

**BEFORE THE FLORIDA PUBLIC SERVICE
COMMISSION**

**DOCKET NO. 090172-EI
FLORIDA POWER & LIGHT COMPANY**

**IN RE: FLORIDA POWER & LIGHT COMPANY'S
PETITION TO DETERMINE NEED FOR
FLORIDA ENERGY SECURE LINE**

**SUPPLEMENTAL TESTIMONY & EXHIBIT
OF**

JONATHAN D. OGUR

0001 MEET LINDSEY 05/29/8

05376 MAY 29 8

FPSC-COMMISSION CLERK

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5 **MAY 29, 2009**

6
7 **INTRODUCTION**

8
9 **Q. Please state your name and business address.**

10 A. My name is Jonathan D. Ogur and my business address is Brown, Williams,
11 Moorhead & Quinn, Inc., Energy Consultants, 1155 15th Street, N.W., Suite 400,
12 Washington, DC 20005.

13 **Q. Please describe your current employment.**

14 A. From 2006 until the present, I have been employed as an Associate by Brown,
15 Williams, Moorhead & Quinn, Inc., Energy Consultants (“BWMQ”).

16 **Q. Please describe your educational background.**

17 A. I received an A.B. degree with a pre-med concentration in Mathematics from
18 Columbia College in 1965, a Master of Arts degree in Economics from Cornell
19 University in 1969, and a Ph.D. in Economics from Cornell University in 1970.

20 **Q. Please summarize your previous work experience.**

21 A. From 1970 to 1973, I was an Assistant Professor of Economics at Tulane University,
22 where I taught both graduate and undergraduate courses. From 1973 to 2006, I was
23 an Economist with the federal government. During that time, I worked at the

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1 Federal Energy Regulatory Commission (“FERC”), the Federal Trade Commission,
2 and the Federal Communications Commission.

3 **Q. What has been the focus of your work?**

4 A. My work has focused on competition, market power, regulation, and economic
5 efficiency in a variety of industries, including natural gas pipelines, electric utilities,
6 oil pipelines, electrical equipment, airlines, and cable television.

7 **Q. Have you previously testified before a regulatory commission?**

8 A. Yes. I have presented testimony in numerous proceedings before the FERC and in a
9 proceeding before the Nebraska Public Service Commission. Exhibit JDO-1
10 provides detailed information on my previous testimony, educational background,
11 work experience, and written work.

12 **Q. Are you sponsoring any exhibits in this case?**

13 A. Yes. I am sponsoring Exhibit JDO-1 through Exhibit JDO-2, which are attached to
14 my supplemental testimony.

- 15 ● Exhibit JDO-1 Vita of Jonathan D. Ogur
- 16 ● Exhibit JDO-2 Market Shares and Concentration in Gas Transmission
17 Markets

18 **Q. What is the purpose of your supplemental testimony?**

19 A. The purpose of my supplemental testimony is to address issues related to the impact
20 of the Florida EnergySecure Line (“EnergySecure Line”) on economic efficiency
21 and competition in markets for gas transmission and delivered gas in Florida, to the
22 extent such issues are deemed relevant for purposes of assessing FPL’s request for a
23 determination of need.

1 **Q. What are the main conclusions of your economic analysis?**

2 A. Based on my economic analysis, I conclude that the EnergySecure Line will
3 promote economic efficiency and competition in highly concentrated gas
4 transmission markets and delivered gas markets in Florida. Before making sales of
5 EnergySecure Line gas transportation service to third-party entities, Florida Power
6 & Light Company (“FPL”) would obtain Florida Public Service Commission
7 (“FPSC”) approval of tariffs specifying the terms, conditions, and rules under which
8 FPL would provide service. Consistent with prior FPSC practice, any potential
9 adverse effects on local distribution companies (“LDCs”) should be addressed in
10 such a tariff proceeding. It is unnecessary and would be premature to address such
11 issues in the context of a need determination proceeding. Concerns about potential
12 adverse impacts should not be a reason to reject a pipeline that is otherwise needed.

13 **Q. Would you briefly summarize the facts underlying this proceeding?**

14 A. FPL is seeking approval from the FPSC for its proposed EnergySecure Line, a new
15 Florida intrastate natural gas pipeline. The EnergySecure Line will serve the needs
16 of FPL’s Cape Canaveral Next Generation Clean Energy Center (“CCEC”) and
17 Riviera Beach Next Generation Clean Energy Center (“RBEC”), as well as other
18 current and future gas transportation needs of FPL and the state of Florida (Forrest
19 Testimony at 3:11-17).

20
21 The capacity of the EnergySecure Line is 600 MMcf/d. FPL has determined that
22 600 MMcf/d was the minimum quantity necessary for suppliers to commit to build a
23 new interstate pipeline into Florida (Sharra Testimony at 16:6-9). The

1 EnergySecure Line will hold 600 MMcf/d of gas transportation on a new interstate
2 pipeline (“Upstream Pipeline”) to be built from a connection with Transcontinental
3 Gas Pipe Line Company (Transco) at Transco Station 85 to a connection with the
4 EnergySecure Line at FGT Station 16 (Forrest Testimony at 10:22-11:12).

5
6 On September 12, 2008, the FPSC approved the need for modernizations at CCEC
7 and RBEC. The modernizations will require approximately 400 MMcf/d of natural
8 gas transmission capacity. FPL does not currently have enough firm gas
9 transportation capacity under contract to meet this increased need for natural gas
10 (Forrest Testimony at 6:14-7:2).

11 **Q. How much gas transmission capacity does FPL hold?**

12 A. FPL currently holds 1,409 MMcf/d of firm transmission capacity, including 874
13 MMcf/d during the peak summer season on Florida Gas Transmission LLC (“FGT”)
14 and 535 MMcf/d on Gulfstream Natural Gas Systems, L.L.C. (“Gulfstream”)
15 (Sharra Testimony at 6: 21-7:20). FPL’s firm capacity on Gulfstream will rise to
16 695 MMcf/d beginning June 1, 2009, when Gulfstream’s Phase III expansion is
17 completed. FPL’s firm capacity on FGT will rise to 1,274 MMcf/d when FGT’s
18 Phase VIII expansion project is placed in service in the spring of 2011. As a result
19 of these two expansions, FPL will hold 1,969 MMcf/d of firm transmission capacity
20 in 2011.

21 **Q. How much capacity will the EnergySecure Line add to FPL’s current capacity?**

22 A. The EnergySecure Line will have an initial capacity of 600 MMcf/d, including a
23 delivery capability of 200 MMcf/d to the CCEC and 200 MMcf/d to the RBEC. The

1 remaining 200 MMcf/d will be delivered to FPL's Martin Plant for reliability
2 purposes, but also may be offered to other entities within Florida until FPL needs the
3 full capacity (Forrest Testimony at 9:2-14). As FPL's load growth increases and
4 creates the need for additional generation on its system, the EnergySecure Line can
5 be expanded to 1,250 MMcf/d (Forrest Testimony at 11:16-22).

6
7 To put this in perspective, between 2013 and 2040, FPL projects that it will need to
8 add about 2,700 MMcf/d of gas transmission capacity (Enjamio Testimony at 4:16-
9 20). Thus, the 200 MMcf/d that may be offered to other Florida entities for a period
10 of time is less than 10 percent of FPL's projected needs for additional capacity.
11 Future expansion of the EnergySecure Line would add 650 MMcf/d of capacity (=
12 1,250-600), which is less than 25 percent of FPL's projected needs.

13 **Q. Would you briefly describe how the 200 MMcf/d delivered to the Martin Plant**
14 **will be offered to other entities within Florida?**

15 **A.** The 200 MMcf/d delivered to the Martin Plant will displace deliveries from FGT or
16 Gulfstream that can then be redirected to other FPL facilities or to other entities
17 within Florida. FPL also may sell the 200 MMcf/d on the EnergySecure Line
18 directly. Revenues received from any sales would benefit FPL's retail customers
19 via the Fuel Cost Recovery Clause and would offset a portion of the costs associated
20 with the pipeline (Forrest Testimony at 16:8-15).

1 **Economic Efficiency, Competition, and Market Power**

2

3 **Q. How would you define economic efficiency?**

4 A. Economic efficiency means producing output at the lowest cost. Applied to this
5 case, it means that FPL chooses the least-cost alternative to supply the additional
6 pipeline capacity to provide gas for its electric generation expansions. Efficiency
7 also means that the gas is obtained from diverse sources to increase the reliability of
8 supply. Source diversity can lower costs by providing alternatives to sources that
9 may be disrupted by weather conditions or may become high cost when their low
10 cost supplies are exhausted.

11 **Q. How would you define competition?**

12 A. Competition means that market power is absent or, if present, is mitigated or
13 prevented from being exercised.

14 **Q. How would you define market power?**

15 A. Market power is the ability of a seller to profitably maintain prices above the
16 competitive level for a significant period of time. 74 FERC ¶ 61,076, *Alternatives to*
17 *Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines*, Docket No.
18 *RM95-6-000, Regulation of Negotiated Transportation Services of Natural Gas*
19 *Pipelines*, Docket No. *RM96-7-000*, (January 31, 1996) at 61,230 (“Gas Policy
20 Statement”). Applied to this case, market power is the ability of a pipeline to charge
21 rates above the competitive level, which yield revenues that are greater than the
22 pipeline’s costs plus a reasonable return on investment. By limiting pipeline

1 revenues to recovery of prudently incurred costs plus a reasonable return on the
2 pipeline investment, the FPSC and the FERC prevent the exercise of market power.

3 **Q. Does a competition analysis distinguish between effects on competition and**
4 **effects on competitors?**

5 A. Yes. The primary focus is on effects on competition in the relevant markets. In my
6 analysis, I will distinguish between gas transmission markets and delivered gas
7 markets, between firm services and interruptible services, and between short-term
8 services and long-term services.

9
10 Effects on individual competitors are only a secondary focus of a competition
11 analysis. Increasing market competition benefits consumers by providing goods and
12 services at a lower cost, using fewer resources. Entry by new suppliers, or
13 expansion of existing low-cost suppliers, provides clear benefits because these
14 suppliers must attract new customers by offering them a better price-quality
15 combination than rival incumbent sellers offer. In general, sellers that are adversely
16 affected tend to be less efficient, high-cost suppliers that may lose sales to more
17 efficient, low-cost suppliers.

18
19 In previous proceedings, the FPSC has addressed a concern that LDCs may lose
20 large customers to a new pipeline, potentially shifting costs to the LDCs' remaining
21 customers. In re: Petition for approval of natural gas transmission pipeline tariff by
22 Peninsula Pipeline Company, Inc., Docket No. 070570-GP, Order No. PSC-07-
23 1012-TRF-GP (December 21, 2007) ("Peninsula Order"); In re: Petition for

1 approval of natural gas transmission pipeline tariff by Seacoast Gas Transmission,
2 LLC., Docket No. 080561-GP Order No. PSC-08-0747-TRF-GP (November 12,
3 2008) (“Seacoast Order”). I will address the issue of potential adverse impacts, with
4 particular reference to LDCs later in my testimony.

5
6 **GAS TRANSMISSION MARKETS**
7

8 **Q. Would you identify the relevant markets where the EnergySecure Line may**
9 **impact economic efficiency and competition?**

10 A. The EnergySecure Line may impact economic efficiency and competition in markets
11 for gas transmission services and in markets for delivered gas.

12 **Q. Would you identify the possible relevant markets for gas transmission services?**

13 A. I will analyze three sets of relevant markets for gas transmission services. At the
14 least aggregated level, there is a market for gas transmission service to each
15 individual delivery point on FPL’s system, for example, the CCEC, the RBEC, the
16 Martin Plant, and any other delivery point where potential customers may be
17 located. At a more aggregated level, there is a market for gas transmission service
18 to the FPL system as a whole. Finally, at the most aggregated level, there is a
19 market for gas transmission service to the state of Florida as a whole.

1 **Economic Efficiency**

2

3 **Q. What is the impact of the EnergySecure Line on economic efficiency in these**
4 **relevant markets for gas transmission services?**

5 A. The EnergySecure Line will provide increased transmission capacity to supply the
6 growth in demand for natural gas due to current expansions of FPL's electric
7 generating capacity. The increased transmission capacity also will enhance
8 reliability and help meet further projected expansions of gas-fired generation.
9 Economic efficiency is promoted when increased transmission capacity is provided
10 at lowest cost. The EnergySecure Line will promote economic efficiency because it
11 is the least-cost alternative to supply increased transmission capacity over the life of
12 the project (Enjamio Testimony at 5:9-17).

13

14 As FPL's load grows and creates the need for additional generation on its system,
15 the EnergySecure Line can be expanded to 1.25 billion cubic feet per day ("Bcf/d").
16 This expansion will come at a greatly reduced price to FPL's customers because
17 minimal infrastructure will be required to add capacity. FPL will have access to
18 additional capacity on the Upstream Pipeline to supply the EnergySecure Line's
19 expansion (Forrest Testimony at 11:16-22).

20 **Q. What is the estimated value of the EnergySecure Line's added benefits**
21 **compared to the next best alternative?**

22 A. Selecting the EnergySecure Line results in added benefits ranging between \$204
23 million and \$513 million compared to the next best alternative (Enjamio Testimony

1 at 5:9-17). These added benefits do not include the possible benefits to FPL's
2 customers and Florida gas consumers from short-term off-system sales of gas
3 transportation capacity at favorable prices during the initial period before FPL uses
4 the entire capacity of the EnergySecure Line for its own gas-supply requirements.

5
6 **Competitive Effects**
7

8 **Q. What is the impact of the EnergySecure Line on competition in the relevant**
9 **markets for gas transmission services?**

10 A. The EnergySecure Line may increase the frequency and extent of discounting of gas
11 transmission services below the maximum cost-of-service price. Regulation by the
12 FPSC and the FERC ensures that the price of gas transmission services will be just
13 and reasonable. During off-peak periods, when there is unused capacity,
14 competitive transmission rates may be discounted. In general, discounted rates will
15 be below the maximum cost-of-service price and above variable cost.

16 **Q. Can discounted rates be higher than the competitive level?**

17 A. Yes. If the market for gas transmission services is sufficiently concentrated,
18 discounted rates may exceed the competitive level. In such a concentrated market,
19 the entry of an additional supplier of transmission services, the EnergySecure Line,
20 may increase competition and promote more frequent and deeper discounting than
21 occurred before entry.

1 **Q. How would you define market concentration?**

2 A. A market is concentrated when a few large sellers supply most of the products or
3 services that are traded. Applied to this case, the market for primary firm gas
4 transmission capacity is concentrated when a few large pipelines supply most of the
5 transmission capacity traded.

6 **Q. How do you measure market concentration?**

7 A. A widely-used measure of market concentration is the Herfindahl-Hirshman Index
8 (“HHI”). It is calculated by summing the squared market shares of sellers in the
9 relevant market under analysis. For example, suppose a gas transmission market is
10 supplied by two equal-sized pipelines, each with a market share of 50 percent. The
11 HHI would be 5000 [= (50x50) + (50x50)]. If one of the pipelines has a market
12 share of 75 percent, and the other has a market share of 25 percent, the HHI would
13 be 6250 [= (75x75) + (25x25)], which is higher. Thus, the HHI reflects both
14 fewness of sellers and differences in the size of their market shares.

15 **Q. Would you consider the hypothetical transmission market described above to
16 be concentrated?**

17 A. Yes. The FERC generally considers pipeline transportation markets to be
18 concentrated if the HHI exceeds 1800. Gas Policy Statement at 61,235. An HHI of
19 1800 would characterize a market with five-to-six equal-size pipelines. For
20 example, if five pipelines have a market share of 20 percent each, the HHI would
21 equal 2000 [= (20x20) + (20x20) + (20x20) + (20x20) + (20x20) = 2000], thus
22 exceeding the 1800 threshold. Market concentration above this level raises
23 competitive concerns that sellers may be able to exercise market power.

1 **Q. Is the gas transmission market into the state of Florida a concentrated market?**

2 A. Yes. As shown on Exhibit JDO-2, the HHI is about 4421. Gas transmission into the
3 state of Florida is provided by four interstate pipeline systems: FGT, Gulfstream,
4 Southern Natural Gas Company's Cypress Pipeline system ("Cypress") (which
5 connects with FGT) and Gulf South Pipeline Company, L.P. ("Gulf South") (Sexton
6 Testimony at 6:16-7:2). FGT and Gulfstream provide approximately 90% of the
7 capacity (Sexton Testimony at 6:16-7:2). FGT's capacity is approximately 2.21
8 Bcf/day, and Gulfstream, with the recent installation of its Phases III and IV
9 projects, has a capacity of about 1.25 Bcf/day (Sexton at 7:5-15). The remaining
10 two pipelines, Cypress and Gulf South have capacities of about 190 MMcf/d each.
11 Based on these approximations, the total capacity in the market is 3.84 Bcf/d [=
12 $(2.21+1.25)/.9$]. Gulf South has a capacity of about 190 MMcf/d. This implies that
13 Cypress also has a capacity of 190 MMcf/d (= $3.84-2.21-1.25-0.19$). As a result,
14 FGT's market share is about 58 percent ($2.21/3.84$), Gulfstream's market share is
15 about 33 percent ($1.25/3.84$), and Cypress and Gulf South each have market shares
16 of about five percent. Squaring and summing these market shares yields an HHI of
17 about 4421.

18 **Q. Is the gas transmission market to the FPL system a concentrated market?**

19 A. Yes, it is even more concentrated than the gas transmission market to the state of
20 Florida as a whole, as shown on Exhibit JDO-2. FGT and Gulfstream are the only
21 pipelines that currently serve the FPL system (Sexton Testimony at 10:4-610:4-6).
22 With the estimated 2011 completion of FGT's Phase VIII project, FPL will have
23 1.274 Bcf/d of firm gas transportation on that pipeline, which represents

1 approximately 66% of FPL's peak gas supply. Similarly, by the end of 2009,
2 Gulfstream will supply 695 MMcf/d of FPL's gas load, representing 33% of FPL's
3 peak gas supply. Together, this is about 1.969 Bcf/d, (Forrest Testimony at 18:4-12).
4 Thus, the HHI would be about 5,432. (See Exhibit JDO-2)

5 **Q. Are the gas transmission markets to the CCEC, RBEC, and Martin Plant**
6 **delivery points on the FPL system concentrated markets?**

7 A. Yes, they are even more concentrated than the transmission market to the FPL
8 system as a whole. FGT is the only pipeline that provides transmission service to
9 the CCEC and RBEC delivery points, and Gulfstream is the only pipeline that
10 currently provides transmission service to the Martin Plant delivery point (Forrest
11 Testimony Exhibit, Map of Florida EnergySecure Line Proposed Corridor and
12 Florida's Current and Proposed Natural Gas Infrastructure). Thus, the HHI in these
13 markets would be 10,000 (= 100x100).

14 **Q. Do you expect high concentration to persist in the future?**

15 A. Yes. It is my understanding that FGT will connect to the Martin Plant following
16 FGT's Phase VIII expansion in 2011. As a result, when the EnergySecure Line goes
17 into service, Gulfstream, FGT, and the EnergySecure Line will serve the Martin
18 Plant. Thus, under the best of circumstances, with all three pipelines of equal size,
19 the HHI will equal 3333, which exceeds the 1800 HHI threshold indicating a market
20 power concern.

1 **Q. Would you identify a factor other than concentration that affects the frequency**
2 **and extent of discounting?**

3 A. The extent of excess capacity is another factor that affects discounting frequency
4 and extent. At low levels of excess capacity, as indicated by small amounts of
5 unsubscribed capacity, the frequency and extent of discounting is reduced.

6 **Q. Is excess capacity low in the relevant gas transmission markets in this case?**

7 A. Yes. Despite the recent expansion projects on Gulfstream and Cypress, interstate
8 transportation capacity in Florida is still effectively sold out and therefore
9 constrained on a firm contractual basis (Sexton Testimony at 10:8-13). In addition,
10 FGT has executed precedent agreements with shippers accounting for 731,000
11 MMBtu/day of the 820,000 MMBtu/day of its Phase VIII expansion capacity. Thus,
12 only 89,000 MMBtu/day (approximately 89 MMcf/day or 11 percent) of this Phase
13 VIII expansion capacity is unsubscribed and available (Sexton Testimony at 12:10-
14 15).

15 **Q. Do high concentration levels and low levels of excess capacity suggest that**
16 **existing transmission suppliers, such as FGT and Gulfstream, possess market**
17 **power?**

18 A. Yes, even after recent expansions are taken into account. In large part, FERC and
19 FPSC regulation are intended to prevent such market power from being exercised.

20 **Q. Do the market shares of FGT and Gulfstream also raise market power**
21 **concerns?**

1 A. Yes. FGT's and Gulfstream's market shares, which exceed 50 percent and range up
2 to 100 percent in some of the relevant markets, also raise concerns that these
3 pipelines possesses market power.

4 **Q. Do sellers with large market shares in concentrated markets sometimes charge**
5 **different prices to different buyers?**

6 A. Yes, such price differentiation is sometimes referred to as "price discrimination."

7 **Q. Is price discrimination always an anticompetitive practice?**

8 A. No, price discrimination can promote competition by enabling sellers to retain
9 existing customers and compete for new customers.

10 **Q. How does the FERC prevent undue price discrimination by pipelines offering**
11 **discounted rates for interstate transmission services?**

12 A. To prevent undue price discrimination, the FERC requires pipelines to treat similarly
13 situated shippers similarly. Gas Policy Statement at 61,242. However, this
14 requirement does not prevent pipelines from discounting rates to retain existing
15 customers and to compete for new customers. Gas Policy Statement at 61,225-26.
16 FERC also ensures that rates do not fall below a pipeline's variable cost and thus
17 make a contribution to covering the pipeline's fixed costs. 18 CFR 284.10.

18 **Q. Does the FPSC apply a regulatory standard to prevent undue price**
19 **discrimination that is similar to the FERC standard?**

20 A. Yes. Gas transmission rates under FPSC regulation must meet the following
21 standard: "It shall be the duty of the commission to ensure that all rates and services
22 made, demanded, or received by any natural gas transmission company are just and
23 reasonable and are not unreasonably preferential, prejudicial, or unduly

1 discriminatory. Rates must be sufficient, equitable, and consistent in application to
2 each class of customers.” Natural Gas Transmission Pipeline Intrastate Regulatory
3 Act at 368.105(2).

4
5 **Extra Transportation Capacity on the EnergySecure Line**

6
7 **Q. What is your understanding regarding FPL’s plans to make extra**
8 **transportation capacity on the EnergySecure Line available to third parties?**

9 A. It is my understanding that FPL will initially have 200 MMcf/d of extra capacity on
10 the EnergySecure Line, which will enhance reliability. FPL may use that capacity
11 itself and release its capacity on FGT or Gulfstream for resale to others; or sell
12 directly to third parties. Capacity on the EnergySecure Line would be sold through
13 an open and non-discriminatory process. All revenues would be credited back to
14 FPL electric customers through the Fuel Cost Recovery Clause.

15 **Q. Based on that understanding, would FPL be providing transmission access,**
16 **subject to available capacity, on a basis that is not unreasonably preferential,**
17 **prejudicial, or unduly discriminatory?**

18 A. Yes. FPL would follow FERC requirements for any capacity releases to ensure that
19 the process is open and non-discriminatory as discussed in the supplemental
20 testimony of FPL witness Forrest. In the case of any sales, FPL would post the
21 capacity in an open and transparent manner and seek bids in order to ensure non-
22 discriminatory access to the capacity. FPL also would file tariffs governing these
23 sales with the FPSC.

1 **Q. Would releases and sales of the extra capacity promote increased efficiency and**
2 **competition?**

3 A. Yes. The FERC and FPSC requirements that FPL will follow will ensure that any
4 releases and sales will promote increased efficiency and competition.
5

6 **DELIVERED GAS MARKETS**
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8 **Q. Would you identify the markets for delivered gas that the EnergySecure Line**
9 **may impact?**

10 A. There are three possible sets of relevant markets for delivered gas. At the least
11 aggregated level there is a market for delivered gas to each individual delivery point
12 on FPL's system, for example, the CCEC, the RBEC, the Martin Plant, and any
13 other delivery point where potential customers may be located. At a more
14 aggregated level, there is a market for delivered gas to the FPL system as a whole.
15 Finally, at the most aggregated level, there is a market for delivered gas to the state
16 of Florida as a whole.
17

18 **Economic Efficiency**
19

20 **Q. What is the impact of the EnergySecure Line on economic efficiency in these**
21 **relevant markets for delivered gas?**

22 A. In addition to the increased efficiency in the transmission markets, the EnergySecure
23 Line will also promote economic efficiency in delivered gas markets by increasing

1 fuel reliability and operational flexibility through diversification of gas supply
2 sources. The proposed pipeline into Florida would be largely supplied from shale
3 gas production in Texas, Arkansas, Oklahoma and Louisiana. The Upstream
4 Pipeline and the EnergySecure Line give FPL and other gas users in Florida
5 increased access to shale gas in the Mid-Continent to Gulf Coast supply, and to
6 newly developing and existing liquefied natural gas (LNG) regasification facilities.
7 Having access to several supply sources will protect against declining production in
8 a given supply basin (Forrest Testimony at 20:4-15).

9 **Q. Will the increased access to new gas supply sources reduce FPL's risk of gas**
10 **supply interruption?**

11 A. Yes. Gulfstream and FGT are designed to source gas supplies primarily from
12 traditional onshore Gulf Coast and offshore Gulf of Mexico supply sources. By
13 contrast, the EnergySecure Line will provide supplies from unconventional shale gas
14 locations in North Louisiana, Arkansas and East and Central Texas. The increased
15 diversity of supply will decrease the portion of FPL's fuel requirements that are
16 dependent on traditional Gulf Coast and Gulf of Mexico sources. As a result, a
17 smaller percentage of FPL's overall supply portfolio (and generation capacity) will
18 be impacted by isolated weather events such as hurricanes in the Gulf of Mexico
19 (Sexton at 43:3-12).

Competitive Effects

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Q. What is the impact of the EnergySecure Line on competition in these relevant markets for delivered gas?

A. By providing increased access to suppliers of shale gas from the Mid-Continent, the EnergySecure Line will increase competition in delivered gas markets in Florida. Increased competition will tend to decrease the price of delivered gas in Florida markets.

FPL has identified 11 gas suppliers that have subscribed for transportation capacity on one of the major pipeline expansions to Transco Station 85, where the Upstream Pipeline will connect to Transco (See FPL’s response to FGT’s First Set of Interrogatories, No. 24). These suppliers are: Devon Energy, Chesapeake Energy Marketing, Connective Energy Supply, EOG Resources, Iberdrola Renewables, JW Gathering, OGE Resources, Oneok Energy Resources, Quicksilver Resources, Unit Petroleum, and XTO Petroleum. Discussions with individual suppliers have indicated a willingness to sell gas to FPL on both a long-term basis and a short-term basis at a price based on a market index.

Q. Are any of these suppliers listed on FGT’s or Gulfstream’s Index of Customers?

A. No.

1 **Q. Is there evidence supporting the proposition that the EnergySecure Line will**
2 **cause a decrease in the price of delivered gas in Florida?**

3 A. Yes. Projects similar to the EnergySecure Line have resulted in gas price decreases
4 for FGT and Gulfstream customers (Sharra Testimony at 8:19-9:8). As an example,
5 FPL entered into a transportation agreement with the Southeast Supply Header
6 (“SESH”) pipeline project, which began delivering natural gas (sourced from on-
7 shore production fields in Texas and Louisiana) into FGT and Gulfstream beginning
8 in September 2008. After these deliveries began, FGT and Gulfstream customers
9 who purchased gas in the Mobile Bay area experienced over a 50 percent drop in the
10 overall basis premium (current premium for Mobile Bay supplies above NYMEX
11 Henry Hub). FPL projects that this differential could result in customer savings in
12 excess of \$50 million in 2009 alone.

13 **Q. Do you have concerns about potential adverse impacts on LDCs?**

14 A. In prior tariff approval proceedings, the FPSC has addressed a concern that LDCs
15 may lose large customers to a new pipeline, potentially shifting costs to the LDCs’
16 remaining customers. Peninsula Order at 4; Seacoast Order at 3.

17 **Q. Is it appropriate to address concerns regarding the potential adverse impacts**
18 **on LDCs in this proceeding?**

19 A. No. As discussed in the supplemental testimony of Sam Forrest, it is unnecessary and
20 premature to address such issues in the context of a need determination proceeding. FPL
21 would obtain FPSC approval before making sales of EnergySecure Line gas transportation
22 service to third-party entities. Consistent with prior FPSC practice, any concerns about
23 potential adverse impacts on LDCs should be addressed when the FPSC reviews FPL’s
24 tariff filing, which will specify the terms, conditions, and rules under which FPL would

1 provide service to third parties. Concerns about potential adverse impacts should not be a
2 reason to reject a pipeline that is otherwise needed.

3
4 **CONCLUSIONS**

5
6 **Q. What are the conclusions of your economic analysis?**

7 A. Based on my economic analysis, I conclude that the EnergySecure Line will
8 promote economic efficiency and competition in highly concentrated gas
9 transmission markets and delivered gas markets in Florida. The increased efficiency
10 and competition will provide significant benefits to Florida consumers. Regulation
11 by the FPSC and FERC will ensure that the price of gas transmission services will
12 be just and reasonable. FPL would obtain FPSC approval before making sales of
13 EnergySecure Line gas transportation service to third-party entities. Consistent with
14 prior FPSC practice, any potential adverse effects on LDCs should be addressed in
15 such a tariff proceeding. It is unnecessary and would be premature to address such
16 issues in the context of a need determination proceeding. Concerns about potential
17 adverse impacts should not be a reason to reject a pipeline that is otherwise needed.

18 **Q. Does this conclude your supplemental testimony?**

19 A. Yes.

**Vita of
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Employment

Economist, Federal Energy Regulatory Commission, Office of Economic Policy, 1997-99; Office of Administrative Litigation, 1999-2001; Office of Markets, Tariffs, and Rates, 2001-2002; Office of Administrative Litigation, 2002-present.

Economist, Federal Communications Commission, Cable Services Bureau, 1994-1997.

Economist, Federal Energy Regulatory Commission, Office of Economic Policy, 1988-94.

Economist, Federal Trade Commission, Bureau of Economics, 1973-88 (Deputy Assistant Director for Industry Analysis, 1981; Deputy Assistant Director for Regulatory Analysis, 1982-86).

Assistant Professor, Tulane University, Department of Economics, 1970-73.

Education

Ph.D. in economics, Cornell University, 1970.

M.A. in economics, Cornell University, 1969.

A.B., pre-med concentration in mathematics, Columbia College (New York City), 1965.

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Prepared Direct Answering Testimony, *Buckeye Pipeline Company, L.P.*, Docket Nos. IS 87-14-000 *et al.*, Federal Energy Regulatory Commission, April 19, 1989.

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Market Shares and Concentration in Gas Transmission Markets

State of Florida

FGT	2.21	58%	3312.242296	
Gulfstream	1.25	33%	1059.638129	
Cypress	0.19	5%	24.48187934	
Gulf South	0.19	5%	24.48187934	
			0	
Total	3.84	100%	4420.844184	HHI

FPL System

FGT	1.274	65%	4186.464605	
Gulfstream	0.695	35%	1245.885631	
Total	1.969	100%	5432.350235	HHI