

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s )  
petition for approval of long-term fuel ) Docket No.: 041414 - E1  
supply and transportation contracts for )  
Hines Unit 4 and additional system )  
supply and transportation. ) Submitted for Filing: December 20, 2004

PETITION

Pursuant to Sections 366.04 and 366.05, Florida Statutes, Rule 25-22.029, F.A.C., and the orders of the Florida Public Service Commission ("PSC" or the "Commission"), Progress Energy Florida, Inc. ("PEF" or the "Company") respectfully petitions the Commission for approval of its long-term fuel supply and transportation contracts that will meet the fuel requirements for Hines Unit 4 and add additional system supply and transportation to the Company's natural gas portfolio. PEF seeks Commission approval of these contracts now so that the necessary extension and expansion of the gas pipelines can proceed on schedule to meet the commercial in-service date for Hines Unit 4. The contracts are the most cost-effective, considering all price and non-price factors, for increasing natural gas supply and transportation to PEF's system. The Commission should find that entering into these agreements at this time is a reasonable and prudent action by the Company to maintain a reliable and adequate fuel supply over the long term. Recovery of costs pursuant to the agreements would be permitted subject to a finding of reasonableness and prudence at the time the expenses are presented for cost recovery. The contracts require regulatory approval by June 15, 2005.

In further support of this Petition, PEF states as follows:

**I. Preliminary Information**

1. The Petitioner's name and address are:

Progress Energy Florida, Inc.

100 Central Avenue  
St. Petersburg, FL 33701

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

Gary L. Sasso  
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Deputy General Counsel  
**Progress Energy Service Company, LLC**  
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3. All pleadings, motions, orders, and other documents served by hand or express courier to Petitioner should be served on the following:

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## II. Facts and Relevant Background

4. PEF is an investor-owned electric utility, regulated by the Commission, and is a wholly owned subsidiary of Progress Energy, Inc., a registered holding company under the Public Utility Holding Company Act (“PUHCA”). PEF serves approximately 1.5 million retail

customers in its service area in Florida. Its service area comprises approximately 20,000 square miles in 35 of the state's 67 counties, encompassing the cities of St. Petersburg and Clearwater and densely populated areas surrounding Orlando, Ocala, and Tallahassee. PEF supplies electricity at retail to approximately 350 communities and at wholesale to about 21 Florida municipalities, utilities, and power agencies in the State of Florida.

5. On August 5, 2004, PEF filed a petition for determination of need for a proposed electrical power plant pursuant to Section 403.519, Florida Statutes, and Rules 25-22.080 and 25-22.081, F.A.C. The proposed plant is Hines Unit 4, a natural gas-fired, combined cycle unit to be located at the Hines Energy Complex in Polk County, Florida. The Company plans to place Hines Unit 4 in commercial service by December 2007.

6. On November 23, 2004, the Commission issued its order granting the Company's petition for determination of need for Hines Unit 4. In so ruling, the Commission determined that there is a need for Hines Unit 4, taking into account the need for electric system reliability and integrity, that Hines Unit 4 meets the need for adequate electricity at a reasonable cost, that no conservation matters are reasonably available to PEF to avoid or defer the need for Hines Unit 4, and that Hines Unit 4 is the most cost effective alternative available to PEF to meet its need for additional supply side resources.

7. As a result of the proposed addition of Hines Unit 4 to its system, PEF has investigated and considered the options available for the fuel supply and transportation needs for Hines Unit 4. The gas transportation and supply options included natural gas from the Mobile Bay/Destin area in the Gulf of Mexico using the existing Florida Gas Transmission ("FGT") or Gulfstream Natural Gas System ("Gulfstream") pipelines, and the proposed expansion by Southern Natural Gas Company ("Southern Natural") of its existing natural gas pipeline system

(the “Cypress Project”) to transport regasified liquefied natural gas (“LNG”) from its Elba Island LNG terminal located in Savannah, Georgia to an interconnection with FGT in north Florida. Additional green field LNG projects in the Bahamas were also considered.

8. After an extensive review and careful analysis of the gas supply and transportation options, PEF has entered into a series of agreements designed to provide firm natural gas supply and transportation. PEF entered into long-term supply contracts with BG LNG Services, LLC (“BG”) for regasified LNG supply purchased out of the existing Elba Island regasification terminal near Savannah Georgia. In addition, PEF contracted with Southern Natural for firm transportation of the gas supply through an expansion of its existing pipeline system (the “Cypress project”) to be built from Elba Island to a point of interconnection with the FGT pipeline in Clay County, Florida, and with FGT for transportation from the point of interconnection with Southern Natural to the Hines Energy Complex in Polk County, Florida (hereinafter the agreements are collectively referred to as “BG/Cypress/FGT”).

9. The initial phase of the Cypress project pipeline extension by Southern Natural is targeted to be placed in service in May of 2007. Phases II and III will expand the capacity by adding compression as incremental markets along the pipeline corridor, Southern Natural’s South Georgia lateral, and future incremental markets in Florida require additional gas supplies. The new pipeline will interconnect with Southern Natural’s existing system approximately twenty-three miles northwest of the regasification terminal where Southern Natural’s existing pipeline right-of-way intersects with an existing power line right of way. The new pipeline will be installed adjacent to the existing power line right of way the entire route and interconnect to FGT’s Jacksonville lateral in Clay County, Florida.

**III. The Benefits of PEF's new long-term fuel supply and transportation contracts.**

10. The BG/Cypress/FGT contracts are the most cost-effective alternative for both Hines Unit 4 and PEF's system, taking into account all price and non-price considerations. From the perspective of Hines Unit 4, the Contracts will provide firm supply and firm transportation capacity for Hines Unit 4 when it achieves commercial operation in December 2007. Further, the Contracts provide a greater degree of certainty of meeting the commercial in-service date for Hines Unit 4 than other new construction alternatives. Elba Island is an existing and operating LNG facility with the capacity to handle the gas supply.

11. The BG/Cypress/FGT contracts provide geographical diversity in the Company's fuel supply by providing an east coast alternative supply source. This enhances the Company's system reliability by mitigating supply disruptions caused by hurricanes or other inclement weather since it is less likely that both the east and gulf coasts will be affected by supply interruptions at the same time. And, as a further result of the east coast fuel supply source, the BG/Cypress/FGT contracts reduce the Company's dependence on fuel supply sources in the Gulf of Mexico.

12. There are potential long-term benefits from the BG/Cypress/FGT contracts as well. The BG/Cypress/FGT contracts will bring a third major natural gas pipeline system into Florida from the north. The increase in pipeline capacity into Florida enables the consideration of additional, potential sites for future gas-fired generating capacity and potentially lowers the cost for transportation for future gas-fired generating capacity. Moreover, the BG/Cypress/FGT contracts add LNG to the supply of natural gas in Florida. The addition of LNG to the gas supply alternatives opens up access to the world market for gas supply thereby increasing

competition in gas supply and potentially contributing to downward pressure on long-term commodity prices.

13. For all these reasons, as more fully explained in the testimony and exhibits filed in support of its Petition, PEF believes the Contracts are the most cost-effective gas supply and transportation alternative available to the Company to meet its gas supply and transportation needs for Hines Unit 4 and its system.

**IV. Relief Requested: Approval of the BG/Cypress/FGT Contracts.**

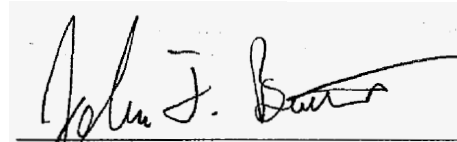
14. PEF requests Commission approval of the BG/Cypress/FGT contracts. While payments under the BG/Cypress/FGT contracts will not begin until 2007, the Company seeks Commission approval now because the BG/Cypress/ FGT contracts are the most cost-effective, considering all price and non-price factors, for increasing natural gas supply and transportation to PEF's system. Commission approval of the Contracts is needed so that Southern Natural and FGT can proceed on schedule to meet the commercial in-service date for Hines Unit 4. The BG/Cypress/FGT contracts provide that regulatory approval by the Commission is needed by June 15, 2005.

15. PEF believes the Commission's proposed agency action proceeding is appropriate for the Petition. PEF does not believe there is any disputed issue of material fact with respect to Commission approval of the BG/Cypress/FGT contracts.

WHEREFORE, PEF respectfully requests that the Commission approve the Company's long-term fuel supply and transportation contracts and issue a notice of proposed agency action in accordance with Rule 25-22.029, F.A.C.

Respectfully submitted this \_\_\_ day of December 2004.

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