Florida Power
CORPORATION

JAMES P. FAMA
SENIOR COUNSEL

April 26, 1993

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, Florida 32399-0870

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

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket is the original and fifteen copies of the Rebuttal Testimony of Florida Power Corporation witness James T. Pollard and Exhibits.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance.

Sincerely,

James P. Fama

James P. Fama

JPF/kmj
Enclosure

cc: All Parties

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CERTIFICATE OF SERVICE

DOCKET NO. 920807-GP

I HEREBY CERTIFY that a true and correct copy of Florida Power Corporation's Rebuttal Testimony of James T. Pollard was furnished by U.S. Mail this 26th day of April, 1993 to the following:

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James P. Fama

James P. Fama, Esquire

Before the
Florida Public Service Commission

In re: Petition of Florida Power Corporation for Determination of Need for an Intrastate Natural Gas Pipeline by SunShine Pipeline Partners)	Docket No. 920807-GP Filed: April 26, 1993

REBUTTAL TESTIMONY
OF
JAMES T. POLLARD

I.

INTRODUCTION, PURPOSE AND SUMMARY

Q. Please state your name and business address.

A. My name is James T. Pollard. My business Address is Florida Power Corporation, 3201 34th Street South, P.O. Box 14042, St. Petersburg, Florida, 33733.

Q. Are you employed by Florida Power Corporation?

A. Yes, I am employed by Florida Power Corporation as Director of Information Services. I am also Vice President of two wholly-owned subsidiaries of FPC, Power Energy Services, Inc. ("PESCORP") and Power Interstate Energy Services Corporation ("PIESCORP").

Q. Have you previously submitted prepared testimony in this proceeding?

A. Yes I have. My prepared direct testimony was filed on April 12, 1993. I also submitted to a deposition with respect to my prepared direct testimony on April 19, 1993.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the assertion by Dr. Paul Carpenter in his prepared direct testimony on behalf of Florida Gas Transmission Company ("FGT") in this proceeding, that there will be few, if any, competitive benefits realized by FPC and other Florida gas customers from the existence of a second natural gas transportation system servicing the state beyond those benefits already realized as a result of the threat of entry of a competing pipeline into the Florida gas transportation service market (the "Florida gas market"). I will also respond to Witness Carpenter's claim that FPC's equity position in SunShine Pipeline Partners ("SunShine"), the partnership that is the sponsor/developer of the SunShine Pipeline, is likely to disrupt the Florida gas market's ability to determine whether there is a need for the SunShine Pipeline, and result in the construction of an unneeded and underutilized facility. Finally, I will respond to Witness Carpenter's suggestion that delaying the certification of the SunShine Pipeline may be preferable to the issuance by the Florida Public Service Commission ("FPSC") of a certificate of need as applied for by SunShine.

Q. Please summarize your rebuttal testimony.

A. Although FPC and other Florida gas consumers have already realized very substantial benefits from the threat of SunShine Pipeline's entry into the Florida natural gas market, there will be many future opportunities for Florida gas consumers to benefit from continuing competition if two Florida pipeline systems actually exist. FPC sought an equity position in the SunShine Pipeline in order to secure present and future benefits for its ratepayers. FPC's minority equity position is not sufficient, in and of itself, to permit the SunShine Pipeline to be financed and constructed; it is FPC's contractual commitment to the SunShine Pipeline together with the contractual commitment of Peoples Gas System and the contractual commitments of other shippers that FPC fully expects SunShine to receive, that will support the financing and construction of the SunShine Pipeline. Delaying the issuance of a certificate of need for the SunShine Pipeline is more likely to result in loss of the currently existing critical mass of demand for transportation service sufficient to support the development of a second, competing Florida pipeline, than it is to avert any significant risk that an underutilized pipeline will be built.

Q. How is the rest of your rebuttal testimony organized.

A. There are three additional sections. Section II deals with the competitive benefits of the actual existence of two Florida natural gas pipelines. In Section III, I discuss why FPC's equity interest in the SunShine Pipeline will not interfere with the Florida gas market's determination of whether the SunShine Pipeline should be built. Section IV explains why delaying a certificate of need for the SunShine Pipeline will disadvantage Florida gas consumers and benefit only FGT.

II.

BENEFITS OF PIPELINE TO PIPELINE COMPETITION BETWEEN EXISTING PIPELINES

Q. Mr. Pollard, you stated in your summary of your testimony that Florida gas consumers have already realized "very substantial" benefits as a result of the competition in the Florida gas market resulting from the threat that the SunShine Pipeline would be constructed. What do you mean by "very substantial" benefits?

A. FPC has calculated an estimate of the net present value of the improvements in the terms of service FGT has offered for service on its Phase III project, from the early offers made before there was serious competition between SunShine and FGT, to FGT's last offer. That calculation yields approximately $111,000,000 in savings. My net present value calculations and the basis upon which those calculations were made are set out in Exhibit ____________ (JTP-5) to my testimony. Based upon the improvements in the terms of service FGT offered FPC once there was a viable threat of competition, and extrapolating the value of those improved terms over the transportation capacity of FGT's Phase III project would yield a very large additional net present value to Florida's natural gas markets. Even greater benefits are captured by FPC's precedent agreements for service on the SunShine Pipeline and the SunShine Interstate ("SITCO") Pipeline.

Q. FGT Witness Carpenter indicates that the possibility of future competitive entrants into the Florida gas market will provide benefits to Florida gas consumers equal to or greater than the existence of a second pipeline would provide. Do you agree?

A. Absolutely not. Dr. Carpenter assumes there will always be viable gas pipeline projects posing the threat of competition to FGT by entering the Florida gas market. Nothing in the past suggests that this will be the case. Natural gas pipelines are capital intensive projects that depend upon economies of scale in order to be able to offer rates for service that will permit natural gas to compete with alternate fuels. In order for a pipeline project to be viable, it must secure commitments from shippers for a substantial portion of the quantity of capacity necessary to achieve the required economies of scale, and it must have reasonable prospects of obtaining commitments from shippers for substantially all of the proposed capacity. The commitment of FPC to ship gas on the SunShine Pipeline is what made that project a viable competitive threat to FGT, and resulted in the realization of the benefits of pipeline to pipeline competition that FPC and other Florida gas consumers have already enjoyed. There is no reason to assume, as Dr. Carpenter does, that such a viable competitive threat will exist in the future to discipline FGT's service to the Florida gas market. Although growth in gas demand in Florida is a virtual certainty, what may very well not again exist is the combination of an anchor load commitment and a critical mass of demand for transportation service sufficient to support a "greenfield" pipeline project through the time consuming and expensive regulatory and development process.

Q. Are there likely to be competitive benefits from the actual existence of two gas pipelines?

A. Yes, certainly. Given the expected growth in the Florida gas market, additional pipeline capacity will be required from time to time, even though the amount of additional capacity may very well not justify the construction of a totally new pipeline system. If both FGT and SunShine are operating pipelines, they will have the ability and the incentive to compete with one another to provide this additional service. Thus, Florida gas consumers requiring additional transportation capacity in the future will enjoy the competitive benefits that shippers on the SunShine Pipeline and Phase III have already realized. This will, in addition, enhance the likelihood that the use of natural gas in Florida will increase, providing environmental and economic benefits to the state.

Q. Will the fact that FGT is regulated by the FERC, and SunShine will be regulated by the FPSC limit the effectiveness of pipeline to pipeline competition between these systems?

A. No. Under the federal regulatory system administered by the FERC, FGT can propose new rates and terms and conditions of service from time to time. Even though it appears that FGT has contractually capped its rates for service on Phase III, it could propose terms and conditions, other than rates, that would be less advantageous than those in the pro-forma tariff it has filed for Phase III. Further, it does not appear that FGT is contractually limited from proposing new rates and terms of service on its existing system. The existence of a competing FPSC regulated pipeline will provide market discipline to any changes in rates and terms and conditions of service to Florida gas consumers that FGT may propose in the future. Of course, FGT would provide a reciprocal competitive discipline to SunShine.

Q. Has any independent consultant confirmed for FPC the benefits of pipeline to pipeline competition?

A. Yes. In connection with the work of its Natural Gas Task Force, FPC sought the advice of a pipeline consultant, John J. Hibbs & Associates, with respect to whether there would be benefits from the existence of two competing pipelines serving Florida. Mr. Hibbs' letter to me setting out his views on the benefits of pipeline to pipeline competition is attached hereto as Exhibit _______ (JTP-6).

Q. You mentioned FERC Order No. 636 in your answer to the previous question. Do you agree with Witness Carpenter that that Order will be an adequate substitute for pipeline to pipeline competition?

A. No. Clearly, Order No. 636 will not be an adequate substitute for pipeline to pipeline competition. Order No. 636 will provide a secondary market in which shippers holding transportation capacity on a pipeline can release some or all of their capacity rights to others. Obviously, no additional physical capacity will be created by Order No. 636.

A shipper who obtains capacity by release from another shipper's capacity holdings is getting "leftovers", or the capacity rights the releasing shipper does not want.

Thus, capacity release is no substitute for primary, firm capacity to many gas users who, like FPC, need firm capacity tailored to their specific requirements.

I would also point out that the secondary market for Florida gas transportation service that will result from FERC Order No. 636 will also benefit from the existence of two competing pipelines. SunShine will have to offer a form of capacity release in its tariff, because the SITCO Pipeline will be required by the FERC to offer capacity release under Order No. 636, and competition with FGT will require SunShine to offer its shippers similar capacity release opportunities. Shippers on either SunShine or FGT seeking to release capacity to others will be faced with competition not only from other shippers on the pipeline on which they hold capacity, but from shippers on the other pipeline as well.

Q. Is there anything in your past experience as an executive with Southern California Gas Company that supports your conclusion that FPC and other Florida gas consumers will reap significant benefits from the existence of two competing pipelines?

A. Yes. In the mid-1980's there was a large potential market for natural gas in southern California to fuel the operations of oil producers in the Kern County heavy oil fields. The oil in the Kern County reservoirs is so heavy that in order to produce it, steam is injected into the formation in a steam-flooding process known as "enhanced oil recovery", or EOR. The EOR producers, many of whom owned substantial natural gas reserves outside California, wanted to fire their EOR activities with natural gas.

Southern California Gas Company ("SoCal") was the dominant provider of natural gas supply and transportation service to the Kern County area, through an intra-state pipeline regulated by the California Public Utilities Commission ("CPUC").

In 1985, both the Mojave and Kern River interstate pipeline projects were proposed, to provide interstate gas transportation service to move the EOR producers' gas supplies into the Kern County heavy oil fields. At SoCal's request, the CPUC issued an order permitting SoCal to lower its intrastate transportation rate so that it could serve the EOR producers at a better rate than SoCal's existing industrial gas service tariff. SoCal also proposed an expansion of its delivery capacity into Kern County. SoCal's efforts were aimed at maintaining its position as the dominant supplier of gas transportation service in its southern California service territory.

Most of the EOR producers elected to commit to transport their gas supplies over one of the proposed interstate pipelines, Mojave or Kern River, even though SoCal's rates were as good or better than the rates offered by Mojave and Kern River, and even though SoCal's pipeline was already in place while Mojave's and Kern River's facilities were in the development stage. The reason for this choice was to assure that there would always be pipeline to pipeline competition to serve their requirements. The EOR producers were concerned that if they did not support Mojave and Kern River with transportation commitments, there would be not be a second pipeline to keep competitive pressure on SoCal, and SoCal's rates and terms of service that were offered under the threat of competition from Mojave and Kern River would subsequently change to their detriment when the competitive threat went away. In some cases EOR producers actually committed to initial rates on Mojave or Kern River that were higher than the rates offered by SoCal, in order to secure future benefits that they could only realize if there was pipeline to pipeline competition between two or more existing pipelines.

III.

FPC's EQUITY IN SUNSHINE WILL NOT INTERFERE WITH THE MARKET'S ABILITY TO DETERMINE WHETHER THE SUNSHINE PIPELINE SHOULD BE BUILT

Q. Do you agree with Witness Carpenter that because FPC proposes to recover the cost of its investment in SunShine through its rates for electricity, FPC's commitment to transport gas on the SunShine Pipeline should not be given full value in ascertaining whether SunShine will meet the market test of need for its facilities?

A. Clearly not. FPC's commitment to transportation service on the SunShine Pipeline is not dependent on whether FPC is a partner in the project. FPC made the transportation commitment to enable it to obtain the gas supplies it needs on terms, including rates, which provide the best package of transportation service. Even if FPC exercises its option to reduce its equity position to zero, it is and will be contractually committed to the SunShine Pipeline under its precedent agreement. As I have already testified, FPC took an equity position in the SunShine Pipeline to further the interests of its ratepayers. FPC wants the best gas transportation service at the lowest reasonable cost; forcing an unneeded pipeline into the ground will not accomplish this goal and is simply not our purpose.

FPC's commitment to purchase transportation service on the SunShine Pipeline should count for full value in measuring whether there is a need for the SunShine Pipeline, just as much as the commitment of Florida Power & Light Company or any other shipper to the FGT Phase III project receives full value in determining whether the FGT Phase Project is needed.

Q. Will FPC's equity participation be necessary to finance construction of the Sunshine Pipeline?

A. Not in my opinion. While FPC's commitment as a customer is necessary to support the financing of the SunShine Pipeline, its equity participation is not. ANR and FPC have always anticipated the admission of a financially strong company with experience in the pipeline industry as a third partner, and it appears such a partner will soon be admitted. Further, FPC and ANR have always planned to obtain most (seventy-five (75%) percent) of the funds for the construction of the SunShine Pipeline on a project - financed, non-recourse basis, rather than based on the corporate credit of ANR and FPC. With project financing, repayment of the construction debt is secured by the pipeline facilities and its revenue stream, and the lender does not have recourse to the pipeline owners; therefore FPC's equity participation should not be a determining factor in financing the SunShine Pipeline.

Q. FGT Witness Carpenter expresses concern, in both his prepared direct testimony and his deposition testimony, that because FPC proposes to recover its equity investment in SunShine through its rates for electricity, the SunShine Pipeline will be constructed regardless of whether its capacity is needed. Is this concern well founded?

A. No, it is not. Witness Carpenter's concerns appear to be based upon his professed experience with the expansion of the intrastate pipeline facilities of Pacific Gas & Electric Company ("PG&E") in California. Witness Carpenter believes that PG&E's construction of those facilities pursuant to a certificate of public convenience and necessity that was issued by the CPUC without a specific finding of need for the capacity based upon traditional regulatory proceedings, and without contracts for a substantial portion of the expansion capacity, will result in an increase in rates to PG&E's captive gas service customers. I am familiar with the PG&E situation, and I do not believe that situation is similar to the circumstances of the SunShine Pipeline project, nor that the outcome in the PG&E matter will be as Witness Carpenter seems to expect.

Q. Why do you not agree with Witness Carpenter's concerns and conclusions about the PG&E expansion and their applicability to the SunShine Pipeline?

A. Based on the fact that PG&E proceeded with its expansion based upon a certificate that "let the market decide" whether the expansion was needed, without commitments for most of the expansion capacity, Witness Carpenter simply assumes that SunShine will do what PG&E did. He asserts this may be the case because FPC may be able to recover its one-third share of the total capital cost of the SunShine Pipeline in its electricity rates. This assumes that ANR Southern Pipeline Company ("ANR") and any other partners who may subsequently be admitted to the SunShine and SITCO partnerships will be willing to risk an investment of at least two-thirds of the cost of the project if there do not exist contracts for enough of SunShine's capacity to permit recovery of that investment. I do not believe a situation where at least two-thirds of the risk of constructing an underutilized pipeline would fall on a company or companies that have no way of recovering their investment other than through the pipeline's revenue stream is comparable to the circumstances of the PG&E expansion.

IV.

THE COMMISSION SHOULD NOT DELAY CERTIFICATION OF SUNSHINE

Q. Witness Carpenter recommends that the FPSC delay certification of the need for the SunShine Pipeline until its capacity has been more fully contracted. Do you agree with this recommendation?

A. No, I do not. As I have already pointed out in Section II of my testimony, the availability of an anchor load for a second, competitive pipeline to Florida at a time when there is sufficient additional demand for gas transportation services to justify construction of a new pipeline is a situation that does not happen every day. Because this situation now exists, the FPSC should promptly issue a certificate of need for the SunShine

Pipeline, so that it can go forward and obtain contracts for enough of its capacity to support financing and construction of the pipeline.

Q. Are you recommending that the FPSC issue a certificate of need even though all of the SunShine Pipeline's capacity has not been contracted with shippers?

A. Yes, I am. Development of a pipeline project takes a long time, and in order for a new pipeline to be built, long-term contracts with shippers are required. On the other hand, these long-term transportation contracts represent significant obligations on the part of the shippers, and shippers are justifiably cautious about binding themselves to a project that may not be built and foreclosing other options for the service they require until it may be too late to obtain that service, or to obtain it on acceptable terms. If a project like the SunShine Pipeline demonstrates to the FPSC's satisfaction that there is, or will be, a need for the gas transportation capacity proposed at the time the pipeline will commence service, and the project has contracts for a significant portion of the proposed capacity, a need certificate should be issued. When a project has completed this first, most important regulatory step, it can expect that shippers will be much more willing to commit to capacity as the development process moves forward.

Q. What could happen if the FPSC delayed issuing a certificate of need for the SunShine Pipeline?

A. It is unlikely that the pipeline would ever be built. Shippers would continue to be hesitant about committing for capacity, and the project would lose momentum. FPC would certainly have to consider other alternatives to timely meet its natural gas transportation requirements.

Q. Do you agree with Witness Carpenter that delaying the issuance of certificate of need for the SunShine Pipeline could have significant economic value?

A. It could certainly have significant economic value to Witness Carpenter's client, FGT, because it would allow FGT to avoid having to compete with another pipeline in the future. However, if delay costs Florida the opportunity to have a second, competitive pipeline, then the effect of delay would be a significant loss to Florida gas consumers and the Florida economy. Put another way, delay in issuing a certificate of need for the SunShine Pipeline will slow down its ability to attract shippers, cause prospective shippers to choose alternative fuels or make other changes in their operations that will adversely affect SunShine's ability to contract its capacity, expose SunShine to higher construction costs due to inflation that will either make the rate caps it has agreed to untenable, or result in higher service rates, and probably result in shutting down the project. It does not appear that any of the likely results of delay are beneficial to Florida gas consumers.

Q. What about Witness Carpenter's assertion that delay may avoid the construction of unneeded facilities?

A. I view this as nothing more than the typical concern of a company with dominant market power over the risk of "ruinous competition." Issuance of a certificate of need is fully justified on the basis of the commitments SunShine already has from shippers and the demonstration of additional demand that SunShine has made.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

FPSC Docket No. 920807-GP
Exhibit _______, (JTP-5)

ESTIMATED SAVINGS FOR FPC FROM FGT (BASED ON SERIES OF FGT PROPOSALS)

SAVINGS ON LATERALS	$27,000,000
RATE CAP @ $.82	$24,000,000
ADDITIONAL SAVINGS FROM EFFECT OF RATE CAP ON CAPITAL COST OVERRUN	$51,000,000
IMPROVED SUPPLY ACCESS	$9,000,000
TOTAL ESTIMATED SAVINGS	$111,000,000

FGT Proposal Chronology

	Customer Presentations 91	FERC Filing 11/15/91	FERC Filing 4/15/92	8/25/92 FERC Settlement Offer	10/28/92 Offer to FPC
Phase III Project	875,000/day	825,000/day	530,000/day	530,000/day	120,000/day for Anclote 90,000/day for Polk County
Initial Rate	64.5¢ ($91)	72.5¢	78.6¢	78.6¢	77.0¢
Supply Access:					
Texas	15%	15%	18%	19%	19%
Louisiana	18%	18%	18%	35%	35%
Mississippi/Alabama	67%	67%	64%	46%	46%
Av. 90&91 Gas Cost	$1.61/MMBTU	$1.61/MMBTU	$1.61/MMBTU	$1.59/MMBTU	$1.59/MMBTU
Rate Cap	None	None	None	Sliding scale for 20yrs. 80-86¢ then 30% esc. yr 9-20	77¢ for 3yrs. then 30% esc. with ultimate cap of 82¢
Lateral Cost	Paid by Cusotmer (1)	Paid by customer (1)	Paid by customer (1)	Paid by customer (1)	FPC pays for meter stations only: no lateral costs (2)

(1) Potential lateral costs of $13 million at Anclote - $16 million a Polk County - $29 million total.
(2) Lateral savings of $27 million in proposal

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An Energy Services Company

December 2, 1992

Mr. James T. Pollard,
Director, Information Services
Florida Power Corp.
P.O. Box 14042
St. Petersburg, FL 33711

**Re: SunShine / SITCO Project
Pipeline Competition and Equity Participation Issues**

Dear Jim:

Pursuant to our discussion yesterday, I have given the above captioned matters some thought and have set forth below some points that Florida Power might consider when weighing its options with regard to competing gas transportation services and potential project equity participation.

Merits of Competitive Pipeline Services

As a general matter, having two or more pipelines in a service area will:

- foster competition in terms of rates and services;
- provide for supply or producer diversification, and
- provide alternative shipping opportunities.

In the instant case, the construction of SITCO and SunShine, and the resulting competition with Florida Gas Transmission should provide FPC with the long term benefits of superior gas transportation services at costs less than would be incurred if FGT continued as Florida's sole gas pipeline supplier. Without a doubt, an additional Florida pipeline will promote a competitive atmosphere and should result in future lower rates, more responsive services, and more diversified supply opportunities.

As to what can happen when there is no competition and the pipeline supplier enjoys a captive market, let me site a recent, real time example. An LDC client requested that its pipeline supplier provide it with an incremental firm transport service. In the meantime an independent facility analysis was performed which indicated that virtually no additional facilities would be required to actually render the very modest requested service addition. However, the pipeline, after taking months to respond to the request, advised the LDC that some ten miles of large diameter, main line looping would be necessary to effect the service (as a result of the pipeline employing an ultra conservative pipeline design formula no longer in general industry use) and, adding insult to injury, proposed that the LDC make a capital contribution in aid of construction that was based on a unit cost for the pipeline facilities that was double the general industry standard in that geographic location. Needless to say, the plans for that particular project were aborted. The point of relating this incident is simply to demonstrate that there is little incentive for a pipeline to operate efficiently when it is not in a competitive market environment. In fact, even where pipelines in this monopolistic situation are not intentionally "gold plating" the design and cost estimates, you will find, at the minimum, a natural tendency to error on the conservative side. This is simply the "nature of the beast."

Generally speaking, while the establishment of dual pipeline service may come at some initial cost premium since an existing pipeline can typically expand its system at a cost less than that associated with the construction of a new system, I don't see this as an issue (at least not a significant one) in this case. Based on the FGT Phase III filing, the proposed FGT initial rate for new incremental service was indeed marginally higher than the comparable rates estimated for SITCO and SunShine. Assuming that any further expansion on FGT for FPC service would result in a somewhat similar rate, then, it appears to me that the advantages that the two pipeline system would bring to south Florida, can be achieved for little or no initial premium. More importantly, even if such an initial cost premium was required, FPC (or its electric rate payers) should seriously consider absorbing such an initial differential, if not overly burdensome or a perceived prudency issue, in order to enjoy the long term competitive benefits that the alternative system will generate. How much of a premium should FPC be willing to pay? That is a very subjective matter and the question can only be answered by FPC itself.

Merits of FPC Taking an Equity Position

By taking an equity position (even a very minor percentage) in the proposed SunShine project, FPC, or its designated affiliate or subsidiary, can control, or at least influence:

- the project's management philosophy;
- O&M expenditures;
- major capital expenditures;
- the development of capital and O&M budgets, and
- rate design and cost allocation methodology.

While the exact rights of a minority interest venture partner such as FPC would have to be negotiated with Coastal or ANR and incorporated in the formal partnership or joint venture agreement, FPC is obviously in an excellent bargaining position given the fact that it is the keystone shipper. Simply put, without FPC, the Sun will not Shine! This should put FPC in a position of extracting a position in the venture virtually equal to Coastal. For example, FPC should be able to persuade Coastal that every significant project decision must require unanimous approval. On the other hand, FPC must keep its demands within reason or Coastal might opt to abort the project, and this would not be in FPC's best interest, unless United is standing by with an equally attractive proposal or FPC stands ready to enter the gas pipeline business itself.

While it is also true that such an equity position comes at a price, the benefits of being able to control one's gas supply and transportation "destiny" in my opinion, far outweigh the investment. Further, the equity investment should earn a modest, 14.25% return in the process. While there may be other investment opportunities for FPC that exceed this rate of return on equity, I doubt that there are many, if any, opportunities that couple a reasonable return with the collateral long term benefits described above.

Should FPC opt to take an equity position in the SunShine project, then its interests would be like a two edged sword in that its position as a shipper will not always be in phase with its position as an equity participant. This should not be a major issue, however, since the potential equity percentage is relatively small and FPC's principal interest in the project should lie as a shipper.

In summary, it is my opinion that it would be to FPC's significant long term gas transportation rate and service advantages to support SunShine or some other equally attractive alternative Florida pipeline system, and take a small equity position in said system, even at the initial expense of a rate differential premium and a lost capital investment opportunity that might have generated a higher equity return.

I hope you find this opinion responsive to your request. if you need anything further from me regarding this matter, please advise.

Very truly yours,

John J. Hibbs