

**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-EI

Submitted for Filing:  
April 4, 2005

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

Florida Power Corporation d/b/a Progress Energy Florida, Inc. ("PEF" or the "Company"), pursuant to Order No. PSC-05-0128-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

**A. APPEARANCES**

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Progress Energy Service Company, LLC  
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and

Gary L. Sasso  
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**B. WITNESSES AND EXHIBITS**

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>
Pamela R. Murphy	PEF's RFP process to solicit natural gas supply and transportation providers; the criteria used to evaluate bids received; the BG/Cypress/FGT contracts as compared to other bids and options; and the appropriateness of the 20-year contract terms in the BG/Cypress/FGT contracts.
Robert F. Caldwell	The addition of gas and transportation resources to PEF's fuel supply portfolio through the contracts at issue in this docket; the supply of natural gas for Hines 4; and the increased diversity and reliability of PEF's gas supply portfolio under the BG/Cypress/FGT contracts.
Bruce H. Hughes	Description of major pipeline/extension project to connect Southern Natural's existing system to Florida Gas Transmission Company; and status of Elba Island LNG terminal.
Samuel S. Waters	The reliability and availability benefits of obtaining natural gas under the BG/Cypress/FGT contracts; projection of future gas usage in Florida; and risks associated with reliance on single point of supply.

### Rebuttal Testimony.

<u>Witness</u>	<u>Subject Matter</u>
None.	N/A

## 2. EXHIBITS

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
PRM-1	Pamela R. Murphy	A Firm Gas Supply Contract with BG LNG Services, LLC for Hines Unit 4

PRM-2	Pamela R. Murphy	A Precedent Agreement for Firm Transportation with Southern Natural Gas Company
PRM-3	Pamela R. Murphy	Firm Gas Transportation Contracts with Florida Gas Transmission Company
PRM-4	Pamela R. Murphy	A Visual Aid Map
PRM-5	Pamela R. Murphy	Analysis of Gas Supply Alternatives on Comparable Volume Basis
PRM-6	Pamela R. Murphy	Analysis of Contracts Versus Current Market Option
SSW-1	Samuel S. Waters	Graph of Historical and Projected Energy by Fuel Type for Peninsular Florida
BHH-1	Bruce H. Hughes	Map of Interstate Pipelines
BHH-2	Bruce H. Hughes	Southern Natural's Pipeline Project Timeline
BHH-3	Bruce H. Hughes	Aerial Photo of LNG Facilities
RFC-1	Robert F. Caldwell	Visual Aid Map

**C. PEF'S STATEMENT OF BASIC POSITION**

PEF requests the Commission to approve its long-term fuel supply and transportation contracts that will meet the fuel supply requirement for Hines Unit 4 and add additional system supply and transportation to the Company's natural gas portfolio. Specifically, PEF has contracted with BG LNG Services, LLC ("BG") for regasified LNG supply purchased out of the existing Elba Island regasification terminal near Savannah, Georgia. PEF has also 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 Florida Gas Transmission ("FGT") pipeline (hereinafter the agreements are collectively referred to as "BG/Cypress/FGT"). The BG/Cypress/FGT contracts provide that regulatory approval by the Commission is needed by June 15, 2005. Commission approval is thus essential for the pipeline expansion to proceed on schedule.

The BG/Cypress/FGT contracts are the most cost-effective option for supplying natural gas to the Hines 4 generating unit, considering all price and non-price factors. PEF considered four criteria when evaluating the differing options: certainty of the project's success, economics, operational flexibility, and supply diversity. Regarding certainty of the project's success, the BG/Cypress/FGT contracts are the most likely to be completed because the Elba Island facility

already exists, and much of the route where the expansion will take place has already been surveyed. By contrast, other options available to PEF contain too many contingencies to ensure completion. Concerning economics, PEF's proposed contracts are competitive and the most cost-effective option for PEF's ratepayers. These contracts also provide operational flexibility in that the additional pipeline infrastructure will allow PEF to serve other existing and potential plants in its fleet. Finally, the BG/Cypress/FGT contracts provide supply diversity, because the natural gas will be geographically supplied from the east coast of the United States. Currently, all of PEF's natural gas for Florida is supplied from the Mobile Bay/Destin area in the Gulf of Mexico. These contracts provide an additional geographic source of natural gas, which will decrease the likelihood that forces of nature, like hurricanes, will affect both sources at the same time.

The BG/Cypress/FGT contracts will also serve the public interest. These contracts provide another source of natural gas into Florida, which allows PEF to ensure a more constant supply. Both PEF's customers and the state in general will benefit from this increased availability. If approved, Florida will no longer be solely dependent on natural gas supplied from the Gulf of Mexico and will no longer be dependent on natural gas supply subject to significant hurricane disruptions. Rather, Florida would have access to a liquefied natural gas supply from major producing areas in the Atlantic Basin. This will increase security and diversity of natural gas supply, which again benefits all consumers within the State.

PEF believes it has demonstrated that these contracts, taken collectively, represent a reasonable, prudent, and cost-effective choice that provides PEF's customers the best overall gas supply and transportation option for Hines 4 and other system needs. The contracts at issue also enhance diversity of fuel supply for PEF while maintaining system reliability and performance. Therefore, PEF believes it is prudent for the Commission to pre-approve the BG/Cypress/FGT contracts at issue.

#### **D. PEF'S STATEMENT OF FACTUAL ISSUES AND POSITIONS**

**ISSUE 1:** Did Progress Energy Florida (PEF) adequately solicit potential natural gas providers to provide fuel to Hines 4 generating unit?

PEF: Yes. While there is no statutory or rule-based requirement for PEF to issue an RFP for natural gas supply and transportation contracts, PEF solicited bids from all entities maintained on its internal list of credit worthy counterparties that provide natural gas supply and transportation. This list contains natural gas suppliers and transportation companies which, in PEF's opinion, would have been capable of providing fuel to Hines 4 under PEF's requirements. Thus, PEF's solicitation was adequate and resulted in PEF obtaining highly competitive and cost-effective supply and transportation options under the BG/Cypress/FGT contracts.

Witnesses: Murphy, Caldwell

**ISSUE 2:** Is the proposal contemplated in PEF's petition the most cost-effective option considering price and non-price factors?

PEF: Yes, PEF's proposal is the most cost-effective option when considering certainty of success of the project, economics and price, operational flexibility, and geographic diversity.

Witnesses: Murphy, Waters, Caldwell, Hughes

**ISSUE 3:** Is the 20-year term of the contracts contemplated in PEF's petition appropriate?

PEF: Yes. PEF was able to negotiate favorable pricing and other terms in the BG/Cypress/FGT contracts which make the 20 year term of the contract at issue both appropriate and favorable. In addition, considering the scope and magnitude of the project contemplated by the BG/Cypress/FGT contracts, a twenty-year term is appropriate to ensure long-term commitments for all parties involved.

Witnesses: Murphy, Caldwell, Hughes

**ISSUE 4:** Based on the resolution of the foregoing issues, should the Commission grant PEF's petition?

PEF: Yes.

Witnesses: Murphy, Waters, Caldwell, Hughes

**ISSUE 5:** Should this docket be closed?

PEF: Yes.

Witnesses: Murphy, Waters, Caldwell, Hughes

**E. PEF'S STATEMENT OF LEGAL ISSUES AND POSITIONS**

None.

**F. PEF'S STATEMENT OF POLICY ISSUES AND POSITIONS**

See Issues 2 and 3 above, which are mixed issues of policy and fact and PEF's Statement of Position on Issues 2 and 3.

**G. STIPULATED ISSUES**

There are no stipulated issues at this time.

**H. PENDING MATTERS**

<u>Motion</u>	<u>Filing Date</u>
PEF's First Motion for Temporary Protective Order	02/28/2005
PEF's Second Motion for Temporary Protective Order	03/14/2005
PEF's Third Motion for Temporary Protective Order	03/29/2005
PEF's Fourth Motion for Temporary Protective Order	03/30/2005

**I. PENDING REQUESTS FOR CONFIDENTIAL TREATMENT**

<u>Request or Notice of Intent to Seek Confidential Classification</u>	<u>Filing Date</u>
PEF's First Request for Confidential Classification	12/20/2004
PEF's Second Request Confidential Classification	01/31/2005
PEF's Third Request Confidential Classification	03/01/2005
PEF's Fourth Request Confidential Classification	03/14/2005

In addition, pursuant to the Order Establishing Procedure, Order No. PSC-05-0128-PCO-EI, any party intending to use confidential information obtained from PEF during the course of discovery in the proceeding must notify PEF of its intention no later than seven (7) days prior to the beginning of the hearing. If such designations are made by any party to this proceeding, PEF will be requesting confidential treatment of such materials.

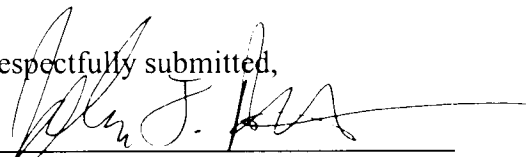
**J. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET**

Because discovery is continuing in this matter, PEF must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments in the case.

**K. OBJECTIONS TO WITNESSES' QUALIFICATIONS**

None.

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Respectfully submitted,  
  
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals as indicated in the service list on this 4<sup>th</sup> day of April, 2005.

**Via electronic and U.S. Mail**

Adrienne E. Vining, Esquire  
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