 Q Which scenario do you think has more certainty
13 between the Bahamas-based facility and this counter-party that
14 we have been discussing?

15 A You mean if I had to rank which one is going to be
16 built first?

17 Q Yes.

18 A Between the third counter-party, the third
19 alternative that we looked at in the business analysis package,
20 just to make sure we are talking the same company?

21 Q Yes.

22 A Okay. I personally think neither one of them are
23 going to get built.

24 Q So then you have no opinion as to the certainty of
25 either project's success, then?

1 A The only opinion I have is that I don't think either
2 one of them are going to get built, based on what this
3 counter-party in the response has told us versus the
4 counter-party in the Bahamas and what we are reading about it
5 in the Bahamas newspapers.

6 Q What was the purpose of the April 2004 RFP?

7 A Part of what we did with the August 2003 was to
8 solicit the information to glean as much information as we
9 could with regard to the suppliers. But the August 2004 was to
10 try --

11 Q Are you referring to April 2004?

12 A I'm sorry, the April 2004 RFP was used to send out to
13 suppliers so that we could evaluate them based on comparable
14 facts associated with their responses. So everybody would come
15 in with the same term, with the same volume, with the pricing,
16 with any force majeure conditions, so that we could evaluate
17 them on an apples-to-apples basis.

18 Q And what did Progress learn, generally speaking,
19 again, from the bid you received for the April 2004 RFP?

20 A For the August 2003 RFP, we gleaned that the force
21 majeure provisions under several of the counter-parties were
22 different. Some were willing to take more risks than the
23 others. We also gleaned that some of the Gulf of Mexico
24 suppliers were not ready to make commitments because it was all
25 contingent on when and if their facility would actually get

1 built in the Gulf of Mexico or onshore.

2 Q So you are saying then the April 2004 results bore
3 out what you found in the August 2003 RFP when you collected
4 market information?

5 A When we received the responses to the August 2004
6 RFP --

7 Q Again, is that April 2004?

8 A I'm sorry, April 2004 RFP, the counter-parties, I
9 believe there were two of them that the deals were contingent
10 on the facilities actually getting built. We received -- we
11 received bids from the Bahamas for the same time period, so,
12 like I said, the purpose was just to evaluate and based on the
13 same criteria so that we wouldn't have to get an apples/oranges
14 comparison.

15 Q Then what was the purpose of the June 2004 RFP?

16 A The June 2004 RFP was to go out and solicit as many
17 as we could, actually 41 potential domestic and LNG suppliers
18 to see what they could do regarding a 20-year contract coming
19 out of the Gulf of Mexico to go directly into Gulfstream
20 Natural Gas.

21 Q And, again, I will ask what did Progress learn from
22 the results of the June 2004 RFP?

23 A That no one in the Gulf of Mexico was willing to give
24 us a 20-year contract for long-term firm gas supply. The
25 premiums that they did offer were substantially higher than the

1 BG contracts adder, and it was for less of a term. In fact,
2 some of them were three times higher in price.

3 Q Were any of the parties that responded to the June
4 2004 RFP willing to not employ force majeure in the case of a
5 hurricane?

6 A No, all of the suppliers would not negate the force
7 majeure provision in case -- for example, if a hurricane came
8 up through the Gulf of Mexico, they were not willing to provide
9 us with supply at other locations.

10 Q And if you can say, what was the longest term bid
11 that you received?

12 A I believe it was for ten years.

13 Q Now, why are the volumes of gas that Progress
14 solicited in the June 2004 RFP lower than those in the other
15 two RFPs?

16 A Well, part of our experience in working with the Gulf
17 of Mexico suppliers is that they certainly wouldn't look at a
18 higher volume like we did with the RFPs going to the LNG
19 suppliers, so we didn't want to scare them, so we ended up
20 putting a lower range, and hopefully we would be able to get
21 multiple suppliers committing to the amount that we needed to
22 assess them on an comparable basis against the LNG proposals.

23 Q So you weren't looking at perhaps having an LNG
24 contract and a domestic supply at the same time, you were more
25 interested in multiple domestic suppliers at a lower individual

1 capacity?

2 A That is correct.

3 Q If you can now turn in the Composite Stipulated
4 Exhibit 3 to Page 199. It should be the legal-sized page.

5 A I jumped from 198 to 202.

6 Q I think if you pull down the page you will see the
7 number. It's the legal-sized pages in there. Do you have it
8 now?

9 A Yes, I have it now.

10 Q Now, this is Progress's response to Staff
11 Interrogatory Number 83. How many natural gas suppliers did
12 Progress have under contract during the years shown on this
13 response?

14 A For the natural gas commodity contracts?

15 Q Yes.

16 A How many did we have? Do you want me to count them?

17 Q Yes, please. Unless you know off the top of your
18 head.

19 A I'm counting some of these twice, because what we
20 have done is we have listed these based on the volumes, because
21 we have got one counter-party on here three or four times. So
22 are you looking for how many deals that we had or how many
23 counter-parties that we had?

24 Q I'm looking for how many counter-parties.

25 A Well, I will estimate since I may mess one up here.

1 It looks to be about 13 counter-parties if you don't duplicate
2 these things. Thirteen different counter-parties.

3 Q I guess when I looked at it I got 20.

4 A Okay. Well, the very first one is actually -- was
5 assigned over to another counter-party, so I didn't count that
6 one twice.

7 Q Well, can we say, for the sake of expedience, around
8 15?

9 A Sure.

10 Q Now, in the same discovery response, at Page 196,
11 which shouldn't take long to flip to, that indicates who
12 Progress sent out the April 2004 RFP to. Now, of those gas
13 suppliers that you had under contract for the period described
14 in the previous POD response we just looked at, how many of
15 those actually received the April 2004 RFP?

16 A I think the ones that got the April 2004 RFP is on
17 this list. Are you asking were there additional ones we sent
18 it to?

19 Q No, no. What I am getting at is of the parties that
20 you had contracts with during the period specified in the POD
21 response, how many of those did you solicit for the April 2004
22 RFP? And we said it was around 15. I counted 20, but we will
23 go with 15.

24 A Okay. Well, the April 2004 was really for LNG. And
25 the one on Number 199 is more domestic supplier transactions

1 that we are doing. So other than the very one at the top, I
2 don't think anybody else got the -- I mean, we didn't send it
3 to the domestic suppliers on this April 2004 RFP.

4 Q Because it was your assessment that none of them
5 could provide LNG, they didn't have any interest in LNG
6 facilities?

7 A They had either not made an announcement that they
8 were building LNG -- if I remember correctly, there were two
9 that was sent out. One was for the Bahamas LNG and the other
10 one was for Elba, and we sent it to those parties that had
11 contractual terminaling rights at Elba. And then we sent it to
12 the Bahamas for the ones who were actually the project owners,
13 and that is what the April 2004 RFP did. It did not send it to
14 any of the domestic or the Gulf of Mexico suppliers. Is that
15 what you are asking?

16 Q Yes. And is that because by that point you had keyed
17 in on those two facilities as the possible source of the LNG?

18 A Yes.

19 Q Now, by keying in on Elba Island and the Bahamas for
20 your RFPs, and also the decision to go after an LNG supply,
21 period, how can Progress be sure that it has found the most
22 economical and reliable source of natural gas for Hines 4?

23 A Well, considering we have done an extensive RFP
24 process, we gave 45 suppliers an opportunity to bid the best
25 price they could to Progress Energy Florida to my team. And

1 based on our extensive evaluation of these responses, we feel
2 that we have presented to this Commission and to you the best
3 overall alternative for Hines 4.

4 Q Now, you just said 45 entities receive solicitations,
5 and I think earlier you said that 41 received the June 2004 RFP
6 for a domestic supply contract, is that correct?

7 A That is correct; 41 was for the June RFP. But then
8 when you add the ones that we did for the RFPs for the LNG, I
9 think we added them up and it is approximately 45.

10 Q Okay. Now, of those 41 that you solicited for the
11 June 2004, a very small fraction actually responded, is that
12 correct?

13 A Yes. I believe there were four.

14 Q Okay. I wasn't going to say that, but if you said
15 it --

16 A That's okay. I don't think that is confidential. It
17 isn't now.

18 Q That makes it easier.

19 A Okay.

20 Q Of those four, and I think you said this before, none
21 of them provided the 20-year term that Progress required?

22 A That's correct.

23 Q So wouldn't you say, then, that really what limited
24 the number of bids you got was Progress' requirement for a
25 20-year contract term?

1 A That was part of the reason why, yes. I mean, we got
2 responses back for some that basically said their management
3 was not willing to offer a 20-year contract term to anybody.

4 Q So in recognition of that, would you then say that
5 Progress by default would have to have an LNG supplier because
6 there was no domestic supplier who would provide a 20-year
7 term?

8 A Not unless there was a Gulf of Mexico or somebody
9 that was willing to commit a 20-year agreement. But we had not
10 made, as of the June 2004 RFP, any commitment that we were
11 going with LNG at the time. We were trying to assess all of
12 our options to supply Hines 4. We just happened to look at it
13 and said, okay, here is an opportunity for us to take some
14 nonprice factors and capitalize on those for the ratepayers at
15 essentially the same cost as what we would be paying domestic
16 suppliers in the Gulf of Mexico.

17 And the other thing that I feel like my job is, in
18 that it is reasonable and prudent to have a diverse portfolio
19 mix of short, long-term, and intermediate contracts. And this
20 provides a long-term market-based contract firm supply over the
21 term of the contract, and that gives me great comfort.

22 Q What you just said is very interesting. How does
23 Progress normally define what a long-term agreement is?

24 A Long-term for us is probably anything greater than
25 two, three, or five years, somewhere in that range.

1 Q Well, then I guess my question is why did Progress go
2 from that which you said normally is a two to three-year
3 contract would be considered long-term to a 20-year contract in
4 this instance?

5 A Well, currently we have two long-term contracts. One
6 is scheduled to terminate in 2010, and I believe the other one
7 is somewhere in the 2015 range. And we felt like it was
8 prudent to go ahead and replace and have another contract
9 extending out there in 2027 with another long-term contract so
10 that we are not re-upping all of these contracts at the same
11 time and raising prices.

12 Q Now, those two contracts that you just referenced,
13 those are both for a minimum of at least ten years, are they
14 not?

15 A One is the first one -- well, one is for 15, I
16 believe the other one is for 20.

17 Q Okay. How many contracts do you have there somewhere
18 in the area between two and the contracts we were just
19 discussing, the 15 and 20 year?

20 A I think we have probably two or three that are
21 probably in the two-year range or more. We have the two
22 long-term contracts, and then the rest of them are probably one
23 year or less.

24 Q And the one year or less you consider short-term?

25 A Yes.

1 Q So one to two years would be mid-term, then?

2 A Yes. Well, one to three or one to two would be
3 mid-term.

4 Q So this would fit into your stated goal, which is to
5 have a portfolio mix with varying terms of contracts, then?

6 A Yes.

7 Q We talked earlier about the four criteria that
8 Progress Energy used to evaluate these bids, and I know you
9 discussed this with Ms. Christensen, as well. At what point in
10 time did Progress Energy determine what those four criteria
11 would be?

12 A I think around April 2004 we were looking at our
13 portfolio mix and trying to figure out what was the best
14 overall solution for Hines 4, and it was probably somewhere
15 around in that time period we started looking at, well, what
16 are some things that we feel are important that we need to add.
17 If we were going to do a long-term contract, what would be some
18 nonprice criteria items that we would look at, as well.

19 Q So then those criteria weren't taken into account in
20 formulating the August 2003 RFP?

21 A I don't recall that we had those in the August 2003
22 RFP. Like I said, that was just to go out and gain market
23 intelligence. It was a nonbinding bid.

24 Q If you can turn in the Composite Stip 3, again, to
25 Page 447.

1 A I have it.

2 Q Okay. This is Progress's response to Staff's POD
3 Number 30. Well, part of it. When did Progress first provide
4 a solicitation to the counter-party referenced in the
5 letterhead on this page?

6 A I believe it was June 14, 2004.

7 Q So part of the June 2004 RFP?

8 A Yes.

9 Q But, again, this counter-party wasn't solicited in
10 April of 2004?

11 A It was not listed in the April 2004 because it was --
12 this company is not represented to hold terminaling capacity at
13 Elba or is not one of the project owners in the Bahamas.

14 Q So, again, as we discussed earlier with the other
15 counter-party who I shall not name, Progress did not consider
16 any kind of bridging arrangement to allow for the possibility
17 that this facility would come on-line in a three to four-year
18 period?

19 A The one on Page 447, did we consider any bridging?

20 Q Yes.

21 A No, we did not.

22 Q But the counter-party was developing an LNG facility
23 in the Gulf of Mexico as of April 2004?

24 A That is what they were saying.

25 Q Oh. So do you dispute that statement?

1 A Well, so far it is our understanding they haven't
2 started any construction on this, as well. This counter-party
3 did not provide any pricing. They just wanted to continue to
4 work with us in a collaborative effort, so we really didn't
5 have anything definitive from them in their response in 2004 to
6 our RFP.

7 Q So you don't find anything in the letter where they
8 talked about the different permitting that they had gone
9 through, you didn't find that compelling that they perhaps were
10 making progress on the facility?

11 A They do mention things. However, they were
12 continually hedging their commitment to us as to when and how
13 much and the pricing associated with it.

14 Q That hedging, was that conducted over the telephone?

15 A Probably and through e-mails, I would think. They
16 also said that they will receive -- necessary FERC regulatory
17 approvals are expected by April 2005. And I am unaware whether
18 they have actually gotten those or not.

19 MS. VINING: I believe that is all confidential.
20 John.

21 MR. BURNETT: Ms. Murphy, may I ask you is that
22 confidential, the FERC date?

23 THE WITNESS: Well, considering that the
24 counter-party isn't named, I'm not sure anyone could glean
25 anything from that.

1 MR. BURNETT: I think that's okay.

2 MS. VINING: I'm just being cautious.

3 THE WITNESS: Thank you, Adrienne.

4 BY MS. VINING:

5 Q Now, you just said most of this was probably
6 conducted by telephone, because I don't believe we received any
7 e-mails about this, and I think we asked sort of a
8 comprehensive POD, provide anything about any of these RFPs
9 that you didn't already produce in reference to a specific
10 company. So that is my presumption, that none of this happened
11 by e-mail or further correspondence.

12 A If it was, we would have produced it.

13 Q Now, in the August 2003 time frame, was it still
14 Progress's assessment that a Gulf of Mexico LNG provider could
15 provide a long-term gas supply to Hines 4?

16 A Yes, it was.

17 Q Just to follow up on what we discussed earlier, it
18 wasn't feasible because of the uncertainties with the facility
19 completion?

20 A Well, the August 2003, we didn't solicit the domestic
21 suppliers in the Gulf of Mexico. That was more just your
22 Elba/Bahamas suppliers at that time period. I do believe there
23 was one that did respond who wanted to be on the list.
24 However, that company, once again, made the response
25 contingent, or their commitment contingent on whether the

1 facility would actually get built. And then later on that same
2 counter-party indicated that the facility was on hold.

3 Q Is this the same counter-party that we have been
4 talking about?

5 A Yes, the one I said the name.

6 Q Okay. Well, the one at Page 447?

7 A I think so. Well, no, the one at 447 --

8 Q The other one that we discussed earlier?

9 A Yes.

10 Q That is important to me, but probably no one else.

11 Thank you. Okay.

12 Shifting gears a little bit. Could you describe for
13 us the steps taken by Progress during Hurricane Ivan to find
14 replacement gas supplies to maintain load?

15 A When Hurricane Ivan started approaching the Gulf of
16 Mexico, we started getting polluted with force majeure
17 conditions from suppliers that they were shutting down their
18 production platforms, and, therefore, were exercising their
19 force majeure provisions. With that, we started looking at
20 alternate receipt points that we could get gas in to, to go
21 ahead and try to get gas to our facility to meet load.

22 It was a very egregious process, and the prices were
23 spiking. It was a very horrific time to try to keep the lights
24 on. We did end up finding some from a supplier at a storage
25 facility. They were able to move it across the Destin

1 pipeline, which, by the way, the Destin pipeline also force
2 majeureed us, and move it into Gulfstream to go ahead and try to
3 keep the load as much as possible.

4 During that time period, we were still trying to get
5 Number 2 fuel oil trucks back into Florida. The gasoline
6 stations were trying to be refilled at that time period, so
7 there was a limitation on trucks in the state of Florida. We
8 tried to get barges across the Gulf of Mexico for our Number 6
9 resid to the Bartow plant. Those weren't moving anywhere. The
10 barges that were bringing across on coal, those weren't going
11 anywhere across the Gulf of Mexico. So we were scrambling
12 trying to find enough gas to keep the load on during Hurricane
13 Ivan.

14 And Hurricane Ivan, as we all know and have probably
15 read, was a significant impact to the production area in the
16 Gulf of Mexico. I think we were force majeureed for a period of
17 over 21 days at some of the suppliers.

18 Q And notwithstanding all the difficulties that
19 Progress Energy went through during Hurricane Ivan, without
20 revealing specific dollar amounts, would you say that the
21 amount of money that Progress Energy incurred to buy additional
22 gas supplies was a very small percentage of the total gas that
23 Progress ran through the fuel clause for 2004?

24 A If you look at just the dollars, I'm sure it is a
25 small percentage. As a matter of fact, I think you did the

1 calculation. It was less than, what, two percent?

2 Q Yes, at the deposition we talked about it. It is
3 less than two percent.

4 A It was an expensive two percent.

5 Q So were the potential costs due to hurricanes or
6 other events which restrict natural gas supplies included in
7 Progress' business analysis of the three alternatives?

8 A I'm sorry, could you repeat that, please.

9 Q Okay. Were the potential costs due to hurricanes or
10 other events which would restrict natural gas supply included
11 in Progress' business analysis of the three alternatives?

12 A The costs were not included. However, the nonprice
13 factor was included in the business analysis package.

14 Q Okay. And which nonprice factor would that be?

15 A The maximized supply diversity and the operational
16 flexibility, which was reducing our dependence on the Mobile
17 Bay/Destin as well as trying to provide supply diversity to
18 mitigate storms in the Gulf of Mexico.

19 Q From a purely economic standpoint, the most
20 cost-effective bid that Progress received was from what
21 supplier?

22 A The most cost-effective bid for Hines 4?

23 Q Yes, yes. On a purely economic basis.

24 A If you look at it on comparable volumes -- in the
25 business analysis package, or just in general?

1 Q Let's start with the business analysis package.

2 A Okay. The business analysis package would have been
3 based on our analysis of the -- the cheapest one was the
4 Bahamas transaction.

5 Q Okay. Now, a project based in the Bahamas would have
6 also provided geographic diversity, as well?

7 A That's correct. And I think that was reflected in
8 the business analysis package. It was on the same par as Elba.

9 Q But you dismissed the idea of using a Bahamas' based
10 facility because of the uncertainty with the project?

11 A That is correct.

12 Q I know you discussed this with Ms. Christensen
13 earlier.

14 Now, once the Bahamas-based gas supplier was
15 eliminated from consideration, what were Progress's options for
16 a gas supply to Hines 4?

17 A We were still looking at a Gulf of Mexico and the
18 Elba alternative.

19 Q And, once again, what about the idea of using a
20 short-term supply contract to bridge the gap when a
21 Bahamas-based facility would be on line?

22 A Well, because of the uncertainty of the Bahamas-based
23 supply coming actually on-line, we were working directly with
24 those individuals, and they had given us -- since August of
25 2003, they had given me three different time lines of which

1 they were going to gain Bahamian government approval. And the
2 last one was July 2004, and obviously it has come and went.
3 And looking at the newspaper articles in the Bahamian
4 government, or in the Bahamas, they have indicated that we made
5 the right choice because they denied both of their locations as
6 a site in the Bahamas.

7 Q Now, again, looking at this from the perspective of
8 the business analysis package, the economics of the Gulf of
9 Mexico and Elba Island alternatives were nearly equal, is that
10 correct?

11 A Yes, that's correct, on comparable volumes. And if
12 you look at it on the actual volumes that were contracted under
13 the Cypress agreements, they were very much substantially the
14 same.

15 Q So, overall, with regard to your evaluation of the
16 certainty of the project, again, the Gulf of Mexico and Elba
17 Island alternatives were fairly equivalent?

18 A The Gulf of Mexico using Gulfstream clearly is the
19 most certain. However, there is a high degree of certainty
20 that the Cypress pipeline will also be built. So looking at
21 that, looking at the economics, and looking at the overall
22 nonprice factors, once again, the clear winner in this was --
23 the best overall value was the Cypress-related agreements.

24 Q Now, what do you base your opinion that there is a
25 high likelihood of Cypress being completed, what do you base

1 that opinion on?

2 A We have monthly meetings with Southern Natural in
3 order to track their progress to make sure that the Cypress
4 pipeline is going to come in in time according to the contract.
5 So, based on that, we are not seeing anything that is giving us
6 concern that they are not going to be able to meet the
7 in-service date of the contract, which is prior to the
8 in-service date of the Hines 4 commercial operation date.

9 Q Okay. Then since you had already eliminated the
10 Bahamas as a possibility, and it appears that the economics and
11 certainty of the project's success criteria are fairly equal
12 between the Gulf of Mexico and Elba Island alternatives, am I
13 correct in saying that geographic diversity and operational
14 flexibility were the key factors in selecting Elba Island?

15 A Yes.

16 Q And between the two factors, can you sort of do a
17 ranking as to what was more important or, relatively speaking,
18 what is more important?

19 A I remember we did a ranking. We actually provided
20 that in one of the production of documents to you. I want to
21 say that the certainty of the project's success was ranked --
22 I'm sorry, it was ranked --

23 Q How about generally speaking which was more?

24 A I want to say that the maximized supply diversity was
25 probably ranked -- well, you have got to remember four was

1 ranked the highest, then three, two and one. So I believe the
2 operational flexibility and the maximized supply diversity were
3 one and two, but one was not the highest. Four was actually
4 the highest in the ranking we gave to you in the production of
5 documents.

6 Q Okay.

7 A Because then we weighted them, and then that would
8 have a higher number associated with the weighting.

9 Q Would you agree that the supply of domestic gas from
10 the Gulf of Mexico should be reliably available for the next 25
11 to 30 years?

12 A Yes. According to the 107-page document you had me
13 read, there was a validation that -- and also I think the
14 Department of Energy has validated there is 20 or 30 years
15 worth of gas supply available coming out of the Gulf of Mexico.

16 Q See, I knew there was a reason I had you read that.

17 A That's right.

18 Q Now, Gulfstream presently provides gas from the Gulf
19 of Mexico to the Hines complex, is that correct?

20 A Yes, they are directly interconnected with the Hines
21 Energy Complex.

22 CHAIRMAN BAEZ: Let's break for five minutes.

23 (Off the record.)

24 CHAIRMAN BAEZ: We'll go back on the record.

25 I don't know if we, unfortunately, interrupted the

1 witness mid-response or you were about to ask a question.

2 BY MS. VINING:

3 Q I believe the last question I asked was, Gulfstream
4 presently provides gas from the Gulf of Mexico to the Hines
5 complex, is that correct?

6 A Yes, that is correct. We have a direct interconnect
7 at the Hines Energy Complex.

8 Q Okay. I want to shift gears and go back to something
9 that you discussed with Ms. Christensen earlier this morning.
10 She had asked you if getting a supply out of Elba Island would
11 put price pressure on the Gulf of Mexico suppliers. Do you
12 recall what your answer was to her at that point?

13 A I seem to recall the answer.

14 Q Could you tell us what it was?

15 A Sure. That with regard to -- that supply and demand
16 really determine whether there is price pressure on the price
17 of gas. So the more supply you have it usually puts a downward
18 pressure on prices. If demand outweighs supply, it has a
19 higher price pressure associated with the price. To the extent
20 that Florida gets more sources of supply into Florida, you
21 know, that is either going to be reflected in a basis or it is
22 going to be reflected at the Henry Hub.

23 It is hard to say, but I would say having two
24 additional supply sources, one from Elba and one from the
25 Bahamas in the Gulf of Mexico, should have an effect of prices

1 at Henry Hub, but it is to hard say to what extent.

2 COMMISSIONER DEASON: Excuse me for just a moment.
3 Could you explain the concept of basis and how that effects the
4 bottom line price?

5 THE WITNESS: There is an adder, which is under the
6 BG contract, which is the basis and as well as the premium that
7 BG offered us under the long-term agreement, and that is fixed
8 for the remaining term of the contract. So to the extent that
9 the basis goes up or down doesn't affect the Progress Energy
10 Florida ratepayers, because it is fixed for the remaining term
11 of the contract.

12 But, the fixed price that we have for a 20-year
13 contract is highly competitive for a 20-year contract. We did
14 provide some responses that showed the historical basis at
15 Mobile Bay/Destin compared to Henry Hub, and from like 2000 to
16 2004 it has continually went upward to the tune that in 2004 I
17 think we represented it had a seven cent basis associated with
18 that. I want to say 2003 was like five, and then three, and
19 then one. And so we have seen a continual increase in the
20 basis adder at the Mobile Bay/Destin area.

21 COMMISSIONER DEASON: And is that just because of
22 market conditions at that specific, in that specific location?

23 THE WITNESS: Yes.

24 COMMISSIONER DEASON: So one would assume there has
25 just been higher demand there, perhaps, generally than what you

1 see at Henry Hub?

2 THE WITNESS: Yes. The reason for that is because of
3 the major pipelines that are connected to the Mobile Bay/Destin
4 area, all of their expansion projects have been out of the
5 Mobile Bay/Destin area, because that is one of the biggest
6 supply sources coming into their pipeline right now. So as
7 expansions, let's say, on Transcontinental Gas Pipeline, or
8 Florida Gas Transmission, or Gulfstream, more people have
9 signed up for primary receipt points at the Mobile Bay/Destin
10 area. And so with that there has been a greater demand for
11 that gas coming into the Mobile Bay/Destin pipeline.

12 BY MS. VINING:

13 Q Following in Commissioner Deason's questions, this
14 trend in the basis adder, in the information you provided to
15 staff, how many years had that been showing an upward trend?

16 A I think we showed it from 2000 to 2004, if I'm not
17 mistaken.

18 Q And I think you might have touched upon this, but can
19 you say again why you think that trend has existed to go upward
20 in the basis adder price?

21 A Because the pipeline expansions are all coming out of
22 the Mobile Bay/Destin area, that includes the latest ones on
23 the Transcontinental Gas Pipeline because we have done that for
24 actually Progress Energy Carolinas, and our receipt points are
25 at the Mobile Bay/Destin area. With regard to FGT, with Phase

1 IV expansion, our receipt point is the Mobile Bay/Destin area
2 for our Phase IV capacity for Progress Energy Florida. When we
3 entered into the Gulfstream agreements in June of 2002 -- well,
4 actually we entered into earlier, but when we actually started
5 taking the capacity under the Gulfstream agreements, those also
6 tied back to the Mobile Bay/Destin area. And we are not the
7 only subscribers associated with gas coming out of the Mobile
8 Bay/Destin. So there has been an increased demand at that
9 particular location that has continued to drive prices up.

10 Q Are there any other gas purchase zones which have
11 exhibited a similar increase in the base adder?

12 A I haven't done that calculation, but I would assume
13 probably because as the perception that the gas supply in the
14 Gulf of Mexico is somehow not keeping up with demand, prices
15 have a tendency to go upward in that scenario.

16 Q Was there some concern on the part of Progress that
17 choosing a shorter term Gulf of Mexico alternative would expose
18 Progress to the risk of replacing that contracting expiration
19 with the contracts at a higher price because there is this
20 basis adder trend?

21 A There is always that risk that you could three years
22 from now be looking to renew a contract and the price be
23 higher. The value, I guess, we saw out of the -- not guess, we
24 did see out of the Elba, the Cypress agreements was that it was
25 tied to a market industry market index, and the basis adder was

1 going to be fixed for the remaining term of the contract. And,
2 to the extent that it is small, does provide price stability
3 for the ratepayers because it doesn't change. And based on my
4 experience, and what I have seen with other 20-year contracts
5 in my previous experience, it is a highly competitive adder to
6 the contract over the 20-year term of the contract. Because
7 prices at the basis goes up at Mobile Bay/Destin, that is
8 actually a realized savings I think that the ratepayers will
9 see. And there is probably more of a chance of it going down
10 based on the basis -- I can't say what the basis number is --
11 versus the price of it, or the basis adder going down. Which,
12 once again, is pretty -- it is a small amount compared to the
13 overall price of the Cypress contracts.

14 Q So, in other words, you anticipate over the 20-year
15 term of these contracts that, if anything, the basis adder
16 would go over and above what the basis adder is in the
17 contracts?

18 A If there is any trend to what we are seeing in 2005,
19 yes. We are expecting that that basis adder to be what we call
20 in the money, than where the market is going to be at.

21 Q Okay. I want to shift gears and talk about some of
22 the risks associated with these contracts. Now, considering
23 that there are only two other suppliers at Elba Island, in the
24 event that BG had to curtail its supply, how likely is it that
25 Progress would have stranded capacity on the Cypress pipeline?

1 A I think that we are in probably a better position,
2 because contractually we have rights to alternate receipt
3 points on the Southern System. And so, therefore, if there is
4 a reason that BG doesn't deliver, we could either look at
5 trying to replace that gas at Elba, or we could go upstream
6 onto the Southern Natural system to other receipt points. It
7 would be on a secondary basis. But I think we are in a better
8 position by having another third pipeline coming into the state
9 of Florida, because I will take it one step further. Even with
10 the force majeure condition in the Gulf of Mexico, this still
11 affords us an opportunity to buy gas storage from providers off
12 of Southern's system to deliver using the existing capacity
13 coming down Cypress to the Hines Energy Complex.

14 Q Because even if BG had to curtail its operation,
15 Progress would still be required to pay Cypress for the
16 capacity?

17 A That's correct.

18 Q And then you would incur an additional transportation
19 cost by getting gas elsewhere on Southern's system?

20 A Not necessarily. We would probably segment our
21 capacity back to the primary receipt points or the alternate
22 receipt points on Southern's system. But to the extent that we
23 had to and it wasn't a situation where BG could claim a force
24 majeure, we would be looking for BG to pay us that difference.

25 Q Wouldn't you say that there are more potential gas

1 suppliers who could provide gas to Hines on Gulfstream than
2 there are on the proposed Cypress route?

3 A Well, I would say some of the suppliers on the
4 Southern Natural route going up through their main system are
5 the very same suppliers that's going into FGT and Gulfstream,
6 but there is only three coming in at Elba that are bringing LNG
7 ships into there.

8 Q And, again, I believe you alluded to this before, but
9 what do you think the likelihood is of spot purchases at Elba
10 Island, if BG can't provide the gas?

11 A That's hard to say. But the one comfort that Elba
12 gives to me, they do have storage tanks there. I think when
13 they finish their expansion they are going to have up to nine
14 days worth of storage capacity sitting at Elba. So to the
15 extent that it is only a couple of days, we have contractually
16 put in the contract that -- and I'm not thinking this is
17 confidential, but to the extent that BG has other firm shippers
18 coming out of there, as well, we would all be prorated to get
19 what was in the tanks that belonged to them.

20 Q Is what you just described somewhere in the contract?

21 A I think it is.

22 Q Okay. But you don't know specifically as you sit
23 there right now?

24 A I can look for it.

25 Q Can you point us to a line designation? Because I

1 don't recall reading anything about the storage capacity being
2 utilized.

3 A Do you have an unredacted version? 12.3, which is
4 confidential.

5 Q So this is in PRM-1?

6 A PRM-1, that is correct. On Page 13, Section 12.3.

7 Q Okay. Thank you.

8 A You're welcome.

9 Q Okay. Next I'm going to provide a hypothetical to
10 you and there will be two exceptions in the hypothetical.
11 Let's say there is a foreign source regasified LNG supply that
12 is delivered to a hypothetical utility in the United States
13 which is shown to have a greater level of risk than a domestic
14 natural gas supply delivered to the same utility, assumption
15 one. Number two, and there were no provisions in the contract
16 between the utility and the LNG provider that fully offset this
17 greater level of risk. That is assumption Number 2.

18 Now, based upon the hypothetical that I have
19 outlined, would you expect the contracted price for the LNG to
20 be lower than Henry Hub to reflect the operation of the market?
21 And by that I mean because there is a higher level of risk
22 associated with that supply?

23 MR. BURNETT: Ms. Vining, I'm sorry, I simply
24 couldn't hear your first assumption. I apologize. Could you
25 state it one more time?

1 MS. VINING: Right. The first assumption, you have
2 got a foreign source regasified LNG supply delivered to a
3 hypothetical utility in the U.S. which is shown to have a
4 greater level of risk than a domestic natural gas supply
5 delivered to the same utility. That was the first assumption.
6 Did you hear the second?

7 MR. BURNETT: I think so. Thank you.

8 A Would I expect the price to be lower because the
9 utility is taking a higher risk?

10 Q Correct.

11 A If I were doing the deal, yes, I would expect it to
12 be substantially lower if I was assuming the risk associated
13 with, you know, LNG, or shipping, or anything like that.

14 Q Now, can you identify the major risks associated with
15 the LNG supply chain?

16 A Based on our understanding, there are risks
17 associated with the host country; riots, strikes, terrorists.
18 With regard to shipping, there could be mechanical problems,
19 there could be mechanical problems with liquefaction at the
20 host country, there could be mechanical problems at the
21 regasification facility associated with it.

22 Q Would you consider it a risk that it is probably
23 relatively difficult to get a replacement supply because you
24 have limited LNG facilities in the United States that are
25 operational right now?

1 A Because the Gulf of Mexico is still a viable
2 solution, I would say getting replacement gas is probably a
3 lower risk, in my assessment, because of the storage capability
4 that is in the United States.

5 Q What about the issue of single point of failure risk,
6 and I think we see that with this project here, because if
7 something happens at Elba Island there would be -- there is a
8 greater likelihood that there wouldn't be replacement gas than
9 there would be in the Gulf of Mexico, because you have the one
10 pipeline and the one supply contract?

11 A If I'm following your question, if there is a single
12 point of failure at Elba, we would go out and try to get
13 replacement gas on Southern Natural, or we would try to go out
14 and get replacement gas to deliver on Gulfstream or FGT,
15 depending on which one was the best economical value at the
16 time.

17 Q Would you agree, though, that it is riskier because
18 you have a single supplier at Elba versus the Gulf of Mexico
19 where you have multiple suppliers? And, yes, you technically
20 have the other two, but I think we discussed earlier the
21 likelihood of a spot purchase might be low.

22 A I guess I didn't look at it from that point of view,
23 that to the extent that the contract provisions protect us, you
24 know, it is no different than I go through the Gulf of Mexico
25 and all of a sudden there is a storm that comes up and we get

1 rained on by force majeure provisions. You know, trying to
2 find it when they are pretty much trying to shut down the Gulf
3 of Mexico supplier is almost like a single point of failure.
4 But looking at it from a system standpoint, if I lose the Gulf
5 of Mexico, I am very close to losing the system. But if I lose
6 Elba, I am losing a very smaller percentage of the gas supply
7 in our overall portfolio. Did that answer your question?

8 Q Yes.

9 A Okay.

10 Q What about the issue of gas quality?

11 A The BG contract requires that they deliver and meet
12 the gas quality provisions of the Southern Natural Gas -- of
13 every transporter, not only just Southern Natural Gas, but also
14 FGT. So, therefore, they do have to meet that or they would be
15 subject to problems under this contract.

16 Q Now, are there reliability risks which are associated
17 with domestic supplies of gas but aren't associated with
18 foreign LNG supplies?

19 A I'm sorry, could you repeat that again?

20 Q It is the flip-flop of what I just asked. Are there
21 reliability risks that are associated with domestic supplies of
22 gas that you don't have with foreign supplies of LNG?

23 A Mostly just regarding the weather and the Gulf of
24 Mexico. I think the probability is like every third year there
25 will be a hurricane that hits the Gulf of Mexico, and,

1 therefore, at that point the platforms would be exited and the
2 force majeure letters would start coming in at that point.
3 They are all different risks at this point. But the Gulf of
4 Mexico is obviously the biggest supplier of our gas right now
5 going to the Progress Energy gas-fired fleet.

6 Q So then it is your assessment that the risks
7 associated with the Gulf of Mexico supply, because of the risk
8 of having a hurricane hit the area, are greater than the
9 likelihood that Elba would be curtailed?

10 A That is my assessment.

11 Q Okay. The next line of questioning is going to be
12 about pipeline capacity. Do you anticipate that without the
13 Cypress pipeline there may be a shortage of pipeline capacity
14 to serve Florida during the latter part of the BG/Cypress/FGT
15 contracts?

16 A That is hard for me to say. I mean, we have done a
17 study looking at the various IOU ten-year site plans, and their
18 dependence on natural gas is as high as Progress Energy
19 Florida's. And I do believe we actually gave you a graph on
20 that, as well. And when they first presented that to me, I was
21 somewhat taken aback as to our supply needs versus what the
22 state of Florida was looking at. So I think there has to be
23 significant enhancements by the end of this contract term in
24 order to meet the natural gas requirements for all the IOUs in
25 the state of Florida.

1 Q Was that concern part of what entered into the
2 calculus for making the decision to go after a new pipeline in
3 the state of Florida? Coming into the state of Florida, excuse
4 me?

5 A I think we looked at it. It wasn't anything, I
6 think, that had to be started as early as the contract term
7 specified in the contract, but I don't think -- I don't think
8 it hurts. I mean, Progress Energy Florida was very
9 instrumental in bringing the Gulfstream natural gas pipeline
10 into the state of Florida. And I think at least most people
11 would agree that has provided a valuable asset to the state of
12 Florida to meet future needs, and we feel like the Cypress
13 pipeline is going to do the same thing.

14 Q If Progress doesn't secure these 20-year contracts,
15 in other words, if they are not approved by the Commission and
16 Progress were to back out of them, do you believe that Progress
17 would have difficulty in finding gas supply during the same
18 20-year period at a similar price, I suppose?

19 A Well, first of all, I think we could find the
20 transportation because Gulfstream is still open. I don't
21 believe we would go out and be able to find a 20-year contract
22 with a Gulf of Mexico supplier that is as competitive as what
23 we have under the Cypress-related agreements with BG.

24 MS. VINING: Those are all the questions we have for
25 Ms. Murphy.

1 CHAIRMAN BAEZ: Commissioners, questions?

2 Mr. Burnett.

3 MR. BURNETT: Thank you, Mr. Chairman.

4 REDIRECT EXAMINATION

5 BY MR. BURNETT:

6 Q Ms. Murphy, earlier we talked about some -- there
7 were some questions regarding the force majeure exclusions and
8 modifications, and I just want to be very clear. Through
9 negotiations, has Progress Energy Florida made the force
10 majeure provisions in this contract more favorable or less
11 favorable than what Progress Energy typically sees in force
12 majeure provisions?

13 A More favorable.

14 Q There was also some questions about a force majeure
15 hypothetical that Ms. Christensen asked. Is the force majeure
16 risk that PEF has under the BG/Cypress/FGT contracts any
17 greater than a force majeure risk that PEF would experience
18 from a Gulf supply source?

19 A No. What we have tried to negotiate under the BG
20 contract is to assume no more risk than what we would under a
21 contract using a domestic gas supplier.

22 Q Now, on that same subject, Ms. Vining asked you some
23 questions about some potential LNG risk upstream at the source,
24 and I think you rattled off a list of those. You mentioned, I
25 believe, riots, strikes, potential shipping problems at the

1 source. Has PEF done anything contractually to protect itself
2 and its ratepayers against those upstream problems you
3 mentioned in the BG and Cypress contracts, without giving
4 specifics?

5 A Yes, we have.

6 Q Now, I want to turn back --

7 COMMISSIONER DEASON: Excuse me. That is in the
8 contract?

9 THE WITNESS: Yes, those provisions are in the
10 contract.

11 BY MR. BURNETT:

12 Q Ms. Murphy, I want to turn now to some of the
13 specific questions you received earlier about the provisions of
14 the contract. Is the market-based pricing index and the adder
15 used for gas pricing in the BG supply contract reasonable and
16 prudent?

17 A Yes, it is.

18 Q And why is that?

19 A Because it is -- the index is on an industry-wide
20 U.S. market index. And the basis adder is highly competitive
21 for a 20-year contract.

22 Q Are the negotiated rates for transportation used in
23 the Cypress and FGT contracts reasonable and prudent?

24 A Yes, they are.

25 Q Why is that?

1 A Because the negotiated rates, coupled with the
2 sculpted volumes, afford PEF to provide the Florida ratepayers,
3 our ratepayers, an overall lower cost based on the Hines 4
4 self-build analysis.

5 Q And are the volumes of gas that PEF will take under
6 the supply contract reasonable and prudent?

7 A Yes, they are.

8 Q And I believe you may have just touched on this a
9 little bit, but why is that?

10 A Mostly because they are sculpted. We take a higher
11 volume in the summer than in the winter period. And looked at
12 from an overall gas portfolio, that marries well into not
13 adding more capacity in the winter period that we're a little
14 bit long right now. So to the extent that we can use some of
15 the latent capacity in the winter period, we feel like we can
16 even more reduce the overall cost to the ratepayers.

17 Q And, again, to be clear on the record, are the
18 20-year terms of the three contracts, the BG, the FGT, and the
19 Southern Natural contracts reasonable and prudent?

20 A Yes, they are.

21 Q And why is that?

22 A Because PEF believes it is reasonable and prudent to
23 have a portfolio mix, a diverse portfolio mix of short,
24 intermediate, and long-term contracts as well as they provide
25 for competitive pricing, a long-term gas supply for Progress

1 Energy Florida, and the adder is, once again, highly
2 competitive.

3 Q Now, we talked about several of the essential terms.
4 Are the general terms and conditions in each of the three
5 contracts reasonable and prudent?

6 A Yes, they are.

7 Q And why is that?

8 A Under the BG contract, they are very much on par with
9 our existing short and intermediate contracts. With regard to
10 the transportation agreements, those are approved FERC
11 transportation service provider agreements that are filed by
12 Southern Natural and Florida Gas Transmission at FERC.

13 Q And one final question that I have, Ms. Murphy.
14 Earlier when you were speaking with Ms. Christensen you were
15 discussing the fact that Progress Energy does not expect the
16 Commission to preapprove any of Progress Energy's day-to-day
17 management of the contract. What exactly are we talking about
18 when we say day-to-day management?

19 A It is just the daily optimization of our total gas
20 portfolio and how we use it each day.

21 Q And, again, does PEF expect the Commission to make
22 any determination now about that management as reasonable and
23 prudent?

24 A No, I do not.

25 MR. BURNETT: No further questions.

1 CHAIRMAN BAEZ: Exhibits.

2 MR. BURNETT: Yes. Commissioner, at this time we
3 would move Ms. Murphy's Exhibits PRM-1 through 6 into evidence.

4 CHAIRMAN BAEZ: Show those -- well, hold on here.
5 I'm showing she has Exhibits 4 through 10 as marked. Is that
6 accurate?

7 MS. VINING: No, she has 5 through 10; 4 was for Mr.
8 Caldwell.

9 CHAIRMAN BAEZ: I'm sorry, 5 through 10. Without
10 objection, show 5 through 10 moved into the record. And we
11 also have 15 which, without objection, will be moved into the
12 record, as well.

13 MR. BURNETT: Thank you, sir.

14 CHAIRMAN BAEZ: Thank you, Ms. Murphy.

15 THE WITNESS: Thank you.

16 (Exhibit Numbers 5 through 10 and 15 admitted into
17 the record.)

18 CHAIRMAN BAEZ: Commissioners, now might be a good
19 time to break for lunch.

20 Ms. Vining, how much time would you estimate for the
21 last two witnesses?

22 MS. VINING: Perhaps an hour.

23 CHAIRMAN BAEZ: For each or for both? I'm not trying
24 to nail you down, I just want to know how much lunch to allow
25 my colleagues.

1 MS. VINING: Between an hour and two maybe; probably
2 less, though, for the remaining two witnesses.

3 CHAIRMAN BAEZ: Commissioners, I figure we can break
4 for an hour and still be done at a real reasonable hour. So we
5 will adjourn, or we'll recess until 12:45. Thank you.

6 (Lunch recess.)

7 CHAIRMAN BAEZ: Go back on the record.

8 Mr. Burnett, your next witness.

9 MS. TRIPLETT: We call Bruce Hughes to the stand.

10 **BRUCE H. HUGHES**

11 **was called as a witness on behalf of Progress Energy Florida,**
12 **and having been previously duly sworn, testified as follows:**

13 **DIRECT EXAMINATION**

14 BY MS. TRIPLETT:

15 Q Will you please introduce yourself to the Commission
16 and provide your address?

17 A Sure. Good afternoon. My name is Bruce Hughes. I
18 work for Southern Natural Gas. I'm the Director of Business
19 Development. The business address is P.O. Box 2563,
20 Birmingham, Alabama. The zip code is 35202.

21 Q Thank you. And have you already been sworn in as a
22 witness?

23 A Yes, I have.

24 Q And have you filed prefiled direct testimony and
25 exhibits in this proceeding?

1 A Yes, I have.

2 Q And let me refer you to the document that was handed
3 to you previously. Is this your prefiled testimony and
4 exhibits in this proceeding?

5 A That is correct.

6 Q Do you have any changes to make to your prefiled
7 testimony and exhibits?

8 A I have a couple of updates that I would like to make.
9 On Exhibit 2, which is a schedule of tasks and time lines for
10 the project, we had indicated in the testimony that we expected
11 to file our FERC application on May 6th. We now expect that
12 date to slip until the latter part of May, perhaps the last
13 week of May.

14 And on Page 5 of my testimony, Lines 12 and 13, I had
15 indicated that we would expect the FERC approval process to
16 require 12 to 14 months. We are now advised, based on our
17 ongoing work with the FERC staff, that that time line will be
18 reduced to 9 to 12 months.

19 The other update that I would make is on Page 6 --
20 pardon me -- on Page 7 of my prepared testimony, beginning with
21 the Q and A on Line 14 and the answer on Line 16. We had
22 indicated that Southern would conduct an open season. The
23 commercial commitments, the precedent agreements we have with
24 Progress Energy and British Gas I indicated would represent 90
25 percent of the commercial commitments we would require to go

1 forward with the project. We have since held the open season,
2 we have received additional commitments. It didn't satisfy
3 100 percent of what we were hoping to accomplish, but it was
4 sufficient for us to send notice to Progress under our
5 precedent agreement that we were waiving the condition
6 requiring additional commitments. Therefore, we are
7 contractually committed to go forward with the project, based
8 on the commitments that we have to date, and we so indicated to
9 Progress.

10 Q Okay. If I asked you the same questions in your
11 prefiled testimony today, would you give the same answers with
12 the exception of your corrections that are in your prefiled
13 testimony?

14 A Yes, I would.

15 MS. TRIPLETT: Commissioners, we request that the
16 prefiled testimony be moved into evidence as if it was read in
17 the record today.

18 CHAIRMAN BAEZ: Show the prefiled testimony of Bruce
19 Hughes, including corrections, moved into the record as though
20 read.

21 MS. TRIPLETT: Thank you, Mr. Chairman.
22
23
24
25

FPSC DOCKET NO.**IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND TRANSPORTATION
CONTRACTS FOR HINES UNIT 4 AND ADDITIONAL SYSTEM SUPPLY
AND TRANSPORTATION****DIRECT TESTIMONY
OF
BRUCE H. HUGHES
ON BEHALF OF
SOUTHERN NATURAL GAS COMPANY
AND
PROGRESS ENERGY FLORIDA, INC.****I. INTRODUCTION AND QUALIFICATIONS**

1 **Q. Please state your name, address and position with Southern Natural Gas**
2 **Company.**

3 **A.** My name is Bruce H. Hughes. I am a Director of Business Development for
4 Southern Natural Gas Company ("Southern Natural") and my business address is
5 P. O. Box 2563, Birmingham, Alabama 35202.

6

7 **Q. Please describe briefly your education and business experience.**

8 **A.** I graduated from the University of Alabama in 1976 with a Bachelor's degree in
9 Business and a major in Accounting. I have been employed by Southern Natural
10 in various financial, regulatory, gas supply, and business development positions
11 for nearly thirty years.

12

13

1 Q. What are your current responsibilities?

2 A. As Director of Business Development, my primary responsibilities are to develop
3 and market pipeline expansion and/or pipeline extensions to serve Southern
4 Natural's traditional customer base and to attract new customers.

5

6

II. PURPOSE OF TESTIMONY

7 Q. What is the purpose of your testimony?

8 A. I will describe a major pipeline expansion/extension project to connect Southern
9 Natural's existing interstate pipeline system to Florida Gas Transmission
10 Company ("FGT"). In addition, I will testify concerning the status of Southern
11 Natural's Elba Island LNG terminal near Savannah, Georgia.

12

13 Q. Are you sponsoring any exhibits?

14 A. Yes, I am sponsoring my following exhibits:

15 **BHH-1 Map of Interstate Pipelines**

16 **BHH-2 Southern Natural's Pipeline Project Timeline**

17 **BHH-3 Aerial Photo of LNG Facilities**

18 Exhibit _____ (BHH-1) contains two maps. The first map shows the
19 major interstate pipeline infrastructure serving the southeastern United States,
20 including Florida. The second map shows the route of Southern Natural's
21 pipeline extension project. Exhibit _____ (BHH-2) is a project timeline schedule
22 that shows the critical path tasks for preparing and processing an application to
23 construct the project, major preconstruction activities, and the time required to

1 **Q. Who will provide gas supply for the regasification terminal?**

2 **A.** Southern LNG has contracted to provide terminal capacity to BG LNG Services,
3 LLC ("BG") and Shell LNG NA.

4

5 **Q. Will PEF's contract be served from the existing capacity or the expansion**
6 **capacity?**

7 **A.** Progress Energy Florida, Inc.'s ("PEF's") gas supply contract will be served from
8 the existing terminal capacity.

9

10 **IV. THE PIPELINE EXPANSION PROJECT**

11 **Q. Would you briefly describe the scope of the pipeline project and a project**
12 **timeline for completion and service?**

13 **A.** Phase I of the pipeline extension will consist initially of approximately 166 miles
14 of 24" pipeline. The northern point begins at an interconnection with Southern
15 Natural's existing system, and the southern end of the project is an
16 interconnection with FGT in Clay County, Florida. The initial phase is targeted to
17 be placed in service May 1, 2007 with a capacity of approximately 220 MMcf/d.
18 Phases II and III will expand the capacity to 500 MMcf/d by adding compression
19 as incremental markets along the pipeline corridor, Southern Natural's South
20 Georgia lateral, and future incremental markets in Florida require additional
21 natural gas supplies.

22

23

1 **Q. Would you please elaborate on the project route and schedule?**

2 **A.** Yes, I will. Exhibit ___ (BHH-1) is a map containing the project route. Southern
3 Natural's existing pipeline facilities are connected to Southern LNG's
4 regasification terminal at Elba Island near Savannah, Georgia. The new pipeline
5 will interconnect with Southern Natural's existing system at a point where
6 Southern Natural's existing pipeline right-of-way intersects with an existing
7 power line right-of-way. The new pipeline will be installed adjacent to the
8 existing power line right-of-way the entire route and interconnect to FGT's
9 Jacksonville lateral in Clay County, Florida. Exhibit ___ (BHH-2) shows the
10 timeline required for regulatory approval and construction. Southern Natural will
11 prepare and file an application with the Federal Energy Regulatory Commission
12 ("FERC") in the second quarter of 2005. FERC approval for a project of this size
13 generally requires twelve to fourteen months. Construction will require
14 approximately nine months.

15

16 **Q. Has Southern Natural evaluated the route from an environmental, pipeline**
17 **constructability, and landowner perspective?**

18 **A.** Yes. Southern Natural has made extensive route selection efforts to identify and
19 select a route that would minimize environmental impacts, meet the requirements
20 of all state and federal regulatory agencies, and minimize the impacts to
21 individual landowners. In fact, in late 2000 and early 2001, Southern Natural
22 sought and received survey permission for a large portion of the route, performed
23 cultural resource and archaeological surveys, and prepared and filed an

1 application to construct the pipeline with the FERC. The application was
2 subsequently withdrawn for commercial reasons. However, the route was fully
3 evaluated and I believe the route we have selected will be approved by all federal
4 and state agencies.

5

6 **Q. Would you please discuss in more detail the Project Schedule presented as**
7 **Exhibit ____ (BHH-2)?**

8 **A.** Yes. Southern Natural and PEF have agreed to a targeted in-service date of May
9 1, 2007. As an interstate pipeline, Southern Natural must file for and receive
10 certification authorization from the FERC prior to construction. Exhibit ____
11 (BHH-2) contains each of the critical path tasks required to file and process the
12 application. I believe the schedule will be met. First and foremost, the project
13 meets FERC's public interest requirements. Second, the project route has been
14 thoroughly evaluated and most of the route has been surveyed. Therefore, I
15 believe the timeline for preparing and processing the application is sufficient
16 given the route selected and the environmental information gathered from our
17 surveys. Third, our timeline for right-of-way acquisition, material acquisition,
18 and construction is consistent with our recent experience on similarly sized
19 projects.

20

21

22

1 **Q. What assurance does PEF have that the pipeline will be completed by May 1,**
2 **2007?**

3 **A.** Southern Natural has committed to file and process the FERC application.
4 Subject to the receipt of an acceptable certificate from FERC and permits from
5 federal and state agencies, Southern Natural has agreed to use due diligence to
6 meet the May 1, 2007 in-service date. Southern Natural has agreed to provide
7 PEF monthly progress reports so that PEF can monitor the status of the project.
8 In addition, Southern Natural has committed significant resources to this project
9 and has spent in excess of \$9 million on the project to date. We expect to spend
10 an additional \$6 million to file and process the FERC application. Southern
11 Natural's total capital expenditures for Phase I are expected to exceed \$240
12 million.

13
14 **Q. Does Southern Natural expect to have sufficient commitments to proceed**
15 **with the project?**

16 **A.** Yes. Southern Natural has precedent agreements with PEF and BG that commit
17 approximately ninety percent of the contracted capacity and revenue required to
18 proceed with the project. Southern Natural has begun an open season
19 commencing on December 3, 2004 and ending January 17, 2005 in order to
20 secure additional commitments for capacity on the expansion.

21

22 **Q. Does this complete your testimony?**

23 **A.** Yes.

1 BY MS. TRIPLETT:

2 Q Mr. Hughes, do you have a summary of your prefiled
3 testimony?

4 A Yes, I do.

5 Q Will you please summarize your prefiled testimony for
6 the Commission?

7 A Certainly. As I mentioned, my name is Bruce Hughes.
8 I'm Director of Business Development for Southern Natural Gas
9 Company. My business address is P.O. Box 2563, Birmingham,
10 Alabama.

11 Southern LNG, a subsidiary of Southern Natural Gas
12 Company, owns the Elba Island LNG regasification terminal
13 located near Savannah, Georgia. This terminal was
14 recommissioned and has been in operation since December 2001.
15 The pipeline extension and expansion that is the basis of my
16 testimony in this proceeding will connect Southern Natural's
17 existing pipeline facilities which, in turn, are connected to
18 the Elba Island terminal, to Florida Gas Transmission Company
19 southwest of Jacksonville.

20 Southern Natural and Progress Energy have agreed to a
21 targeted in-service date for the pipeline expansion of May 1st,
22 2007, and we have every indication that the date will be met.
23 Southern has committed significant resources. We have spent
24 well in excess of \$9 million to date on this project. Southern
25 Natural's total capital expenditures for the project are

1 expected to exceed 240 million by the conclusion of the
2 project.

3 The magnitude of the capital cost is one of the
4 primary reasons why the parties to the BG/Cypress/FGT contracts
5 have made regulatory approvals a condition precedent to
6 performance under these contracts. We intend, and it is in our
7 commercial interest, to use all due diligence in meeting the
8 contract date. To this end, Southern Natural has formulated a
9 detailed project schedule that includes all tasks necessary for
10 timely completion of the project, and that schedule is attached
11 as an exhibit. Our time line for right-of-way acquisition,
12 material acquisition, and construction is consistent with our
13 recent experience on similarly sized projects.

14 The most significant task for completion of the
15 project is approval of Southern Natural's application with the
16 Federal Energy Regulatory Commission. Southern is confident
17 that its application will be timely approved because a large
18 portion of the planned route has already been surveyed and
19 evaluated for the project, and we also believe that the project
20 meets FERC's public interest requirements. Indeed, the
21 selected route was carefully designed to minimize environmental
22 impacts, meet the requirements of all state and federal
23 regulatory agencies, and importantly to minimize the impact to
24 individual landowners.

25 As additional assurance to Progress that the pipeline

1 expansion project is on track to be completed by May 1, 2007,
2 Southern Natural has agreed to give Progress monthly progress
3 voters so that Progress can monitor our progress on the
4 project. Based on these reasons, Southern Natural is confident
5 that it will timely complete the project and provide Progress
6 Energy with firm pipeline transportation to fuel the generating
7 units that have committed to the project.

8 MS. TRIPLETT: Thank you. At this time we tender Mr.
9 Bruce Hughes for cross-examination.

10 CHAIRMAN BAEZ: Thank you. Ms. Christensen.

11 MS. CHRISTENSEN: No questions.

12 CHAIRMAN BAEZ: Mr. Cruthirds.

13 MR. CRUTHIRDS: BG has no questions.

14 CHAIRMAN BAEZ: Ms. Vining.

15 CROSS EXAMINATION

16 BY MS. VINING:

17 Q I guess it is good afternoon now, Mr. Hughes.

18 A Hello.

19 Q Are there any situations where Progress would not be
20 required to pay the firm gas transportation charges that are
21 outlined in the contract with SONAT?

22 A Once we have completed the project and placed the
23 facilities in service, I'm not aware of any instances where
24 Progress would be relieved of their obligation to pay.

25 Q So once the pipeline is completed, there is no

1 obviating the charges that Progress is responsible for in the
2 contract?

3 A Not that I am aware of.

4 Q Do you believe that the Cypress pipeline would be
5 constructed eventually whether or not the proposed contract
6 between SONAT and Progress that is the subject of this
7 proceeding, whether or not it were approved by this Commission?

8 A I do not believe we have sufficient commercial
9 commitments to the project to go forward with the project
10 unless the Progress contract is approved.

11 Q Are you familiar with any large scale accidents which
12 have occurred at the Elba Island facility during the last five
13 years?

14 A I'm not aware of any incidents that have occurred at
15 the Elba Island facility since we reactivated the facility in
16 December of 2001. Prior to that date there was an incident
17 where a cargo container ran into our dock. But I don't
18 remember the time line for that. We were not in service at the
19 time, so it did not impact any scheduled deliveries or any
20 scheduled receipts at the terminal.

21 Q Do you know how many months were required to repair
22 the dock after that incident?

23 A I do not.

24 Q Would it be your opinion, though, that it wouldn't be
25 something that could be fixed in a few days?

1 A Let me refer you to Exhibit -- I believe it is
2 Exhibit 3 in my testimony before I answer that question.
3 Exhibit 3 is an aerial photography or is an aerial photo of our
4 existing LNG terminal at Elba Island. We have imposed on the
5 aerial photography a fourth tank that is illustrated with the
6 Number 3.5 BCFE above the tank. That tank is currently under
7 construction. The 3.5 BCF equivalent is the size of that tank,
8 and the 3.5 is billion cubic feet.

9 Immediately to the left of that tank is what is
10 illustrated as a dual slip. It is part of our current
11 expansion that is currently underway. In order to address FERC
12 safety concerns and shipping interests, we agreed as part of
13 our expansion to include a slip that LNG tankers would actually
14 move into and be removed from the river during off-loading of
15 the tankers. As part of our expansion application, the dual
16 slip was approved. We will have docking facilities on each
17 side of the slip.

18 In addition, the off-loading facilities that are
19 currently in service that are on the river will remain, so we
20 will have -- after the expansion which is scheduled to go in
21 service February 1st, 2006, we will actually have three docks.
22 We currently have one. So we think that the incident that
23 occurred earlier is unlikely to ever be repeated.

24 Q So let me be clear, are you saying, then, that this
25 dual slip that is part of the expansion project would allow --

1 what happen in September 2000 with the tanker to not happen
2 with an LNG tanker?

3 A That is correct.

4 Q And would BG's tankers come in at this dual slip?

5 A Yes, they would.

6 Q So they wouldn't come to the other existing dock?

7 A No. Under our FERC certificate, the two docks in the
8 slip will be the primary sources for future deliveries. The
9 dock on the river will only be used in the event of an
10 emergency.

11 Q Now, you said earlier that you are having this dual
12 slip because of concerns that FERC expressed. What were those
13 concerns?

14 A Our decision to go forward and install the slip with
15 the two docks in the slip was dual-fold; it was to address FERC
16 and to address the shipping community interests that we wanted
17 to show that by expanding Elba Island we would not have an
18 adverse impact on existing shipping.

19 Q Okay. Again, can you elaborate on what the concerns
20 were that FERC had as well as the shipping community?

21 (Sneeze).

22 Did you catch the last part?

23 A I did not. Could you repeat it, please.

24 Q Can you elaborate on the concerns that FERC had, as
25 well as the shipping community, because you alluded to that, as

1 well?

2 A Right. FERC as a result of the previous incident
3 that I mentioned when we reactivated the terminal in December
4 2001, required us to use tug escorts not only for the LNG
5 tankers to come into the dock, but while we had -- while we had
6 LNG tankers anchored at the dock, required tug escorts for any
7 passing traffic. In order to minimize that impact, we agreed
8 to put in the slip.

9 Q Now, did they require the tug escorts because of the
10 narrowness of the shipping channel in that area?

11 A We believe they required the tug escorts because of
12 the incident. In our previous certificate we did not have a
13 similar condition.

14 Q Now, earlier you said you weren't aware of how long
15 it took to repair the dock after the incident in 2000, but was
16 the recommissioning of the Elba Island facility delayed in any
17 way by that incident?

18 A No, it was not.

19 Q Would you say that the shipping channel in that area
20 is narrower than the average shipping channel?

21 A No. In fact, I would -- well, I would think of the
22 four existing LNG terminals in the United States, Elba is the
23 most ideally situated from a safety and a security and a
24 shipping perspective.

25 Q You talked earlier about FERC's concerns. Now, FERC

1 did an environmental assessment as part of the recommissioning
2 of Elba Island?

3 A Correct.

4 Q And in that environmental assessment, did FERC say
5 that the greatest risk to the terminal was the narrowness of
6 the shipping channel?

7 A I don't recall that being a part of FERC's decision.

8 Q But they did have concerns which you addressed?

9 A They had a condition that we use tug escorts for
10 container ships passing the terminal when we had an LNG tanker
11 docked.

12 Q So they didn't require the dual slip, that was
13 something that Southern Natural came up with?

14 A Correct. The dual slip came later. It was not a
15 condition to the reactivation of the terminal. The slip was
16 our recommendation when we filed to expand the terminal.

17 Q Have there been any other efforts made to mitigate
18 the risk of shipping accidents at the Elba Island terminal
19 beyond what you have described, the dual slips and the tug
20 escorts?

21 A Those are the only two that I am aware of.

22 Q Do you know if there have been any other times since
23 the facility was recommissioned in December of 2001 when the
24 facility could not deliver the regasified capacity SONAT had
25 contracted on the pipeline?

1 A No. We have had no events since 2001 when we
2 reactivated that hindered our ability to meet service.

3 Q Have there been instances where there was some sort
4 of curtailment with the original supplier and then spot
5 purchases were able to be made?

6 A No.

7 Q Are you aware of any events that have happened at
8 other regasification terminals in the U.S. which have resulted
9 in prolonged curtailment of regasified LNG?

10 A Would you repeat the question? That's pretty
11 open-ended.

12 Q Sure. Are you aware of any events that have happened
13 at other regasification terminals in the U.S. which have
14 resulted in prolonged curtailment of regasified LNG? And let
15 me frame it for you. A prolonged event would be greater than
16 three days.

17 A I'm not aware of any other than the -- I believe
18 after 9/11 the Boston terminal was closed for some period of
19 time, but I don't know the details.

20 Q So you are not familiar with any events that happened
21 in the 1970s at facilities?

22 A Oh, I didn't know we were going back that far. I
23 apologize. Yes, I can give you a brief summary of our
24 situation at Elba. We constructed the facility, and it
25 initially went into service in 1978. We operated the terminal,

1 received base load cargoes from 1978 until 1980. Those cargoes
2 were -- or our gas supply was subsequently interrupted due to a
3 pricing dispute with the Algerian oil company, Sonatrach, and
4 shipments were subsequently suspended. And we essentially
5 mothballed Elba Island from mid-1982 until we reactivated in
6 2001.

7 Q So nothing happened at Elba Island in the 1978 to
8 1980 time period, correct? Nothing that would entail a
9 prolonged curtailment?

10 A No, I don't believe so.

11 Q How about in the same time frame of the 1970s, other
12 facilities that were active in the United States?

13 A I would not feel qualified to try to recall what was
14 happening at the other facilities during that period.

15 Q Okay. So you have no knowledge of a fire that
16 occurred in 1973 at the Staten Island, New York, LNG facility?

17 A There is not an LNG importation facility at Staten
18 Island.

19 Q In 1973 there wasn't?

20 A No.

21 Q Okay. What about Cove Point, Maryland?

22 A There is a receiving terminal at Cove Point.

23 Q Was there an incident there in 1979?

24 A I'm not familiar with it.

25 Q Can you give us your assessment, then, of what the

1 likelihood is of a prolonged curtailment of supply event at
2 Elba Island?

3 A Let me make sure I understand the question. A
4 long-term supply curtailment event, correct?

5 Q I said prolonged, and let's go with the definition I
6 gave earlier, which is more than three days?

7 A I would say, and I am basing this answer on my
8 position and experience with the company, and my reading of
9 industry press, and on the public information that I receive on
10 a regular basis from Shell and BG. It is our understanding
11 that there are a large number of countries where LNG projects,
12 LNG liquefaction projects are under development. We have seen
13 the development of three trains in Trinidad; Trains 1, 2, and 3
14 are now on line and in service, train 4 is expected to come on
15 line in the third quarter of 2005. We are also seeing LNG
16 trains being added to or expanded in Nigeria. We are seeing
17 trains in Egypt coming on line the latter part of 2005.

18 My point is a number of supply sources are coming on
19 to supply regasified LNG into the North American market. We
20 think our terminal, as I mentioned earlier, the Cove Point
21 terminal are likely to be base-loaded terminals because of
22 their strategic location on the east coast. We think the
23 Boston terminal and the Lake Charles terminals will also be
24 frequently used to bring additional gas supplies into the
25 country.

1 So, I guess I have given you a long-winded answer,
2 but it is our view that the probability and likelihood of
3 supply interruptions will diminish over time. We are currently
4 seeing our Elba capacity -- utilization of our Elba capacity
5 ramping up. We received one cargo in 2001. I believe we
6 received 10 or 12 cargoes in 2002. We received 45 cargoes in
7 2004. So we are seeing the LNG supply actually ramp up, and we
8 would expect that trend to continue.

9 Q Based on what you said, though, in the short term
10 there is a higher likelihood of curtailment, though, because
11 those other facilities -- at least with the Lake Charles not on
12 line yet, is that correct?

13 A I don't believe that is reflected in my answer.

14 Q Okay. Well, you said over time, and you thought that
15 there would be a lower likelihood of curtailment with all the
16 additional supply coming in at those terminals?

17 A Correct. I expect sufficient supply to be on line as
18 the terminals are expanded. There are, in addition, a fair
19 number of terminals that are being proposed along the Gulf
20 Coast and the Bahamas, a few along the east coast and west
21 coast, but some of those terminals will be developed, some will
22 not.

23 Q Okay. My point, though, is that at Elba Island is
24 the likelihood of curtailment higher simply because there is
25 not multiple shipments coming into these other facilities

1 because they are not operational yet?

2 A I think the likelihood is the Elba utilization will
3 be higher.

4 Q Okay. Can you speak to any efforts that the Elba
5 Island facility has taken to eliminate the possibility of any
6 sort of explosions in the regasification -- or accidents, let's
7 say, in the regasification process?

8 A Could you repeat the question, please?

9 Q Can you speak to any efforts or actions that the Elba
10 Island terminal has taken to ameliorate the possibility of
11 incidents happening during the regasification process?

12 A I don't feel technically qualified to go through the
13 steps that we have taken at Elba to operate the terminal from a
14 technical and safety standpoint, but I am fully confident in
15 sharing with you that Southern Natural Gas, including
16 Southern's LNG safety record, is outstanding. We regularly and
17 routinely are rated in the top three gas companies in the
18 country in our safety record. But I can't give you technical
19 information.

20 Q So you don't have a general understanding of any
21 actions that SONAT has taken at the facility?

22 A I know we have met all permitting requirements, all
23 FERC conditions. But as far as giving you a list of examples,
24 I'm not prepared to do that.

25 MS. VINING: Okay. Those are all the questions we

1 have.

2 THE WITNESS: Thank you.

3 CHAIRMAN BAEZ: Commissioners.

4 COMMISSIONER DEASON: I have a question.

5 CHAIRMAN BAEZ: Sure.

6 COMMISSIONER DEASON: The actual -- has the corridor
7 been established for the connection that would go through, I
8 guess, through eastern Georgia down to Jacksonville?

9 THE WITNESS: Yes, Commissioner. We initially
10 prepared the resource reports and filed a certificate
11 application for a similar path in the 2000/2001 time frame, and
12 we had done all of the survey requirements, had filed all of
13 the environmental resource reports with the FERC at that time.
14 FERC had conducted scoping meetings at that time and were
15 readily processing our application.

16 At that time our commercial commitments fell apart
17 and we withdrew our application. But the route that we have
18 included here is pretty much the same route. We have made some
19 route changes at the north end of the project to address some
20 landowner concerns in the Savannah area. So I would say the
21 route that we have selected, the survey work that we have done,
22 nearly -- maybe 98, 99 percent of the route is adjacent to
23 existing utility corridor, or there is a small section that is
24 adjacent to I-95 just south of Savannah. But I think the route
25 that we have selected based on the feedback we have received

1 from our open houses and from the FERC scoping meetings
2 indicate that we have selected a route that will be approved.

3 COMMISSIONER DEASON: Do you foresee any problems
4 actually obtaining right-of-way easements from landowners?

5 THE WITNESS: Assuming the Commission finds the
6 project to be in the public interest, which we expect them to
7 do, and we would obviously have the right of eminent domain.
8 And while we typically like to negotiate easement agreements
9 with the landowners without using that, if required to do so,
10 it will be available to us.

11 COMMISSIONER DEASON: Do you have enough time built
12 into your time line on Exhibit 2 that if you find it necessary
13 to go through eminent domain proceedings that that would be
14 within this time frame?

15 THE WITNESS: We have factored that into our
16 schedule. What we would typically do is when we get a
17 preliminary determination from the FERC, which we would expect
18 in October of '05, we would start acquiring right-of-way at
19 that time. And only where we have indications that
20 arm's-length negotiations would not result in an easement
21 acquisition and we would have to go the condemnation route, we
22 would be prepared to initiate those proceedings when the
23 certificate order issues in early '06. And we feel like we
24 have sufficient time to manage condemnations, if required.

25 COMMISSIONER DEASON: You mentioned that there were

1 some commitments obtained in addition to the commitment from
2 Progress Energy, and that while you did not obtain the amount
3 of commitment that you had desired, you were willing to go
4 ahead and sign an agreement that indicated that you were
5 committed to build the project, correct?

6 THE WITNESS: That is correct.

7 COMMISSIONER DEASON: If any of those additional
8 commitments that you have for some reason fall through, are you
9 still going to build the pipeline?

10 THE WITNESS: There were two major anchor shippers
11 that supported the project, Progress and British Gas. Both of
12 those contracts have now been -- the conditions have been
13 fulfilled, other than the regulatory approvals required from
14 you all and from FERC. So all of the commercial conditions
15 have been met by all three parties.

16 COMMISSIONER DEASON: Okay. Thank you.

17 THE WITNESS: Sure.

18 CHAIRMAN BAEZ: Redirect.

19 MS. TRIPLETT: Very brief.

20 REDIRECT EXAMINATION

21 BY MS. TRIPLETT:

22 Q Ms. Vining asked you some questions about whether
23 Progress would have to pay Southern under the terms of the
24 contract once the pipeline is completed. I just wanted to ask
25 you, as a commercial matter, is it usual or unusual for a

1 contracting party to be bound to pay for your company's
2 services once a contract is signed and a project is completed?

3 A Very usual.

4 Q And has anything anyone asked you here today made you
5 doubt whether Southern Natural will be able to finish the
6 pipeline and provide transportation services, regasification
7 services to PEF on time?

8 A No.

9 MS. TRIPLETT: Thank you. No further redirect. And
10 at this time we ask that you move into evidence the witness'
11 exhibits, 11, 12, and 13.

12 CHAIRMAN BAEZ: Without objection, show Exhibits 11,
13 12, and 13 moved into the record.

14 Mr. Hughes, thank you. You are excused.

15 THE WITNESS: Thank you sir.

16 (Exhibits 11, 12, and 13 admitted.)

17 CHAIRMAN BAEZ: Mr. Burnett, your next witness.

18 MR. BURNETT: Yes, sir. PEF calls Samuel S. Waters.

19 **SAMUEL S. WATERS**

20 **was called as a witness on behalf of Progress Energy Florida,**
21 **and having been previously duly sworn, testified as follows:**

22 DIRECT EXAMINATION

23 BY MR. BURNETT:

24 Q Good afternoon, Mr. Waters. Will you please
25 introduce yourself to the Commission and provide your business

1 address?

2 A Yes. My name is Samuel S. Waters. My business
3 address is 410 South Wilmington Street, Raleigh, North Carolina
4 27602. I am the Manager of Resource Planning employed by
5 Progress Energy Carolinas to do both Progress Energy in Florida
6 and Progress Energy Carolina resource planning.

7 Q Mr. Waters, have you filed prefiled direct testimony
8 and exhibits in this proceeding?

9 A Yes, I did.

10 Q And I reference you to the document that we just
11 handed out. Is that your prefiled testimony and exhibits in
12 this proceeding?

13 A Yes, it is.

14 Q Do you have any changes to make to your prefiled
15 testimony and exhibits at this time?

16 A No, I do not.

17 Q If I asked you the same questions in your prefiled
18 testimony today, would you give me the same answers that are in
19 your prefiled testimony?

20 A Yes.

21 MR. BURNETT: We request that the prefiled testimony
22 of Mr. Waters be moved into evidence, Mr. Chairman, as if it
23 were read into the record today.

24 CHAIRMAN BAEZ: Show the direct testimony of Witness
25 Waters moved into the record as though read. And also, for the

1 record, show that his exhibit is already premarked as Number
2 14.

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FPSC DOCKET NO.**IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND
TRANSPORTATION CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND TRANSPORTATION****DIRECT TESTIMONY OF
SAMUEL S. WATERS****I. INTRODUCTION AND QUALIFICATIONS**

1 **Q. Please state your name and business address.**

2 A. My name is Samuel S. Waters. My business address is 410 S. Wilmington
3 Street, Raleigh, North Carolina, 27602.

4

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

6 A. I am employed by Progress Energy Carolinas, Inc. ("PEC") in the capacity
7 of Manager of Resource Planning for Progress Energy Florida, Inc. ("PEF"
8 or the "Company") and PEC.

9

10 **Q. Please summarize your educational background and employment
11 experience.**

12 A. I graduated from Duke University with a Bachelor of Science degree in
13 Engineering in 1974. From 1974 to 1985, I was employed by the Advanced
14 Systems Technology Division of the Westinghouse Electric Corporation as a
15 consultant in the areas of transmission planning and power system analysis.

1 While employed by Westinghouse, I earned a Masters Degree in Electrical
2 Engineering from Carnegie-Mellon University.

3 I joined the System Planning department of Florida Power & Light
4 Company ("FPL") in 1985, working in the generation planning area. I
5 became Supervisor of Resource Planning in 1986, and subsequently
6 Manager of Integrated Resource Planning in 1987, a position I held until
7 1993. In late 1993, I assumed the position of Director, Market Planning,
8 where I was responsible for oversight of the regulatory activities of FPL's
9 Marketing Department, as well as tracking of marketing-related trends and
10 developments.

11 In 1994, I became Director of Regulatory Affairs Coordination,
12 where I was responsible for management of FPL's regulatory filings with the
13 FPSC and the Federal Energy Regulatory Commission ("FERC"). In 2000, I
14 returned to FPL's Resource Planning Department as Director.

15 I assumed my current position with Progress Energy in January of
16 this year. I am a registered Professional Engineer in the states of
17 Pennsylvania and Florida, and a Senior Member of the Institute of Electrical
18 and Electronics Engineers, Inc. ("IEEE").

19

II. PURPOSE OF TESTIMONY

1
2 **Q. What is the purpose of your testimony?**

3 A. My testimony addresses, from a resource planning perspective, the
4 strategic benefits of acquiring natural gas supply via the Cypress pipeline
5 project discussed in the testimony of Pamela R. Murphy. Specifically, I
6 wish to address the reliability and, potentially, the pricing benefits
7 provided by obtaining natural gas from an alternative source of
8 supply, as well as discuss the flexibility an alternate source provides in
9 planning for future resource needs. As part of my discussion, I will begin
10 with a projection of future gas usage in peninsular Florida, and present
11 what I feel are the risks associated with over reliance on a single point of
12 supply.

13
14 **Q. Are you sponsoring any exhibits to your testimony?**

15 A. Yes. I am sponsoring the following exhibit:

16 **SSW-1 Graph of Historical and Projected Energy by Fuel Type for**
17 **Peninsular Florida**

18 This exhibit was prepared under my direction, and is true and
19 accurate.

20
21
22 **III. THE BENEFITS OF AN ALTERNATIVE GAS SUPPLY**

23 **Q. What is the projection for natural gas usage in peninsular Florida?**

24 A. I have reviewed the Ten-Year Site Plans submitted by utilities in peninsular
25 Florida and attempted to aggregate their projected energy sources to

1 exemplify the importance of reliability and price of natural gas as a fuel
2 source. My exhibit ___ (SSW-1) is a graphical representation of the
3 aggregate energy projections, by fuel type, presented in those Site Plans.
4 As the graph shows, the importance of natural gas as a fuel source will
5 increase over the next 10-year period, increasing from 31% of energy
6 supply in 2003, to approximately 55% of energy supply in 2013.

7
8 **Q. What are the implications of this increase in natural gas usage?**

9 A. Obviously, with natural gas providing the predominant share of energy in
10 the future, concerns are increased about the availability, price, and
11 reliability of supply. For the purposes of my discussion, I will assume that
12 the amount of gas needed, as shown in the aggregate Site Plans presented
13 by peninsular Florida utilities, is appropriate and cost effective, and will
14 address the issues of availability, price, and reliability of supply only as they
15 relate to obtaining the projected amounts. Issues relating to fuel diversity
16 or the appropriateness of any particular percentage of a given fuel are left
17 for a broader discussion of resource planning objectives.

18
19 **Q. Please describe further what you mean by concerns about the
20 availability, price, and reliability of natural gas supply.**

21 A. In the context used here, I am referring to concerns about availability, price,
22 and reliability when the source of supply is concentrated in a single region,
23 or is delivered from a common region. For example, when natural gas
24 supply in Florida is compared to coal or oil supplies, it is clear that nearly all
25 of the current natural gas supply comes from or through the Gulf of Mexico,

1 via one of two pipelines. Oil and coal can be supplied from a number of
2 regions in the United States, as well as from the international market, and
3 delivered from a diversity of sources. The concentrated supply region and
4 transportation options for natural gas raise a number of questions:

- 5 ● Is the supply volume connected to those pipelines sufficient to meet
6 the demand projected for peninsular Florida? (Availability)
- 7 ● Is the limited region from which gas is supplied adequate to ensure
8 competitive pressures on the gas commodity? (Price)
- 9 ● Are the supply region and transportation alternatives vulnerable to
10 interruptions from a common source or event? (Reliability)

11 A qualitative assessment of the natural gas supply picture in Florida
12 would suggest that alternative sources and transportation methods for
13 obtaining this gas would be highly desirable, given the projection that more
14 than half of peninsular Florida's electricity supply will be provided by natural
15 gas.

16
17 **Q. What alternative sources and transportation methods for natural gas**
18 **would address the concerns you have identified?**

19 A. An alternative means of obtaining natural gas supply is provided by
20 liquefied natural gas ("LNG"), especially LNG delivered to the east coast of
21 the United States. With the appropriate facilities, specifically re-gasification
22 facilities, natural gas becomes available from worldwide sources,
23 dramatically increasing the availability of supply, increasing the sources of
24 competitive supply, and ensuring that interruption from a single source or
25 region does not jeopardize the entire volume of gas needed. In other

1 words, having an LNG source available addresses all of the concerns I
2 have identified.

3
4 **Q. How does this generic discussion relate to the proposed Cypress**
5 **pipeline project?**

6 A. As described in Ms. Murphy's testimony, the Cypress pipeline project will
7 provide access to the LNG facility at Elba Island by tying that facility to the
8 Florida Gas Transmission Company ("FGT") infrastructure that currently
9 exists in peninsular Florida. This tie would allow PEF to obtain both a firm
10 source of supply through LNG providers, and a firm source of fuel
11 transportation to meet its increasing gas needs, specifically to provide fuel
12 for the combined cycle units identified in PEF's 2004 Ten-Year Site Plan.
13 At the very least, the pipeline introduces a competitive source of supply for
14 all future gas-fired units, which should result in a long-term price
15 advantage, as well as a reliability advantage when compared to the status
16 quo of two existing pipelines from the Gulf of Mexico.

17
18 **Q. Would you please expand on the reliability advantage provided by the**
19 **Cypress pipeline project?**

20 A. I think recent events in Florida, specifically the series of hurricanes, are the
21 best demonstration of how an alternative source that supplies gas from the
22 east coast would improve system reliability. When a hurricane enters the
23 Gulf of Mexico and approaches the Mobile Bay area, it is entirely possible,
24 and has in fact happened, that drilling operations in that area have to be
25 shut down for safety reasons. The Mobile Bay region is a significant source

1 of gas flowing into Florida, so any interruption of supply from that region is
2 likely to result in the curtailment of electricity production from gas-
3 dependent facilities, most notably from the many combined cycle units
4 which have been, and are projected to be, constructed in Florida. Even
5 though many of these units may switch to oil for a very short period, any
6 extended interruption, such as a hurricane might cause, would affect the
7 state's electric supply.

8 By having a supply available from the east coast, specifically Elba
9 Island, the risk of interruption from a major hurricane is at the very least
10 spread between the coasts. Interruptions to supply or transportation in the
11 Gulf of Mexico are unlikely to be accompanied by interruptions to supply or
12 transportation from the east coast, at least simultaneously. This lessens
13 the likelihood of a curtailment of electrical supply.

14
15 **Q. Does the Cypress pipeline project provide any benefits beyond**
16 **addressing the concerns you have discussed above?**

17 **A.** Yes. In addition to addressing the issues related to availability, price, and
18 reliability that I have presented, the development of an alternative supply
19 source provides additional flexibility in operating the system and meeting
20 future resource needs. Just as having a variety of coal or oil supplies
21 provides benefits to the system, having multiple gas suppliers provides
22 embedded diversity and also introduces the possibility of switching sources
23 to take advantage of shorter term pricing or supply situations, allows for
24 blending fuel supplies to stabilize prices, and opens up more possible
25 arrangements for supply when new resources are added to the system. As

1 an example, the Cypress pipeline project will promote consideration of new
2 combined cycle units or repowering of the existing units at PEF's
3 Suwannee plant site.

4
5 **Q. What is your overall assessment of the Cypress pipeline project from**
6 **a strategic point of view?**

7 A. As a resource planner, I believe that the greater the diversity of fuel
8 suppliers, the better. Having alternatives increases the reliability of supply,
9 increases pressure to hold down prices, and generally lessen concerns
10 about over-reliance on any single source of supply. While it may be difficult
11 to quantify the economic benefits associated with these positives, they are
12 an important part of the decision to proceed with the project.

13
14 **Q. Would you please summarize the benefits you see in the Cypress**
15 **pipeline project?**

16 A. By providing access to an alternative source of natural gas supply (LNG),
17 the benefits to be obtained from the Cypress pipeline project are:

- 18 ● Increases in the availability of supply by providing access to the world
19 market, rather than reliance on a small, regional supply base.
- 20 ● Increases in the reliability of supply by providing an alternate route into
21 the Florida gas transportation infrastructure, from the east coast of the
22 U.S., thereby reducing the risk of interruptions of supply due to major
23 storms or other catastrophes.

- 1 • Increases in the competition of supply, potentially placing pressure on
2 long-term commodity prices, resulting in savings versus reliance on a
3 smaller, more concentrated market.
- 4 • Increases in operational and planning flexibility by allowing short and
5 long term decisions to switch supply sources based on pricing and
6 availability.

7

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

9 **A. Yes.**

1 BY MR. BURNETT:

2 Q Mr. Waters, do you have a summary of your prefiled
3 testimony?

4 A Yes, I do.

5 Q Will you please summarize your prefiled testimony for
6 the Commission?

7 A Yes, I would be glad to.

8 Good afternoon, Commissioners. My testimony in this
9 case addresses what I see as the strategic benefits from a
10 resource planning perspective of acquiring natural gas supply
11 from the Cypress pipeline project as described in Mr.
12 Caldwell's and Ms. Murphy's testimony.

13 As you are all well aware, I'm sure, projections of
14 natural gas usage as a fuel source in electricity production in
15 Peninsular Florida is projected to increase over the next ten
16 years. My review of last year's ten-year site plan submitted
17 to this Commission indicates that natural gas provides more
18 than 30 percent of the electricity supplied today and is
19 projected to increase to more than 50 percent by 2013.

20 As a resource planner, this increasing usage of
21 natural gas raises issues related to the availability and
22 reliability of supply and price. The current situation is that
23 nearly all of the natural gas supply in Florida comes from or
24 through the Gulf of Mexico, supplied through one of two
25 pipelines. When I compare this situation to coal or oil

1 supplies, it is apparent not only that the supply of gas is
2 concentrated in a smaller geographic region, but that the
3 producing region and transmission may be vulnerable to
4 interruptions from a common source or event.

5 Obtaining new gas sources would appear to be highly
6 desirable, given the increasing dependence on gas as a fuel
7 source. In my view, the introduction of liquefied natural gas,
8 or LNG, is a means of expanding the supply and provision of the
9 gas through an east coast facility is an enhancement to the
10 reliability of the supply. In addition, I would expect the
11 expansion of supply would offer a long-term price advantage by
12 placing downward pressure on gas prices.

13 My conclusion is that the Cypress gas pipeline
14 project with LNG supplied through the existing Elba Island
15 facility provides all of the advantages I have mentioned. The
16 facility provides access to the world market, increasing
17 competitive sources of supply and availability, as well as
18 providing a path to gas supply from the east coast.

19 The addition of a new pipeline offers the additional
20 advantages of increasing flexibility in operating the power
21 system and meeting future resource needs. For these reasons, I
22 believe the Cypress pipeline project as presented would be a
23 valuable enhancement to the Progress Energy system.

24 That concludes my summary.

25 MR. BURNETT: We tender Mr. Waters for

1 cross-examination.

2 CHAIRMAN BAEZ: Ms. Christensen.

3 MS. CHRISTENSEN: No questions for this witness.

4 CHAIRMAN BAEZ: Mr. Cruthirds.

5 MR. CRUTHIRDS: No questions.

6 CHAIRMAN BAEZ: Ms. Vining.

7 CROSS EXAMINATION

8 BY MS. VINING:

9 Q Good afternoon, Mr. Waters.

10 A Good afternoon.

11 Q Are the existing expansion plans of FGT, Gulfstream,
12 and SONAT adequate to provide the pipeline capacity that
13 Progress would need in the event that Progress' future gas
14 requirements relied upon natural gas sources other than Elba
15 Island?

16 A I'm not sure I can answer that question. I think we
17 are only addressing the gas supply, I think, through Hines 4,
18 and that is really the focus. Beyond that I'm sure additional
19 expansion would be required from another source to meet the
20 resource plan beyond that point. Is what you are asking if gas
21 were unavailable from Elba Island would we be able to supply
22 Hines 4?

23 Q Well, actually what I wanted more to get at is in
24 your assessment when will FGT be fully subscribed with the
25 current expansion plans that are in the works, if there are

1 any?

2 A I don't know that. Let me explain the process just
3 so you understand my role in this, is that I rely on Ms.
4 Murphy's group to provide the pricing and supply information to
5 the resource plan. It is one of the many inputs we use to
6 develop the resource plan and decide what units to build and
7 where. So I don't necessarily get detailed information on when
8 pipelines are subscribed, for example. I know from her group
9 that there will be an adequate gas supply. I leave it to her
10 to determine where that comes from.

11 Q Let me put it this way, then. If the Cypress
12 pipeline is not constructed, do you believe that the
13 combination of FGT, Gulfstream, and SONAT will provide adequate
14 transportation for Progress?

15 A Well, I believe it is my understanding that they
16 offered alternatives to supply gas to Hines 4. And if Elba
17 Island or this project were not pursued, we would obviously
18 have to pursue another alternative, and that it could be made
19 available. So I don't know that they have the capacity today,
20 but since they did provide proposals, it is my understanding,
21 to supply gas, then it could be done.

22 Q Have FGT or Gulfstream ever failed to provide
23 adequate transportation capacity to meet the reliability needs
24 of Progress?

25 A Not to my knowledge.

1 Q Are there obstacles to using the fuel oil that is
2 stored at Hines 4 as a longer term solution if the contracted
3 quantity of gas is not available from Elba Island?

4 A Long-term, are you using your previous definition
5 greater than three days? Or I think it was three years before,
6 but what do you mean by long-term?

7 Q What I'm actually referring to is the confidential
8 time frame that Ms. Murphy gave at the deposition as to how
9 many hours there were available with the fuel oil that's
10 there.

11 A I think the physical obstacle would be delivery.
12 That delivery of quantities of fuel oil in that magnitude would
13 be very difficult to resupply for anything more than the time
14 frame we discussed on a continuous basis. And then, of course,
15 there is also the price factor. It is not something -- since
16 it is a distillate fuel oil is what we are talking as backup
17 fuel, it is not something you would want to be doing for a
18 longer term.

19 Q And why is that?

20 A Well, it is quite a bit more expensive than any other
21 fuel oil on the system. So if we knew that we were going to
22 have to operate that way for an extended term, we would
23 probably look for other alternatives, whether it is purchased
24 power or some other way of obtaining the power rather than
25 operating those units that way.

1 Q From a planning perspective, what are the benefits to
2 having a long-term fuel supply contract?

3 A Well, I want to be clear that I want to look at this
4 on a system basis and not just address a single unit. But I
5 think the first thing everyone needs to understand is that we
6 commit to the capital resource for periods of 25 years or
7 longer. That is the expected life of the facility. From a
8 planning perspective, I would like to have some surety of
9 supply over the long term. And I think that is meant, as Ms.
10 Murphy said, it's a mix of short, mid, and long-term contracts.
11 But I need to know that if I'm going to have that facility
12 there for 25 years, and I need to provide electricity for 25
13 years, it gives me some comfort to know that I have a sure gas
14 supply for an extended portion of that 25 year life.

15 So from my point of view, it is good to have as part
16 of your overall fuel mix, some long-term contracts. I would
17 not, however, go and say every time I put in a unit I want a
18 25-year gas contract to go with it. I don't think that would
19 be the right approach. But certainly a portion of the gas
20 contracts, it would be better if they were long-term.

21 Q And why is that not always a good approach, what you
22 just said? You said you wouldn't think that was a good
23 approach in all instances.

24 A You mean getting a long-term contract for every unit?

25 Q Correct.

1 A Well, the thing that you have to be wary of is that
2 as circumstances change, whether it is in fuel prices, fuel
3 supply arrangements, or even the resource plan itself, the
4 amount of gas I will be using in the long-term will change. I
5 need to be able to react to it in some fashion. For example,
6 in the longer term, if I look at adding a different kind of
7 unit besides a combined cycle unit, say a coal unit beyond the
8 combined cycles, adding that coal unit will make the combined
9 cycle unit run less.

10 If I have committed to the full volume of gas for
11 that unit for the full term, I add something different and now
12 I don't need as much gas, I'm stuck with it. So, you want to
13 have flexibility in the plan. And I think as she said, short,
14 mid, and long-term contracts give you that flexibility. That
15 is really what we are aiming for.

16 Q To have the optimum level of flexibility, in your
17 assessment what percentage of the portfolio should be long-term
18 contracts?

19 A I don't think there is a good way to answer that. A
20 lot of that comes down to pricing. Whether or not you have to
21 pay a premium for long-term contracts, whether or not the
22 market has changed, taken a sudden price drop and so on. I
23 don't think there is a perfect answer. I think if anybody had
24 that perfect foresight, they probably wouldn't be working for a
25 utility, they probably would be cleaning up on the stock market

1 somewhere.

2 Q Well, does Progress Energy have a stated preference
3 for what that percentage would be?

4 A I'm not aware of one. That would be a gas purchasing
5 or fuel purchasing policy, and I'm not involved in that
6 process.

7 Q How does the loss of load during a hurricane effect
8 Progress Energy's natural gas needs?

9 A The loss of electrical load is what you are referring
10 to?

11 Q Yes. Uh-huh.

12 A Well, of course, it depends on how severe. But
13 obviously one of the side effects, one of the unfortunate side
14 effects of a hurricane is generally it puts a lot of people out
15 of service and off the system. So the electrical load drops in
16 some cases substantially, depending on where the hurricane
17 hits. That would, of course, decrease fuel needs overall,
18 including the natural gas usage.

19 Now, I have to put some caveats on that. There are a
20 lot of ifs that go with that. If the hurricane approaches the
21 nuclear unit and it has to be shut down, that can actually
22 increase the need for other fuels on the system, at least for a
23 short period. So the ultimate answer is it depends, but
24 typically when you have lost a lot of load, your fuel needs
25 overall will go down on the system for some period of time

1 until the loads are restored.

2 Q So load will be down at the same time that the gas
3 fuels are probably curtailed?

4 A Not necessarily. If the hurricane -- the last year
5 was unusual in so many ways. We had form major storms. I
6 think if Hurricane Ivan had been the first storm and gone
7 towards the panhandle and shut down the gas facilities, it
8 would have been a whole different situation than if we hadn't
9 had three storms before that which reduced electrical load.

10 I don't know what would have happened in that case,
11 but I can sort of guess that it would have been a more severe
12 case. If that had happened, say, in August -- if we had seen
13 Ivan in August with no storms ahead of it, and we had full load
14 while the gas was curtailed, that would have been a very, very
15 difficult situation I'm not sure we could have operated around.

16 Q All right. Switching gears, I want to talk about the
17 pricing index used for the contract. Now Ms. Murphy said
18 earlier that Henry Hub will be used as the index for the
19 pricing in the contract. If an alternative pricing index
20 develops for LNG in the U.S. --

21 COMMISSIONER DEASON: Excuse me for just a moment. I
22 may be confused. I thought that the witness said something
23 about a national index. Is that Henry Hub, or is that two
24 different concepts?

25 MS. VINING: Well, yes -- no, it is not two different

1 concepts. It would be the index used is Henry Hub for the
2 United States, so in that sense it is a national index.

3 MR. BURNETT: Commissioner, and if I may offer, if we
4 wanted to field that question back with Ms. Murphy, we would be
5 happy to call her back. But I'm not sure if I want to rely on
6 Ms. Vining's definition of the hub, or maybe even Mr. Waters
7 for that matter. I believe we may be out of his subject area.
8 But we would be happy to call Ms. Murphy back if you would like
9 to address that.

10 CHAIRMAN BAEZ: Commissioner, do you want to hold --
11 we can hold the question.

12 COMMISSIONER DEASON: I was just trying to get
13 clarification of the question before the witness answered.
14 And, you know, if I have an misunderstanding -- I thought there
15 was some distinction between just plain Henry Hub and some type
16 of a national index, and that's just what I was seeking
17 clarification on. And if this witness can answer it, fine; and
18 if we need to recall the prior witness, that's fine. It's your
19 discretion. Whatever you want to do. I just want that
20 clarified.

21 CHAIRMAN BAEZ: We have the blessing of time and the
22 presence of a witness and the availability, so if that becomes
23 necessary, I don't know, we haven't even asked Mr. Waters.

24 MR. BURNETT: Certainly. And I apologize, I just
25 wanted to be helpful if Ms. Murphy could elucidate that in any

1 way.

2 BY MS. VINING:

3 Q Mr. Waters, if you have a response to Commissioner
4 Deason's question?

5 A Well, unfortunately that is clearly outside my area.
6 I don't deal in gas indices, other than I have always been
7 given Henry Hub as sort of the standard we have used in
8 planning for the forecasts, and that has been the basis of our
9 natural gas forecasts for planning purposes. Now, whether that
10 represents --

11 CHAIRMAN BAEZ: And you don't know that that is the
12 national index referred to for purposes of the contract?

13 THE WITNESS: Well, I believe it is the same index
14 referred to for the contract, but I'm not sure if that is the
15 only index or whether it represents a national index. That
16 kind of question I'm not sure I could answer. It is an
17 appropriate index, I think, for our planning purposes. If
18 somebody was doing a planning study in California, I don't know
19 what index they would use. I don't have any knowledge of that.

20 BY MS. VINING:

21 Q The predicate for my question was just that the Henry
22 Hub index is what is used in the contract with BG?

23 A That's my understanding.

24 Q Okay. Now, Mr. Waters, if an alternative pricing
25 index developed for LNG in the U.S. during the BG contract

1 term, and I know, let's just assume that, do you believe it is
2 reasonable to assume that the Henry Hub price would be
3 responsive to that index?

4 A I have to answer that as a layperson, essentially,
5 because I'm not a gas forecaster nor am I a purchaser of gas.
6 However, it simply strikes me that if you increase the supply,
7 simple supply and demand relationships are going to make the
8 Henry Hub price respond. If the LNG supply is competing with
9 gas supplied at Henry Hub, it has to drive the index down,
10 assuming there is adequate supply of LNG. But I think it has
11 to be responsive.

12 Q Okay. Thank you. Now, during your deposition you
13 responded to a question regarding a comparison of the risks of
14 the proposed contracts to a Gulf of Mexico based alternative.
15 And you responded that you believe the risks are very
16 different. Do you recall this line of questioning?

17 A I would probably need a little context around that to
18 put it in perspective.

19 Q Okay. If you will, look at Composite Stip 3. It
20 should be in the red folder at Page 29.

21 A Could you give me the page reference again?

22 Q Sure. Page 29, and it is beginning at Line 13.

23 A Right. I have it. I see the context I was talking
24 about, yes.

25 Q My question is could you explain why you believe it

1 is important to look at the risks from a system-wide point of
2 view?

3 A Yes. What I was referring to in the deposition, and
4 the point I would want to make is when we focus on the risk of
5 just the Gulf supply, or just Elba Island, I think it misses a
6 major point. And that is when I am comparing getting this next
7 gas supply from Elba Island to continuing to be supplied by the
8 Gulf, I think the risks are very different. If I lose Elba
9 Island after consummating this contract and getting approval, I
10 still have supply from the Gulf. I may lose part of my system,
11 but I still have most of it there.

12 By the same token, if I lose the Gulf, I still have
13 Elba Island. I can still maintain part of my system. If I
14 were to go and supply this next increment from the Gulf and
15 just continue buying from the same region, if I lose the Gulf,
16 I lose everything. And that's what I was referring to. A
17 completely different situation. And I think you need to look
18 at it from a system point of view. Because there is, in my
19 view, a significantly different risk profile; if I lose part of
20 the system, or if I lose the whole system when I lose my gas,
21 an individual point supply of gas. And that is really what I
22 was referring to.

23 Q Okay. Thank you. Is there any protection in the
24 contracts for Progress' customers against a prolonged -- and in
25 this case longer than three days -- curtailment of load at

1 Hines 4 and other Progress generating units caused by
2 curtailment of LNG deliveries to or from Elba Island?

3 A I don't know, I really haven't look at the contracts
4 from that perspective.

5 MS. VINING: Those are all the questions we have.
6 Thank you.

7 CHAIRMAN BAEZ: Commissioners, questions? No
8 questions?

9 Redirect.

10 MR. BURNETT: No, sir.

11 CHAIRMAN BAEZ: Exhibits.

12 MR. BURNETT: Yes, sir. We would move Mr. Waters'
13 Exhibit Number 14.

14 CHAIRMAN BAEZ: Without objection, so moved.

15 (Exhibit 14 admitted into the record.)

16 CHAIRMAN BAEZ: Mr. Waters is the last of the
17 witnesses. Ms. Vining, do you want to go over any closing
18 matters, or if any of the parties have any closing matters?

19 MS. VINING: Sure. I don't believe we have any
20 late-filed exhibits, so there is no deadline for that
21 necessary.

22 But in terms of important dates, the hearing
23 transcript will be due May 3rd, and then post-hearing briefs
24 will be due May 13th, with the staff recommendation due on June
25 2nd, and a post-hearing agenda scheduled for June 14th.

1 CHAIRMAN BAEZ: Do the parties have any questions as
2 to the dates that have been laid out?

3 MR. BURNETT: None, Commissioner, other than to note
4 the fact, again, as a reminder, the condition precedent does
5 call for a June 15th, and if there were any problems with that,
6 I would like to have the company maybe try to negotiate with
7 the other counter-parties to move that date if it became
8 necessary. But I don't know if that would even be needed.

9 CHAIRMAN BAEZ: Now that it is out there, everybody
10 knows that there is a somewhat hard date. All those involved,
11 do whatever you can, whatever might be necessary to make that
12 happen.

13 Commissioners, do you have any closing matters? If
14 none, we have already moved all the --

15 MS. CHRISTENSEN: Commissioner, can I ask for a
16 clarification? I don't know whether Exhibits 2 and 3 were
17 moved into the record. I would just like clarification.

18 CHAIRMAN BAEZ: I'm showing them moved in. But, if
19 not, show them moved.

20 All right. I want to thank you all for making quick
21 work on a Friday hearing. I'm sure that is an omen of
22 something, I don't know what.

23 But have a good weekend, everyone. We are adjourned.

24 MR. BURNETT: Thank you. Have a good weekend.

25 CHAIRMAN BAEZ: Thank you, staff.

(The hearing concluded at 1:50 p.m.)

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1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

4

5 I, JANE FAUROT, RPR, Chief, Office of Hearing
6 Reporter Services, FPSC Division of Commission Clerk and
7 Administrative Services, do hereby certify that the foregoing
8 proceeding was heard at the time and place herein stated.

9 IT IS FURTHER CERTIFIED that I stenographically
10 reported the said proceedings; that the same has been
11 transcribed under my direct supervision; and that this
12 transcript constitutes a true transcription of my notes of said
13 proceedings.

14 I FURTHER CERTIFY that I am not a relative, employee,
15 attorney or counsel of any of the parties, nor am I a relative
16 or employee of any of the parties' attorney or counsel
17 connected with the action, nor am I financially interested in
18 the action.

19 DATED THIS 3rd day of May, 2005.

20

21

22 _____
23 JANE FAUROT, RPR
24 Chief, Office of Hearing Reporter Services
25 FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6732

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