



CARLTON FIELDS

ATTORNEYS AT LAW

ONE PROGRESS PLAZA
200 CENTRAL AVENUE, SUITE 2300
ST PETERSBURG, FLORIDA 33701-4352

September 3, 2002

MAILING ADDRESS:
PO BOX 2861, ST PETERSBURG, FL 33731-2861
TEL (727) 821-7000 FAX (727) 822-3768

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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Re: In re: Petition for Determination of Need of Hines Unit 3 Power
DOCKET NO.
Submitted for filing: September 4, 2002

020953-EI

Dear Ms. Bayo:

Enclosed herewith for filing, on behalf of Florida Power Corporation, are an original and fifteen (15) copies of the following documents:

1. Petition for Determination of Need for an Electrical Power Plant; - 09326-02, 932^(Study)
2. Notice of Intent to Request Confidential Classification; 9328-02 9329 (Confidential)
3. Notice of Filing Affidavit in Support of Request for Confidential Classification; 9330-02
4. Florida Power's First Request for Confidential Classification; 9331-02
5. Direct Testimony of John Benjamin Crisp; 09337-02
6. Direct Testimony of Daniel J. Roeder; 09338-02
7. Direct Testimony of John J. Hunter; 09339-02
8. Direct Testimony of W. Bart White; 09340-02
9. Direct Testimony of Pamela R. Murphy; and 09341-02
10. Direct Testimony of James J. Murphy. 09342-02

We request you acknowledge receipt and filing of the above by stamping the additional copy of these documents and returning them to me for our files.

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If you or your Staff have any questions regarding this filing, please contact me at (727)

Very truly yours,

Gary L. Sasso

Enclosures

VED & FILED

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BUREAU OF RECORDS

TALLAHASSEE TAMPA WEST PALM BEACH

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Petition for Determination
of Need for Hines Unit 3 Power Plant.**)
)
)
_____)

Docket No.: 020953-EI

Submitted for Filing: September 4, 2002

**PETITION FOR DETERMINATION OF
NEED FOR AN ELECTRICAL POWER PLANT**

Pursuant to Section 403.519, Fla. Stats., and Rules 25-22.080 and 25-22.081, F.A.C., Florida Power Corporation ("Florida Power" or the "Company") respectfully petitions the Florida Public Service Commission ("PSC" or the "Commission") for an affirmative determination of need for its Hines 3 power plant. The Hines 3 power plant will be a 582 (winter rating) megawatt ("MW") natural gas-fired, combined cycle power plant, and will be located at the Hines Energy Complex ("HEC") in Polk County, Florida. Florida Power proposes to place the plant in commercial service by December 2005. To this end, Florida Power filed its supplemental application for Site Certification with the Florida Department of Environmental Protection ("DEP") on September 4, 2002.

Florida Power is submitting in support of this Petition a Need Study (as Exhibit 1 to the Direct Testimony of John B. Crisp), which develops more fully the information required by Rule 25-22.081, F.A.C.

I. Preliminary Information

1. The Petitioner's name and address are:

Florida Power Corporation
100 Central Avenue
St. Petersburg, FL 33701

DOCUMENT NUMBER: DATE

09326 SEP-4 02

FPSC-COMMISSION CLERK

2. All pleadings, motions, orders, and other documents directed to Petitioner should be served on the following:

Gary L. Sasso
Jill H. Bowman
Carlton Fields
Post Office Box 2861
St. Petersburg, FL 33731

W. Douglas Hall
Carlton Fields
Post Office Drawer 190
Tallahassee, FL 32302

James A. McGee
Associate General Counsel
Progress Energy Service Company, LLC
100 Central Avenue
St. Petersburg, FL 33701

3. All pleadings, motions, orders, and other documents served by hand to Petitioner should be served on the following:

Gary L. Sasso
Jill H. Bowman
Carlton Fields
One Progress Plaza, Suite 2300
200 Central Ave.
St. Petersburg, Florida 33701-4352

W. Douglas Hall
Carlton Fields
215 South Monroe Street, Suite 500
Tallahassee, FL 32301

James A. McGee
Associate General Counsel
Progress Energy Service Company, LLC
100 Central Ave.
St. Petersburg, Florida 33701

II. Primarily Affected Utility

4. Florida Power, the Petitioner for the determination of need, is the utility primarily affected by the proposed power plant. Florida Power is an investor-owned electric utility. Its common stock is held by Progress Energy. Florida Power serves approximately 1.4 million retail customers in west central Florida. Its service area comprises approximately 20,000 square miles in 32 of the state's 67 counties, encompassing the cities of St. Petersburg and Clearwater and densely populated areas surrounding Orlando, Ocala, and Tallahassee. Florida Power supplies electricity at retail to approximately 350 communities and at wholesale to about 19 Florida municipalities.

5. Florida Power serves one of the faster growing areas of the country. Florida Power projects that its annual retail customer growth will be 1.6 percent over the next 10 years. Winter retail sales growth is projected to be approximately 2.3 percent annually during the same period.

6. Florida Power currently has a total winter net capacity resource of 9,567 MW. This capacity resource includes utility purchased power (473-483 MW), non-utility purchased power (831 MW), combustion turbine (3,057 MW), nuclear (782 MW), fossil steam (3,983 MW), and combined cycle plants (752 MW). A more detailed description of Florida Power's generating resources is set forth in tables 1 and 2 to the Need Study, submitted as Exhibit 1 to the Direct Testimony of John B. Crisp, submitted in support of this Petition.

7. The Company's total Demand-Side Management ("DSM") resources are shown in schedules 3.2.1, 3.2.2, 3.2.3 and 3.3.1, 3.3.2, and 3.3.3 of Florida Power's Ten-Year Site Plan

(April 2002). These programs include non-dispatchable DSM, interruptible load, and dispatchable load control resources.

8. The Company is part of a nationwide interconnected power network (with 54 points of interconnection with other utilities) that enables interconnected utilities to exchange power. The Florida Power transmission system includes over 4,700 circuit miles of transmission lines and over 80 transmission substations. The Company's distribution system includes over 25,000 circuit miles. Florida Power has over 300 distribution substations.

III. Proposed Electrical Power Plant

9. Hines 3 will be a state-of-the-art, natural gas-fired, combined cycle electrical power plant, with expected winter and summer capacity ratings of 582 MW and 516 MW, respectively. The plant will consist of a 2-on-1 combined cycle unit. The HEC is connected to two interstate natural gas pipelines, Florida Gas Transmission ("FGT") and Gulfstream Natural Gas ("Gulfstream"), and Hines 3 will operate on natural gas transported by pipeline to the HEC. With the ability to obtain gas from two independent pipelines, the expected need for backup fuel is minimal; however, the Hines 3 turbine will be designed with the capability to burn oil as a backup fuel. Distillate fuel oil, if needed, would be provided from the existing storage facility currently in place to serve Hines Units 1 and 2. The Company will place the plant in service by December 2005.

10. The plant will be a highly efficient, combined cycle unit. It will have an expected equivalent forced outage rate of approximately 3 percent, an expected average summer and winter full load heat rate of approximately 6,900 Btu/kWh, and it is expected to operate in a capacity factor range of 50 to 60 percent. A highly efficient, technologically advanced combined

cycle unit like Hines 3 can be operated as a base load or intermediate unit on Florida Power's system, depending on the needs of the system and the prevailing economic conditions. Hines 3 will thus provide Florida Power with greater flexibility in the overall operation of its system at a low cost and at an industry leading efficiency.

11. Hines 3 will be built at the HEC in Polk County, Florida. The HEC currently contains the Hines 1 power plant and its associated facilities, and construction of the Hines 2 power plant is underway. The existing infrastructure – including access roads, a 722 acre cooling pond, a fully sized natural gas lateral pipeline, as well as other common facilities and manpower resources – will save the Company and its customers significant engineering, construction, and operating costs in the construction and operation of Hines 3. By constructing the Hines 3 unit at the HEC, the Company will be able to take advantage of economies and operational advantages made possible by the common management and operation of multiple combined cycle units at the same site, using associated site resources. Furthermore, the Company previously obtained Site Certification from the Florida Siting Board for the HEC site in order to build Hines 1 and 2 and ultimately to locate up to 3,000 MW of generating capacity at the site. As a result, Florida Power need only proceed with a shorter, more streamlined supplemental Site Certification process for the purpose of building Hines 3, which Florida Power has already initiated with the DEP.

12. The total installed cost for Hines 3 is estimated to be \$231 million in actual dollars and \$258 million including Allowance for Funds Used During Construction (“AFUDC”). The estimated incremental annual fixed operation and maintenance (“O&M”) expense in 2005 for Hines 3 is \$1.45/kW-yr (2005\$), and the estimated variable O&M in 2005 is \$2.13/MWh.

The total project cost for Hines 3 reflects significant savings compared with the current generation market for similar combined cycle units.

13. Florida Power believes that the Hines 3 plant will enable the Company to meet the reliability and economic needs of its ratepayers during its 25 years of expected service and that it will provide a superior source of efficient, low-cost power to the Company's customers during that time.

IV. Florida Power's Need for the Hines 3 Plant

14. Florida Power needs additional generating capacity by Winter 2005/06 to maintain system reliability and integrity, and to meet its commitment to maintain a 20 percent reserve margin. (See Appendix E to Florida Power's Need Study, Order approving Reserve Margin Stipulation). Hines 3 will enable Florida Power to continue to provide adequate electricity at a reasonable cost, and will ensure appropriate diversity in the Company's supply-side resource mix

15. The addition of Hines 3 will also serve the Company's need to maintain appropriate fuel and operating diversity in its fleet, and thus to ensure the reliability and cost-effectiveness of the Company's generation system as a whole. Hines 3 will add diversity to Florida Power's fleet of generating assets in terms of fuel, technology, age, and flexibility within the dispatch stack. Gas-fired combined cycle unit additions to Florida Power's generation fleet will generate the best value trade-offs at this time because they are flexible and responsive enough to meet the challenges of intermediate service while remaining capable of shifting to baseload operations if prevailing economic or operating conditions warrant the shift. Hines 3 will meet these operating requirements, increase the fleet's fuel diversity, and further provide Florida Power with a cost-

effective means to meet its Clean Air Act compliance requirements. Florida Power currently has only three other comparable combined cycle units in its fleet (including Hines 2).

16. Florida Power selected the Hines 3 plant as its next-planned unit after carefully evaluating system needs and planning options through the Company's ongoing Resource Planning process. Florida Power examined key planning forecasts and assumptions – including forecasts of customer growth, energy consumption, and peak demand – in order to assess the Company's future capacity needs, and the Company analyzed a wide range of supply-side and demand-side alternatives. The Company's Resource Planning process is described more fully in its Need Study and its recent Ten-Year Site Plan (April 2002).

17. Florida Power developed and analyzed forecasts for long-range electric energy consumption, customer growth, peak demand, and system load shape based on assumptions developed by internal experts and respected, independent sources. In conducting its planning evaluations, Florida Power used several models and methodologies that incorporate forecasting techniques such as time-series analysis, econometric modeling, and direct contact with customers. All are accepted and widely used in the electric utility industry. The specific methodologies and forecasts are discussed in more detail at pages 17-29 of the Need Study and in the Company's Ten-Year Site Plan (Chapters 2 and 3). The summer peak demand forecasts and winter peak demand forecasts are also set forth in the Ten-Year Site Plan. (See schedules 3.1.1, 3.1.2, 3.1.3 and 3.2.1, 3.2.2, 3.2.3, respectively).

18. Without the Hines 3 plant, Florida Power's projected Reserve Margin for winter 2005/06 would be 17 percent. As demonstrated in Exhibit ____ (JBC-2) to John B. Crisp's testimony, filed herewith, Florida Power's reserve margins for that period and the following

years will exceed the agreed minimum 20 percent reserve margin planning criterion if the Hines 3 plant is brought into commercial service by December 2005. (Florida Power will need to build or purchase power from another equivalent plant in 2007 to maintain reserve margins through and beyond the winter of 2007/08.)

19. In order to meet its reserve margin planning criterion, and to comply with the directives of the Florida Energy Efficiency and Conservation Act (“FEECA”), the Company has relied increasingly in recent years upon dispatchable demand-side resources to reduce the “firm” load that must be protected by planning reserves. This has included placing a significant number of willing customers on Florida Power’s Energy Management program or interruptible service in exchange for reduced tariffs. Due to the Company’s experience with its residential Energy Management program over the last several years (i.e., customer attrition due to dissatisfaction with that level of service), the Company has undertaken to reduce its reliance on these dispatchable load control alternatives. As developed more fully in the recent DSM Goals and DSM Plan Dockets, No. 971005-EG and No. 991789-EG, respectively, Florida Power has revised its Energy Management program in favor of adding more generating assets to its total reserves. Florida Power’s DSM Plan is included in Appendix B to the Need Study. Florida Power’s DSM Plan was approved by the PSC in Order No. 00-0750-PAA-EG, Docket No. 991789-EG, issued on April 17, 2000, attached as Appendix C to the Need Study.

20. Under its revised Energy Management program, Florida Power is moving from a year-round load control program to a winter-only program. The current year-round Energy Management program has been closed to new customers since mid-2000 and is in the process of being gradually reduced or phased out. This creates a need for additional supply-side reserves,

in the form of the capacity of the Hines 3 plant. This is consistent with the Company's commitment to carry more supply-side assets as part of its total reserves than it has in the recent past. Although Florida Power continues to believe that its dispatchable demand-side resources provide an important and cost-effective resource when appropriately used, Florida Power will be counting more in the future on generating units to meet its customers' needs than on the expectation that customers participating in the Company's Energy Management program will accept frequent interruptions in service in accordance with their non-firm service provisions. With the Hines 3 plant in service, firm assets will comprise approximately half of the Company's total reserves.

V. Major Generating Alternatives Examined and Evaluated

21. In selecting the Hines 3 power plant as its next-planned supply-side alternative, Florida Power examined, evaluated, and ultimately rejected other conventional, advanced, and renewable generation resources as potential capacity addition alternatives. As described more fully in Florida Power's Need Study (pp. 29-36), the Company assessed numerous renewable technologies (wind energy conversion, solar photovoltaic cells, wood chip, tire burning, and municipal solid waste); advanced technologies (atmospheric fluidized bed combustion, pressurized fluidized bed combustion, coal gasification/combined cycle, advanced light water nuclear, and fuel cells); and conventional technologies (pulverized coal, combustion turbine, and combined cycle). As a result of Florida Power's initial assessment of these alternatives, the Company narrowed its options to viable generation alternatives.

22. The Company conducted a more detailed economic screening of the identified viable generating alternatives using the PROVIEW optimization program. (See Need Study, pp. 36-38

and Table 6). The PROVIEW model assessed the Company's seasonal reserve margins and automatically added resources to meet the prescribed minimum reserve margin requirements. The top five generation expansion plans from the PROVIEW modeling appear in Table 7 of the Need Study. In the top ranked plan, a combustion turbine was shown in service in late 2004, Hines 3 in late 2005, Hines 4 in late 2007, another combustion turbine in late 2008, and Hines 5 and 6 in late 2009 and 2010, respectively. This plan was chosen by Florida Power as the Integrated Optimal Plan and was also published as the Base Expansion Plan in the Company's 2002 Ten-Year Site Plan filed with the PSC on April 1, 2002. In addition, sensitivity analyses were performed, all of which led to the decision that Hines 3 was the Company's next-planned generating unit.

23. The Hines 3 power plant option offered a number of benefits that Florida Power could not obtain with other alternatives, including proven technology, high efficiency, environmental benefits, and high cost-effectiveness. For these reasons, many utilities and non-utility developers have preferred natural gas-fired, combined cycle power plants for new capacity additions. In addition, Florida Power had an opportunity to take advantage of substantial price and other contract benefits from its combined cycle technology supplier. As a result, the Hines 3 unit option is extremely cost-effective.

24. Having selected the Hines 3 power plant as its next-planned generating alternative, the Company undertook to solicit competitive alternative proposals from third parties, pursuant to Rule 25-22.082, F.A.C. The procedures followed in issuing the Request for Proposal ("RFP") and evaluating the responses are described in detail in the Direct Testimony of Daniel J. Roeder, submitted in support of this Petition.

25. The Company issued its RFP on November 26, 2001. (See Appendix H to the Need Study). Florida Power filed its RFP with the PSC on December 20, 2001. In its RFP, the Company described Hines 3 as its next-planned generating alternative and invited interested persons to make alternative proposals to Florida Power that might offer superior value and other attributes. The Company requested potential bidders to provide notice by December 10, 2001, advising Florida Power whether they intended to submit a proposal, and the Company set up a Bidders' Conference with interested persons on December 18, 2001, to provide an opportunity for interested persons to ask questions and to discuss the RFP.

26. Seventeen companies submitted notices of intent to bid on the project. Florida Power provided answers to questions, if known, at the Bidders' Conference, and then posted all questions and corresponding answers on the RFP web site shortly after the Bidders' Conference. The Company notified the bidders who attended the conference via e-mail when responses to the questions were available for viewing on the web site. The Company updated the Q & A section of the web site as additional questions were posed.

27. Seven bidders submitted proposals on February 12, 2002. Florida Power is submitting detailed descriptions of the proposals on a confidential basis to the PSC as Appendix J to the Need Study.

28. Florida Power conducted an initial evaluation of each of the seven proposals to determine whether they met the Threshold Requirements identified in Table IV-1 of the RFP, and then conducted a more complete evaluation comparing them to Hines 3. Only two of the proposals initially passed the Threshold Requirements screening process without any deficiencies, although all of them required some clarification. Two of the proposals were

significantly deficient in responding to the RFP's informational requirements. The Company notified those bidders of the deficiencies, and they chose not to provide additional information. The Company therefore eliminated them from participation in the RFP process.

29. The Company conducted an initial economic screening of the five remaining proposals to determine whether any were economically "out of line" compared to the other proposals. All of the proposals were within a fairly narrow range, and so none was eliminated based upon this review.

30. The Company then evaluated each proposal from a technical perspective to ensure that they satisfied the Minimum Evaluation Requirements. The Company also applied the Technical Criteria stated in the RFP. The Minimum Evaluation Requirements were mandatory, while the Technical Criteria were desirable, but not mandatory. The Minimum Evaluation Requirements are described in Exhibit 5 to the Direct Testimony of Daniel J. Roeder, and the Technical Criteria are described in Exhibit 6 to that testimony.

31. Although only four of the five proposals met the Minimum Evaluation Requirements, all of the proposals were ranked relative to each other based upon the Technical Criteria.

32. In addition to the technical evaluation, each of the five proposals was also subjected to a detailed economic analysis using the Strategist optimization model (formerly known as PROSCREEN). The optimization analysis assessed the impact of each proposal on total system costs, including both the project costs and the impact on system operating costs. The results of the optimization analysis are shown in Exhibit 7 to the Direct Testimony of Daniel J. Roeder.

33. The Company used the results of the technical evaluation and economic screening and optimization analysis to develop a "Short List" of proposals. Although it may have been possible to exclude one or more of the proposals from the Short List based upon cost, the Company elected not to eliminate any proposal based upon that criterion alone and instead included each proposal on the Short List that was economically viable. The Short List thus included four of the five proposals, excluding the one proposal that did not satisfy the Minimum Evaluation Requirements.

34. The Company notified the bidders on April 19, 2002, of their selection for the Short List, and then officially announced the Short List on April 29, 2002. A Company representative also notified the Commission of the Short List on April 29, 2002.

35. Upon being notified of their selection to the Short List, bidders were provided with a list of questions for clarification or requests for additional information based upon the technical evaluation of their proposals. The Company provided the Bidders 10 days to respond to these requests, and at the same time informed them the Company was lowering its cost estimate for Hines 3 based upon more current and detailed cost information received from an EPC contractor. Florida Power thus encouraged the bidders to make every effort to reduce the prices in their proposals.

36. Using the most up-to-date information supplied by bidders on the Short List, the Company performed a detailed evaluation to compare each proposal to the Company's self build alternative, Hines 3. The detailed evaluation included finalizing the technical evaluation using additional information provided by the bidders, evaluating the transmission impacts of the proposed plants, and a detailed economic analysis, which included detailed production costing

and financial analyses. The final results of the Technical Evaluation are described in Exhibit 8 to the Direct Testimony of Daniel J. Roeder.

37. In addition to the Technical Evaluation, detailed economic analyses were performed on all of the short-listed proposals and Hines 3. Using the PROSYM model, the Company separately evaluated and ranked each proposal and Hines 3, based upon the incremental cumulative present value of associated revenue requirements. The detailed economic analysis established that Hines 3 was over \$92 million less expensive (in 2002 dollars) than the least cost proposal on the Short List. The results of the detailed economic analysis are described in Exhibit 9 to the Direct Testimony of Daniel J. Roeder.

38. Based on the Company's thorough analysis of numerous supply-side technology options and the bids made to the Company during the RFP process, Florida Power concluded that the Hines 3 plant is by far the most cost-effective supply-side alternative available to it.

VI. Viabie Non-Generating Alternatives

39. Apart from conducting an extensive screening of supply-side alternatives, Florida Power also scrutinized viable non-generating, demand-side alternatives before deciding to build the Hines 3 power plant. Florida Power recently revised and submitted for PSC approval its DSM Plan in the DSM Plan Docket, No. 991789-EG. (Appendix B to the Need Study). The PSC approved Florida Power's DSM Plan by order dated April 17, 2000. (Appendix C to the Need Study). In its DSM Plan, Florida Power evaluated and proposed various demand-side strategies that comply with FEECA and Commission-approved tests of cost-effectiveness. As Florida Power demonstrated more fully in its DSM Plan, the Company projects that it will be able to reduce peak demand and energy consumption through the viable DSM measures

reasonably available to it. The reduction in demand and energy expected by the Company is nonetheless insufficient to ameliorate Florida Power's need to add supply-side resources to its system. Thus, the Company concluded that it should build Hines 3 (or obtain an equivalent commitment of supply-side resources) in order to meet its needs discussed in Part IV above.

VII. Adverse Consequences of Delay

40. If the Hines 3 plant is delayed, Florida Power would not be able to satisfy its desired minimum 20 percent reserve margin planning criterion by the winter of 2005/06 in the most cost-effective manner. This would expose Florida Power's customers to a risk of interruption of service in the event of unanticipated forced outages or other exigencies for which Florida Power maintains reserves. Delay would further subject Florida Power's customers to the risk resulting from the overall performance of, and the transition to, the Company's new residential Energy Management program. In addition, if Hines 3 is delayed one year and no other capacity is added in its place, Florida Power's production costs would increase \$25 million due to that one-year delay.

VIII. Disputed Issues of Material Fact

41. Florida Power is not aware at this time that there will be any disputed issues of material fact in this proceeding. Through its testimony and exhibits, Florida Power expects to demonstrate that the proposed plant satisfies the statutory criteria set forth in Section 403.519, Fla. Stats.

IX. Conclusion

42. Florida Power seeks an affirmative determination of need for the Hines 3 power plant to meet the Company's need for electric system reliability and integrity and to enable the

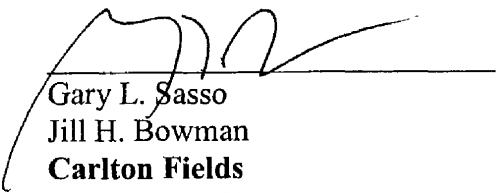
Company to continue to provide adequate electricity to its ratepayers at a reasonable cost.

Florida Power determined to seek this approval only after conducting a rigorous internal review of supply-side and demand-side options, and after soliciting and evaluating competing proposals submitted by interested third-party suppliers. The Company has attempted to avoid or defer constructing the unit by considering and pursuing demand-side options reasonably available to it, but the Company has nonetheless concluded that it cannot avoid or defer its need to build the unit.

43. The Hines 3 power plant will be a state-of-the-art, highly efficient, environmentally benign unit, and it will be built at a site planned and well suited for expansion of Florida Power's generation system. The plant is the most cost-effective alternative available to Florida Power. It will provide needed diversity, efficiency, and cost-effectiveness to the Company's fleet. For all these reasons, and for the reasons developed more fully in Florida Power's Need Study and supporting appendices and tables, and its pre-filed testimony and exhibits, Florida Power respectfully requests that the PSC grant a favorable determination of need for the Hines 3 plant.

44. Pursuant to Rule 25-22.080(2), F.A.C., Florida Power respectfully requests that, within seven days, the Commission set a date no later than December 4, 2002, for commencement of a hearing on this Petition; that the Commission give notice of the commencement of the proceeding as required by Rule 25-22.080(3), F.A.C.; and that the Commission determine that there is a need for the proposed electrical power plant described in this Petition, and file its order making such determination with the Florida Department of Environmental Protection pursuant to Section 403.507(2)(a)2, Fla. Stats.

Respectfully submitted this 4th day of September 2002.



Gary L. Sasso
Jill H. Bowman
Carlton Fields
P. O. Box 2861
St. Petersburg, Florida 33731-2861
Telephone: (727) 821-7000
Facsimile: (727) 822-3768

W. Douglas Hall
Carlton Fields
Post Office Drawer 190
Tallahassee, FL 32302
Telephone: (850) 224-1585
Facsimile: (850) 222-0398

James A. McGee
Associate General Counsel
Progress Energy Service Company, LLC
100 Central Avenue
St. Petersburg, FL 33701
Telephone: (727) 820-5184
Facsimile: (727) 820-5519