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COMMISSION  
CLERK

July 26, 2013

**-VIA HAND DELIVERY -**

Ms. Ann Cole, Director  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

**Re: Docket No. 13 \_\_\_\_\_ - EI  
Florida Power & Light Company's Petition for Prudence  
Determination Regarding New Pipeline System**

Dear Ms. Cole:

I enclose for filing on behalf of Florida Power & Light Company ("FPL") the original and seven copies of FPL's Petition for Prudence Determination Regarding New Pipeline System.

Also enclosed for filing are the original and seven copies of prepared testimony and exhibits for the following FPL witnesses: (1) Sam Forrest; (2) Heather C. Stubblefield; (3) Juan E. Enjamio; (4) Dr. Rosemary Morley; and (5) Timothy C. Sexton.

In addition, I enclose for filing the original and seven copies of FPL's Request for Confidential Classification of certain exhibits to the testimony of witnesses Stubblefield, Sexton and Morley. Pursuant to Rule 25-22.006, F.A.C., I include one highlighted and two redacted copies of the confidential documents that are the subject of this request.

The electronic versions of FPL's petition and confidentiality request are contained on an enclosed CD in MS Word format.

If there are any questions regarding this transmittal, please contact me at (561) 304-5639.

Sincerely,

John T. Butler

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APA \_\_\_\_\_  
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Enclosures

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Florida Power & Light Company's Petition for Prudence Determination Regarding New Pipeline System	Docket No. 13-_____ Filed: July 26, 2013
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**PETITION**

Florida Power & Light Company (“FPL” or “Company”) petitions the Florida Public Service Commission (“FPSC” or “Commission”) for a determination that entering into definitive agreements with two pipeline projects selected as a result of a Request for Proposals (“RFP”) for incremental natural gas transportation capacity is prudent and that the charges FPL will contract to pay for gas transportation on those projects are eligible for recovery through the Fuel and Purchased Power Cost Recovery Clause (“Fuel Clause”) beginning in the year the new pipelines enter service.

**I. Introduction**

1. FPL is a Florida corporation with headquarters at 700 Universe Boulevard, Juno Beach, Florida, 33408. FPL currently serves approximately 4.6 million retail customers throughout Florida. Its service area comprises about 27,650 square miles in 35 Florida counties. Approximately nine million people live within the area FPL serves, which ranges from Nassau County in the north to Miami-Dade County in the south, and westward to Manatee County.

2. The names and addresses of FPL’s representatives to receive communications regarding this docket are:

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3. This Petition is being filed consistent with Rule 28-106.201, Florida Administrative Code. The agency affected is the Florida Public Service Commission, located at 2540 Shumard Oak Boulevard, Tallahassee, FL 32399. This case does not involve reversal or modification of an agency decision or an agency's proposed action. Therefore, subparagraph (c) and portions of subparagraphs (b), (e), (f) and (g) of subsection (2) of that rule are not applicable to this Petition. In compliance with subparagraph (d), FPL states that it is not known which, if any, of the issues of material fact set forth in the body of this Petition may be disputed by any others who may plan to participate in this proceeding. The discussion below demonstrates how the petitioner's substantial interests will be affected by the agency determination.

4. In 2009, FPL petitioned the FPSC for a determination of need to develop, construct, and operate the Florida EnergySecure Line, which was proposed as a new Florida intrastate natural gas pipeline to serve FPL's system needs, as well as other natural gas needs in Florida. The FPSC agreed that "increased gas transportation infrastructure is needed to meet future electricity needs," but stated that it was difficult to conclude that the Florida EnergySecure Line was the best option to meet that need. Accordingly, the Commission instructed FPL to conduct an RFP that "shall contain a specific, detailed request for proposals for a new pipeline, and specifications of the long term natural gas needs of FPL." Order No. PSC-09-0715-FOF-EI, at pages 5-6.



5. As directed by the Commission, FPL conducted the RFP and determined that the most cost-effective option for customers is the combination of two new natural gas pipelines, referred to herein as the Northern Pipeline Project and the Southern Pipeline Project, collectively referred to herein as the “Projects” or the “Pipeline System.”<sup>1</sup> This new natural gas infrastructure also will serve the interests of the entire state of Florida. Similar to the manner in which FPL currently procures fuel and gas transportation services for its power plants, FPL proposes to purchase gas transportation service from each of the Projects and to recover the associated payments for that service through the Fuel Clause when the Projects enter service, which is expected to be 2017.

6. This is an ideal time to develop much-needed new gas transportation infrastructure to serve Florida’s needs. The two existing natural gas pipelines that serve central and southern Florida are nearing or at full capacity, and the primary supply sources available to those existing pipelines have declined significantly. Meanwhile, continued discoveries of natural gas resources in other areas of the country are abundantly increasing, helping keep natural gas-fueled generation a cost-effective option for Florida’s electric utilities.

7. Florida’s use of natural gas for electric generation is projected to continue growing in the years ahead. In recent years, FPL and other utilities have invested in clean-burning, fuel efficient natural gas generation facilities, significantly reducing emissions compared to older, oil-fired generation. In addition, the improved efficiencies combined with lower natural gas prices have helped FPL keep its customers’ bills low. By significantly reducing the amount of fuel FPL uses to generate power, FPL’s investments in natural gas power

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<sup>1</sup> The combined “Pipeline System” identifier is used for ease of reference in this Petition only. It bears no other significance, as the Northern and Southern Pipeline Projects are separate pipelines owned and operated by different entities.

plants have saved customers more than \$6 billion in fuel costs since 2001, and they will continue to provide customer savings for decades. Replacing 1960s-era generation units with Cape Canaveral Next Generation Clean Energy Center (“CCEC”), Riviera Beach Next Generation Clean Energy Center (“RBEC”) and Port Everglades Next Generation Clean Energy Center (“PEEC”) (the “Modernization Projects”) is an important extension of this strategy, making reliable access to natural gas in terms of both geographic and supply diversity increasingly important – even imperative – to prevent supply interruptions and to continue providing reliable and reasonably priced electric service into the future.

8. The new Pipeline System will provide many benefits to FPL and its customers as well as to the state of Florida. The Pipeline System’s *geographic diversity* will improve the reliability and security of natural gas deliveries to market areas in Florida by providing additional pipeline infrastructure to meet Florida’s future natural gas needs, as well as provide a backup to Florida’s existing pipeline infrastructure that will enable flexibility in the event of a loss or disruption of supply on that pipeline infrastructure. The proposed interconnections on the Northern Pipeline Project, too, have the potential to enhance service reliability and to create a more competitive market for capacity and supply within the state. The Pipeline System also will provide much-needed *supply diversity*. The Northern Pipeline Project will be geographically situated to be able to receive natural gas supplies directly from diverse shale sources – new and abundant sources of natural gas in the United States. This will greatly expand FPL’s sourcing options and lessen Florida’s reliance on declining production from the Gulf of Mexico, a source that also is especially susceptible to hurricane-related interruptions during peak summer months.

9. This Petition generally describes the nature of FPL’s request, FPL’s gas transportation needs, the RFP evaluation process used to determine the best combination of

options for customers, the results of that evaluation and the benefits of the proposed Pipeline System. More detailed support is contained in the prefiled direct testimonies of FPL witnesses Sam Forrest, Rosemary Morley, Juan Enjamio, Heather Stubblefield and Tim Sexton, which are being filed with the Petition and are incorporated herein by reference.

## **II. Natural Gas Transportation in Florida**

10. The state of Florida is heavily dependent on natural gas to fuel electric generation. According to the U.S. Department of Energy's Energy Information Administration ("EIA"), Florida consumed more than 1.15 trillion cubic feet ("Tcf") of natural gas in 2012 to generate electricity. By comparison, Texas, with consumption of about 1.67 Tcf in 2012, is the only state that consumes more natural gas to fuel electric generation than Florida. California was a distant third at approximately 914 billion cubic feet ("Bcf"). Compared to other fuel sources, natural gas made up nearly 68% of all electric generation in Florida in 2012, one of the largest percentages in the entire country.

11. Much like the state as a whole, FPL relies on natural gas to fuel electric generation efficiently for customers. FPL expects natural gas generation to be 65-67% of total generation for the coming years. In 2012, FPL consumed more than 600 Bcf of natural gas, substantially more than any other electric utility in the country, according to the EIA. FPL's efficient, combined cycle generating units continue to produce significant customer savings when compared to other generation options. FPL has taken steps to diversify the sources of its natural gas supply, and the Company has also invested to diversify its overall generation portfolio – most notably with the recent addition of more than 500 new megawatts of nuclear power capable of operating 24 hours a day and the construction of 110 megawatts of solar power. However, natural gas generation will continue to contribute the majority of FPL's generation for the foreseeable future.



12. *Existing Florida pipeline infrastructure.* Currently, there are four interstate pipelines that provide natural gas into the state of Florida, but only two are relevant to central and southern Florida and FPL's service territory.<sup>2</sup> Florida Gas Transmission Company, LLC ("FGT") is the largest pipeline that serves central and southern Florida with approximately 3.1 billion cubic feet per day ("Bcf/d") of deliverability. FGT currently will have only about 184 million cubic feet per day ("MMcf/d"), or less than 6% of its peak design capacity, of unsubscribed capacity available on its system for the 2017 time frame, and even that capacity may not be available depending on what additional contracting occurs. This is only enough gas transportation capacity to supply a single additional 1,200 MW-class combined cycle unit, and Duke Energy Florida's current expansion plan contemplates that it will add units of that size in both 2018 and 2020. The second largest pipeline system into the state is Gulfstream Natural Gas System, LLC ("Gulfstream"), with 1.30 Bcf/d of deliverability into central Florida. Gulfstream is designed to gather natural gas from various receipt points in the Mobile Bay area in Alabama. The Gulfstream system is 100% subscribed; any expansion would require either the addition of off-shore compression or pipeline looping in the Gulf of Mexico. In total, the capacity of the two pipelines that deliver gas into central and southern Florida is approximately 96% subscribed on a long-term firm contractual basis. As a result, there is minimal capacity available to meet incremental demand growth in the state.

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<sup>2</sup> Two pipelines provide gas transportation to other parts of the state: Southern Natural Gas Company's Cypress Pipeline system ("Cypress") and Gulf South Pipeline Company, L.P. ("Gulf South"). Cypress has direct deliveries only to markets in the Jacksonville area, and Gulf South provides direct deliveries only to markets in the Pensacola area.

13. As noted above, Texas and California are the only two states that use natural gas to generate electricity at volumes comparable to Florida. Yet Florida's natural gas transportation capacity is not commensurate to either of those states. Texas has approximately 64,700 miles of both interstate and intrastate pipelines. California has pipeline mileage that tops 11,800 miles. By contrast, Florida has only about 4,600 miles of pipelines, the majority of which comprise long runs necessary to bring gas deep into peninsular Florida. Moreover, the pipelines serving Florida today are largely subscribed.

14. *Florida's natural gas storage capacity.* Florida also trails far behind Texas and California from the perspective of storage and production. Texas has more than 812 Bcf of natural gas storage, and California has more than 570 Bcf, while Florida has none.

15. *Florida's natural gas production capacity.* As to production, EIA estimates that Texas produces well over 7.1 Tcf of natural gas annually, while California produces 250 Bcf annually. Florida's natural gas production is *de minimis*, with only about 15 Bcf produced annually.

### **III. FPL's Firm Natural Gas Transportation Contracts**

16. In 2017, FPL's firm transportation contracts with FGT will total 1.274 Bcf/d, representing 41% of the design capacity of the FGT system and accounting for approximately 65% of FPL's daily peak gas supply into Florida. FPL currently has 0.695 Bcf/d of firm transportation contracts on Gulfstream, representing more than 53% of the design capacity of the Gulfstream pipeline and accounting for the remaining 35% of FPL's daily peak gas supply into Florida. Together, this is almost 2 Bcf/d, which is roughly equivalent to approximately three million (or about two thirds of) FPL customers being served by natural gas-fired generation on a peak day. FPL remains dependent upon gas transportation from only two interstate pipelines, one of which is fully subscribed and the other is almost fully subscribed.



17. FPL's geographic position at the southern end of the Florida peninsula compounds the vulnerability of being served by only two natural gas pipelines. These circumstances make natural gas transportation a matter of serious concern for FPL. Moreover, although the Modernization Projects' ability to use distillate oil as a backup fuel adds a measure of reliability, this oil backup is capable of addressing short-term interruptions only and would be costly to employ. The availability of the backup fuel, which currently costs significantly more than natural gas, would not be sufficient to address extended transportation or supply interruptions.

#### **IV. Current Natural Gas Supply Mix**

18. Offshore natural gas production in the Gulf of Mexico has declined significantly and is projected to remain flat at the current reduced levels through 2040. Production in the Mobile Bay area also has declined steadily. The primary receipt points for FGT and Gulfstream come from these supply sources. Shale gas production, by contrast, has been growing rapidly over the past few years and is projected to continue this rapid growth in the future. EIA projects that shale gas production will increase from less than 5 Tcf in 2010 to a total of 16.7 Tcf in the year 2040.

19. Declining off-shore supplies and the advent of shale gas has led to the construction of projects such as the Southeast Supply Header ("SESH"), which includes interconnections for the receipt of natural gas supplies from shale sources in Texas, Louisiana Oklahoma and Arkansas, as well as expansions of Transco's 4A lateral providing capacity from Transco's Station 85 to FGT and Gulfstream near Mobile Bay. In addition, Gulf South has filed a certificate application for its Southeast Market Expansion project which will transport shale gas supplies to an area near Mobile Bay. FGT and Gulfstream interconnect with these three pipelines, but FPL's gas transportation rights are limited to long-term contracts of 0.58 Bcf/d on

SESH, 0.12 Bcf/d on Transco's 4A lateral, and 0.20 Bcf/d on the Southeast Market Expansion. There currently is no incremental capacity on SESH, Transco's 4A lateral, or the Southeast Market Expansion available to serve FPL, and, in any event, further expansion of those projects would simply exacerbate FPL's current reliance on FGT and Gulfstream for delivery of the gas into Florida.

## **V. Growing Need for Natural Gas**

20. Meanwhile, FPL's need for natural gas to provide power to customers efficiently and reliably continues to increase as customer demand grows. FPL forecasts that its percentage of natural gas-fueled generation will remain at 65% or above for the foreseeable future. While the percentage remains steady, the actual volume of natural gas needed will increase in order for FPL to serve its growing load as efficiently as possible. FPL projects that it will need 405 MMcf/d of incremental natural gas transportation capacity by 2017. That need grows to 575 MMcf/d by 2020 and to 870 MMcf/d by 2030. The amount of unsubscribed capacity on FGT's existing pipeline – currently 184 MMcf/d – assuming it would still be available in 2017, is not nearly sufficient to meet the growing demands on FPL to serve our customers, let alone any requirements beyond that.

21. FPL's strategy to enhance natural gas transportation reliability reflects a prudent measure of conservatism. To achieve balanced contingency planning when estimating future natural gas transportation needs, FPL employed a risk-adjusted load forecast designed to reflect the higher levels of net energy for load and summer peak demands that may occur in the future based upon the historic differences between FPL's forecasted and actual levels of peak demand and energy.

22. With the risk-adjusted load forecast, there is a 75% probability that the actual future level of energy and load will be less than the risk-adjusted energy and demand forecasted.

FPL is using a risk-adjusted forecast to help ensure that the Company has the access to the natural gas it needs to fuel plants, particularly its most efficient natural gas plants, even when a higher than projected need arises. Contingencies can and do occur, and there should be a reliability margin against such occurrences. It is thus appropriate to provide a reasonable degree of protection to customers against the risk of insufficient gas transportation capacity being available to meet their load requirements, just as it is appropriate for Florida's electric utilities to protect against reliability risks by employing multiple contingency transmission planning and using a minimum reserve margin criterion for generation planning.

23. Under its risk-adjusted forecast, FPL's summer peak is projected to reach 29,176 MW by 2022, an increase of 7,736 MW over the actual 2012 summer peak. The cumulative increases in net energy for load are likewise significant. FPL's net energy for load is projected to reach 141,222 gigawatt-hours ("GWh") by 2022, an increase of 30,402 GWh over the actual 2012 net energy for load. The risk-adjusted peak load forecast for 2020 is approximately 9.9% greater than the base case peak load forecast. The differential drops to a level of only 3.8% in 2023. Thus, the risk-adjusted forecast provides a contingency margin that is less than half of the Commission-approved reserve margin for generation planning.

24. The demand for natural gas to support generation requirements has increased not only for FPL, but also throughout Florida. The Florida Reliability Coordinating Council has reported that natural gas-fired electric generation as a percentage of total Florida electric generation has grown from less than 40% in 2007 to approximately 65% in 2012, and it is expected to continue near this level through at least the next ten years.<sup>3</sup> Additionally, EIA data indicates that natural gas demand for residential, commercial and industrial customers has

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<sup>3</sup> EIA similarly reported that the natural gas-fired electric generation as a percentage of total Florida electric generation in 2012 was nearly 68%.



increased by about 24% over the past five years. This collective growth will constrain Florida's existing pipeline system even more, and it underscores the importance of investing in the state's pipeline infrastructure, reliability and supply diversity.

## **VI. FPL's Request for Proposals**

25. As part of its 2009 Florida EnergySecure Line decision, the Commission directed FPL to develop and issue an RFP for gas transportation capacity. Order No. PSC-09-0715-FOF-EI. The Commission also directed FPL to provide a copy of the proposed RFP to FPSC Staff for review. FPL did so on November 13, 2012. The RFP was then reviewed at a publicly noticed meeting in Tallahassee on November 26, 2012, where members of the FPSC Staff, as well as potential market participants, the Office of Public Counsel and other representatives of customer groups, asked questions and provided feedback to FPL on the RFP. Staff had no objection to FPL issuing the RFP.

26. On December 19, 2012, FPL issued its RFP. The RFP was noticed three times over a two-week period at the end of December 2012 and the beginning of January 2013 in *Platts Gas Daily*, one of the most widely distributed natural gas industry publications. To facilitate the process, FPL provided a website for interested parties to download the RFP and ask questions. In addition to the online forum, FPL held a workshop to provide an overview of the RFP and answer questions from representatives of interested parties. FPL also responded to inquiries made by email, phone and in person throughout the bidding period. Responses to the RFP were due April 3, 2013, which provided interested parties 15 weeks to submit proposals.

27. The goals of the RFP are to meet FPL's natural gas fuel supply needs, increase physical pipeline capacity into the state of Florida, add to the reliability and diversity of supply available to the state, promote competition, and ensure future transportation capacity availability. The RFP requested 400,000 MMBtu/d of firm transportation capacity in 2017 and an incremental

200,000 MMBtu/d of firm transportation capacity in 2020.<sup>4</sup> To allow for future generation expansion, FPL also requested that bidders accommodate FPL's potential need for additional optional capacity of up to 400,000 MMBtu/d in the period beyond 2020. FPL is not obligated to take this additional optional capacity; therefore, it remains free to evaluate all transportation alternatives when the need arises.

28. The RFP also set forth transportation pricing requirements. Bidders were allowed to submit a proposal with a fixed demand charge ("Fixed Price Proposal") or an adjustable demand charge ("Alternative Price Proposal"). The RFP expressed FPL's strong preference for a Fixed Price Proposal because it provides pricing security and protects customers from potential cost overruns. Bidders providing an Alternative Price Proposal were required to provide a price cap in order to limit the exposure of FPL customers to the risk of price index volatility.

29. In addition, the RFP also expressed FPL's strong preference for new, onshore, greenfield pipeline infrastructure that is geographically diverse from the FGT and Gulfstream systems. To further define FPL's expectations, FPL also provided a draft precedent agreement for bidders to review, which included terms and conditions intended to protect FPL and its customers from exposure due to project delays. FPL asked bidders to identify in their bids any changes that they would propose to make to that agreement. The RFP also stated that FPL's parent NextEra Energy, Inc. ("NEE") would be willing to consider investing in projects submitted in response to the RFP to facilitate timely construction to meet the critical in-service schedule.

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<sup>4</sup> When burned, one cubic foot of natural gas will produce approximately one thousand Btus of heat energy at typical heat-content values for natural gas. Thus, 400,000 MMBtu/d of gas transportation capacity is approximately equivalent to 400 MMcf/d. Consistent with industry practice, FPL is seeking gas transportation capacity to be denominated in MMBtu/d because FPL is ultimately interested in delivery of a known amount of energy to its power plants in order to generate the electricity that serves its customers.

30. As FPL was developing the RFP, a number of pipeline companies indicated that terminating the project in central Florida would provide a better opportunity to contract with multiple parties due to the significant potential customer base in the Orlando area. In addition, having two distinct pipelines – one from Alabama to central Florida and a second from central Florida to Martin County – adds flexibility in meeting the gas transportation requirements for the entire state of Florida. Accordingly, the RFP divided the project into two distinct pipelines identified in the RFP as the Upstream Pipeline Project and the Downstream Pipeline Project, which are now identified as the “Northern Pipeline Project” and “Southern Pipeline Project,” respectively, to further clarify the distinction between the two projects. Bidders had the flexibility to bid on one or both Projects, with no limit on the number of bids they could submit.

31. *Northern Pipeline Project.* The Northern Pipeline Project originates at Station 85 of the Transcontinental Gas Pipe Line (“Transco”) in Choctaw County, Alabama. This location was chosen for its ability to provide access to various ample supply sources on the Transco system, as well as the deliverability of the Midcontinent Express Pipeline (“MEP”) and Gulf South Southeast Expansion systems that terminate into Station 85. The Transco system has more than 5.0 Bcf/d of throughput at Station 85. In addition, the MEP system has the capacity to deliver 1.8 Bcf/d into Station 85, and Gulf South’s Southeast Expansion is capable of delivering 1.9 Bcf/d of diverse shale supplies into Station 85. This totals more than 8.5 Bcf/d of deliverability at Station 85, where it can be accessed by the Northern Pipeline Project.

32. Equally important, the Northern Pipeline Project provides access to both onshore and offshore natural gas sources with tremendous supply diversity. The interconnections at the origination point of the Northern Pipeline Project will have access to diverse natural gas supply basins. As previously noted, the Northern Pipeline Project includes receipt point



interconnections with Gulf South, MEP and Transco. The Gulf South system provides access to the Barnett Shale and Haynesville Shale. MEP provides access to natural gas supplies from the Barnett Shale and Bossier Sands in Texas, the Fayetteville Shale in Arkansas and the Woodford/Caney Shale in Oklahoma. Finally, the Transco system provides access to multiple supply sources including the growing Eagle Ford (Southeast Texas) and Marcellus shale (Northeastern U.S.) on either end of its system. Access to such a diverse combination of growing shale gas resources will help ensure that the state of Florida will have the resources necessary to meet demand growth in future years.

33. The Northern Pipeline Project terminates at what the RFP describes as the Central Florida Hub (“CFH”), which is to be an interconnection in Osceola County with the Southern Pipeline Project and the existing Gulfstream and FGT pipelines. It will include facilities necessary to provide hub wheeling services so that contracted capacities can be delivered interchangeably into any of the pipelines. The CFH, which is to be constructed and operated by the developer of the Northern Pipeline Project, will thus increase the flexibility and gas delivery options for FPL and the other gas users in Florida.

34. *Southern Pipeline Project.* The Southern Pipeline Project will connect to the Northern Pipeline Project within the CFH, providing FPL access to new gas supply sources. The pipeline will terminate at FPL’s Martin Clean Energy Center (“Martin”), within the existing natural gas yard. The Martin plant terminus provides connectivity with the units at Martin and with the units at RBEC through the Martin-to-RBEC plant lateral. Because the Martin facilities currently are served by both FGT and Gulfstream, the Martin plant terminus can provide FPL optionality in the event of a disruption on any of the pipelines.

## VII. Proposal Evaluation Process

35. With the help of an independent consultant, FPL developed an evaluation process, prior to receiving responses to the RFP. The evaluation process consisted of three components including: (a) minimum requirements verification; (b) economic evaluation; and (c) non-economic evaluation.

36. FPL received five Northern Pipeline Project proposals, which included lease arrangements on existing pipelines and joint bids submitted by multiple pipeline companies as partners. In total, eight pipeline companies were involved in sponsoring bids for the Northern Pipeline Project. These eight pipeline companies represent essentially all active pipelines in the Southeast United States and the majority of pipelines active throughout the country.

37. FPL received one joint bid from two companies for the Southern Pipeline Project. In addition, FPL considered three self-build alternatives for the Southern Pipeline Project. The self-build alternatives were (i) a project consisting entirely of a thirty-inch (30") diameter pipeline, (ii) a "hybrid" alternative consisting of both thirty-inch (30") and thirty-six inch (36") diameter pipeline ("FPL Hybrid Alternative"), and (iii) a project consisting entirely of a thirty-six (36") diameter pipe. The pricing for all of the FPL alternatives was on a Fixed Price basis for all quantities, both initial and optional. No other proposals for either the Northern Pipeline or Southern Pipeline Projects contained this valuable feature.

38. FPL first evaluated all proposals to ensure that they each met the minimum requirements set forth in the RFP. The Company's evaluation team determined that two proposals had minor deficiencies and that two other proposals had significant deficiencies. FPL contacted the entities that submitted these non-compliant bids and offered them the opportunity to modify their proposals. One entity that submitted proposals for both the Northern Pipeline Project and the Southern Pipeline Project elected not to address the deficiencies, and thus could

not be considered further. All other non-compliant proposals were modified to meet the minimum requirements.

39. All proposals that met the minimum requirements, including FPL's three self-build alternatives for the Southern Pipeline Project, then advanced to the more detailed evaluation process. The economic evaluation was based on the results of a Cumulative Present Value of Revenue Requirements ("CPVRR") analysis conducted over a 40-year term. Calculation of the CPVRR for FPL's overall power-supply system requires simulation of the entire pipeline system; the power-supply system cannot be simulated with only one of the two pipeline projects. Therefore, FPL created a pool of combined projects for evaluation, by taking each Northern Pipeline Project proposal and matching it with each Southern Pipeline Project self-build alternative. In total, twelve combined projects were evaluated. As explained in greater detail by FPL witnesses Enjamio and Stubblefield, the initial economic analyses was performed on a blind basis by a team with no access to the participants' identities.

40. Next, FPL performed a non-economic evaluation of each proposal. The non-economic evaluation was based on a comparative analysis of each individual project with respect to a number of attributes that could not be measured in the economic analyses, such as the preference for largely greenfield infrastructure and the types of changes to the precedent agreement requested by the participants.

### **VIII. Evaluation Results**

41. Based on the economic evaluation process, FPL determined that the combined project resulting in the lowest overall cost for FPL's customers consists of Spectra Energy Corp's ("Spectra") Sabal Trail Transmission, LLC ("Sabal Trail") project for the Northern Pipeline Project and the FPL Hybrid Alternative for the Southern Pipeline Project, now known as the Florida Southeast Connection, LLC or "FSC."



42. *Economic evaluation results.* The economic analysis revealed that this system provides cost savings for customers of approximately \$580 million to \$1.356 billion CPVRR compared with the other combined projects.<sup>5</sup> FPL witness Sexton performed an independent economic evaluation, and his results confirm the large cost savings that the Sabal Trail and FSC projects will deliver.

43. Additionally, FPL elected to perform a further economic evaluation to ensure that the FSC option, stated as firm pricing, was priced at market. FPL ran the CPVRR analysis on the non-firm, indicative pricing of the non-compliant Southern Pipeline Project proposal for comparison against the FPL self-build alternatives. The evaluation revealed that all three FPL self-build alternatives were \$69 million to \$105 million CPVRR better than the non-compliant proposal's indicative pricing.

44. FPL witness Sexton also performed independent analyses to evaluate the reasonableness of FSC's proposal. Mr. Sexton determined that the construction costs of the FSC project on a cost-per-mile basis are consistent with recently constructed or recently proposed large diameter, significant length natural gas pipeline projects in the United States. He also confirmed that FSC's cost per mile to FPL customers is approximately the same as Sabal Trail's, which in turn is significantly lower than all other Northern Pipeline project bids. This provides additional assurance that FSC's rates are reasonable.

45. *Non-economic evaluation results.* The non-economic evaluation provided little separation among the combined projects. All of the compliant proposals would substantially meet FPL's objectives. Had there been significant non-economic differences, this analysis could

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<sup>5</sup> As explained in the testimony of FPL witness Enjamio, the economic analyses revealed little CPVRR differential among the FPL self-build alternatives for the Southern Pipeline Project. Accordingly, the \$580 million to \$1.356 billion CPVRR range reflects the savings comparing combined projects using the FSC, the lowest cost Southern Pipeline Project, and the different Northern Pipeline Projects.

have been used to distinguish between projects with close economic evaluation scores. However, the non-economic differences were insignificant, and no combined project offered the substantial economic benefits of the Sabal Trail-FSC combination. As a result, the economic evaluation was the primary driver in the Company's selection process.

### **IX. Selected Projects**

46. *Northern Pipeline Project.* After FPL had concluded that Sabal Trail was clearly the most favorable Northern Pipeline Project for FPL's customers and had completed its negotiation of the precedent agreement with Spectra, NEE and Spectra agreed to operate Sabal Trail as a joint venture between a subsidiary of Spectra and a newly formed NEE subsidiary called U.S. Southeastern Gas Infrastructure, LLC ("USSGI"). FPL's RFP evaluation team had no involvement in USSGI's transaction with Spectra, and the Sabal Trail precedent agreement was negotiated solely with Spectra.

47. The Sabal Trail project will be an interstate pipeline regulated by the Federal Energy Regulatory Commission ("FERC"). The pipeline consists of (a) a lease of incremental pipeline transportation capacity on the Transco system from receipt points at Transco's Station 85 to Transco's Station 105 near Hillabee, Alabama, in Transco's Zone 4, and (b) an approximately 465-mile, 36-inch greenfield pipeline extending from the proposed interconnection with Transco near Station 105 to its terminus at an interconnection with FSC in Osceola County, Florida.

48. The Sabal Trail project will be supplied largely from shale gas production basins in Texas, Arkansas, Oklahoma and Louisiana. It also offers the potential to utilize Marcellus and Utica shale gas supplies out of the Midwest and Northeast U.S., which are growing by the day.

49. The Sabal Trail project also includes the construction of the CFH. The CFH consists of: (a) a bi-directional interconnection between the Sabal Trail project and FGT

including a 36” connecting lateral from the terminus of the Sabal Trail project mainline to the FGT mainline; (b) a bi-directional interconnection between the Sabal Trail project and Gulfstream; (c) a delivery interconnection from the Sabal Trail project to the FSC project; and (d) hub compression as required. Sabal Trail will provide wheeling services at the CFH that will enable FPL and other third-party shippers to wheel natural gas supplies from or to any pipeline connected at the CFH.

50. A project of this magnitude requires strong financing. NEE’s participation is designed to support Sabal Trail’s financial backing and aligns all interests to ensure completion of the project on time and within budget. Investments of this nature are not unique to NEE. Indeed, it is common for affiliates of pipeline shippers to have equity interests in new greenfield interstate pipelines on which the shippers have contracted for transportation capacity.

51. *Southern Pipeline Project.* The FSC project is an approximately 126-mile pipeline extending from the interconnection with Sabal Trail at the CFH to its terminus at its interconnections with the Martin plant and RBEC plant lateral. The FSC project consists of a 36” pipeline from the CFH to approximately mile post 77 of the project and then transitions to a 30” pipeline from mile post 77 to its terminus at FPL’s Martin plant.

52. Although developed by a specialized team of FPL employees who were charged with engineering self-build alternatives for the Southern Pipeline Project, the project will be owned and operated by FSC, a NEE subsidiary and an affiliate of FPL. The precedent agreement for the FSC project is between FPL and FSC. To maintain the objectivity of the RFP evaluation process, FPL’s RFP evaluation team had no interaction with FPL employees who developed the self-build alternatives, other than the types of information exchanges that occurred between the evaluation team and all third-party bidders. Ownership of the FSC project by an affiliate, rather



than FPL, facilitates the operation of the FSC as a FERC open-access pipeline that charges FPL contractually fixed prices for transportation service.

53. Just like its existing arrangements with FGT and Gulfstream and the proposed arrangement with Sabal Trail, FPL's financial obligations to the FSC project will be strictly limited to the charges set forth contractually.

54. Like FGT, Gulfstream and Sabal Trail, the FSC project will be a FERC open-access pipeline. As such, any unused capacity will be available for other shippers. In addition, FPL will be able to release any capacity on the FSC pipeline that it has contracted but is not using, and payments received as a result of such a release will be returned to FPL's customers through the Fuel Clause.

#### **X. Benefits of the New Pipeline System**

55. In addition to providing increased gas deliverability to meet Florida's growing gas needs, the proposed Pipeline System, comprised of the Sabal Trail and FSC projects, also will provide geographic and supply diversity benefits to the state of Florida generally, including:

- Significant reliability and deliverability enhancements to the existing pipeline system serving Florida through the interconnections along the path, including the CFH.
- Increased competition for gas transportation needs;
- Continued diversification of the gas supplies available to Florida; and
- Societal benefits.

56. *Reliability and deliverability enhancements.* The Pipeline System will introduce two new interstate pipelines into peninsular Florida that are geographically diverse from the FGT and Gulfstream systems and will connect, via the CFH, with the existing infrastructure of the

state. This will increase the reliability of Florida's natural gas infrastructure and reduce Florida's overall concentrated dependence on the FGT and Gulfstream pipelines. Thus, in the event of any interruption on either of the existing Gulfstream or FGT pipelines, the Pipeline System will provide additional options to ensure reliable delivery when and where it is needed within the state. Specifically as to FPL, adding an incremental 600 MMcf/d of capacity into its portfolio, would result in FPL's reliance on FGT falling to less than 50% and the concentration on Gulfstream falling to approximately 27%.

57. Additionally, having a geographically separate onshore pipeline receiving gas from multiple supply sources will continue to reduce the dependence on onshore Gulf Coast and offshore Gulf of Mexico supply sources and will provide further protection against weather-related supply disruptions to which the Gulf supply is extremely susceptible.

58. Finally, the CFH will create substantial operational benefits. It will interconnect Gulfstream, FGT and the Sabal Trail project in Osceola County with the capability of wheeling natural gas interchangeably between these pipelines. The CFH also will have the ability to deliver from any of these pipelines into the FSC project. The existing FGT-Gulfstream interconnects do not offer this robust interchange and are currently moving only small volumes. With the CFH, the flow of gas between the pipelines will provide for enhanced delivery in the event of a disruption on any of the pipelines. The CFH benefits not only FPL and its customers, but also other utilities within the state which will be able to flow volumes among the pipelines and backhaul on the existing FGT and Gulfstream systems to serve their customers' current and future needs.

59. *Increased competition.* The Pipeline System will benefit the state of Florida by increasing competition for gas transportation needs. The Sabal Trail and FSC pipelines will be

expandable at the outset via relatively low-cost compression-only expansions, whereas the existing FGT and Gulfstream pipelines can be expanded in any substantial amount through pipeline looping and additional compression. Thus, FPL and the rest of central and southern Florida's utilities are in price-taker positions with competitive expansions of pipeline services available with minimal room for competition. Beyond being significantly cost-effective, the Pipeline System also can create market dynamics through the introduction of two new pipelines that can generate pipe-on-pipe competition for interstate gas transportation services. In addition, the CFH's unique configuration effectively can serve as a new natural gas trading point in central Florida, which also provides the potential for market competition. These features of the new Pipeline System should positively impact the economics of the state's overall natural gas supply portfolio, benefitting all gas consumers in Florida.

60. *Supply diversification.* The Pipeline System will improve the diversification of supply within the state of Florida. As previously described, Florida generally, and FPL specifically, are reliant on Gulf Coast production, which not only is projected to decline, but also is subject to disruption due to hurricanes that can coincide with peak summer demand. The Sabal Trail pipeline, by contrast, will provide natural gas users in the state access to the growing supply of shale gas, largely from production basins in Texas, Arkansas, Oklahoma and Louisiana as well as the potential to utilize the growing shale gas supplies out of the Northeast. In fact, supply levels are such that pipeline companies are offering backhaul capacity on pipelines that traditionally have flowed from the Gulf Coast to the Northeast in order to transport supply produced in the Northeast for delivery to the Southeast.

61. *Societal Benefits.* The Pipeline System also is projected to provide societal benefits. Fishkind & Associates, an independent economic consultant, estimates that the



construction of the Sabal Trail and FSC projects will add a much needed boost to state and local economies. There will be an estimated 6,600 direct construction jobs created in Florida, along with 3,000 indirect and induced jobs, leading to additional wages of over \$420 million during construction. Hundreds of permanent jobs will result from the Projects. Additionally, the Projects will generate over \$1.1 billion in life-cycle tax benefits to as many as 17 rural counties and local governments.

### **XI. Request For Fuel Clause Recovery**

62. For the reasons described above, FPL and its customers have an urgent need for the gas transportation capacity that Sabal Trail and the Florida Southeast Connection will provide most cost-effectively for our customers. FPL will be undertaking substantial financial commitments related to Sabal Trail and the Florida Southeast Connection projects for a minimum term of 25 years, but it cannot justify such large financial commitments without assurance that the Commission concurs. Likewise, the Projects cannot be constructed without FPL's commitment. Accordingly, FPL has negotiated in the precedent agreement with each pipeline a provision that allows FPL to terminate the agreement without financial penalty if the Commission does not make a prudence determination satisfactory to FPL.

63. Bringing the Pipeline System into service by May 2017 involves a tight timetable that includes expensive licensing and construction processes. However, FPL has only a limited period of time in which it could exercise those termination rights. Thus, FPL is asking that the Commission take final agency action on this Petition by no later than the end of 2013.

64. FPL currently recovers through the Fuel Clause all of the charges it pays for natural gas transportation on the FGT and Gulfstream pipelines. As a general matter, costs incurred to transport and deliver fuel into FPL's system qualify for recovery through the Fuel Clause. This is expressly recognized in Order No. 14546, Docket No. 850001-EI-B, issued on

July 8, 1985. (“the following charges are properly considered in the computation of . . . fuel expense in the utilities’ fuel cost recovery clauses: . . . Transportation costs to the utility system, including detention or demurrage.”).

65. Moreover, Fuel Clause recovery of gas transportation charges is appropriate whether they are paid to an unrelated third party or an affiliate of the utility. In the case of transportation charges paid to an affiliate, the Commission has generally required that the utility conduct a fair and open RFP. *See* Order No. PSC-04-0713-AS-EI, Docket No. 031057-EI, dated July 20, 2004 (settlement with Progress Energy Florida approved regarding procedure for recovering waterborne coal transportation charges paid to its affiliate); Order No. PSC-04-0999-FOF-EI, Docket No. 031033-EI, dated October 12, 2004 (TECO directed to employ similar procedures). As described above and in the accompanying testimony, FPL conducted a fair and open RFP for gas transportation capacity.

## **XII. Conclusion**


66. FPL’s selection of the Sabal Trail and FSC projects is the culmination of a well-designed RFP and a comprehensive and fair evaluation process designed to identify the most cost-effective options that meet the natural gas transportation needs of FPL’s customers and that benefit the state of Florida. The Sabal Trail and FSC projects meet FPL’s stated goals of increasing physical pipeline capacity into the state of Florida, adding to the reliability and diversity of supply available to the state, ensuring near-term and long-term transportation capacity availability and meeting FPL’s long term natural gas fuel supply needs. In addition, the projects introduce a competitive alternative that provides economic value to FPL and other natural gas consumers in the State. Accordingly, the Commission should determine that FPL’s decision to enter into long-term gas transportation contracts with Sabal Trail and Florida

Southeast Connection is prudent, and that the associated costs are eligible for recovery through the Fuel Clause.

WHEREFORE, for the reasons set forth above and as more fully described in the supporting testimony and documents filed with this Petition, FPL respectfully requests that the Commission take final agency action by no later than December 31, 2013 to determine that entering into definitive agreements for incremental natural gas transportation capacity with Sabal Trail and Florida Southeast Connection is prudent and that the charges FPL will pay for gas transportation on those projects are eligible for recovery through the Fuel Clause.

Respectfully submitted,

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