

REDACTED

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of DOCKET NO. 041414-EI
long-term fuel supply and
transportation contracts for
Hines Unit 4 and additional
system supply and transportation,
by Progress Energy Florida, Inc.

CONFIDENTIAL TRANSCRIPT

PANEL DEPOSITION OF: PAMELA R. MURPHY
ROBERT F. CALDWELL
BRUCE H. HUGHES
SAMUEL S. WATERS

TAKEN AT THE INSTANCE OF: FPSC Staff

DATE: April 19, 2005

TIME: Commenced at 10:31 a.m.
Concluded at 1:47 p.m.

LOCATION: Room 154, Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR
Notary Public, State
of Florida at Large

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Attachment B

DOCUMENT NUMBER-DATE
04111 APR 27 05

FPSC-COMMISSION CI FRK

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PROCEEDINGS

1
2 The following deposition was taken on oral
3 examination, pursuant to notice, for purposes of
4 discovery, for use as evidence, and for such other uses
5 and purposes as may be permitted by the applicable and
6 governing rules. Reading and signing of the deposition
7 transcript by the witnesses is not waived.

8 * * *

9 Thereupon,

10 PAMELA R. MURPHY,

11 ROBERT F. CALDWELL,

12 BRUCE H. HUGHES, and

13 SAMUEL S. WATERS

14 the witnesses herein, having been first duly sworn, were
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MS. VINING:

18 Q Could I please get each of you to state your
19 name and business address for the record.

20 A (By Mr. Waters) Samuel S. Waters, Progress
21 Energy, 410 South Wilmington Street, Raleigh, North
22 Carolina 27602.

23 A (By Mr. Caldwell) Robert F. Caldwell, Progress
24 Energy, 410 South Wilmington Street, Raleigh, North
25 Carolina 27602.

1 A (By Ms. Murphy) Pamela R. Murphy, Progress
2 Energy Carolinas, 410 South Wilmington Street, Raleigh,
3 North Carolina 27602.

4 A (By Mr. Hughes) Bruce H. Hughes, Southern
5 Natural Gas Company, P.O. Box 2563, Birmingham, Alabama.

6 Q And have all of you filed testimony in Docket
7 041414? And please answer individually. Don't answer
8 together.

9 A (By Mr. Waters) Yes.

10 A (By Mr. Caldwell) Yes.

11 A (By Ms. Murphy) Yes.

12 A (By Mr. Hughes) Yes.

13 Q Thank you. Now, I'm going to start with
14 Mr. Hughes. And I notice you don't have your testimony
15 in front of you. Or do you have it?

16 A I do have it.

17 Q Okay. And I don't think that the next line of
18 questions will elicit confidential information, but let
19 me know if I'm incorrect.

20 Okay. Referring to page 4 of your testimony at
21 lines 5 through 8 -- do you have that?

22 A I do.

23 Q What are the benefits and detriments, if any,
24 to Progress's gas supply contract being served from the
25 existing rather than expanded terminal capacity at Elba

1 Island?

2 A The distinction there is that we have an
3 operating terminal. We're currently receiving shipments
4 from the terminal. We're also in the process of
5 expanding the terminal. And I just made the distinction
6 that the Progress contract is with British Gas, who has
7 capacity in the operating terminal.

8 Q Okay. Turning to page 6 of your testimony,
9 lines 2 through 4 -- do you have it?

10 A Yes.

11 Q Can you please describe the primary obstacles
12 to pipeline construction on SONAT'S selected route?

13 A Page 6, lines 2 through 4?

14 Q Yes.

15 A Referring to our previous application?

16 Q Well, but you're using the same route; correct?

17 A Correct.

18 Q So you have -- you say here that you've fully
19 evaluated the route.

20 A Right.

21 Q So do you have a sense of what the primary
22 obstacles would be to the pipeline being constructed on
23 that route?

24 A In our original application, we had proposed to
25 start our pipeline in the Savannah area, and the initial

1 10 miles or so of that route was what we referred to as
2 a greenfield project. There was not a utility corridor
3 at that point. Beyond the initial 10 miles, we proposed
4 to route the line adjacent to an existing utility
5 corridor for the balance of the project. With this
6 application, we have rerouted that portion of the
7 project, and we are now collocating the entire route.

8 As far as issues related to our proposed route,
9 we have begun the process of filing our certificate
10 application with the Federal Energy Regulatory
11 Commission. We feel very good about the route that we
12 have selected. The entire route, the entire 165 miles
13 for Phase I of our project is adjacent to the existing
14 utility corridor. And we are obviously working with the
15 Federal Energy Regulatory Commission and all the other
16 federal and state permitting agencies to have the route
17 that we've selected approved. But we feel very good
18 about the route because of the existing utility
19 corridor.

20 Q So you're not anticipating much dissent from
21 the public in that area because it's in an existing
22 right-of-way?

23 A That's correct.

24 Q Are you still on target to file the application
25 with FERC at the beginning of May?

1 A We have met a number of times with the FERC
2 since we submitted the testimony. We have agreed to
3 participate in a NEPA prefiling process, and as a result
4 of that decision, we feel like it's going to be the
5 latter part of May before we make the application. But
6 we've been advised by the Commission staff that rather
7 than the 12 to 14 months to process our application that
8 was included in my testimony, they are of the opinion
9 that because we've agreed to participate in this
10 prefiling process that the time to process our
11 application can be shortened to nine to 12 months. So
12 we feel like we may be a month delayed in filing the
13 application, but we feel like we'll get perhaps three to
14 four months of time savings on the processing of the
15 application.

16 Q Is this a procedure that they've only recently
17 started doing, or is this something that has been
18 available routinely?

19 A It is a procedure that the Commission initiated
20 perhaps six to nine months ago. It's a voluntary
21 procedure, but one they strongly encouraged us when we
22 had our prefiling meeting with FERC to participate in.

23 Q And was that urging that FERC gave you to go
24 ahead and do this shortened time period because the
25 route was an existing utility right-of-way and they felt

1 there wouldn't be many barriers to them granting a
2 certificate for you?

3 A No. I think their rationale is -- it's more of
4 a preferred process for FERC. It will require an
5 environmental impact statement, and FERC is the lead
6 agency for processing an environmental impact
7 statement. And they feel this process will enable them
8 to collaborate and coordinate it with the other federal
9 and state regulatory agencies in processing the
10 application.

11 Q At this point in time, have there been any
12 interest groups, and I'm using that as a broad term,
13 particularly environmental interest groups, for example,
14 that have expressed concerns about the construction of
15 this pipeline?

16 A As a result of the process that we've
17 initiated, we have had open houses along the pipeline
18 corridor in Savannah, Brunswick, and Jacksonville in
19 mid-February, February 17, 18, and 19, I believe. Those
20 meetings were sparsely attended in Brunswick and
21 Jacksonville. There was a slightly larger turnout or a
22 larger turnout in the Savannah area. But it was
23 principally informational only.

24 There were a number of commentators, landowners
25 that encouraged us to collocate with the power line as

1 much as possible. Our proposal is to have 50 feet of
2 easement immediately adjacent to the power line. **Most**
3 of the comments that we received from the open houses
4 were, "Gee, we would like to see you collocate as much

5
6
7 actually held their scoping meetings, which typically
8 are not held until the applicant files their
9 application. But because of this process we agreed to

10
11
12 10th.

13 Again, the meetings were lightly -- there was
14 light attendance at the meetings. There were a number
15 of environmentalists at the Brunswick meeting that --
16 the principal comments again echoed the landowner
17 preferences for collocation as much as possible, and
18 also that the Commission staff monitor our compliance
19 and construction techniques to be as sensitive as
20 possible to the river crossings, which we've proposed to
21 directionally drill to minimize impact. We didn't sense
22 any outright opposition to the project at those meetings
23 that I recall.

24 Q So someone hasn't changed any of their planning
25 with regard to the siting as a result of those meetings?

1 A No.

2 Q Let's look at page 7 of your testimony, lines 6
3 and 7. Do you have it?

4 A I do.

5 Q There you say that SONAT has agreed to supply
6 monthly progress reports to Progress; correct?

7 A Correct.

8 Q And has SONAT been providing those progress
9 reports?

10 A Yes, we have.

11 Q And I think you've already given staff some of
12 those progress reports.

13 MR. BURNETT: That's correct. Those would be
14 the documents I delivered to you yesterday.

15 MRS. VINING: And I would like to mark those as
16 an exhibit.

17 (Deposition Exhibit 1 was marked for
18 identification.)

19 BY MS. VINING:

20 Q Now, moving on to page 7, lines 8 through 12.

21 A I've got it.

22 Q Regarding the \$9 million that SONAT has spent
23 on the Cypress project to date, what types of expenses
24 are included in that \$9 million?

25 A The \$9 million -- I previously mentioned in the

1 testimony that we had filed an application for this
2 route in 2001. Most of the \$9 million was spent for
3 title searches along the route, for right-of-way
4 surveys, for environmental surveys, both archaeological
5 and biological surveys. We prepared a FERC application
6 in 2001 which requires extensive resource reports to
7 comply with the environmental impact statement. **Most** of
8 those expenditures were spent at that time for the
9 surveys.

10 Q So were most of those expenses incurred
11 pre-2001 then?

12 A Starting in August of 2000 and extending
13 through July of 2001.

14 Q Okay. I think that's all I have for Mr. Hughes
15 right now. I do have another question on this topic,
16 but it's in Ms. Murphy's testimony.

17 Do you have your testimony?

18 Before I ask the question, this should elicit
19 confidential information, or -- well, I'll say this. It
20 depends on how you answer it. I'll just go ahead and
21 ask the question, and then we'll see how it goes.

22 A (By Ms. Murphy) Okay.

23 Q Let me look at this. I think we'll be fine.

24 Okay. At page 11, lines 10 through 16 of your
25 testimony --

1 A Do you have one that's not redacted?

2 Q Hold on. I think we have a separate copy.

3 A I think we do.

4 Q Let's see. This is redacted.

5 MR. BURNETT: I think we have it, Adrienne.

6 MS. VINING: Oh, do you? Okay.

7 BY MS. VINING:

8 Q Okay. Can you provide an update at this time
9 as to what SONAT's progress is in achieving receipt and
10 acceptance of the items listed there?

11 A With regard to line 11, the XXX,XXX --

12 MR. BURNETT: Hold on one second. Do you
13 think we'll be getting into confidential information
14 if you answer that question? Do you think we need
15 to --

16 MS. VINING: That number is redacted, I think,
17 on there.

18 MR. BURNETT: Do we want to --

19 WITNESS MURPHY: The one I have here doesn't
20 show --

21 MS. VINING: Oh, you don't have -- so you don't
22 have any idea what has been highlighted on that one?

23 WITNESS MURPHY: Not on this copy.

24 MS. VINING: That's a problem then.

25 MR. BURNETT: You guys want to step out for

1 just this question, and then I think we'll be okay.

2 I'll come right out and --

3 MR. CRUTHIRDS: Sure.

4 (BG representatives exit the conference room.)

5 MS. VINING: I think the number you said before
6 we could probably strike, and the reason I say that
7 is because I know that particular condition
8 precedent has been waived now.

9 MR. BURNETT: Certainly.

10 MS. VINING: So the number that she said
11 earlier --

12 THE REPORTER: XXX?

13 MS. VINING: Yes, please.

14 MR. BURNETT: Yes.

15 BY MS. VINING:

16 Q Okay. Do you need me to repeat the question?

17 A Please.

18 Q With regard to lines 10 through 16, can you
19 provide an update as to what SONAT's progress has been
20 in achieving receipt and acceptance of the items listed
21 there?

22 A With regard to lines 11 and 12, we received a
23 letter from Southern Natural waiving that provision. I
24 believe it was April 1st, and it was submitted to you in
25 one of the responses.

1 With regard to the preliminary determination,
2 they're still on track, with the monthly reports that
3 we're seeing, in order to get the preliminary
4 determination from FERC on or before -- and this is
5 confidential -- [REDACTED]

6 With regard to all the other governmental
7 authorizations from FERC, the United States Army Corps
8 of Engineers, the U.S. Fish and Wildlife Service, we're
9 continuing to pursue those, and as far as we know, based
10 on the monthly reports, they're still on track.

11 Q Now, I guess back to Mr. Hughes. Do you have
12 anything additional to add to Ms. Murphy's sense of what
13 Progress has gotten from these progress reports from
14 SONAT?

15 A (By Mr. Hughes) No. I fully concur with
16 Ms. Murphy's interpretation of the reports that we've
17 submitted.

18 MS. VINING: Thank you. Off the record.

19 (Discussion off the record.)

20 (Mr. Hughes exits the conference room and is
21 absent for the remainder of the deposition.)

22 (BG representatives return to the conference
23 room.)

24 MS. VINING: The next questions Ms. Murphy most
25 likely will be answering, and I think she'll be

1 answering the bulk of the questions from here on
2 out, but there will be a few instances where I'll
3 address Mr. Waters' and Mr. Caldwell's testimony.
4 But obviously, that still leaves you guys free to
5 answer as well.

6 WITNESS WATERS: Chime in?

7 MS. VINING: Yes, please do so.

8 BY MS. VINING:

9 Q Do you believe that the FGT and the Gulfstream
10 pipelines do have sufficient capacity to provide the
11 necessary gas supply for peninsular Florida over the
12 20-year term of the contracts?

13 A (By Ms. Murphy) I believe the Gulf of Mexico
14 has at least 20 to 30 years of supply available in
15 existence right now to deliver into FGT or Gulfstream.

16 Q Do you think that the pipelines do or have
17 projects in the works that would allow both of those
18 pipelines to handle the capacity in the Gulf of Mexico
19 over the next 20 years?

20 A I'm really unaware of all the enhancements that
21 FGT and Gulfstream are doing right now in order to --
22 not all the gas coming out of the Gulf of Mexico is
23 going into FGT or Gulfstream.

24 A (By Mr. Caldwell) May I jump in? Is your
25 question does FGT have sufficient capacity today?

1 Q Why don't we start there, yes.

2 A If that's the question, I'm not aware that
3 Florida Gas Transmission today has sufficient capacity,
4 because I believe they're fairly fully subscribed and
5 would probably have to expand to meet our needs or the
6 State of Florida's needs going forward.

7 Q How about Gulfstream?

8 A Gulfstream is significantly subscribed, as I
9 know it today. I think there is some capacity
10 available. I don't believe that it's sufficient to meet
11 all of the needs of the State of Florida or Progress
12 Energy Florida.

13 Q How about -- does Gulfstream have sufficient
14 capacity to serve Hines 4?

15 A We looked at the Gulfstream option, and --

16 A (By Ms. Murphy) Yes, they do. They have open
17 capacity right now. We could go out and subscribe to
18 their capacity today to serve Hines 4.

19 Q Now, the next question is going to relate to
20 Progress's response to staff's interrogatory 72. It
21 might be easier -- I can just show it to you, and then
22 the questions should be pretty quick.

23 A Okay.

24 Q You're ready?

25 A Sure.

1 Q In this response, Progress -- and correct me if
2 my characterization is incorrect. Progress says that
3 the supply disruption associated with hurricanes is
4 important enough to make geographic diversity one of
5 your criteria for selecting a natural gas supplier.

6 A That's correct. It is one criterion out of
7 four.

8 Q Now, has Progress ever been unable to maintain
9 reliable service to its customers due to a hurricane in
10 the Gulf of Mexico? And when I say a hurricane in the
11 Gulf of Mexico, I'm specifically thinking of one that's
12 in the Gulf of Mexico, but doesn't hit directly in
13 Progress's territory. Has that ever caused reliable
14 service to be curtailed, shall we say?

15 A Since I really don't do that for the company, I
16 don't -- I'm not in the Energy Control Center. I can't
17 really say whether we had to get into some kind demand
18 type management or voltage reduction or whatever. I
19 don't really know. But from a reliability standpoint,
20 have we been able to, to the extent that we could,
21 provide fuel, meaning gas and oil to the plant? We have
22 tried to do so, but not without severe force majeure
23 conditions being imposed on it.

24 A (By Mr. Waters) And if I could just address
25 part of that, I think the premise of your question is

1 really a hurricane hitting the gas fields without
2 hitting any of Progress Energy's service territory. We
3 haven't experienced that. We have had gas
4 interruptions. And I think as everyone knows, one of
5 the unfortunate side effects is that load is down at the
6 same time the gas fields are curtailed when the
7 hurricane hits your service territory.

8 So if we were to deal a little bit in the
9 hypothetical, because of what we've seen with gas
10 interruptions, it's entirely possible that reliable
11 service could be jeopardized if we have full load and
12 we're basically unaffected by the hurricanes and gas
13 supply is interrupted, because even under the best of
14 circumstances, when we add these combined cycle units --
15 they do have backup fuel, so for a short period, we can
16 maintain service, but it would really depend on how long
17 the gas interruption is. If it's longer than, I would
18 say, a day or two, then I think there would be -- we
19 would have to scramble. It's hard to say what we would
20 have to do, but I think it would definitely require some
21 emergency action to maintain load.

22 Q But as far as you know, there has never been an
23 instance where there has been curtailment of load
24 because of that sort of situation?

25 A Not to my knowledge, no.

1 Q Let me follow up with you, Mr. Waters, on what
2 you just said. To your knowledge, there has never been
3 a curtailment in that situation. Do you think there's a
4 greater likelihood that that might happen in the future,
5 and that's part of the reason for entering into these
6 contracts?

7 A I don't know that there's a greater likelihood.
8 I don't know that that's the proper way to look at it.

9 I need to add too that I don't think hurricanes
10 are the only thing you need to worry about. I think
11 those of us who go back a few years remember a
12 compressor station fire on the pipeline that
13 fortunately, I guess, occurred on the weekend. If that
14 had happened in the middle of the week, there might have
15 been some load curtailments due to that.

16 But there is more exposure, obviously, when you
17 have fewer pipelines or fewer sources for a concentrated
18 source in a single pipeline, certainly. In the case of
19 having an alternate source from a completely different
20 direction, I think all other things being equal, it
21 would be obvious that it's more reliable than having
22 everything fed from a single area.

23 So I think that's really the issue. It's not
24 that we're looking at probabilities of occurrence.
25 We're just looking at basically the system as it is

1 versus the system with an enhanced supply from a
2 different direction and having different sources of gas
3 would, obviously, be more reliable.

4 A (By Ms. Murphy) And as we go down further, our
5 dependence on natural gas is going to make that even
6 more critical than what it has been in the past for
7 Progress Energy Florida, I would add.

8 Q Okay. Thank you.

9 Now, Mr. Waters, if you could refer to page 8
10 of your testimony, or how about I just -- page 8, line
11 23?

12 A (By Mr. Waters) Okay. I have that.

13 Q What we would like to know is, what did you
14 mean by other catastrophes?

15 A Well, one of the references I just made was to
16 the compressor station fire. Any number of things could
17 happen. And I hate to hypothesize on catastrophes.
18 Planes go down, things happen, bad things happen. They
19 usually happen at the worst possible time. So I don't
20 want to limit the discussion just to hurricanes,
21 although that has been primarily the focus. Other
22 things have happened that have interrupted gas supply,
23 whether it has been just for a short period or a couple
24 of days. And I think, as I said before, when you
25 concentrate your supply and when you have limited

1 delivery options, you're much more at risk than when you
2 have an alternate path and alternate supplies that can,
3 in a sense, back up the system when these catastrophes
4 occur.

5 Q Thank you. Now, in the event of an LNG supply
6 disruption at Elba Island, what assurance does Progress
7 have that it will be able to obtain replacement supply
8 for the contracted volume of gas on Cypress?

9 A (By Ms. Murphy) The assurances, if it is an
10 actual force majeure event where BG can claim force
11 majeure under the contract, we would go out and try to
12 secure additional gas supply either on Southern Natural
13 to try to get delivered supply on FGT or delivered
14 supply on Gulfstream in order to continue to maintain
15 the volumes necessary to keep load.

16 Q To thereby avoid a negative impact on the
17 reliability of the system?

18 A That's correct.

19 Q Has PEF calculated the incremental cost of
20 obtaining replacement gas supply in an instance where
21 LNG is not available from Elba Island?

22 A No, we have not.

23 Q I don't know if you want to answer this, since
24 you said you haven't calculated what the incremental
25 cost would be. Have you perhaps thought about where

1 replacement gas would originate in that instance?

2 A Yes.

3 Q Okay. And where would that be?

4 A On the Southern Natural system, we would try to
5 segment the capacity that we would have on the Cypress
6 pipeline back to Zone 0 and move it through a secondary
7 basis through the existing capacity we would have on
8 Cypress and then deliver it into FGT to Hines. Or we
9 would look at Gulfstream and move gas on Gulfstream,
10 deliver it to the Osceola point, and then we would
11 segment our existing Phase 4 capacity back to Hines to
12 the tune of about 50,000 decatherms a day for the summer
13 period. We could buy delivered gas from the Gulf from a
14 third party that has transport in the path to Hines,
15 deliver it to Hines, or we would use backup fuel oil if
16 needed.

17 Q How many days can you run on the backup fuel
18 oil?

19 A If all four units -- with the installation of
20 Hines 4 and the million-gallon tank we're going to put
21 in for Hines 4, we calculated 47 usable hours per unit
22 available at that site, so almost two days.

23 Q Okay. So based on what you just said, would
24 you say then that there's a very small likelihood that
25 you would have to get a replacement gas supply from

1 sources farther away than the State of Florida,
2 basically?

3 A Could you repeat the question?

4 Q I guess based on all the --

5 A Risks?

6 Q The arrangements you've made or thought through
7 if you can't get the gas supply from Elba, then what I'm
8 saying is, based on what you just said, you believe that
9 the likelihood is quite small that you would have to get
10 gas that originates from, let's say, outside the State
11 of Florida in terms of pipeline delivery, or let's say
12 Transco Zone 4?

13 A That would depend on the situation that's
14 presented to us and how many times it's presented to
15 us. For example, the four hurricanes experienced last
16 year were totally an anomaly. **So I would say under**
17 normal conditions, it's probably very, very small, but a
18 catastrophic event -- and bad things do happen, and so
19 therefore it's hard to predict that it would always be a
20 small risk associated for Progress Energy Florida. But
21 we're anticipating not four storms again in the Gulf of
22 Mexico as well, at least we're hoping not.

23 Q Now, do the contracts allow for recovery of
24 purchased power costs if replacement gas can't be found?

25 A No. The only thing that they provide for is if

1 we would use an alternate fuel oil, or an alternate fuel
2 such as No. 2.

3 Q So then it does allow for recovery of backup
4 fuel costs?

5 A Yes, under the cover standard provision in the
6 contract.

7 Q That's public now?

8 A Well, we can say there's a cover standard. I
9 didn't tell you what was --

10 MR. BURNETT: I think to that level of detail,
11 that's --

12 WITNESS MURPHY: It's okay.

13 MR. BURNETT: Yes.

14 BY MS. VINING:

15 Q [REDACTED]
16 [REDACTED]
17 [REDACTED]

18 A [REDACTED]

19 Q Would it be your position that the cover
20 standard provision helps to provide some protection for
21 Progress's ratepayers from a scenario where Progress was
22 forced to go out and get a replacement gas supply?

23 A Yes, I do.

24 Q [REDACTED]
25 [REDACTED]

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[REDACTED]

[REDACTED].

A That's correct. It does not cover that.

Q So the ratepayers wouldn't be protected in those instances?

A That's correct.

Q I believe earlier, Mr. Caldwell, you said that it was your assessment that FGT was pretty much fully committed over the 20-year term of the contract?

A (By Mr. Caldwell) Well, currently.

Q Currently. Do you have a sense for the SONAT system in terms of the commitment on the system?

A The total SONAT system?

Q Yes.

A I don't right offhand. Typically Southern Natural Gas runs a pretty full system, but I don't know about the whole system. Now, with respect to Cypress, it will be fully subscribed, to the best of our knowledge, by ourselves and British Gas, at least in the first phase.

Q So 100%?

A I believe it's very close to 100% subscribed.

A (By Ms. Murphy) We're going to be about [REDACTED], and the remainder is going to be with BG. And you're right, [REDACTED] is confidential.

1 Q Well, I was trying to -- I don't know if the
2 90% plus -- I don't think that's confidential. I think
3 it was in your testimony. It's public that between BG
4 and Progress, Cypress would be more than 90%.

5 A (By Mr. Caldwell) Right. Our understanding
6 is that Southern Natural wanted a relatively full
7 subscription, almost a full subscription to that pipe
8 before they would move forward with the project, and the
9 combination of British Gas's commitment and Progress
10 Energy Florida's commitment has gotten Southern to the
11 point that they're comfortable moving forward with the
12 project at this point.

13 Q Do you know at this point if SONAT is planning
14 to serve any end users in Georgia on Cypress at any
15 point in time?

16 A I don't know.

17 Q That was my one question that I thought Bruce
18 might answer.

19 Now, follow me on this one. Does
20 unavailability of LNG supply and unavailability of
21 replacement gas transportation capacity, even in the
22 small chance that that might happen, constitute a
23 reliability risk for Progress in the same way that sole
24 sourcing natural gas from the Gulf of Mexico supply
25 region due to hurricanes might be a reliability risk for

1 Progress?

2 A (By Ms. Murphy) Would you repeat the question?

3 Q The point being that if your sole source on
4 Cypress, in other words, for Hines 4 is at LNG and it is
5 unavailable, and let's say you can't get replacement gas
6 easily, is that also a similar type risk to having a
7 huge amount of your gas coming from the Gulf of Mexico
8 and that being curtailed by hurricanes?

9 A If I'm understanding, if they're unavailable at
10 the same time, or if one is unavailable first and then
11 later another one? What are you asking?

12 Q I'm looking at if they're comparable risks.
13 And you could either say they're comparable based on the
14 likelihood of it happening or comparable in terms of
15 something you want to try and contract away or avoid.
16 And I think based on something you said earlier, they're
17 probably not equivalent risks, because I think you said
18 earlier that the risk of curtailment in the Gulf of
19 Mexico is much higher than the risk of not being able to
20 find replacement gas supply if Elba is curtailed.

21 A (By Mr. Caldwell) Let me take a shot at --

22 A (By Mr. Waters) I was going to -- go ahead.

23 A (By Mr. Caldwell) The reliability is enhanced
24 with a system generally by having more than one supply
25 alternative. The relative risks between them are hard

1 to speculate on. The fact that we have multiple places
2 to get gas and multiple pipelines to bring gas to the
3 state overall enhances reliability.

4 As Pam mentioned, we think the probability of
5 interruptions of LNG supply or long interruptions of LNG
6 supply are pretty small. We think the chance of
7 interruptions -- we hope the chance of interruptions in
8 the Gulf due to hurricanes is relatively small, but we
9 cannot predict either of those. And we believe that
10 it's in the customers' best interest to be able to
11 diversify those risks across multiple supply sources.
12 It's very hard to articulate.

13 A (By Mr. Waters) I was just going to say, if I
14 properly understand your question, I see the risks as
15 very different. If you're taking all of your supply
16 from one region, even if it's coming in through two
17 pipelines, remember that we're supplying the system.
18 The LNG is coming in primarily for Hines 4, and there
19 will be some system supply. If I interrupt the LNG,
20 yes, I may lose Hines 4 if I can't arrange for backup
21 gas, and I may lose some supply to the system.

22 If I lose the Gulf, I lose the system. It's
23 not comparable at all. The risks are, in my mind,
24 enormously different, because if I lose that Gulf supply
25 and I basically am losing all my gas supply, it's not

1 just Hines 4 I'll be worried about. I've got a whole
2 bunch of units out there that I'm going to have to
3 figure out what to do with, whether it's backup fuel or
4 whatever.

5 And on top of that, if I've lost the Gulf and I
6 only have that as my source of supply, there is no
7 backup. Where am I going to get backup fuel from? I
8 mean, that was my primary supply. So I see them as very
9 different levels. You know, I think the system -- I'm
10 hoping neither happens, but I think the system will be a
11 little more tolerant of losing the LNG supply, or even
12 losing the Gulf, assuming we don't lose everything at
13 the same time. I can operate around that a little
14 better than if I've concentrated everything in one place
15 and I lose that.

16 Q Thank you.

17 A (By Ms. Murphy) And I would add that in 2007,
18 the LNG gas coming in is going to be representative of
19 about 12% of our needs versus what's in the Gulf of
20 Mexico is going to be closer to 88%. So it's relative,
21 in that we're just trying to diversify the portfolio and
22 enhance the reliability of the system.

23 Q Is that confidential?

24 A No.

25 Q Okay. I would like you guys to take a look at

1 your response to staff interrogatory 71, Attachment B.

2 It's not going to be in there. It's never
3 going to be easy.

4 Does this interrogatory response indicate that
5 a significant portion of the incremental gas costs
6 associated with Hurricane Ivan were due to the cost of
7 additional gas supplies beyond that which was originally
8 contracted? And I'm looking specifically at the bottom
9 of the second to last column relative to the total in
10 the last column.

11 A The gas cost to replace the term was [REDACTED]
12 [REDACTED], but the additional gas supply over and above
13 the term gas was about [REDACTED]

14 Now, ask the question again so I can make sure
15 I was looking at the right column.

16 Q So, yes, then a significant portion of the
17 incremental gas costs with Hurricane Ivan were due to
18 cost of additional gas supplies you had to go out and
19 get over what you already contracted for?

20 A No. I think the gas cost to replace the term,
21 if I remember this correctly, was [REDACTED] The
22 cost of our additional gas supplies was just [REDACTED]
23 [REDACTED] So to the extent we're replacing the term gas
24 because it was force majeure, it was higher than the
25 cost of going out and buying additional supplies over

1 and above that.

2 MR. BURNETT: And were those numbers
3 confidential?

4 WITNESS MURPHY: Yes, those are confidential.

5 MR. BURNETT: I'm just noting that for the
6 record periodically.

7 WITNESS MURPHY: You guys are watching me.

8 BY MS. VINING:

9 Q Now, based on what we just discussed, would the
10 proposed contract allow Progress to avoid similar costs
11 in the future?

12 A Yes.

13 Q How so?

14 A Because if the Gulf of Mexico -- if we were
15 force majeure in the Gulf of Mexico, we could turn
16 around and use that gas coming in to supplement any
17 force majeure conditions that are imposed upon us by our
18 contracted suppliers.

19 Q Now, in that instance, would the price be at
20 market?

21 A The price of the LNG is going to be whatever it
22 was based on the first of the month index that was
23 chosen under the contract.

24 Q But it would be at a higher price, because
25 there would be a price spike that would result from the

1 hurricane?

2 A No, because it's based on the first of the
3 month index. So if it occurred in the middle of the
4 month, it would not be subject to a gas daily price, but
5 the first of the month price that was established in the
6 contract.

7 Q So in that instance, there would be a cost
8 savings then?

9 A That's correct.

10 Q Okay. Moving on to the response to
11 interrogatory number 154.

12 MR. BURNETT: We can dig these out. We've got
13 them. If that's more helpful for you, just let me
14 know.

15 MS. VINING: Not so far.

16 MR. BURNETT: Okay.

17 BY MS. VINING:

18 Q I pointed out this interrogatory to you because
19 what we're interested in is the detail for the
20 calculation of the incremental cost savings of the
21 contracts during the Hurricane Ivan event, which is what
22 I believe you guys have already provided. I just want
23 to double-check.

24 A That's correct.

25 MS. VINING: I would like to have it marked as

1 an exhibit. I believe it would be Exhibit 2. This
2 is what you provided.

3 (Deposition Exhibit 2 was marked for
4 identification.)

5 BY MS. VINING:

6 Q Now, I would like to move to Mr. Caldwell's
7 testimony.

8 A (By Mr. Caldwell) Which I now have.

9 Q Page 4, lines 10 through 13. On those lines,
10 what did you mean by firm supply?

11 A Firm supply means it will be under contract,
12 committed to by the supplier to deliver it pursuant to
13 the contract terms so that we can meet our needs.

14 A (By Ms. Murphy) And I would add that firm
15 means not subject to interruption. It is firm, 365 days
16 out of the year, and they cannot interrupt it for any
17 reasons other than a force majeure condition.

18 Q Now, could a three-year contract for gas supply
19 under a take-or-pay contract be considered firm supply
20 in the sense you meant in your testimony?

21 A (By Mr. Caldwell) Yes, for that period, that
22 would be a firm supply, but it would not be firm for any
23 period beyond the contract term.

24 Q Now, you also said that the proposed natural
25 gas supply and pipeline transportation contracts that

1 Progress has proposed here provide the greatest degree
2 of certainty that Progress will have firm supply and
3 pipeline transportation ready when Hines 4 comes on line
4 in December of 2007.

5 A That's correct.

6 Q My question to you is, though, would Gulfstream
7 not present a more certain source for pipeline
8 transportation than Cypress?

9 A Well, given the fact that Gulfstream is a
10 pipeline that's in existence, to the extent that we
11 could contract for capacity on that pipe and there was
12 capacity available, that pipe is in existence and could
13 be considered a higher degree of certainty. With
14 respect to the Southern Natural Gas pipeline, as
15 Mr. Hughes alluded to, given the schedule and the
16 process they've gone through, the pipeline route they've
17 selected and the commitment that they've made and the
18 work that they've done, I believe that there's a great
19 degree of certainty that that pipe will be there in time
20 to meet our needs, particularly in the time frame
21 between now and December 2007.

22 Q And is that time frame why Progress decided
23 that a Bahamas-based supply would not have a high
24 likelihood of certainty with regard to providing service
25 by December 2007?

1 A That was one of the major considerations, that
2 the uncertainty with respect to a Bahamas-based supply
3 was significantly greater than an Elba/Cypress. The
4 Elba facility is in operation. As Mr. Hughes mentioned,
5 BG does have terminaling capacity that's in existence.
6 And the certainty is with respect to building the
7 pipeline expansions to the Hines 4 facility.

8 With respect to the Bahamas, the terminals have
9 not been certificated. They've not been sited. The
10 pipelines have not been started for construction. And
11 we felt that there was just way too much uncertainty
12 with respect to timing to meet our needs.

13 Q Do you have a sense of what the time horizon
14 will be for the Bahamas, when they will be operational?

15 A My sense is that it's getting delayed as time
16 goes by. It's a very complicated approval process that
17 requires the Bahamian government and several agencies
18 within that -- what I've read in the press is that the
19 time frame seems to be moving out, which confirms our
20 concerns that it would not be likely available to us in
21 time to meet the need of Hines 4.

22 A (By Ms. Murphy) And I would add that FPL is
23 the big driver as to when that Bahamas terminal probably
24 is going to be built.

25 Q So is it your assessment now that perhaps 2010

1 might be a better time period for when it perhaps will
2 be operational?

3 A (By Mr. Caldwell) I think that 2010 might
4 still be an aggressive time frame, personally.

5 Q But it is possible that Progress may consider a
6 Bahamas-based supply for future needs?

7 A Progress would be very interested in pursuing a
8 Bahamas-based supply for our future needs. We think
9 that it's in the best interest of the State of Florida,
10 the customers of the State of Florida to have multiple
11 supplies of gas. A Bahamas-based supply in addition to
12 an Elba-based supply and the traditional Gulf of Mexico
13 supply we think provides the best value for the
14 customers of the State of Florida for the long term.

15 A (By Ms. Murphy) But one of our biggest
16 concerns in working with one of the suppliers is that
17 they've missed several deadlines trying to get the
18 Bahamian government approval. And we've been working
19 with them since August of 2003, and once again, they've
20 missed several deadlines as to when they would say they
21 would have that approval, and they still don't have it
22 today.

23 Q I'm just curious then. At what point in the
24 process of getting to signing these contracts did you
25 sort of realize that the Bahamas would not be viable?

1 A After the third deadline was missed by -- one
2 of the suppliers did not meet it in July of 2004. They
3 said they would have Bahamian government approval. July
4 came and went, and there was no Bahamian government
5 approval. So that was the third try.

6 Q But before then, you had high hopes that
7 perhaps a Bahamian-based supply could work for Progress
8 for Hines 4?

9 A Yes, we did.

10 A (By Mr. Caldwell) But it was still contingent
11 upon Florida Power & Light's needs, because we were not
12 large enough to anchor a Bahamian-based project
13 ourselves, in our opinion. But from what the suppliers
14 were telling us, if they were committed to the project,
15 they could have done it at that point.

16 A (By Ms. Murphy) We considered all the options.

17 Q And potentially, once that it is in service,
18 Progress could support another train perhaps being built
19 there?

20 A (By Mr. Caldwell) Yes. I think to the extent
21 that we have future gas needs, we will again do an
22 extensive process, go through an extensive process to
23 make that we've looked at all the alternatives, and the
24 Bahamas would be -- if it's in existence, it will be
25 clearly one of the alternatives that we look at, in

1 addition to additional supplies out of Elba and again
2 supplies out of the Gulf. We'll look at all of our
3 options at the time.

4 Q How much capacity is needed from Hines 4 in the
5 first six months that it's operational to meet reserve
6 margin requirements?

7 A (By Mr. Waters) I'll have to try and answer
8 that off the top of my head. I don't have the forms
9 right in front of me, but I'm going to say on the order
10 of 150 to 200 megawatts of the total capacity.

11 Q What about within the first year that Hines 4
12 is operational?

13 A It's roughly the same number. The forecast is
14 for winter peaking. And as we've shown in the plan,
15 Hines 4 is scheduled to come in in December. So it's
16 primarily needed to meet that winter peak, and then it
17 would probably serve about the same amount through the
18 summer, since we expect slightly lower loads.

19 Q Now, Pam may have already answered this, but
20 I'll go ahead and ask it anyway. How would Progress
21 meet this reliability need if the in-service date of the
22 plant is delayed?

23 A I'll take that one this time. From a system
24 point of view, what I would do, I would probably go
25 through a series of steps, and I think the answer to the

1 question really comes down to it depends on what the
2 cause is and how long we expect it to be out. But the
3 first thing I would look for, I would go to Pam and look
4 for those alternative supplies of gas to Hines 4. And I
5 assume you're talking about a delay caused by this
6 project, the Cypress project, not a --

7 Q Correct.

8 A Okay. So assuming the plant is there and
9 operable, the first thing I would do is look to see if
10 there's any alternative gas supplies available and
11 whether or not we could operate at least through the
12 peak period. So for winter, I may not have the unit
13 available every day, and I may not have it available
14 around the clock. But if I can meet my peak conditions
15 on those real cold days, for those few days I expect,
16 then that may be sufficient.

17 If the outage were to run into the summer, we
18 have more consistent loads, and I'll need the unit on a
19 more consistent basis. Again, I would look to see if
20 gas supplies could be arranged. If not, or if I was not
21 confident enough in the alternative supply, I may go to
22 the market and look to see if there's purchased power
23 available through the summer.

24 So there would really be a series of steps that
25 depend on what the contingency is, how long we expect it

1 to occur, and we would sort of have to set all those
2 conditions before I would know exactly what I would do.

3 Q What would you do if, let's say, Cypress was
4 operational, but for whatever reason, the plant itself
5 was not on-line, if that was delayed?

6 A It's really a similar condition, although now I
7 don't have the plant. So probably my first option in
8 that case would be to look to some very short-term power
9 purchases. If I know the plant is only going to be
10 delayed a month in the winter season, if we're talking
11 December -- let's say it's scheduled for December 1st,
12 and I know it's going to come in in January. The risk
13 there is obviously much smaller than if it's going to be
14 out for three months and I know I'm going to miss the
15 whole winter. I might look for power purchases. I
16 might look to see what is out there on the market for a
17 very short term.

18 If it's a longer term outage, again, I would
19 probably go back to the market and see what's available,
20 and I may sign up for six months of power instead of
21 one. But again, it all depends on what situation I'm
22 facing at the time.

23 And by that time, I guess I have to add, we're
24 dealing with forecasts that now are several years off.
25 By that time, I may have a better handle on the load

1 forecast. It may be a little lower than what I'm seeing
2 now. It may be that it's not a crisis if it slips a
3 couple of months. Or the forecast may be higher and
4 they'll have to go out and get a little extra. So it
5 will just depend on what we're facing.

6 Q Okay. The question I'm about to ask will have
7 confidential information in it.

8 In the contract, [REDACTED]
9 [REDACTED]
10 [REDACTED] am I correct?

11 A (By Ms. Murphy) [REDACTED]

12 Q Okay. [REDACTED]
13 [REDACTED]
14 [REDACTED]

15 A [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21 [REDACTED] So that's the reason why we structured
22 the contract that way.

23 Q [REDACTED]
24 [REDACTED]

25 A [REDACTED]

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[REDACTED]

Q Does Gulfstream deliver straight to Hines 4, or would there have to be transfer to --

A No. There are two meters sitting at the Hines Energy Complex, one for FGT and one for Gulfstream.

Q So it services all the units at Hines then, Gulfstream does?

A Gulfstream does, yes.

Q [REDACTED]

A [REDACTED]

Q [REDACTED]

A [REDACTED]

[REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]

6 Q I just want to confirm something you said
7 before. With regard to the fuel oil storage tank that
8 will be built, the new one, the one-million-gallon tank
9 at Hines 4, did you say before it would provide 47
10 hours?

11 A No, the total. Currently there are 90,000
12 barrels right now for Hines 1, 2, and 3, and then
13 there's the additional one-million-gallon tank we're
14 adding at Hines 4. If you look at it in total, because
15 they're all connected to the oil tanks, it would provide
16 47 hours each for Hines 1, 2, 3, and 4, based on usable
17 quantity in the tank.

18 Q Did you compare Cypress to a delayed Bahamas
19 alternative, using another source of gas or purchased
20 power to fill in the gap?

21 A (By Mr. Caldwell) We looked at alternatives
22 for bridging the gap to a Bahamas project. The
23 difficulty was that not knowing how long to bridge for
24 made it -- made us unable to come up with an appropriate
25 bridging arrangement, not knowing whether we had to

1 bridge for a year, two years, three years, or four
2 years. So we looked at it, but we determined it was not
3 feasible, given the uncertainty around the Bahamas
4 project, to figure out how long to structure a bridging
5 arrangement.

6 Q So you started the analysis, but never
7 completed the analysis because you couldn't come up with
8 what the actual term would --

9 A Right. We concluded that not knowing how long
10 we would have to bridge for, and the information that we
11 were gathering, made it not a viable solution for us, in
12 our judgment.

13 A (By Ms. Murphy) Because by that time it had
14 already passed. We were looking at totally our net
15 combined cycle, where it's going to be sitting, and I
16 certainly didn't want to have to look at trying to find
17 two supplies associated with two combined cycles and not
18 having one already confirmed for Hines 4.

19 Q You said earlier that there were at least 20 to
20 30 years of supply in the Gulf of Mexico at this point;
21 is that correct? Is that what you said earlier?

22 A I read that in the 107-page article on the role
23 of LNG in North America. It was one of their facts, I
24 believe on page 54.

25 Q Does anybody else have a sense of how much

1 supply is left in the Gulf of Mexico?

2 A (By Mr. Waters) I do not.

3 A (By Ms. Murphy) The Department of Energy
4 actually has put something out that there's 25 to 30
5 years worth of reserves sitting in the Gulf of Mexico,
6 so they have also validated that.

7 Q Is one of the reasons that Progress selected
8 the contract with BG because of concerns about the
9 supply that's available in the Gulf of Mexico? I mean,
10 if you're looking at a 20-year time horizon, is that a
11 big concern?

12 A Well, part of the reason was because we
13 couldn't get any suppliers in the Gulf of Mexico to give
14 us a 20-year supply, and the ones that did give us a
15 supply were for very shorter terms with extremely higher
16 premiums than the BG contract.

17 A (By Mr. Caldwell) But, yes, the answer to your
18 question is that one of the considerations was making
19 sure we diversified our supply portfolio to make sure we
20 had supply to meet our customers' needs.

21 Q I want to go back to what you just said,
22 though. Isn't it really unreasonable, looking at the
23 domestic market, to expect a domestic supplier to agree
24 to a 20-year contract? Correct me if I'm wrong, but
25 isn't the market now, at the most, two- to three-year

1 contracts?

2 A (By Ms. Murphy) I think that it's preferable
3 that that's the contract that they would like to enter
4 into. But with regard to the reasonableness, I can't
5 answer that. I mean, I would have to look at it from
6 their perspective as to what their reserves are in the
7 ground, what their drilling program is going to be in
8 the future, what's the expected level that they expect
9 to find gas. And so I can't say it's unreasonable, but
10 I can't say --

11 Q It's highly unusual?

12 A It's highly unusual. Still, we wanted to go
13 out and canvass the market and find out whether there
14 was someone out there that would give us a comparable
15 deal associated with the Gulf of Mexico, and were they
16 willing to negate the force majeure conditions and
17 provide us with gas at other locations. None of them
18 were willing to do that. That's an opportunity for
19 trading for them, because they can force majeure on one
20 end and then turn around and sell gas out of storage at
21 a higher price spike. So from a trading perspective,
22 they weren't willing to give us that optionality for a
23 longer term contract.

24 Q I think what I'm about to ask you is
25 confidential, so I'll just say that on the record.

1 [REDACTED]

2 [REDACTED]

3 A [REDACTED]

4 Q [REDACTED]

5 A That's correct.

6 Q So that sort of lends credence that perhaps
7 it's highly unusual for a domestic supply contract that
8 would be 20 years in length?

9 A [REDACTED]

10 [REDACTED]

11 Q Did any of those supply a 20-year contract?

12 A No, they did not.

13 Q Would you characterize PEF's overall strategy
14 as moving more toward long-term natural commodity
15 contracts?

16 A Our long-term strategy versus short-term and
17 intermediate, I think we believe that -- our position is
18 that the company needs a mix of a portfolio in order to
19 maintain load reliability. So to say that we're looking
20 at 100% all long-term contracts, that's incorrect.
21 We're looking at a proper mix as to how much needs to be
22 short-term versus intermediate, short-term meaning a
23 year or less, intermediate meaning probably greater than
24 one year but less than three to five years, and then
25 longer term greater than three to five years at this

1 point. So we like to have a portfolio mix where all the
2 contracts are not coming up for renewal at the same time
3 that we have to go out and look to -- you know, entering
4 the market to try to find 85 BCF of gas, for example.

5 Q This question will be confidential. [REDACTED]

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]

9 A That's correct.

10 Q [REDACTED]
11 [REDACTED]

12 A [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]

19 Q Okay. And again, this will be confidential.

20 [REDACTED]
21 [REDACTED]

22 A [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 Q [REDACTED]
6 [REDACTED]

7 A Uh-huh.

8 Q [REDACTED]
9 [REDACTED]

10 [REDACTED]

11 A Uh-huh.

12 Q And you already expressed interest in perhaps
13 going to the Bahamas at a future date for future needs.
14 And I understand this is speculative, but do you foresee
15 coming in again with another long-term LNG contract
16 perhaps out of the Bahamas to layer on top of this
17 contract to get you toward that [REDACTED]

18 A That's a possibility, because some of our
19 longer term contracts, and I won't mention names,
20 actually expire in 2010. I think we have another one
21 that expires two or three years after that. So once
22 again, we're really marrying up the portfolio with
23 another longer term contract, because we see that the
24 other two contracts that we have that are long-term will
25 be expiring in the next five to seven years, let's say.

1 Q And I guess my follow-up to that -- and this is
2 confidential too, I believe. You're interested -- and
3 correct me if I'm wrong. [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 A [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 Q What time horizon would that be in?

13 A I think the next one is scheduled in 2009.

14 A (By Mr. Waters) Right. We just submitted our
15 site plan, so I can recite a little bit of that. We're
16 showing in the site plan Hines 5 and 6, so that would be
17 scheduled in 2009 and 2010. Beyond that, we're showing
18 unsited combined cycles, a series of those through the
19 2014 time period. [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 Q So at that time horizon, then it's possible
23 that Elba might not be the most cost-effective, so at
24 that point you could get a Bahamas supply in that time
25 frame, and so you don't -- when would you have to notify

1 BG on that option?

2 A (By Ms. Murphy) I would have to look at the
3 contracts for the exact dates as to when we need to do
4 that.

5 A (By Mr. Caldwell) But again, I think we will
6 look, as we always do when we're siting generation, at
7 the fuel availability and make sure that we're making
8 the best decision at that time, given the facts that we
9 know at that time.

10 Q I'm just trying to get a sense of perhaps what
11 the likelihood is that you would layer another 20-year
12 contract on top of this one. And I understand that's
13 speculation. I'm just curious if --

14 A (By Mr. Waters) Yes. Ultimately, in the
15 process, you have to remember that even though we've
16 identified combined cycles in the plan, we'll have to go
17 through an RFP, and we'll have to see if anything else
18 is out there to purchase first. And then on down the
19 road after we get through all the other processes, the
20 gas decisions will be finalized at that point if we're
21 going to be building those units.

22 Q Do you believe that procuring gas from a source
23 outside the Gulf of Mexico will have a downward impact
24 on gas prices or the availability of gas from Gulf of
25 Mexico sources in the future?

1 A (By Mr. Caldwell) I think broadly speaking,
2 the greater the supply of gas in the country, the less
3 upward pressure there will be on gas prices. And if you
4 look at a lot of the forecasts of future pricing, we see
5 supplies increasing, and as a result, prices dropping a
6 bit. So again, I think that enhancing the supply
7 situation picture in the United States is good and will
8 potentially have a favorable move on prices. But again,
9 it's supply and demand. The more supply there is, the
10 more likely the prices will be lower.

11 Q So then a possible benefit of entering into
12 the long-term contract is that you would potentially get
13 a -- you would be in a better bargaining position for
14 the shorter term contracts with domestic supply from the
15 Gulf of Mexico.

16 A That and the fact that the pricing within the
17 BG price is based on an index price, so as the prices in
18 the United States fall, the pricing under that contract
19 falls as well. So we again think that enhancing the
20 supply situation, the supply picture, particularly into
21 the State of Florida, but also into the United States as
22 a whole, is a good move for U.S. gas prices.

23 MR. BURNETT: Adrienne, whenever it's a good
24 time, if we could have a short break.

25 MS. VINING: Sure. We can take a break.

1 (Short recess.)

2 BY MS. VINING:

3 Q I have the Schedule A-3 which was filed as part
4 of last year's fuel proceeding, and if you could take a
5 look at it. And it's going to be line 4 under actual,
6 actual gas expenses. Would you agree that the total
7 cost of natural gas presented to the Commission for cost
8 recovery by Progress in 2004 was \$416,244,073?

9 A (By Ms. Murphy) That's correct.

10 Q And again, as we've discussed before, Hurricane
11 Ivan was a major hurricane that disrupted gas supplies
12 in the Gulf of Mexico for several days?

13 A That's correct.

14 Q Now, in interrogatory 153, which you might
15 still have --

16 A Yes, 153.

17 Q You stated there that the incremental cost of
18 gas associated with Hurricane Ivan in 2004 was
19 \$6,631,796; is that correct?

20 A Yes, that is correct.

21 Q So, it's fair to say then that geographic
22 diversity is important to Progress because a major
23 hurricane could potentially increase the annual cost of
24 natural gas by -- I calculated it as 1.59%. And what I
25 did to get that was, I divided the 6.6 million of cost

1 from Hurricane Ivan by the total gas cost that Progress
2 ran through the fuel clause of 416 million, and then
3 multiplied by 100 to get the 1.59%.

4 A I would say if you did the math correct, that's
5 correct.

6 Q I guess what I want to know from you is, is
7 that 1.59% significant, in your estimation?

8 A It depends on how you define significant and
9 the viewpoint that you're looking at it. When we were
10 going through Hurricane Ivan and we were trying to find
11 replacement supplies to keep load, because we still have
12 an obligation to serve, regardless, it was extremely
13 difficult. We were looking everywhere to try to find
14 gas supply, because as you know, everybody exited the
15 state, and they took all the gasoline with them, which
16 means that by the time they came back, all the trucks
17 were trying to fill back up the gas stations.
18 Therefore, there was a limited amount of No. 2 fuel oil.
19 We had disruptions in the Gulf of Mexico still. We
20 couldn't get barges across for No. 6 fuel oil. So it
21 was a very devastating time trying to keep the lights
22 on. So significant, I would say yes.

23 From a cost perspective, the 1.59% doesn't seem
24 like very much, but those 20 days were excruciatingly
25 difficult to keep the lights on. I'm surprised when we

1 did the calculation, to be honest with you, that it was
2 only \$6.6 million, but that was just the incremental gas
3 cost.

4 Q Okay. Take a look at the response to
5 interrogatory 76D. I think we still have that group of
6 interrogatories over there. I think it's sub D. I
think it might be on the first page.

8 A 76D, got it.

9 Q Now, does this response indicate that Progress
10 did not use the cost assessment of the hurricane impacts
11 we've been discussing to evaluate the bid offers?

12 A Well, at the time, Hurricane Ivan had not even
13 occurred by the time we had made the recommendation and
14 started working on the business analysis package. So
15 with the business analysis package, we looked at the
16 non-price factors based on the criteria that we had
17 looked at, which was the project certainty, the
18 economics, the maximizing of supply diversity, as well
19 as the operational flexibility.

20 Q So you didn't quantify the potential cost of
21 the hurricane when you evaluated the bids?

22 A No, we did not.

23 Q So I guess that then brings me to the question,
24 how were you able to weigh the importance of geographic
25 diversity without having that hurricane cost assessment

1 built into the evaluation of bids?

2 A Well, we looked at it historically. I mean,
3 there had been other storms associated with trying to
4 keep the lights on as well, and so looking at that, not
5 basing it on a price factor, but a non-price factor, in
6 looking at Cypress compared to the other alternatives
7 that we looked at, they were pretty much comparable in
8 cost. But when you've got comparability in cost and
9 then you see the value associated that's higher based on
10 these non-price factors, you would want to go ahead and
11 get the better overall value for the company, and that's
12 the reason why we're going down the path we are today.

13 Q I'm curious which was more important to you in
14 terms of -- when I think about the geographic diversity,
15 I think about wanting to lessen the impact of potential
16 hurricanes curtailing supply in the Gulf of Mexico, but
17 I also think about wanting to reduce your reliance on
18 that area for gas supply. Which of those was more
19 important to you?

20 A Well, I think they were all important, but I
21 think looking at -- we didn't look at -- I think we did
22 look at some kind of ranking associated with it.
23 However, when it came down to looking at the overall
24 value from a system standpoint, with regard to the price
25 here, just looking at the economics on both of them, and

1 then looking at which ones gave us the non-price factors
2 that were a benefit to the system, we leaned towards the
3 ones that gave us the most benefits associated with it.

4 Q Okay. So you didn't make any kind of
5 assessment between those two factors that I just
6 outlined?

7 A We considered them all.

8 A (By Mr. Caldwell) They're all important. All
9 added value to the selection, in my judgment.

10 Q Okay. Turn to interrogatory number 159, your
11 response on that. I think you should have that.

12 A (By Ms. Murphy) I've got it.

13 Q On gas storage?

14 A Uh-huh.

15 Q Why does Progress indicate that the gas storage
16 strategy discussed in the response cannot replace the
17 Cypress project in the event of a major hurricane?

18 A Well, a gas storage strategy has its own
19 benefits associated with what the Cypress brings. The
20 Cypress, for example, brings us base load gas that stays
21 on regardless of the severity and the length of the
22 storm. Underground storage would give us -- depending
23 on the amount of contracted capacity that we went out
24 and purchased for Progress Energy Florida, it would give
25 us a limited amount of capability associated with

1 pulling gas out of the ground.

2 So I think both of them provide benefit, and
3 both of them I hope one day will be part of Progress
4 Energy Florida's portfolio to maximize the overall
5 portfolio from a ratepayer standpoint. So it doesn't --
6 one doesn't say it's better than the other. Having the
7 base load gas coming in for Cypress is something we can
8 count on every day, but the underground storage is based
9 on how much capacity you've got with the storage
10 provider. And that's going to give you a limited amount
11 that you can actually rely on, unless you just go out
12 and just get an enormous amount, which of course would
13 be cost-prohibitive.

14 Q And I believe you indicated in that response
15 too that you had done a feasibility study in 2003.

16 A Yes, we did.

17 Q And the results from that didn't favor
18 acquiring storage at that time; is that right?

19 A Well, we had completed the study in February of
20 2003 to look at it for actually a Progress Energy
21 portfolio, not just Progress Energy Florida. But at
22 that point in time, the recommendation under that study,
23 if I remember correctly, was to continue to pursue, to
24 go out for RFPs with regard to storage providers, and
25 determine what was the optimal amount that Progress

1 Energy Florida should be looking to contract for. So
2 there were certain theories. It was just the first step
3 of analyzing what underground storage and the benefits
4 associated with it would provide to the Progress Energy
5 Florida ratepayers.

6 Q Well, have you taken any further action since
7 February 2003, in other words, contemplating an RFP?

8 A Yes. We've actually sent some non-binding
9 RFPs, and we're getting ready here in probably a month
10 or so to send out another RFP associated with gas
11 storage.

12 Q Okay. That leads into my next question. It's
13 our understanding that certain gas suppliers with
14 storage capacity offer a distinct product called
15 hurricane protection. What's your understanding of this
16 product, and has Progress ever contracted for this type
17 of product?

18 A Suppliers are out there calling it hurricane
19 protection? Actually, that would probably be, to an
20 extent, you know, storage. However, once again, it
21 depends on how much the company would actually contract
22 for and the severity of the storm and all the
23 probabilities associated with that.

24 Q So you've never heard of that particular
25 product being offered?

1 A Well, I've heard of hurricane protection, but
2 it mostly has been associated with providing gas to us
3 from storage providers associated with it.

4 Q Do you have any sense of what a range of cost
5 for that type of service is that you just stated, that
6 they would have storage capacity they could provide to
7 you?

8 A I think a 2010 service, based on the last set
9 of RFP responses we got, were ranging somewhere between
10 2-1/2 to \$3-1/2 million a year just on the storage
11 capacity. It doesn't account for the storage injection
12 and withdrawal fees associated with it.

13 Q Is that confidential?

14 A No. It was a range, and we didn't tell you
15 who.

16 Q So then this type of product wasn't a factor in
17 the bidding process that you went through for these
18 contracts?

19 A It was not a factor.

20 Q What ratepayer protection, if any, is there
21 within the contracts in the event that the
22 regasification terminal at Elba Island is rendered
23 inoperable for any reason, be it accident, terrorist
24 attack, weather related damages, et cetera?

25 A What was the question again?

1 Q What ratepayer protection is there within the
2 contracts in the event that the regasification terminal
3 at Elba Island is rendered inoperable for any reason, be
4 it accidental, an attack of a terrorist group, weather
5 related damage, et cetera?

6 A Under that provision, BG would be allowed to
7 claim force majeure, as well as I'm sure Southern LNG
8 would be claiming force majeure. So with regard to rate
9 protection, I don't know that there is any rate
10 protection associated with that. We would use our
11 existing capacity to try to once again go out and
12 segment it to get third-party gas to keep the gas moving
13 under our current transportation arrangements, but there
14 wouldn't be, that I'm aware of right off the top of my
15 head, any rate protection associated with that.

16 Q So you would go through the standard procedures
17 you would in any instance to provide the lowest cost
18 service; correct?

19 A That's correct, uh-huh.

20 Q What comparison can you draw between the risks
21 of the BG/Cypress/FGT contracts to the risks of
22 Progress's typical contracts for domestic sources of
23 fuel? In other words, can you say one is more risky
24 than the other? And this is in general.

25 A In general, if I look at how many hurricanes

1 have come up through the Gulf of Mexico versus hitting
2 Georgia, I guess, it would look as though the Gulf of
3 Mexico probably has higher risks associated with
4 suppliers providing force majeure conditions to us than
5 it would be having LNG, the regasification facility,
6 claim force majeure. So I would consider the LNG
7 regasification facility a lower risk than the Gulf of
8 Mexico hurricane.

9 Q Has there been an instance that you know of
10 where Elba Island, the facility has been curtailed?

11 A Not that I'm aware of.

12 Q Okay. Let's take a look at your testimony at
13 page 12, lines 15 through 19.

14 A I have it.

15 Q Now, is the operational flexibility to serve
16 [REDACTED], [REDACTED], and [REDACTED] power plants offered
17 by the BG and FGT pipeline contracts equally obtainable
18 by contracting for gas originating in the Gulf of Mexico
19 supply region on either FGT or Gulfstream pipelines?

20 A On the Gulfstream pipeline, no, we can't reach
21 the [REDACTED] plant or [REDACTED] on a firm basis. With
22 regard to FGT, if they were to go and do some
23 enhancements upstream to get gas supply without using
24 the Cypress facility, they have told us -- FGT personnel
25 have told us that that cost is going to be [REDACTED]

1 [REDACTED] However, if we did contract for
2 that, it would give us the same flexibility, because
3 [REDACTED] and [REDACTED] would be in the path, under the
4 637 rule, to the Hines Energy Complex.

5 Q Well, is it possible that you could negotiate
6 with them for a cheaper rate or to bring it down for an
7 [REDACTED] or would they negotiate with you to
8 potentially --

9 A [REDACTED]

10 [REDACTED]
11 [REDACTED] And that was directly from FGT personnel, because
12 part of the due diligence was to go back and see what
13 would it actually cost us -- looking to do more out of
14 the Mobile Bay/Destin area, what would it cost to bring
15 it in on FGT. [REDACTED]

16 [REDACTED]
17 Q Okay. Is a 20-year term for firm gas to Hines
18 Unit 4 in the best interest of Progress's ratepayers?

19 A Absolutely.

20 Q Can you elaborate?

21 A It provides the overall value associated with
22 providing gas for the Hines 4 system, for the Hines 4
23 Energy Complex as well as the system, based on all the
24 criteria that we did in evaluating the alternatives.

25 Q Which were Gulfstream and the Bahamas-based

1 project?

2 A The other two alternatives were the market
3 proxy associated with the Gulfstream transportation and
4 the supply coming out of Mobile Bay/Destin. The other
5 one was the Bahamas, which, of course, we later deemed
6 was not part of the alternatives because of the
7 uncertainty as to when it would get built to be able to
8 serve Hines 4. So, yes.

9 Q Is a 20-year term for firm gas to Hines Unit 4
10 necessary for ensuring reliable electric service to
11 Progress's ratepayers?

12 A The 20-year contract was required in order for
13 -- from Southern Natural in order to make the commitment
14 to build the Cypress pipeline, as well as from BG,
15 because they were taking a substantial portion of the
16 unsubscribed capacity, and they wanted to make sure they
17 had their part of their supply locked up to be delivered
18 to Progress Energy Florida's Hines Energy Complex. It's
19 less risk for BG than taking unsubscribed capacity.
20 They would have at least some of the supply locked up to
21 our capacity we were going to get under the -- that we
22 are hopefully going to get under the Southern Natural
23 and FGT contracts.

24 A (By Mr. Waters) If I could add a little bit of
25 planning perspective to this, we're committing in

1 advance to a quarter of a billion dollars of hardware
2 sitting out there at the end of the pipeline, and it
3 gives me some comfort knowing that we've got at least
4 part of the supply locked up for most of the lifetime,
5 the expected lifetime of that unit. That's not to say
6 we would go out and contract for all the gas. I
7 wouldn't expect that. But I feel a little more
8 comfortable knowing that we have the supply arranged for
9 the bulk of the lifetime of that unit. And it is
10 expected to operate most of the time, you know, in a
11 base load fashion.

12 So I think it's a good thing from -- certainly
13 from a planning perspective. It gives me some more
14 certainty in the plan, and I have enough uncertainties
15 to deal with already. If we have to contract for gas
16 every three or four years for all these units that we're
17 planning on building, I think there's a lot of -- it's
18 just an extra uncertainty we have to deal with, whether
19 or not there will be adequate supply at the right price
20 and so on.

21 When we make the commitment to the hardware,
22 you know, we assume this market price going forward, and
23 this contract locks in a market price. So I think it's
24 totally consistent with what we've done with the capital
25 investment.

1 A (By Ms. Murphy) To elaborate on what Sam is
2 saying, this is tied to a market index, and one in which
3 I can provide hedging activity for the Florida Power
4 Corporation ratepayers. And it is tied to a market
5 index over the long term.

6 Q Now, you said hedging. Is that related to -- I
7 believe it's section 3.5 in the contract, where you can
8 -- and again, this is confidential.

9 A This would be confidential.

10 Q [REDACTED]

11 [REDACTED]

12 [REDACTED] Is that was you're --

13 A Yes, that's correct.

14 Q [REDACTED]

15 A [REDACTED]

16 [REDACTED] Any options which we can get BG to agree to
17 would give us an opportunity. We built in the price
18 flexibility with the BG contract, no different than we
19 do with our other suppliers.

20 Q Has Progress's views regarding the last two
21 questions I asked changed since you guys issued the
22 August 2003 RFP? The last two questions I asked were is
23 the 20-year term in the best interest of ratepayers, and
24 is the 20-year term necessary for ensuring reliable
25 electric service.

1 A Well, since the August 2003 RFP, which was
2 mostly sent out for market intelligence just to see what
3 could we glean from the responses to it, we still feel
4 like we're making the best overall choice for the
5 ratepayers. With regard to the 20-year contract, that
6 was once again tied to Southern Natural's commitment
7 that they were wanting from Progress Energy Florida to
8 build. I mean, it's a \$240 million, 166-mile pipeline
9 that they're undertaking, and they wanted some assurance
10 from us that we were going to be there, as well as BG
11 has made substantial commitments as well under the
12 Cypress pipeline.

13 So for a 20-year supply, to me, it gives me
14 great comfort, as well as I think to Sam, that we're
15 continuing to look further out, having our portfolio
16 with longer term contracts associated with our system,
17 regardless of whether it's Hines 4. And I know we say
18 it's Hines 4, but as we mentioned in many of the
19 interrogatories, we don't really purchase -- we purchase
20 for the system, so we look at it from a system
21 perspective.

22 Q Let me get at this another way then. Before
23 the August 2003 RFP, were you positioning yourself for
24 this purchase for it to be a 20-year term, or did that
25 August 2003 RFP sort of solidify for you that it would

1 be potentially a good move economically to do this, or
2 as a package deal a good deal?

3 A I don't think in August of 2003 we really
4 contemplated what we were going to do for Hines 4. I
5 think once again we had sent it out just to gain market
6 intelligence as to were the Gulf of Mexico suppliers
7 ready to commit to something like that, what was the
8 commitment we could do with the Bahamas, what was the
9 commitment they were ready to do with the Elba
10 facility. So it was just mostly going out for market
11 intelligence. We had made no predetermined decisions
12 what we were going to do by August of 2003. It took us
13 a year to put this thing together.

14 Q Okay. Next I would like you to look at
15 Progress's response to staff's POD 28. This is Bates
16 stamp page 1550. I think I should have it marked. And
17 they're in order as well.

18 Okay. The last bulleted item on that page,
19 what does that mean, and how is that conclusion drawn?
20 And this is confidential, obviously.

21 A (By Mr. Caldwell) Well, basically, as we look
22 at our LNG options, again, they're kind of an
23 accumulation of Sam's response from a planning
24 perspective and Pam's response from a gas supply
25 perspective. Overall, having a long-term commitment for

1 gas arranged with a market-based price supported by a
2 third interstate pipeline to the State of Florida for a
3 portion of our overall system requirements we feel is a
4 significant advantage. We have a third pipeline supply,
5 so we've got diversity of supply infrastructure. We
6 have a long-term supply, which has an advantage, so
7 we're not in the market renewing short-term gas supply
8 contracts on an ongoing basis. We have long-lived
9 assets that are in place to meet our customers'
10 requirements over the long term. [REDACTED]

11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 Q Okay. If Progress had only contracted for 10
15 years of LNG supply with BG instead of 20 years, what is
16 the likelihood that Progress would be able to secure
17 sufficient gas at market prices on Cypress for the
18 remainder of the 20-year contract you have with SONAT?

19 A (By Ms. Murphy) It's hard to tell what 10
20 years are going to bring, because there's only three --
21 right now three contracted suppliers at Elba. And this
22 isn't confidential. It's BG, Shell, and Marathon. So
23 to the extent that there's only three, in 10 years we
24 would have to go out and hopefully, you know, do another
25 RFP and see which one came in with the best price at

1 that point.

2 But once again, the requirement under BG and
3 Southern Natural was for us to commit to 20 years under
4 the contract. So tying it to a market index, to me,
5 once again gives me comfort that I'm buying gas at
6 market, [REDACTED]

7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]

12 A (By Mr. Caldwell) But I think it actually
13 positions us better with the longer term contract than
14 with the shorter term contract, because we have
15 significant uncertainty if in 10 years we would have to
16 go back and look at the holders of capacity coming out
17 of Elba. We did it for 20 years, so we've taken that
18 uncertainty out of the decision. It's not like you've
19 got 50 or 100 suppliers at that point. There's a small
20 number. Therefore, locking up long-term and taking that
21 uncertainty off the table at the start and tying the
22 prices to a market price gave us the best of both
23 worlds. We have the long-term supply, we have the
24 certainty of that long-term supply, and we have the
25 flexibility of market price.

1 A (By Ms. Murphy) And on top of that, the basis
2 adder that was given to us was significantly better than
3 anything that we had gotten from the other suppliers,
4 regardless of whether it was the Gulf of Mexico or the
5 other suppliers, because they weren't willing to step up
6 to take the unsubscribed capacity from Southern Natural.

7 Q I was going to say, that was the big
8 distinction, because --

9 A Yes. It was a clearer driver.

10 Q Right. And I was going to say something about
11 one of the other bids you received, but I don't know --

12 A That was confidential. However, that was --

13 Q But you can't let BG hear that, though.

14 A No.

15 Q Okay. Then I guess I --

16 MR. CRUTHIRDS: We'll step out if you wish.

17 MR. BURNETT: It will only take a few seconds,
18 if you want to step out. If you want to ask --

19 MS. VINING: Sure, yes.

20 (BG representatives exit the conference room.)

21 BY MS. VINING:

22 Q You received a bid from [REDACTED] which is [REDACTED]

23 A [REDACTED] yes.

24 Q Which had a lower adder, did it not?

25 A It had a [REDACTED] adder.

1 Q But they were not willing subscribe to the
2 remaining capacity on Cypress; is that correct?

3 A As well as we also with [REDACTED] had
4 interchangeability issues with them, because we knew
5 that they had been approaching customers on Southern
6 Natural, as well they're highly active in the AES
7 case with FGT, that they wanted to bring in higher Btu
8 gas with a particular range, a WOBBE index that we were
9 totally opposed to. So we were not really on the same
10 terms and conditions with them regarding the gas quality
11 as well.

12 Q So they wanted to supply hotter gas? Is that
13 what you're saying?

14 A Absolutely. They wanted to bring in gas from
15 Nigeria and Algeria, which was much higher than the gas
16 quality, or the interchangeability issues we were
17 looking at with BG bringing gas in from Trinidad.

18 Q Have you gotten any indication from BG that
19 they would potentially over the term of the contract
20 have to go to another source besides Trinidad and
21 Tobago?

22 A We have not gotten that from them.

23 Q Because I know they have an ownership interest
24 in some trains there.

25 A Yes, they do.

1 Q So I would think that they are going to want to
2 solely rely on that source.

3 A (By Mr. Caldwell) That's what we expect.

4 A (By Ms. Murphy) And they have to and will meet
5 the gas quality specifications for Southern Natural's
6 pipeline, as well as Southern LNG.

7 Q Did you receive a bid from [REDACTED]

8 A Yes.

9 Q I don't recall seeing what the basis adder was
10 on that one.

11 A I want to say it was like [REDACTED]

12 Q So it was not even competitive then.

13 A (Nodding head.)

14 Q Okay. And that was confidential too.

15 MR. BURNETT: She didn't get the head nod. You
16 just nodded your head no when she said it wasn't
17 competitive.

18 WITNESS MURPHY: Well, I thought you said
19 competitive or confidential.

20 MR. BURNETT: She said that [REDACTED] wasn't
21 competitive, and you shook your head no. You have
22 to say no audibly.

23 WITNESS MURPHY: No.

24 MS. VINING: Okay. We can go off the record,
25 and I guess BG can come back in.

1 (BG representatives return to the conference
2 room.)

3 BY MS. VINING:

4 Q We were just talking about the 20-year length
5 of the contract with BG and how that was a requirement
6 with them. Is it your sense that it's sort of an
7 industry standard in the LNG industry that a 20- to
8 25-year contract term is the standard for a supply
9 contract for LNG?

10 A Are you talking in the world or just the U.S.,
11 or just the way the market conditions are now, or what
12 they will be in the future? It depends.

13 Q Why don't we start with the world?

14 A I can't answer the world.

15 Q How about the United States then?

16 A I think it would really depend on what the
17 customer's needs are and what their wants are. There's
18 probably both out there that you can get, short-term and
19 long-term. But depending on the situation and the
20 criteria established that you would want I think depends
21 on whether you want a longer or shorter term contract.
22 So I think the customer would decide that, whether they
23 want a longer term or shorter term deal.

24 A (By Mr. Caldwell) But I think with the
25 specific bids we got in response to our requirements

1 related to LNG, Bahamian-based and Elba-based, they were
2 all requiring or asking for long-term commitments. So
3 our immediate experience with respect to trying to find
4 this gas supply was that the Bahamas LNG and the Elba
5 LNG were proffering long-term contracts in the 20-year
6 range.

7 Q Well, didn't your RFP delineate a 20-year term?

8 A Again, that's what we needed and what we
9 wanted. As it turns out, it's also what the suppliers
10 were requiring.

11 A (By Ms. Murphy) Especially for the
12 Bahamas-based one, because they were looking to spend
13 like \$800 million, and they wanted a commitment long
14 term to make sure that, you know, the revenue
15 requirements coming were going to help pay for this
16 extreme capital expense that their company is going to
17 be expending.

18 Q Well, that's why I presumed that perhaps BG was
19 interested in a 20-year contract, because they're
20 interested in expanding. And even though you will be
21 served out of their existing capacity, if they're going
22 to expand their business and expand the Elba facility,
23 they've got to have a supply contract that's certain for
24 a long period of time to support further expansion.
25 Obviously, you don't work for BG and you're not privy to

1 their plans, but that was my sense of it, and I don't
2 know if that's your sense of perhaps their interest in a
3 20-year contract.

4 A (By Mr. Caldwell) Well, I think it's in our
5 customers' best interest to have BG interested in
6 expanding the capacity of that site. Again, once we
7 have a third major interstate pipeline connected to an
8 Elba Island LNG supply, the larger that supply base is,
9 the better off our customers are going to be, given the
10 access and the capacity of the pipeline coming from Elba
11 into the State of Florida.

12 A (By Ms. Murphy) We really don't know what BG's
13 risk profile is and how much they want to do speculative
14 versus how much they do to make sure it's under contract
15 at this point. Me, I'm conservative. I like to know
16 what I'm getting.

17 Q We provided you, or we directed you to a paper
18 that was put out by the University of Houston Law
19 Center, the Institute for Energy Law and Enterprise,
20 titled "The Role of LNG in North American Natural Gas
21 Supply and Demand." Have you reviewed this?

22 A Yes, I have.

23 Q And I have it here if you would like to look at
24 it. You told me earlier that you had digested it and
25 memorized it, so we'll go forward with that assumption.

1 A That is incorrect. I have actually just
2 reviewed it, not memorized it.

3 MR. BURNETT: I'm the one that memorized it.

4 WITNESS MURPHY: But he doesn't count.

5 BY MS. VINING:

6 Q Now, this article suggests that the long-term
7 price of LNG delivered to the United States through 2025
8 may range from \$2 to \$3.70 per MMBtu, while the Henry
9 Hub natural gas price is expected to be above \$4 during
10 most of that time period. Do you agree with my
11 assessment of what the article -- of one of the things
12 the article said?

13 A I think the article said that there was -- that
14 the cost of LNG had declined over the years and that the
15 cost delivered would probably be in that range
16 associated with it. See, this is a natural gas price
17 forecast and an LNG developmental cost.

18 A (By Mr. Caldwell) Yes. I think what this
19 means is that in order to encourage companies to make
20 the necessary investments in LNG infrastructure, from
21 the trains to the shipping to the regasification, that
22 gas prices would have to be in a range of \$2 to \$3.70.

23 A (By Ms. Murphy) To cover their costs.

24 A (By Mr. Caldwell) To cover their costs and
25 encourage them to take the risks to make those

1 investments. And so I think the message here is, to the
2 extent that domestic Henry Hub gas prices are at the
3 higher end of that range or above that range, the
4 implication is that that will encourage companies to
5 make the investments in LNG required to bring that
6 supply into the country.

7 Q Okay. Going with the numbers that I just
8 talked about, the \$2 to 3.70, wouldn't that indicate
9 that the contract would result in Progress's ratepayers
10 paying -- I don't want to use the word "significantly,"
11 but paying more for natural gas than the cost of LNG
12 that would be available in the market during the latter
13 part of the term of the contract?

14 A No, I don't think that's what this means at
15 all. I think this cost talks about the upstream costs
16 to produce LNG, transport it, and regasify it. It's the
17 company's estimate of the cost of that infrastructure.

18 Q So it's not a delivered price.

19 A That's not a delivered price. The delivered
20 prices that we've seen are tied to Henry Hub indexes or
21 indexes in the United States.

22 A (By Ms. Murphy) Which is no more than what we
23 would pay if we did the domestic supply.

24 Q All right. We also pointed you towards a Web
25 page that the Energy Information Administration

1 maintains, and the specific page would be the world LNG
2 market structure. Have you reviewed that as well?

3 A Yes, I have, everything but the footnotes.

4 Q Okay. Keeping that Web page in mind, then I'll
5 go ahead and ask you a few questions. What's the
6 likelihood that the BG contract may be above market for
7 LNG at some point during the contract period? I know
8 that's highly speculative, but give me your best guess.

9 A That the BG gas, LNG may be above market?

10 Q That's presuming that some sort of independent
11 LNG index might develop that wouldn't be tied to Henry
12 Hub.

13 A I have no idea, because I think if there's an
14 international LNG, it's going to be depending on what's
15 going on in Europe, Malaysia, and everywhere else, and
16 that's highly speculative as to, you know, what Japan
17 may need versus what the United States may need. So to
18 the extent that we're buying based on the delivered
19 price in the United States, we feel tying it to the
20 index is tying us to the market price of the delivered
21 product, not the international product.

22 Q I guess a better way for me to ask this is,
23 you're betting then that LNG will still be tied to Henry
24 Hub over the next 20 years?

25 A (By Mr. Caldwell) In our contract, it will be

1 tied to Henry Hub. In the U.S. market, under this
2 contract, LNG regasified will be tied to the Henry Hub
3 price.

4 A (By Ms. Murphy) And that was pretty much
5 confirmed with all the suppliers that we got responses
6 from wanting to tie their gas also to a market index as
7 well in the United States.

8 A (By Mr. Waters) I'm not a gas marketing
9 expert, but the premise of your question sounds like
10 there are some forces that would divorce the price of
11 LNG from Henry Hub, in other words, a glut of LNG or
12 whatever it is that drives that price down would not at
13 all affect the Henry Hub price. And I think our
14 forecasts -- as Mr. Caldwell said, the forecast that we
15 use and many of the forecasts I've seen assume that
16 Henry Hub is at least partially responsive to the LNG
17 supply.

18 So I'm not sure what conditions would get you
19 there where you would have this LNG that's, you know,
21 You could say we'll continue to buy at Henry Hub even
23 think Henry Hub would respond to that condition,
24 whatever that is.

25 Q So you see the likelihood of some sort of

1 independent LNG index developing as very small? And I'm
2 speaking of a world --

3 A I can't address that. I don't know enough
4 about the market. I'm just not sure how it could be
5 truly independent, I guess is what I'm saying. The gas
6 market is the gas market. There seems to be
7 interchangeability here. You know, we can use LNG, and
8 we can use gas from the Gulf.

9 A (By Ms. Murphy) If it's international, it's
10 still going to have to have some kind of hub basis on
11 which, you know, you would deliver to Japan or you would
12 deliver to Europe, or you would deliver to whatever your
13 destination is, just like Henry Hub supplies the basis
14 differential of locational differentials like for FGT
15 Zone 3 versus Zone 1 or Transco Zone 4. They're all
16 derived from the Henry Hub, from the basis differential
17 to determine what the price is going to be at the
18 location that you pick the gas up at. So I think on an
19 international, you're going to have to have some kind of
20 mechanism as well to start with, a starting point to
21 develop what it is, the locational differentials that
22 are going to be given.

23 Q And whatever that might be, it's your
24 assessment that that would still be tied to Henry Hub?

25 A No. It may be something totally different on

1 an international level.

2 Q But I mean in terms of determining what those
3 adders might be to come up with an appropriate delivered
4 price.

5 A If it's coming to the United States, you're
6 still going to start at the Henry Hub as the hub price
7 and then from there determine the basis differential
8 out, yes.

9 Q So you really don't see that the market will
10 develop where it would go away from what the delivered
11 price would be based on what the index is for that
12 delivered market, I guess is what I'm getting at.

13 A What I'm saying is, I don't think the Henry Hub
14 is going to change over the term of the contract, being
15 the starting point to determine the basis out to all the
16 locational differentials where the gas is being
17 delivered at. You have to start with the Henry Hub and
18 then work your way out.

19 Q So you don't think it would go the other way?

20 A No. I would never say never, but probably
21 not.

22 Q So based on what you just said, the risk to the
23 ratepayers of some sort of independent LNG worldwide
24 index developing and being much cheaper -- if I'm going
25 to give you an example, I'll get real pie-in-the-sky.

1 That would be very minimal? The risk to the ratepayers
2 would be very minimal, in your assessment, if that would
3 happen?

4 A Well, remember that the international LNG price
5 probably is not a delivered cost, so you would have to
6 add some freight or some kind of shipping to get it to
7 its location, which once again I think is going to be
8 based in the United States off the Henry Hub. We're not
9 seeing suppliers leave a whole lot of money on the
10 table, especially in a seller's market right now.

11 Q We talked some earlier about [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 A [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]

9 Q Okay. I guess that whole discussion was
10 confidential, or pieces of it.

11 MR. BURNETT: I think she was talking in
12 theory, not about this particular contract.

13 MS. VINING: But I guess my response to that
14 section and what it does.

15 MR. BURNETT: Yes, with respect to the
16 operative contract, you're right.

17 MS. VINING: Since the whole section is
18 redacted.

19 MR. BURNETT: You're right, Adrienne.

20 BY MS. VINING:

21 Q How often do you anticipate that Progress would
22 invoke those rights under sections 3.5 and 3.6?

23 A Whenever I found it in the benefit of the
24 Progress Energy ratepayers in order to invoke that.

25 Q Well, in your experience with other contracts,

1 how frequently on average has that happened?

2 A We have hedged quite a bit, so I would
3 anticipate that occurring not just for a month, but
4 probably for a series of months as we do strips with
5 them as we see advantageous prices that we think would
6 be beneficial to the ratepayers. So I would see us
7 trying to invoke that probably pretty often, especially
8 when we see a decline in prices in the forward years,
9 based on our hedging strategy and the way we implement
10 our hedging strategy right now. So it depends, but we
11 intend on invoking it, I can tell you that right now.

12 Q Do the provisions of the commodity contract
13 provide Progress with the right to negotiate a change in
14 the pricing methodology for the remaining life of the
15 contract?

16 A Yes, if we mutually agree to the change. It
17 does provide in the contract that we can do that, so
18 long as both parties agree.

19 Q And the other party would have to agree if it's
20 commercially reasonable?

21 A If they felt that it was commercially
22 reasonable to do it for them.

23 Q But I'm correct that there is no general market
24 reopener provision in the contract?

25 A There is no general market reopener in the

1 contract.

2 Q And why is that?

3 A Because it's tied to a market index that allows
4 us -- if BG doesn't feel like it's commercially
5 reasonable for them to adhere to our request, we would
6 go out and do it financially instead without using BG.

7 Q Are there financial penalties for Progress if
8 Progress withdraws from the contract with Southern?

9 A There are none.

10 Q Okay.

11 A Those were negotiated out. They were
12 originally put in the business analysis package, but
13 later we were able to negotiate those out of the
14 preceding agreement with Southern.

15 Q If LNG is delivered at a quality level that is
16 consistently within the requirements of the pipelines,
17 but also consistently lower quality than domestic gas,
18 wouldn't that cause Progress to incur some level of
19 additional O&M costs to maintain its fleet of gas-fired
20 power plants?

21 A That depends on whether the blending of the
22 domestic gas with the LNG gas would raise it up to a
23 quality specification that met our gas turbines'
24 requirements.

25 Q And presumably that's addressed in the

1 contract?

2 A Yes, it is, because they have to meet the
3 Southern Natural gas quality provisions, which our gas
4 turbines are tuned for.

5 Q And what happens if they don't meet those
6 requirements?

7 A Then I'm coming after BG. They have to meet
8 the gas quality specifications in the contract.

9 Q If they don't, is that an immediate breach of
10 the contract?

11 MR. BURNETT: I'm just going to ask her to not
12 make any legal conclusions.

13 A I would assume that we would have an attorney
14 look at that. But to the extent that they couldn't meet
15 the gas quality provisions under the contract, as a lay
16 person, I would consider that a breach of the contract.
17 But the chances of that are very remote, in that
18 Southern Natural actually tests the ship before it --
19 the quality of the gas before it's actually unloaded,
20 and then they actually retest it again once the LNG is
21 unloaded to make sure that it meets the gas quality
22 specifications not only of Southern LNG, but also
23 Southern Natural Gas. So it goes through the checkpoint
24 twice, so the chances of that happening I would say are
25 extremely remote.

1 Q Can you describe the gas quality specifications
2 for Hines 4 and -- well, let's start with that.

3 A Not in detail.

4 Q Not in detail. Okay. And you just went into
5 how SONAT tests the gas as it comes into the facility;
6 is that correct?

7 A That's my understanding from Bruce Hughes.
8 That was one of the questions in negotiating the
9 Southern Natural agreement to make sure that the gas
10 quality specifications, that it doesn't occur as you had
11 indicated, and then we would find out later that the gas
12 quality provisions were not met. He said they do two
13 testings.

14 Q Does FGT do any kind of testing on its system
15 as well for your particular specifications at Hines 4?

16 A They have chromatographs probably all over
17 their system that check for quality associated with gas
18 coming from either the Gulf of Mexico or what hopefully
19 will be the future Cypress pipeline. So I'm sure that
20 if there are any gas quality issues, they're aware of
21 those.

22 Q Does the gas which is delivered Progress's
23 gas-burning power generation plants today generally
24 exceed the quality standards of the SONAT and FGT
25 pipelines by a significant margin?

1 A No, because they meet the gas quality
2 provisions within SONAT and FGT, general terms and
3 conditions, so they're approved for a gas tariff.

4 Q We talked earlier about the source of LNG for
5 BG, which was Trinidad and Tobago; correct?

6 A My understanding is that it's for Trinidad.

7 Q For Trinidad. Okay.

8 A But whatever it is, it's going to meet the gas
9 quality specifications of Southern LNG.

10 Q Very good. So in your estimation, securing
11 upstream supply of LNG is not a major obstacle to BG?

12 A Considering BG is the largest LNG importer of
13 gas, I would say it's probably not an issue with them.
14 Plus they represented and warranted under the contract
15 that they have LNG supplies, and they have terminaling
16 capacity at Elba, and that gives me great comfort.

17 Q So taking all of that into account, you're
18 very certain that upstream supply of LNG is not an
19 issue?

20 A For BG, I would doubt it.

21 Q Now, if you could take a look at Progress's
22 response to interrogatory 64. This talks about the
23 basis between Henry Hub and Transco Zone 4; correct?

24 A Uh-huh.

25 Q Now, correct me if I'm wrong, but Transco Zone

1 4, that's where Mobile Bay/Destin would be delivered to
2 the pipeline; correct?

3 A Well, it's the index that the suppliers use to
4 deliver gas into Gulfstream, because they have the
5 option of either delivering into Transco or into
6 Gulfstream Natural Gas.

7 Q So this basis difference between Henry Hub and
8 Transco Zone 4, is that comparable to the basis adder?
9 I mean, is that what you used to sort of develop what
10 you thought an appropriate basis adder might be for the
11 BG contract?

12 A Yes, we did look at that and determined based
13 on the bid back from -- the original bid back from BG
14 that they were too high. So we were able to negotiate
15 the bid down to something that we felt was more
16 favorable for the ratepayers, [REDACTED]

17 [REDACTED]
18 Q Now, in part B of interrogatory 64, the Transco
19 Zone 4 price that's listed is \$5. It's \$5.454.

20 A For 2003, that's correct.

21 Q Now, if you flip to interrogatory 67, the
22 response, it shows for 2003 that the price is \$5.08 for
23 Transco Zone 4. I'm wondering which is correct.

24 A Well, it depends on whether it was done on a
25 monthly or on a daily basis.

1 Q Do you know what the difference is, which one
2 is which?

3 A Hang on. This one, I believe, and I would have
4 to verify that. Under B, those are the monthly index
5 prices, and I would guess, knowing my traders, that they
6 have probably given us the daily index on that.

7 MR. BURNETT: When you say on that, can you
8 tell us what --

9 WITNESS MURPHY: I'm sorry. Number 67.

10 BY MS. VINING:

11 Q So then the basis adder you gave in 64B is
12 probably more closely aligned to the BG contract, since
13 that's done on a monthly basis as well, the comparison;
14 am I correct?

15 A I'm sorry. Could you ask the question one more
16 time? It's actually provided on a gas daily and a
17 monthly report. So the top one on number 67 actually is
18 the monthly, and then the one on the bottom is actually
19 the Platts Gas Daily.

20 Q Well, then the one on the top of 67, does that
21 match the one on 64?

22 A No, it does not.

23 Q That's an inconsistency we didn't even see.
24 But I guess my point, though, is, if you're representing
25 that the price in 64B is done on a monthly basis, then

1 that still is a valid comparison against the basis adder

2

3

4 regard to the basis adder.

5 Q Okay.

6 A But that's not the only thing we looked at.

We also looked at all the other responses that we got

8

9

10

11

12

13

s, plus on top of that the [REDACTED]

14

provide into the contract, [REDACTED]

15

16

17

Q And those were bids that were potentially being
18 supplied out of other LNG facilities?

19

A They were coming out of the Gulf of Mexico.

20

Those were the ones that gave us the actual delivered

21

location plus a premium on top of that.

22

Q And also I believe the facilities weren't
23 built?

24

A They are not built.

25

Q Using transportation cost only, is Gulfstream

1 less expensive or more expensive than Cypress in
2 providing natural gas service to Hines 4?

3 A It depends on the volume that you use. If
4 we're saying on a comparable volume, then Cypress would
5 be more expensive looking at a comparable volume. But I
6 would have to run that calculation just to be sure.

7 Q Okay. Now, turn to your testimony at page 5,
8 line 25.

9 A Page 5, line 25?

10 Q Yes.

11 A Okay. This is confidential.

12 Q Yes. You say, and this is also going over onto
13 page 6, that [REDACTED]

14 [REDACTED]
15 A That's correct.

16 Q Now, it appears to us that that's issued every
17 other Friday, and you're saying here [REDACTED]

18 [REDACTED]
19 [REDACTED]

20 [REDACTED] Can you look at -- I think it's in
21 section 3.3 of the contract.

22 A But it talks about -- well, [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 [REDACTED] just by the sheer name of it.

6 Q I just wanted to be very clear, because we had
7 looked at the [REDACTED]
8 [REDACTED]
9 [REDACTED]

10
11 in our view, explicit [REDACTED]. And
12 I just wanted to point that out to you and see if you
13 agree that it doesn't say that explicitly.

14 A It doesn't say it explicitly, [REDACTED]
15 [REDACTED]

16 Q And that's the understanding that BG has as
17 well?

18 A Yes, it is.

19 Q So it's your belief that the contract needs to
20 be amended to state that explicitly?

21 A I'm sure they would be willing to amend it to
22 [REDACTED] because
23 that was the intention associated with it.

24 Q Is that sort of the industry standard when you
25 price gas based on --

1 A Yes. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 Q Now, if can take a look at Progress's response
5 to staff interrogatory 151. And that response
6 represents the forecast of the basis adder for the
7 Gulfstream alternative; is that correct?

8 A Yes, it is.

9 Q Now, you haven't previously provided the detail
10 for that calculation, have you?

11 A No, we have not. And this is confidential.

12 Q Yes. Can you provide that detail?

13 A Yes, we can.

14 Q As a late-filed exhibit?

15 A Yes, we can.

16 MS. VINING: Okay. We would like to have that
17 marked as Late-Filed Exhibit 3.

18 MR. BURNETT: Adrienne, that's the one we're
19 working on.

20 MS. VINING: Okay. That's all I needed on
21 that. By the way, if I didn't mention it, that will
22 be confidential. That exhibit will be confidential.

23 (Late-Filed Deposition Exhibit 3 identified.)

24 BY MS. VINING:

25 Q Okay. For the next question, I would like you

1 to take a look at Progress's response to staff POD 36 at
2 Bates stamp page 1674. And I have it marked.

3 A 1674?

4 Q Yes.

5 A Okay.


6 Q Can you describe what this document is?


7 A This is the Enterprise Risk Management
8 evaluation of the three alternatives for Hines 4.


9 Q Did Progress rely upon this document in
10 preparing its contracts with BG, Cypress, and FGT?


11 A Partly we relied on this document. This was
12 done prior to the full terms and conditions being
13 negotiated with the three counterparties.


14 Q You said partly you relied on it. In what
15 sense did you rely on it?


16 A To the extent that it was still applicable.
17 For example, the -- and this is confidential. 


18 


19 


20 

21 

22 

23 

24 

25 

1 Q Looking in the same discovery response at Bates
2 stamp page 1675, in the fifth paragraph, do you know
3 whether this analysis included the same assumption by
4 the basis adder as Progress did in its development of
5 the BG contract? [REDACTED]

6 [REDACTED]
7 [REDACTED]
8 A No. According to the -- [REDACTED]

9 [REDACTED]
10 [REDACTED] So it's under the same
11 assumptions, but it was just updated later for the
12 business analysis package. That's my understanding.

13 So, [REDACTED]

14 Q Okay. In the same document, turning to page
15 1679, according to that analysis, which alternative is
16 considered least cost amongst all of the alternatives?

17 A The Bahamas-based one.

18 Q And then what would be the next least cost?

19 A Let me make sure I get my math right.

20 [REDACTED] number 2.

21 Q And you said earlier that there had been some
22 changes since this was issued, because that was issued
23 in what? In October of 2004?

24 A Well, it was actually finalized in October of
25 2004, meaning that they officially had given this from

1 Enterprise Risk Management. This was actually done
2 probably in the June, July time frame, but it had not
3 really been released until October because their
4 management in the department hadn't signed off on it
5 yet.

6 Q So are there some considerations -- you talked
7 about this earlier, but are there some additional
8 considerations that were not taken into the assumptions
9 in this analysis that developed after? You know, you
10 said that was done in June or July of 2004.

11 A Probably the major thing that we did for the
12 August 2004 was [REDACTED]

13 [REDACTED]
14 [REDACTED]
15 [REDACTED]

16 Subsequent to that, and we have filed corrected
17 responses, we also found that there was a switch in the
18 fuel rates. We had inadvertently used [REDACTED] on the
19 Southern, which we should have used [REDACTED] and vice
20 versa, we used on FGT [REDACTED] when we should have used
21 [REDACTED] and we caught that later.

22 Q Did that have any effect on --

23 A It had a very diminutive effect on it.
24 However, the --

25 MR. BURNETT: Those numbers are confidential,

1 by the way.

2 A Yes, this one as well.

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 Q But again, that didn't change --

8 A It would have never changed -- I mean, after
9 looking at the final numbers, it did not change our
10 opinion in any way, shape, or form as to coming forward
11 to get the Cypress related contracts approved.

12 Q Okay. Can you explain in general terms how
13 Progress created the Gulf of Mexico alternative in the
14 business analysis package? In other words, was this
15 alternative based on an actual bid? If so, what was the
16 term of the bid, and how did you expand this alternative
17 to 20 years?

18 A Well, we received a term sheet in June from
19 [REDACTED] I believe it was on June 22nd. And
20 basically they had given us some alternatives, and
21 that's where you get the [REDACTED] number 1 and 2. So
22 what they had done was, based on an annual throughput
23 volume, they calculated -- and this is confidential --
24 [REDACTED] revenue required on an annual basis. In
25 order to give us a sculpted volume, they turned around

1 and basically adjusted the volume and the rate to assure
2 that in the end, on an annual basis, they still got
3 their [REDACTED]

4 Then we looked at the Gulf of Mexico supply and
5 said, "Okay, what is the forecast associated with gas
6 priced in the Gulf of Mexico?" Adding those together,
7 all the variable transportation rates, the commitment
8 from [REDACTED] as to what they would sell us the
9 long-term capacity for, we came up with what was in the
10 business analysis package and the basis adder.

11 Q Okay. And how did you -- maybe you said this,
12 but how did you expand it to 20 years then? Did they
13 forecast it for you for 20 years?

14 A Yes.

15 Q So you didn't have any actual bids for the Gulf
16 of Mexico that were 20 years?

17 A We didn't have any for 20 years.

18 Q What was the longest term that you were
19 offered for the Gulf of Mexico?

20 A I believe it was 10 years.

21 Q Did Progress perform any alternative economic
22 analyses based on shorter terms than 20 years? In other
23 words, did you perform any economic analyses which
24 compared the Gulf of Mexico proposal to a portion of the
25 BG contract? If you were able to get a 10-year contract

1 for the Gulf of Mexico, was that --

2 A We did not do that. We tried to compare them
3 on a comparable basis.

4 MS. VINING: We can go off the record.

5 (Short recess.)

6 BY MS. VINING:

7 Q I just want to follow up on what we were just
8 talking about at Bates stamp page 1679 of the response
9 to -- I think it's POD 36.

10 Now, you said earlier that the next least cost
11 alternative based on that risk analysis is one of the
12 [REDACTED] options; correct?

13 A That's correct.

14 Q Now, in your business analysis package, it
15 shows that Elba is slightly more cost-effective than
16 [REDACTED] What's the difference between the two
17 analyses?

18 A Well, part of the difference is, under the
19 analysis done by Enterprise Risk Management, they did
20 not take the [REDACTED] as an annual revenue requirement.
21 When they got the term sheet and reviewed it, they
22 interpreted it differently than what we did in the
23 business analysis package. So because of that, they
24 were showing something less than the [REDACTED]
25 which would allow [REDACTED] 1 and 2 to be lower on the

1 20-year term.

2 Q Thank you. Now, back to POD 28, Bates stamp
3 page 1458. Can you describe what this document is?

4 A [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]

9 Q Now, how have each of the con items been
10 eliminated or mitigated in the contract Progress has
11 with BG?

12 A The cons, [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]

6 Q Now, what does the last line on that page
7 indicate?

8 A [REDACTED]
9 [REDACTED]

10 Q And what does it say?

11 A [REDACTED]

12 Q Now, is that for the whole project to happen?
13 In other words, that includes the likelihood that the
14 Cypress pipeline will be operational by the deadline
15 that you have stated?

16 A [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21 Q Okay. Please turn to Bates stamp page 1451.

22 MR. BURNETT: Adrienne, before we leave that
23 one, I would just note in reference to that
24 testimony, she mentioned one decatherm number. That
25 one will be confidential.

1 WITNESS MURPHY: That's correct.

2 MR. BURNETT: Sorry.

3 MS. VINING: Oh, no. I fully expected the
4 whole discussion to be confidential.

5 BY MS. VINING:

6 Q Okay. What's your assessment of what that
7 document is?

8 A [REDACTED]
9 [REDACTED]
10 [REDACTED]

11 Q Okay. Same question again. How have the con
12 items been eliminated or mitigated in the contract?

13 A [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21 Q Okay. [REDACTED]
22 [REDACTED]

23 A The last item, uh-huh.

24 Q [REDACTED]
25 [REDACTED]

1 [REDACTED]

2 A [REDACTED]

3 Q Now, go ahead and turn to Bates stamp page
4 1463.

5 MR. BURNETT: And I agree with you, Adrienne.
6 That conversation was confidential as well, as was
7 the other one, more expansively, as you noted.

8 BY MS. VINING:

9 Q Okay. What is this document?

10 A [REDACTED]

11 [REDACTED]

12 Q Okay. Same questions. [REDACTED]

13 [REDACTED]

14 A [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 Q Can you explain the third pro that's listed

1 there?

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 Q [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 A [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 Q Is that a possibility on Cypress?

18 A With regard to backhaul?

19 Q Yes.

20 A Probably more a segmentation, not a backhaul
21 arrangement.

22 Q And the last one on that page?

23 A [REDACTED]

24 Q [REDACTED]

25 A [REDACTED]

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[REDACTED]

[REDACTED]

Q [REDACTED] t

[REDACTED]

A Absolutely.

Q Go ahead and turn to page 1476 in the same document. [REDACTED]

[REDACTED]

[REDACTED]

A [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Q [REDACTED]

[REDACTED]

A [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Q [REDACTED]

[REDACTED]

A [REDACTED]

[REDACTED]

Q Okay. Go ahead and turn to page 1480 in the

1 same document.

2 A Okay.

3 Q [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED].

7 A [REDACTED]

8 [REDACTED]

9 Q [REDACTED]

10 A [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 Q [REDACTED]

20 A That's correct.

21 Q Okay. [REDACTED]

22 [REDACTED]

23 A [REDACTED]

24 [REDACTED]

25 [REDACTED]

1 Q Progress issued a series of RFPs for LNG from
2 either Elba Island or the Bahamas between August 2003
3 and April 2004, and then you issued an additional RFP in
4 June of 2004 for domestic gas. What are the reasons
5 that the domestic gas RFP was not issued in April along
6 with the binding RFP for LNG in April?

7 A It helped us to determine what the criteria
8 would be for the Gulf of Mexico suppliers, because we
9 wanted to assess them based on the same criteria as we
10 did the LNG suppliers. So we did that one first as a
11 binding in April of 2004, and then once we did the
12 assessment, we decided, okay, now that we've got the
13 information, we need to send out an RFP in June to
14 domestic suppliers and see what their pricing would be.

15 Q You talked earlier about the fact that you
16 didn't get any domestic suppliers to supply for a
17 20-year term, that none of them bid a 20-year term.

18 A That's correct.

19 Q Did any of the bidders or the non-bidders give
20 reasons why they were not able to meet the 20-year term
21 requirement?

22 A In one of the responses, I think we actually
23 outline that. If I remember, one of the supp

24 and this is confidential -- was [REDACTED]
25 [REDACTED]

1 MR. BURNETT: Hang on one second. I think BG
2 may need to leave if we're going to talk about
3 that.

4 (BG representatives exit the conference room.)

5 WITNESS MURPHY: [REDACTED]
6 [REDACTED]
7 [REDACTED]

8 [REDACTED] And if I remember correctly, they didn't
9 even give us a price.

10 BY MS. VINING:

11 Q But they said, "Come back to us in the future.
12 We're very interested in providing gas to you," as I
13 recall.

14 A Right. And I'm trying to think. [REDACTED] had given
15 us a [REDACTED] agreement with a premium of [REDACTED]
16 associated with it, but also the [REDACTED]
17 [REDACTED] [REDACTED]
18 [REDACTED] which, of course, if you add a
19 basis adder on top of that, then it will be anywhere
20 from maybe [REDACTED] cents over the term of the
21 contract. So that was pretty expensive, and we weren't
22 interested in that one.

23 I believe [REDACTED] also gave us a bid,
24 once again [REDACTED]

25 [REDACTED]. And I think there was one other one, but I

1 can't remember who it was.

2 Q So is it your assessment that -- you know, we
3 talked earlier that there were 41 potential bidders for
4 the domestic contract and only four bid. Is it your
5 assessment then that the term of the contract was really
6 the main reason that those 37 parties did not bid?

7 A That would be my assessment.

8 MR. BURNETT: And I'll note, obviously, that
9 that last line of questioning was confidential.

10 MS. VINING: Off the record.

11 (Discussion off the record.)

12 (BG representatives return to the conference
13 room.)

14 BY MS. VINING:

15 Q In response to discovery, Progress stated that
16 the RFPs were distributed based upon an internally
17 generated list of creditworthy suppliers; correct?

18 A That is correct.

19 Q If a valid potential bidder was not included on
20 this list, was there a means that they might discover
21 that Progress had an RFP, i.e., a trade journal, your
22 Web site?

23 A Probably not, only through word of mouth that
24 other suppliers were looking to provide us with a
25 response to our RFP process.

1 Q Did you have any interest from parties who
2 weren't on your internally generated list of
3 creditworthy suppliers?

4 A Not that I recall.

5 Q Go ahead and take a look at the response to
6 staff interrogatory 114. This will also encompass the
7 business analysis package too.

8 In your response to 114, Progress indicated
9 that the proposed contract rate was the product of
10 negotiation; is that correct?

11 A I'm sorry. That what was? I was reading.

12 Q Was the product of negotiation, that the
13 proposed contract rate was the product of negotiation.

14 A That's correct.

15 Q Now, in the business analysis package which you
16 provided in response to POD 3 -- I don't know if you
17 have it somewhere over there.

18 A Here it is.

19 Q [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]

25 A [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]

11 Q And again, you had said -- you were talking
12 earlier about the party that hadn't met the third
13 milestone. About what time was that again?

14 A That was July of 2004. They had missed it
15 again.

16 Q Now, generically, as we discussed earlier, the
17 June 2004 RFP was for a domestic supply of gas.

18 A Well, it was for LNG. We pretty much just
19 threw it open to the Gulf of Mexico suppliers and said,
20 "What will you give us for 20 years?"

21 Q That's what I was going to ask, because looking
22 at the RFP, it doesn't specifically say domestic supply
23 of gas.

24 A We didn't want to limit it, because we knew
25 that based on the other RFPs that we had sent out, for

1 example, some of the other suppliers had made a
2 contingency that they were willing to work with us, but
3 provided their facilities actually got built, so we
4 didn't want to limit it to the June 2004 RFP.

5 Q It was as long as it could be delivered to
6 [REDACTED] Was that the caveat?

7 A As long as it could be delivered to [REDACTED]
8 that's correct.

9 Q Go ahead and take a look at Progress's
10 response to POD 15, which I have right here, and I have
11 it tabbed at the particular point. At the place where I
12 have it tabbed, it appears that it contains a March 2004
13 bid from BG for service from Elba Island, and I'm just
14 curious what the nature of that bid was, since it came
15 in prior to the April 2004 RFP.

16 A It was unsolicited, that's for sure. However,
17 at that point in time, BG and Southern and FGT were all
18 making the market pitch to us that this was the best
19 alternative, and so therefore they wanted to put
20 something on the table to us. But once again, this was
21 unsolicited. We didn't formally go out until April of
22 2004. But we were continuing to meet with suppliers
23 based on the needs and discuss with them the needs for
24 Hines 4, and possibly other system requirements.

25 Q And they knew you were interested based on the

1 non-binding August 2003 RFP?

2 A Because they had received that, yes.

3 Q Now, that March offer was for 15 years.

4 A Uh-huh.

5 Q Now, in response to the April 2004 RFP, did BG
6 respond with a 20-year term?

7 A I believe they did, but I would have to look
8 just to be sure.

9 Q So does that mean that in this negotiation,
10 Progress was more interested in the 20-year term than BG
11 was, since they came in initially in March with the
12 15-year term?

13 A I think by the time April rolled around where
14 we did the RFP process, we knew Southern's position on a
15 20-year contract, so we mirrored that to reflect the
16 same term so that they would all be a package deal for
17 Progress Energy Florida.

18 Q And that same POD response contains an outline
19 of a meeting that you guys had in May 2004 with BG,
20 SONAT, and FGT. And I presume that was just to -- I
21 don't have an exact page reference. There it is. To
22 further discuss the bids that they had provided?

23 A Uh-huh.

24 Q And I guess my question is, and this may --
25 well, let me just ask you the question. Was this just

1 part of your ongoing negotiation with BG, and it didn't
2 have anything to do with the June 2004 RFP?

3 A It had nothing to do with it. They don't
4 dictate what we do. They just came in and said, once
5 again, "Here's our marketing pitch. This is the best
6 deal. We want you to take it. Please evaluate it," and
7 so we listened to them.

8 MS. VINING: Okay. I think I'm done. But if
9 we could take a break for a minute, I'll look over
10 my notes and see if we have anything else.

11 (Short recess.)

12 MS. VINING: I have no further questions.

13 CROSS-EXAMINATION

14 BY MS. CHRISTENSEN:

15 Q Good afternoon. Patty Christensen with the
16 Office of Public Counsel. I had wanted to follow up,
17 hopefully pretty briefly, on some of the pricing issues
18 that were discussed earlier. And I think [REDACTED]

19 [REDACTED]
20 [REDACTED] Am I
21 correct on that?

22 A Yes, that's correct. [REDACTED]
23 [REDACTED]

24 Q Are there any terms or conditions that restrict
25 your ability to do that or limit that in any way? In

1 other words, [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 A There's no limit as to how much you can do it.
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 Q [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 A Sure. The New York Mercantile Exchange has
14 Henry Hub natural gas futures contracts, and if we
15 wanted to fix the price, we can go out and buy futures
16 contracts. What it does is, that locks in the price
17 protection that we need. So regardless of whether the
18 index comes in at a different number than what the NYMEX
19 does, we're protected.

20 For example, on Henry Hub, if I buy at \$5,
21 let's say, and the index came in at \$6, when the close
22 of that month comes for the contract, the NYMEX is going
23 to be very reflective of what the index comes in. So,
24 for example, if I bought at 5, I would sell the contract
25 before the close of the month at very close to the index

1 price that we would pay to BG. So I would make a
2 dollar, let's say. For example, I bought at 5 and sold
3 it at 6. I pay BG 6. That \$1 that we made on the NYMEX
4 would go back through the fuel adjustment clause, where
5 the ratepayers would still only pay \$5. **And vice versa.**
6 We could very well have hedged at \$6, and the index
7 comes at 5. I would have lost a dollar, and we would
8 have passed that through the fuel adjustment clause, and
9 therefore, the ratepayers would still have paid \$6. So
10 you win in the physical or lose in the physical,
11 whichever one. You do the vice versa on the financial,
12 and that's how you provide price protection using the
13 NYMEX futures contracts.

14 Q And am I understanding correctly that the way
15 the contracts are structured, these types of fuel costs
16 and the hedging that would go on underneath those
17 contracts, those are the types of costs that you
18 considered would be looked at in the annual fuel
19 adjustment clause? **Am I correct in that?**

20 A That is correct.

21 Q And am I also correct in understanding that
22 you're not seeking any pre-approval of whatever fuel
23 costs would be by approval of this contract?

24 A The fuel costs associated with our hedging
25 activities, once again, as I said, would be part of the

1 fuel adjustment clause. But what we're looking to have
2 pre-approval for is the pricing mechanism, for example,
3 under the BG contract, the market index plus the adder,
4 and then the transportation contracts associated with
5 the Cypress and the FGT, allowing pre-approval of those
6 two contracts as well, as well as the volume associated
7 with all of these contracts.

8 Q Okay. So the daily market conditions you're
9 not seek pre-approval on?

10 A Or the daily optimization.

11 Q Or the daily optimization. But the volume that
12 you would be required to take off the pipeline, you
13 would be seeking pre-approval, and the transportation
14 costs and capacity costs, those would be pre-approved,
15 plus any adders that were associated with that contract?

16 A That's correct.

17 Q Was it my understanding from your earlier
18 testimony that in the BG contract there is the option of
19 further negotiation in the future if prices were
20 markedly to change, let's say, advantageously on costs?
21 Could you negotiate the adder in the future if there
22 were some reason to do that?

23 A [REDACTED]

24 [REDACTED]

25 [REDACTED]

[REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 And those are available products right now that we can
6 use.

7 Q Well, let me ask you this. If the adder cost
8 that you looked at to establish the adder price in the
9 contract were to significantly drop -- let's say they
10 came down for some reason during the term of the
11 contract. Is that something that you could open up to
12 negotiation?

13 A [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 Q Okay. You had discussed that there were things
17 that were open to negotiation. Was that just the daily
18 fuel prices that you were discussing then?

19 A The monthly index, which is really no different
20 than our short-term and intermediate contracts provide.
21 The premium is paid on top of the monthly index, or
22 whatever index you're referring to, under our short and
23 intermediate contracts. So the long-term contract is
24 very much mirrored to our short and intermediate term
25 contracting process.

1 Q But with the short-term processes or the
2 intermediate contracts, your adders are more reflective
3 of whatever the market is when you're negotiating that
4 contract; correct?

5 A For the term of the contract; right.

6 Q For the term of the contract. So if it were to
7 drop within the three years, the next time you
8 negotiated, the adder would likely drop; is that
9 correct?

10 A Yes. It would be based on the market
11 conditions at the time it was entered into.

12 Q Let me ask you this. Do you see a whole lot of
13 change in those adders over time? Have you seen much
14 change in what the adders end up being?

15 A Yes. Actually, I think in one of the
16 responses, we've shown the difference, the change in the
17 basis adders starting from 2001 to 2004, and what we've
18 seen is an increase in those basis adders over time.

19 Q So would your expectation be that over the
20 20-year life of the contract, those adders would
21 continue to increase or decrease over time?

22 A Well, based on the forward forecast that was
23 given to us by Enterprise Risk Management where they
24 seasonally shaped it, they were showing escalation
25 associated with that adder, not a decrease.

1 MS. CHRISTENSEN: I think that probably
2 addresses all the questions that I have.

3 MR. BURNETT: I've got just a couple, and I'll
4 lead with Mr. Caldwell.

5 CROSS-EXAMINATION

6 BY MR. BURNETT:

7 Q Mr. Caldwell, you may recall a line of
8 questioning where we were talking about where
9 Mr. Trimble back in May of 2004 had given his opinion on
10 the some probabilities of success. When Mr. Trimble
11 gave those opinions back in 2004, did he have the
12 benefit of all the facts and circumstances that
13 transpired after 2004?

14 A (By Mr. Burnett) No. John had the information
15 he had through that point, and he was not involved in
16 all the discussions and negotiations that led to the
17 final contracts that we are presenting here today.

18 Q Okay. But as we sit here today, would any of
19 Mr. Trimble's now about one-year-old opinions affect
20 PEF's decision to go with the Cypress deal?

21 A No. Our opinion is the same based on the
22 analysis that we've done.

23 MR. BURNETT: That's all I have.

24 MR. CRUTHIRDS: BG has no questions for the
25 witness.

1 MS. VINING: I have no further questions, so
2 that's --

3 MR. BURNETT: I just wanted to procedurally --
4 you know, if we could do it on the record. My
5 understanding, Adrienne, is that you're going to get
6 us a copy of the transcript when you can, and we'll
7 very quickly mark anything, **if we see something**
8 confidential that we may have missed as far as
9 formally designating it on the record, and then get
10 that back to you, or get that back to the court
11 reporter. I just wanted to make that statement
12 reserving basically the right that we wanted to go
13 back and take a look again.

14 MS. VINING: Correct.

15 (Deposition concluded at 1:47 p.m.)
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CERTIFICATE OF OATH

STATE OF FLORIDA)

COUNTY OF LEON)

I, MARY ALLEN NEEL, Notary Public in and for
the State of Florida at Large:

DO HEREBY CERTIFY that on the date and place
indicated on the title page of the foregoing transcript,
an oath was duly administered by me to the designated
witness before testimony was taken.

WITNESS my hand and official seal this 20th day
of April, 2005.

MARY ALLEN NEEL, RPR
2894-A Remington Green Lane
Tallahassee, Florida 32308

1
2 CERTIFICATE OF REPORTER3
4 STATE OF FLORIDA)5 COUNTY OF LEON)
6

7 I, MARY ALLEN NEEL, do hereby certify that the
8 foregoing proceedings were taken before me at the time
9 and place therein designated; that my shorthand notes
10 were thereafter transcribed under my supervision; and
11 that the foregoing pages numbered 1 through 124 are
12 a true and correct transcription of my stenographic
13 notes.

14 I FURTHER CERTIFY that I am not a relative,
15 employee, attorney or counsel of any of the parties, or
16 relative or employee of such attorney or counsel, or
17 financially interested in the action.

18 DATED THIS 20th day of April, 2005.
19
20
21
22

23 MARY ALLEN NEEL, RPR
24 2894-A Remington Green Lane
25 Tallahassee, Florida 32308
(850) 878-2221

Forecasted Transco Zone 4 Basis

Enterprise Risk Management Basis Curve for Transco Zone 4		Estimate of Future Transco Zone 4 Basis				
Month/2005	As of 6/30/04*	Month	LIBOR from 6/3/2004	Cumulative Escalation From 8/1/2004	Escalated Monthly Basis	Calendar Year Average Basis <small>(Interrogatory Response #151)</small>
Jan		Jan-08				
Feb		Feb-08				
Mar		Mar-08				
Apr		Apr-08				
May		May-08				
Jun		Jun-08				
July		Jul-08				
Aug		Aug-08				
Sep		Sep-08				
Oct		Oct-08				
Nov		Nov-08				
Dec		Dec-08				
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		Dec-12				
		Jan-13				
		Feb-13				

Forecasted Transco Zone 4 Basis

Enterprise Risk Management Basis Curve for Transco Zone 4		Estimate of Future Transco Zone 4 Basis			
Month/2005	As of 6/30/04*	LIBOR from 6/3/2004	Cumulative Escalation From 8/1/2004	Escalated Monthly Basis	Calendar Year Average Basis (Interrogatory Response #151)
	Mar-13				
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	Apr-18				

Forecasted Transco Zone 4 Basis

Enterprise Risk Management Basis Curve for Transco Zone 4		Estimate of Future Transco Zone 4 Basis			
Month/2005	As of 6/30/04*	LIBOR from 6/3/2004	Cumulative Escalation From 8/1/2004	Escalated Monthly Basis	Calendar Year Average Basis (Interrogatory Response #151)
May-18					
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May-23					
Jun-23					

Forecasted Transco Zone 4 Basis

Enterprise Risk Management Basis Curve for Transco Zone 4		Estimate of Future Transco Zone 4 Basis			
Month/2005	As of 6/30/04*	LIBOR from 6/3/2004	Cumulative Escalation From 8/1/2004	Escalated Monthly Basis	Calendar Year Average Basis (Interrogatory Response #151)
	Jul-23				
	Aug-23				
	Sep-23				
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	Nov-23				
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	Jan-24				
	Feb-24				
	Mar-24				
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	Dec-25				
	Jan-26				
	Feb-26				
	Mar-26				
	Apr-26				
	May-26				
	Jun-26				
	Jul-26				
	Aug-26				
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	Jan-27				
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	May-27				
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	Oct-27				
	Nov-27				
	Dec-27				
	Jan-28				
	Feb-28				
	Mar-28				
	Apr-28				

4 Basis

Estimate of Future Transco Zone 4 Basis				
Month	LIBOR from 6/3/2004	Cumulative Escalation From 8/1/2004	Escalated Monthly Basis	Calendar Year Average Basis <i>(Interrogatory Response #151)</i>

*This basis curve was developed based on observable market data for the first full year seasonal pricing strip available on 6/30/04 using ICE (Intercontinental Exchange) electronic trading system. The Transco Z4 is an illiquid point to forecast since there is not a great deal of data to rely on for the forward looking months.

Since the future is unobservable, we reviewed past historical Transco Z4 basis. This analysis showed that, while volatile, the Transco Z4 had been raising over the course of historical period. The LIBOR rate was chosen because it is a conservative and well known rate.