

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Determination)
of Need of Hines Unit 4 Power) DOCKET NO. 040817-EI
Plant)
_____) Submitted for filing: October 11, 2004

**PROGRESS ENERGY FLORIDA, INC.'S
PREHEARING STATEMENT**

Progress Energy Florida, Inc. ("PEF" or the "Company"), pursuant to Order No. PSC-04-0808-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

A. APPEARANCES

James A. McGee
Associate General Counsel
Progress Energy Service Co., LLP
P. O. Box 14042
St. Petersburg, FL 33733

Gary L. Sasso
James Michael Walls
John T. Burnett
Carlton Fields, P.A.
Post Office Box 3239
Tampa, FL 33601-3239

W. Douglas Hall
Carlton Fields, P.A.
Post Office Drawer 190
Tallahassee, FL 32302-0190

On behalf of Progress Energy Florida, Inc.

B. WITNESSES AND EXHIBITS

In identifying witnesses and exhibits herein, PEF reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

1. WITNESSES

Direct Testimony

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Samuel S. Waters	General overview of Hines Unit 4, PEF's resource planning process, PEF's identification of Hines Unit 4 as its next-planned, supply-side alternative, overview of the Company's evaluation of competing proposals, PEF's need for Hines Unit 4 and the Company's decision to proceed with Hines Unit 4.	Issues 1-6
Daniel J. Roeder	PEF's Request for Proposals ("RFP"), the RFP process and evaluation of proposals received, results of the evaluation, and the Company's decision to proceed with Hines Unit 4.	Issues 2-4, 6
Pamela R. Murphy	PEF's fuels forecasts, the types and amounts of fuel for Hines Unit 4, and fuel transportation for Hines Unit 4.	Issues 1, 2, 6, 7
John M. Robinson	The site and unit characteristics for Hines Unit 4, including the unit's size, equipment configuration, costs, fuel type and supply modes, and its projected in-service date.	Issues 2, 6, 7
John J. Hunter	The Hines Energy Complex site, the environmental benefits of the site and Hines Unit 4, and the environmental approval process associated with the construction and operation of Hines Unit 4.	Issues 2, 6
Alfred G. McNeill	The transmission requirements for the addition of Hines Unit 4 at the Hines Energy Complex and the analyses performed on proposals	Issues 1, 2, 6

submitted in response to the RFP for Hines 4.

Charles G. Beuris	The credit analysis performed by nationally recognized rating agencies related to long-term purchased power agreements and their impact on PEF's financial policy and leverage ratios.	Issues 4, 6
-------------------	--	-------------

2. EXHIBITS

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
SSW-1	Samuel S. Waters	PEF's Need Determination Study for Hines 4 (with attachments), a composite exhibit
SSW-2	Samuel S. Waters	Forecast of Winter Demand and Reserves With and Without Hines 4
SSW-3	Samuel S. Waters	Levelized Busbar Cost Curves
SSW-4	Samuel S. Waters	PEF's 2008 System Energy Mix
DJR-1	Daniel J. Roeder	Results of Detailed Economic Analysis
DJR-2	Daniel J. Roeder	RFP Evaluation Process
DJR-3	Daniel J. Roeder	Summary of Proposals
DJR-4	Daniel J. Roeder	Threshold Requirements
DJR-5	Daniel J. Roeder	Results of Threshold Screening
DJR-6	Daniel J. Roeder	Results of Economic Screening
DJR-7	Daniel J. Roeder	Results of Optimization Analysis
DJR-8	Daniel J. Roeder	Minimum Evaluation Requirements
DJR-9	Daniel J. Roeder	Technical Criteria
DJR-10	Daniel J. Roeder	Final Results of Technical Evaluation

DJR-11	Daniel J. Roeder	Results of Detailed Economic Analysis -- Costs by Component
PRM-1	Pamela R. Murphy	Natural Gas Forecast Compared to Other Industry Forecasts
PRM-2	Pamela R. Murphy	Base, High and Low Case Natural Gas Forecasts
PRM-3	Pamela R. Murphy	Fuel Price Forecast for Hines
JMR-1	John M. Robinson	Hines Energy Complex Map
JMR-2	John M. Robinson	Site Arrangement – Overall Plan
JMR-3	John M. Robinson	Site Arrangement – Power Block Area
JMR-4	John M. Robinson	Typical Combined-Cycle Schematic
JMR-5	John M. Robinson	Projected Cost Estimate for Hines 4
JMR-6	John M. Robinson	Project Schedule for Hines 4
CGB-1	Charles G. Beuris	Standard & Poors Article: <i>“Buy versus Build”: Debt Aspects of Purchased-Power Agreements</i> . May 8, 2003

C. PEF’S STATEMENT OF BASIC POSITION

Pursuant to Section 403.519, Florida Statutes, and Rule 25-22.081, F.A.C., PEF filed a petition on August 5, 2004, for determination of need for a proposed electric power plant, called Hines Unit 4, located in Polk County, Florida. In support of its petition, PEF submitted a detailed Need Study and appendices, along with pre-filed testimony and exhibits, that develop more fully the information required by Rule 25-22.081, F.A.C. PEF seeks an affirmative determination of need for Hines Unit 4 to enable the Company to meet its obligation to maintain electric system reliability and integrity and to continue to provide adequate electricity to its ratepayers at a reasonable cost.

Through PEF’s planning process, the Company identified Hines 4 as its next-planned generating addition. The Company needs Hines Unit 4 to meet its 20% Reserve Margin planning criterion for Winter 2007/2008 and beyond. Without the addition of Hines Unit 4, PEF’s Reserve Margin will decrease to about 19 percent in 2007/2008 and 16 percent by 2008/2009. Hines Unit 4 will be a state-of-the-art, highly efficient, environmentally-benign combined cycle unit with an expected winter rating of 517 megawatts (MW). Hines Unit 4 will be built at the

Hines Energy Complex (HEC), a site planned and well suited for expansion of PEF's generation system. Because Hines Unit 4 will be located at the HEC, it also benefits from the economies of scale achieved from using the HEC's existing facilities, adding to the cost-effectiveness of the plant. Hines Unit 4 is expected to commence commercial operation by December 2007.

Hines Unit 4 is the most cost-effective alternative available to PEF. PEF determined to seek approval to build Hines Unit 4 only after conducting an internal review of supply-side and demand-side options and after soliciting and evaluating competing proposals submitted by interested third-party suppliers. PEF received five proposals and two variations from a total of four bidders in response to its RFP. All proposals received were evaluated by PEF. One proposal from a bidder did not pass the threshold screening, however, and the remaining four proposals and two variations from the four bidders were narrowed down to one proposal from each bidder that were compared to Hines Unit 4. After a thorough analysis of the bids it received in response to its RFP, PEF concluded that Hines Unit 4 was the most cost-effective supply-side alternative available to PEF to meet its need for power. Following a detailed economic analysis, Hines Unit 4 was found to be approximately \$55 million (2004 dollars) less expensive than the least cost alternative proposal. The least cost New Unit Proposal (another combined cycle plant) was found to be more than \$95 million (2004 dollars) more expensive than Hines Unit 4.

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.

For all these reasons, as more fully developed in PEF's Need Study (and the Confidential Section of that Study) and supporting appendices and tables, and its pre-filed testimony and exhibits, PEF respectfully requests that the Florida Public Service Commission ("FPSC" or "Commission") grant a favorable determination of need for Hines Unit 4.

D. PEF'S STATEMENT OF ISSUES AND POSITIONS

1. FACTUAL ISSUES

Having reviewed Staff's proposed issues, PEF agrees with Staff's issues, as follows:

Issue 1: Is there a need for the proposed Hines Unit 4, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519, Florida Statutes?

PEF: Yes, there is a need for the proposed Hines Unit 4, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519, Florida

Statutes. Through PEF's planning process, the Company identified Hines Unit 4 as its next-planned generating addition. The Company needs Hines Unit 4 to meet its 20 percent Reserve Margin planning criterion for Winter 2007/2008 and beyond. Without the Hines Unit 4 capacity addition, PEF's Reserve Margin will decrease to about 19 percent in 2007/2008 and 16 percent by 2008/2009. The Hines Unit 4 addition allows PEF to satisfy its commitment to maintain a minimum 20 percent Reserve Margin and it will do so by improving not just the quantity, but also preserving the quality, of its total reserves, maintaining an appropriate portion of physical generating assets in the Company's overall resource mix. Hines Unit 4 will also add diversity to PEF's fleet of generating assets, in terms of fuel, technology, age, and functionality of the unit.

Witnesses: Waters, Murphy, and McNeill

Issue 2: Is there a need for the proposed Hines Unit 4, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519, Florida Statutes?

PEF: Yes, there is a need for the proposed Hines Unit 4, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519, Florida Statutes. As stated above, PEF needs Hines Unit 4 to meet its 20% Reserve Margin planning criterion for Winter 2007/2008 and beyond. Moreover, PEF determined to seek approval to build Hines Unit 4 only after conducting an internal review of supply-side and demand-side options and after soliciting and evaluating competing proposals submitted by interested third-party suppliers. After a thorough analysis of the bids it received in response to its RFP, PEF concluded that Hines Unit 4 was the most cost-effective supply-side alternative available to PEF to meet its need for power. Hines Unit 4 is a state-of-the art, highly efficient and reliable,

combined cycle unit producing low-cost electricity for PEF's customers. It is the lowest cost option available to meet the needs of PEF's customers for the winter of 2007/2008 and beyond.

Witnesses: Waters, Roeder, Murphy, McNeill, Robinson, and Hunter

Issue 3: Are there any conservation measures taken by or reasonably available to PEF which might mitigate the need for the proposed power plant?

PEF: No, there are no additional conservation measures taken by or reasonably available to PEF which might mitigate the need for the proposed Hines Unit 4. The Company has identified and has implemented a set of cost-effective DSM programs that have successfully met Commission-established goals and the Company anticipates that it will also achieve all of the future year goals. The Company has attempted to avoid or defer constructing the unit by considering and pursuing all demand-side options reasonably available to it, but the Company has nonetheless concluded that it cannot avoid or defer its need to build Hines Unit 4.

Witness: Waters

Issue 4: Is the proposed Hines Unit 4 the most cost-effective alternative available, as the criterion is used in Section 403.519?

PEF: Yes, the proposed Hines Unit 4 is the most cost-effective alternative available, as the criterion is used in Section 403.519, Florida Statutes. The Company conducted a careful screening of various other supply-side alternatives as part of its Resource Planning process before identifying Hines Unit 4 as its next-planned generating alternative. The Company screened out less cost-effective supply-side alternatives, identifying Hines Unit 4 as the most cost-effective alternative available to the Company.

PEF engaged in an extensive capacity solicitation process through its RFP. PEF received five proposals from four bidders. In addition, one of the bidders provided two alternatives to its proposal. One proposal did not pass the threshold requirements and was eliminated but one proposal from each of the four bidders was put on the short list and compared to the self-build alternative, Hines Unit 4. PEF performed a significant amount of analysis, evaluating the price and non-price attributes of the alternatives. The final evaluation of the non-price attributes demonstrated Hines Unit 4 to be one of the top two ranked alternatives in nearly all of the categories. The detailed economic analysis found Hines 4 to be approximately \$55 million (2004 dollars) less expensive than the least cost alternative proposal. The least cost New Unit Proposal (another combined cycle plant) was found to be more than \$95 million (2004 dollars) more expensive than Hines Unit 4. Sensitivity analyses were run, which either gave advantages to the third-party proposals by assuming decreases in their costs or assumed increases in the costs associated with Hines Unit 4. In all cases, Hines Unit 4 was the least cost alternative.

As a result of the Company's detailed evaluation of the supply-side alternatives available to PEF in the RFP evaluation process, Hines Unit 4 was selected because it is the most cost-effective alternative for meeting the needs of PEF's customers for the winter of 2007/2008 and beyond.

Witnesses: Waters, Roeder, and Beuris

Issue 5: Has PEF provided adequate assurances regarding available natural gas and natural gas pipeline capacity to serve Hines Unit 4 at a reasonable cost?

PEF: Yes. PEF will have the ability to obtain natural gas, as its primary fuel source, and natural gas pipeline capacity for Hines Unit 4 at a reasonable cost, and Hines 4 will also be constructed so that distillate oil can be used as back-up fuel.

Witnesses: Murphy, Robinson

Issue 6: Based on the resolution of the foregoing issues, should the Commission grant PEF's petition to determine the need for the proposed Hines Unit 4?

PEF: Yes. For the foregoing reasons, as more fully developed in the testimony and exhibits filed by PEF in this proceeding, the Commission should grant PEF's petition for a determination of need for the proposed Hines Unit 4.

Witnesses: Waters, Roeder, Murphy, McNeill, Robinson, Beuris, and Hunter

Issue 7: If an affirmative determination of need is granted, should PEF be required to annually report the budgeted and actual cost compared to the \$286.1 million estimated total in-service cost of Hines Unit 4?

PEF: Yes, although the Bid Rule does not require that a utility annually report budgeted and actual costs associated with a proposed power plant, PEF will provide information in the following categories, if requested, for Hines Unit 4: PEF Major Equipment/EPC; Permitting; Transmission Interconnection and Integration; FGT infrastructure Upgrades; Operations and Start-Up; Project Management; Owners Cost; and AFUDC. Because some costs may be higher than estimated and other costs may be lower, however, any underruns in any category of cost may be used to off-set any overruns in another cost category for Hines Unit 4. PEF, nevertheless, agrees to provide the information requested on the budgeted and actual costs for the cost categories identified above on an annual basis to allow Commission Staff to monitor PEF's progress towards achieving its estimated total cost for Hines Unit 4.

Witnesses: Robinson

Issue 8: Should this docket be closed?

PEF: Yes, the Commission should grant an affirmative determination of need for Hines Unit 4 and then close this docket.

2. LEGAL ISSUES

None at this time.

3. POLICY ISSUES

None at this time.

E. STIPULATED ISSUES

None at this time.

F. PENDING MOTIONS

None at this time.

G. PEF'S REQUESTS FOR CONFIDENTIAL CLASSIFICATION

PEF filed its First Request for Confidential Classification on August 5, 2004, and its Second Request for Confidential Classification on September 28, 2004. PEF's first request seeks confidential classification of Appendix J to PEF's Need Study pursuant to Fla. Stat. 366.093 and Rule 25-22.006. PEF's second request seeks confidential classification of certain responses to Staff's discovery pursuant to Fla. Stat. 366.093 and Rule 25-22.006.

Regarding PEF's First Request for Confidential Classification, Appendix J to PEF's Need Study contains the detailed description of the proposals PEF received in response to the Company's Request for Proposals issued on October 7, 2003, pursuant to Rule 25-22.082, F.A.C. The unredacted appendix has been filed under seal with the Commission on a confidential basis because the bidders who submitted the proposals in response to the Company's RFP asked the Company to keep the information in the appendix confidential by declaring that the terms of their proposals were confidential. On August 26, 2004, Commission Staff issued a memorandum

concurring that Appendix J to PEF's Need Study should be afforded confidential classification. A ruling from the Commission on PEF's First Request for Confidential Classification is still pending.

With respect to PEF's Second Request for Confidential Classification, PEF has been served with discovery requests by Staff that will require PEF to provide some confidential business information in response. Staff's Interrogatory Number 7 calls for information from bids received in response to PEF's RFP. Staff's Interrogatory Number 9 calls for information relating to PEF's ongoing negotiations with natural gas fuel suppliers. Staff's Document Request 15 calls for confidential proposals submitted to PEF by potential fuel suppliers. PEF is requesting confidential classification of its responses because they contain confidential information received by bidders, and contain details, facts, and documents regarding confidential, ongoing negotiations between PEF and potential fuel suppliers. On October 7, 2004, Commission Staff issued a memorandum agreeing with PEF that the information responsive to Staff's Interrogatories Numbers 7 and 9 and the documents responsive to Staff's Document Request 15 should be afforded confidential classification. A ruling from the Commission on PEF's Second Request for Confidential Classification is still pending.

H. REQUIREMENTS OF PREHEARING ORDER THAT CANNOT BE MET


None at this time.

I. OBJECTIONS TO WITNESS'S QUALIFICATIONS AS AN EXPERT

None at this time.

Respectfully submitted this 11 day of October 2004.

JAMES A. MCGEE
Associate General Counsel
PROGRESS ENERGY SERVICE
COMPANY, LLC
P.O. Box 14042
St. Petersburg, Florida 33733
Telephone: (727) 820-5184
Facsimile: (727) 820-5519

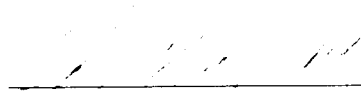

GARY L. SASSO
Florida Bar No. 622575
JAMES MICHAEL WALLS
Florida Bar No. 0706272
JOHN T. BURNETT
Florida Bar No. 173304
CARLTON FIELDS, P.A.
Post Office Box 3239
Tampa, FL 33601-3239
Telephone: (813) 223-7000
Facsimile: (813) 229-4133

- and -

W. Douglas Hall
Florida Bar No. 347906
CARLTON FIELDS
Post Office Box 190
Tallahassee, FL 32302-0190
Telephone: (850) 224-1585
Facsimile: (850) 222-0398

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served by e-mail and U.S. Mail to Wm. Cochran Keating, IV, Senior Attorney, Office of the General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850 and via U.S. Mail to all other interested parties as listed on the attached this 11 day of October, 2004.



Attorney

Parties of Record and Interested Persons in Docket 040817

Myron Rollins
Black & Veatch Corporation
11401 Lamar Avenue
Overland Park, KS 66211

Paul Darst
Department of Community Affairs
Division of Resource Planning/Management
2555 Shumard Oak Blvd.
Tallahassee, FL 32399-2100

Buck Owen
Siting Coordination Office
Department of Environmental Protection (Siting)
2600 Blairstone Road
Tallahassee, FL 32301