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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s)
petition for approval of long-term fuel)
supply and transportation contracts for)
Hines Unit 4 and additional system)
supply and transportation.)
_____)

Docket No.: 041414-E1

COMMISSION
CLERK

Submitted for Filing: December 20, 2004

DIRECT TESTIMONY
OF ROBERT F. CALDWELL

ON BEHALF OF
PROGRESS ENERGY FLORIDA

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**IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND
TRANSPORTATION CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND TRANSPORTATION**

**DIRECT TESTIMONY OF
ROBERT F. CALDWELL**

I. INTRODUCTION AND QUALIFICATIONS

1 **Q. Please state your name, employer, and business address.**

2 A. My name is Robert F. Caldwell and I am employed by Progress Energy. My
3 business address is 410 S. Wilmington Street, Raleigh, North Carolina, 27601.

4

5 **Q. Please tell us your position with Progress Energy and describe your duties and**
6 **responsibilities in that position.**

7 A. I am Vice President of Regulated Commercial Operations for Progress Energy
8 Florida, Inc. ("PEF" or the "Company") and Progress Energy Carolinas, Inc.
9 ("PEC"). I am responsible for managing and providing oversight and strategic
10 direction for the wholesale trading and marketing business. Through January 1,
11 2005, my responsibilities also include managing natural gas and oil procurement
12 and logistics.

13

14 **Q. Please summarize your educational background and employment experience.**

15 A. I have been a Certified Public Accountant since 1979. From 1977 to 1979, I
16 worked for Arthur Anderson & Company as a Senior Auditor in Detroit, Michigan.

1 I joined SEMCO Energy, Inc., a natural gas distribution company in
2 Michigan, in 1979, working as the Subsidiary Secretary-Treasurer and Controller
3 of the company until 1985. In 1985, I became Secretary-Treasurer, and in 1989,
4 became Vice President and Secretary, a position I held until 1991.

5 In 1991, I became Senior Vice President of SEMCO Energy. From 1993 to
6 1996, I also held the position of Executive Vice President and COO. I assumed the
7 position of Executive Vice President and CFO in 1996 through 1997.

8 In February 1998, I joined Progress Energy, based in Raleigh, North Carolina,
9 as Vice President of Strategic Planning. I became Vice President of Gas Supply &
10 Transmission in December 1998, and subsequently assumed the title of Vice
11 President of Term Marketing in June 2000, a position I held until July 2002. I
12 assumed my current position as Vice President of Regulated Commercial
13 Operations in July 2002.

14
15 **Q. Have you previously testified before this Commission?**

16 A. No. I have previously testified before the Michigan Public Service Commission
17 and the North Carolina Utilities Commission.

18
19 **Q. Are you sponsoring any exhibits to your testimony?**

20 A. Yes, I am sponsoring the following exhibit to my testimony:

21 **RFC-1 Visual Aid Map**

22 This exhibit was prepared under my direction, and it is true and accurate.

23
24 **II. PURPOSE OF TESTIMONY**

25 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to introduce to the Commission our plan for adding
2 additional gas supply and transportation resources to our fuel supply portfolio. We
3 are presenting new supply and transportation contracts for Commission approval.
4 These contracts will enable us to secure firm gas and pipeline transportation for
5 Hines Unit 4, augment the gas supply for other plants in our fleet, enhance the
6 diversity and reliability of our gas supply portfolio, and gain additional siting
7 flexibility for future generation needs.

8
9 **Q. Please briefly describe resources being added.**

10 A. PEF has entered long-term fuel supply contracts with BG LNG Services, LLC
11 (“BG”) for the regasified LNG supply for Hines Unit 4, as well as additional fuel
12 for our natural gas fired fleet. BG is a wholly owned subsidiary of BG Group and
13 the largest LNG importer into the United States. We will purchase regasified LNG
14 from BG out of the existing regasification facility at Elba Island, near Savannah,
15 Georgia.

16 In addition, PEF has contracted with Southern Natural Gas Company
17 (“Southern Natural”) for firm transportation through an expansion of its existing
18 pipeline system (the “Cypress project”) to be built from Elba Island to a point of
19 interconnection with the Florida Gas Transmission (“FGT”) pipeline in Clay
20 County, Florida, and with FGT for transportation from the point of interconnection
21 with Southern Natural to the Hines Energy Complex in Polk County, Florida.

22
23 **Q. Please describe the Company’s presentation in support of these contracts.**

24 A. I will be discussing the strategic benefit of these contracts. Ms. Pamela Murphy
25 addresses the contracts in detail, as well as the process that led to their selection in

1 her testimony. Mr. Sam Waters will discuss the benefits of these contracts to
2 generation expansion from a system planning perspective. Mr. Bruce Hughes of
3 Southern Natural will address the development of the Cypress project.

4
5 **III. THE BENEFITS OF THE GAS SUPPLY AND**
6 **TRANSPORTATION CONTRACTS**

7 **Q. Describe the benefits of these new resources to PEF and Florida.**

8 A. We believe the BG/Cypress/FGT package is the best alternative to meet our
9 expanding natural gas supply and firm transportation needs for a number of
10 reasons. First and foremost, these natural gas supply and pipeline transportation
11 contracts provide the greatest degree of certainty that we will have firm supply and
12 pipeline transportation ready when Hines Unit 4 comes on-line in December of
13 2007. Second, this solution meets our need to provide geographic diversity and
14 enhanced reliability of our natural gas supply. Third, these resources increase our
15 operating flexibility and create value for additional generation sites in conjunction
16 with the commitment to meet the needs of Hines Unit 4. And finally, this solution
17 allows us to achieve all of these goals at the best overall value and benefit for our
18 customers.

19 The Elba Island LNG terminal is an existing facility with the capacity to
20 handle the volumes we have purchased under the BG LNG supply contracts. BG
21 has contractually committed to supply gas to us on a firm basis. This, coupled with
22 Southern Natural's and FGT's ability to expand their pipeline systems, in our
23 judgment, offers a greater degree of certainty of success to meet our Hines 4 in-
24 service date requirements than other alternatives. Exhibit ____ (RFC-1) is a map
25 that gives an overview of the gas pipelines in the southeast and the proposed
26 extension.

1 Second, another interstate pipeline connection and an east coast gas supply
2 provide geographic diversity of supply and enhanced reliability. The four
3 hurricanes that hit Florida in August and September demonstrate the need for
4 geographic supply diversity. LNG coming into Elba island also reduces our
5 dependence on Mobile Bay/Destin Gulf of Mexico supply even under normal
6 operating situations. The BG/Cypress/FGT combination provides excellent
7 geographic diversity of supply which enhances reliability.

8 Third, is the operating flexibility we will have as a result of the Cypress/FGT
9 expansion. We will be able to transport gas from Elba Island to other generating
10 stations on our system, such as Anclote and Suwannee, as well as to support our
11 long term power purchase agreement of the Shady Hills generating plant in Pasco
12 County.

13 In addition to the current operating flexibility provided by these contracts,
14 they also give us options for future gas-fired generation resources we add to our
15 system, such as additional Hines units or potentially units near our existing
16 Suwannee generating station.

17
18 **Q. What is the benefit of a third gas transportation pipeline to Florida?**

19 A. The Cypress pipeline extension will bring regasified LNG to the State of Florida as
20 a major new source of supply. As a result of these contracts, a portion of the
21 natural gas used in PEF's system will shift from the Gulf of Mexico to the east
22 coast of the United States. This will achieve one of our major long-term fuel
23 supply objectives of diversifying the risks associated with our fuel supply.

24

1 **Q. How does the Cypress pipeline extension project relate to the in-service date of**
2 **Hines Unit 4?**

3 A. We are confident that these resources will provide a firm supply and firm pipeline
4 transportation capacity when Hines Unit 4 comes on-line in December 2007. The
5 Elba Island LNG terminal is an existing facility with the capacity to handle the
6 volumes we have purchased under the BG contract. The amount of our
7 transportation capacity subscription in the Cypress pipeline will be a sufficient
8 anchor to support development of the pipeline extension on the time schedule we
9 need to meet the in-service date of Hines Unit 4.

10
11 **Q. What are the long-term benefits of these new resources?**

12 A. The Cypress and FGT expansions and the opportunities they open for additional
13 purchases of LNG should have a dampening impact on fuel price and transportation
14 price over the long term. These benefits would be augmented when a fourth
15 pipeline for LNG is built to Florida from the south.

16 The Cypress and FGT expansions permit us to consider additional sites for
17 future gas-fired generation as new units are needed to meet increased demand.

18
19 **Q. Did you consider Bahamas-based supply and transportation?**

20 A. Yes, we seriously pursued that option but ultimately concluded it was not the best
21 alternative for our system at this time. The magnitude of our supply need would
22 not support development of a Bahamas LNG facility on its own, which steered us
23 toward the existing facility at Elba Island. Having said that, I do believe Florida
24 would benefit from a Bahamas-based supply. We will continue to consider that as
25 a good resource option in the future. At this time, however, we believe that the

1 contracts we present today for your approval will yield the best overall value from a
2 short and long-term perspective.

3

4 **Q. Please characterize the value of these contracts.**

5 A. The BG/Cypress/FGT contracts provide the best overall value and benefits to our
6 customers, based on both the economic and non-economic values I have just
7 outlined. As such, I believe these contracts should be approved by the
8 Commission.

9

10 **Q. Does this conclude your testimony?**

11 A. Yes, it does.

12

RFC-1

BG/Cypress/FGT

