

**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 ENERGYSECURE LINE**

**REBUTTAL TESTIMONY
OF**

ROBERT G. SHARRA

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5 **JULY 2, 2009**

6
7 **Q. Please state your name and business address.**

8 A. My name is Robert G. Sharra. My business address is Florida Power & Light
9 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

10 **Q. Have you previously submitted direct testimony in this proceeding?**

11 A. Yes.

12 **Q. Have your position, duties, or responsibilities changed since you last filed**
13 **testimony in this docket?**

14 A. No.

15 **Q. What is the purpose of your rebuttal testimony?**

16 A. The purpose of my rebuttal testimony is to comment on the testimony of Florida
17 Gas Transmission Company, LLC ("FGT") witnesses Michael T. Langston and
18 Benjamin Schlesinger. Specifically, I will address their allegations on FPL's
19 decision to select Transco Station 85 as the upstream supply location, FPL's fuel
20 forecast, FPL's solicitation process and results, Company E, and FPL's pipeline
21 operational background.

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3 **I. SUMMARY**

4 **Q. Please summarize your position on FGT's testimony.**

5 A. FGT's witnesses attempt to undermine the Florida EnergySecure Line project by,
6 among other things, raising unfounded concerns regarding (1) the selection of
7 Transco Station 85 as the appropriate receipt point of the Florida EnergySecure
8 Line / Company E project, (2) FPL's fuel price projections, (3) FPL's solicitation
9 process, (4) Company E's rates, and (5) FPL's pipeline operational background.
10 FGT's conclusions and the basis for those conclusions, nevertheless, are mistaken
11 and laced with misleading information.

12 First of all, contrary to the suggestions of FGT, the benefits of Transco Station 85
13 as the receipt hub for the Florida EnergySecure Line from a cost and supply
14 diversity perspective have been thoroughly analyzed and vetted by FPL. While
15 FGT's preferred Perryville receipt hub ("Perryville") is and will continue to be an
16 important source of natural gas supply for FPL through its utilization of the
17 Southeast Supply Header ("SESH"), one of the many reasons Transco Station 85
18 was chosen as the receipt hub was to diversify FPL's gas portfolio away from
19 currently utilized supply sources.

1 FGT is likewise off base in its criticism of FPL’s fuel price forecast. The fuel
2 price projections for this project are (1) developed from authoritative sources, (2)
3 reasonable for planning purposes, and (3) use consistent methodologies employed
4 in other FPL dockets before this Commission.

5
6 Next, FGT criticizes FPL for not making parties aware of the 18-inch dual fuel
7 line that FPL intends to use to deliver gas from the Florida EnergySecure Line to
8 the Riviera Beach Energy Center (“RBEC”), arguing that they could have
9 proposed to use that line as part of their responses to the solicitation. In fact,
10 FPL’s ability to use the 18-inch dual fuel line to serve the RBEC was not
11 established until well after the responses to the solicitation had been received.
12 Moreover, FGT’s claim of \$132 million in savings as a result of utilizing the
13 18-inch dual fuel line does not consider the costs FPL would incur to make that
14 line available to serve the RBEC. FPL has evaluated the economics of FGT’s
15 March 18, 2009 proposal taking into account both FGT’s claimed savings and
16 FPL’s additional costs. This evaluation confirms that the Florida EnergySecure
17 Line remains the less costly alternative using the conventional CPVRR measure.

18
19 Finally, FGT is also incorrect in its statements regarding the ambiguity of
20 upstream pipeline provider, Company E. Currently, FPL is in the final phases of
21 negotiating a precedent agreement with Company E for 600,000 MMBtu/d, which
22 includes pricing supporting FPL’s economic evaluation and containing specific

1 provisions which provide additional assurances that Company E will be able to
2 meet its obligations under the agreement.

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4 **II. BENEFITS OF TRANSCO STATION 85**

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6 **Q. In their testimony, FGT witnesses Langston and Schlesinger question FPL's**
7 **selection of Transco Station 85 as the upstream receipt point for the Florida**
8 **EnergySecure Line/Company E system. Why does FPL believe that Transco**
9 **Station 85 is the most appropriate receipt point?**

10 **A.** FPL has created a portfolio of supply receipt points that include off-shore,
11 traditional on-shore and unconventional sources of supply through SESH at
12 Perryville. Given FPL's existing gas transportation commitments, receiving gas
13 at Transco Station 85 provides the best opportunity to improve the diversity of
14 FPL's gas supply alternatives at favorable commodity and transportation prices.

15
16 Indeed, FPL continues to pursue alternatives to diversify the gas transportation
17 portfolio by adding new infrastructure and providing access to onshore supply
18 sources. As FPL continues to add natural gas generation, it is critical that FPL
19 explore alternatives to ensure a single point of failure at a particular supply
20 location or pipeline system does not result in a catastrophic loss of natural gas for
21 FPL's generation.

1 After numerous discussions with natural gas producers and pipeline companies,
2 FPL identified Transco Station 85 as a developing supply hub with access to
3 onshore shale gas supply. The unique aspect of Transco Station 85 that attracted
4 FPL was the number of natural gas suppliers, as shown in FPL witness Sexton's
5 Exhibit TCS-10, who had subscribed for firm transportation capacity to Transco
6 Station 85 via two new large-scale pipeline projects (Boardwalk and Kinder
7 Morgan). As detailed further in the rebuttal testimony of FPL witness Sexton, the
8 fact that these producers have entered into long term firm transportation contracts
9 to transport unconventional supplies to Transco Station 85 indicates that they will
10 be ready, willing and able to deliver and sell supplies to this location. Thus,
11 Transco Station 85 provides access to onshore shale gas supplies, which increases
12 the diversity and therefore the reliability of FPL's overall gas transportation
13 portfolio. The connection to the Boardwalk and Kinder Morgan projects are in
14 addition to the other supply sources at Transco Station 85 which are described
15 later in this testimony.

16 **Q. On Page 19 of his testimony, FGT witness Langston states that the sources of**
17 **natural gas supply FPL wishes to access are available on SESH through**
18 **purchases at Perryville. Why has FPL elected not to pursue an expansion of**
19 **SESH as an alternative to access Perryville supplies?**

20 **A.** FPL's strategic purchase of capacity on the SESH pipeline and thereby access to
21 the Perryville supplies have and will continue to benefit all Florida customers by
22 providing onshore gas supplies as well as having a positive impact on the overall
23 cost of natural gas in the Mobile Bay area. FPL currently contracts for

1 500 MMcf/d of SESH capacity which is utilized on a daily basis and is a key
2 component of FPL's supply and transportation portfolio. However, FPL did not
3 consider an expansion of this capacity to be a prudent alternative to serve the
4 RBEC and Cape Canaveral Clean Energy Center ("CCEC"; collectively, the
5 Modernization Projects) for a number of reasons.

6
7 First, FPL is committed to ensuring a diversified gas transportation portfolio
8 which provides access to numerous supply sources via a network of pipeline
9 providers. The purpose of this diversity is to mitigate the effects of potential
10 supply or pipeline disruptions, as well as pricing dependence. Second, FPL's
11 current SESH commitment of 500 MMcf/d is a significant commitment on one
12 pipeline and accounts for almost 50% of the existing SESH capacity. Finally, due
13 to increases in construction costs, SESH has indicated to FPL that an expansion of
14 its system to support incremental requirements would be at a higher rate than the
15 existing capacity held by FPL.

16 **Q. On Page 20 of his testimony, FGT witness Langston indicates that the**
17 **Transco pipeline could provide capacity which would allow FPL to move gas**
18 **from Transco Station 85 to FGT. Why didn't FPL pursue a Transco 4A**
19 **alternative to access Transco Station 85?**

20 **A.** FPL is pursuing several alternatives for the 400 MMcf/d of FGT Phase VIII
21 Mobile Bay capacity, including access to the Transco 4A lateral, as well as SESH.
22 As a result of the recent Transco Open Season, Transco has indicated that they
23 have parties interested and are in negotiations for the remaining 550 MMcf/d

1 capacity; therefore, the existing Transco 4A lateral capacity would not be
2 available to serve the Modernization Projects.

3 **Q. On Page 10 of his testimony, FGT witness Schlesinger notes that access to**
4 **shale gas was one of the reasons FPL selected Transco 85 as the receipt point.**
5 **In addition to access to shale gas, what other benefits will interconnection**
6 **with Company E at Station 85 provide?**

7 A. In addition to Company E being the lowest cost provider for the Upstream
8 Pipeline Segment, the Company E project will allow FPL access to a number of
9 supply sources, including direct access to Perryville for up to 400 MMcf/d, which
10 is expected to increase to over 700 MMcf/d in 2011. Company E's existing
11 infrastructure also provides for access to east coast LNG, onshore coalbed
12 methane, traditional off-shore gas and over 50 Bcf of on-system natural gas
13 storage. The Company E pipeline system also has a much more balanced mix of
14 customers than the existing FGT and Gulfstream pipeline systems which are
15 dominated by electric generation companies. This results in a lower summer load
16 factor which provides significantly more available transportation capacity on the
17 secondary market during FPL's peak summer period. This extensive network
18 provides additional diversity and reliability to FPL's customers in the event of a
19 supply disruption.

1 **III. FPL FUEL FORECAST**

2

3 **Q. On Page 7 of his testimony, FGT witness Schlesinger opines that FPL's**
4 **natural gas price forecast is not reasonable for planning purposes. Do you**
5 **agree?**

6 A. No. FPL's forecast methodology is based on third party projections from highly
7 reputable sources for future prices and rates of escalation. FPL utilized
8 projections from The PIRA Energy Group ("PIRA"), the Department of Energy's
9 Energy Information Administration ("EIA"), and forward commodity price curves
10 for near-term Henry Hub and basis prices. PIRA, a world-recognized consulting
11 firm with extensive expertise in all aspects of the natural gas industry, supplies
12 FPL with an extensive database to support its short- and long-term projections for
13 future prices of natural gas. FPL utilized the NYMEX Henry Hub curve and
14 forward basis price curves to project the first few years of the forecast (short-
15 term) and applied escalation rates provided by EIA for the long-term projections.

16 **Q. Please explain FPL's methodology for developing the price forecast for**
17 **natural gas used in the pipeline evaluation.**

18 A. For this project, FPL developed monthly natural gas commodity, basis, and
19 transportation forecasts through 2054. As noted above, FPL's forecast
20 methodology used only projections and rates of escalation from highly reputable
21 and well-known third parties. FPL's forecast for the price of Henry Hub natural
22 gas was based on the November 6, 2008 NYMEX forward curve in the near-term;
23 projections from PIRA in the mid-term; and for the period beyond PIRA's

1 forecast horizon, a rate of escalation from the EIA for prices at Henry Hub for
2 each future year.

3

4 FPL's forecast for natural gas basis for different delivery points, including
5 Transco Station 85, used the November 6, 2008 forward curve through 2010.

6 FPL recognizes that the basis could increase or decrease over time based on the
7 future price at Henry Hub and the future natural gas supply and demand balance
8 at each specific basis point. This has been demonstrated historically at numerous
9 basis points when new capacity to the location was added or new demand was
10 created. However, neither FPL nor FGT can know whether the basis at the
11 different delivery points will increase or decrease in the future. Therefore, taking
12 into account the limited liquidity in the forward basis markets beyond 2010, FPL
13 assumed that, on average, the basis prices would remain unchanged through the
14 planning horizon.

15 **Q. Is the Fuel Price Forecast Methodology utilized in this proceeding consistent**
16 **with the methodology used in previous FPL need filings?**

17 A. Yes. For example, the methodology utilized in this case is consistent with the
18 methodology reviewed and accepted by the Commission in the Need
19 Determination proceedings for the Modernization Projects and FPL's West
20 County Unit 3 (Docket Nos. 080203-EI, 080245-EI and 080246-EI). It is
21 important to note that while the methodology was consistent, the NYMEX, PIRA,
22 and EIA forecasts were updated to reflect the current information available when
23 the forecast was developed.

1 Q. On Page 7 of his testimony, Mr. Schlesinger claims that “FPL may have
2 severely understated future natural gas prices.” What is the impact of FPL’s
3 forecast methodology and resulting natural gas price forecast on the
4 evaluation of the FGT and the Florida EnergySecure Line and Company E
5 proposals?

6 A. FPL’s demand for gas would not be significantly affected by higher gas prices
7 over a significant range of forecasted prices. Indeed, in contradiction to FGT
8 witness Schlesinger, higher gas prices would improve the economics of the
9 Florida EnergySecure Line because it transports gas more efficiently than FGT’s
10 alternative proposals and the dollar value of this greater efficiency increases as
11 gas prices increase.

12

13 The price of Henry Hub gas and the basis to Transco 85 used in the evaluation of
14 the FGT and the Florida EnergySecure Line/Company E proposals are identical.
15 However, each pipeline consumes fuel at a different rate through compression
16 fuel charges (“compression”) and pipeline usage charges (“usage”) and is
17 therefore impacted differently by changes in the price of natural gas. If FPL’s
18 forecast understates future natural gas prices, as FGT witness Schlesinger
19 suggests on page 7 of his testimony, the costs of the FGT proposal are understated
20 (to FGT’s benefit) in FPL’s economic analyses because the compression and
21 usage rates are higher for the FGT pipeline than they are for the Florida
22 EnergySecure Line and Company E proposal.

1 **IV. SOLICITATION PROCESS AND RESULTS**

2 **i. 18-INCH PIPELINE**

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Q. On Page 12 of his testimony, FGT witness Langston states that FPL did not identify the availability of the 18-inch, 36-mile oil/gas pipeline between the Martin Plant and the 45th Street Terminal. Why did FPL not identify the 18-inch gas/oil line as an alternative available to other parties providing responses in the Solicitation?

A. The answer to this question rests in the timeline of FPL’s Solicitation and, on a separate path, the development of the Florida EnergySecure Line itself. At the time of the Solicitation, FPL had not identified the potential use of the 18-inch pipeline as an alternative until well into the fourth quarter of 2008. During a technical and environmental investigation on refining the selection of a preferred corridor from the Martin Plant to the RBEC for the site certification application required by the Natural Gas Transmission Pipeline Siting Act, the use of the existing 18-inch pipeline was introduced into the discussions.

Key to the consideration was determining if this pipeline complied with the technical requirements to deliver natural gas at flows and pressures required for the operation of the modernized RBEC. Further issues for consideration were determining if use of the line would minimize environmental impact as compared to new construction, determining if an operations scenario could be constructed to preserve the capability of using the line for oil service if required, and also if there

1 was an economic savings to FPL's customers. The technical, environmental and
2 economic evaluations were completed during the fourth quarter and the use of the
3 line was approved from a technical perspective late in 2008, well after proposals
4 were received from each of the solicitation participants.

5 **Q. On Page 12 of Mr. Langston's testimony, in reference to FPL's 18-inch**
6 **pipeline, FGT claims its proposal "includes approximately \$132 million of**
7 **capital to provide additional directly connected capacity to the Riviera**
8 **Plant" and "had it known of the FPL-owned pipe, [FGT] would have**
9 **incorporated those savings into [its] proposal." Please comment.**

10 **A.** The costs associated with upgrading the 18-inch line and construction of the
11 lateral and associated facilities to the RBEC is included in the Florida
12 EnergySecure Line economic evaluation and cost comparison analysis to the FGT
13 proposal. Even assuming the accuracy of FGT's estimate that use of the 18-inch
14 line would result in a \$132 million savings to its proposal and, moreover, taking
15 FGT at its word that it would have included such savings into its cost estimate,
16 these savings do not consider the costs FPL would incur for the use of the line and
17 the facilities to serve the RBEC. Indeed, FPL has assumed a capital cost
18 associated with those facilities of approximately \$86 million. As discussed in
19 FPL witness Enjamio's testimony, FPL has evaluated the economics of FGT's
20 March 18, 2009 proposal taking into account both FGT's claimed savings and
21 FPL's additional costs associated with the using the 18-inch line. That evaluation
22 confirms that the Florida EnergySecure Line remains the better economic
23 alternative using the conventional CPVRR measure.

1 **ii. PHASE VIII CAPACITY**

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3 **Q. On Page 9 of his testimony, Mr. Langston indicates that FGT has excess**
4 **Phase VIII capacity available to serve the Modernization Projects. Did the**
5 **FPL Solicitation Letter include any language which prohibited FGT from**
6 **submitting a proposal which included excess Phase VIII capacity?**

7 A. No. There was nothing in the Solicitation Letter which precluded this type of
8 proposal. In fact, the letter encouraged parties to be creative because FPL did not
9 want to limit a pipeline's ability to take advantage of any inherent benefits their
10 particular company may have in developing a proposal. FGT's response to FPL's
11 request for Production of Documents Nos. 2 and 3 clearly indicates that FGT's
12 January 12, 2009 and March 18, 2009 proposals included a significant quantity of
13 unsold Phase VIII capacity in addition to the proposed Phase IX facilities.
14 Nevertheless, the proposals that included Phase VIII capacity did not overcome
15 the economic benefits provided by the Florida EnergySecure Line and the
16 Company E proposal.

17 **Q. Mr. Langston claims on Pages 7 and 8 of his testimony that FGT would have**
18 **been willing to provide additional capacity on Phase VIII or even expanded**
19 **Phase VIII as a whole had FPL requested this. Why didn't FPL make either**
20 **of these requests?**

21 A. FGT was generally aware that FPL was analyzing the Modernizations at the time
22 the Phase VIII agreement was signed. However, FPL was not able to commit to
23 any volume of gas at that time, as a final decision had not been made to move

1 forward with the Modernizations. Additionally, FPL was committed to studying
2 other alternatives to deliver gas to the Modernizations, including a possible
3 expansion of the Gulfstream pipeline. FPL was fully aware that following FGT's
4 Phase VIII expansion that we would be committed to over 1.2 Bcf/d of capacity
5 on FGT's system. In order to balance the gas load, FPL wanted to study the idea
6 of new infrastructure and set out on the Solicitation process.

7
8 **V. COMPANY E**

9
10 **Q. On Pages 14 – 15 of Mr. Schlesinger's testimony, he states that, "FPL has not**
11 **offered any explanatory or further supportive analysis regarding Company**
12 **E's rate or how sustainable it is..." What assurances does FPL have that**
13 **Company E will be able to provide the upstream pipeline service at the rates**
14 **contemplated in the CPVRR analysis presented by FPL witness Enjamio?**

15 **A.** FPL is in the process of finalizing a binding Precedent Agreement ("PA") with
16 Company E to secure 600,000 MMBtu/d of transportation capacity to serve the
17 Florida EnergySecure Line. The pricing included in the agreement supports the
18 economics utilized in the CPVRR analysis. In addition, the PA contains specific
19 provisions which provide additional assurances that Company E will be able to
20 meet its obligations under the agreement. These provisions include conditions
21 precedent which outline specific FERC and construction milestone dates for
22 Company E and a delay penalty in the event the Company E pipeline project is

1 not completed by January 1, 2014. In addition, Company E has a demonstrated
2 history of completing pipeline projects on time and within budget.

3
4 **VI. OPERATIONS**

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6 **Q. On Pages 41 and 42 of his testimony, FGT witness Langston indirectly**
7 **questions FPL's ability to safely and reliably operate the Florida**
8 **EnergySecure Line by noting that FPL has not previously operated a**
9 **pipeline system of similar length or size. Do you agree with Mr. Langston's**
10 **insinuation?**

11 **A.** No. As discussed in the direct testimonies of FPL witnesses Forrest and Collins,
12 FPL has a longstanding history of safe and reliable operations of far more
13 complex and sophisticated systems than the facilities currently proposed in the
14 Florida EnergySecure Line. All aspects related to the development of safe and
15 reliable operations of the Florida EnergySecure Line are proven core
16 competencies of FPL. Extensive complex, high-pressure pipe systems are integral
17 to the design of virtually every generating facility operated by FPL. Furthermore,
18 FPL currently has proven experience operating and maintaining natural gas
19 pipeline facilities in a safe and reliable manner within the state of Florida. Safe
20 and reliable operations of the facilities proposed with the Florida EnergySecure
21 Line are nothing more than an extension of FPL's current proven and reliable
22 skill-sets and capabilities. FPL is familiar with, and will comply with all
23 regulatory operational requirements.

1 Q. **Does this conclude your rebuttal testimony?**

2 A. Yes.