

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**In the Matter of**

**Floridian Natural Gas Storage Company, LLC**

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**Docket Nos. CP08-\_\_\_-000  
CP08-\_\_\_-000  
CP08-\_\_\_-000  
Expedited Action Requested**

**ABBREVIATED APPLICATION FOR  
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY  
FOR A NEW NATURAL GAS STORAGE FACILITY  
AND FOR BLANKET CERTIFICATES  
AND FOR APPROVAL OF MARKET-BASED RATES**

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Floridian Natural Gas Storage Company, LLC (“FGS”) files this Application, pursuant to and in accordance with Section 7(c) of the Natural Gas Act, as amended (“NGA”), 15 U.S.C. §717f, and Part 157 of the Regulations of the Federal Energy Regulatory Commission (“FERC” or “Commission”) promulgated thereunder, for:

- 1) a certificate of public convenience and necessity authorizing FGS to construct, own and operate a new natural gas storage facility and ancillary facilities to be located near Indiantown in Martin County, Florida (the “Project”);
- 2) a blanket certificate of public convenience and necessity pursuant to Part 157(f) of the Commission’s Regulations authorizing certain self-implementing construction and operation of certain facilities, and certain certificate amendments and abandonment;
- 3) a blanket certificate of public convenience and necessity pursuant to Part 284(G) of the Commission’s Regulations authorizing the storage and transportation of natural gas for others;

- 4) authorization to provide the proposed storage services at market-based rates;
- 5) approval of the *pro forma* FERC Gas Tariff appended to this Application as Exhibit P; and
- 6) waiver of certain Commission Regulations as set forth in Section X of this Application.

FGS respectfully requests the Commission to issue a final order granting the authorizations sought in this Application on or before April 25, 2008. In this connection, FGS also specifically requests that the Commission act on FGS's Application by notational voting. As set forth in further detail in Section XII of this Application, the basis for this request for expedited processing is that construction of the storage facility must begin in the second quarter of 2008 for FGS to provide service to its customers prior to the start of the hurricane season in June 2011.

## I.

### **EXECUTIVE SUMMARY**

FGS proposes to construct and operate new natural gas storage facilities near Indiantown, in Martin County, Florida, to serve the particularly robust and growing demand for natural gas and natural gas infrastructure in Florida. The Project is to be located on approximately 145 acres at the site of the former Florida Steel manufacturing facility (the "Site"), about two miles north of Indiantown in an area zoned for heavy industrial use.

FGS is requesting approval of the two planned phases of its Project. Phase 1 of the Project will include the initial construction of one nominal 190,000 m<sup>3</sup> storage tank, liquefaction systems, vaporization systems and two parallel pipelines, one to receive gas and one to send out gas, both approximately four miles in length, that will connect the facility with the regional gas infrastructure, running from the Site to interconnections with Gulfstream Natural Gas System, L.L.C. ("Gulfstream") and with the Florida Power and Light Company ("FPL") 20-inch lateral

that connects with the mainline of the Florida Gas Transmission Company (“FGT”).<sup>1</sup> Upon planned commercial operation in late May 2011, the Phase 1 Project will make available storage capacity of 4 billion cubic feet (“Bcf”), with a design sendout capacity of 400 million standard cubic feet per day (“MMscfd”) and a design liquefaction rate of 50 MMscfd. Phase 2 of the Project will include the construction of a second, identical tank and additional liquefaction and vaporization capability.<sup>2</sup> Commercial operation of Phase 2 is anticipated no later than March 2016, but may be advanced to such earlier date as the market may require.

FGS proposes to provide open access firm and interruptible storage services on a non-discriminatory basis and is requesting market-based rate authorization for all aspects of its services. The prepared testimony of Theodore R. Breton, Ph.D., of Pace Global Energy Services, LLC, prepared in conformity with the Commission’s policy guidance on market-based rate approval,<sup>3</sup> supports FGS’s request; it is attached hereto as Exhibit I. Dr. Breton’s testimony demonstrates that FGS will not have market power in the provision of storage services in the relevant market areas, and that market-based rate authorization is appropriate.

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<sup>1</sup> FGS proposes to negotiate with FPL the terms and conditions on which FGS and/or its customers could utilize currently unused capacity on the FPL lateral to access the FGT system. Applications for any Commission authorizations necessary to implement an agreement with FPL consistent with applicable Commission Regulations will be filed at the appropriate time. Pending such an agreement, FGS customers will have full access to the Project via the Gulfstream system.

<sup>2</sup> The reference to “design” liquefaction and vaporization capacity is intended to acknowledge that the actual capacity of the liquefaction and vaporization facilities may exceed the design capacity (due to design contingencies, favorable ambient conditions, use of installed spares in emergency conditions, etc.). FGS is requesting authority to liquefy natural gas and vaporize liquefied natural gas in quantities up to the actual capacity of the facilities, which is not expected to exceed 120% of the design capacity.

<sup>3</sup> Commission policy guidance is found in (1) the “*Ratemaking Policy Statement*,” *Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines*, 74 FERC ¶ 61,076, *reh’g denied*, 75 FERC ¶ 61,024, *reh’g denied*, 75 FERC ¶ 61,066 (1996), *petitions for review denied sub nom, Burlington Resources Oil & Gas Co. v. FERC*, 172 F.3d 918 (D.C. Cir. 1998) and (2) the FERC’s more recent “Order No. 678” applicable to storage facilities, *Rate Regulation of Certain Natural Gas Storage Facilities*, 115 FERC ¶ 61,343, *reh’g denied and clarified on reh’g*, 117 FERC ¶ 61,190 (2006).

The FGS Project will provide several significant economic and operational benefits to its customers and the growing Florida market by:

- adding critical new natural gas infrastructure that will make gas available in Florida and the Southeast United States on a peak day basis, with a strategically located storage facility that will be connected to Florida's two interstate gas pipeline systems to facilitate serving as large a regional market as possible;
- providing a reliable and timely natural gas storage service using proven liquefaction, storage, and vaporization technology that will be able to safely manage large quantities of natural gas;
- providing a reliable, timely, and stable source of up to 8 Bcf of stored liquefied natural gas in two above ground storage tanks with a sendout capacity of up to 800 MMscfd to accommodate daily fluctuating energy market demands, thus facilitating a timely response to demand for natural gas, including peaking supplies, when the market or weather conditions (such as hurricanes) necessitate access to an additional supply source; providing added natural gas supplies that can displace fuel oil consumption in Florida to reduce harmful emissions; and, helping to stabilize and reduce the ultimate cost of fuel to consumers;
- utilizing a Site that can be readily acquired, is advantageously located to serve the market, has few neighbors and which will have the least environmental and community impact; and
- connecting to the market without the need for lengthy laterals, thereby requiring as little new pipeline infrastructure as possible, and utilizing a pipeline route that will also minimize environmental and community impacts.

## II.

### INFORMATION REGARDING THE APPLICANT

The exact legal name of FGS is Floridian Natural Gas Storage Company, LLC. FGS's principal place of business is 1000 Louisiana Street, Suite 4361, Houston, Texas 77002. FGS is a limited liability company formed under the laws of the State of Delaware. Warburg Pincus Private Equity IX, L.P. owns 98.0% of FGS; the remaining 2% is owned by individual private investors. FGS intends to construct, operate and maintain the Project pursuant to a Construction, Operation and Maintenance Agreement ("Construction, Operation and Maintenance Agreement") with an affiliated operating company to be formed for that purpose ("Operating Company").

FGS is a newly formed entity that does not currently provide any natural gas service and thus is not yet a "natural gas company" within the meaning of Section 2(6) of the NGA. When FGS becomes a "natural gas company," it will be subject to the jurisdiction of the Commission and will provide natural gas services in interstate commerce under the terms of its FERC Gas Tariff, a *pro forma* copy of which is included in this Application as Exhibit P.

FGS does not have any related applications pending before the Commission. FGS will be able to conduct its operations and render its services without requiring the construction of any other facilities.

Communications regarding this Application should be addressed to the following:

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### **III.**

#### **DESCRIPTION OF THE PROJECT**

FGS proposes to construct a new natural gas storage facility approximately two miles north of the unincorporated municipality of Indiantown in Martin County, Florida. The Project Site is in an area zoned for heavy industrial use and is bounded by the 710 Beeline Highway and two other existing industrial neighbors: the Cogentrix 330 MW coal fired generating plant and the Louis Dreyfus juicing facility. The Site comprises 145 acres and provides a large greenbelt buffer from FGS's neighbors. FGS has an exclusive option to purchase the Site.

The Project Site is designated as an EPA Superfund site and though remediation is ongoing, has been declared ready for this reuse by the US Environmental Protection Agency (EPA). In an October 16, 2006 letter to FGS, included at Appendix 1-B to Resource Report 1, the EPA noted that "based upon the facts presently known to EPA, the Agency is of the opinion that the proposed use of the Property does not pose significant incompatibility issues with potential future clean up activities." Similarly, the Florida Department of Environmental Protection (FDEP) indicated in its January 23, 2007 letter to FGS, also included in Appendix 1-B to Resource Report 1, that "the Project appears to be compatible with the cleanup of the site." The Site itself, presently comprised of grassy areas and some remaining facilities from the former industrial site, has ample space to accommodate additional storage and ancillary equipment, should FGS deem that future market conditions warrant such additions.

The storage facility will be connected to the existing regional gas infrastructure by two parallel pipelines, one to receive gas and one to send out gas, both approximately four miles in length, that will be constructed to run from the storage Site to interconnections with Gulfstream and with the FPL 20-inch lateral that accesses the FGT mainline. The facility will accept delivery of natural gas from customers that will deliver gas to the Project on one of the

two pipelines, liquefy the gas using mixed refrigerant (MR), store the liquefied gas in one of two nominal 190,000 m<sup>3</sup> full-containment tanks at slightly above atmospheric pressure, and vaporize the gas to send out to one or both of the interstate pipelines during periods of high demand. A truck loading facility will also be available for use during emergency situations that disrupt the availability of the normal natural gas distribution infrastructure, including during and following hurricanes and other outages.

The Project will consist of the following major components:

- Natural gas pipelines – one set of two approximately four-mile parallel pipelines to connect the facility with the interstate natural gas pipelines serving the region. The incoming line will be 12”, with a Maximum Allowable Operating Pressure (“MAOP”) of 1480 pounds per square inch gauge (psig), while the sendout line will be 24”, with a MAOP of 1800 psig.
- Storage tanks – two full-containment storage tanks, each having a net working capacity of 4 Bcf, equipped with fully-submerged in-tank pumps. The tanks will have a concrete roof. One tank will be constructed during Phase 1 of the Project, and another identical tank will be constructed during Phase 2.
- Liquefaction system – two MR trains, each sized to process up to 25 MMscfd, are included in Phase 1 of the Project. The centrifugal refrigeration compressors are rated at 13,000 hp each. Additional liquefaction capacity of up to 50 MMscfd will be included in Phase 2 in response to market demand.
- Vapor handling system – a natural gas vapor handling system using reciprocating boil-off gas compressors rated at 1,700 hp each coupled with reciprocating tailgas compressors rated at 650 hp each.

- Natural gas re-vaporization system – a natural gas re-vaporization system, sized for 400 MMscfd consisting of a water-ethylene-glycol loop with shell and tube vaporizers for Phase 1. Additional vaporization systems will be added during Phase 2 to bring the total capability to 800 MMscfd.
- NGL ambient temperature storage – storage for heavy hydrocarbons removed from the feed gas stream during the liquefaction process, consisting of two 60,000 gallon horizontal storage vessels (blimps) for Phase 1 and up to two additional 60,000 gallon horizontal storage vessels (blimps) for Phase 2.
- Metering and Regulating (“M&R”) station – a M&R station on 2.75 acres near the interconnection points with Gulfstream and the FPL lateral that will include pressure regulation, redundant metering, and odorant facilities.

In addition, the facility will include a tertiary spill containment system (berm), a fire water system, service water utility systems, various hazard prevention, detection, and control systems, plus utilities including electric power distribution, instrument air distribution, and plant purge nitrogen distribution.

All facilities and components will be constructed in accordance with applicable regulations, including 49 CFR Part 193 and National Fire Protection Association (NFPA) Standard 59A (2001 version) for liquefied natural gas facilities and the codes and standards referenced therein. FGS, through the Operating Company, will oversee and manage the construction of the Project in consultation with CB&I (Chicago Bridge & Iron Company N.V.), a leading engineering, procurement and construction firm with significant natural gas storage facility experience.

FGS plans to commence full commercial operation on May 30, 2011, a date prior to the start of the hurricane season on June 1. Approximately 36 months are required for

construction, pre-commissioning and cool-down; thus, to meet the planned in-service date, which calls for receipt of gas beginning in April 2011 and full commercial operation on May 30, 2011, construction activities are scheduled to commence no later than June 23, 2008 (subject to the receipt of Commission authorization).

#### **IV.**

#### **ENVIRONMENT**

On December 21, 2006, FGS requested the Commission to commence the pre-filing review process with respect to its proposed Project. On January 10, 2007, the Commission approved FGS's request and assigned Pre-Filing Docket Number PF07-3-000 to the FGS pre-filing proceeding. Consistent with the Commission's pre-filing regulations, FGS worked in coordination and consultation with FERC Staff and other federal, state and local agencies that chose to participate in the pre-filing process to develop the thirteen Resource Reports that make up the Environmental Report included in Exhibit F-I to this Application. The Resource Reports provide the detailed discussion required by Part 380 of the Commission's Regulations.

As shown in Exhibit F-I, the construction and operation of the Project facilities are not expected to have any significant adverse impacts on the quality of human health or the environment. The Project is located on a spacious Site located in an industrial zone with a significant buffer to its industrial neighbors. Construction of the storage facility will be conducted entirely on disturbed lands and the proposed pipeline corridor is also being located so as to avoid impacts. In short, the Project was designed to minimize environmental impacts and, as demonstrated in the Resource Reports included in Exhibit F-I, FGS has taken steps to mitigate any residual environmental or other impacts.

## V.

### GAS SUPPLY

FGS customers will be responsible for acquiring the gas supplies to be liquefied, stored and vaporized at the FGS facility.<sup>4</sup> FGS customers will have access to supplies via both the Gulfstream and FGT pipeline systems. It will be responsibility of the FGS customers to obtain transportation for their supplies to and from the FGS facility on those pipeline systems.

## VI.

### MARKET

The long-term forecasts of the Energy Information Administration (“EIA”) project natural gas consumption in this country to increase from 22.5 trillion cubic feet in 2002 to 26.2 in 2010 and 31.4 in 2025.<sup>5</sup> Much of the growth in demand is expected to be primarily fueled by significant growth in the use of natural gas in the industrial and electric generation sector, which is expected to account for 57 percent of the increase in natural gas demand by 2020.<sup>6</sup> Providing new supplies of natural gas is essential for construction of new generation, which is, in turn, critical for maintaining electric reliability.<sup>7</sup> According to EIA, by the year 2020, 636 gigawatts of new electricity generation will be needed to meet demand, which will require 1,210 new

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<sup>4</sup> Because the Project proposes to liquefy and revaporize domestic gas, it does not raise any of the gas quality issues that can arise in connection with the revaporization of foreign LNG at LNG import terminals.

<sup>5</sup> *The Global Liquefied Natural Gas Market: Status & Outlook*. (DOE/EIA-0637). Energy Information Administration, Department of Energy. Washington, D.C. 2003.

<sup>6</sup> *Id.*

<sup>7</sup> *Electricity Generation: A Key Element of Reliability*. Edison Electric Institute. 2001.

generation plants with an average capacity of 300 megawatts.<sup>8</sup> Eighty-eight percent of this new capacity is expected to be fully or partially fueled by natural gas.<sup>9</sup>

This U.S. trend to natural gas generation is particularly strong in Florida. Currently, Florida accounts for about 25 percent of the estimated average monthly dual-fuel residual plant capability in the United States.<sup>10</sup> Between 1990 and 2004, over 90 percent of the new generation constructed in Florida was natural gas-fired.<sup>11</sup> In 2006, the Public Service Commission of Florida (“FPSC”) projected that the natural gas-fired generation trend would continue, and that, by 2014, the percentage of generation in the state fueled by natural gas will increase from about 30 percent to about 44 percent.<sup>12</sup> During that same period, the Gwhs generated in the state are expected to increase 30 percent, resulting in an overall increase in the demand for natural gas of 76 percent from today’s levels.<sup>13</sup> Although Florida’s utilities had recently proposed several new coal projects to help meet the demand for power, the FPSC rejected those proposals and it does not appear that there will be any additional coal projects proposed in the near future. Thus, the projected share of generation that is gas-fired and the consumption of natural gas in Florida are only likely to increase.

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<sup>8</sup> *The Changing Structure of the Electric Power Industry 1999: Mergers and other Corporate Combinations*. Energy Information Administration, Department of Energy. Washington, D.C. 1999.

<sup>9</sup> *Id.*

<sup>10</sup> *2006 State of the Markets Report*. Federal Energy Regulatory Commission. 2006 (citing Kenneth L. Yeasting for Cambridge Energy Research Associates, *Dual Fuel Steam Generation: Alive and Well*, Nov. 20, 2006).

<sup>11</sup> *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*. Florida Public Service Commission, Division of Economic Regulation. Tallahassee, Florida. February, 2006.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

One of the core tenets of Florida's ten-year energy supply plan is the need for fuel diversity.<sup>14</sup> The FPSC has specifically recommended that "[u]tilities should continue to evaluate diversity in fuel type, such as liquefied natural gas (LNG) and gas storage, as options to traditional sources and delivery methods for natural gas."<sup>15</sup> By providing additional storage of natural gas, the Project will assure Florida of additional security in its natural gas supply, increase the reliability of gas deliverability to the marketplace, and provide a hedge against price instability during periods of high demand.<sup>16</sup> Additionally, given that the natural gas pipelines serving the state are now all substantially subscribed and peak day demand is reaching the deliverability limits of the pipelines, the FGS Project will allow current pipeline capacity holders to more efficiently use the existing natural gas infrastructure within Florida, thereby reducing the cost of natural gas and electricity to Florida consumers.

FGS conducted an open season for its storage services from January 22 through March 8, 2007. The open season materials are available on the Project website, [www.floridiannaturalgasstorage.com](http://www.floridiannaturalgasstorage.com). The results confirmed the market demand for FGS's storage services as potential capacity holders from across Florida expressed a strong interest in the Project, and FGS received a number of non-binding bids for a substantial portion of the Phase 1 capacity. FGS is now engaged in ongoing discussions with the bidders with the objective of entering into precedent agreements with its customers. FGS also continues to

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.* (emphasis supplied).

<sup>16</sup> In the October 8-14, 2005 post-hurricane period, Florida had the highest average natural gas price in the nation. Federal Energy Regulatory Commission. *2006 State of the Markets Report* at Figure 3 on p. 7. Additionally, during the summer of 2006, Florida's wholesale price of gas was the highest in the United States. Item No. A-3, *2007 Summer Energy Market Assessment*. Federal Energy Regulatory Commission. May 17, 2007..

receive serious inquiries about the Project. FGS expects that its Phase 1 capacity will be fully subscribed prior to its in-service date.<sup>17</sup>

## VII.

### **PUBLIC CONVENIENCE AND NECESSITY**

The *Policy Statement*<sup>18</sup> sets forth the Commission's criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The *Policy Statement* explains that, in deciding whether to authorize the construction of major new gas transportation facilities, the Commission balances the public benefits of the project against the project's potential adverse consequences.<sup>19</sup> The objectives of the policy are to foster competitive markets, protect captive customers and avoid unnecessary environmental and community impact, while serving increased demands for natural gas, providing appropriate incentives for the optimal level of construction and promoting efficient customer choice.<sup>20</sup>

Under the *Policy Statement*, the threshold question for existing pipelines that propose new construction is whether the project can proceed without subsidization from existing customers.<sup>21</sup> The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effects of the project.<sup>22</sup> If efforts have been made to minimize any such

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<sup>17</sup> The discussions FGS has had with potential customers have specifically confirmed the conclusions reached by Dr. Breton with respect to the fact that FGS is competing in the marketplace (i) during unconstrained periods, against alternate providers of storage services and (ii) during constrained periods, against residual and diesel fuel oil that can be used in dual-fired generating plants. See Prepared Statement of Theodore R. Breton PhD. (appended at Exhibit I) at pp. 13-20.

<sup>18</sup> *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *order clarifying Statement of Policy*, 90 FERC ¶ 61,128, *order further clarifying Statement of Policy*, 92 FERC ¶ 61,094 (2000) ("*Policy Statement*").

<sup>19</sup> *Tennessee Gas Pipeline Co.*, 92 F.E.R.C. ¶ 61,142, at 61,519 (2000).

<sup>20</sup> *Policy Statement* at 61,743.

<sup>21</sup> *Id.* at 61,745.

<sup>22</sup> *Id.*

effects, the Commission will evaluate the project by balancing the evidence of public benefits to be achieved against those effects.<sup>23</sup>

Consistent with the criteria of the *Policy Statement*, and as detailed further herein, the construction and operation of FGS's proposed storage facility is in the public interest and is required by the public convenience and necessity. The FGS Project satisfies the "no subsidy" requirement. FGS has taken diligent steps to mitigate any adverse impacts. Finally, the public benefits of the Project far outweigh any adverse impacts.

### **Threshold Requirement**

FGS is a newly formed company that does not currently provide any natural gas service. Therefore the *Policy Statement's* threshold requirement that there be no subsidization by existing customers is satisfied.

### **Avoidance or Minimization of Adverse Effects**

#### **◆ Impact on Existing Customers**

- As FGS is not an operating natural gas company providing storage or transportation services, there will be no impact on existing customers.

#### **◆ Impact on Existing Pipelines and their Captive Customers**

- The Project will have no adverse impacts on existing pipelines or their captive customers because it will provide an incremental service, namely, gas storage. Indeed, existing pipelines will benefit, because their existing customers will increase their pipeline loads as gas is injected or withdrawn from the FGS storage facility.
- The Project will also enhance service that the FGS customers provide to their own customers. Having natural gas stored at the FGS facility will enable these electric

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<sup>23</sup> *Id.*

generator customers to better manage their fuel supplies because they will have an at-the-ready source of natural gas when needed for peaking supplies, or when the market or weather conditions (such as hurricanes) necessitate access to an additional supply source. This in turn will help to stabilize and reduce their fuel cost and thus the ultimate cost of energy to consumers.

◆ **Landowners and Communities**

- The FGS storage facility is to be located on the 145-acre Site, about two miles north of Indiantown in an area zoned for heavy industrial use. The Site is bounded by the 710 Beeline Highway and two other existing industrial neighbors: the Cogentrix 330 MW coal fired generating plant and the Louis Dreyfus juicing facility. The spacious Site, which has minimal environmentally sensitive features, has ample space to accommodate additional storage and ancillary equipment and still provide a large greenbelt buffer from the industrial neighbors. The FGS Project is an excellent reuse of this abandoned former Florida Steel manufacturing facility site, which has been inactive for almost 25 years. It is designated as an EPA Superfund site and, though remediation is ongoing, has been declared ready for reuse by the EPA. Because the Project is in an area of existing industrial and agricultural land uses, it is not located in close proximity to residential units. There are just a few clustered residential areas located at a distance of between one and two miles of the Site, the closest residential structure being located three-quarters of a mile from the Site. Thus, the selection of this Site for the FGS storage facility avoids and minimizes adverse impacts on surrounding landowners and communities.
- In the selection of the corridor for the approximately 4-mile long FGS lateral pipelines, FGS chose a route that would specifically avoid or minimize adverse impacts. The

proposed route for the pipelines is adjacent to the existing FPL transmission line right-of-way (“ROW”) and does not traverse any annually cultivated agricultural land, protected lands or other designated areas. The route originates at the southeastern area of the Site, traverses southwest across the Site and, at mile post 0.5, turns south to exit the Site. The proposed corridor then traverses along the northern boundary of the FPL 230 kV transmission line ROW for approximately 1,800 feet until turning south perpendicular to the FPL 230 kV transmission line and continuing south under the intersection of SW Silver Fox Lane and the Cogentrix rail spur at mile post 1.0. The pipeline route parallels the Cogentrix rail spur in the northerly direction and then follows along the southern boundary of the FPL 230 kV transmission line ROW until mile post 2.1. At mile post 2.1, the proposed corridor turns north paralleling the FPL transmission line intersection for approximately 550 feet, before turning west perpendicular to the FPL transmission line. The route continues for approximately 1,500 feet west before turning north perpendicular to FPL 500 kV transmission lines for approximately 1,500 feet, and then turns west to continue in a westerly direction north of the FPL 500 kV transmission line ROW on the north until it reaches the proposed M&R station at mile post 3.95. Just past the M&R station, the proposed route splits in two directions: 1) the proposed route traverses north to connect to the Gulfstream pipeline at mile post 4.18; and 2) the proposed route traverses south to connect to the FPL lateral pipeline to FGT at mile post 4.05. All of the land crossed by the Project is privately owned by three industrial neighbors. FGS intends to acquire temporary and permanent easements from landowners to build the pipeline and is engaged in advanced negotiations with those three landowners to do so.

- FGS has met with elected and other public officials at the state, county and local level, as well as numerous community organizations regarding development of the Project. FGS also conducted informational open-houses held on the 24<sup>th</sup> of January 2007, and has invited public participation at those meetings. FGS has communicated directly with affected landowners concerning all aspects of the Project and will fully comply with all landowner notification requirements in the Commission's Regulations. FGS has received minimal feedback indicating landowner or community concerns about adverse impacts. In fact, the surrounding communities have been overwhelmingly supportive of the Project as evidenced by the materials included at Exhibit Z to this Application.

### **Public Benefits**

#### **◆ Market Need**

- As demonstrated in the preceding Section VI of this Application, FGS will meet a significant and growing market need, greatly enhance system reliability, and is designed to meet future demand with its Phase 2 facility.

#### **◆ Additional Benefits**

- The FGS storage facility is a natural gas infrastructure enhancement that will bring increased supply diversity, enhanced operational flexibility and greater reliability for the end-use and power generation customers of FGS, without the need for significant new pipeline infrastructure.
- FGS puts gas storage both directly where it is needed and in a strategic location near interconnections to two interstate gas pipeline systems, facilitating service to as large a regional market as possible.

- FGS will safely store large quantities of natural gas, using proven liquefaction, storage, and vaporization technology that is used around the world.
- The Project will benefit the local tax base once operational by paying property taxes of at least \$1.6M annually, without requiring the addition of any significant public infrastructure or services. The Project also will provide additional economic benefits to the area through temporary jobs during construction, as well as through additional permanent jobs during operation of the facility. A Socioeconomic Study which further details the expected positive economic impacts on the area is attached to Resource Report 5 included in Exhibit F-I of this Application.

### **Public Convenience and Necessity**

The present and future public convenience and necessity require approval of FGS's Application for certificates and related authorizations. The Project satisfies the criteria of the Commission's *Policy Statement*. On the threshold question, there is no issue of subsidization by existing customers. FGS has shown that it will benefit existing customers on the FGT and Gulfstream systems, increasing access to, and enhancing reliability of, natural gas supplies with minimal environmental impacts. FGS has shown a specific need for natural gas storage in Florida that it will be well able to serve on a non-discriminatory, open-access basis at competitive market-based rates.

## **VIII.**

### **REQUEST FOR MARKET-BASED RATES**

FGS requests authorization to charge market-based rates for the storage services that it will provide, consistent with the Commission's *Ratemaking Policy Statement* and Order No. 678.<sup>24</sup> In applying its *Ratemaking Policy Statement*, the Commission has allowed market-based

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<sup>24</sup> See n.2 *supra*.

rates if an applicant demonstrates that it lacks market power because there are sufficient good alternatives, or that market power can be mitigated (“Traditional Test”). This would be the case where, for example, the market has comparable substitutes to the product and services offered. The Commission has previously authorized requests to charge market-based rates by other storage service providers that are directly connected to FGT and Gulfstream pipelines where projects enjoy ease of entry and where good storage alternatives exist.<sup>25</sup>

In Order No. 678, the Commission amended its regulations to establish criteria for obtaining market-based rates for storage services by adopting two revisions to its storage pricing policies. First, the Commission expanded its definition of the product market to include close substitutes to gas storage, such as available pipeline capacity, local gas production, liquefied natural gas (“LNG”), and released transportation capacity.<sup>26</sup> Second, the Commission established a new avenue for granting market-based rates for storage projects where, notwithstanding the applicant’s inability to demonstrate a lack of market power, the Commission determines that “market-based rates are in the public interest and necessary to encourage the construction of storage capacity in the area needing storage services.”<sup>27</sup>

Given its lack of market power, FGS elects to seek market-based authority pursuant to Order No. 678’s expanded definition of the product market under the Commission’s Traditional Test.

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<sup>25</sup> See *Egan Hub Partners, L.P.*, 121 FERC ¶ 61,053 (Oct. 18, 2007); *SG Resources Mississippi, LLC*, 118 FERC ¶ 61,048 (Jan. 24, 2007); *Port Barre Investments, L.L.C. d/b/a Bobcat Gas Storage*, 116 FERC ¶ 61,052 (July 20, 2006); *Liberty Gas Storage LLC*, 113 FERC ¶ 61,247 (Dec. 8, 2005); *Pine Prairie Energy Center, LLC*, 109 FERC ¶ 61,125 (Nov. 23, 2004); *Bay Gas Storage*, 66 FERC ¶ 61,354 (March 25, 1994).

<sup>26</sup> See 18 C.F.R. § 284.503(b)(4); see also Order No. 678 at PP 25-26.

<sup>27</sup> Energy Policy Act of 2005, Pub. L. No. 109-58, § 312, 119 Stat. 594, 688 (2005); see also Order No. 678 at PP 102, 125.

To receive Commission authorization to charge market-based rates for storage services, the applicant must demonstrate that it lacks significant market power in accordance with the Commission's *Ratemaking Policy Statement*. The *Ratemaking Policy Statement* requires identification of the relevant products being offered as well as the geographic markets served by those products. In order to assess the presence of market power, the analysis requires identification of the numbers and types of alternatives available to potential customers, and measures the size and concentration of the market. Finally, the level of market concentration is projected by calculating a Herfindahl-Hirschman Index ("HHI") for the proposed project. An HHI of 1,800 or less permits the Commission to assume that there are sufficient alternative suppliers of the products or services being offered in the relevant market area such that the applicant is unable to exercise market power. In such a case, the Commission's granting of market-based rate authority is appropriate.

In this regard, FGS commissioned Dr. Theodore R. Breton, Ph.D. of Pace Global Energy Services ("Pace") to prepare a market power study in accordance with the Commission's *Ratemaking Policy Statement* and Order No. 678. Dr. Breton's Prepared Statement, describing his analysis and its results, is provided in Exhibit I. As Dr. Breton's analysis demonstrates, FGS lacks market power for its storage services. Given the number and size of existing and under-construction storage facilities directly connected to FGT and Gulfstream pipelines and the alternative fuels available to FGS's potential customers, it is clear that sufficient alternatives exist to enable market forces to constrain FGS's rates to just and reasonable levels. Furthermore, given the number of additional proposed storage projects and projects already under development that could be connected directly or indirectly to FGT or Gulfstream, combined with the fact that there are several LNG import projects currently under development that may deliver gas into Florida, the Commission can conclude that no barriers to entry in the market exist.

Specifically, in his Prepared Statement, Dr. Breton defines the relevant products being offered to be firm storage and interruptible storage (the “Storage Services”). Dr. Breton further defines the relevant geographic and product market to include pipeline gas delivered to Florida, LNG from the Elba Island Facility via the new Cypress Pipeline, and gas storage projects in the U.S. Gulf region. To be conservative, Dr. Breton included in the geographic and product market only gas storage projects in the U.S. Gulf region that are not fully subscribed and are directly connected to FGT or Gulfstream. Additionally, to be conservative Dr. Breton did not include proposed facilities not yet under construction in his analysis. Further, in analyzing the relevant product market, Dr. Breton included the following alternative fuels in his analysis: gas from other storage projects, gas or LNG from the pipelines, residual fuel for use in steam power plants, and distillate fuel oil for use in combined cycle plants or combustion turbines.

To assess FGS’s market power during the limited periods when the pipelines delivering gas to Florida are fully utilized (“constrained periods”), Dr. Breton performed a sensitivity analysis in which he defined the relevant market as peninsular Florida only. This analysis addresses the Commission’s concerns expressed in *Northwest Natural Gas Co.*, 95 FERC ¶ 61,242 (2001) (“*Northwest*”) and *Red Lake Gas Storage, L.P.*, 102 FERC ¶ 61,077 (2003) (“*Red Lake*”), where the Commission denied the applicants’ requests for market-based rates after finding that their market power analyses did not demonstrate the availability of peak transportation capacity necessary to transport gas from its suggested alternative storage facilities. In *Northwest*, the Commission found that Northwest’s market power analysis inappropriately included Canadian storage facilities that were not realistic alternatives available to shippers considering storing gas at Northwest’s proposed facility.<sup>28</sup> The Commission based its reasoning, in part, on the fact that Northwest did not demonstrate the availability of winter peak

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<sup>28</sup> 95 FERC ¶ 61,242, at 61,832-61,833.

transportation capacity necessary to transport gas from the Canadian storage facilities included in Northwest's market power study to the U.S. market.<sup>29</sup>

Similarly, in *Red Lake* the Commission found that the geographic market area set forth in Red Lake's market power study erroneously included storage facilities that did not have unsubscribed firm transportation capacity necessary to transport gas during peak periods.<sup>30</sup> Dr. Breton's study adheres to the conservative market power assessment suggested by the *Northwest* and *Red Lake* orders and illustrates that customers of FGS will have sufficient alternatives even when the pipelines are at full capacity. Accordingly, FGS will lack market power during all time periods.<sup>31</sup>

Dr. Breton's analysis indicates that during "unconstrained" periods, when the pipelines delivering gas to Florida are not fully utilized, the FGS facility, when operational, will account for only approximately 6.0% of the total working gas capacity and approximately 6.2% of the peak day deliverability into Florida. The analysis further finds that the HHI for storage services in the relevant geographic market during unconstrained periods is 1,350 for working gas capacity and 1,202 for peak day deliverability.

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<sup>29</sup> *Id.* at 61,833. Additionally, the Commission in *Northwest* reasoned that interstate shippers would not be economically indifferent as to whether they contracted to store gas at Northwest's proposed facility or in the Canadian facilities because total transportation rates from the proposed facility to Canadian storage fields were approximately double Northwest Pipeline's transportation rates from the proposed facility to U.S. interconnections. *Id.* The Commission revised Northwest's comparison group to include only U.S. storage facilities that directly interconnect with Northwest Pipeline's system and are good alternatives. *Id.* In the present case, Dr. Breton takes into account the cost of transportation to the market and only included storage facilities that are directly connected to the FGT or Gulfstream pipelines in his analysis of unconstrained periods. Dr. Breton's constrained period analysis, discussed *infra*, sets forth the manner in which alternative fuels will constrain the price FGS can charge for its Storage Services.

<sup>30</sup> 102 FERC ¶ 61,077, P 27.

<sup>31</sup> It should be noted that the *Northwest* and *Red Lake* applications for market-based rate authority were submitted prior to the enactment of EPAct 2005 and prior to Order No. 678, thus Northwest and Red Lake were not afforded the opportunity to utilize the expanded definition of the product market which FGS now relies upon.

In analyzing “constrained” periods, Dr. Breton finds that during these limited periods, the FGS project will be competing against suppliers of the pipeline-delivered gas and LNG as well as suppliers of residual fuel and diesel fuel oil that can be used in dual-fired generating plants. Dr. Breton’s study indicates that the price which FGS can negotiate for its storage services with customers is constrained by the prices of these alternate fuels, which are commodities whose price is determined by an international market.

Based on all of these findings, Dr. Breton concludes that the FGS Project will not possess market power during unconstrained or constrained periods on the pipelines serving Florida and, therefore, should be granted the authority to charge market-based rates for its storage services.

For the above-mentioned reasons, which are explained in detail in the attached Pace Study, FGS’s potential customers have numerous good alternatives and FGS will not possess market power. In accordance with the Commission’s *Ratemaking Policy Statement* and Order No. 678, FGS has shown that the prospective market shares and HHIs of its proposed facility are sufficiently low, and that sufficient competitive alternatives exist, to justify the Commission’s authorization of market-based rates for the proposed Storage Services.

## **IX.**

### **SERVICES AND TARIFF**

FGS proposes to offer both firm and interruptible storage services to potential customers that include power generators, local distribution companies, industrial users and marketers of natural gas. These services will be offered on a non-discriminatory, open-access basis pursuant to Part 284 of the Commission’s Regulations under terms and conditions set forth in the *pro forma* FERC Gas Tariff, which is included in Exhibit P to this Application. FGS’s *pro forma* FERC Gas Tariff complies with the Commission’s policies and with the currently

effective North American Energy Standards Board (“NAESB”) standards, in a manner that is consistent with Commission precedent applicable to natural gas companies that, like FGS, are engaged exclusively in the provision of storage services. In accordance with that precedent, in the immediately following Section X, FGS requests that the Commission grant it such waivers as may be necessary for FGS to be deemed in compliance with the Commission’s Regulations. FGS will file to make its *pro forma* FERC Gas Tariff effective not more than 60 nor less than 30 days before its anticipated in-service date. That filing will reflect any changes that are required by the Commission’s final certificate order and any applicable intervening regulatory changes.

## X.

### **REQUESTS FOR WAIVERS**

#### **Regulatory Waivers**

- ◆ FGS respectfully requests a waiver of the segmentation requirement in Section 284.7(d) of the Commission’s Regulations consistent with the Commission’s treatment of similar storage facilities.<sup>32</sup> FGS will operate a stand-alone storage facility and will not provide separate transportation service and therefore segmentation of storage and transportation is not feasible.
- ◆ FGS respectfully requests a waiver of the “shipper must have title” policy for off-system capacity obtained by FGS to provide storage services under its *pro forma* FERC Gas Tariff consistent with the Commission’s treatment of similar storage facilities.<sup>33</sup> FGS’s *pro forma* FERC Gas Tariff states that FGS shall only provide transportation and storage services for others using off-system capacity pursuant to its open access tariff and subject to

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<sup>32</sup> See, e.g., *Egan Hub Partners, L.P.*, 98 FERC ¶ 61,284 (2002).

<sup>33</sup> See *Unocal Windy Hill Gas Storage, LLC*, 115 FERC ¶ 61,218 (2006) at PP 42-46.

Commission-approved rates and further only to the extent that the “shipper must hold title” policy is waived to permit such use.

- ◆ FGS respectfully requests that the Commission grant it an exemption from compliance with Order Nos. 587-G and 587-L regarding netting and trading imbalances. Because FGS’s *pro forma* FERC Gas Tariff does not provide for imbalance penalties, the Commission regulations do not require FGS to provide imbalance management services in compliance with Order No. 637. This request is consistent with the Commission’s order granting clarification of Order No. 587-L<sup>34</sup> providing that pipelines that do not have imbalance penalties may request such an exemption.
- ◆ FGS respectfully requests that the Commission recognize its exemption from the requirements of Part 358 of the Commission’s Regulations concerning Standards of Conduct for transmission providers. Under Section 358.3(a)(3), transmission provider status and the obligation of the Standards of Conduct do not attach to “a natural gas storage provider authorized to charge market-based rates that is not interconnected with the jurisdictional facilities of any affiliated interstate natural gas pipeline, has no exclusive franchise area, no captive rate payers and no market power.” 18 C.F.R. § 358.3(a)(3) (2006). FGS does not plan any interconnection with any affiliated pipeline, and has no captive ratepayers, no exclusive franchise area and no market power (*see* Exhibit I) and thus qualifies for the exemption.
- ◆ FGS respectfully requests a partial waiver of Section 284.12(a)(1)(iv) of the Commission’s Regulations to the extent it requires compliance with the electronic data interchange (EDI) standards established by NAESB. FGS will operate the FGS Web Site that will provide for

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<sup>34</sup> See *Standards for Business Practices of Interstate Pipelines*, Order Granting Clarification, 92 FERC ¶ 61,266 (2000).

an electronic delivery mechanism (EDM) in conformity with the Commission and NAESB standards. FGS anticipates having only a small number of customers and that these customers will not require EDI. Accordingly, FGS requests that, consistent with Commission precedent,<sup>35</sup> the Commission grant it an exemption from the EDI standards until 90 days following a request from one of its customers that it implement EDI.

- ◆ FGS respectfully requests a waiver of the requirements of Sections 284.7(e) and 284.10 of the Commission's Regulations concerning Reservation Fee and Rates, respectively, which are inapplicable to FGS because it requests authorization to charge market-based rates for its storage services.
- ◆ FGS respectfully requests a waiver of the Accounting and Reporting requirements of Parts 201 and Section 260.2 of the Commission's Regulations. FGS has demonstrated that it meets the criteria for market-based rate authority and such accounting information is inapplicable when market-based rates are authorized.
- ◆ FGS respectfully requests that the Commission grant FGS all such exemptions or waivers as may be necessary for FGS's proposed operations to be deemed in compliance with applicable Commission Regulations.

#### **Application Requirement Waivers**

- ◆ FGS respectfully requests a waiver of the requirements of Sections 157.6(b)(8) and 157.20(c)(3) of the Commission's Regulations for projected cost-of-service data in advance of a Commission determination of appropriate rate treatment and updated cost data after new facilities are placed in service. These requirements are inapplicable to FGS which has no existing operations and is seeking market-based rate authority for its new storage operation.

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<sup>35</sup> See *Unocal Windy Hill Gas Storage, LLC*, 115 FERC ¶ 61,218 (2006) at P 48.

- ◆ FGS respectfully requests a waiver of the requirement to file the following exhibits because FGS is seeking authority to charge market-based rates and such exhibits are applicable only when an applicant seeks cost-based rate authority:
  - Exhibit K – Cost of Facilities
  - Exhibit L – Financing
  - Exhibit N – Revenues – Expenses – Income
  - Exhibit O – Depreciation and Depletion
  
- ◆ FGS respectfully requests a waiver of the requirement to file Exhibit H – Total Gas Supply Data, which is inapplicable to FGS because FGS customers are responsible for their own gas supplies.
  
- ◆ FGS respectfully requests a waiver of the requirement of Section 157.6(a)(3)(i) to file all exhibits attached to Application in electronic format with respect to the following components of Exhibit F-1, Resource Reports: Appendix 2-E to Resource Report 2, Environmental Resource Permit (ERP) Applications; Appendix 2-H to Resource Report 2, Martin County Application; and, Appendix 9-A to Resource Report 9, FDEP Minor Source Air Construction Permit Application. FGS is filing each of these Applications in hard copy only because of its large size and its oversized components.

## **XI.**

### **REQUESTS FOR BLANKET AUTHORIZATIONS**

FGS requests that the Commission grant to it a blanket certificate of public convenience and necessity pursuant to Part 157(F) of the Commission's Regulations authorizing future facility construction and operation, and certain certificate amendments and abandonment,

as set forth in the blanket certificate regulations in Part 157(F) of the Commission's Regulations. FGS hereby states that it will comply with the terms, conditions and procedures specified in Part 157(F).

FGS also requests that the Commission issue it a blanket certificate of public convenience and necessity pursuant to Section 284.221 of the Commission's Regulations authorizing FGS to provide gas storage and transportation service to the customers requesting and qualifying for such service under FGS's FERC Gas Tariff. FGS hereby states that it will comply with the conditions set forth in Section 284.221(c).

## **XII.**

### **REQUEST FOR EXPEDITED PROCESSING**

FGS's schedule anticipates that it will be ready to receive gas beginning in April 2011 and achieve full commercial operation, *i.e.*, the provision of the storage services proposed herein, no later than May 30, 2011, based on the need of FGS customers to substantially fill their contracted storage capacity (an 80-day process) prior to the start of the year's hurricane season on June 1. Construction activities for the FGS Project must commence no later than June 23, 2008 in order to meet the May 30, 2011 commercial operations date as approximately 36 months are required for the construction of the proposed storage facility (construction of the pipeline facilities will begin later and take approximately 26 weeks). Accordingly, FGS respectfully requests that the Commission issue a final order granting the requested authorizations no later than April 25, 2008. In this connection, FGS also specifically requests that the Commission act on FGS's Application by notational voting.

## **XIII.**

### **NOTICE**

A Form of Notice suitable for publication in the Federal Register is attached hereto.

#### **XIV.**

#### **EXHIBITS**

The following Exhibits are appended to this Application:

Exhibit A            Articles of Incorporation and Bylaws

Attached are copies of the Certificate of Formation and the Amended and Restated Limited Liability Company Agreement (and the First Amendment thereto) of FGS.

Exhibit B            State Authorizations

Attached. FGS is a limited liability company duly formed under the laws of the State of Delaware on August 1, 2006. FGS was qualified to do business in Texas on October 24, 2007 and will qualify to do business in Florida at an appropriate time. The purposes for which FGS was formed are to plan, design, develop, construct, own and provide for the operation and maintenance of the proposed interstate natural gas storage facility and conduct such business activities that are necessary or incidental in connection therewith.

Exhibit C            Company Officials

Attached.

Exhibit D            Subsidiaries and Affiliation

Attached.

Exhibit E            Other Pending Applications and Filings

FGS has no other applications or filings pending before the Commission. See Section II herein.

- Exhibit F                    Location of Facilities  
Attached.
- Exhibit F-I                Environmental Report  
All Resource Reports are attached as Volumes II, III, IV, V and VI of this Application.
- Exhibits G – G-II Flow Diagrams & Flow Diagram Data  
Attached.
- Exhibit H                 Total Gas Supply Data  
Omitted. Waiver requested because the FGS Customers will be responsible for their own gas supply.
- Exhibit I                 Market Data  
Prepared Statement of Theodore R. Breton, Ph.D. presenting a market power analysis is attached.
- Exhibit J                 Federal Authorizations  
A table showing permits required under federal law, dates on which applications were filed, and dates on which permits are expected is attached.
- Exhibit K                 Cost of Facilities  
Omitted. Waiver requested based on FGS’s request for market-based rates.
- Exhibit L                 Financing  
Omitted. Waiver requested based on FGS’s request for market-based rates.
- Exhibit M                 Construction, Operation and Management  
FGS, through the Operating Company, will oversee and manage the construction of the Project in consultation with CB&I (Chicago Bridge & Iron

Company N.V.), a leading engineering, procurement and construction firm with significant natural gas storage facility experience. Operating Company will provide operating, supervising, engineering, rates, accounting, legal, customer service and other similar day-to-day services for FGS as operator pursuant to the terms and conditions of the Construction, Operation, and Maintenance Agreement to be agreed between FGS and the Operating Company. A copy of the Construction, Operation and Maintenance Agreement will be provided when it is available.

Exhibit N                    Revenues, Expenses and Income

Omitted. Waiver requested based on FGS's request for market-based rates.

Exhibit O                    Depreciation and Depletion

Omitted. Waiver requested based on FGS's request for market-based rates.

Exhibit P                    Tariff

Attached.

Exhibit Z                    Letters of Support

Attached.

**XV.**

**CONCLUSION**

WHEREFORE, FGS respectfully requests that

1. The Commission grant FGS (i) a certificate of public convenience and necessity authorizing FGS to construct, own and operate a new natural gas storage facility and ancillary facilities as described in this Application and the Exhibits hereto, to be located near Indiantown in Martin County, Florida, (ii) a blanket certificate of public convenience and necessity under Part

157(F) of the Commission's Regulations authorizing certain self-implementing construction and operation of facilities, and certain certificate amendments and abandonment, and (iii) a blanket certificate of public convenience and necessity pursuant to Part 284(G) of the Commission's Regulations authorizing the storage and transportation of gas for others, all as more fully described in the body of this Application;

2. The Commission authorize FGS to provide the proposed storage services at market-based rates;

3. The Commission approve the *pro forma* FERC Gas Tariff appended to this Application as Exhibit P;

4. The Commission waive certain Commission Regulations as set forth in Section X of this Application;

5. The Commission issue a final order granting the authorizations requested herein no later than April 25, 2008;

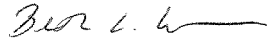
6. This Application be disposed of in accordance with the shortened procedures set forth in Rules 801 and 802 of the Commission's Rules of Practice and Procedure. In that connection, FGS respectfully requests that the intermediate decision procedure be omitted and waives oral hearing and opportunity for filing exceptions to the decision of the Commission;

7. The Commission act on FGS's Application by notational voting; and

8. The Commission grant such other and further relief as may be proper and appropriate in the premises.

Dated: October 31, 2007

Respectfully submitted,



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