

2.2.01
DECLASSIFIED CONFIDENTIAL

FPSC Staff's First Set of Interrogatories
Docket No. 990325-EI (closed)
GULF POWER COMPANY
June 7, 1999
Supplemental Response to Item No. 8

8. Discuss the current status of negotiation with the RFP respondents "with the best offers", as stated at page 69 of the Need Study. Explain the chances that an RFP project will be signed and built instead of Smith Unit 3.

SUPPLEMENTAL RESPONSE:

As noted in the original response dated April 19, 1999, the reference on page 69 of the Need Study was related to the solicitation by Gulf and Southern Company Services (SCS) seeking proposals regarding natural gas supply to Smith Unit 3. At the time of the original response to this interrogatory, Gulf and SCS were still in the process of pursuing natural gas proposals in order to secure the best fuel costs for Smith Unit 3. On June 4, 1999 letter agreement regarding firm natural gas transportation service to Smith Unit 3 was signed by the respective parties. The contents of this letter agreement constitutes confidential, proprietary business information and is submitted to the Florida Public Service Commission as an attachment to this document pursuant to a Notice of Intent to Request Confidential Classification dated June 7, 1999.

**Florida Gas Transmission Company**

P. O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

June 4, 1999

Mr. Charles Nuckolls
Southern Company Services, Inc.
P. O. Box 2641
Birmingham, AL 35202-2625

Re: Letter Agreement by and between Florida Gas Transmission Company and Southern Company Services, Inc. regarding Plant Smith.

Dear Mr. Nuckolls:

Florida Gas Transmission Company ("FGT") and Southern Company Services, Inc., ("Southern Company"), as agent for its affiliated operating electric utility companies, Gulf Power Company, Alabama Power Company, Georgia Power Company, Mississippi Power Company, and Savannah Electric and Power Company, (collectively referred to as "Parties") are parties to the FTS-2 Service Agreement for Firm Transportation Service to Gulf Power Company's gas-fired power production facility located in Bay County, Florida, dated June 4, 1999 ("Plant Smith Agreement"), in conjunction with FGT's proposed Phase V expansion project anticipated to be placed in service in April 1, 2002 ("Phase V Facilities"). As part of an overall agreement, FGT and Southern Company desire to enter into this additional agreement regarding Plant Smith as set forth below.

Accordingly, for and in consideration of the mutual covenants herein contained, FGT and Southern Company agree as follows:

1. FGT shall file with FERC on or before December 1, 1999, a full and complete application for authority to construct the Phase V Facilities and shall pursue approval of the Phase V Facilities with good faith and due diligence. If FGT fails to file its FERC Phase V application by December 1, 1999, Southern Company may terminate the Agreements with no further liability to FGT.
2. Throughout the term of the Plant Smith Agreement, Southern Company shall pay FGT a rate of \$0.7536 per MMBtu, exclusive of fuel retention, and all applicable fuel and transportation surcharges, for service rendered under such Agreement to Southern Company's Primary Delivery Point at Plant Smith.

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3. Consistent with FGT's FERC Gas Tariff, FGT shall provide direct access to Mobile Bay receipt points for the volume contracted under the Plant Smith Agreement in the Phase V expansion project.
4. Subject to other terms of this Agreement, the Phase V expansion project shall include the installation of a lateral pipeline ("Plant Smith Lateral"), which the Parties contemplate being rolled into FGT's FTS-2 cost-of-service. With respect to the required meter and regulator station at the delivery point to Plant Smith ("M&R Station"), Southern Company shall, at its own expense, install, own, and operate the M&R Station (or, may contract with a third party to do so), except that FGT requires that it own and operate the EFM and communications equipment. Such M&R Station shall be designed, in any event, to satisfy: (a) Southern Company's operating requirements for Plant Smith, and (b) FGT's construction specifications. The Plant Smith Lateral shall be a pipeline with a minimum diameter of 18-inches and shall have delivery capability of 4,000 MMBtu per hour at a 518 psig delivery pressure at Plant Smith. The Plant Smith Lateral shall have a delivery capability of up to 174,000 MMBtu per day and shall connect to two (2) FGT mainlines at milepost 340.2 in Washington County, Florida and follow the proposed route as shown on Exhibit "A" attached hereto. Upon completion of the Plant Smith Lateral, FGT shall own and operate such lateral as part of FGT's overall system.

The obligation of FGT, or its affiliates, to construct the Plant Smith Lateral, and FGT's obligation to provide firm transportation service to Plant Smith, is expressly contingent upon the receipt and acceptance by FGT (and/or an affiliate of FGT) of all regulatory and environmental approvals required to construct, own, operate, and acquire access to, the Plant Smith Lateral and the M&R Station, including all necessary authorizations from federal, state, local and/or municipal agencies or other governmental authorities.

The Parties hereto understand that additional mainline facilities will be required on FGT's system (to be covered in Southern Company's contract with FGT), the cost of which facilities the Parties contemplate being rolled into FGT's FTS-2 cost-of-service.

5. FGT shall seek authorization to deliver test gas to Plant Smith and, subject to obtaining FERC authority to flow gas in advance of the Phase V in-service date (i.e. on the Initial Testing Date), to deliver gas to Plant Smith beginning on the Initial Testing Date and ending upon the Phase V in-service date under terms and conditions that will have no adverse financial impact on FGT.

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The "Initial Testing Date" of the Facilities for Plant Smith, anticipated to be October 1, 2001, shall be the date Southern Company advises FGT that Plant Smith is ready to receive gas service and has nominated gas as provided below and FGT is able to deliver test gas pursuant to this Agreement, but in no event earlier than two-hundred seventy (270) days after the receipt by FGT of a final non-appealable order from FERC approving the Phase V Expansion Facilities (unless this condition is waived by FGT).

Subject to Gulf Power Company's gas-fired power production facility at Plant Smith (the "Project") being capable of burning gas and Southern Company having nominated gas deliveries, the Parties recognize that the failure to deliver gas on the Initial Testing Date will cause Southern Company and/or its affiliates to incur increased costs and possible loss of electricity sales. The Parties agree that \$20,000 per day is a reasonable pre-loss estimate of such costs (which are difficult if not impossible to ascertain with certainty and which are intended as liquidated damages and not as a penalty) and that such \$20,000 per day shall be credited against the charges owed to FGT to be paid by Southern Company in the event of such failure, up to a total of \$1,200,000.

Beginning with the Initial Testing Date and ending upon the Phase V in-service date, anticipated to be April 1, 2002, Southern Company shall pay FGT for 10,000 MMBtu/day of transportation service at a rate of \$0.7536 per MMBtu. Additional quantities of test gas may be nominated and scheduled by Southern Company pursuant to interruptible or released firm transportation service.

6. Southern Company agrees that, in the event further incremental gas fired generation is placed into service at Plant Smith, FGT shall be provided the opportunity to make a proposal to provide the gas transportation for such incremental expansion.
7. The Parties agree that this Letter Agreement shall be amended if, in the future, the rate for Plant Smith volumes must be restructured for FGT to receive a more favorable regulatory treatment; however, in no event shall such amendment increase the total payment obligation set forth in Paragraph 2 hereof for Southern Company for the volumes delivered to Plant Smith. In no event shall the annual payment to FGT for firm transportation service to Plant Smith be greater than \$16,779,657.00, excluding fuel retention and transportation surcharges.
8. Southern Company and FGT shall maintain this document confidential and agree not to disclose this document or its contents, except as mutually agreed or unless ordered to do so by an authorized agency or court, or as required by law or regulation. Provided, however, that Gulf Power Company may disclose this Letter Agreement on a confidential basis to the Florida Public Service Commission in connection with the Project.

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9. The terms of this letter Agreement shall take precedence over the terms of the Plant Smith Agreement. Except as expressly provided herein, the terms of the Plant Smith Agreement are not otherwise modified.
10. Southern Company's obligation to perform this Agreement and to accept service under the Plant Smith Agreement is expressly contingent on the receipt and acceptance by Southern Company and/or Gulf Power Company of all approvals, permits, licenses, certificates, rights-of-ways, easements, permits and waivers required for the Project, including all necessary authorizations from The Southern Company and federal, state, local and/or municipal agencies or other governmental authorities (collectively, "approvals"), and upon the receipt by FGT or its affiliates of all performance guarantees satisfactory to Southern Company in connection with the Project. All such approvals shall be in form and substance satisfactory to Southern Company and shall be final before the respective governmental authority and no longer subject to appeals or rehearing; provided, however, that Southern Company may waive the condition that such approval be final and/or no longer subject to appeal or rehearing. In the event the condition set forth above is not satisfied, Southern Company may terminate this Letter Agreement and the Plant Smith Agreement. Upon termination, Southern Company shall be required to reimburse FGT for costs incurred or committed prior to the date of termination, less any salvage cost.
11. This Letter Agreement and any final agreements arising out of this Letter Agreement are subject to approval by the board of directors of FGT. FGT agrees to obtain such approval by July 1, 1999. Subject to such approval, this Agreement shall become effective on the execution hereof and shall remain in full force and effect during the term of the Plant Smith Agreement, if not terminated prior to such date by mutual agreement of the parties or pursuant to the terms herein.
12. Subject to the contingencies stated in this Letter Agreement, FGT shall file its application for authority to construct the Phase V Facilities as related to Plant Smith, notwithstanding the provisions of Section 11.2 of the Plant Smith Agreement, and FGT acknowledges that Southern Company has demonstrated creditworthiness satisfactory to FGT under such Agreement. The contingencies stated in this Letter Agreement shall be in lieu of Sections 11.2(c), 11.2(f) and 11.2(h) of the Plant Smith Agreement.

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If this Agreement is in accordance with Southern Company's understanding, please so acknowledge in the space provided below.

Very truly yours,

FLORIDA GAS TRANSMISSION COMPANY

By: [Signature]

Title: Vice President, Marketing

ACKNOWLEDGED this
4 day of JUNE, 1999.

SOUTHERN COMPANY SERVICES, INC., as the agent of Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company

By: [Signature]

Title: Vice President