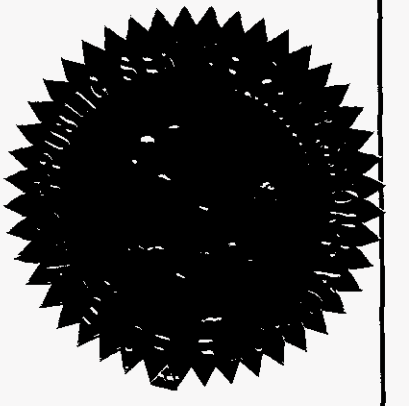
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090172-EI

In the Matter of:

PETITION TO DETERMINE NEED FOR FLORIDA ENERGYSECURE PIPELINE BY FLORIDA POWER & LIGHT COMPANY./



VOLUME 3

(Pages 520 through 765)

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PROCEEDINGS:	HEARING
COMMISSIONER PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Tuesday, July 28, 2009
TIME:	Commenced at 9:30 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6734
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
59	MTL-1	537	645
60	MTL-2	537	645
61	MTL-3	537	645
62	MTL-4	537	645
63	MTL-5	537	645
64	MTL-6	537	645
65	MTL-7	537	645
66	MTL-8	537	645
67	MTL-9	537	645
68	MTL-10	537	645
69	MTL-11	537	645
70	MTL-12	537	645
71	MTL-13	537	645
72	MTL-14	537	645
73	MTL-15 (Surrebuttal)	537	645
74	MTL-16 (Surrebuttal)	537	645
75	BSA-1	654	719
76	(Confidential) BSA-2	654	719
77	BSA-3	654	719
78	BSA-4	654	719
79	(Confidential) BSA-5	654	719
80	BSA-6 (Surrebuttal)	654	719
81	SF-2	722	741

NUMBER:	ID.	ADMTD.
82 SF-3	722	741
98 (Late-Filed) Phase 8 Construction Cost Breakout	645	
99 Enjamio and Sexton Economic Analysis Comparison	649	

P R O C E E D I N G S

(Transcript continues in sequence from Volume 2.)

CHAIRMAN CARTER: Good morning. I'd like to call this hearing to order.

First of all, to the parties, I'm going to ask you, we're in a technical hearing and we're going to take a little time, just kind of a briefer, hold the technical portion in abeyance for a moment. We want to accommodate Ms. Larson, who was, has spoken with our staff and wanted to make some comments during the public hearing. And we were unable to accommodate her yesterday, so we're going to give her an opportunity.

Ms. Larson, are you there?

MS. LARSON: Yes, dear. Thank you.

CHAIRMAN CARTER: You are recognized. Good morning.

MS. LARSON: Good morning. Do you need me to swear in or whatever? I'm not sure what the protocol is. I forgot.

CHAIRMAN CARTER: How do I know if you're standing up or not?

MS. LARSON: You'll never know.

(Laughter.)

CHAIRMAN CARTER: How about raising your right

hand?

MS. LARSON: How about that. I will do that.

(Witness sworn.)

CHAIRMAN CARTER: Thank you. You may proceed.

Whereupon,

ALEXANDRIA LARSON

was called as a witness, and, having been duly sworn, testified as follows:

DIRECT STATEMENT

MS. LARSON: Thank you for letting me speak before the Commission today, because I have some grave concerns on the path that we are taking for power use in the State of Florida. Because I did go read the Commission's Ten-Year Site Plan that was submitted to you by the power, by the power company, and they're saying we're going to go from 38 percent in 2008 to 54 percent in 2017. So we're increasing our use of natural gas instead of decreasing it. We're not going down any other path. We're not looking for any other alternative.

And I thought back when Charlie Crist was appointed as Governor, I mean, elected as Governor, that we were looking for alternatives. And, I mean, they're, they're not. FPL is not looking for alternatives from what I can see. Because if we go from 38 percent in

2008 to 54 percent in 2017, we're increasing it. We're doing a lot of increasing. We have -- 80 percent of their use is, you know, residential customers.

So as I've said before to the Commission many, many, many times, why are we not looking for alternatives and why are we not holding their feet to the fire? I can't believe here we are, we're putting in a 300-mile natural gas pipeline that's going to go through ten counties. When I met with them, they met in Indiantown, which I think is Martin County, and I questioned, why aren't you having meetings in Palm Beach County?

The average citizen in this state doesn't know what is being done by these utilities. They have no clue, no, no idea what is going on in the world. They have absolutely none. There were six people at that meeting. There were lots of FPL people, but there were -- the average person does not know about 300-mile huge gas pipelines running through their counties, through their state. And Florida is -- we're not doing it. We're not doing what we should be doing in life. We are -- we're not, we're not following our own rules, we're not following our own suggestions.

And I think it's the Public Service Commission as a, as a lead in this, when you -- you do the

suggestions, you, you talk to the Legislature, you, you do a presentation to them every year. And I think the Public Service Commission, hopefully you're telling the legislators, wait, you've got to give us options here. You have to help, because we're not going down any other path. We are not looking for any alternatives in this state.

And here FPL, when we use less things, we, the consumers, are using less electricity, we vote in a rate increase. They get rate increases on top of rate increases on top of rate increases. So nobody is looking at solar, no one is looking at -- they say that they're going to do a wind power thing up in Port St. Lucie. But I am finding that we're not following our own leads. We're not, we're not speaking out.

And I don't know if the Public Service Commission needs me to go before the Legislature. I'm more than happy to do it. I'll say it. I will say the customers are trying. And here we are, we're, we're putting ourselves in danger, because more pipeline is more, more -- there's like an extra set, an extra layer of danger that comes in because something can go wrong with that pipeline.

I have -- you know, we have one that's going to the West County Energy Center. It comes in from the

west coast and it leads -- and it's a long way down and it's a very long pipeline. As I know from past experience, they don't have a whole lot of shutoff valves. They usually do them in 35-mile increments.

So where do we say uncle, Commission? Where do we stop and where do we say we need you to do an alternative instead? When are you going to present us an alternative? When will you say that to them? Are you saying that to them?

And I apologize because I didn't hear your meeting yesterday, I didn't hear your questions and I wasn't privy to the meeting, so I'm not scolding anybody. But we're not looking at alternatives. We're the customers, the residential customers use 80 percent of the electricity. You know, we're 80 percent of the users, and we use 50 percent of the state's electricity. This is your numbers out of your, you know, their Ten-Year Site Plans. And they're not looking at any alternatives. So is anybody up there saying where are the alternatives?

The other thing that really concerns me is natural gas. Between 2000 and now, 2002 and now, it has over doubled in price. It's rising from approximately 4.6 per MMBtu in 2002 to $9.70 in 2007. How high will it go in the next 25 years? Because that was only in a

seven-year period.

And here we are, we're doing this gas pipeline, we're only going down one path, we're only building one type of plant. Florida has gone down in population. Things are decreasing. We're not, we're not increasing. And they're even saying in their site plans that they're not going to build certain plants. They're not going to do anything at all.

And I guess I'm asking these questions hoping I'll get some really good answers from you guys. Because the one thing I've always looked at in this state is the health, safety and welfare of Florida. Florida is the Sunshine State, that's what we were called, and we're not -- FPL doesn't want us to use solar because they can't make money off of it. That's the bottom line here. They are a monopoly, they want to make money. They pay huge salaries. They've, they -- the Sunshine Energy Program was a myth, as we found out.

And I'm just begging you, Commissioners, as a citizen, hold their feet to the fire and say you need to look at an alternative. Because going from 38.8 percent to 54 percent in the next five years doesn't make any sense. I mean, did you ask those questions yesterday? I have to ask somebody. Can somebody answer me maybe? Were these questions asked yesterday at all?

CHAIRMAN CARTER: We're taking your comments for the record, Ms. Larson.

MS. LARSON: Okay. Well, I just, you know, I'm just curious. I'm sorry, Commissioner. I just, I'm looking for answers because we're not, we're not going down the right path. They talk about hurricanes, they talk about storm capacity. You know, tightening up the grid is making the grid -- you know, we can build as many plants as we want. But if the power poles fall down, it doesn't make a difference, does it? If the water -- if they put underground lines and they get flooded, it doesn't make a difference. The power will still go down.

So maybe with some alternatives like windmills and solar power you will get something. You will go into a different direction. Because coal and natural gas is the only thing I see these guys looking at. And nuclear, which the spent rods, they have a life that lasts a thousand years. You know, you and I will be dead and we won't even know what the ramifications are. We don't know what we're going to do to our great-grandchildren. And Yucca Mountain isn't going to happen, so we have no place to put the rods.

So for the, for the people of this state, please look for alternatives. We're not -- this gas

pipeline is not an alternative. It's going down the same path. And if natural gas went up, if it doubled, over doubled in a five-year period, what is it going to do in a 20-year period? Let's do the math. It'll be a hell of a lot more expensive.

So I'm begging the Commission to ignore this pipeline. It's time to say no to FPL. It's time to say uncle to FPL, and say, no, we can't do this anymore. Somebody is going to have to stand up to the monopoly and say we've got to find an alternative. And until we all do that, until the Legislature speaks up, until the Commissioners speak up, until my Commissioners down here on the little level speak up, nothing is going to get done. Because, quite frankly, I see a lot of, a lot of switching, baiting -- bait and switch. That's what it's called. It's bait and switch.

And here we are, we are going to be held at the -- we're going to be held hostage to natural gas or coal or nuclear. So don't let us be held hostage anymore. Do not do that, Commissioners. Ask them to bring you something that is viable and workable. And maybe when they don't -- when they make a little less money, if we're doing alternative, everybody can work together, because they're not working with the public at this moment, Commissioners. They're just going down

their path, this is what we're going to do, and the consumer gets no choice whatsoever.

And as the Public Service Commission, as I've been before you before, it's your job to maybe start this, maybe initiate it before the Legislature. Maybe be more of a public outreach. And I thank you so much for coming to Palm Beach County when you did, Commissioner Carter. I hope you're feeling better.

CHAIRMAN CARTER: I am. Thank you very kindly.

MS. LARSON: And I know -- I don't want to mess up Nancy's last name. I'm not going to do it. I know she's laid up. She had a real bad problem too. And I hope you're doing better also. But I thank you for coming to Palm Beach County.

But on this particular thing FPL didn't even hold a meeting in Palm Beach County, and we are at the tail end of this 300-mile nightmare. Because that's what it is, it's a nightmare. And they told me, "We don't have to have a meeting in Palm Beach County." Well, certainly the people of Palm Beach County deserve to know about this. They didn't even -- they said, "We don't have to." They said they do not have to.

So the people in Palm Beach County don't even know about this, because when FPL does the notice, they

put it in the sports page or the obituaries. That's the only place their notices are. So the average Joe isn't reading the newspaper and seeing the little eighth of a page ad that says, oh, on July 27th and 28th we're going to put in -- we're going before the Public Service Commission and we're going to put in a 300-mile natural gas pipeline. Because most people would probably say, oops, and is it going to be near my house? I hope you realize that, Commissioners.

I am begging you, do not do this. Make them do an alternative. Do not let them go from 38.8 percent to 58.4 percent. Don't let them do it. I think we deserve any alternative. They should be at 33 percent. There should be three different ways we're getting power right now, and one of them better be solar and wind. And no more, no more, you know, cockamamie schemes to raise $11.2 million bucks to do solar. None of that. Let's do real stuff. Can we do that, Commissioners?

If I have to, I'll drive up to Tallahassee so I can jump up and down before you. I wish you could see me today. I'm jumping up and down.

CHAIRMAN CARTER: Okay.

MS. LARSON: Please ask for an alternative, and make them have a meeting in Palm Beach County before you make a decision on this, because they did not have a

meeting in Palm Beach County. And I think since I'm at the tail end of that pipeline, I'm at the bottom of the snake, I think the people of this county deserve that, and that was not done.

CHAIRMAN CARTER: Okay. Ms. Larson --

MS. LARSON: I hope you realize that.

CHAIRMAN CARTER: We thank you, Ms. Larson, for your time.

MS. LARSON: You've been very patient, and thank you very much for letting me do your thing today.

CHAIRMAN CARTER: Okay. And have a great day.

MS. LARSON: Please take it into consideration.

CHAIRMAN CARTER: Yes, ma'am. We have it on the record.

MS. LARSON: Thank you.

CHAIRMAN CARTER: Thank you.

Okay. Commissioners and to the parties, we will resume our technical portion of the hearing. When we left yesterday, we were getting ready for Mr. Self. You're recognized, sir.

Wait a minute. Let me see. Staff, are there any preliminary matters before we begin today?

MS. BROWN: No, Commissioner, I'm not aware of any.

CHAIRMAN CARTER: From either of the parties before we begin?

Mr. Self, you're recognized.

MR. SELF: Thank you, Mr. Chairman. FGT would call Mike Langston, please. And, Mr. Chairman, this witness has already been sworn.

CHAIRMAN CARTER: Okay. Good.

MICHAEL LANGSTON

was called as a witness on behalf of Florida Gas Transmission Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. SELF:

Q. Are you ready, Mr. Langston?

A. Yes, I am.

Q. Can you please state your name and business address for the record?

A. My name is Michael Langston. My business address is 5444 Westheimer Road, Houston, Texas 77056.

Q. And who are you employed by and in what capacity?

A. I hold the position of Senior Vice President of Government and Regulatory Affairs for Florida Gas Transmission Company.

Q. And did you cause to be prepared and prefiled

direct testimony consisting of 45 pages?

A. Yes, I did.

Q. And do you have any changes or corrections to that testimony?

A. No, I don't.

Q. And if I asked you those same questions today, would your answers be the same?

A. Yes, they would.

Q. And did you also cause to be prepared and prefiled surrebuttal testimony consisting of 18 pages?

A. Yes, I did.

Q. Do you have any changes or corrections to that testimony?

A. No, I don't.

Q. And if I asked you those same questions today, would your answers be the same?

A. Yes, they would.

MR. SELF: Mr. Chairman, we would ask that Mr. Langston's direct and surrebuttal testimony be inserted in the record as read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BY MR. SELF:

Q. And also, Mr. Langston, attached to your

direct testimony did you have Exhibits MTL-1 through MTL-14, which on the staff exhibit list have been identified as hearing Exhibits 59 through 72?

A. Yes, I did.

Q. And do you have any changes or corrections to any of those exhibits?

A. No, I don't.

Q. And also with respect to your surrebuttal testimony, did you prepare Exhibits MTL-15 through MTL-16, which have been identified on the exhibit list as hearing Exhibits 73 and 74?

A. Yes, I did.

Q. And did I ask you if you had any changes or corrections to any of those?

A. No, I don't have any changes.

MR. SELF: Okay. All right. Mr. Chairman, the exhibits have already been marked for identification.

CHAIRMAN CARTER: Marked for identification.

(Exhibits 59 through 74 marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090172-EI

FLORIDA GAS TRANSMISSION COMPANY, LLC

DIRECT TESTIMONY OF MICHAEL T LANGSTON

Q. Please state your name and business address.

A. My name is Michael T. Langston. My business address is 5444 Westheimer Road, Houston, Texas 77056.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Gas Transmission Company, LLC ("FGT"). FGT is a limited liability company formed under the laws of the state of Delaware (formerly a corporation incorporated under the laws of the state of Delaware and converted to a limited liability company on September 1, 2006). FGT is a wholly-owned subsidiary of Citrus Corp., the stock of which is owned 50 percent by CrossCountry Citrus, LLC and 50 percent by El Paso Citrus Holdings, Inc. El Paso Citrus Holdings, Inc. is a wholly-owned subsidiary of El Paso Corporation. CrossCountry Citrus, LLC is owned by CrossCountry Energy, LLC, which is an indirect wholly-owned subsidiary of Southern Union Company ("Southern Union").

Q. What are your responsibilities with FGT?

A. I am Senior Vice President, Government and Regulatory Affairs with primary responsibility for rate and regulatory matters for FGT. I hold the same

positions with Panhandle Eastern Pipe Line Company, LP; Southwest Gas Storage Company; Trunkline Gas Company, LLC; Trunkline LNG Company, LLC; and Sea Robin Pipeline Company, LLC.

Q. Please describe briefly your educational and professional background.

A. I received a Bachelor of Science Degree in Electrical Engineering with honors from the University of Texas at Austin in 1975. I received a Master of Business Administration from Southern Methodist University in Dallas, Texas in 1978. I was employed by Mobil Pipe Line Company from 1975 to 1979 in various positions in their engineering and project development departments. From 1979 to 1986, I was employed by Texas Oil & Gas Corp. and its affiliate, Delhi Gas Pipe Line Corporation, holding various positions in corporate planning, special projects, and project development. I joined Southern Union in September 1986 and have been employed by Southern Union and its affiliates since that time, holding various positions involving gas supply, gas marketing, gas control, contract administration, business development, and state and federal regulatory areas. For the period from September, 1986 to September, 2002, I had primary responsibility for supply and transportation contracting for Southern Union operations in Texas, Missouri, and Florida. I am also a Registered Professional Engineer in the states of Texas, Oklahoma, and Louisiana.

Q. Have you previously testified or presented testimony before the Florida Public Service Commission ("FPSC")?

A. I have not previously testified before the Florida Public Service Commission, but have submitted testimony in state proceedings in Texas, New Mexico, Arizona, and Missouri. I have also provided testimony at the federal level at the Federal Energy Regulatory Commission ("FERC").

Q. What is the purpose of your testimony?

A. The Florida Power and Light Company ("FPL") proposed $1.6 billion intrastate Florida EnergySecure pipeline ("FES") is not in the best interests of the ratepayers and should be denied. My testimony will address why FPL has failed to demonstrate the need for its proposed intrastate pipeline and, alternatively, if the FPSC approves the project, why the FES pipeline should not be included in rate base but rather in a separate subsidiary. Specifically, my testimony will: (1) demonstrate that the natural gas demand identified by FPL in its petition and direct testimony does not warrant the proposed $1.6 billion pipeline; (2) discuss the lack of a complete analysis of the supply and transportation costs upstream of Transcontinental Gas Pipe Line Company, LLC ("Transco") Station 85 and the alternatives not considered by FPL; (3) discuss upstream supply and transportation costs not included in the FPL analysis and how the failure to address these costs undermines FPL's FES pipeline; (4) evaluate the investment alternatives FPL considered and the adverse impacts on FPL's customers because of the cost recovery methods FPL proposed; (5) review the alternate cost recovery methods that should be considered for these facilities and why they do not support approval for the

FES system; and (6) discuss other policy matters this Commission should evaluate and the adverse consequences on ratepayers if FPL's proposal is adopted.

Q. Please briefly describe the prepared testimony of FGT's other witnesses in this proceeding.

A. Dr. Benjamin Schlesinger of Benjamin Schlesinger & Associates will provide testimony reviewing the economic and cost issues inherent in FPL's filing, including gas price projections, basis forecasts, and rate inconsistencies that undermine claims of the need for the FES system.

Q. What exhibits are you presenting in this proceeding?

A. I am responsible for the following exhibits:

Exhibit No.	Description
MTL-1	Map of FGT pipeline system
MTL-2	Map of FGT system w/Phase VIII expansion
MTL-3	FGT Expansions into Florida
MTL-4	FPL Ten Year Site Plan Filings
MTL-5	FPL Response to FGT Interrogatory No. 53

MTL-6	FPL Response to Staff Interrogatory No. 23-1.
MTL-7	May 7, 2009 FERC Order on Transco Mobile Bay South Expansion Project
MTL-8	July 25, 2008 FERC Order on MidContinent Express Expansion
MTL-9	September 28, 2007 FERC Order on Gulf South Southeast Expansion Project
MTL-10	December 3, 2008 Tariff Filing for Gulf South Southeast Expansion transportation rates
MTL-11	Map of Expansion capacity in the Perryville area
MTL-12	EIA Report, Natural Gas Market Centers: A 2008 Update, April, 2009
MTL-13	March 18, 2009 FGT Proposal

MTL-14 Basis Prices Chart June 11, 2009

Background [Issues 2, 5, and 10]

Q. Please describe the FGT system and the services it offers within the state of Florida.

A. FGT operates an approximate 5,000-mile pipeline system with extensive access to diverse natural gas supply sources with interconnected supply receipt point capacity of over13 Bcf/day(billion cubic feet per day) of supply capability. FGT can transport and deliver up to 2.3 Bcf/day of natural gas to the Florida peninsula. The Florida customer base includes electric utilities, independent power producers, industrials, and local distribution companies. FGT provides firm and interruptible transportation services and is interconnected to many storage providers capable of providing up to 187 Bcf of storage capacity with approximately 4 Bcf/day of delivery capability into FGT. A map of the FGT system is attached as Exhibit MTL-1.

Consistent with the presentation by FPL, in my testimony I utilize one (1) million cubic feet per day (MMcf/day) as equal to 1,000 million British thermal units (Btu) per day (MMBtu/day). This assumed a constant heat content of 1,000 Btu per cubic foot of natural gas. I will refer to capacity in Mcf/day (thousand cubic feet per day), MMcf/day (million cubic feet per day), or in Bcf/day (billion cubic feet per day) and refer to transportation costs in dollars per MMBtu/day.

Q. Please describe any expansions currently underway or planned by FGT.

A. FGT held an open season from January 14, 2008 through February 15, 2008 to solicit interest in an expansion of the FGT system. As a result of the open season, FGT filed a certificate application with the FERC on October 31, 2008 to construct an expansion to increase its natural gas capacity into Florida by approximately 820 MMcf/day. The proposed Phase VIII Expansion includes construction of approximately 500 miles of large diameter pipeline and the installation of approximately 200,000 horsepower of compression. Pending FERC approval, which is expected in the latter half of 2009, FGT anticipates an in-service date by April 1, 2011. The current estimated cost of the Phase VIII expansion is approximately $2.4 billion, including capitalized equity and debt costs. To date, FGT has entered into precedent agreements or amended precedent agreements with shippers for transportation services for 25-year terms accounting for approximately 74% of the available expansion capacity which, depending on elections of certain shippers, may increase to 83% of the capacity being added. A map of the Phase VIII expansion facilities is included as Exhibit MTL-2.

Q. Did FPL contract for any of the FGT Phase VIII Expansion capacity?

A. Yes. Prior to the conclusion of the open season, which ended on February 15, 2008, FGT issued an announcement that FPL had agreed to become the anchor shipper of the proposed expansion with a 25-year service agreement of 400,000 Mcf/day. This is also outlined in the testimony of FPL witnesses Sharra and Sexton.

Q. During this process, did FGT indicate a willingness to expand to provide even more capacity to FPL?

A. Yes. However, FPL elected to only contract for the 400,000 Mcf/day of additional capacity.

Q. Would FGT have been willing to provide additional capacity to FPL if requested?

A. Yes.

Q. And what would have been the consequences of such a request?

A, We certainly would have factored such requests into our expansion proposal just as we did for the other shippers. To the extent FPL was willing to contract for such additional capacity, we would have increased the proposed capacity addition in our expansion filing. I find it interesting that in the three months following the close of our open season FPL filed its determination of need cases for the two power plant conversions that FPL claims are now driving the demand for its new pipeline. These power plant conversion projects are not developed overnight. Thus, even if FPL had not fully developed the specific gas needs for these plants by the conclusion of the open season, they certainly could have advised us of their potential need and we could have factored that in to our Phase VIII expansion.

Q. Has FGT expanded its system in the past when needed to serve increasing loads in Florida?

A. Yes. Exhibit MTL-3 is a graph that shows the capacity capabilities of FGT in the Florida market for the expansions from its Phase I expansion to the current Phase VIII expansion. As shown, following the Phase VIII expansion, FGT will have a system capacity of 3.0 Bcf/day, an increase of 275% from the capacity following the Phase I expansion in 1987.

Q. Once the Phase VIII expansion is completed, will FGT have excess capacity in its system?

A. Yes. Depending on the election of one shipper FGT will have excess capacity of between 139,000 Mcf/day to 214,000 Mcf/day.

Q. Could this capacity now be utilized to serve the FPL loads at Cape Canaveral and/or Riviera even though these plants were not part of the original Phase VIII expansion?

A. Yes. The excess Phase VIII capacity could be utilized to serve these needs with some additional facility expansions to add capacity to those delivery points. For example, with the addition of one compressor station at an estimated cost of less than $50 million, FGT could provide an additional 200,000 Mcf/day of excess Phase VIII capacity to the existing FPL oil/gas line, which is then capable of delivering this capacity to the Riviera plant.

Q. Would FGT be able to deliver this excess capacity to Riviera on the time schedule FPL has proposed?

A. Yes. Such facilities could be designed, approved, constructed, and in service by the January 1, 2014 date outlined by FPL in testimony.

Q. Could any of this excess Phase VIII capacity be delivered to Cape Canaveral?

A. Yes, but it would require the construction of a new lateral and other facilities to deliver the gas. While this would not be as simple as for Riviera, it could still be done in a timely and cost effective manner.

Q. How would FPL's ratepayers pay the costs associated with delivering this capacity to Cape Canaveral or Riviera?

A. The cost to the rate payers would be just like any other transportation cost. It would be passed through the fuel charge. In addition, FPL would be able to contract for only the capacity it needed, and not burden its ratepayers with the cost of additional unused capacity, such as is being proposed by FPL in this proceeding.

The Solicitation Process [Issues 1 and 2]

Q. Before FPL initiated this determination of need proceeding, FPL solicited proposals for transmission capacity. Was FGT one of those parties that responded to FPL's invitation for proposals?

A. Yes we did. In fact, FGT made two formal written proposals, one on September 2, 2008, and an updated response dated March 17, 2009 and received by FPL on March 18, 2009 (referred to as the March 18, 2009 Proposal). In addition, between these two formal proposals, FGT and FPL undertook a series of exchanges that led FGT to submit to FPL two emailed

proposals between the formal written responses, one being sent on October 9, 2008, with the other sent on January 12, 2009.

Q. Why did FGT submit the two emailed proposals and the final formal written proposal on March 18th?

A. The discussions between FGT and FPL were an ongoing process through which FPL continued to clarify some of its operational parameters, including the specific gas volumes being considered, which required FGT to revise its proposal over time to meet the changing circumstances. In addition, the market for steel prices was on an upward spiral in the fall of 2008, but by March 2009 steel prices were declining, and so the FGT proposals reflect these market dynamics as well.

Q. Based upon what FPL has said about the proposals it received, has the FGT proposal been identified by FPL in its direct testimony.

A. Yes. FGT's January 12, 2009 proposal has been identified by FPL as the "Company B" proposal, and included in its economic analysis. The March 18, 2009 proposal is simply referred to as an unsolicited update, and the improved cost information was not specifically analyzed by FPL.

Q. Can you briefly describe the terms of this proposal to FPL?

A. As FPL has described, the FGT proposal provided interstate pipeline transportation capacity that originated at various pipeline interconnects at Citronelle, Alabama, and delivered natural gas capacity to both the Cape Canaveral and Rivera energy centers. The proposal essentially involved

various additional looping to the existing FGT pipeline system as well as additional compression facilities. The cost of these facilities would be approximately $1 billion. I have attached a copy of our March 18, 2009 Proposal as MTL-13.

Q. Does this proposal represent FGT's final and best offer to FPL to serve Cape Canaveral and Riviera?

A. No. As I said in connection with the evolution of our proposals from the original formal written proposal in September to the March proposal, the discussions over time with FPL led to FGT obtaining additional information about the real parameters of what FPL was seeking. FPL has continued to change these requirements even with the filing of the Petition in this docket. For example, FPL never identified to FGT the availability of converting the 36 mile oil/gas pipeline from the Martin plant to the 45th Street Terminal near the Riviera Plant. FGT's cost includes approximately $132 million of capital to provide additional directly connected capacity to the Riviera Plant. If we had known of the availability of this FPL-owned pipe, we would have incorporated those savings into our proposal as well.

Q. Overall, did the FGT March 18, 2009 Proposal meet the operational and other objectives set forth by FPL in its solicitation?

A. Yes. The March 18, 2009 Proposal met the FPL stated objectives at the time, assuming the need for the additional natural gas transmission capacity identified by FPL. FGT's proposal is superior to FPL's proposed FES pipeline.

Q. Can you explain why this is true?

A. The Commission cannot consider the intrastate pipeline in a vacuum. While the upstream or interstate pipeline that will deliver gas to the intrastate pipeline is not before this Commission, the cost and consequences of the interstate pipeline are going to have a direct impact on the FES pipeline and certainly the Florida ratepayers. Thus, when considered on an end to end basis, comparing the combined Company E interstate pipeline and the FPL intrastate pipeline to the interstate pipeline proposed by FGT, FGT's proposal involves less total cost, less cost impact on ratepayers, and greater access to more diverse gas supplies than the Company E/FES pipeline proposal put forth by FPL.

Q. Can you elaborate on these points?

A. Yes, in connection with each of the identified issues in this case, I will address why the Commission should not certify the need identified by FPL and certainly not its proposed $1.6 billion intrastate FES pipeline. In order to better understand the problems inherent in the FPL pipeline proposal, it is necessary to first review the basic demand projections provided by FPL that underlie FPL's claimed need for additional transmission pipeline.

Demand Projections [Issues 1, 3, and 5]

Q. Are FPL's capacity requirements based on sound assumptions?

A. No. There are significant differences between FPL's forecasts and other published documents. A review of the publicly filed documents and associated projections does not justify the needs claimed by FPL. I will discuss the

differences in the overall population growth projections as well as the capacity and peak day requirements outlined in FPL's filings.

Q. Has FGT reviewed the population projections that form the basis of the long term demand requirements?

A. I have reviewed the testimony of FPL witness Morley. As outlined in Dr. Morley's testimony, the population projections utilized were based on work performed by the University of Florida, with the most recent data dated from October, 2008.

Q. Did FPL make any adjustments to the data?

A. Yes. Dr. Morley adjusted the forecast data between 2012 and 2022 to provide an increase of over 30% higher population growth per year as compared to the University of Florida projections.

Q. Do the more recent University of Florida projections support this FPL adjustment?

A. No. Dr. Morley has outlined that the University of Florida projected population growth of 127,000 in 2008 and 75,000 in 2009, or a total of 202,000 for the most recent two year period. Bulletin # 153 published by the Bureau of Economic and Business Research of the University of Florida ("EBR Bureau"), and dated March, 2009, indicates that population growth in 2009 and 2010 will average only 37,000 people per year, or a total of only 74,000 over the two year period. Following that, the long term growth will continue to average less than 255,000 per year as outlined in the previous projections.

Q. Does this call into question the basis of the adjustments made by FPL?

A. Yes, FPL's adjustments are unreasonable. After FPL increased the October 2008 data, the EBR Bureau's March 2009 projections show an expected population growth in 2010 of approximately 37,000 versus a forecasted level of 75,000 only five months previous. This seems to indicate that the impact of the current economic recession may, in fact, have the longer lasting effect of decreased population growth expected by the University of Florida.

Q. Are there other inconsistencies in the FPL data?

A. Yes. Attached as Exhibit MTL-4 is a comparison of FPL's 2008 Ten Year Site Plan natural gas requirements forecast to the 2009 Ten Year Site Plan natural gas requirements forecast. In addition, I have compared the annual daily average gas demand to the existing combined daily transport capacity of the FGT and Gulfstream Natural Gas System, LLC ("Gulfstream") pipelines that is held by FPL. As shown on MTL-4, on an average daily basis, FPL does not have a need for additional firm capacity for the term of the 2009 Ten Year forecast. Notably, for the period from 2014 through the end of the forecast period, there is a minimum excess capacity of between 271,041 Mcf/day and 520,641 Mcf/day. Certainly this does not support the construction of an additional 600,000 Mcf/day of capacity.

Q. Doesn't FPL have to consider its peak day supply demand in its planning?

A. Yes. Attached as Exhibit MTL-5 is FPL's response to FGT's Interrogatory No. 53, which shows that over the last three years, the peak capacity requirements

for FPL have not exceeded 1,716,604 MMBtu/d(Mcf/day equivalent). With the addition of the maximum projected load of 400,000 Mcf/day at the Cape Canaveral and Riviera plants, the total peak could be estimated at 2,116,604 Mcf/day. Given this peak load estimate, and FPL's existing contracts for 1,911,852 Mcf/day of capacity following the FGT Phase VIII expansion, this indicates a need for a capacity addition, in 2014 of approximately 200,000 Mcf/day, not the 600,000 Mcf/day planned under the FES proposal.

Q. Is this different than the natural gas requirements FPL expects in this proceeding?

A. Yes. Based upon the FPL response to Staff Interrogatory No. 23-1, the forecasted natural gas requirements that form the base case in this docket are higher than the forecast in the 2009 Ten Year Site Plan requirements. For example, in 2014, FPL indicates a requirement of 2.312 Bcf/day, while in the ten year site plan, filed only one week prior to the filing of this docket, the natural gas requirements would average 1.391 Bcf/day. I first assumed that FPL's answer to Staff's Interrogatory No. 23-1 reflected a peak day demand scenario, but in comparing this to the data in Exhibit MTL-5, the numbers shown for 2009 and 2010 do not approach the peak day requirements FPL outlined for 2006-2008. Attached as Exhibit MTL-6 is a copy of the FPL response to Staff Interrogatory No. 23-1.

Q. Are the expected loads at Cape Canaveral and Riviera the difference in the forecast?

A. No. The expected loads at Cape Canaveral and Riviera were included in the Ten Year Site Plan filed by FPL on April 1, 2009. However, in the forecast provided in Exhibit MTL-5, FPL is indicating a capacity need in 2011of 1.920 Bcf/day, a number that is almost exactly equal to the transport capacity FPL will have under contract. However, there is no reconciliation as to the peak day usage and the total capacity numbers. From the data in Exhibit MTL-6, the peak day demand would have to grow by almost 12% in a period when the population growth projections are almost flat.

Q. Does this create a question as to the need for additional pipeline capacity?

A. Yes. There appears to be an incomplete analysis of demand. At this time, while there may be a need for 200,000 Mcf/day of additional capacity, there does not appear to be a need for the 600,000 Mcf/day planned to be constructed in this filing.

Q. So is there a demand basis for FPL's proposed expansion?

A. No. It seems clear that additional facilities would be needed to deliver an incremental 200,000 Mcf per day of supplies to the Cape Canaveral plant after conversion. However, the 200,000 Mcf per day of capacity needed at the Riviera plant after conversion could possibly be met by excess FGT Phase VIII capacity. FGT's filed recourse rates are substantially below that proposed by the Company E/FES proposal. As indicated to FPL, FGT is willing to contract to provide this incremental Phase VIII capacity.

Q. Based on the demand information available at this time, and provided by FPL, has FPL substantiated a Commission finding in this docket for the certification of the requested need?

A. No, the various forecasts provided by FPL are unreconciled, and do not support the requested need.

Q. If you assume that over time FPL might eventually grow into its proposed $1.6 billion pipeline, would the construction of the pipeline now create competitive benefits that would outweigh the lack of demand over the next ten or more years?

A. No. The systems currently serving the state of Florida are regulated and based on cost of service ratemaking. Given these constraints, there is not the ability of the existing pipeline systems to exercise market power and arbitrarily increase prices. Pipeline capacity can be provided under regulations designed to protect both existing customers and expansion services as needed by the market. An assumption that creation of additional, excessive capacity will create greater competitive pressures in a regulated market reflects a serious misunderstanding of how this market works. Similarly, justification for a "third" pipeline through a calculation of market concentration in such a regulated environment also does not justify an additional $1.6 billion pipeline on competitive grounds. The Commission should deny FPL's request due to insufficient demand to justify a 600 MMcf/day new pipeline.

Supply and Transportation Alternatives

Upstream of Transco Station 85 (Issues 3, 5, 6, and 10)

Q. FPL has indicated that access to Transco Station 85 is needed in order to provide expanded access to natural gas supplies not now available to FPL. Do you agree?

A. No. In fact, the majority of supplies FPL plans to access at Transco Station 85 can also presently be accessed via FPL's existing capacity on the Southeast Supply Header ("SESH") system through purchases at the Perryville, Louisiana area.

Q. In FGT's proposal, did FGT seek to provide FPL with access to supplies from Transco Station 85?

A. No. To better meet the diversified supply objectives, FGT proposed to interconnect at Citronelle, Alabama, where the existing Transco Mobile Bay lateral interconnects with the FGT system. In addition, FGT offered to transport supplies from other interconnects offering greater supply diversity than available at Transco 85. FGT's proposal provided FPL with greater options for supply contracting.

Currently, interconnects already exist between the Transco Mobile Bay lateral and the FGT and Gulfstream systems to supply gas to FPL from the Transco system. Transco has announced plans to increase its ability to move supplies from interconnects at or near Transco Station 85 to both FGT and Gulfstream, with such expansion plan recently approved by the FERC. The proceeding is FERC Docket No. CP08-476-000, which was approved by FERC

order dated May 7, 2009, whereby Transco is adding the ability to move an additional 253,000 Mcf/day of capacity between Transco Station 85 and the FGT and Gulfstream systems. This expansion should be in service by May, 2010. A copy of the May 7, 2009 FERC order is attached as Exhibit MTL-7.

Q. Did FPL participate in this expansion to expand the access to Transco Station 85 supplies?

A. No. Transco held an open season for this expansion from October 17, 2007 through November 16, 2007 soliciting interest in expanded capacity from Transco Station 85 to interconnects with FGT and Gulfstream. FPL did not contract for capacity, but Progress Energy Florida, Inc. ("PEF") did participate in this expansion.

Q. Would Transco be able to expand and provide even greater amounts of capacity to move gas from Station 85 to the FGT and Gulfstream systems?

A. Yes. Transco has recently held an open season for a further expansion of its capacity to move gas from Station 85 to FGT and Gulfstream. The open season for up to 550,000 MMBtu/day of year-round firm transportation service was conducted from January 22, 2009 to February 26, 2009, while FPL was in the process of evaluating how to deliver gas to the Cape Canaveral and Riviera plants. Transco indicated in the open season announcement that the maximum rates applicable to the expansion would be the maximum daily firm reservation rate and commodity rate under Transco Rate Schedule FT for Zone 4a, which is

approximately 9 cents per MMBtu. The proposed in service date would be as early as May, 2011.

Q. What is driving these expansions?

A. As pointed out in FPL witness Sexton's and Sharra's testimony, several other upstream system expansions are underway to bring additional amounts of supply from production areas in Texas, Oklahoma, Arkansas, and Louisiana to many pipeline interconnects, including in the Perryville, Louisiana area, and also farther east to interconnect with Transco at or near Station 85. Historically, the demand for natural gas in the markets served by Transco is the highest during the winter season, when gas is needed for heating loads as well as electric generation demands.

Alternatively, the natural gas demand in Florida is highest in the summer, primarily for the generation of electricity to serve air conditioning loads. Therefore, supply deliveries to Transco Station 85 can access both winter and summer markets for natural gas.

Q. Are there other markets that this production could serve?

A. Yes. All of the expansions upstream of Transco Station 85 mentioned by FPL witnesses also interconnect with other interstate and intrastate pipelines in the Perryville, Louisiana area. As such, those systems are capable of serving the Midwest United States markets, as well as some other systems serving the Northeast United States markets as well. These supplies will also interconnect

with the existing Destin Pipeline Company, LLC ("Destin") system which delivers gas into the FGT system.

Q. With so many market alternatives, where do you expect this gas to move once these systems are in service?

A. It appears that FPL has not performed this analysis. FGT knows from experience as a transportation provider that the gas will move to the market providing the highest net-back price to the producer. As such, the transportation cost between these points, as compared to the ultimate market price available for gas at these points, will determine where the gas is delivered.

Q. Are the transportation alternatives and costs between Perryville and Transco Station 85 available today?

A. For the Boardwalk Pipeline Partners, LP ("Boardwalk") and Mid-Continent Express Pipeline, LLC ("Midcontinent Express") expansions that FPL references, the filings made with the FERC show the applicable transportation costs. For Mid-Continent Express, the certificate order dated July 25, 2008 in FERC Docket No. CP08-6-000 and CP08-9-000, indicate that once fully expanded, the tariff recourse transport rates from an Enogex interconnect at Bennington, Oklahoma to an interconnect with Columbia Gulf Transmission near Delhi, Louisiana (in the Perryville area) will be at $0.2892 per MMBtu on a 100% load factor basis. The transport rate from the Columbia Gulf interconnect to Transco Station 85 will be $0.2506 per MMBtu on a 100% load

factor basis. A copy of this July 25, 2008 FERC certificate order is provided as Exhibit MTL-8.

The Boardwalk expansion referred to by FPL is an expansion of the Gulf South Pipeline Company, LP ("Gulf South") interstate pipeline owned by Boardwalk. This expansion picks up gas from the terminus of the previous Gulf South expansion that provided capacity of 1.7 Bcf/day from East Texas to the Perryville area and terminating near Harrisville, Mississippi. This previous expansion is interconnected to many pipelines in the Perryville, Louisiana area. For the Gulf South Southeast pipeline system expansion, filed in FERC Docket No. CP07-32-000, this pipeline is further expanded to extend to an interconnect with Transco at Station 85 in Alabama. The incremental transportation rate over this portion of the system is approximately $0.1659 per MMBtu. Gulf South also leased capacity from Destin, at an additional cost of $0.065 per MMBtu, to allow deliveries to be made directly to FGT or Gulfstream if this leased capacity on the Destin pipeline is used. The total expansion capacity on the Boardwalk/Gulf South system is 660,000 Mcf/day, with the capability to deliver 260,000 Mcf/day to FGT and/or Gulfstream utilizing leased capacity on the Destin system. A copy of the FERC certificate order dated September 28, 2007 for the Boardwalk/Gulf South project is provided as Exhibit MTL-9, and the associated tariff filing dated December 3, 2008 is provided as Exhibit MTL-10.

Q. As a result of the growth of supply volumes in the shale gas areas, are there other expansions being contemplated or proposed?

A. Yes. Recently, Energy Transfer Partners, L. P. proposed its Tiger pipeline to transport additional shale gas production volumes to the Perryville, Louisiana area. This indicates a growing amount of such unconventional gas supply showing up at the Perryville area. As such, this point has the potential to become a very liquid supply trading point. Attached as Exhibit MTL-11 is a simplified map that shows various pipeline systems from the Oklahoma/Texas/Arkansas area into Perryville, and systems out of Perryville to points farther east, such as Transco Station 85.

Q. Do you have any support for your position that the Perryville area is a more liquid supply point as compared to Transco Zone 4 (Station 85)?

A. Attached as Exhibit MTL-12 is a report prepared by the Energy Information Administration dated April 2009, which reviews Natural Gas Market Centers in the United States. As shown in the report, the Perryville area market center had the largest increase in total interconnect capacity between 2003 and 2008 as compared to any other natural gas market center in the United States.

There is not currently a market center identified in Transco Zone 4 or at Transco Station 85. While supply access may also be increasing at Transco Station 85, there will not be the liquidity that is available at the Perryville area. Greater liquidity translates into more competitive gas prices.

Q. Are the current market prices for gas at the Perryville and Transco Station 85 points available today?

A. Yes. Market prices for gas delivered to pipelines in the Perryville area and to Transco Zone 4, which is the zone in which Transco Station 85 is located, are both available on a daily basis. For gas delivered in the Perryville area, the index prices for ANR SE and Columbia Gulf mainline are indicative of Perryville area prices. Attached as Exhibit MTL-14 is a chart that shows the NYMEX natural gas price at the Henry Hub by month from July, 2009 through December, 2012. In addition, the basis swap prices, or price above or below the Henry Hub price, is shown for prices at ANR SE and Columbia Gulf mainline (Perryville area), Transco Zone 4 (Transco Station 85), and FGT zone 3 pricing. FGT Zone 3 would include supply receipts from interconnects with SESH, Destin, and Transco.

Q. What does the comparison of these prices point out?

A. The average pricing over the 42 month period is (1) approximately $0.09 to $0.14 below the Henry Hub price for the Perryville area, (2) approximately $0.0333 below the Henry Hub price for the Transco Station 85 area, and (3) approximately $0.0389 above the Henry Hub price into FGT in Zone 3.

Q. When comparing the market prices and transportation costs, what conclusions can be drawn?

A. At this time, given the transportation cost from the Perryville area to Transco Station 85, it appears that the market prices for gas at the Perryville Hub would

provide better netbacks to producers as compared to the expected pricing at Transco Station 85. However, once all gas demand at that location is met, then gas would move to other markets, such as to planned interconnects at Transco Station 85. For gas supplies that do move from the Perryville area to southeast markets, based on filed tariffs, the Gulf South expansion in conjunction with the Destin lease capacity, excluding fuel, would be approximately $0.23 per MMBtu. When compared to a transport rate from Perryville to Transco Station 85, then to FGT, this is a much lower cost alternative, and would seem to offer better overall economics for producers and/or customers.

Q. Did FPL include any analysis of this in their filing?

A. It does not appear so.

Q. Would there appear to be other alternative supply points that FPL should consider?

A. FPL has contracted for 500,000 Mcf/day of capacity from the Southeast Supply Header LLC ("SESH") which allows them access to Perryville supplies. These volumes can then be moved into their existing capacity on the FGT and Gulfstream systems. It appears that Perryville will be a much more liquid supply trading area as compared to Transco Zone 4 (Station 85 area).

Q. Have all of the transportation alternatives upstream of Transco Station 85 been analyzed by FPL?

A. No. Supplies from Boardwalk and Midcontinent Express are also capable of interconnecting to the Destin system. This system is also currently

interconnected to the FGT and Gulfstream systems, and also accesses storage capacity. As noted, Boardwalk (Gulf South) holds a lease on the Destin system, and for an incremental charge of $0.065 per MMBtu it can deliver gas directly to FGT and/or Gulfstream.

Q. Were the supply interconnect alternatives you discuss offered to FPL in the proposal made by FGT?

A. Yes. FGT offered to provide transportation capacity from interconnects with SESH, Destin, Transco, and other supply connects. This would seem to provide more supply options to FPL, particularly for various transport paths back to the Perryville area, which will clearly be the most liquid supply point.

Q. Based upon this analysis, is the proposed originating point of the FPL intrastate pipeline appropriate?

A. No. The originating point of the FPL intrastate pipeline is based upon where Company E will interconnect its new interstate pipeline, and Company E's pipeline will originate and interconnect at Transco 85. The entire design of both pipelines, and certainly for purposes of this Commission's review of FPL's intrastate pipeline for the originating point of FPL's pipeline, is to obtain new and more diversified supply options. As I have discussed, while you certainly get what is available at Transco 85, FPL's stated objective is not sufficiently met by originating at Transco 85. In this case, FGT's proposal is superior but also the only proposal that reliably and consistently meets the stated objectives.

Supply Pricing [Issues 5, 9, and 10]

Q. Did FPL's witness Sexton provide supply pricing information?

A. FPL witness Sexton indicated that he projects supply pricing at Transco Station 85 to be $0.0375 lower than the Henry Hub price. He did not review or comment on supply pricing at the Perryville area, or the expected transport cost to move supplies between these points.

Q. In your opinion, does the supply analysis presented by FPL appear to be complete?

A. No. The FPL analysis is designed to focus solely on supply access at Transco Station 85, which in turn supports the proposed Company E/FES option for transport capacity. While claiming to promote new, diverse supplies it unnecessarily limits options.

Q. What is the consequence of this lack of supply analysis by FPL?

A. The analysis prepared by FPL, even if assumed to be correct, would likely leave FPL's customers paying a higher overall cost for gas as compared to supply pricing that could be accessed at the Perryville area. In addition, the transportation costs between Perryville, Transco Station 85, and FGT have clearly not been adequately analyzed by FPL.

Transportation Alternatives Downstream of Transco Station 85 [Issues 1, 2, 5, 11, and 13]

Q. What is FPL proposing in this docket?

A. Based on its analysis, FPL is requesting the FPSC to approve a contract with Company E for 600,000 Mcf/day of capacity under a 20 year arrangement. This would provide capacity from Transco Station 85 to an interconnect with the proposed FES pipeline near FGT Compressor Station No. 16 in Bradford County, Florida. These arrangements would begin providing transportation capacity to the planned new natural gas generation units to be located at the FPL Cape Canaveral and Riviera Beach plants by January 1, 2014. The proposal will also provide delivery capacity to the natural gas generating units at the FPL Martin plant in Martin County, Florida.

Q. Does FPL have a need for 600,000 Mcf/day of additional capacity beginning January 1, 2014?

A. No. FPL acknowledges that, even based on its own forecast, it would only have a need for 400,000 Mcf/day of additional capacity for at least the next 8-10 years. In reality, as noted previously in my testimony, even on a peak day basis, it does not appear that FPL needs more than approximately 200,000 Mcf of additional capacity.

Q. Who will bear the cost of the excess capacity?

A. FPL is proposing to include its investment in the FES pipeline in its rate base. Presumably any increased operation, maintenance, third party operation cost, general and administrative expenses, taxes, and other costs would also be recovered as part of FPL's overall total cost of service and rate design. As such, any cost attributable to excess capacity will be fully borne by FPL

customers through their electric rates. That is a $1.6 billion investment which under FPL's best scenario is only two-thirds necessary but which realistically may only be, at best, one-third necessary.

Q. How has FPL dealt with this in their rate analysis?

. FPL has provided annual cost of service type calculations and assumed a 100% load factor (i.e. that all 600,000 Mcf of capacity is utilized every day) and arrived at an equivalent transportation rate to include in its economic analysis. For example, the first year rate is approximately $1.32 per MMBtu.

Q. Do you view this rate calculation as correct?

A. No. FPL has put forward a rate in its analysis assuming the full system utilization of 600,000 Mcf/day, when clearly FPL needs, according to its testimony, only 400,000 Mcf/day of capacity, and more likely less than that. As such, the equivalent first year transport rate FPL calculates is substantially understated. The rate could be substantially higher, depending on actual usage. While FPL has proposed to credit any third party revenues from other transport services, no estimate of such credits is available, nor would such credits reasonably offset the true cost of excess capacity of 200,000 Mcf/day. Besides, FPL has said that such transport services, and hence any revenues derived from transportation, is not a part of the proposal before the Commission, and so such speculation should not be included in this case.

Q. Does FPL propose to recover the Company E expenses in the same manner as the recovery of the FES pipeline costs?

A. No. For the upstream Company E transportation costs, FPL proposes to recover these costs via the fuel cost recovery mechanism currently in place.

Q. Does this mean that the overall cost for the Company E/FES proposal is recovered by different means?

A. Yes. The Company E transport cost will be recovered by inclusion in the fuel cost recovery mechanism, while the cost of the FES pipeline will be rolled into the FPL electric rates, and recovered from ratepayers through base electric rates.

Q. Are the costs of the FGT proposal recovered in a similar manner?

A. No. The FGT cost would all be recovered via the fuel cost recovery mechanism.

Q. Does this different rate recovery mechanism affect the economic outcome of the alternative analysis?

A. Yes. FPL has compared the alternatives to its FES proposal assuming a calculation of rates on a similar basis. However, this is not how FPL is proposing to actually recover the costs associated with its proposal. While FPL has the option of only contracting for the 400,000 Mcf per day of capacity it states it actually needs, by proposing to construct excess capacity, and include the excess cost of such capacity in electric rates, this leads to greater cost to its customers.

Q. What is the level of excess cost that the customers may be paying?

A. The actual level of excess cost will be determined by the actual system usage. However, for comparison purposes, based on FPL's analysis of FGT's proposal, including its assumption of cost from Transco Station 85 to Citronelle, Alabama, the total cost under the March 18, 2009 proposal would be approximately $1.88 per MMBtu. This was for capacity of 400,000 Mcf/day, the amount FPL admits it needs, and the $1.88 per MMBtu for this 400,000 Mcf/day of capacity would have an annual cost of $274.48 million. If you assume the exact same cost of $1.88 per MMBtu, but for a contract for 600,000 Mcf/day, the annual cost would be $411.72 million. This is an annual incremental additional cost of $137.24 million, or 50% higher than the annual cost of the FGT proposal. Since under the most favorable of circumstances the additional 200,000 Mcf/day of capacity will not be needed until at least 8 years after the system begins operation, this would leave the customers paying an additional incremental $1.1 billion in only 8 years.

Q. Is the Company E/FES proposal at the same rate as that proposed by FGT?

A. No. As outlined in my testimony, due to the different rate recovery proposals, it is difficult to make a direct comparison. However, if you look at only the initial 20 year term, where the pipeline rate proposals are fixed, and you take the average of the FPL declining rate calculations, the per unit rate would be slightly higher than that proposed by FGT. However, as shown above, the net cost result is at least a 50% higher annual cost for capacity actually needed,

even under FPL's assumptions. A full analysis of the economic approach used by FPL is included in the testimony of Dr. Schlesinger.

Q. FPL believes that this additional capacity and the FES system need to be built to generate competition within Florida. Do you agree?

A. No. The "competition" argument put forth by FPL's witness Sexton is based upon an analysis of the California and Texas markets. He correctly points out that in Texas, the substantial in-state production makes a comparison to the Florida market unrealistic. However, he argues that the California and Florida markets are somewhat similar and supportive of a decision to build the FPL pipeline.

Q. What are the market dynamics in California?

A. In California, there are two major utilities, Pacific Gas & Electric Company ("PG&E"), and Southern California Gas Company ("SoCal"). These two companies own the in-state natural gas transmission lines as well as the gas distribution lines serving customers in California. But the ownership of the pipelines by the utilities is not handled in the same way as FPL is now asking in this proceeding.

Significantly different than what FPL wants from this Commission, the California Public Utility Commission has segregated the natural gas transmission facilities, and has dictated terms and conditions whereby industrial and commercial customers can access these systems, not unlike rate

and service regulation established by the FERC at the federal level. Thus, the cost of the California gas pipelines are not in the electric utilities' rate base.

Moreover, due to franchised service areas, only the natural gas transmission facilities of SoCal provide service across southern California, and the natural gas transmission facilities of PG&E do not compete for customers in this area. While there are other more limited pipelines into California, such as the Mojave Pipeline system, there is little direct transmission competition within California.

Q. Is this similar to the Florida market?

A. Not at all. Currently, as pointed out in the FPL testimony, FGT and Gulfstream provide broad service within Florida, not unlike the PG&E and SoCal systems, but they also compete directly with multiple locations where both pipelines serve the same location. In addition, by having FERC oversight, and non-affiliated transactions, this would seem to offer a more competitive, and better regulatory structure than that offered within California.

Q. Would the FES pipeline compete on a similar basis?

A. No. FPL wants to roll in the $1.6 billion cost of its intrastate pipeline into its rate base and have customers pay for it, regardless of usage. Where there is competition, as there is at most FPL plants, companies such as FGT must provide cost competitive rates. With FPL's proposal, once approved by the Commission, there will be no financial risk to FPL's recovery of its investment with a Commission-allowed return, even if the system never moved any gas.

Thus, the competitive circumstances in California are not as represented by FPL and, most significantly, the gas transmission pipelines are not in the electric rate base. If anything is to be learned from California, keep the pipelines out of the electric rate base and in a separate highly structured and regulated subsidiary.

EnergySecure Pipeline Cost Recovery [Issues 4, 5, 7, 8, 11, 12, and 15]

Q. Does the recovery of this pipeline investment and operating costs by FPL through its proposed rate base treatment provide any unfair advantages to FPL?

A. Yes. In this manner, the costs are fully recovered, and FPL earns a return on its equity portion of the investment in these facilities. In addition, such a mechanism shields FPL from any utilization risk. By this I mean that in normal pipeline investment, a pipeline company designs a transportation rate based on the total capacity of the pipeline. If the total capacity is not "sold" or "subscribed" by contract, then the pipeline company is at risk for the recovery of those dollars and that part of its investment. The result is that for a pipeline like FGT, its shareholders are at risk for any unsubscribed capacity, not its customers. With FPL's FES pipeline proposal, the customers are at risk, not the FPL shareholders.

Q. Doesn't a pipeline rate include an equity return on investment similar to that which you outline for FPL?

A. Yes. However, the difference is that FPL will not suffer any risk of under recovery of costs or any failure to earn a full equity return on its pipeline investment, regardless of whether the system ever transports any gas. This is not the case with normal pipeline investments. FERC regulated pipelines set rates based on their cost of service, including an equity return, based on an assumed 100% load factor on the system. If these systems do not contract for the full capacity, they will not recover the equity return that would be allowed. This is particularly true when pipelines contract on a negotiated rate basis. In FPL's proposal, there is no incentive to achieve a highly utilized system.

Q. What is the impact of this type of incentive?

A. When the economic incentive does not drive full utilization of the pipeline capacity, the effective cost to customers of the capacity that is used is increased.

Q. Is there a different way in which this could be recovered?

A. Yes. FPL has included in its economic analysis an assumed "rate" that is based on a 100% load factor. This was calculated in order to allow a comparison to the other pipeline proposals. However, the actual recovery of the costs will not be based on this "rate." For example, the pipeline assumes a rate of $1.32 per MMBtu in the first year. This is based on recovery of the costs over the full 600,000 Mcf/day of capacity. If this capacity is not fully utilized, and the pipeline investment and operating cost are recovered in electric rates, then the

effective transportation rate on the pipeline will be much higher than the assumed $1.32 per MMBtu.

Q. Is there a better way for FPL to price this investment?

A. Yes. If the need for this pipeline is established, this Commission should require FPL to separate the pipeline investment into a separate cost of service company, and require that a cost of service rate be developed based on a 100% load factor basis. Once this has occurred, the capacity actually utilized by FPL, priced at this rate, should be recovered via the fuel cost recovery mechanism, exactly as the other natural gas transportation costs paid by FPL are recovered.

Q. What are the advantages of this methodology?

A. FPL customers will only pay for capacity actually needed for the operation of the system. FPL shareholders would be at risk for underutilization should the forecasted loads not materialize according to its own 40 year forecast.

Q. Is this how pipeline capacity rates are developed at the federal level?

A. Yes. Pipelines will propose expansions, and if there is adequate demand, the systems are expanded. In general, the FERC will not allow expansions where the pipeline intends to "rate base" or roll-in the investment with its existing system investment if such an expansion would serve to increase the rate to existing customers.

When this occurs, the pipeline must file for an incremental rate, based only on the investment for the expansion capacity. In this manner, such

incremental investment does not affect existing customers, and the pipeline remains at risk for the system utilization and cost recovery.

Q. Is this the rate methodology used by FGT in its Phase VIII expansion?

A. Yes. FGT has proposed a new incremental recourse rate for the Phase VIII investment, and in addition, has committed to contract for the capacity at negotiated rates below this level. As such, FGT is fully at risk for any under recovery of its investment and operating cost for the Phase VIII facilities.

Q. Is this one reason pipeline companies do not maintain substantial excess capacity on their systems?

A. Yes. An interstate pipeline cannot burden its existing customers with paying for excess capacity. Customers generally do not want to pay for such excess capacity that is not providing direct benefit, and expansions are not allowed to impact existing system rates. As such, it does not make economic sense for pipelines to construct substantial excess capacity. As a result, the arguments put forward by FPL witnesses that there is currently no excess capacity in existing transmission lines is a hollow argument, since pipelines will expand their systems if there is economic demand for such expansions. As shown in Exhibit MTL-3, FGT has substantially expanded its system to meet Florida's market requirements.

Q. Is the FGT expansion pipeline capacity priced on this 100% load factor basis?

A. Yes. In the FGT Phase VIII filing, the rate applicable to the system is calculated on a 100% load factor basis. As such, if FGT charges rates below the cost of service level, or does not fully subscribe the capacity, it will not earn the allowed equity return on the investment.

Q. Is pipeline capacity always priced at the calculated cost of service rate?

A. The pipeline will always have a "recourse" rate, or cost of service based rate approved by the FERC, which is the rate at which service would be available on an open access basis. However, in the FGT Phase VIII expansion, FGT has contracted with its customers at a fixed rate that is negotiated, and is lower than the proposed FERC cost of service rate.

Q. For the FGT Phase VIII expansion, why are these negotiated rates below the FERC cost of service rate?

A. The reason is that FGT is taking a greater risk of earning a return on its investment in the early years of the expansion operation. Since the FGT customers have signed long term agreements, the rate also reflects the reduction in overall cost of service over time for the capacity. This effectively leaves FGT at risk for the long term utilization of the system while providing the customers with a fixed, known rate.

Q. Could such an approach be taken with FPL's proposed pipeline?

A. Yes. FPL could fix a rate, calculated over the initial 20 year period, for the initial 600,000 Mcf/day of capacity it claims is needed. The portion of this capacity that is actually needed, i.e. 400,000 Mcf/day at most, could be priced

at the "negotiated" rate and recovered via the FPL fuel cost recovery mechanism. Any risk of utilization of the additional capacity would remain with FPL, and any future capacity needs would require a similar filing with the Commission to determine if there is adequate system need to allow recovery of any additional cost, or if there are other more competitive transport alternatives available at the time.

Q. How would such a rate be negotiated?

A. It can't. Since FPL's regulated operations would own both the electric generation facilities and the pipeline, such a rate cannot be negotiated by FPL. For third party providers, this is not an issue, and the competitive market determines the best alternative. This is why, if the Commission ultimately finds a need for this pipeline, the complete cost of the pipeline needs to be placed in a separate operating affiliate of FPL's and not within its electric regulated rate base. In this manner actual utilized transportation capacity costs would be passed through to electric ratepayers through the fuel charge.

Q. If the Commission does not place the FPL pipeline in a separate subsidiary, would its ownership and operation of the pipeline provide access that is unreasonably preferential, prejudicial, or unduly discriminatory?

A. From an operational standpoint, yes. Ratepayers would be forced to cover excessive and unnecessary expenses for capacity that is not needed or utilized, which is certainly prejudicial. Moreover, to the extent that FPL were to sell

transmission capacity to others, the Commission would need to take strong steps to insure there is full open and transparent information as to how such services were provided, and to allow third parties priorities equal to FPL's electric operations in utilization of the system. Having all of the investment in its electric rate base would certainly create the possibility of an unduly discriminatory situation for customers and vis a vis other pipeline companies. If this system is allowed, clearly the best policy alternative would be to require a separate gas transmission subsidiary, subject to strong open access and transparent operating rules should be mandated by the Commission.

Q. If the Commission required FPL to monitor and report the final cost of the FES system following completion, would that provide any protection to customers?

A. No. If the Commission allows FPL to include such large costs in rate base, then any cost variance would not affect the ability of FPL to recover a full return on this investment regardless of usage. The customers would pay for this through electric rates.

Pipeline Operations [Issues 2 and 4]

Q. Does FPL intend to operate the EnergySecure pipeline system?

A. This is unclear. FPL discusses the possibility of contracting with a third party operator for this system, or operating it with FPL personnel.

Q. Does FPL have the necessary operating experience?

A. FPL points to its operation of small existing pipelines. To my knowledge, FPL has not operated a large diameter, high pressure, pipeline system that is 279 miles long.

Q. Are there third party operators that could provide this service?

A. Yes. However, in order for the Commission to assess the capability of either FPL or a third party to operate this system safely and reliably, FPL should provide more specific information as to its specific intention is in this regard.

Issues for the FPSC [11, 13, 14, and 16]

Q. Based on the different cost recovery mechanism proposed, what policy issue does this create for the Commission?

A. If the Commission allows the rate base treatment of pipeline assets in setting electric rates, this would allow a "guaranteed" return on this level of investment regardless of use. The Commission should consider whether allowing such rate base treatment of non-electric property in base electric rates is a direction it feels is prudent. This clearly leaves the consumers more at risk for any pipeline capacity decisions as compared to the current arrangement where such costs are recovered via a fuel cost recovery mechanism.

Q. Have other jurisdictions dealt with this issue?

A. In California, the California Commission specifically required the gas operations to be separate from the electric operations. In addition, it has required the pipeline operations to be conducted in an open access manner,

similar to the requirements at the federal level for interstate pipelines under FERC regulations.

There may be small pipeline systems that are more integral to electric operations that have been included in electric rate base. Nevertheless, the Commission should consider the policy implications of allowing FPL to operate a large diameter, high pressure pipeline to transport gas across the state where such a large pipeline investment has never been included in the electric rate base.

Q. Are there other concerns?

A. Yes. If such rate based treatment is allowed, there will be an incentive for FPL to expand such a system, as there would be little risk to its shareholders that such investment would not generate an adequate return. This would allow FPL to hold an unfair competitive advantage over existing pipeline capacity providers in future expansions. With FPL's size as the largest electric provider in the state, and if future FPL pipeline capacity expansions are not limited within the state, this also raises the question as to whether the Commission would require that FPL expand and operate its system to serve local distribution system loads, industrial loads, alternative generation facilities, etc.

Additionally, the Commission should determine if there are other investments that FPL is more uniquely qualified to make, such as alternate solar powered facilities, where an investment of $1.6 billion would be more appropriate from a public policy standpoint.

Q. Can you outline any other concerns you see in the FES filing?

A. Yes. FPL has failed to show (1) there is a real need based on the population growth expected, the Ten Year Site Plans filed, and expected peak day gas demand as compared to the existing pipeline capacity held, (2) that the proposed pipeline project would result in lower costs to the FPL consumers as compared to the other proposals received, (3) that all supply and pricing alternatives upstream of Transco Station 85 have been adequately investigated, (4) that transportation alternatives from Transco Station 85 to FGT Compressor Station 16 and to the Cape Canaveral and Riviera Plants have been adequately reviewed, and (5) that the Commission should allow FPL's investment in pipeline facilities under the rate proposals offered by FPL.

In addition, it is clear that FPL could have proposed a structure that would balance the risk for any underutilization of the proposed system between its electric customers and its shareholders. Instead, it is seeking a guaranteed return of this investment from its electric customers.

Summary

Q. Please summarize the key points of your testimony?

A. FPL has failed to provide adequately supported data to justify the requested determination of need. The long term forecast of natural gas requirements offered by FPL are not supported, FPL's analysis and conclusions regarding upstream supply and transportation alternatives are incomplete and do not meet

the objectives set forth by FPL, and there are substantial errors in the overall economic analysis of alternatives. This is an unnecessary $1.6 billion pipeline that will result in higher long term cost to FPL electric customers.

Q. Based on the information provided by FPL in its petition for determination of need should its natural gas transmission pipeline be approved?

A. No. FPL's proposal fails to meet the standards for a determination of need and it is not in the best interest of the electric ratepayers. The Commission should deny FPL's requested certification of need.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA GAS TRANSMISSION COMPANY, LLC

SURREBUTTAL TESTIMONY OF MICHAEL T LANGSTON

DOCKET NO. 090172-EI

Q. Please state your name and business address.

A. My name is Michael T. Langston. My business address is 5444 Westheimer Road, Houston, Texas 77056.

Q. Are you the same person who filed direct intervener testimony in this proceeding?

A. Yes. I filed Direct Testimony on behalf of Florida Gas Transmission Company, LLC ("FGT") in this proceeding on June 19, 2009.

Q. What is the purpose of your testimony?

A. I will respond to the issues raised by Florida Power & Light Company ("FPL") witnesses Morley, Enjamio, Sexton, Sharra and Forrest in their rebuttal testimony filed on July 2, 2009. Specifically I will address the overstatement of the demand for natural gas presented by witnesses Morley and Enjamio, the inconsistencies in the upstream alternatives presented by witness Sexton, the subsidiary structure alternative for this project, which has been rejected by FPL witnesses Sharra and Forrest, and the problems that FPL's proposed structure presents because it burdens the FPL ratepayers with the entire cost of the $ 1.6 billion project, plus the costs of the upstream pipeline, regardless of actual

usage, and it relieves FPL of any risks associated with recovering a return on its investment in the intrastate EnergySecure pipeline ("FES"). This project proposal is not in the best interests of the Florida ratepayers and FPL's petition of need should be denied. I have attached as Exhibit MTL-15 a map showing the various supply points, pipeline systems, and delivery points discussed in this proceeding.

Q. What exhibits are you presenting in this proceeding?

A. I am responsible for the following exhibits:

Exhibit No.	Description
MTL-15	FGT and FES system map with upstream pipeline systems
MTL-16	Answer to FPL Interrogatories Nos. 16 & 17

Demand Analysis

Q. FPL witness Morley in Rebuttal Testimony on page 2, line 7-8, now argues that the FPL population forecast is reasonable because it is within the high end of the University of Florida forecast. Do you agree?

A. No. The University of Florida's March 2009 baseline forecast shows significantly lower growth over the 10 year period, as compared to the forecast developed by FPL. FPL witness Morley literally dismisses the difference as

forecasting error without further justification. The problem with justifying FPL's overinflated projections by saying that they still fall within the "high end" of the University of Florida's projections is that it ignores the cumulative effect of such an approach – which by 2018 results in a population difference of some 500,000 people. Particularly in light of current economic conditions, there is no reasonable basis for concluding that within two years Florida will bounce back and once again be growing at its historic growth levels. FPL is asking that the ratepayers to underwrite its high growth projections for $1.6 billion with no risk to FPL and its shareholders. With the University of Florida base case projections showing slower population growth, it is not reasonable for FPL to use the high end population growth forecast to attempt to support its electric demand forecasts.

Q. In FPL witness Enjamio's Rebuttal Testimony on page 7, line 22 to page 23, line 4, he indicates that you have not considered the West County Energy Center units in your discussion of peak day demand levels. Is this correct?

A. No. In my direct testimony, I was comparing the overall expected peak day gas demand once the Cape Canaveral and Riviera units are converted to gas usage. I made no adjustment with respect to the West County Energy Center installations because (1) the overall annual gas demand in FPL's own Ten Year Site plan filed in April 2009already includes the addition of the West County Energy Center units, and (2) the West County Energy Center units will displace

older, less efficient units. On page 10 of FPL's Ten Year Site Plan filed just three months ago, FPL states "In addition, the following older, less efficient units will also be placed on inactive Reserve status in 2009 and 2010: Cutler Units 5 & 6, Port Everglades Units 1 & 2, Sanford Unit 3, Martin Unit 2, and Manatee Unit 2." This is simply a case where gas demand in one area is replaced by gas demand in another area. FPL's assumption that peak day natural gas demand will increase approximately 40% by 2014 is not correct because, as discussed above, the West County Energy Center units do not represent additional peak day demand. Moreover, such an increase is inconsistent with FPL witness Morley's forecasts of significantly slower population growth during the relevant period. (Rebuttal Testimony, page 3, lines 8-10).

Q. Does the installation of more gas fired units necessarily lead to greater gas supply needs on a peak day as implied by FPL witness Enjamio?

A. No. The analysis must consider overall fuel utilization. If a gas fired unit is utilized on a peak day and displaces generation from a nuclear or coal fired unit, then overall gas demand may be higher. However, based on FPL's own plan, it seems clear that the gas demand from the new units at the West County Energy Center will simply replace generation from other gas fired capacity, which would not necessarily lead to any greater overall demand for gas supply.

Q. Will FPL be able to meet its peak day demands?

A. Yes. The newer more efficient units will displace demand from older less efficient units. This means that the overall gas demand, even on a peak day basis, may actually be lower, not higher. But regardless, FPL has not justified how they expect to have a 40% increase in peak day gas demand by 2014. Therefore, the peak day assumptions I made in my original testimony are more reasonable than those offered by FPL.

Cost Analysis

Q. Witness Enjamio indicates in his Rebuttal Testimony, page 8, line 17 to page 9, line 3, that FGT did not properly consider life cycle cost in its comparisons, and it is this result that makes the intrastate pipeline a more attractive option. Is this true?

A. No. It is FPL that has not properly considered the effects of depreciation in its cost analysis. FPL has wrongly assumed that FGT's rate will necessarily remain the same after the initial 25 year period. However, what the FPL witnesses do not consider is that FGT will also have depreciation during that time period. As a result, similar to the analysis FPL performs for its proposed intrastate pipeline, the overall net investment, and subsequent rate necessary to earn a return on FGT's declining investment will be much lower for the years following FGT's proposed initial 25 year term. By way of example, for FGT's Phase VIII project, the return and taxes other than income (primarily ad valorem taxes) constitute approximately 60 -65% of the total revenue requirement from which the tariff recourse rate is calculated. After a 25 year

period, assuming a 40 year life (as FPL has done), this would lead to a recourse tariff rate that would reflect at least a 40% reduction in year 26, assuming no additional required investment or cost. In addition, as shown by FPL's own calculations for the FES system, the cost of service recourse rate would continue to decline through the entire 40 year life of the project, and the recourse rate for FGT's system would similarly continue to decline. If a similar reduction were assumed for FGT's proposed rate to FPL for service to Cape Canaveral and Riviera after the initial 25 year proposed term, the recourse rate in year 26 would be reduced by over $ 0.50 per MMBtu. As the system continued to depreciate, the recourse rate reduction would be even greater through year 40. If you took an assumed $ 0.50 rate reduction for the 400,000 Mcf/d of capacity for years 26-40 , calculated at the 8.89% utilized by FPL, this reduction would have a net present value of $ 70 million. If you took an assumed $ 0.70 average rate reduction over years 26-40, the net present value of this reduction would be over $ 98 million. It is only by keeping the FGT rate high throughout the projected 40 year horizon that FPL can try to justify its proposed project to this Commission. FPL did not solicit proposals for a 40 year term, and, therefore, the FPL witnesses have made unreasonable assumptions for FGT's rates following the initial term that improperly favor the FPL project. When appropriate adjustments are made for the effect of depreciation over the 40 year period, together with adjustment of other erroneous FPL assumptions regarding demand levels, capital costs and other

impacts as described throughout this testimony and summarized in my conclusions , it is clear that the FPL proposed intrastate pipeline will be much more expensive for Florida ratepayers.

Q. FPL witness Enjamio in his Rebuttal Testimony on page 11, lines 6-10, indicates that if he levelized the rates for the intrastate pipeline, the results would still favor the intrastate pipeline over the 40 year cycle. Is this correct?

A. No, because as I just discussed, you have to take into account the decreased rates over time based on the depreciation of the upstream pipeline investments. However, the real issue is who bears the risk of underutilization. In the FPL assumption, the additional FPL gas requirements are assumed to be utilized on a 100% load factor basis throughout the project, even though FPL admits that it won't be fully utilizing the proposed pipeline capacity until 2021. In FPL's proposal, regardless of how you calculate the costs, and regardless of usage, the ratepayers unfairly will pay for the $1.6 billion investment and associated costs and equity return, with no risk on the FPL shareholders.

Q. FPL witnesses Enjamio in his Rebuttal Testimony on page 5, line 16-23, and FPL witness Sharra in his Rebuttal Testimony on page 12, lines 10-23, have indicated that FGT's potential elimination of $132 million of investment necessary to construct facilities to the Riviera plant does not consider the $86 million FPL would need to spend on the oil/gas line. Does this affect FGT's analysis?

A. No. FGT has shown that FPL's FES intrastate pipeline proposal includes utilization of facilities that FPL failed to include in its bid solicitation. As a result, there is clearly an excess capital amount in the FGT proposal that is included in the economic assumptions utilized by FPL to assess the FGT proposal. Elimination of this excess capital expense, whatever the precise amount may be, would only improve the economics of the FGT proposal.

Q. FPL witness Enjamio, at page 5, lines 19-23, claims that the intrastate pipeline is more economic even after eliminating this excess capital from the FGT proposal. Do you agree?

A. No. FPL must string together many unreasonable assumptions to make this claim. Besides the problem of holding the upstream transportation costs constant over a 40 year period as previously discussed, FPL also utilizes an inflated 600,000 Mcf/d capacity model. As shown before, the overall demand at least through 2021 does not support this need. In addition, it is clear from the testimony of FPL witnesses Sharra and Forrest that the overall process was designed to attempt to justify additional transportation capacity on systems other than FGT. (Sharra Rebuttal page 14, lines 1-6; Forrest Rebuttal page 8, line 22 – page 9, line 3.)

Q. In your opinion did these factors bias the results against FGT?

A. Yes. FPL has admitted in filed testimony that the FGT (Company B) proposal was the most economic for the 400,000 Mcf/d of capacity FPL claims it actually needs through 2021 and referenced in FPL's solicitation. Only after

much creative work, including the upward adjustment to 600,000 Mcf/d required by Company E, claiming that Transco Station 85 is the only place available for diverse gas supplies, and other questionable assumptions, could FPL try to justify the Company E/FES pipeline proposal.

Structure of Project

Q. FPL witness Forrest, page 6, Lines 19-22, indicates that the only way the FPL pipeline works is as a part of the regulated electric rate base. Is there a better way to structure the construction of any necessary pipeline?

A. Yes. Even assuming the demand and economic analyses are reasonable, embedding these costs in the regulated electric rate base just is not appropriate or fair to the Florida electric customers. With the pipeline in a separate company, rates for service would be set by rate proceedings in front of the Commission where all the costs would be clearly identifiable and not merged in with electric generation costs. Under that structure, the cost of service rates for capacity actually utilized by the FPL electric ratepayers would flow through the Fuel Cost Recovery Mechanism, and any excess cost and risk would more fairly be borne by the FPL shareholders. If FPL feels this project is "economic," then such a structure would still allow the infrastructure development, protect the ratepayers from excess cost, and allow the shareholders to earn a reasonable return on the investment decisions made by FPL management.

Q. Are there other issues that would need to be addressed by the structure proposed by FPL?

A. Yes. FPL has indicated that it will attempt to provide transportation services for third parties utilizing any excess capacity on the FES system. If this service is to provide transportation of gas originating in interstate commerce, then such service may be subject to Section 311 of the Natural Gas Policy Act, and Section 284 of the Federal Energy Regulatory Commission ("FERC") regulations. In setting a Section 311 rate at FERC, if such assets were included in electric rate base, then the rate filings would contain extensive electric service revenues and cost as appropriate costs would need to be identified for allocation to the intrastate pipeline operation in order to arrive at an appropriate transportation rate that the FERC would approve.

Q. FPL witness Forrest indicates at page 2, line 19-22, that FGT's proposal of successively lower rates was a positive reflection of the alleged competition of the intrastate alternative. Is that correct?

A. No. FGT submitted revised proposals to FPL as material costs, primarily steel prices, declined from unprecedented 2008 levels, thus reducing expected capital costs. By making real time adjustments in this manner, FGT was being responsive to FPL's solicitations. FGT knew that FPL had solicited proposals from many companies, and that there was already competition for this service.

Q. Witness Sharra indicates that FPL was not able to consider additional capacity within FGT's Phase VIII expansion due to timing issues. (Sharra Rebuttal Testimony, page 13 line 21 – page 14, line 1.) Do you agree?

A. No. The precedent agreement between FGT and FPL for Phase VIII capacity was signed in February 2008 and amended in August 2008. During this time frame, FPL had filed to convert the Cape Canaveral and Riviera plants from older fossil-fueled plants to combined cycle gas service, with the Commission approving these conversions in September 2008. FGT did not file its formal FERC certificate application for the Phase VIII project until October 31, 2008. Clearly FPL could have discussed an expansion of the FGT Phase VIII project to include an additional 400,000 Mcf/d of capacity after approval of the conversions by the Commission and prior to FGT's filing of the certificate application. As with its failure to explore open season opportunities, FPL failed to pursue additional Phase VIII capacity with FGT before issuing its bid solicitation in July 2008.

Q. FPL witness Forrest in his Rebuttal Testimony, page 6, line 22through page 7, line 2 indicates that FPL feels that placing the pipeline in a separate entity would provide no benefit to FPL's customers and would burden those customers with the costs of operating the separate entity and managing an affiliate relationship. Do you agree?

A. No. The investment of $ 1.6 billion in this system, if placed in the FPL electric rate base, will result in approximately $288 million in initial annual cost impact

on FPL customers. As such, to the extent this system is overbuilt, the customers are paying for this excess capacity in their rates while FPL's shareholders are guaranteed to recover a return on their investment. FPL has not quantified any alleged expenses that it would incur as a result of placing the intrastate/FES system in a separate entity, let alone quantifying how these costs outweigh the burden suffered by the ratepayers with an overbuilt system included in electric rates. FPL makes vague reference to the "affiliate transaction rules" and "legal, administrative and on-going expenses" of establishing a separate entity to hold the FES asset, but has made no attempt to provide actual costs or risk analysis for this Commission to consider.

Supply Security

Q. FPL witness Forrest indicates that the intrastate pipeline will provide supply reliability and avoid the issues faced during Hurricanes Katrina and Rita. (Rebuttal Testimony, page 12, lines 19-22.) Do you agree?

A. No. Construction of the FPL intrastate pipeline would essentially run parallel to the FGT system, and so would have the same reliability profile. The issue of curtailment of gas supply as raised by FPL witness Forrest (page 12, lines 10-16) is actually a function of where FPL chooses to purchase its gas supply, not the reliability of the pipeline capacity infrastructure. Therefore, it is the actual supply purchasing practices of FPL that change the risk dynamics of hurricane impacts since loss of supply, rather than curtailment of pipeline capacity, is the most likely outcome of hurricane damage in the Gulf. Moreover, both the

pipeline industry and FPL have already taken steps to minimize such impacts in the future. For example, since 2005, the SESH system has been constructed, and many other expansions and interconnects have been constructed to provide greater supply alternatives. Attached as exhibit MTL-16 is FGT's answer to FPL Interrogatories Nos. 16 and 17 which outlines the expansions/interconnects into the FGT system since 2005.

Q. If it is gas supply and not transportation capacity that is primarily impacted by hurricanes, what impact is seen on prices in such events?

A. FPL is correct that in the event of major supply disruptions, prices are affected. Any purchaser of gas attempting to buy gas on the spot market during such a supply disruption will pay prices higher than those that can be negotiated in long-term supply contracts. But the more liquid the supply point, the better chance to obtain lower-priced gas. Accordingly, in the event of a disruption of FPL's gas supply, it is important to have access to the most liquid supply points in order to ensure access to the greatest number of alternative suppliers at the most favorable prices available. For this reason, FGT's direct testimony highlighted the benefits of the Perryville area, and FGT's existing interconnects that provide supply diversity from that area. FPL is clearly now trying to promote Transco Station 85 supply availability in order to support the combined Company E/FES proposal, but Exhibit MTL-12 clearly shows Perryville to be a much more liquid supply point.

Q. FPL witness Sexton in his Rebuttal Testimony, page 9, line 16 through page 10, line 11 indicates that he believes there is too much capacity on FGT from the Mobile Bay area. Is this a significant factor?

A. No. While FPL witness Sexton wants to focus on Mobile Bay to attempt to support FPL's hurricane arguments, FPL has contracted for capacity from this area to move supplies from interconnect points, including supplies purchased into the SESH system, which originates in the Perryville area. FGT also provides access from supplies from other interconnect points, such as Destin Pipeline, Transco, and others. The fact that FPL has contracted for firm capacity from these points does not limit the type or location of supplies it is able to access via upstream pipelines. In fact, in the proposed Company E/FES pipeline proposal, FPL would access Transco Station 85, and have to contract for upstream capacity, or obtain supplies from shippers that hold that upstream capacity.

Q. FPL witness Sexton argues that you did not correctly consider sunk cost for those producers holding capacity on the pipeline systems delivering gas to Transco Station 85. (Rebuttal Testimony page 12, lines 6-7.) Is this the point you were making in your testimony?

A. No. The point of my testimony is that FPL should have considered the upstream transportation cost in its own analysis in determining where the most liquid supply point is located, and where over the long term it can best access low cost supplies. While the costs for the transportation agreements in place

with producers on the Boardwalk and Mid-Continent Express systems would be sunk costs for those producers only, it does not represent a full supply analysis of where lower costs for gas supplies could be obtained over the longer term. If FPL witness Sexton is indicating that over a 20 year time horizon producers are willing to suffer a "loss" on sunk transportation costs to Transco Station 85, then that logically leads to a concern that there may not be suppliers willing to pay such costs once the original contracts expire. The point here is that FPL's incomplete analysis leaves many supply and pricing questions unanswered. FPL has not provided sufficient detail regarding upstream costs for this Commission to approve a project costing $1.6 billion for the intrastate piece alone.

Q. Is there another way this analysis on supply and transportation sunk cost can be analyzed?

A. Yes. The premium over the Henry Hub price for gas delivered into FGT in Zone 3 is $ 0.0389 on average. Therefore, on average, the price of gas delivered into FGT in Zone 3 would be $ 0.0722 higher than the price available into Transco at Station 85. (See Exhibit MTL-14.) That price differential should lead producers who hold capacity on SESH and other systems delivering to FGT to deliver to FGT prior to deliveries to Transco Station 85. In addition, as more specifically discussed in my direct testimony, Gulf South/Boardwalk has leased capacity on the Destin system at a cost of $ 0.065 per MMBtu. As a result, even those producers FPL witness Sexton points to

that have sunk transport cost on the Boardwalk system would pay the additional $ 0.065 per MMBtu transport cost on the Destin system to access a market that pays an additional $ 0.0722 per MMBtu up to the total capacity leased from the Destin system.

Q. Has FPL witness Sexton provided adequate analysis on this issue of supply and transportation sunk costs in his rebuttal?

A. No. Market dynamics are variable, but over time, supplies will move to the locations where the overall best netbacks to producers, and lowest prices to the markets, converge. There has been inadequate analysis from FPL on the supply/transport alternatives available within the market. In addition, FPL has elected not to participate in the open season opportunities for additional capacity that have been available. As noted previously, Transco held an open season for capacity from Transco Station 85 to interconnects with FGT and Gulfstream. FPL witness Sharra states that conversations with Transco indicate that other parties have shown interest in the inexpensive expansion from Transco Station 85 to FGT and Gulfstream. (Rebuttal Testimony, page 6, line 20 through page 7, line 2.) If this access to Transco Station 85 is so strategic to supply diversity, then why did FPL not consider it a strategic source of supply to its existing FGT and Gulfstream capacity? The economic cost to the Florida ratepayers of this FPL management decision is significant. . For example, if FPL utilized FGT's proposal and contracted with Transco for capacity from Transco Station 85 to FGT's interconnect point at Citronelle

using Transco's existing tariff rate, there would be a savings of $ 0.11 as compared to the rate assumptions made by FPL in its analysis. The value of this excess $ 0.11 over the 40 year life of the proposed FPL project, utilizing only the 400,000 Mcf/d of capacity proposed by FGT (discounted at FPL's rate of 8.89%) would have a net present value of approximately $ 175 million.

Q. Can you outline the key points in your surrebuttal testimony?

A. Yes. FPL still has not adequately explained or substantiated its demand forecasts to the extent necessary to justify the construction of this $1.6 billion pipeline. It seems clear that the need for additional capacity is probably less and certainly not more than 400,000 Mcf/d until at least 2021, or even later, depending on Florida's long term population growth. Under its current proposal, FPL seeks to unfairly burden its electric ratepayers with significant costs to pay for an investment of $1.6 billion for this intrastate line, and to take on costs for additional upstream capacity, driving the total well above what is fair, just, and reasonable for Florida ratepayers. Therefore, at a minimum, if FPL is permitted to proceed with this project, such investment must be placed in a separate subsidiary, where rates can be set based on cost of service ratemaking review by the Commission over time. If FPL does not need the full capacity of the pipeline system, and is unable to sell this excess capacity into the market, then its shareholders should bear the additional cost burden, not the Florida consumers.

As to supply access, FPL has provided incomplete analysis of the overall supply and transportation alternatives available to FPL to access supplies from more liquid supply points for the Commission to make any meaningful determination as to whether this proposed $ 1.6 billion project is economically feasible and in the best interest of FPL ratepayers.

As shown in my testimony, use of the oil/gas line to Riviera would save at least $ 50 million in capital (based on FPL's own numbers) compared to FGT's capital assumptions, tariff rate assumptions for use of Transco capacity over 40 years would have a net present value of $ 175 million, and adjustment to rate assumptions for years 26-40 for FGT's proposal would have a net present value of $ 70-$98 million. This clearly raises issues as to whether or not the proposed FES project is economic for the Florida ratepayers.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

CHAIRMAN CARTER: You may proceed.

MR. SELF: Thank you, sir.

BY MR. SELF:

Q. Mr. Langston, do you have a summary of your direct and surrebuttal testimony?

A. Yes, I do.

Q. Can you please give that now?

A. Yes. Good morning, Mr. Chairman, Commissioners. As I noted, my name is Michael Langston. I'm here on behalf of Florida Gas Transmission this morning.

My testimony addresses the request of FPL to construct $1.6 billion in facilities which are intended to address the gas transportation capacity needs of the Cape Canaveral and Riviera Beach plant conversions which you approved in 2008, and which have a requirement of 400 million cubic feet per day. For a map outlining the various locations discussed in my testimony I've included in my surrebuttal an Exhibit MTL-15, which is a map similar to what FPL had but showing these locations that I discussed in my testimony.

FPL has acknowledged that FGT has offered the most economic proposal to serve the needs of the plants at Cape Canaveral and Riviera, at least through 2021. Even using FPL's calculations over the initial 20-year

period, the overall rate for the needed 400 million a day of FPL -- needed by FPL would be approximately 50 percent higher than the FGT proposal based on, on this capacity.

In responding to FPL's proposal in this proceeding, my testimony addresses four primary areas of concern: An unreasonable population forecast and associated demand estimates; incomplete analysis in determining the appropriate pipeline alternatives; inconsistent and inaccurate economic analysis of pipeline alternatives and cost to the FPL ratepayers; and alternative structures that are available if this proposal is approved by this Commission.

On demand, FPL has utilized the population projections put forward by the University of Florida. However, they have utilized the base projections and adjusted them upward to a more aggressive assumption in order to support a higher demand forecast. This thereby allows them to support the capacity that they have filed for in this proceeding. In my direct testimony I show that a more recent projection published in March of 2009 shows a lower growth in the state over the next several years. In my surrebuttal I outline the fact that FPL ignores this more recent data, and failure to consider this lower growth shows that FPL's adjustments in this

proceeding appear unreasonable.

Installation of newer, more efficient gas-fired generation units does not necessarily result in increased peak day gas demand, particularly with stagnant growth projections over the next few years. In this proceeding FPL has not reconciled their peak day demand needs, and at most identifies only 400 million a day for the Cape and Riviera plants at least until 2021, even with their aggressive population forecast.

As shown on Exhibit MTL-3, FGT has expanded its system on a consistent basis when required to meet incremental additional market demands within Florida. As I noted earlier, FPL has identified FGT's proposal as the most economic alternative to provide the capacity to Cape and Riviera plants. Notwithstanding this, FPL is proposing another more costly, less economic alternative.

The FPL intrastate system is designed to provide more capacity than is needed in the market. This pipeline will have a capacity of 600 million a day when the need is at best 400 million a day. This excess capacity under the most favorable assumptions would have a cost of over $1.1 million in excess cost to ratepayers over the first eight years of this project.

FPL attempts to justify this excess capacity

based on its claims to access a more diverse gas supply at Transco Station 85. These same supplies, however, can be delivered into the FGT system at existing interconnect points that already exist into the FGT system.

In addition, FPL had other opportunities to obtain capacity from Transco Station 85 into the FGT and Gulfstream systems at lower cost through recent open seasons. This shows that FPL has not provided adequate supply and transportation cost alternative analysis in their proposal and has simply focused on accessing Transco Station 85 in a manner that was necessary to support the Company E/FPL intrastate proposal.

FPL is proposing to spend 1.6 billion, as well as contract to support other upstream capital investment, all totaling several billion dollars to overbuild capacity compared to the identified need. The full cost of these expenditures would be paid for by the electric ratepayers. The economic analysis performed by FPL was stretched to 40 years in order to get a life cycle analysis that even under their assumptions could show a benefit. Even using their calculations over the initial 20-year period, the overall rate, as I mentioned, would be 50 percent higher than the 400 million a day that has been identified as the need

at this point in time.

They have proposed to include this intrastate pipeline in electric rate base. This puts all of the economic risk on the FPL ratepayers and no risk on the shareholders who will earn a full equity return on this $1.6 billion investment. Other state commissions such as California have not allowed these types of gas transmission systems to be included in electric utilities' rate base.

The economic analysis FPL has provided has utilized 100 percent load factor in their analysis. FPL has assumed depreciation and cost reductions annually for its intrastate system, yet has assumed increasing costs on the interstate pipelines and the alternatives.

Based on FGT's proposal, if future rates were reduced as a result of depreciation, similar to the manner that FPL has calculated for their intrastate system, a net present value cost analysis would reduce the advantage of the intrastate system by some 70 to $98 million for that one adjustment alone.

If FPL had participated in the available open seasons to access Transco Station 85, as compared to the assumptions they made in conjunction with the FGT proposal where they added cost to our proposal to access Transco Station 85, such participation would have

resulted in a reduction in the advantage of the EnergySecure line of at least $175 million over the 40-year projections that they utilized.

FPL has failed in its solicitation, has failed to include in its solicitation the availability of certain pipeline assets that could be utilized to reduce the capital cost to serve the Riviera plant. Even based on FPL's cost analysis, this would save approximately $50 million.

CHAIRMAN CARTER: Mr. Langston, how much more you got there on your --

THE WITNESS: Just a couple of paragraphs.

CHAIRMAN CARTER: Okay. All right.

MR. SELF: Mr. Chairman, he's responding to both the summaries for two testimonies, direct and surrebuttal.

CHAIRMAN CARTER: Okay. You may proceed.

MR. SELF: He's doing them all together.

CHAIRMAN CARTER: Okay. Go ahead. Thank you, Mr. Self, for reminding me.

THE WITNESS: FPL attempts to justify the excess capacity by stating it will be made available to other third parties. In such event, such transportation may also subject this system to regulation by the FERC under Section 311 of the Natural Gas Policy Act.

The structure proposed by FPL to rate base this system does not drive efficient utilization since no risk is placed on FPL for the use of the system. If approved, the Commission should require FPL to place this intrastate pipeline in a separate corporate entity and then allow the FPL ratepayers to only pay for the capacity actually needed.

If there is a need for 400 million cubic feet per day for eight to ten years, then FPL's shareholders should bear the risk of the economic return on the excess 200 million cubic feet. In addition, the demand forecast they have utilized -- if the demand forecasts turn out to be too high, then the shareholders will bear the risk of this management decision.

Thank you.

CHAIRMAN CARTER: Were you able to complete your --

THE WITNESS: Yes, sir. I'm finished.

CHAIRMAN CARTER: Okay.

Thank you, Mr. Self, for reminding me of that. I forgot that he was doing his direct and surrebuttal.

MR. SELF: Thank you, Mr. Chairman. I appreciate that. And the witness is available for cross-examination.

CHAIRMAN CARTER: Okay. Mr. Perko?

MR. PERKO: Yes, sir.

CHAIRMAN CARTER: Good morning.

MR. PERKO: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PERKO:

Q. Good morning, Mr. Langston.

A. Good morning.

Q. Mr. Langston, you mentioned the load forecast that FPL utilized in this proceeding. Has FGT or anyone on its behalf performed an independent population growth analysis for Florida?

A. We have not.

Q. I'd like to talk a little bit about your proposal that you mentioned in your summary. FGT actually submitted multiple proposals in response to FPL's solicitation; isn't that correct?

A. We did.

Q. And you proposed them in September, October 2008, January 2009, and then March 18th, 2009; is that correct?

A. Correct.

Q. And over that time period you proposed successfully -- successively lower transportation rates; is that correct?

A. Yes. As steel prices ran up in the fall of

2008, we had one set of calculations. As those steel prices came down, then we reduced our rates in our proposals.

Q. Now FGT did not propose to provide FPL with access to supplies from Transco 85; is that correct?

A. FGT offered to provide access to capacity at existing interconnects that could give FGT -- I'm sorry, give FPL access to supplies that could be brought down from Transco Station 85 as well as from Perryville or other locations.

Q. But FGT itself did not propose to provide that access to Transco 85; is that correct?

A. Not in our proposal. FPL has added cost under their assumptions for transportation from Transco Station 85.

Q. And rather than providing access to Transco 85, the FGT proposals provided transportation capacity originating at Citronelle, Alabama, in the Mobile Bay area of FGT Zone 3; is that correct?

A. I believe the interconnect points were the Southeast Supply Header System that FPL has capacity on interconnects with the Destin Pipeline Company, two interconnects with Transco, as well as access to other Zone 3 interconnect points that would have available capacity.

Q. Well, in your direct testimony you state, "To better meet the needs of diversified supply objectives, FGT proposed to interconnect at Citronelle, Alabama, where the existing Transco Mobile Bay lateral interconnects with FGT's system." Is that correct?

A. We offered to expand that interconnect as part of that proposal, yes.

Q. But you did not include any costs for expanding that interconnect, did you?

A. Those costs were in our, in our cost estimate, our capital cost estimate that we utilized in our proposal.

Q. All of those sources are within FGT's Zone 3; is that correct?

A. Yes, they are.

Q. If I could refer you to -- if we could get the exhibits. Just for the benefit of the Commissioners, could you identify on the blown-up exhibit of TCS-9 the location of Citronelle, Alabama, in FGT Zone 3?

A. Actually, I have an Exhibit MTL-15 on my surrebuttal that has Citronelle identified on it, if that would help.

Q. Now I just want to confirm, in your rebuttal and -- surrebuttal and direct testimony you mentioned a cost estimate of $1 billion for the facilities that FGT

included in its March 19th proposal; is that correct?

A. Yes. It's slightly less than a billion dollars, rounded up.

Q. That cost estimate did not include any costs for transportation capacity from Transco 85 to FGT's system at Citronelle, Alabama, did it?

A. It did not. And the reason was we felt there was greater supply diversity and alternatives from the interconnect points that we offered.

Q. Now that $1 billion estimate also did not include any costs to provide transportation capacity to other alternative supply points such as Perryville, did it?

A. Well, the interconnect points that we offered in our proposal would allow Perryville supplies to be delivered into the FGT system through those existing interconnect systems.

Q. But your proposal did not itself include any costs for that transportation capacity on any of those interconnected pipelines, did it?

A. There's, there's no cost in any of these proposals, including FPL's, for transportation from the supply zones to these various interconnect points. Transco Station 85 is only an interconnect point. I mean, there's upstream transportation cost that someone

is paying for to move gas to Transco Station 85, as well as upstream cost to move gas to, you know, Citronelle or SESH or FGT Zone 3.

Q. I'm specifically focusing on Perryville. Your $1 billion estimate did not include any cost for transporting gas from Perryville to Citronelle; is that correct?

A. Well, a billion dollars is the capital cost, and we did not assume any capital cost.

Q. So the question -- the answer to my question is no?

A. Well, you asked -- we certainly didn't include in our rate a transportation rate from Perryville. As I mentioned, that gas can be delivered on other systems into FGT Zone 3, and FGT Zone 3 is an active market point. You can purchase gas in FGT Zone 3.

Q. But in order to get gas from Transco 85 or Perryville, you would have to incur transportation costs to get it to Citronelle in FGT Zone 3; is that correct?

A. You would.

Q. And those costs are not included in your $1 billion proposal.

A. We did not include in our proposal those costs. FPL has made some assumptions about cost that they've added in their economic analysis. That's

correct.

Q. Well, let's talk about the costs for transporting capacity from Transco 85 to Zone -- to Citronelle in Zone 3. In September 2008 in a presentation to FPL, FGT quoted an estimated rate of 48 cents per Mcf per day for 400,000 Mcf a day of transportation capacity from Transco 85 to Citronelle; is that correct?

A. I don't have those documents.

Q. I'm going to show you FGT's response to Florida Power & Light's first production of documents request. And if you can page back, there's a -- on Page 5 of 17 of FGT's confidential responses to FPL's first POD Number 1.

And incidentally, Mr. Chairman, that no longer is confidential, this exhibit, so we don't need to worry about confidentiality.

CHAIRMAN CARTER: Thank you.

BY MR. PERKO:

Q. But if you could refer to Page 5 of 17, and it appears to be a presentation from Florida Gas Transmission with the State of Florida on it. Do you see that, sir?

A. Yes, I do.

Q. And that's a copy of a presentation that FGT

made to FPL on September 10th, 2008; is that correct?

A. Yes.

Q. And if you turn back to Page 11 of 17 in that, in that presentation, it provides other potential supply options; correct?

A. Yes. That's correct.

Q. And one of them is Transco Station 85, a volume .400 Bcf per day; correct?

A. Yes.

Q. And the estimated rate for that was 48 cents; is that correct?

A. Yes. And, you know, at the time steel prices were very high and the volume assumption here is very low for construction of this capacity. So that would, I'm certain, lead to that type of rate difference.

Q. Well, earlier this year FGT estimated that the total cost to provide 400,000 Mcf per day of transportation capacity from Transco 85 to Citronelle would be approximately $332.6 million; is that correct?

A. I believe we did two estimates. The latest one was right after the first of the year. But, again, I think even during that time period the steel prices utilized were quite high. That's why we ultimately made a subsequent proposal in March that provided even lower rates. And we did not estimate, we did not update any

estimates for our costs from Transco Station 85 to Citronelle.

Q. But as of January 2009, your estimate for costs from Transco 85 to Citronelle was approximately $332.6 million; is that correct?

A. I don't have that document, but I assume you're reading from our data responses.

Q. How much does steel contribute to a transportation demand charge?

A. It's a fairly significant piece. I don't have the -- I wouldn't have the exact numbers. I mean, we could look at our Phase 8 filing and take a look at the detailed cost and see what that is. But I would imagine you're talking, round numbers, 50 percent or so.

You know, I might also mention, you know, one reason that we didn't propose to go to Transco Station 85 is that Transco already goes from Transco Station 85 to Citronelle. They completed one -- or just got authorization for one expansion that was very cost-effective, and they had an open season where they indicated that they would have a very inexpensive rate equal to their maximum tariff rate, which was only 9 cents. So it's not going to make a lot of sense for anyone to construct new capacity from Transco Station 85 to FGT Zone 3 --

MR. PERKO: Mr. Chairman, I think we're straying from my questions. In fact, there was not even a question pending at the time. I would request that the witness limit his answers to the questions asked.

CHAIRMAN CARTER: Okay. Let me do this. I, I give all witnesses this admonition. Actually it's more of a friendly counsel. Is that the question is answered (sic.) to you. If you can answer them yes or no, then do so, but you'll be allowed to explain your answer and -- you know, explain your answer pursuant to the question. If there is a problem or something like that, we'll handle it through the normal procedure through objections and things of that nature.

But let's, let's take if from the top again. Let's rephrase -- let's start the question and then we'll go from there again. Okay?

MR. PERKO: Thank you, Mr. Chairman.

BY MR. PERKO:

Q. Now, Mr. Langston, you don't have any independent knowledge that FPL did not participate in the Transco open seasons that you mentioned, do you?

A. No. That's just our understanding.

Q. I'd like to refer back to the 48-cent estimate that you provide in that presentation in September 2008 for capacity from Transco 85 to Citronelle. Why did you

propose that 48 cents?

A. I think because FPL was, was wanting these alternatives. You know, frankly, even if we don't think it's a good idea, we're going to try to be responsive, and I think that's why there's this range of alternatives that showed various rates based on the costs at that point in time. And, as you can see, Transco Station 85 was not the most cost-effective by any stretch of the imagination.

Q. Now in your direct testimony you refer to excess capacity on FGT's Phase 8 expansion project and suggest that that excess capacity could be utilized to serve FPL's Cape Canaveral and Riviera plants. Do you recall that testimony?

A. Do you have a particular page number you're looking at?

Q. On Page 4.

A. Did you say Page 4?

Q. I believe so.

A. Page 4 of 45? I don't see this.

Q. I apologize. I had a mistake in my notes here. It was Page 9 of 45, beginning at Line 10.

A. Okay. Yes, I see this.

Q. Now was there anything within FPL's solicitation that precluded FGT from relying on Phase 8

capacity in developing its response?

A. No. And just one clarification. I believe in your question you asked about using the capacity to serve Cape and Riviera. I think what we're talking about here is just using that capacity to serve Riviera.

Q. Okay. But nothing in FPL's solicitation precluded you from proposing to use unused Phase 8 capacity in your proposal?

A. No. What -- no, it did not. But this particular testimony, what I'm referring to here is the fact that there, there is excess capacity that will be available as a result of the Phase 8 project, and utilization of the oil/gas pipeline that FPL owns that they anticipate converting to gas service, if you utilize that, you could very inexpensively, basically $50 million, you could deliver 200 million of that Phase 8 capacity to the Martin plant.

This wasn't addressing the proposal. This was just pointing out the fact that their -- once that capacity is there, it can very cheaply go to the Riviera plant. This is separate and apart from the proposal that we submitted.

Q. Well, I would like to focus on the proposal, the March 19th proposal specifically. And in fact that proposal does assume that FGT will utilize 214,000 Mcf

per day of unused Phase 8 capacity; is that correct?

A. Yes. Part of the construction would be to move that capacity to, to the Cape and Riviera, but we do assume that we would utilize that capacity.

Q. And the actual amount of that excess capacity, as stated in your direct testimony at Page 9, Line 8, is between 139,000 and 214,000 Mcf per day, quote, depending upon the election of one shipper, end quote. Is that correct?

A. That's correct.

Q. Now that one shipper has a contractual option to increase its Phase 8 capacity requirements by 70,000 -- 75,000 Mcf per day; is that correct?

A. That is correct.

Q. And that contractual option does not expire until May 1st, 2010; is that correct?

A. That is correct.

Q. So if that shipper exercises that option, FGT would not have the full 214,000 Mcf per day of unused capacity you've assumed in your March 19th proposal; correct?

A. Well, at this point in time, you know, given the decline in population and -- or not population, but customer growth in Florida, you know, we anticipate this capacity to be available, and it is available and

uncontracted for today. But to the extent that it's not, we would make additional capacity available.

Q. Now the total planned capacity for Phase 8 is 120,000 Mcf per day; is that correct?

A. It's 820 million a day.

Q. I'm sorry. Excuse me. Thank you. And the total estimated cost for Phase 8 is approximately $2.4 billion; is that correct?

A. Did you say 2.4? Yes. $2.4 billion is the cost for 820 million a day of capacity, which is substantially less than the cost we're talking about here for 600 million a day capacity.

Q. Now you did not include in your $1 billion estimate for your March 19th proposal any costs associated with the unused 2,000 -- 214,000 Mcf per day of unused Phase 8 capacity you assumed would be part of that proposal, did you?

A. No. When we did our proposal, our Phase 8 project is a, has already been filed. We expect to have a certificate here within the next couple of months. From that standpoint, the contracts that we have on Phase 8 basically from our standpoint are going to provide us the return on the capital on that project. So the incremental capital that we're talking about is what's necessary to provide the additional capacity and

also to move the, any excess capacity that we have in the system as a result of Phase 8 to the Cape and Riviera plants.

MR. PERKO: Excuse me, Mr. Chair.

BY MR. PERKO:

Q. Now you mentioned how FPL treated the FGT rate in its economic analysis. Mr. Langston, FPL currently holds transportation capacity on the FGT system subject to FGT's FTS-1 and FTS-2 tariff rate schedules; is that correct?

A. Yes.

Q. And the FTS-1 rate schedule has been in effect since 1993; correct?

A. Correct.

Q. The FTS-2 schedule has been in effect since 1995; is that correct?

A. That's correct.

Q. Can you identify any instance in which FGT has ever increased or, I'm sorry, decreased its tariff rates for FTS-1 or FTS-2?

A. No. But in that regard, there's never been a situation where we filed a rate case where there has not been additional capital investment on the systems in the, from a rate standpoint that goes into calculating the FTS-1 and FTS-2 rates. So, you know, if you assume

that there is no incremental capital that goes into those systems, then depreciation is going to bring the rate down over time whenever you file a rate case.

But in our situation, that's not the case. If you look at my Exhibit MTL-3, you can see the type of capacity additions that have taken place.

Q. Now FGT and FPL also have a negotiated phase FTS, I'm sorry, FTS-3 rate for capacity on FGT's Phase 8 project; is that correct?

A. That's correct.

Q. And after the original precedent agreement for that Phase 8 capacity, FGT subsequently approached FPL and renegotiated a higher transportation rate for that capacity; is that correct?

A. Yes. As our construction costs went up basically due to steel prices for that project, you know, our option under the precedent agreements was to terminate the project, or our other alternative was to see if we could, you know, renegotiate the transactions, and we did that.

Q. I'd like to go back to one of my earlier questions where you mentioned that you believed that 50 percent of the costs were associated with steel. Do you remember that testimony?

A. That's, that's just an estimate, you know. If

you want an exact number, we're going to have to pull some detailed filings to actually look at what that cost is.

Q. Well, if 50 percent were the rate, how much of the rate would be, would be project -- how much of the project costs would be O&M and taxes, et cetera, as opposed to steel?

A. Are you -- well, now, wait -- we've moved from capital costs to operating costs. If you're asking me about cost of service, which is a different calculation, is that, are we talking about cost of service?

Q. I'm talking about the rate.

A. Okay. Rate is derived from cost of service. And so within your cost of service you basically recover on a dollar-per-dollar basis your operating expenses, overhead, admin costs, and as well as a return on your net plant investment and taxes other than income taxes, ad valorem taxes typically. So return and taxes, which are the portions driven by the net investment, are going to be 60 to 65 percent of a rate typically.

Q. But as far as the project costs, I believe you were talking about 50 percent relatively speaking was associated with steel.

A. That's just my estimate.

Q. Okay. How much would be associated with

construction costs, engineering costs?

A. Well, you know, your, your engineering construction and any allocated overhead would make up the majority of the remainder except for, you know, AFUDC, allowance for funds used during construction. So, I mean, you basically have your steel cost and then your construction cost. I mean, those are, those are your two, you know, your contractor cost to actually construct the facilities, those are the two huge chunks of costs that you have on a project.

Q. But you believe that steel would have more of a percentage than those other costs?

A. You know, if you want to give me an exact number, you know, I'm sure we can go pull our Phase 8 filing and we can give you a more specific percentage.

Q. I'd like to talk a little bit about load forecasting. Is it statistically sound to make an adjust to a forecast when a historical forecast is consistently too high or too low?

A. It depends on your outlook for the future.

MR. PERKO: We have nothing further.

CHAIRMAN CARTER: Thank you, Mr. Perko. Staff?

MS. BROWN: Just a few questions for Mr. Langston.

CROSS EXAMINATION

BY MS. BROWN:

Q. Good morning.

A. Good morning.

Q. You may not have this information at your fingertips this morning, but I want to ask you a question, and if you cannot answer it, perhaps we can get a late-filed exhibit.

The question is what is the after-tax FERC authorized midpoint return on equity granted to FGT in its last rate case?

A. FGT had what's termed a settlement of its last rate case, and as such there is no stated rate of return in those. Those are termed black box settlements where basically the individuals simply agree on a -- like a total cost of service number and what the exact rates are that are calculated in the proceeding. So as such there's no specific determination of a rate of return.

Q. Well, I think -- all right. Thank you for that information.

In your deposition there was some discussion about IRR. Do you remember that?

A. Yes. Internal rate of return.

Q. And what was the number that you provided in your deposition in the answer to the questions about an

unlevered IRR?

A. I think that was in regard to economic analysis on a capital project and, and a return on that. I think we were talking about 11 percent.

Q. Okay. When a FERC regulated pipeline proposes a pipeline project which is less than 100 percent subscribed, does the FERC typically impose an at-risk condition on its approval which provides that the pipeline's stockholders must forego the return on the unsubscribed capacity?

A. In general, yes. Let me qualify that. Typically you have two different types of rates. You have -- your tariff rates are what's termed recourse rates that are available for -- you know, if you have capacity available, that is the rate that you must contract for unless you agree to some discount.

In some cases, depending on the investment and the capacity that's generated and the economics, sometimes it is possible to have a system where it's not fully contracted for relative to the capacity, but it still economically is allowed rolled in rate treatment at the FERC. That's fairly unusual, but it can occur.

The other scenario is where you have negotiated rates. And if you have negotiated rates, then clearly you are at risk for any unsubscribed

capacity, and that, that is our situation on Phase 8.

CHAIRMAN CARTER: Ms. Brown, would you yield for a moment, please?

MS. BROWN: Sure.

CHAIRMAN CARTER: Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: Okay. I'll wait.

CHAIRMAN CARTER: You'll wait until the end?

COMMISSIONER EDGAR: Yeah. Thank you.

CHAIRMAN CARTER: Okay. Commissioners, what we'll do is we'll allow staff to finish and then we'll come back to the bench.

Ms. Brown, you may proceed.

MS. BROWN: We just have one more question.

BY MS. BROWN:

Q. You were asked during your deposition if you believed that forecasting short-term population growth during a recession presents unique challenges that aren't present when projecting short-term population growth during times of a stable economy. Do you remember that question?

A. Yes.

Q. And what was your response?

A. I would agree with that statement.

Q. Can you give, give us reasons why you would

agree with that statement?

A. Well, when you have volatile economic situations that impact customers on a, on a broad level, whether it be cost of goods and services, jobs, job creation, you know, there's just a huge impact on, on the individual that's very difficult to ascertain what their reactions are going to be, and as a result you see people who, you know, have to move, they have a difficult time making ends meet, and it's just not a good situation. It's not a situation where your forecasting is very easy.

MS. BROWN: All right. Thank you. We have no further questions.

CHAIRMAN CARTER: Okay. Ms. Brown, we'll allow you -- we'll come to the bench, but you can look over your notes in the meantime just in case I threw you off on your timing and then we'll come back to you. Okay?

MS. BROWN: That's fine.

CHAIRMAN CARTER: Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: Thank you.

Good morning.

THE WITNESS: Good morning.

COMMISSIONER EDGAR: I am looking at your

surrebuttal testimony, and I'm focusing on Page 9 of 18. And as part of that, at the very beginning, on Page 1 of your surrebuttal testimony, when you talk about -- can you hear me, because I'm -- can you hear me?

THE WITNESS: Yes.

COMMISSIONER EDGAR: I'm sorry, because I'm looking at my notes and not at you. So I apologize. Let me see if I can rework myself.

Again, primarily at Page 9, and -- but on Page 1, where you give the purposes for surrebuttal testimony, one of the things that you point out is, my words, a concern about the structure that FPL proposes relieving FPL of any risk associated with recovering a return on its investment. And then you touch on that a little bit more then on Page 9. And in my mind I'm tying this to Issue 11 in the preidentified issues -- and if you want to look at that real quick -- which is basically just the one general question in the preidentified issues about the recovery being as proposed through electric utility rate base or plant-in-service.

THE WITNESS: Yes, ma'am.

COMMISSIONER EDGAR: Okay. So with that kind of as foundation, could you speak in a little more detail about the point you raise about risk or the lack

of, and then -- and how that enters into your, my take of your position and FGT's position that the structure that FPL has proposed is not appropriate, focusing on that issue of risk to get me started.

THE WITNESS: Okay. I'm speaking primarily of financial risk with the capital investment of the project and the, and the associated recovery of the cost.

In FPL's proposal they're proposing to include the investment in electric rate base, and they've done their own kind of revenue requirement calculation. And in the first year it's $288 million that would have to be recovered from the ratepayers in their, in their proposal.

Now that calculation, they do that calculation and they convert that into an equivalent transportation rate, which is roughly $1.32 in the first year. Of course they show it declining every year thereafter. But the, you know, their calculations are not unlike the calculations that would occur, say, at the FERC when you're setting the rates for a pipeline.

The difference is when you set a rate for a pipeline typically, a recourse rate, you base it on 100 percent assumed load factor. In other words, you assume that the system is fully utilized when you set

that rate, and then that becomes the maximum rate that you can charge.

In FPL's proposal, if they're only going to use 400 million a day of that capacity, the per unit rate is going to be above $1.90. So the, so from a risk standpoint, if this was in a separate entity and you did a rate calculation and you set a rate based on the way that occurs in our scenario at the FERC, they would have a transportation rate in year one of $1.32. That would be all they could recover. And if they only transported $400 million a day, they would be at risk for something well over $100 million. Well, maybe not quite that much. But it would be, it would be a significant amount of money.

And by including it in the electric rate base, then no matter -- whether that system is utilized or not, there is no financial risk to FPL and its shareholders because the customers are going to cover that revenue requirement in their basic electric rates, not in their transportation cost or their fuel, fuel charges.

COMMISSIONER EDGAR: Is there a third and/or fourth or fifth, but beginning with a third alternative? I mean, from looking at the testimony that we have, yours and also the others, I only see two options

basically laid out: Either all plant-in-service through FPL or a separate entity as you have described that would then have cost and service go through the fuel charge clause. Is there a third?

THE WITNESS: You know --

COMMISSIONER EDGAR: The blending or --

THE WITNESS: We really haven't tried to analyze that. The cleanest way, in my mind, is to, is to separate it so you can clearly track, you know, revenues, expenses, cost, investment, you know, rate, return, those sorts of things. And you can have a -- I mean, just like you have a rate proceeding for an electric utility or an LDC, you can have a rate proceeding for an intrastate pipeline on a regular basis. Many states do. I suppose there could be some kind of hybrid there.

The difficulty then becomes, you know, how do you ever properly carve out the cost? If you allow it in rate base, you know, it's going to disappear into the rate base, and the costs associated with it will as well.

COMMISSIONER EDGAR: All right. Thank you. Thank you.

CHAIRMAN CARTER: Anything further from the bench?

Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: Thank you.

Mr. Langston, in your opening you talked about, and I think this is along a similar line, you talked about that other state commissions have not allowed the cost into rate base, and you mentioned California. Can you tell me, I mean, what the circumstances were with respect to the California? Was it, was their proposal similar to this one and they decided for reasons that you've outlined in your testimony not to allow that into rate base, or was it -- can you just explain the circumstances with respect to the California?

THE WITNESS: I'm sure that someone with the California commission could give you a very detailed answer. But my understanding in the California situation was that in general these have been maintained as separate. The California commission wanted to more specifically segregate these assets so that they could provide for third-party transportation and access to this capacity.

What was occurring back in the '80s and into the early '90s as, as the national system was going through unbundling and deregulation, if you will, California wanted to accomplish the same thing within

its state. And so it first segregated its customers into core customers and noncore customers. In other words, like in the case of Southern California Gas Company, it owned some major transmission lines.

It reserved capacity to serve its core customers, its residential commercial customers, small customers. And then the noncore customers would be, you know, electric generation users like Southern California Edison, large industrial customers, those that were big enough to go actually acquire their supplies and transportations themselves.

And then, you know, so these segregations allowed third parties to utilize and access those assets in a manner that was beneficial relative to unbundling and deregulation, and I believe the same thing happened to some extent with their storage assets as well.

COMMISSIONER McMURRIAN: So -- Mr. Chairman.

So are you saying there was some similar proposal by a regulated entity to construct a natural gas pipeline intrastate and they decided to require the separation as you're --

THE WITNESS: I don't know if there was an exact similar scenario where they came and said we want to put 100 percent of our transmission facilities in, in the electric rate base as part of their electric

operations. That would have been the case mainly with Pacific Gas and Electric, which is the combined utility in Northern California.

Their -- PG&E at one point in time did, I believe, have a separate subsidiary that operated at least one of their transmission systems. Whether or not that has now been combined in with this separate operation or not, I don't know.

COMMISSIONER McMURRIAN: Thank you.

CHAIRMAN CARTER: Thank you. Let me, before going back, in your general perspective in terms of you making your comments at the beginning, did I hear you to say that FPL's proposal is 15 percent higher than FGT or 50 percent higher?

THE WITNESS: I think from a, from a rate standpoint for the initial term, if you look at the capacity that would actually be needed and if you calculated rate based on that, their rate would be 50 percent higher.

CHAIRMAN CARTER: Fifty, 5-0?

THE WITNESS: Yes, sir.

CHAIRMAN CARTER: Now is that -- do you have that in one of the exhibits here that I could look and see how you broke that down?

THE WITNESS: I think that's mainly in my

testimony.

CHAIRMAN CARTER: Okay. Could you help me out? I want to flag that.

MS. BROWN: Mr. Chairman, if I might suggest we look at Page 32.

THE WITNESS: Yes. 32 of 45.

CHAIRMAN CARTER: Okay. Page 32 of 45. So this 50 percent you're saying is an annual cost. So that would be 50 percent each year of $137.24 million?

THE WITNESS: Yes. What I've done here is I utilized the rate that they applied to the FGT proposal just as a, as a marker to try to indicate what the dollar difference would be if you had that rate applied against 400 million versus $600 million. And the reason was I was trying to avoid the confidential information. If you combine Company E in the per unit rate for the intrastate system, it's actually higher than this rate. So, so in actuality the percentage would actually be higher.

Now there is the assumption -- this is going to reflect the first year of operation. If FPL's assumptions are right and the intrastate actually declines, if they filed a rate case every year and actually flowed through a reduction, then, you know, that difference would, would somewhat decline. But it

wouldn't be eliminated for at least eight years.

And I believe in Mr. Enjamio's testimony, if you just look at his exhibit, the cumulative difference over the first eight years I think is just under $1.4 billion of cost.

CHAIRMAN CARTER: I was going to ask you that question because I didn't know -- as I was listening to you, I didn't know whether you said it was going to be 1.4 billion over four years -- of the first four years of the project, but you were really --

THE WITNESS: It's eight, the first eight years.

CHAIRMAN CARTER: First eight years?

THE WITNESS: Yes, sir.

CHAIRMAN CARTER: $1.1 billion? And you also mentioned about the project being subject to FERC approval. Do you remember that?

THE WITNESS: Depending on the intentions. Frankly, this seems to be somewhat of a moving target. If FPL actually wants to offer transportation services to third parties within Florida, if they want to interconnect with an LDC or whatever and provide transportation services, I think there's some question about whether or not they would need to apply for a Section 311 rate at the FERC in order to provide that

transportation service.

CHAIRMAN CARTER: Okay. And you also mentioned about, you said that it would be better, assuming -- this is hypothetical. I assume that you were speaking hypothetical. I am. Is that if the Commission were to approve this pipeline, you were saying if we approved it, it should be approved in the form of a separate entity. Kind of flesh that out for me a little.

THE WITNESS: Yes, sir. That goes back to Commissioner Edgar's comments. I think if you have it in a separate entity, then you can set a rate for all of the capacity that they intend to construct, and then what can be charged into the electric ratepayers would be just for whatever capacity is actually needed. And then that additional capacity, they could be free to file for a Section 311 rate or to transport for other industrial customers or whatever. That additional capacity, as they indicated, could be made available to third parties. But their shareholders would be at risk for that utilization, at least in the short term, and not the, not the ratepayers.

CHAIRMAN CARTER: But when you're saying that they should set it up, you're saying they being the shareholders or they being FPL, do they --

THE WITNESS: If, if this Commission approves it, I'm suggesting that you require it to be in a separate subsidiary, then FPL would set it into a separate subsidiary and then manage it in that manner.

CHAIRMAN CARTER: Okay. Hang on. I may have one, one more. Anything further from the bench? I may have one more question. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Just a quick question, Mr. Langston. Yesterday the discussion centered around the fact that putting this pipeline into an electric rate base would again be different from what has been experienced before. And part of that discussion was by doing so it would allow the electric utility to earn a return on investment on the pipeline. The discussion also centered around the embedded ROE or return that a third-party pipeline provider would receive in terms of it would be -- that investment and the return on that investment would be recovered within the embedded rates that the pipeline company charged in its demand charge for firm transport capacity to the utility.

I was wondering if you know relatively speaking what the third-party pipeline return would be, the embedded return, with respect to what a traditional pipeline company typically gets.

THE WITNESS: That varies. Let me start there. Under the FERC methodology, when they establish a return on equity they have what they term a two-stage DCF model that they look at. And when you go in for a rate case or, you know, set a return on a project, you look at a proxy group or basically a group of companies within your industry that are similar in nature to yourself, and you look at the overall return, both the long-term and the short-term return, and there's a formula that's utilized to come up with what those returns are for those entities. And then you look at the range of what that, what that provides for, and there's a median of that, which would typically indicate that that's the return for a kind of normally risky pipeline.

Historically, just to give you a range, that's probably been in, say, the 10 to 13 percent in the last year because of the decline in the stock market and the associated returns. Actually those numbers have come up slightly. They're probably more in the 11 to 14 percent range, I mean, as far as a range. And then of course the return that the Commission ultimately determines is going to be determined on the individual pipeline situation.

COMMISSIONER SKOP: Okay. Thank you. And

then with respect to FERC jurisdiction on interstate pipelines, is it your understanding that the FERC has been incentivizing the ROEs over and above typical ROEs for new transmission and new pipelines?

THE WITNESS: I don't know if I'm following you. When you go in to file, you generally file a proposed return on equity with an obligation after three years to prove that up relative to whatever your actual costs were. And then of course when you file a rate case, then your rates are reset in any event regardless of what you file there. So, you know, typically pipelines will file for a return on equity in their initial filing that's, that's not unlike a return they get in a rate case.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN CARTER: Thank you, Commissioners. I forgot my last question. It probably wasn't important. Let's see here. Redirect?

MR. SELF: Yes. Thank you, Mr. Chairman. Just for your benefit, Mr. Chairman, Dr. Schlesinger in his Exhibit BSA-5 has a detailed calculation. And part of that is confidential, which I think Mr. Langston indicated, but you may want to look at BSA-5.

CHAIRMAN CARTER: Thank you.

REDIRECT EXAMINATION

BY MR. SELF:

Q. I just have two questions to follow up, Mr. Langston. Do you recall the questions from Mr. Perko regarding FGT's response to FPL's first POD, what's been identified as Page 11 of 17, this chart of other potential supply options?

A. Yes, I do.

Q. And he was asking you about the 48-cent rate that appears there. Do you see that?

A. Yes.

Q. Now there was another rate on here as well for Transco Station 85. What was, what was that rate?

A. 24 cents.

Q. And what's the -- why is that rate different than the 48-cent rate?

A. The volume is higher. It's 800 as opposed to 400 million a day.

Q. Okay. But, but I believe it's your testimony that, that neither of these rates are necessary; is that correct?

A. We, we did not propose this because Transco itself has facilities that can be provided. I think in the most recent open season their indication was their tariff rate -- that up to 550 million a day could be provided would be at 9 cents. So while this was -- we

were trying to be responsive to FPL, these rates are obviously significantly higher than that. It's not something you would want to do.

Q. Okay. And Mr. Perko also asked you some questions about steel and your assumptions regarding the, you know, what percentage of a project's price might reflect steel. Do you recall those questions?

A. Yes.

Q. Given the changing prices of steel over the last year, in order to figure out what percentage of a project was actually steel, you would have to know the point in time in which you were making that analysis; correct?

A. Correct.

MR. PERKO: Mr. Chairman, I believe that Mr. Self is leading the witness. It's been a couple of times now.

CHAIRMAN CARTER: He can rephrase. Rephrase.

BY MR. SELF:

Q. Okay. Mr. Perko asked you about the price of steel. Do you recall those questions?

A. Yes.

Q. And I believe you indicated that -- you said it was about 50 percent; is that correct?

A. Correct. And that was just an estimate on my

part.

Q. Was that based on any particular point in time?

A. Just, it's just my recollection of some of the costs that were in Phase 8, although, you know, obviously I could be off on my percentages. As I mentioned, we can certainly get our Phase 8 filing and provide an exact percentage of how much that was in that filing.

MR. SELF: That's all I had. Thank you.

CHAIRMAN CARTER: Okay. Good. Thank you.

Staff, Ms. Brown, did I cut you off? Are you okay? You got everything you needed?

MS. BROWN: Well, actually, Mr. Chairman, I was going to suggest that Mr. Langston has offered to provide a late-filed exhibit twice now. If you all are interested in getting that specific information, we could certainly ask that it be provided.

CHAIRMAN CARTER: Okay.

THE WITNESS: The Phase 8 construction cost breakout, is that --

MS. BROWN: Yes.

CHAIRMAN CARTER: That'll be, Commissioners, for the record, flip over, that will be Exhibit Number 98. Okay.

(Late-filed Exhibit 98 identified for the record.)

MS. BROWN: And we have nothing further.

CHAIRMAN CARTER: Nothing further? Okay. Exhibits?

MR. SELF: Yes. We would move Exhibits 59 through 74.

CHAIRMAN CARTER: You want to do all of them?

MR. SELF: Yes, because he did --

CHAIRMAN CARTER: Okay. Good. Mr. Perko, any objections?

MR. PERKO: No objections.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibits 59 through 74 admitted into the record.)

Now, Mr. Self, do we give him an excuse so he can go home, or do we have to keep him on recess to come back?

MR. SELF: He is not scheduled to return.

CHAIRMAN CARTER: Okay. Mr. Perko, that's fine with you guys?

MR. PERKO: That's fine with us.

CHAIRMAN CARTER: Okay. Hasta la bye bye. Have a good one.

You may call your next witness.

MR. SELF: Thank you, Mr. Chairman. At this time, FGT would like to call Dr. Benjamin Schlesinger. And, Mr. Chairman, Dr. Schlesinger was not here yesterday when you were swearing in witnesses.

(Witness sworn.)

CHAIRMAN CARTER: Thank you. You may be seated.

MR. SELF: Are you ready?

THE WITNESS: Yes, sir.

MR. SELF: Thank you.

CHAIRMAN CARTER: Let me -- hang on a second. Let me give you guys a heads up. Linda, are you about ready for a break?

Okay. Let me do this. I need to give our court reporter a break. Let's just, let's just take five. We'll come back on the hour. We're on recess.

MR. SELF: Thank you.

(Recess taken.)

CHAIRMAN CARTER: We are back on the record. And before we proceed with Mr. Schlesinger, let's recognize Mr. Butler. You're recognized, sir.

MR. BUTLER: I'm sorry. I am recognized?

CHAIRMAN CARTER: Yes, sir.

MR. BUTLER: For?

CHAIRMAN CARTER: Information for Commissioner Skop.

MR. BUTLER: Oh, I'm sorry. Commissioner Skop. Yes.

We have prepared a schedule that is essentially a reconciliation of the, excuse me, economic analysis results in Mr. Sexton's testimony and Mr. Enjamio's testimony. Commissioner Skop had asked about there being some differences between the results, and this sort of puts them onto the similar footing of being expressed in the same year's dollars, in 2009 dollars, and then has a series of notes that explains the differences between them.

I can offer this as a late-filed exhibit, if that would be appropriate to do. And that way it would be in everybody's hands and Commissioner Skop and others, if they want to ask Mr. Enjamio or Mr. Sexton about it at the appropriate time in their examination, could do so.

CHAIRMAN CARTER: Okay. Let's make it Number 99. And wait a minute. Hold on. Hold the phone. That's not the same as what we had for Number 97?

MR. BUTLER: It is not, no.

CHAIRMAN CARTER: Okay.

MR. BUTLER: It's a, it's a different exhibit

than that.

CHAIRMAN CARTER: Okay. Short title?

MR. BUTLER: Comparison of economic analysis, analysis results in Enjamio and Sexton testimonies.

CHAIRMAN CARTER: Enjamio and Sexton's economic analysis?

MR. BUTLER: Comparison of economic analysis --

CHAIRMAN CARTER: No. No. No. I was giving you the title.

MR. BUTLER: I'm sorry?

(Laughter.)

CHAIRMAN CARTER: Okay, Mr. Butler. Go ahead. Give me your title.

MR. BUTLER: Oh, no. Go ahead. If you have one that -- I thought you were just asking to confirm what it is. Any title you would like for it is certainly fine, Mr. Chairman.

CHAIRMAN CARTER: Okay. Let's have it. Do you have it ready?

MR. BUTLER: Certainly.

CHAIRMAN CARTER: You can present it now.

MR. BUTLER: Comparison of economic analysis results in Enjamio and Sexton testimonies.

CHAIRMAN CARTER: I still like mine better.

MR. BUTLER: That's fine with me.

CHAIRMAN CARTER: Enjamio's and Sexton's economic analysis comparison.

MR. BUTLER: Okay. That's excellent.

CHAIRMAN CARTER: Okay? All right. Let's go with that.

97 was late-filed economic analysis from -- is that the same?

MR. BUTLER: It is not. That is, as I understand it, asking about the bill impacts.

CHAIRMAN CARTER: Huh?

MR. BUTLER: 97, I think, is asking about the bill impacts.

COMMISSIONER EDGAR: Rate impacts.

CHAIRMAN CARTER: Rate impacts?

MR. BUTLER: Yes.

CHAIRMAN CARTER: Okay. Okay. You've got us sitting on the edge of our seats. Gimme. You may approach. That's a technical term, gimme. Thank you, sir.

This will be 99, Commissioners.

(Exhibit 99 marked for identification.)

Do you have enough copies for all?

MR. BUTLER: I'm sorry?

CHAIRMAN CARTER: Do you have enough copies

for everyone?

MR. BUTLER: I'm getting the copies.

CHAIRMAN CARTER: Thank you, sir. Okay.

MR. SELF: Yes, because we would like one also.

CHAIRMAN CARTER: I thought you would.

COMMISSIONER EDGAR: So would we.

MR. SELF: I keep forgetting you get to vote, I don't.

(Laughter.)

MR. BUTLER: Mr. Chairman, I now have the extra copies.

CHAIRMAN CARTER: Yes, sir. Good.

MR. SELF: And, Mr. Chairman, for the record regarding this, we'd at least like a chance to look at it before we get to whatever point it is that it might be moved into the record.

CHAIRMAN CARTER: No problemo.

COMMISSIONER EDGAR: So what were we going to call this again? No.

(Laughter.)

CHAIRMAN CARTER: We'll -- Mr. Self, before we enter it in, we'll give you an opportunity. And why don't you, during the course of the lunch break, take a moment to look it over and all like that. But it's

based on a, really a request from a Commissioner, and it does kind of explain some of the questions that Commissioner Skop was asking. And no problem though, you're free to review it though during lunch.

MR. SELF: I think if I understood Commissioner Skop's question, it's probably fine, but I'd just like to see what it says.

CHAIRMAN CARTER: Okay. Speaking of lunch, let me kind of let you guys know what the plan is for today. Obviously our goal is to push through and complete today. So we'll look at lunch around 12:30 at the earliest, and maybe do 12:30 to 1:45. I think that's what we did yesterday. And so I did tell everybody to eat your Wheaties this morning.

Mr. Self, you're recognized.

MR. SELF: Thank you, Mr. Chairman. At this time FGT would call Dr. Benjamin Schlesinger, who we had sworn in just before the break.

BENJAMIN SCHLESINGER

was called as a witness on behalf of Florida Gas Transmission Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. SELF:

Q. Dr. Schlesinger, did you -- please state your

name and business address for the record.

A. My name is Benjamin Schlesinger. My business address is 7201 Wisconsin Avenue, Suite 740, Bethesda, Maryland 20814.

Q. And who are you employed by and in what capacity?

A. Benjamin Schlesinger and Associates, LLC. I'm president for life.

Q. And for purposes of this docket who has retained you?

A. Florida Gas Transmission.

Q. Okay. And on behalf of FGT did you cause to be prepared and prefiled 21 pages of direct testimony?

A. Yes.

Q. Do you have any changes or corrections to that testimony?

A. No, I do not.

Q. If I asked you those questions today, would your answers be the same?

A. Yes, they would.

MR. SELF: Mr. Chairman, for the record we'd like to note that there are some portions of Dr. Schlesinger's testimony which is confidential.

CHAIRMAN CARTER: Okay.

MR. SELF: And we did file the -- file it that

way, and I believe FPL filed the request for confidential treatment.

CHAIRMAN CARTER: Okay.

BY MR. SELF:

Q. And, Dr. Schlesinger, did you also cause to be prepared and prefiled 17 pages of surrebuttal testimony?

A. Yes, I did.

Q. And do you have any changes or corrections to that testimony?

A. No.

Q. If I asked you those questions today, would your answers be the same?

A. Yes, they would.

MR. SELF: Mr. Chairman, at this time we would ask that the direct and surrebuttal testimony of Dr. Schlesinger be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BY MR. SELF:

Q. And, Dr. Schlesinger, as a part of your direct testimony did you also include exhibits which have been identified as BSA-1 to BSA-5, which in our exhibits list would be Exhibits 75 through 79?

A. Yes.

MR. SELF: And for the record, Mr. Chairman, portions of BSA-2 and BSA-5, which would be hearing Exhibit 76 and 79, also contain confidential information.

CHAIRMAN CARTER: Okay. So noted. And as you get to those points, a caution to the parties, both attorneys, as you get to those points, just remember that information is confidential so we handle it in a normal manner.

(Exhibits 75 through 79 marked for identification.)

MR. SELF: Thank you, Mr. Chairman.

BY MR. SELF:

Q. And also attached to your surrebuttal, Dr. Schlesinger, did you have one exhibit that's been identified as BSA-6?

A. Yes.

Q. And do you have any changes or corrections to any of those exhibits?

A. No.

MR. SELF: And the BSA-6, Mr. Chairman, has been identified for our exhibits list as hearing Exhibit Number 80.

CHAIRMAN CARTER: Number 80 for the record, for identification purposes.

(Exhibit 80 marked for identification.)

MR. SELF: Thank you, sir.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090172-EI

FLORIDA GAS TRANSMISSION COMPANY, LLC

DIRECT TESTIMONY OF BENJAMIN SCHLESINGER, PH.D.

PUBLIC VERSION

Q. Please state your name and business address.

A. My name is Benjamin Schlesinger. My business address is 7201 Wisconsin Avenue, Suite 740, Bethesda, Maryland 20814.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Florida Gas Transmission Company, LLC ("FGT"). FGT is a wholly-owned subsidiary of Citrus Corp., the stock of which is owned 50 percent by CrossCountry Citrus, LLC and 50 percent by El Paso Citrus Holdings, Inc. El Paso Citrus Holdings, Inc. is a wholly-owned subsidiary of El Paso Corp. CrossCountry Citrus, LLC is owned by CrossCountry Energy, LLC, which is an indirect wholly-owned subsidiary of Southern Union Company.

Q. What is your job title and description?

A. I am president of Benjamin Schlesinger and Associates, LLC (BSA), 7201 Wisconsin Avenue, Suite 740, Bethesda, Maryland 20814, independent consultants since 1984 on energy economics and forecasting, natural gas supply and transportation, gas pricing and contracting, utility rate design, and regulatory and lender risks worldwide. On January 1, 2009, BSA became a part of the Galway Group, L.P. ("Galway"), 3050 Post Oak Boulevard, Houston, TX, an energy advisory and investment banking firm specializing in natural gas pipelines, markets and trade in liquefied natural gas (LNG). Thus, I am also a partner and Managing Director of Galway.

Q. Please describe your education, background and qualifications.

I received Bachelor of Arts and Engineering degrees from Dartmouth College in 1967 and 1968, respectively, and Master of Science and Doctor of Philosophy degrees from Stanford University in Industrial Engineering (now, Management Science and Engineering). A former vice-president of the American Gas Association (AGA), I have advised over 400 clients in the U.S., Canada, and 27 other countries, including the top utility, energy trading and producing, lending, regulatory, educational, private power, and manufacturing firms. My consulting practice consists primarily of natural gas market research, analysis and forecasting of gas prices, and negotiation of gas supply and transportation agreements. I also have provided litigation support on natural gas markets, pricing, rates, and contract and industry issues before courts, arbitration panels, and regulatory and legislative bodies in 16 jurisdictions, including the FERC and other venues. My resume is attached as Exhibit BSA-1; this includes my list of expert appearances at trial, as well as my papers, publications, and presentations.

Q. Please provide examples of your previous consulting assignments that are relevant to this proceeding?

A. During the late 1980s and 1990s through the present, I served as the natural gas and fuel oil supply, energy transportation, pricing, and market forecasting advisor to more than 100 electricity generating power plants located throughout North and South America. These assignments included work for lenders to, and developers of new gas-fired electricity generating plants located in Orlando, Auburndale, Gainesville, and elsewhere in Florida. In addition, I have served as a gas market and supply procurement advisor to the City of Tallahassee and City of Lakeland, and have evaluated pipeline and LNG supplies for Florida in a number of commercial assignments. I have also been a consultant in past assignments for Southern Natural Gas, El Paso Energy, FPL Energy (the non-utility generator affiliated with Florida Power and Light), and Florida Progress dealing with fuel

markets, gas transportation and supply, and gas market mechanisms, including fuel supplies to power projects in Florida and elsewhere.

Q. Please identify other consulting assignments that are germane to this proceeding?

A. During the late 1990s and continuing to the present, I served as the independent gas market advisor to buyers and sellers of LNG at the existing Cove Point, MD, Elba Island, GA, Everett, MA, Lake Charles, LA, and other, newer LNG receiving terminals. In addition, I served since 2005 as the North American gas market risk advisor to the lenders in major financings of international LNG supply projects, including to RBS in the $9 billion ExxonMobil-Qatargas Rasgas II/III expansion project, to Société Générale for the BG-Egypt LNG Phase II expansion, to BNP Paribas for the Atlantic LNG Train 4 financing, to HSBC Bank and Shell's lenders for BP Tangguh and Sakhalin LNG sales, respectively, to the new Baja California receiving terminal in northwestern Mexico, to Société Générale and the International Finance Corporation (IFC) for the Peru LNG project finance, and to Société Générale for the Papua New Guinea (PNG) LNG project finance (currently in progress).

From 1984 to 2000, I served as a charter member of the New York Mercantile Exchange's (NYMEX) Natural Gas Advisory Committee, and consulted to NYMEX in development and preparation of the gas futures contract and other natural gas financial instruments. I led my firm's study efforts in preparing the NYMEX's formal justification for Henry Hub as the physical delivery point under the gas futures contract, and conducted related studies for NYMEX (continuing).

Q. Have you previously testified or presented testimony before the Florida Public Service Commission ("FPSC")?

A. Yes. I testified before the FPSC in 1991 on behalf of Florida Power Corporation re: Determination of Need for Electrical Power Plant and Related Facilities (Docket No. 910759-EI).

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibit BSA-1 through Exhibit BSA-5, which are attached to this testimony, as follows:

- Exhibit BSA-1 Curriculum Vitae of Benjamin Schlesinger, Ph.D.
- Exhibit BSA-2 FPL's Natural Gas Price and Basis Forecasts (Confidential)
- Exhibit BSA-3 Daily Flows through FGT Station 11, August 1 through November 30, 2005
- Exhibit BSA-4 Transco January 22 2009 Open Season Announcement for Mobile Bay South II Expansion
- Exhibit BSA-5 Comparison of Combined Company E/FES Proposal versus Company B Proposal, extended to Station 85

Q. What is the purpose of your testimony?

A. My testimony will explain why a) FPL has not shown that the proposed Company E and Florida EnergySecure (FES) system of pipelines will improve the economics of natural gas transmission within Florida; b) FPL's justification of the need for the combined Company E/FES system rests on economic assumptions, and fuel supply and transport costs, that are not reasonable for planning purposes; and c) the proposed Company E/FES system would not provide electricity ratepayers with the most cost-effective source of natural gas supply, transport, and delivery.

Q. Please explain your understanding of FPL's proposed Combined Company E/FES system?

A. FPL has proposed the combined Company E/FES system with the capacity to deliver 600,000 Mcf/day of added gas supplies to FPL's Cape Canaveral and Riviera power stations. According to information supplied by FPL, the combined

Company E/FES system would consist of a new 360-mile interstate gas pipeline to be constructed, owned and operated by an entity defined by FPL as "Company E" that would receive gas at Transco Station 85 and deliver this gas to the originating point of FPL's pipeline, projected to be located near FGT Station 16. As an interstate gas pipeline, the Company E facilities would be regulated by the Federal Energy Regulatory Commission (FERC). In addition, FPL would build, own and operate a new 279-mile intrastate gas pipeline entirely within the State of Florida, thus not under the jurisdiction of the FERC. The FES pipeline would receive gas at FGT Station 16 and deliver this gas to the Cape Canaveral and Riviera power stations.

Q. What would the foregoing facilities cost?

A. Information supplied by FPL indicates that the initial capital investment requirements associated with the combined Company E/FES system would be as follows: [redacted] for the Company E pipeline plus $1.6 billion for the FES pipeline, i.e., a total of [redacted] to be spent between 2012 through 2014.

FPL's Gas Price Projections

Q. Concerning the price of natural gas, what are FPL's major underlying economic assumptions in this application?

A. In Exhibit BSA-2, I have assembled FPL's major underlying economic assumptions relating to natural gas prices, and its projections of how these will change in the future at specific locations along the FGT and Transco systems, including Henry Hub, FGT Zones 1, 2 and 3, and Transco Station 85 (which is situated within Transco Zone 4). FPL has also made economic assumptions concerning how prices among a number of locations will differ from one another in the future that are shown in the exhibit.

Q. Do you agree with FPL's assumptions?

A. I do not, and it is hard to imagine that FPL has proceeded this far in its planning process based on these price forecasts and projected basis relationships. FPL has failed in my judgment to set forth a robust, internally consistent set of economic forecasts that would normally be forthcoming in conjunction with major construction project requiring the expenditure of [redacted], $1.6 billion of which it is asking this Commission to include in its rate base for its electric ratepayers to directly pay.

Q. Please explain.

A. First, the most important price of wholesale natural gas in North America is the price at Henry Hub, located in Erath, Louisiana. Henry Hub is the location for physical deliveries and receipts that is referenced in the NYMEX gas futures contract, and hosts a robust physical gas trade as well. Henry Hub has grown in the past two decades to become the continent's single most important gas pricing location, against which gas at other locations is measured.

Gas prices in North America are set through the interaction of supply and demand. Many factors will affect future gas prices at Henry Hub, e.g., including the weather; decreased offshore gas production; increased gas supplies from unconventional gas production and from LNG; lower future demand with recessions, efficient uses and electricity generation from renewables; peak period gas demands; higher future demand with growth and environmental/carbon rules; oil prices; addition of new pipelines and other infrastructure; and more. A robust forecast of Henry Hub prices is one that comprehends these critical factors.

Q. What is FPL's Henry Hub gas price forecast?

A. As shown in Exhibit BSA-2, FPL's Henry Hub price forecast may be described in general as follows:

- From now through 2020, Henry Hub prices in the FPL forecast fall then rise;

- From 2020 through 2062, a period of 42 years, Henry Hub gas prices in the FPL forecast do not change at all, i.e., they are constant in real dollars, plus an inflation factor of 2% per year.

Q. Are these Henry Hub price forecasts reasonable for planning purposes?

A. No they are not. FPL has offered very simplistic gas price forecasts that, on their face, could not comprehend, in any explainable way, the myriad supply and demand factors that might influence Henry Hub prices in the future. Instead, all of this is simply assumed away in one long, straight, flat line. In my opinion, this is not a reasonable starting point to consider a future decision affecting millions of electricity ratepayers. No one can predict future fuel prices with certainty, but the forecasting process requires that supply and demand conditions be thought through, i.e., that the numbers reflect a reckoning of the information we know about concerning future changes, such as the effect of new gas pipelines, new rules that will tighten energy demand and require renewable sources of electricity, carbon rules, international gas supply and demand, and more. In the context of a proposed [redacted] capital expenditure for new gas pipeline capacity, these cannot prudently be swept away, or somehow "averaged" into a long, straight, flat line.

More importantly, the use of never-changing Henry Hub gas price forecast in real dollars for 42 years sharply undermines FPL's decision to build the FES pipeline at all. FPL may have severely understated future natural gas prices because depletion of gas resources and diversion of LNG supplies away to higher-paying markets in Europe and Asia – these kinds of factors may cause Henry Hub gas prices to rise in real dollar terms, plus more for inflation.

In short, FPL's simplistic Henry Hub forecast suggests it has skipped doing its gas pricing analysis due diligence in a way that would justify a major new gas transportation expenditure of this magnitude.

Q. Are FPL's gas basis forecasts reasonable, i.e., its projection of the future differences among key southeastern gas pricing points?

A. Wholesale natural gas prices at locations other than Henry Hub are typically expressed as the difference between the price at a pricing point minus the price at Henry Hub, known as basis differentials. For instance, NYMEX currently offers futures contracts in basis differentials between the price of gas at 53 different locations and the price of gas at Henry Hub. These futures contracts are referred to as basis swaps, such as the Transco Zone 4 basis swap referred to by Witness Sexton (Sexton Direct Testimony, page 27).

Exhibit BSA-2 identifies FPL's projection of prices relative to Henry Hub at Transco Zone 4 (taken to equate to Transco Station 85) and at FGT Zone 3. Here again, as is the case for FPL's Henry Hub price projections beyond 2020, its projected price differentials are flat, unchanging, even with inflation added in. In other words, in the case of price differentials, no inflation factor is added to the forecast, thus the differential between prices at Transco Station 85 and at Henry Hub is assumed to equal $0.0525 per MMBtu above the Henry Hub price, year in and year out, never changing for 40 years. Likewise, the differential between FGT Zone 3 and Henry Hub is assumed to equal $0.0968 per MMBtu over the Henry Hub price, again exactly the same number for 40 years. (Sexton Direct, Exhibit TCS-7, pages 11 and 23) These differentials result in continuously $0.0443 per MMBtu lower prices at Station 85 than at FGT Zone 3, for 40 years.

In response to FGT data requests, FPL offered other basis forecasts among FGT Zones 1, 2 and 3 that are even further afield in my view. Exhibit BSA-2 reproduces portions of FPL's Excel spreadsheet submitted in response to FGT's First POD, No. 1, Document FPL001015.1, entitled "Long term Price Forecast Methodology – 2020 EIA E," in tab labeled "RAP-NATURAL GAS PRICES". It can be seen in the exhibit that some of FPL's price forecasts for "non-firm" gas are not explain such as the [redacted] per MMBtu average difference between gas prices Transco Station 85 and FGT non-firm (sic) for the next 40 years (with som seasonal variations). FPL also projects that the price of gas at Transco ' will average [redacted] per MMBtu less than the price at the Destin Pipelir

interconnection with FGT, over 40 years. If this kind of price differential was generally expected to persist for as long as FPL's forecasts indicate it will, then FPL and other shippers would act on it by expanding capacity between these two locations (e.g., a much larger Transco Mobile Bay Lateral) well before turning to a proposal like the combined Company E/FES system.

Q. How do the foregoing forecasts relate to the need for the combined Company E/FES system?

A. They suggest strongly that FPL has based its proposed new pipeline system on a set of gas price and differential forecasts that I have to describe as unfounded, arbitrary, and internally inconsistent. Price differences among gas markets throughout the southeast and elsewhere show a marked tendency to change as supply sources shift, new pipeline capacity enters service, and demand patterns change. All pipelines affect gas prices, e.g., completion of the MidContinent Express pipeline will change shale gas prices by making new markets accessible. Basis projections must constantly be readjusted to reflect changing infrastructure in the region, yet basis projections supplied by FPL in this proceeding seem oblivious to these critical influences. For this reason, FPL has failed in my view to supply the FPSC with a credible economic basis for its decision in this proceeding as to the need for the FES pipeline.

Q. Are FPL's economic assumptions as to future gas supply prices and price differences reasonable for planning purposes?

A. No they are not. FPL has not offered a set of reasonable price and price differential forecasts for the gas that the combined Company E/FES system is proposed to receive. Instead, FPL has offered a set of forecasts that appear to be arbitrarily simplistic, unfounded and, because of the way they are presented, self-serving.

FPL's Justification of Transco Station 85

Q. How has FPL justified its selection of Transco Station 85 as the location where the combined Company E/FES system should best receive its natural gas supplies?

A. The selection process appears to have been arrived at qualitatively. For example, much of Witness Sexton's Direct Testimony explains FPL's stated preference for Station 85 as a source of unconventional gas resources, particularly shale gas. FPL has also cited supply diversity, shale gas, and lower fuel costs.

Q. Please comment on FPL's justification of having the combined Company E/FES system source gas at Station 85.

A. Based on information in the record to date, FPL has not credibly justified building its proposed combined Company E/FES system so as to receive all gas at Transco Station 85, as opposed to other possible gas supply locations in the region. I reach this conclusion for several reasons:

- Pricing. First, as I describe in the foregoing section of this testimony, I am concerned that FPL's gas price forecasting methodology is seriously flawed, including its basis forecasts that underpin the purported advantages of Transco Station 85. I will not repeat these concerns here, except to point out that, apart from zones along FGT and GulfStream, FPL supplied no basis forecasts for any other possible onshore gas supply locations. I must conclude, therefore, that FPL never considered any alternative receipt locations for its new pipeline system, other than along FGT or at Transco Station 85.
- Shale gas. Second, it is certainly true that major U.S. gas reserves and production increases have come from onshore unconventional gas resources, especially shale gas in the Barnett, Haynesville, Woodford and Fayetteville formations. At present, these new gas supplies are now more-than-offsetting declines in offshore Gulf of Mexico and other relatively more mature U.S. gas fields. Nonetheless, while recent production increases have been encouraging, FPL has

not in this record mentioned the fragility of rising shale gas production in the real world of volatile gas prices and international competition. The nature of shale gas well production is somewhat unique. Reports of 50 percent production declines in the first year of shale well operations tell us that continued, aggressive levels of drilling are essential to maintaining production levels from these kinds of resources. In the past nine months, the U.S. rig count has fallen from a peak of 1,606 drilling rigs in September 2008 to just 685 as of June 11, 2009 (Baker Hughes website), as gas prices have fallen. A continuation for another 2-3 years of this drilling deficit without a major increase in field prices would suggest strongly that the current historical levels of increase in shale gas supplies cannot be sustained. We find little discussion of these kinds of risks in FPL's materials.

- Offshore supply risks. A key part of FPL's rationale for receiving gas into the combined Company E/FES system at Transco Station 85 is that Station 85 is not located along the Gulf Coast, thus it would contribute to supply security and avoid hurricane outages of the kind that took place in 2005. Here again, FPL's analysis is unsystematic and general, especially in light of the [redacted] commitment electricity ratepayers are being asked to finance. In fact, gas supplies at a number of onshore Gulf locations were sharply reduced immediately following hurricanes Katrina and Rita, but then rebounded shortly afterward, precisely because rising onshore production was quickly able to replace much of the reduction in offshore production. Exhibit BSA-3 shows how gas supplies in FGT Zone 3 rebounded within days following Hurricanes Rita and Katrina. Quick supply recovery at this and other onshore Gulf Coast pooling points took place because the pipeline grid in the Gulf region is highly and increasingly interconnected, thus enabling considerable volumes of onshore gas tend to migrate to major points along the Gulf Coast. This means that one needn't necessarily "escape" to Transco 85 to avoid Gulf hurricane outages; indeed, the history of the region's destructive hurricanes suggests that Station

85 may be as vulnerable as the next point. In any event, FPL's analysis of this risk is not in evidence.

- Supply diversity. FPL's claims of supply diversity arise out of its belief that it would be able to purchase shale gas supplies at Transco Station 85 that it cannot purchase elsewhere, i.e., that it can uniquely access new supplies at Transco Station 85. However, FPL has not evidently considered the purchase possibilities that a northern Louisiana receipt point would offer it, e.g., in the vicinity of Perryville, Louisiana. The U.S. Energy Information Administration (EIA) reported in April 2009 that pipeline receipt capacity at the Perryville Hub has now reached 6.6 Bcf/day, making Perryville at this point the largest gas hub in the U.S., with twice the transit capacity as even Henry Hub (see Exhibit MTL-12, Table 2, page 4). Both of the new gas pipelines to Station 85 that FPL is counting on – Kinder Morgan's MidContinent Express and GulfSouth's Boardwalk pipeline – pass first through Perryville, where they interconnect with other systems. Conversely, several other new pipelines to Perryville are not slated to continue onward to Transco Station 85. Consequently, Perryville is arguably a more important source of shale gas than Transco Station 85, and at a lower cost. However, a Perryville receipt point would logically feed into FGT, e.g., on an expansion of the Southeast Supply Header (SESH), a possibility that FPL appeared not to consider in any of the economic cost comparisons that are in this record.

Q. Will gas market liquidity at Transco Station 85 be sufficient to justify FPL's plan to source all of its combined Company E/FES system gas there, and why is this important?

A. FPL has not demonstrated that liquidity would be sufficient for its purchasing needs at Transco Station 85 as opposed to other locations or hubs. Liquidity at the Perryville hub is likely to exceed that of Transco Station 85 because a larger number of pipelines interconnect at Perryville, receipt point capacity is greater, and, therefore, new shale gas supplies at Perryville will exceed those available at

Transco Station 85. The risk to the combined Company E/FES system that the Commission must consider, and that FPL has not documented, is that insufficient liquidity at Station 85 may make it necessary for FPL to procure upstream capacity on either the MidContinent Express, Boardwalk or even Transco pipelines in order to ensure that it will have the ability to receive gas supplies into the combined Company E/FES system when, as and if needed. The costs of these upstream commitments, were they required, would have to be borne by FPL's electricity ratepayers in Florida.

Q. Is the commencement of FPL's proposed facilities at Transco Station 85 reasonable for planning purposes?

A. As set out, the combined Company E/FES system poses supply risks to Florida's electricity ratepayers that FPL has not explored for the FPSC. Instead, FPL's simplistic price and basis forecasts fail to provide convincing evidence that there is a need for a new pipeline system into Florida originating Transco Station 85. In addition, FPL has failed to demonstrate that liquidity at Transco Station 85, which is still emerging, will be sufficient to preclude the need to contract upstream of Station 85, thus adding further to the burden the new combined Company E/FES system would place on electricity ratepayers in the State.

Q. What is the impact of FPL's failure to provide supported price and basis analysis in this proceeding?

A. Without this required analysis, there is little basis for an informed decision by the Commission. It seems clear that there are other supply and transportation alternatives not adequately investigated by FPL that would provide less costly, and more price competitive supply alternatives as compared to access at Transco Station 85. In my opinion, FPL has failed to justify the commencement of the combined Company E/FES system at Transco Station 85, as opposed to other possible onshore locations.

FPL's Inconsistent Rate Presentation

Q. What are the alternative proposals that FPL has compared in information it submitted in this proceeding?

A. FPL has placed information into this record concerning two pipeline alternatives to supply incremental gas to the Cape Canaveral and Riviera energy stations. These alternatives are (1) the combined Company E/FES system, consisting of Company E's 360-mile interstate pipeline originating at Transco Station 85 plus FPL's proposed 279-mile intrastate FES pipeline, or (2) a modification to FGT's "Company B" proposal to deliver gas from Transco Station 85 along Transco's Mobile Bay Lateral to the interconnection with FGT's pipeline at Citronelle, Alabama, plus capacity expansion along the existing FGT pipeline sufficient to serve the same end markets.

Q. Has FPL offered in this proceeding internally consistent assumptions about pipeline rates for the foregoing alternatives?

A. No, it has not. FPL has offered a rate comparison that can only be described as apples-to-oranges.

Q. Please explain.

A. In presenting rates for its own intrastate pipeline, FPL has offered a declining 40-year rate schedule, but when alluding to interstate pipeline rates FPL has used a flat rate proposed by the pipeline (Company B or E, as the case may be) and held that constant for 40 years. More specifically, FPL has offered a 40-year declining rate schedule for the FES pipeline proper, i.e., its own intrastate portion of the proposed combined Company E/FES system. This rate in the initial year of service is $1.32 per MMBtu, declining down to $.21 per MMBtu in the 40th year. FPL has then taken as a 40-year constant the proposal of Company E to charge a flat rate of [redacted] per MMBtu for the latter's [redacted] pipeline to move gas from Transco Station 85 to FGT Station 16. I understand that Company E did propose to price its

transportation service for a rate of [redacted] MMBtu, but FPL has not offered any explanatory or further supportive analysis regarding Company E's rate or how sustainable it is, how expansions will be priced, or what other shippers elsewhere may be required to help sponsor the [redacted] investment requirement. Consequently, this Commission has no way to analyze or determine the risks associated with Company E's offer, e.g., rate adjustment risks if some of the assumptions that underpin that rate are not sustainable.

For the FGT/Company B proposal, FPL has likewise assumed a flat rate of $1.75 (which is actually equal to $1.68 per MMBtu in FGT's March 18, 2009 proposal) as fixed number for 40 years. FPL has then assumed that another $.20 per MMBtu would have to be added to Company B's proposed rate in order to secure transportation along Transco's Mobile Bay Lateral from Station 85 to FGT's proposed receipt point at Citronelle, AL (see Exhibit HCS-2). Review of the FERC's approval of Transco's expansion of the Mobile Bay Lateral, however, indicates the likelihood of a far lower incremental rate of $.09 per MMBtu (see Exhibit MTL-7, page 7). Transco indicated in its Open Season to expand the Mobil Bay Lateral in January 2009 by 550,000 Mcf per day with rolled-in rate treatment, i.e., $.09 per MMBtu (a copy of Transco's January 22, 2009 announcement is attached as Exhibit BSA-4).

Q. What is the consequence of trying to look at pipeline rates this way?

A. FPL's comparison unfairly tips the results toward its own proposal. In Exhibit BSA-5, I compare the way FPL's proposed rate, if levelized for 20 years and then added to its never-decreasing version of the Company E rate, would compare against a never-decreasing version of the FGT/Company B proposal, as extended to Transco Station 85. By this logic, FPL would have us believe that the combined Company E/FES system would cost electricity ratepayers in Florida only [redacted] more than FGT/Company B's proposal, as extended, all things equal.

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Q. Is a new combined Company E/FES system originating at Transco Station 85 in the interest of Florida's electricity ratepayers?

A. Again, FPL has not shown this to be the case. In fact, the proposed combined Company E/FES system (comprising both FPL's proposed FES pipeline and Company E's proposed pipeline) would force Florida's electricity ratepayers to sponsor a transportation system costing three times as much as the FGT/Company B proposed 400,000 Mcf/day expansion of its pipeline system. Whatever the merits of a third pipeline into Florida may be, it would seem lavish to require the State's electricity ratepayers to sponsor such a cause in this way, especially given the more likely future demand.

Q. Witness Sexton and others suggest that the 600,000 Mcf/day combined Company E/FES system would benefit electricity ratepayers because it could be expanded through compression to meet more longer term need projections (Sexton Direct, page 6, line 7, page 52, line 20, et al). Please comment?

A. To begin with, FGT Witness Langston has called into question FPL's need to commit its ratepayers to a wholly new 600,000 Mcf/day pipeline system, let alone expansions thereof. Pipeline expansion capacity can be made available in the future in alternative ways, but FPL has not offered any specific analysis in this proceeding of expansion costs of one versus another system. Moreover, it is important to remember that downstream capacity expansion would generally offer shippers little benefit without corresponding upstream expansion, but FPL offers no analysis of that either in the record. In summary, FPL has not made a case that the proposed combined Company E/FES system as a whole would benefit ratepayers because it might be expandable, thus the FPSC should disregard unsubstantiated statements to that effect.

Pipeline Policy

Q. What does FPL's proposed scheme to include the FES pipeline in its electricity rate base imply for pipeline policy?

A. A major new gas pipeline that would traverse 13 counties in Florida for 279 miles is clearly not electricity plant. Instead, if approved and constructed, this would be a natural gas transportation system that ought to be certificated in its own right as such, carrying all the attendant rights and obligations for shippers, including transparent terms and conditions of service, fair and open access provisions, capacity management (release), regulated rates, and public information requirements.

Instead, FPL has proposed the FES pipeline in a different way, as essentially a private pipeline, in effect a "driveway" to its power plants. This is more than an inappropriate use of the private and public lands in Florida that the line would traverse – FPL's private pipeline scheme is inimical to the highly successful gas pipeline system that evolved in the 20th century in the U.S. and Canada. Here in North America, we have wisely fostered an independent gas pipeline industry and network that serves its shippers as customers. It is the envy of the world's gas regulators, industry, and customers. Some other important gas-using regions have not been so lucky, or foresighted. In particular, European pipelines are not independent companies, but instead, producers, customers, and governments typically own them. Efforts to create open access transportation markets in Western Europe have been stymied for two decades by the crosscurrent of conflicting interests created by entities owned by major other players in the industry.

Q. Have other states dealt with this type of regulatory issue?

A. FPL witness Sexton points to California in his comparisons to the Florida market. In California, however, following many years of regulating in-state gas pipelines that were integrated with gas distribution operations of Pacific Gas & Electric Company (PG&E) and Southern California Gas Company (SoCal Gas), the state

commission specifically recognized in 1998 the unworkability of this scheme, and issued orders to both companies to unbundle their gas transmission systems as stand-alone entities from a ratemaking and service standpoint. In-state pipelines are subject to rules requiring open access, transparency, and substantial limitations on affiliate preferences. All of this parallels the current regulatory scheme at the federal level that requires gas transmission system unbundling, and serves to eliminate many of the conflicts seen in markets such as in Western Europe and other places where such protections are lacking. Approval of FPL's FES proposed pipeline would thus be a giant step backward and not in the best interests of ratepayers, and certainly not in the best interests of the larger public.

Q. How should a customer-owned gas pipeline be structured and regulated, if one is to be approved?

A. Like any other long-line gas transportation system in North America. Assuming there is a sufficient demonstration of need and that FPL's pipeline is the best way to address that need, the FES pipeline should be structured and regulated by the FPSC as a stand-alone entity with a transparent obligation to connect and serve shippers, a fair and compatible rate structure subject to open access rules, bans on affiliate preferences, and other features that have made the North American open access gas pipeline system so successful. Submersion into the rate base of a single-customer industry would render these benefits unworkable.

Market Concentration

Q. In Supplemental Testimony, Witness Jonathan D. Ogur makes use of the Herfendahl-Hirschman Index (HHI) to demonstrate that the combined Company E/FES system is needed to make Florida transportation markets more competitive. Do you agree?

A. No, I do not. Use of the HHI index is not germane to Florida's pipeline transportation market. Both FGT and Gulfstream are interstate open access pipelines under the rules and regulatory oversight of the FERC. The FERC's rules

dating back to Order 636 in 1992 and others require third-party access on a fair, competitive basis, with highly structured capacity allocation and release mechanisms aimed at preventing market concentration and abuse. Consequently, both pipelines are immune to capacity hoarding, withholding or preferential treatment for affiliated entities or pre-arranged shipper transactions. In sum, the FERC's rules (culminating in Order 636 et seq.) effectively prevent the kinds of anti-competitive practices that could otherwise arise, rendering both pipelines essential public facilities open to any and all shippers on an equal basis. These are not, as a consequence, market concentrators and are not conducive to HHI analysis.

For this reason, an HHI analysis of interstate pipelines in Florida is no more relevant than a similar analysis of Maryland's gas distribution market – i.e., if Baltimore Gas and Electric and Washington Gas each serve half the State's gas distribution market, then by Witness Ogur's logic, Maryland's gas distribution market would have an HHI of 5,000. That conclusion would be equally meaningless as Witness Ogur's reflections about Florida's gas transportation market.

Q. FPL witness James K. Guest states on page 6 of his Supplemental Testimony that the "overwhelming" primary purpose of the FES Line is to meet the gas transportation needs of FPL's gas-fueled generating stations and as such FPL should classify the cost to construct the line as Electric Utility Plant and the depreciation, operation and maintenance expenses related to the Line after it has been placed in service should be charged to electric utility operating expense accounts. Please comment.

A. I don't think FPL can have it both ways, and the Commission should take heed: If FPL believes the proposed FES pipeline is only just a driveway to move gas exclusively to their power plants, as Witness Guest argues, then the line will not foster competition in the State, and all testimony to that effect should be disregarded. Conversely, if they believe the proposed FES pipeline will be one that

is generally used by the State's gas industry, then it should be structured, operated and regulated as a stand-alone commercial entity, not as an appendage of power generating stations.

Conclusion

Q. Will the proposed Combined Company E/FES system improve the economics of natural gas transmission within Florida to assure the economic well-being of the public?

A. No, in my opinion it would not, and FPL has not offered compelling or convincing information that tells us it would. The proposed FES/Company E pipeline system would cost [redacted], $1.6 billion of which would be charged directly to Florida's electricity ratepayers, with no corresponding benefit that could not be provided at a lower cost by alternative systems – same source, same destinations.

Q. Do you have any final recommendations for the Commission?

A. My recommendations are as outlined above. In particular, it is critical that the FPSC have before it the information necessary to evaluate the kinds of risks I discussed in this direct testimony – including risks of upstream supply acquisition that could be needed at Station 85, rate risks to electricity consumers of all components of the proposed Company E/FES pipeline, risks inherent in allowing FPL to greatly overbuild capacity, and risks that will arise by bundling a very long distance gas pipeline into its electric rate base. In short, the Commission needs to weigh the need for the FES pipeline against a range of options and pipeline configurations that may be considerably less costly and less risky to Florida's electricity ratepayers and the public at large.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA GAS TRANSMISSION COMPANY, LLC

SURREBUTTAL TESTIMONY OF BENJAMIN SCHLESINGER, PH.D.

DOCKET NO. 090172-EI

JULY 10, 2009

Q. Please state your name and business address.

A. My name is Benjamin Schlesinger. My business address is Benjamin Schlesinger and Associates, LLC, 7201 Wisconsin Avenue, Suite 740, Bethesda, Maryland 20814.

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

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony responds to a number of erroneous statements and new items of testimony that were contained in rebuttal testimony filed in this proceeding by FPL witnesses Timothy C. Sexton, Robert G. Sharra, Sam Forrest and Jonathan D. Ogur, dealing variously with matters involving gas market forecasting, regional gas supplies, and projected economic issues, including market power and open access pipeline rules.

Q. Are you sponsoring any additional exhibits in this proceeding?

A. Yes. I am sponsoring the following additional exhibit:

- Exhibit BSA-6 Daily Southeast Gas Prices through the 2005 Hurricane Season

Gas Market forecasting

Q. The FPL witnesses you are responding to provide some new and additional information regarding FPL's market forecasts. Why are gas price forecasts so important in this proceeding?

A. Gas price forecasts underpin the demand for FES or any other gas pipeline, in several ways. First, the price of gas at Henry Hub has a substantial effect on the price of gas at other locations throughout the Southeast, including in Florida. A Henry Hub gas price forecast that is excessively low will make gas-fired electricity generation appear relatively more economical than alternatives using such other fuels as coal, wind and solar energy. Likewise, an excessively high Henry Hub gas price forecast will militate against gas use relative to alternative fuels.

For its part, FPL's Henry Hub gas price forecast equals $10.05 per MMBtu in every year after 2020 (in deflated, i.e., "real" 2008 dollars) – a straight, flat line (hence, linear) for most of the years in which its proposed FES pipeline would serve its incremental gas-fired power generators. A higher forecast would have resulted in less of a need for gas (or a more mild rate of gas demand increases) to fuel its future generating needs, and would have induced relatively more wind and solar energy, all else equal. Most Henry Hub gas price forecasts

show rising real gas prices in the future as depletion eventually sets in. Consequently, by relying on assumptions that understate the future price of gas in Florida, FPL has rigged its need for gas to the levels for which it can then claim it needs the FES pipeline, i.e., 600,000 Mcf per day rising to 1.2 Bcf per day.

Q. We see a number of statements about relative gas prices at different points in the Southeast – for example, FPL Witness Sexton cites basis numbers at Page 14 of his Rebuttal Testimony and FPL Witness Sharra states at Page 9 of his Rebuttal Testimony that "...neither FPL nor FGT can know whether the basis at the delivery points will increase or decrease in the future." Why are these forecasts important in this proceeding?

A. Forecasts of basis differentials (i.e., gas price forecasts at one location versus another) are critically important in understanding the need for new gas pipeline capacity because they help guide where a new pipeline, if one is needed at all, should be constructed. In a proceeding like this docket, forecasts of basis differentials are crucial assumptions underlying discussions about Transco Station 85 versus other points in the Southeast. For example, if gas prices at Transco Station 85 are going to diverge significantly from gas prices at Perryville – a risk FPL Witness Sexton neither raises nor discusses in the table on Page 14 of his Rebuttal Testimony – then FPL would be better off building (or commissioning) a gas pipeline system that extends back to Perryville. But instead of a discussion of risks, or providing any basis forecast at all, FPL

witnesses offer the amazing and irresponsible statement implicit in Sexton's table and explicit in Sharra's Rebuttal Testimony at Page 9, quoted in the foregoing question, that the Commission should just assume gas price relationships around the Southeast will simply remain the same for 40 years. But, in fact, basis does not stay the same. Relative gas prices shift and change every time gas supply and demand change – and these change often – and whenever new pipelines enter service. FPL's completely linear forecasts of relative gas prices (basis) throughout the Southeast are both wrong and they are unnecessary – a number of forecasting models and services offer gas basis forecasts, including Altos's widely-relied upon North American Regional Gas Model (NARG).

Witness Forrest points out that FPL's gas dependency is great (Page 6 of his Rebuttal Testimony). I certainly agree, but would add that, although relative gas dependency among power generators in the Northeast is not as great as it is in Florida, it is growing very rapidly, e.g., up 31% and 51% from 2003 to 2008 in New Jersey and New York alone (from EIA data). It is quite likely, therefore, that future price relationships will change in a way that Transco Station 85 prices will rise well above Perryville prices. That would be consistent with continued rising gas demand for electricity generators in the Northeast, who will drive up prices at points all along the Transco pipeline (which serves the New York Metropolitan area), relative to other Southeastern

points. This likelihood would void Sexton's table and weaken FPL's case to originate FES/E gas supplies at Transco Station 85.

In short, FPL has failed to demonstrate the need for its proposed new pipeline system because it has not, from information in this record, assessed the risk that basis relationships may change in the future in a way that could obviate the need for the proposed FES/E system.

Finally, because they are so important to gas pipeline capacity planning, forecasts of gas prices usually come in sets of three – low, medium and high cases – or more (e.g., low LNG imports versus high LNG imports). Again, in presenting information to this Commission about the purported need for a multi-billion dollar pipeline project into Florida, FPL should have demonstrated the project's need in a variety of gas price scenarios, not just one, and not just a collection of straight lines.

Q. On Page 8 of his Rebuttal Testimony, Witness Sharra states: "FPL's forecast methodology is based on third party projections from highly reputable sources for future prices and rates of escalation." In their Rebuttal Testimonies, Witnesses Sexton and Forrest make similar statements (on Pages 8 and 10, respectively). From these statements, what is your understanding of FPL's gas price forecasting process, and how would you respond?

A. Three rebuttal witnesses claim (for the first time in this record) that FPL relied on three sources for their forecasts of Henry Hub prices – Petroleum Industry

Research Associates (PIRA), the U.S. Energy Information Administration (EIA), and the New York Mercantile Exchange (NYMEX) gas futures contract. There is utterly no hint that these three were used in any comparative sense, i.e., one used to cross-check the other. Instead, paraphrasing from the bottom of Page 8 of his Rebuttal Testimony, Sharra's elaboration consists only of the statement that FPL relied on NYMEX in the near-term, PIRA in the mid-term, and EIA afterward, for rates of escalation only.

First, NYMEX gas futures contract prices are not a forecast in any sense that could possibly be connected to the need for a multi-billion dollar pipeline system. Traders use NYMEX gas futures to lock in gas prices in specific transactions; they are a market that changes minute by minute, and are not intended for use as a forecast. For this reason, let alone because none of the three rebuttal witnesses provided the Commission even with the date or hour of the NYMEX gas prices FPL purported to use for the "near-term," nor how many days, months or years the "near-term" consists of, the Commission should in my opinion ignore any information provided by FPL that relies on the use of NYMEX in conjunction with planning for FPL's multi-billion dollar pipeline system.

Likewise, PIRA issues a number of forecasts on a regular basis, as do several other widely-relied-on services, including Cambridge Energy Research Associates (CERA), Energy Insights, and a number of private consulting outfits. Normally, with the understanding that no forecast is really ever going

to be an accurate prediction of future prices, energy industry planners cross-check one company's forecast with another, and they rely on several cases (low, medium, high, as indicated above) – but FPL did none of this, and instead inexplicably chose to use the three forecasts sequentially, which provides no meaningful information for the Commission.

Finally, EIA's most widely published forecast is its "Reference Case" which assumes existing law only – no carbon emission restrictions, no broad incentives to solar energy, etc. that have been enacted since the forecast was issued. As is the case with the other two, it is not clear which of EIA's gas price forecasts FPL "relied" on.

It is important to point out that, of the three "forecasts" mentioned by the FPL rebuttal witnesses, only PIRA costs any money; NYMEX closing prices and EIA forecasts may be downloaded without charge, i.e., they are free. I think this tells us that FPL has failed to approach gas price forecasting in a serious or diligent way that would befit the impact of these assumptions on the need for a $1.6 billion intrastate gas pipeline plus the highly costly upstream system that would supply gas to FPL's pipeline. In my opinion, for this reason as well, FPL has failed to provide the Commission with an adequate demonstration of the need for its proposed pipeline.

Q. FPL Witness Sharra states, "If FPL's forecast understates future natural gas prices...the costs of the FGT proposal are understated (to FGT's benefit) in FPL's economic analysis because the compression and usage

rates are higher for the FGT pipeline than they are for the Florida EnergySecure Line and Company E proposal." (Sharra Rebuttal Testimony, Page 10, Lines 17-22.) Of what relevance is this remark in this proceeding?

A. The comment suggests that FPL may not be aware of the key role that gas price and basis forecasts play in the process of projecting demand, and in particular, in planning new gas pipelines. The Commission should recognize that FPL's failure to forecast gas prices in anything but a simplistic linear way has nothing to do with fuel rates. As described above, gas price forecasts have everything to do with the need for the FES/E system in the first place, and with how the system, if needed at all, ought to be routed.

Supply Diversity

Q. FPL Witness Sharra states at Page 5 of his Rebuttal Testimony that "Transco Station provides access to onshore shale [gas] supplies, which increases the diversity and therefore the reliability of FPL's overall gas transportation portfolio." Likewise, Witness Sexton states at Page 9 that the FES "...meets FPL's goal of increasing supply diversity..." What is FPL's level of gas supply diversity and how would the proposed Company E/FES gas pipeline system change that?

A. FPL already receives gas supplies from many onshore and offshore gas-producing basins along the Gulf Coast including, for example, shale gas

through the Southeast Supply Header (SESH) to FGT. Creation of an entirely new multi-billion dollar pipeline system is not necessary to provide FPL with access to shale gas supplies. Company B (FGT) proposed in March 2009 an alternative and more economical way to add more shale gas to FPL's portfolio, if that is needed, and at significantly lower total cost than FPL would have its ratepayers be responsible for.

Q. FPL Witness Forrest argues on Page 12 of his Rebuttal Testimony and his Exhibit SF-3 that offshore gas is unreliable, and that FPL was required to pay significantly higher prices following hurricanes in 2005. Please comment.

A. Mr. Forrest has really not rebutted my testimony at all in this regard. Instead, he is reinforcing my Exhibit BSA-3, which showed that onshore gas supplies largely replaced missing offshore supplies after the two devastating hurricanes, Rita and Katrina, in 2005. His complaint is not that FPL ran out of fuel, but that gas prices went up and also that FPL had to use additional fuel oil, and that these together cost his customers an added $93 million (table in Exhibit SF-3). In today's commodity gas markets, hurricanes like Rita and Katrina – and we all hope they will never happen again! – inevitably drive all Southeast gas prices upward. My Exhibit BSA-6 shows that prices at Transco Station 85 historically track closely to prices in Louisiana. Following each of the hurricanes in 2005, gas prices at Transco Station 85 flew up just as they did at FGT Zone 3 and elsewhere in Louisiana. It is quite clear that Transco Station

85 is not and will never be immune or isolated from regional gas price pressures along the Gulf Coast – that is the world FPL lives in, and FES would not change it.

Q. Witness Sharra states in his Rebuttal Testimony that "Company E's existing infrastructure also provides access to east coast LNG...." (Page 7, lines 10-11.) Please respond.

A. FPL does not need its ratepayers to spend billions of dollars to connect to Transco Station 85 in order to obtain access to LNG. The vast majority of U.S. LNG receiving capacity is located along the Gulf Coast in three recently-completed receiving terminals (Freeport, TX, Sabine Pass, LA and Cameron, LA), one major expansion (Lake Charles, LA), one not far from completion (Golden Pass, TX), and one offshore Louisiana (Gulf Gateway). Together, these account for more than six times the LNG receiving capacity of Company E's direct supply. All of these are interconnected with FGT's mainline through comparatively short pipeline laterals, thus FGT provides far more direct and extensive access to LNG imports than Company E.

This is an important benefit of FGT's March 2009 proposal to FPL, not of the Company E/FES system, because more LNG will enter Gulf Coast receiving terminals in the future, while additional volumes of shale gas migrate to the Gulf Coast, and more LNG supplies will reside in storage tanks located at Gulf Coast receiving terminals. Moreover, FPL already has access to East Coast LNG via the Cypress Pipeline directly into FGT's mainline. Consequently, gas

supply reliability along FGT's receipt points will improve under normal conditions as well as in the kinds of emergencies that Mr. Forrest mentioned in his Rebuttal Testimony (captioned above).

Q. So, based upon what FPL has said in its rebuttal testimony, would the combined Company E/FES pipeline system improve gas supply diversity or reliability to Florida?

A. No. I conclude that FPL has failed to demonstrate to this Commission that there are any material or unique gas supply diversity or reliability benefits for Florida consumers from its proposed multi-billion dollar combined Company E/FES proposal.

Market Power and Competition

Q. FPL Witness Ogur states in his Rebuttal Testimony, "Incumbent pipelines, such as FGT...may be negotiating rates that...are greater than the competitive level." (Page 2, lines 8-10.) He also goes on to state, "...FGT's negotiated rate may exceed the competitive level." (Page 12, line 8.) Please comment.

A. If Witness Ogur had any evidence or facts at all in support of these allegations, then it is fair to assume he would have offered them into the record. In fact, he did not, and these are simply unsubstantiated, theoretical suppositions that he attempts to use as a springboard for a long academic discussion about the FERC's open access policies and competition. We can all agree that the

FERC's open access program is not perfect. But it is also true that FERC Order 636 *et seq.* has fostered the most reliably competitive gas transportation market in the world, one whose rules FPL is seeking to circumvent in this proceeding by claiming it has a need for a new $1.6 billion pipeline that must be operated as a "private driveway" in order to succeed economically.

Q. What do you mean by a "private driveway" with respect to FPL's proposed FES pipeline?

A. The riskless electric rate base compensation scheme for which FPL is seeking the Commission's approval in this proceeding would make the FES pipeline essentially just that, a "private driveway" operated for the merchant benefit of its owner, FPL. Because under FPL's proposal FES would be entirely absorbed into FPL's electric rate base, no public facility rules would apply to it, or at best a different set of rules would apply. Financial risks of incomplete capacity utilization, cost overruns during construction, and other capital and operating costs would fall entirely upon Florida's electricity ratepayers, who would have absolutely no control over the pipeline that they are paying for in full. Competition is stifled at best, or non-existent, under such a scheme, much as my neighbors cannot compete to use my own driveway.

Q. Witness Ogur refers to "fundamental differences between the Florida and California natural gas transmission and delivered natural gas markets." (Ogur Rebuttal Testimony, Page 7, Lines 19-20.) Please explain the relevance of this statement to this proceeding?

A. The statement is neither accurate not relevant, thus it is misleading to the Commission. First, intrastate pipelines in California are regulated as open access entities separated from their utility owners, as I indicated in my Direct Testimony. They are not merchant pipelines as FPL is seeking to be, and they are not paid for by electric ratepayers in the unique risk-free "private driveway" gas pipeline compensation scheme that FPL has proposed. Second, although the percentage of gas use for electricity generation is greater in Florida than in California, the volumes are generally about the same (annual gas demand for electricity generation in billions of cubic feet):

Gas Demand for Electric Power Generation

	California	***Florida***
2007	834	773
2008	851	800

Source: EIA.

From the foregoing, I conclude that California's gas transmission and delivered gas markets look quite similar to Florida's, at least as far as electricity generation is concerned. But that would certainly change under FPL's proposed compensation scheme for its FES pipeline. In other words, FPL's proposed rate-based scheme for the FES pipeline would set it apart from pipelines within California in a way that would be inimical to the interests of Florida's ratepayers.

Q. Witness Ogur attached as part of his Rebuttal Testimony, as Exhibit JDO-3, testimony that FGT Witness Schlesinger delivered in 1995 before the FERC in Pacific Gas Transmission Company, Docket No. RP94-149-000 et al (herein, the "PGT testimony"). Referring to the PGT testimony, Mr. Ogur states "[Schlesinger] found that California consumers benefited from decreased gas prices as the result of the Kern River pipeline and the PGT Expansion." (Ogur Rebuttal Testimony, Page 5, lines 16-17.) Please explain the relevance, if any, of that testimony in this proceeding.

A. Mr. Ogur has seized upon one of the key conclusions in my PGT testimony, namely, that a new pipeline delivering a fresh supply of hitherto unavailable gas from a new source (in that case, Rockies gas and Alberta gas in 1991 and 1992, respectively) resulted in significant cost savings to gas consumers in California. That is not relevant to the Commission's analysis in this case because we are not dealing with "a fresh supply of hitherto unavailable gas from a new source." But it doesn't stop there – there are several other important points about my PGT testimony that Mr. Ogur failed to discuss, which are these:

1. There is nothing in my PGT testimony that suggests if a party other than PGT or Kern River constructed the new pipeline capacity from the Rockies/Alberta that the same result would not have transpired. Likewise, if shale gas were actually to represent a fresh new

supply source to Florida, then expanding FGT along the lines of its March 2009 proposal would have exactly the same effect.

2. The PGT Expansion was just that, an addition to capacity along an existing pipeline, sponsored by the existing "incumbent" pipeline, PGT, much as FGT proposed in March 2009 to expand its system to deliver additional onshore shale gas supplies into Florida. Thus, an expansion – not a wholly new pipeline system – had the desired impact in California of reducing gas prices.

2. PGT was a wholly-owned affiliate at the time of Pacific Gas and Electric Company (PG&E), which was then the nation's largest energy utility. PG&E did not, however, roll the cost of PGT or the PGT Expansion into its electric rate base, but instead established PGT as a separate entity in compliance with the FERC's regulations, including rules banning preferences in gas transportation services for affiliated entities (Order 497). PGT was (and still is) operated as an open access pipeline under the FERC's rules. This is quite a different arrangement from the kind of "private driveway" arrangement pipeline that FPL has proposed to the Commission for the FES pipeline.

Q. Witness Ogur concludes his Rebuttal Testimony by stating, "Entry by a new pipeline, such as the [FES pipeline] will promote competition and put downward pressure on negotiated rates." (Page 17, Lines 15-17.) Do you agree?

A. No. Competition in Florida will not be enhanced by a "private driveway" scheme of the kind that FPL has proposed for the FES pipeline. Open access means exactly that – access to the pipeline's capacity is open according to the rules set up by the FERC, which include public auction of capacity, no preference given to the pipeline owner in allocating transportation rights, no merchant role on the part of the pipeline, fair and transparent rates, penalties for non-compliance, and much more. The owners of the pipelines (e.g., FGT, GulfStream) assumes the commercial risks in those FERC-regulated cases, while FPL's proposed FES pipeline would be paid for in full by the Florida electric ratepayers, regardless of the amount of gas that actually moves through it, and regardless of what the pipeline actually ends up costing to build. Simply placing steel in the ground is no guaranty that gas prices will go down, as Europeans are painfully aware. For example, the Russian pipeline affiliate, Gasprom, is constructing the South Stream pipeline from Russia to Europe, but this will not induce competition because Gasprom has its transportation costs embedded in its sales price. Likewise, the proposed intrastate FES pipeline would be in effect a merchant pipeline operated for the benefit of the owners, devoid of commercial risk – thus enabling FPL to potentially withhold capacity or to price releases of excess capacity (of which there is considerable risk, based on FPL's inflated demand assumptions discussed in Witness Langston's testimony) in non-market way.

I conclude that, apart from the theoretical discourse and unfounded allegations in Mr. Ogur's Rebuttal Testimony, FPL has failed to demonstrate that the FPL proposed Company E/FES pipeline system, including the "private driveway" rate base scheme, would enhance gas or transportation competition in Florida. At the very least, the FES/E pipeline's competitive benefits, if there are any, would be equally available under FGT's March 2009 proposal, without a $1.6 billion expenditure directly by Florida's ratepayers plus the unnecessary and excessive costs of the separate upstream system.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BY MR. SELF:

Q. Dr. Schlesinger, do you have a summary of your direct and surrebuttal testimony?

A. Yes, I do.

Q. Can you please give that now?

A. Thank you.

Good morning, Mr. Chairman and Commissioners.

Before I begin my brief summary, I would just indicate that it's, it addresses -- my direct and surrebuttal testimony address three basic issues: The need question in a -- from a perspective of economics; second, some specific advantages that have been claimed for this particular pipeline; and, third, the question of rate base treatment, electric rate base treatment.

So first, first, need. We've had discussion about forecasts, a good deal of discussion about a population and power forecast. The forecasts that I tend to look at also when reviewing a pipeline and the prospects for a pipeline and the need for one are gas price forecasts. Price forecasts not only in an absolute sense, but also from a perspective of one location versus another. A pipeline like this will connect points at great distance, and there are a number of choices of points, as you can see. And so the relative prices that are projected are important to me.

And in my direct testimony and also in my surrebuttal I go to several pages and describe my concerns about the forecasts that FPL has provided, because they're really almost not forecasts. FPL's projection of gas prices from 2020 on is completely flat. It's a straight line in real dollar terms. It's a flat number that increases, as I described in my direct testimony, by 2 percent per year, which I assume is inflation or something. So in current, in current dollars it would be a 2 percent increase. And in, and in real dollars it's flat, it's a straight line.

I get very concerned about that kind of forecast because peoples' gas price forecasts tell me a lot about what's on their mind. In this particular case, a flat forecast is very high at the outset, which evokes a lot of shale gas, because a high gas price will be, you know, will stimulate a good deal of drilling and a good deal of shale gas production.

But in the out years -- and a good deal of discussion here has been about the need going forward at a great number of years. In the out years it starts to look fairly low because it never changes. And that concerns me greatly because it biases against things like solar energy in particular, whose costs are high now but whose costs are likely to come down, but low gas

prices or relatively low gas prices are not comforting to that. So it's almost a missing piece, and I describe that at length in my direct testimony.

The question of relative fuel price forecasts at one point or another was, was even more troubling. There were basically no forecasts at all. There was a current screen, if you will, a market differential between two points, and then that's it. In my surrebuttal testimony I took a lot of, expressed a lot of concern about that. In the case of -- you know, and so there were basically flat numbers, not even escalating for inflation. A pipeline, as I describe in my testimony, changes forecasts, changes a basis, the relative price at one point versus another point over time. You put in infrastructure, it creates change. It doesn't matter what basis or the -- I keep using the term basis. I apologize. That means the price difference between one point and another.

It doesn't matter what price differences are today, basis today, it doesn't matter. It's what basis will be in the future after a pipeline goes in.

We had some discussion in my testimony about the Northeast. The population in the Northeast is about 3.5 times that of Florida. And I'm only including the states that are served by Transco, the pipeline that

serves the New York metropolitan area, New Jersey and on down to D.C. and the Carolinas, North Carolina.

That area is not as gas dependent for its power generation, as I point out in my surrebuttal testimony, as, as this state is, and I think that's generally understood. However, they're increasing their gas use at a fast rate, and that's going to be an engine to create some demand on all points along Transco, not just Station 85. But it would certainly affect Station 85, and I think that's the kind of demand that the producers were looking at when they took out capacity on the two pipelines that are mentioned.

In some of the testimony that FPL filed, the Boardwalk pipeline and Midcontinent, those are exciting projects, and it's great that they moved shale gas to the east, but that's not going to stop at Station 85. It's going to continue to move up Transco. Transco has already filed for an expansion to serve the Carolinas, and that process is going to continue on.

So forecasts are exceedingly important in my view. And I feel that FPL has not provided forecasts that are, are worthy of a project that has many billions of dollars of the kind they've proposed.

One last point on forecasts. I look to see a low case, a medium case, and a high case, you know,

because forecasts are -- especially in the out years that we're dealing with here when this pipeline would be doubled in capacity to 1.2 Bcf, you really have to look at the possibilities, and we didn't see that either. And that's, that's a -- so their forecasts were deficient. In that sense it concerns me.

And, you know, I apologize for using in my deposition, what was the word, rigged, but if I had rigged a forecast, that's what it would be.

Second, the claims about supply diversity. I guess I'll use -- rather than switch to it, I'll just let you look at it over my shoulder. The brown areas on FPL's pipeline correctly show the location of nearby shale plays. There are also some to the west. There isn't any shale at Transco Station 85 at all. There's no shale gas right there. And there's no shale gas right at Citronelle or some of the other points that FGT has proposed, you know, in its proposal. As I mentioned, the shale gas has to be brought in.

And I think I'm not going to repeat some of the points that Mike Langston has made along that line. It's safe to say, from a perspective of supply diversity, it's pretty much the same. Citronelle and Station 85 are about 80 miles from one another. If there was any reason to -- you know, if there was any

blockage of some kind, if we had two totally separate markets, it wouldn't be very long before they were reconciled. The gas business is a, is commoditized and there will be -- you know, pipelines get built when they're needed.

Okay. Let me continue on supply. That's kind of -- supply diversity in my view is not enhanced by a pipeline that starts and ends at the same place basically.

Second, reliability. You know, of course reliability is, you know, is important. My surrebuttal testimony, you know, I deal with the reliability questions in rebuttal to one of the witnesses that pointed out that during the hurricanes a great deal of money had to be spent to keep the gas flowing to the power plants.

My, my point is this, and my Exhibit BSA-6 makes this point. I think that was it. Yeah. The gas did flow during the hurricane season. Of course the offshore was a tragedy and New Orleans was a tragedy. But the fact is that the onshore points, including Transco Zone 3, which is right along the Mobile Bay and Louisiana area, as well as Florida Gas 3, had gas. They didn't stop running. Maybe briefly for a day. Our data, you know, is pretty -- the data is pretty clear on

this. These didn't even declare a *force majeure*.

If Florida Power & Light's contracts declared *force majeure*, maybe their receipt point was right at the platform. I don't know. I've never seen their, the utility's gas supply contracts.

But the point of this surrebuttal was that if they want to prevent *force majeure* from hurricanes, let them contract in a way that prevents *force majeure* from hurricanes. Many, many other parties did that, and gas moved through these points because the upper tier, Perryville and so forth, and the lower --

CHAIRMAN CARTER: Hang on one second.

THE WITNESS: Yeah.

MR. PERKO: (Inaudible.)

THE COURT REPORTER: I can't hear.

CHAIRMAN CARTER: His objection is that he's straying beyond his testimony.

Let me do this before I respond to your objection. The other board you guys had, would you mind putting that one up? Do you remember the one that was a little more expansive? Just put it up beside it. I think, I think it's over here already. Just put the other one to the side so you have both of them up there.

Okay. Now your objection again, Mr. Perko.

MR. PERKO: Well, I don't believe -- I believe

his summary is going beyond his testimony. So far he's talking about contracting away from hurricanes and other parties that have done so. I don't believe there's any reference to that in his testimony.

CHAIRMAN CARTER: Mr. Self?

MR. SELF: Well, on Page 9 of 17, on Line 13 he's talking about the two devastating hurricanes, Rita and Katrina, in 2005. His complaint is not that FPL ran out of fuel but that the gas price went up. I think that's what he just said.

MR. PERKO: I think he went beyond that and talked about other companies contracting to address hurricanes, and I don't think there's anything in his testimony that speaks to that.

CHAIRMAN CARTER: Let's go -- I think on that one I'm going to overrule. Let's, let's move on.

THE WITNESS: My point on particularly Line 17, 18, 19 of Page 9 was that reliability was excellent, generally excellent throughout the hurricane season. You don't need to go to Station 85 to get reliable supplies or really fundamentally different supplies, because this onshore gas migrated down during the hurricanes.

And, third, in this area of benefits, the competitive benefits, in this sense my testimony in

particular in the surrebuttal was directed at one witness who included in its entirety my testimony in a 1995 FERC proceeding involving Pacific Gas Transmission, which is, at the time was a new pipeline. It was a rate case involving a new pipeline that had been built a few years earlier connecting Alberta to California. It's an interstate pipeline regulated by the FERC.

And in building this pipeline, I documented that because a fresh new supply of gas was brought into a gas hungry market, California, prices relative to Henry Hub became 20 cents lower per 1,000 cubic feet and continued at that level. And I concluded that that was a level that wasn't confined to electric customers or any other particular buyer of gas, but that it was a, it was a general benefit to the state, which uses 2 trillion cubic feet at the time. So the benefit was about $400 million. The exact number was $398 million of benefit, competitive benefit as a result of this new, fresh supply of gas.

I think the witness didn't point out, however, and I need to, as I stated in my surrebuttal, the fact this pipeline was nowheres near the cost of the benefit that it produced. My testimony goes on. My testimony didn't deal with the cost of the pipeline, but I think to take in isolation the benefit and say therefore a new

pipeline lowers prices, is, is one-sided, to say the least. In this case, it is completely the other way around. Even if we used the same 20 cents, this state uses one trillion cubic feet of gas.

MR. PERKO: Objection, Commissioner Carter. Again, I think he's straying. He's admitted that he didn't talk in terms of finances, and now he's doing just that.

CHAIRMAN CARTER: Dr. Schlesinger, let's bring it in for a landing.

THE WITNESS: Okay. Well, this brings me to the last part of my opening statement, which deals with the rate base. And I won't add to what Mr. Langston has already said. I dealt with this in my direct and a couple of places in my surrebuttal. I've never seen a long pipeline like this that's electric rate based, and there is perfectly good reason for it, which I point out in my testimony.

The reason is to ensure that pipelines that are not necessary are not built, unless of course the owner wishes to take the risk of non-use of his pipeline. If the owner takes the risk, well, then, he can spend his money. But generally they prefer not to do that or they prefer to tailor their pipeline to the actual need. There are places in this world, as I

pointed out in my surrebuttal, 16, 17, basically 17, where that's not the case. The U.S. pipeline industry is the envy of the world because of the way it's regulated. And I have to tell you that we do a lot of work elsewhere.

And there are examples where pipelines are built completely at the will of the owner. The Soviet Union was an example. A Russian gas pipeline called Gazprom is built because they need -- they decide they want to build it. It's not tailored to the market in the sense that a U.S. pipeline is because of our rules. I also had testimony about California, which I will just go ahead and dispense with right now.

And that concludes my summary. Thank you so much for your patience.

CHAIRMAN CARTER: Thank you. Thank you.

MR. SELF: Dr. Schlesinger is available for cross-examination.

CHAIRMAN CARTER: Mr. Perko, you're recognized.

MR. PERKO: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PERKO:

Q. Mr. Schlesinger, do you recall sponsoring some responses to FGT's responses to staff interrogatories?

A. Yes, I do.

Q. And one of those interrogatories, specifically Number 3, asked that FGT provide what it believes is an appropriate forecast of natural gas prices at Henry Hub for the forecasted period used by FPL in its analysis. Do you recall that?

A. I recall the question. I think there was an answer at some length, and I don't have that in front of me.

Q. Did you or FGT actually provide what you believe to be the appropriate forecast of natural gas prices?

A. If you don't mind, I'd like to turn to my data response.

Q. Certainly.

A. What number was it?

Q. FGT's response to Staff Interrogatory Number 3.

A. Let me see if I have it. Thank you.

Okay. I have it in front of me.

Q. My question is FGT -- neither you nor FGT actually provided a forecast of natural gas prices at Henry Hub for the forecast period used by FPL in its analysis as requested in this interrogatory; isn't that correct?

A. That is correct. We did not provide a forecast. However, we recognize that that's not a trivial task, and I think that's been, you know, a point of my testimony, that it takes time and a good deal of effort to provide a forecast. I listed some of the elements that ought to be included in such a forecast, when and if one is produced by FGT, and some examples of some commonly relied on forecasts, and I felt that that was fair and responsive in the context of a data response.

Q. And Interrogatory Number 4 asked FGT to provide what it believes to be an appropriate gas price forecast, gas price basis forecast for key southeastern gas pricing points; is that correct?

A. Yes, sir.

Q. And neither you nor FGT provided such a forecast in response to that interrogatory; is that correct?

A. It is correct. And my response is basically the same as my response to your previous question. This is not a trivial task. And I also provide some examples of services that make such forecasts available.

Q. I'd like to switch gears a little bit. You mentioned in your --

A. If you'd give me a moment.

Q. Certainly.

A. Okay.

Q. You mentioned in your surrebuttal testimony on Page 9, in fact you state that FGT proposes in its March 2009 proposal to expand its system to deliver additional onshore shale gas supplies into Florida. Do you see that statement?

A. No. What line, sir?

Q. I'm sorry. It's Line, beginning on Line 3.

A. Okay. Company B, FGT proposed. Yes, I see it.

Q. Now can you identify for me the receipt points that FGT supposedly proposed to provide access to more shale gas supplies into Florida?

A. Yes.

Q. And what are those?

A. I -- well, I can't list them, but I understand that FGT's proposal had a number of receipt points within their Zone 3 that had access to shale gas, and that is what my understanding is based on.

Now Mr. Langston went further today and identified some of those points. So my understanding now is more clear than it was during the deposition when we discussed this same point.

Q. But at your deposition you couldn't identify

any receipt points that FGT offered to provide access to shale gas; is that correct?

A. Well, I didn't identify individual points. But I don't think it's correct to say that I was unaware that points were included in FGT's proposal that would provide access to shale gas, since most of them would.

Q. Well, in its proposal FGT did not include any proposal to actually, or any transportation rate to provide access from FGT Zone 3 to any supply points for shale gas; is that correct?

A. The questions that Mr. Langston discussed this morning -- well, first off, I don't think they did have any further transportation. Your question was from Zone 3 to shale, if I remember right. Maybe I misunderstood your question.

Q. Perhaps I should rephrase the question.

A. Yeah.

Q. From shale gas receipt points to Transco Zone 3.

A. Yes. I think you meant the other way.

No, I don't think FGT included such costs because they would not have been necessary. There's plenty of shale gas coming into Zone 3 as it is, and its highly liquid point (phonetic), so there would be no need, I mean, there would be no need to include

additional costs of those kinds in the proposal.

Q. So you're saying that FPL can get a consistent, firm source of shale gas without paying for additional transportation costs beyond FGT Zone 3?

A. Well, I think they would have to look at what suppliers they were, that were available. I believe they could, if they decided that's what they wanted to do.

Q. Would you agree that an electric utility has to base its transportation capacity requirements on peak load demands?

A. I'm not an electrical engineer. I think there are a number of ways to meet peak demands, but I can't really testify about how peak demands would relate specifically to pipeline capacity. It may or may not be necessary to contract for firm capacity to meet peak demands. People, some power companies use storage to meet peak demand successfully. Some use, you know, other fuels, alternate fuels, if it's at the very peak.

So I can't really answer your question, because I don't know enough about how Florida's peaks can be met. I'm simply indicating that it doesn't necessarily have to be purely pipeline capacity.

MR. PERKO: Just give me one second, Mr. Chairman.

CHAIRMAN CARTER: Sure. Take a minute.

BY MR. PERKO:

Q. Mr. Schlesinger, how much storage capacity for natural gas is there in Florida?

A. I'm not sure I'm able to answer that. I know there's an LNG storage project that's been approved for Tampa Electric. But I can't -- I really don't know.

Q. Now, Mr. Schlesinger, you talked a little bit about the load or demand for, gas demand for New York and New Jersey and its potential impact on Transco 85; do you recall that testimony?

A. Yes.

Q. Now you referenced EIA data in your testimony. And you'd agree that that same EIA data indicates the gas dependency among power generators in Florida is growing just as rapidly as in New Jersey and New York during the same time period?

A. We did discuss this in my deposition. I don't recall the exact numbers. If I remember right, the increase in power demand, the use of gas for power demand in Florida from '03 to '08 was 49 percent. Then in my testimony I think it was 51 percent in one of the two states, New York, New Jersey. I forgot which one.

Q. But the overall gas dependency among power generators in Florida is much higher than in New York

and New Jersey combined; is that correct?

A. Oh, yes, it is higher today. And I think that's my point. The -- it's higher. And it's not as -- in New York and New Jersey and the major population centers served by Transco, gas dependency for power generation is not as high as it is in Florida because there's a good deal of coal, you know, old coal plants that serve those areas, you know, and other fuels.

I think the point was that those uses are likely to increase. And when they start to move following carbon rules, as I mentioned, their, you know, their use is going to increase tremendously and act like an engine pulling gas up Transco.

Q. Well, I want to focus on Florida, if we could. And you've said that the gas dependency among power generators in Florida is growing just as rapidly as New York and New Jersey, that that -- that Florida actually uses more gas for power generation than New York and New Jersey combined. And you'd also agree that the natural gas demand for power generation in Florida is served almost exclusively by FGT and Gulfstream, wouldn't you?

A. I'm sorry. You mentioned -- I'll be glad to answer it, if you -- you stated a number of premises in your question. One of them is that I think you said I

agree that gas demand in Florida is growing just as rapidly as it is in the north. No. I think that was the case in '03 to '08. But the point was that '08 -- that New York and New Jersey has a potential to increase its demand much higher. So is it growing now as rapidly as the Northeast? That's not what, that's not what my testimony was.

The rest of your question. I don't mean -- you know, I apologize. I -- please read it back. I tend to -- if I hear a premise I don't agree with, it tends to block out the further, the further question.

What was the rest of it?

Q. You'd agree that natural gas demand for power generation in Florida is served almost exclusively by FGT and Gulfstream, wouldn't you?

A. FGT and --

Q. Gulfstream.

A. Yes.

Q. And given the, the high rate of natural gas demand for power generation in Florida and the fact that that is growing rapidly, wouldn't you agree that that would put upward pressure on prices at FGT Zone 3?

A. That what would put pressure, increased gas use?

Q. Increased gas demand from electric generation.

A. Yes. I think all demand is going to put upward pressure on, on price. The price of gas -- I mean, let me explain. The price of gas is set by supply and demand in each of these points. Each of those points too. It's set by supply and demand. So to the extent demand increases, it's going to exert upward pressure on price.

My statement was how quickly demand is likely to increase in the future in areas that are not as gas-dependent as Florida for power generation once carbon emission restrictions come into place.

Q. Do you know what portion of New York metropolitan area demand is served by Transco?

A. I would have to say not offhand. I could certainly provide it.

Q. Just a couple of final questions, Mr. Schlesinger.

MR. SELF: Excuse me. Mr. Chairman, I think in recognition of Dr. Schlesinger's credentials, Mr. Perko has referred to him as Mr. Schlesinger, I think it would be appropriate to refer to him as Dr. Schlesinger.

MR. PERKO: I apologize, Mr. Chairman. That was simply a mistake on my part. It was not intentional.

BY MR. PERKO:

Q. Dr. Schlesinger, I apologize.

A. Sure.

Q. Just a few more questions. For interstate pipelines, FERC establishes a recourse rate; correct?

A. Yes.

Q. And that recourse rate essentially serves as a price cap; is that, is that right?

A. The rate that's -- I'm not as versed in rates as Mr. Langston is in terms of the maximum rate. A maximum -- a pipeline is given the opportunity to earn up to a maximum, to charge its customers up to a maximum rate.

Q. But there is an opportunity for pipeline companies and shippers to negotiate rates below that maximum; correct?

A. There is within the FERC's guidelines, which are to not unduly discriminate among customers.

Q. And given its ability to negotiate rates, wouldn't you expect that the introduction of a new pipeline would cause prices to go -- would you -- I'm sorry.

Would you expect prices to go up or down?

A. Is this -- are you referring in your question to this particular proposal?

Q. No, sir.

A. Just in general?

Q. Just in general.

A. So hypothetically the introduction of a new pipeline might or might not increase or decrease rates. It depends on the setting, the market. I gave an example a few minutes ago of a new pipeline that's not going to decrease rates at all in Europe.

Q. No further questions, Mr. Chairman.

And I thank you, Dr. Schlesinger, and I apologize for calling you Mister.

A. Thank you, sir. It's no biggie.

CHAIRMAN CARTER: Thank you. Thank you. Good manners are always appreciated.

Staff, you're recognized.

CROSS EXAMINATION

BY MS. BROWN:

Q. Good morning, Dr. Schlesinger.

A. Good morning, Ms. Brown.

Q. I just have one question.

You stated in your summary and also in your deposition that you were not familiar with a pipeline like this in electric rate base anywhere in the country; is that correct?

A. Yes, ma'am.

Q. How long have you been in the natural gas consulting business?

A. Ma'am, my answer today would be the same as it was in my deposition. Longer than I care to admit.

Q. I think you did admit though in the deposition, didn't you? Will you admit it here again?

A. It's about 40 years.

Q. Thank you.

MS. BROWN: No further questions.

CHAIRMAN CARTER: Thank you.

Commissioners?

I just wanted to -- Mr. Self, remember I asked a question of Mr. Langston, and you directed me to BSA-5?

MR. SELF: Yes, sir.

CHAIRMAN CARTER: Dr. Schlesinger, could you kind of just give a general overview of that? Just kind of help me. Because I was really trying to ascertain how the prices were higher versus lower and all. Do you mind, sir?

THE WITNESS: I will. Without mentioning the numbers, which are marked, the numbers are marked as -- some of the numbers are marked as confidential. The table headings are not.

CHAIRMAN CARTER: Well, let's don't, let's

don't deal with the confidential ones, okay?

THE WITNESS: Yes. I can go through the columns. It's basically an analysis of what the unit rate would be to transport gas on two alternatives, the FPL pipeline along with the necessary feeder pipeline, which is actually larger than the FPL pipeline, the Company E combination, versus the proposal, the -- I believe it was the March proposal of FGT.

In the March proposal of --

CHAIRMAN CARTER: Is it -- excuse me, Doctor.

THE WITNESS: Sure.

CHAIRMAN CARTER: Excuse me. Is it 5 or 6? Which one of those exhibits should I be on?

THE WITNESS: Five. I'm sorry. BSA-5.

CHAIRMAN CARTER: BSA-5? I went one page too many. Thank you.

THE WITNESS: It's a two-page exhibit. Okay. It's a two-page exhibit consisting of a table that takes up all of the first page and about half the second page, in which annual year by year unit costs of transportation are developed for each of the two alternatives. In the case of the -- well, I can go through the individual columns.

Just to summarize though, the bottom line is that the cost of the FPL and Company E combination,

assuming a 100 percent load factor, which means that all of the capacity is used of the individual system, so it's a little bit of apples and oranges. In the case of the combination Company E and Florida Power, FPL pipeline system, the capacity is 600,000 a day. In the case of the, which I was labeling here Company B, FPL is 400,000 a day.

So if each is operating at its full capacity, I listed what the costs are in the little area in the middle of Page 2 of this exhibit.

But of course if both of them are carrying 400,000 a day, such as in the early years and perhaps continuing on, I don't know, but simply if they're all, both carrying 400 a day, then the corresponding unit rates are then listed a little bit below that on Page 2. And that is just to give a sense of the effect of unused and unnecessary capacity on the unit cost.

And the FERC regulates the rate. It doesn't guarantee an amount of recovery. That's the way their system works there and in California.

This proposal would guarantee an amount of recovery, at least for the FPL portion. Company E would be regulated by the FERC. And so if it weren't, if, if this segment, the FPL pipeline, were regulated in the way the Company E and the Company B pipelines are

regulated, then -- and it's received a 100 percent load factor rate, the number that I can't tell you out loud in the middle of Page 2, and that would be the maximum tariff, or something like that would be the maximum tariff. I mean, there are always negotiations and settlement issues in tariff settings and so forth. But that would place the company at risk for the rest of it.

CHAIRMAN CARTER: Okay. Thank you.

Commissioners, anything further from the bench?

Redirect?

MR. SELF: No redirect.

CHAIRMAN CARTER: Exhibits?

MR. SELF: FGT would move Exhibits 75 through 79.

CHAIRMAN CARTER: Are there any objections?

MR. SELF: And also 80. I'm sorry.

CHAIRMAN CARTER: And 80.

MR. PERKO: No objection.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibits 75 through 80 admitted into the record.)

Okay. Now Mr. Schlesinger -- Dr. Schlesinger was both, that was his direct and his rebuttal; correct?

MR. SELF: Yes, sir.

CHAIRMAN CARTER: So we're done with this -- no further questions for this witness?

THE WITNESS: I'm packing.

CHAIRMAN CARTER: From either side, party? Staff, no further questions?

You may be excused, sir. Have a great day, and thank you.

Okay. It looks like we're getting ready to move into Phase 3.

Anything further, Mr., Mr. Self, before we move further?

MR. SELF: No. We have covered all of the FGT witnesses and their exhibits.

CHAIRMAN CARTER: Mr. Butler?

MR. BUTLER: Before we move into Phase 3, could we have a brief break to just get our, ourselves ready?

CHAIRMAN CARTER: You know, I think we could do that. I think we could give you guys a break. Why don't we come back ten after.

MR. BUTLER: Thank you.

(Recess taken.)

CHAIRMAN CARTER: We are back on the record.

And when we last left, we were just taking a

moment for Mr. Butler. You're recognized, sir.

MR. BUTLER: Thank you, Mr. Chairman. Call as our first rebuttal witness Mr. Forrest, who has previously been sworn.

CHAIRMAN CARTER: Okay. You may proceed.

MR. BUTLER: Thank you.

SAM FORREST

was called as a witness on behalf of Florida Power & Light Company, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q. Mr. Forrest, would you please state your name and address for the record?

A. My name is Sam Forrest. My business address is 700 Universe Boulevard. That's in Juno Beach, Florida.

Q. Okay. Have you prepared and caused to be filed 13 pages of prefiled rebuttal testimony with attached Exhibits SF-2 and SF-3 in this proceeding?

A. Yes, I have.

Q. And have you filed any errata with respect to that rebuttal testimony?

A. I think there was a correction to the exhibit names, if I'm not mistaken.

Q. Okay. And that was filed on July 24, 2009?

A. That's correct.

Q. Do you have any further changes or revisions to your prefiled rebuttal testimony?

A. No, I do not.

Q. Okay. With the changes in your errata, if I asked you the same questions contained in your rebuttal testimony today, would your answers be the same?

A. Yes, they would.

MR. BUTLER: Okay. Mr. Chairman, I would ask that Mr. Forrest's prefiled rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BUTLER: Thank you. And I would note that Mr. Forrest's Exhibits SF-2 and SF-3 have been identified in staff's Comprehensive Exhibit List as Exhibits 81 and 82.

(Exhibits 81 and 82 marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF SAM FORREST

DOCKET NO. 090172-EI

JULY 2, 2009

Q. Please state your name and business address.

A. My name is Sam Forrest. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes. I submitted direct testimony on April 7, 2009 and supplemental direct testimony on May 29, 2009.

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

A. No.

Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. Yes. I am sponsoring the following exhibits which are attached to my rebuttal testimony:

- SF-2: FPL's supplemental response to Staff's Fourth Set of Interrogatories, Question Number 85
- SF-3: FPL's 2005 Storm-Related Incremental Fuel Expenses (Originally filed as "Late Filed Exhibit No. 4" to G. Yupp's Deposition in Docket No. 050001-EI)

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to rebut the testimony of Florida Gas Transmission Company, LLC ("FGT") witnesses Michael T. Langston and Benjamin Schlesinger. Specifically, I will address the issue of whether FPL's proposed method of cost recovery for the Florida EnergySecure Line is appropriate and in FPL customers' best interests, as well as the issue of whether FPL's proposal benefits competition.

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

A. In its direct case, FPL provided testimony demonstrating that the combination of the Florida EnergySecure Line with the Company E proposal is a once-in-a-generation opportunity to provide significant new geographically diverse natural gas transmission infrastructure into and within the state of Florida. FGT presumably recognizes this as evidenced by its interest in the project, but has reacted to FPL's proposal as a threat to its own self-interest. FGT's fundamental objective is only to ensure that a third pipeline is not constructed, as opposed to offering any real alternative that would deliver comparable benefits to FPL's customers and the state of Florida. The Florida EnergySecure Line provides a significant level of competition for FGT, competition which its testimony tries to dismiss but which FGT's own actions demonstrate. The very fact of FGT's repeated unsolicited proposals to FPL and the corresponding price reductions FGT offered is strong evidence of the competition that the Florida EnergySecure Line is already delivering, and of the direct benefits that FPL's customers and

Florida will realize as a result of the existence of a new source of gas into the state.

Q. Does FPL's proposed rate base recovery provide FPL an unfair advantage because it shields FPL from risk of full recovery if the pipeline is underutilized, as FGT has suggested?

A. No. The idea of an unfair advantage implies that FPL's customers would pay for the asset until FPL finds an opportunity to sell the excess capacity to a third party at an economic advantage for FPL's shareholders, rather than retaining the benefit of the excess capacity for customers once they need it. FGT's implication is completely inaccurate and may be based on looking at the project through FGT's eyes, but it has no bearing on FPL's proposal. Consistent with other assets developed, constructed and operated by FPL, the Florida EnergySecure Line is being built to serve the needs of FPL's customers and will be entirely utilized by its customers once the load increases to use the pipeline's full capacity.

Of course, as opportunities arise during the interim, FPL will make capacity available to others, either on the Florida EnergySecure Line or through capacity releases on FGT or Gulfstream. In either case, the revenue from those sales will be entirely for the benefit of FPL's customers. Further, as detailed in FPL witness Enjamio's testimony, the updated economic analysis performed for the Florida EnergySecure Line and FGT proposals have taken into consideration the full cost of the pipeline while taking no credit for the revenues from off-system sales. The evaluation shows the Florida EnergySecure Line is the best economic option over

the life of the project, even without third-party sales of available capacity, which only serve to improve the economics for FPL's customers.

Q. On Page 18 of his testimony, FGT witness Langston argues that excess capacity in the Florida market will not create greater competitive pressures. Do you agree?

A. No. The very announcement of this pipeline has created a high degree of competition among the different pipeline companies involved in the solicitation process. All companies, as detailed in FPL witness Stubblefield's direct testimony, showed great interest in participating and provided proposals in response to the request.

In a direct contradiction of the facts, FGT witness Langston states, "[a]n assumption that creation of additional, excessive capacity will create greater competitive pressures in a regulated market reflects a serious misunderstanding of how this works." With all due respect, it is FGT that is burdened with misunderstanding. FGT has continued to supply both formal and informal proposals well after the original responses were accepted by FPL, each at a subsequently lower price. Without the alternative of the Florida EnergySecure Line and the Company E proposal, there is no reason FGT would have been motivated to offer lower prices to FPL. In fact, from their original response to their last offer, FGT's proposals have been reduced by over $15,000,000 annually. That is the direct result of competition.

Additionally, once the Florida EnergySecure Line is operational and FPL offers capacity into the market through capacity releases on FGT and Gulfstream, the additional capacity will place downward pressure on prices for this capacity in the secondary market. Florida customers will also benefit as downward pressure will be placed on the price charged by FGT and Gulfstream for interruptible and short-term firm capacity sales. This direct impact on FGT's bottom line is likely another motivation for its position in this proceeding. The excess capacity introduced by the Florida EnergySecure Line will therefore benefit all shippers in Florida because they will have more choices and potentially more attractive prices for their gas transportation requirements.

Q. Would treating the Florida EnergySecure Line as a rate-based asset unduly discriminate against other pipeline companies in competing for capacity in south Florida, as characterized by FGT witness Langston?

A. No. FPL is proposing the Florida EnergySecure Line as a rate base asset with the primary purpose to serve FPL's electric generation. FPL is not developing this asset with an eye to entering the gas pipeline business as a direct competitor to FGT and Gulfstream. However, in order to bring the most value to its customers, FPL will market excess capacity on Florida EnergySecure Line's Electronic Bulletin Board ("EBB") and award it at the highest net present value ("NPV") bid. However, once again, it should be emphasized that the most likely outcome would be FPL releasing capacity on Gulfstream or FGT – consistent with FERC rules and regulations - and taking the full capacity of the Florida EnergySecure Line to serve FPL's customers.

Per FPL witness Enjamio's testimony, FPL is expected to need the full initial capacity of the Florida EnergySecure Line no later than 2021 and potentially as early as 2018. For that reason, any sale of capacity off the Florida EnergySecure Line is likely to be shorter term in nature and therefore poses little threat to FGT and Gulfstream, as their term sales have historically been for 20-25 years. In fact, the more likely scenario is that FPL will release excess FGT or Gulfstream capacity through their respective EBB's to the highest NPV bid. FGT and Gulfstream already run the risk that existing shippers will release capacity on their systems as a competitive alternative to their service.

Q. On Page 19 of FGT witness Schlesinger's Direct Testimony and Pages 39 - 41 in FGT witness Langston's testimony, FGT argues that FPL's Florida EnergySecure Line, if approved by the Florida Public Service Commission, should be placed into a separate operating subsidiary of FPL and not in FPL's rate base. Do you agree?

A. No. As originally stated in my direct testimony, FPL is one of the nation's largest consumers of natural gas and is heavily dependent on gas to meet its generation requirements. At over 450 Bcf of natural gas per year, FPL is ranked number one in the country among users of natural gas to generate electricity according to the Department of Energy's Energy Information Administration (EIA). Owning and operating a gas pipeline to help meet those requirements cost effectively and with improved supply diversity and reliability is a reasonable and logical investment in electric plant in service that is appropriately reflected in FPL's rate base. To place this asset instead in a separate operating subsidiary would provide no

benefit to FPL's customers and would burden those customers with the costs of operating the separate entity and managing an affiliate relationship.

Further, FGT's assertion that FPL would have access to a pipeline that is unreasonably preferential, prejudicial, or unduly discriminatory is misguided. FPL and its customers are *supposed* to have priority on the Florida EnergySecure Line's capacity as the pipeline is being proposed for the predominant purpose of serving the natural gas transportation needs of FPL's electric generating units, including the modernized units at Cape Canaveral and Riviera Beach. However, FPL is committed to offering any excess capacity available from the Florida EnergySecure Line in an open, transparent and non-discriminatory basis at a level of service commensurate with that provided to FPL's generating facilities, but this is only a secondary purpose of the Project, intended to help lower its costs to FPL's customers. FPL's supplemental response to Staff's Fourth Set of Interrogatories, Question Number 85, attached as Exhibit SAF-1, provides more details on FPL's proposed treatment of the excess capacity on the Florida EnergySecure Line.

Additionally, as one of two existing major pipelines delivering natural gas into the heart of the state, FGT's contentions that a third pipeline owned and operated by FPL would be prejudicial and discriminatory ring rather hollow. The Commission's focus should not be on ensuring that FGT maintains its current competitive advantage in the market for interstate capacity serving Florida, but on

ensuring that Florida's consumers, and in particular FPL's customers, have access to the lowest cost alternative for supplying their power generation.

Q. If the Florida EnergySecure Line is approved, will FGT and Gulfstream be allowed to bid for future expansions of FPL's natural gas transportation needs beyond the initial 600 MMcf/d?

A. Yes. FPL will always consider what is in the best interests of its customers, both from a reliability standpoint and an economic standpoint. At the time of the next expansion beyond the initial 600 MMcf/d of Florida EnergySecure Line capacity, FPL will consider proposals from Gulfstream and FGT, along with other potential suppliers. If FGT or Gulfstream provide the most benefit, FPL will contract for services from them instead of the Florida EnergySecure Line. However, as noted in FPL's direct testimony, the expansion costs of the Florida EnergySecure Line are anticipated to be extremely cost effective, thus forcing alternate suppliers into a situation where they will have to be very aggressive in their pricing. FGT realizes this and seeks to defeat a project that could impact their economic interests. However, it is in the interest of FPL's customers and is one of the significant additional future benefits of the Florida EnergySecure Line.

Q. On Page 30 of his testimony, Mr. Langston states that "clearly FPL needs ... only 400,000 Mcf/day of capacity." Did FPL consider development of a 400 MMcf/d alternative to the currently proposed 600 MMcf/d Florida EnergySecure Line?

A. Yes. However, there was little interest from the pipeline community in developing the Upstream Pipeline portion of this project for anything less than

600 MMcf/d. In fact, of the proposals received, only the incumbents provided proposals for 400 MMcf/d. For new infrastructure, 600 MMcf/d was the smallest increment considered. Additionally, for the intrastate portion of the project, the slightly lower costs of materials and construction of a 24" pipeline were far outweighed by the future benefits of expanding a 30" pipeline system. The maximum practical throughput of a 24" pipeline is roughly 600 MMcf/d, but is 1.25 Bcf/d for the 30" Florida EnergySecure Line. This roughly 100% increase in throughput is gained by a marginal 10% to 15% increase in the overall cost of the project. Future expansions of the 24" system to meet anticipated future needs would incorporate more expensive pipeline expansion infrastructure and require additional environmental impacts.

In addition, even though a 24" pipeline option would appear to have a marginally lower initial capital cost and could meet the immediate needs for FPL's customers, the operational cost associated with compression to support the smaller pipeline facilities would be higher than the proposed 30" pipeline facilities and would further marginalize any minimal savings related to the development of a 24" system.

For FPL, the future economic benefits of inexpensive expansion gained by installing the larger 30" diameter pipe and future avoidance of the environmental impacts associated with expanding the smaller 24" facilities were consistent with the goals of the Project.

Q. Do you agree with the economic analysis on Page 32 of FGT witness Langston's testimony?

A. No. Mr. Langston tries to equate cost recovery of the Florida EnergySecure Line to a cost of service pipeline on a levelized basis. The Florida EnergySecure Line is proposed as a rate base asset and cost recovery would be accomplished on a revenue requirement basis, consistent with the regulatory treatment of FPL's other rate-based assets. He is making an apples-to-oranges comparison that is not relevant to the Commission's evaluation.

In a need determination such as this, the Commission should follow its well-established precedent and approve the alternative that is the least costly over time for FPL's customers, regardless of the timing of the revenue requirements. The analysis performed by FPL witness Enjamio shows the Florida EnergySecure Line is the most economically beneficial solution to serve the gas requirements of FPL's customers.

Q. Do you agree with FGT's assessment that FPL's fuel price forecasting method is not reasonable?

A. No. FPL witness Sharra will detail the actual mechanics of FPL's methodology, but at a high level, FPL bases its estimates on third party sources of data, namely the PIRA Energy Group (PIRA), the EIA, and NYMEX (for shorter term forecasting). For the period being evaluated for this proposed pipeline, only the PIRA fundamental estimates and EIA rate of escalation are relevant. These

sources of information are highly reliable and highly utilized within the natural gas industry.

I would also like to address how the forecast impacts the overall analysis from a high level. As the FGT system operates at a higher variable rate than that of the combined Florida EnergySecure Line and Company E proposal, a higher natural gas price forecast works to the detriment of FGT's proposal(s). Although he does not provide an alternative projection of future gas prices, FGT witness Schlesinger states on page 7 of his Direct Testimony, "FPL may have severely understated future natural gas prices(.)" Even if that is true, that very statement works against the FGT proposal(s) for the reasons discussed in Mr. Sharra's rebuttal testimony.

Q. Are economics the sole indicator the Commission should consider in this proceeding?

A. No. As FPL has detailed in previous testimony, and as FPL witness Sharra details in his rebuttal testimony, the Florida EnergySecure Line offers access to a diverse mix of supply alternatives and provides for a uniquely routed third major pipeline into the state of Florida, further strengthening the infrastructure delivering the predominant fuel in FPL's portfolio. This combination of strategic benefits, along with the economically beneficial solution provided by the Florida EnergySecure Line, are the reasons this Project should be approved.

Q. Do you agree with FGT witness Schlesinger's assertion on Page 11 of his testimony that gas supplies rebounded shortly after hurricanes Katrina and Rita in 2005?

A. No. Although FGT may be correct in its assessment that rising onshore production was able to replace much of the offshore production that was lost, Mr. Schlesinger fails to detail the impact to the customers of end users like FPL. Attached as Exhibit SAF-3 to this testimony is a late-filed exhibit from FPL's 2005 Fuel Cost Recovery proceeding. Therein, Gerry Yupp, Sr. Director of Wholesale Operations at FPL, provided the bottom line impact from events such as the 2005 storms referred to in FGT's testimony. In the document, Mr. Yupp lists the actual quantity of firm natural gas supplies that was curtailed through claims of Force Majeure during each of the 2005 storms that impacted the Gulf of Mexico. Over 23 Bcf of FPL's supply was impacted during that period and had to be replaced with other, more expensive natural gas procured in the spot market, or by other, more expensive fuels such as heavy oil or light oil. FPL paid over $92MM in incremental natural gas costs to replace this lost fuel. This is in addition to the increased costs of burning oil as a replacement fuel. So, while "replacement" gas may have been available shortly after the events, there was significant impact felt by FPL's customers nonetheless. One of the major benefits in constructing the Florida EnergySecure Line is to continue to minimize these types of impacts to FPL's customers by creating a highly reliable and diverse supply portfolio. While SESH and the addition of Gulf Coast storage has added

to the strength of the portfolio, as new gas requirements are added, we cannot stop looking at new infrastructure to harden our supply.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to determine need for Florida EnergySecure Pipeline by Florida Power & Light Company	Docket No: 090172-EI Served: July 24, 2009

ERRATA SHEET

REBUTTAL TESTIMONY OF SAM FORREST

PAGE #	LINE #	CORRECTION
7	15	Replace "SAF-1" with "SF-2"
12	7	Replace "SAF-3" with "SF-3"

Respectfully submitted this 24th day of July, 2009.

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Attorneys for Florida Power & Light Company

BY MR. BUTLER:

Q. With that, I would ask Mr. Forrest to summarize testimony, his rebuttal testimony.

A. Thank you.

Chairman Carter, Commissioners, thank you again for the opportunity to appear before you today.

The purpose of my rebuttal testimony is to address FGT's claims regarding the potential impact of FPL's proposed cost recovery method for the Florida EnergySecure line, as well as whether FPL's proposed pipeline benefits competition within the state. Additionally I will address FGT's testimony regarding FPL's fuel price forecast in the 2005 hurricanes.

Consistent with other assets developed, constructed and operated by FPL, the Florida EnergySecure line is being built to serve the interest of FPL's electric customers, and will be entirely utilized by its customers once FPL's load increases to use the pipeline's full capacity.

Let me emphasize that the purpose of the pipeline is to serve FPL electric generating units, and as such it is appropriate that the asset is classified as electric plant-in-service as part of FPL's electric rate base.

FGT has provided no legitimate argument as to

why rate base recovery is not appropriate in this circumstance, and appears only to be interested in protecting its own interests rather than finding a beneficial solution for FPL's customers.

Next I would like to point out once again that, notwithstanding the excess capacity on the Florida EnergySecure line during its first few years of service, FPL's project is the lowest cost proposal for FPL's customers over the life of the project. FGT's misdirected focus on FPL's immediate gas transportation needs ignores the long-term advantages of the Florida EnergySecure line and only serves to distract from the savings to FPL's customers from this pipeline.

In terms of competition, despite FGT's claims to the contrary, the Florida EnergySecure line is already creating competition within the state and will continue to do so for years to come once approved.

The announcement of the Florida EnergySecure line has caused companies like FGT to rethink their current way of doing business and has caused them to become more creative. In fact, the threat of competition has caused FGT to continually lower their offers to FPL. Additionally, in the future, natural gas shippers throughout Florida will stand to benefit from potential capacity releases on FGT and Gulfstream and

will be able to take advantage of more choices of supply through the Company E pipeline.

Understand, FPL will hold no unfair advantage over pipeline companies by constructing this facility, as the capacity will all ultimately be used to serve FPL electric generating facilities, and any sale of capacity that is temporarily excess will be made to the highest bidder, with all proceeds going directly to FPL's customers.

Again, the purpose of the pipeline is to serve FPL's immediate and long-term electric generation needs. FPL is not looking to enter the gas business, selling gas capacity as a competitor to the incumbent pipelines or to serve end users as a competitor to local gas distribution companies within Florida. FPL will make capacity available in order to help offset the cost of the line, which only further benefits our customers.

As for FGT's claims against FPL's fuel forecasting, it should be pointed out that FPL uses a consistent methodology to forecast fuel prices and utilizes reputable, well-established organizations for inputs. FGT's assertion that FPL's forecast is unreasonable, without offering their own alternative, demonstrates they are only looking, once again, to distract from the real facts in this case.

Regardless, the impact of any fuel forecast on this case is very small. However, if FGT's claims that FPL's forecast is too low are true, it would only benefit their proposal in our economic analysis.

Finally, with respect to the hurricanes of 2005, FPL did contract for firm supplies directly from producers. These are long-term purchases, but given our receipt points on FGT's system, they are susceptible to severe weather in the Gulf of Mexico. These firm long-term contracts were cut and had to be replaced with daily, extremely volatile purchases, resulting in a cost to FPL's customers of approximately $93 million. This is detailed in Exhibit 3 to my rebuttal.

Again, thank you for the opportunity to appear before you today.

MR. BUTLER: Thank you, Mr. Forrest.

I tender the witness for cross.

CHAIRMAN CARTER: Mr. Self?

MR. SELF: No questions.

CHAIRMAN CARTER: Staff?

MS. BROWN: No questions.

CHAIRMAN CARTER: Commissioners, anything from the bench? I guess there would be no direct -- no redirect then, would there?

MR. BUTLER: I'm struggling, but I think

you're probably right.

CHAIRMAN CARTER: How about exhibits?

MR. BUTLER: And I would move the admission of Exhibits 81 and 82.

CHAIRMAN CARTER: Mr. Self, any objections?

MR. SELF: No objection.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibits 81 and 82 admitted into the record.)

Call your next witness.

MR. BUTLER: Thank you.

MR. PERKO: Thank you, Mr. Chairman. FPL calls Robert G. Sharra.

CHAIRMAN CARTER: Thank you, Mr. Forrest. Have a great day.

THE WITNESS: Thank you.

MR. PERKO: Mr. Sharra has been sworn.

CHAIRMAN CARTER: Good.

ROBERT G. SHARRA

was called as a witness on behalf of Florida Power & Light Company and , having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PERKO:

Q. Could you please state your full name and

business address for the record?

A. My name is Robert Sharra. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. And, Mr. Sharra, did you have the occasion to prepare and submit for filing rebuttal testimony consisting of 23 pages in this case?

A. Yes, sir, I did.

Q. Do you have any changes or additions to that rebuttal testimony?

A. No, sir, I don't.

Q. If I were to ask you the questions in the testimony today, would your answers be the same?

A. Yes, sir, they would.

Q. And, Mr. Sharra, did you also attach to your rebuttal testimony -- excuse me, Mr. Chairman. I made a mistake. That was consisting of 16 pages.

CHAIRMAN CARTER: Okay.

BY MR. PERKO:

Q. Did you cause to be filed, prepare and cause to be filed rebuttal testimony consisting of 16 pages?

A. Yes, sir, I did.

Q. And you had no exhibits to that rebuttal testimony; is that correct?

A. That is correct.

Q. And do you have any changes or additions to

your rebuttal testimony?

A. No, sir, I don't.

Q. If I were to ask you the questions in the rebuttal testimony today, would your answers be the same?

A. Yes, sir, they would.

MR. PERKO: At this time, Mr. Chairman, we would ask that Mr. Sharra's rebuttal testimony be admitted into the record as if read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF ROBERT G. SHARRA

DOCKET NO. 090172-EI

JULY 2, 2009

Q. Please state your name and business address.

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

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

A. Yes.

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

A. No.

Q. What is the purpose of your rebuttal testimony?

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

I. SUMMARY

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

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

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

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

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

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

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

II. BENEFITS OF TRANSCO STATION 85

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

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

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

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

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

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

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

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

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

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

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

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

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

III. FPL FUEL FORECAST

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

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

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

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

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

FPL's forecast for natural gas basis for different delivery points, including Transco Station 85, used the November 6, 2008 forward curve through 2010. FPL recognizes that the basis could increase or decrease over time based on the future price at Henry Hub and the future natural gas supply and demand balance at each specific basis point. This has been demonstrated historically at numerous basis points when new capacity to the location was added or new demand was created. However, neither FPL nor FGT can know whether the basis at the different delivery points will increase or decrease in the future. Therefore, taking into account the limited liquidity in the forward basis markets beyond 2010, FPL assumed that, on average, the basis prices would remain unchanged through the planning horizon.

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

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

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

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

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

IV. SOLICITATION PROCESS AND RESULTS

i. 18-INCH PIPELINE

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

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

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

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

ii. PHASE VIII CAPACITY

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

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

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

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

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

V. COMPANY E

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

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

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

VI. OPERATIONS

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

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

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MR. PERKO:

Q. Mr. Sharra, could you please provide the summary of your rebuttal testimony?

A. Thank you.

Good afternoon, Chairman Carter and Commissioners. Thank you again for the opportunity to appear before you.

The purpose of my rebuttal testimony is to comment on the testimony of FGT witnesses Michael T. Langston and Benjamin Schlesinger. FGT's witnesses attempt to undermine the Florida EnergySecure line project by, among other things, raising unfounded concerns regarding the following: The selection of Transco 85 as the receipt point for the Florida EnergySecure line in the Company E project; FPL's fuel price projections; FPL's solicitation process; Company E's rates and obligation to execute the project; and FPL's operational background.

First, contrary to FGT's suggestions, the benefits of Transco 85 as the receipt point for the Florida EnergySecure line, from both a cost and supply diversity perspective, have been thoroughly analyzed and vetted by FPL. While FGT's preferred Perryville receipt hub is and will continue to be an important source of natural gas supply for FPL through its utilization of

the Southeast Supply Header, also known as SESH, one of the many reasons Transco Station 85 was chosen as the receipt hub is to diversify FPL's gas portfolio away from currently utilized supply sources, including Perryville. Additionally, FPL will have access to Perryville through Company E's pipeline network.

FGT is also off base in its criticism of FPL's fuel price forecast. The fuel price projections for this project are reasonable for planning purposes, were developed from authoritative third-party sources, and are consistent with methodologies employed in other FPL dockets before this Commission.

Next, FGT claims that it was somehow prejudiced because FPL did not make it aware of the 18-inch dual fuel line that FPL proposes to use to deliver gas from the Florida EnergySecure line to the Riviera Beach center. In that regard, FPL's ability to use the 18-inch dual fuel line was not established until well after the responses to the solicitations had been received. Moreover, FGT's claim of 132 million in savings as a result of utilizing the 18-inch line is to say at the least misleading. Even if you accept FGT's estimate at face value, it does not consider the $86 million of cost FPL would incur to make that line available, costs that are included in the Florida

EnergySecure line proposal. These costs would be incurred whether FPL or FGT utilizes the 18-inch line.

FGT is simply wrong in asserting that its late-filed March 18th, 2009, proposal is superior to the Company E FPL proposal. As FPL Witness Enjamio will explain, we've evaluated FGT's March 2009 proposal, taking into account both FGT's claimed savings and FPL's additional costs. This evaluation confirms once again that the Florida EnergySecure line remains the most cost-effective alternative to meet FPL's long-term gas transportation needs.

FGT's attempt to question the merits of the Company E proposal are also unfounded. We are currently finalizing a precedent agreement with Company E for 600 million cubic feet per day of gas transportation capacity. The agreement includes pricing consistent with FPL's economic evaluation and contains specific provisions which provide assurances that Company E will be able to meet its obligations under the agreement.

Finally, FPL has a long-standing history of safe and reliable operation of complex and sophisticated systems in power plants, transmission and distribution equipment and fuel systems. Our current operations demonstrate proven core competencies that are directly transferable to the safe and reliable operation of the

Florida EnergySecure line. Extensive complex high-pressure pipe systems are integral to the design of virtually every generating facility operated by FPL.

In addition, FPL has proven experience in operating and maintaining natural gas pipeline facilities in a safe and reliable manner. As with all of our operations, FPL will comply with all regulatory and operational requirements.

Thank you.

CHAIRMAN CARTER: Mr. Self?

MR. SELF: No questions.

CHAIRMAN CARTER: Staff?

MS. BROWN: No questions.

CHAIRMAN CARTER: Commissioners? I see where this is headed.

Exhibits?

MR. PERKO: No exhibits.

CHAIRMAN CARTER: No exhibits for this witness. That's good.

And, well, Mr. Sharra, have yourself a great lunch and a great day. Thank you for participating.

THE WITNESS: Thank you.

CHAIRMAN CARTER: Commissioners, we are five minutes away from your lunch hour and we've made great progress and I see us, I see us completing things today.

And my grandma, my grandma always told me that you need to reward good behavior. So we've done a good job, so let's -- we'll go ahead on and take five minutes early for our lunch break and we'll come back at 1:45. We're on recess.

(Recess taken.)

(Transcript continues in sequence with Volume 4.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 31st day of July, 2009.

Linda Boles

LINDA BOLES, RPR, CRR
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