Highlights of Analysis of Ten-Year Site Plans

PURC Energy Roundtable

Tallahassee, Florida

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Florida Public Service Commission

Fuel Price Forecast

- Greatest factor in determining TYPE of new unit
- Past gas price forecasts vastly understated
- Gas – coal price differential widened over past 3-5 years
  - Coal-fired plants now cost-effective
  - IGCC now cost-comparable
- Large fuel price forecast errors cause risk
- Balanced fuel supply approach helps mitigate risk

Demand and Energy Forecast

- Greatest factor in determining TIMING of new unit
- Past load and energy forecasts accurate
- Population assumptions recently revised downward
  - Sudden increase in residential customers
  - Demand forecasts were revised upward
- Demand and energy forecast errors cause risk
  - Capacity added too early or too late
  - Amounts too large or too small to meet future demand

Environmental Policy

- Changing environmental regulations likely to add costs
- New coal-fired units - additional compliance costs
  - Could change in the future
  - Uncertainty over ability to operate units
- IGCC technology is cleaner alternative
  - Uses gas extracted from coal
  - Higher capital costs
  - Less of a track record

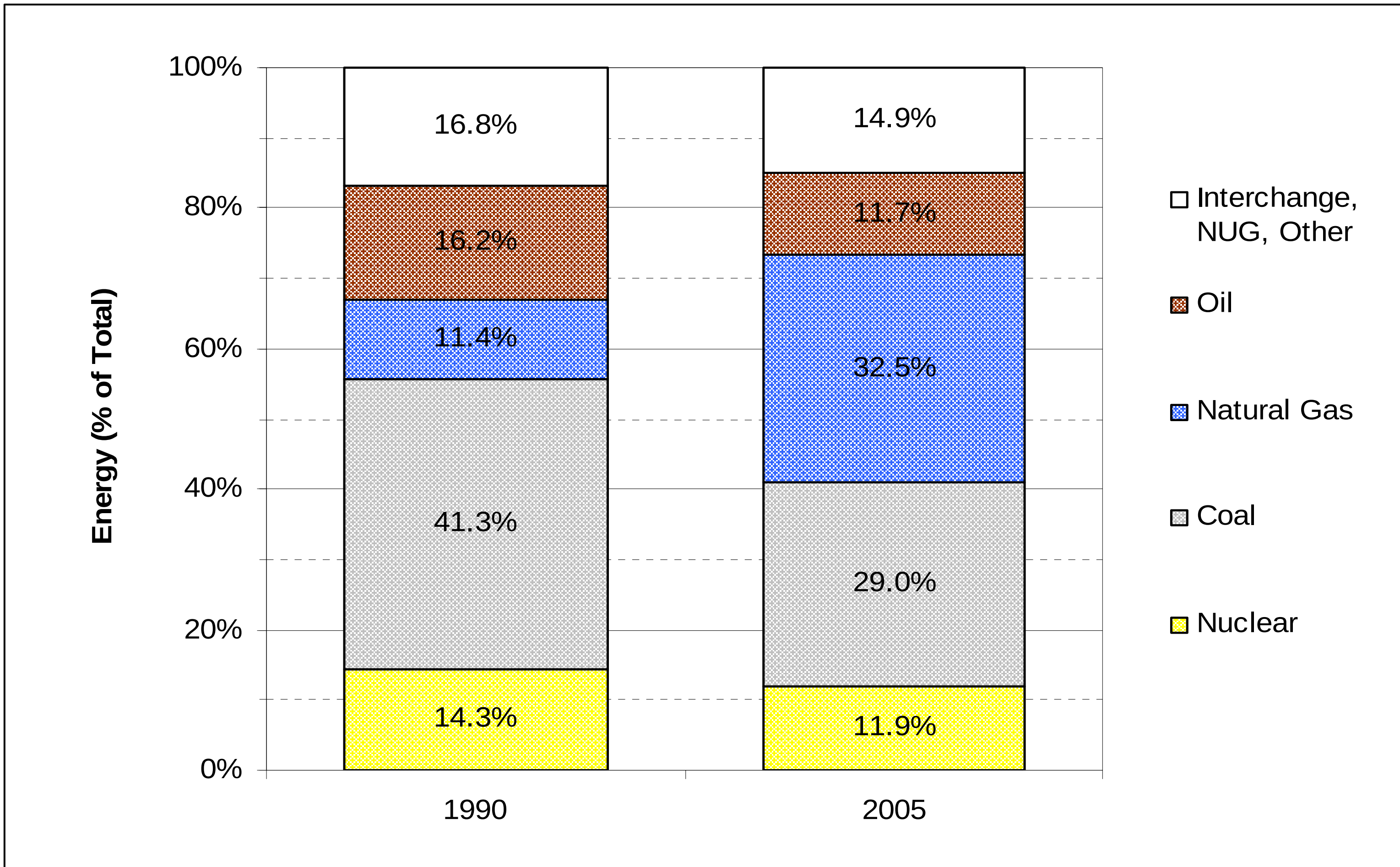
Fuel Diversity in Florida - Past and Present

- Balanced, diverse energy mix at present
- Combined cycle units made gas the preferred choice
- Natural gas was plentiful and inexpensive
- Forecasts predicted stable prices and sufficient supplies

Fuel Diversity in Florida - Past and Present

- 2004 Ten-Year Site Plans: almost all new units were gas-fired
  - Last coal-fired unit was 1996 (OUC’s Stanton Unit 2)
  - Before Stanton Unit 2, last coal-fired unit was 1988
- Per-capita energy use / total demand continue to grow
  - Florida still a leader in DSM savings
  - DSM savings cannot keep pace with growth

Fuel Diversity in Florida - Past and Present



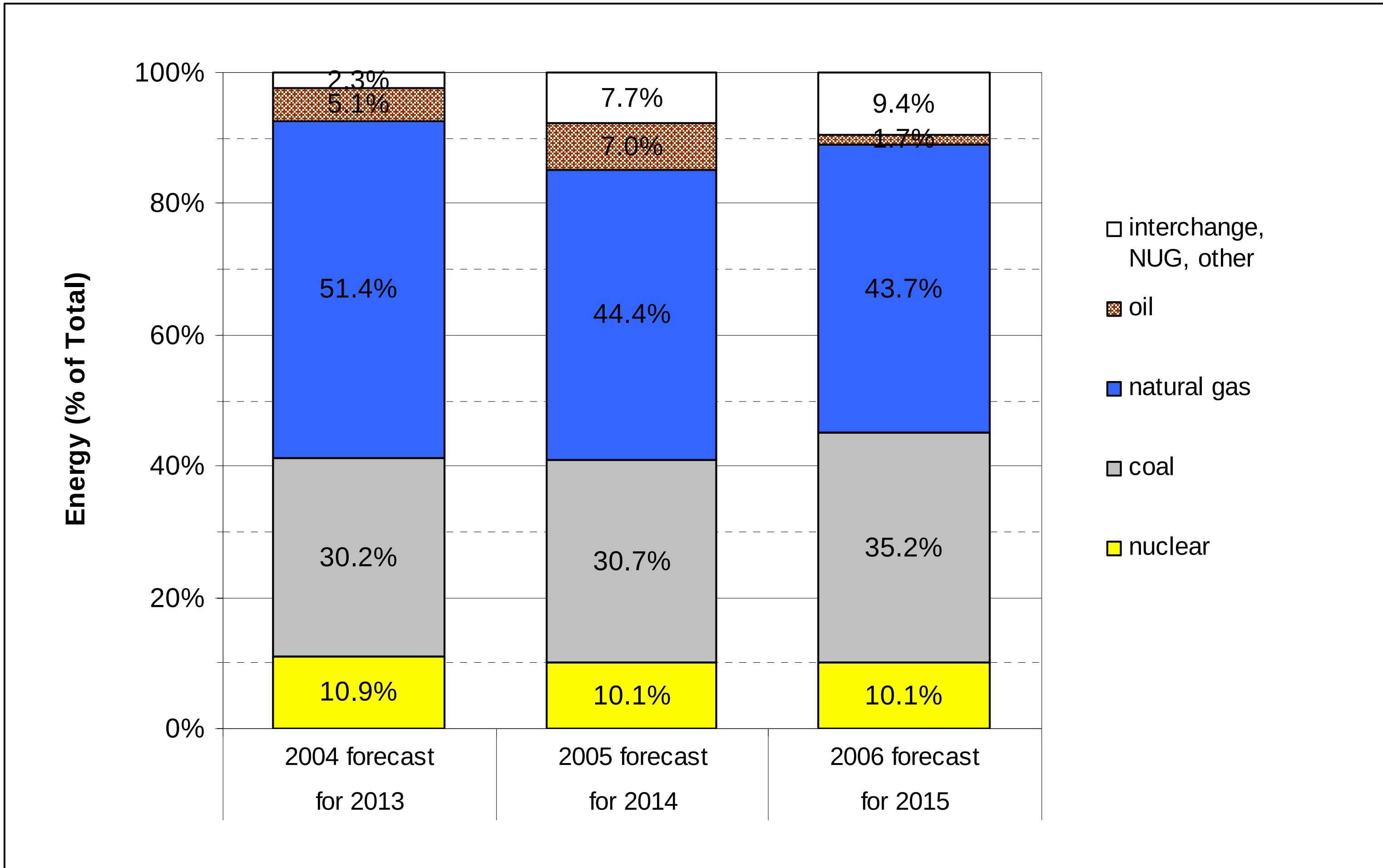
FPSC Concerns Regarding Fuel Diversity

- Commission expressed concern over shift away from fuel diversity
  - Reliance on gas approaching that of oil during 1970s
  - Historic under-forecasting of gas prices and consumption levels
  - Forecasted return to lower prices did not materialize
  - Price and supply volatility has been the norm

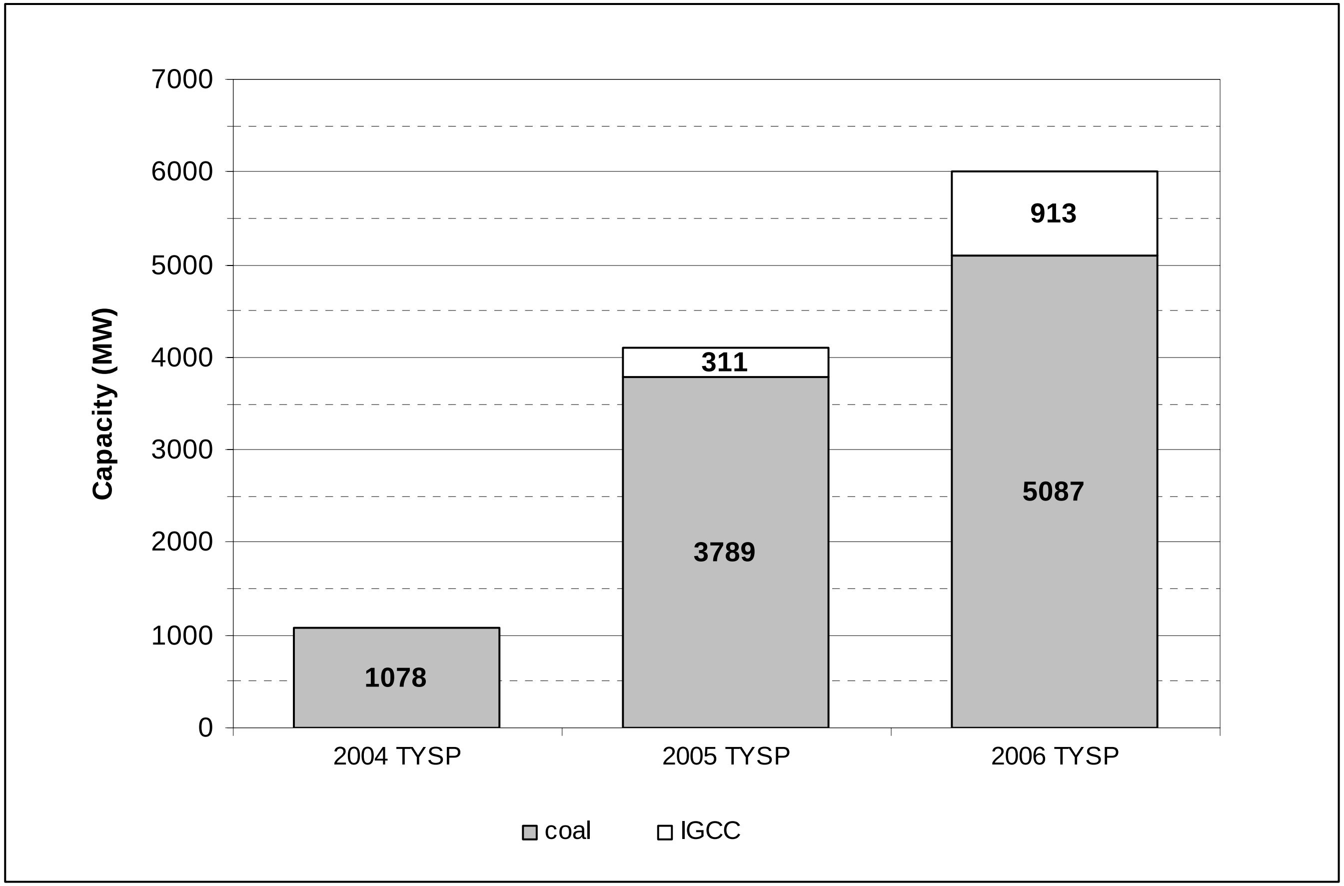
FPSC Actions to Encourage Fuel Diversity

- Adopted portfolio approach for standard offer contracts
- Granted RFP rule waiver to FPL for new coal-fired unit
- Approved PEF's contract with biomass energy provider
- Recently approved need for new coal and IGCC units
- Approved over 300 MW of additional DSM savings

We Are Making Progress



Proposed Total Capacity Additions 2004, 2005, and 2006 TYSP



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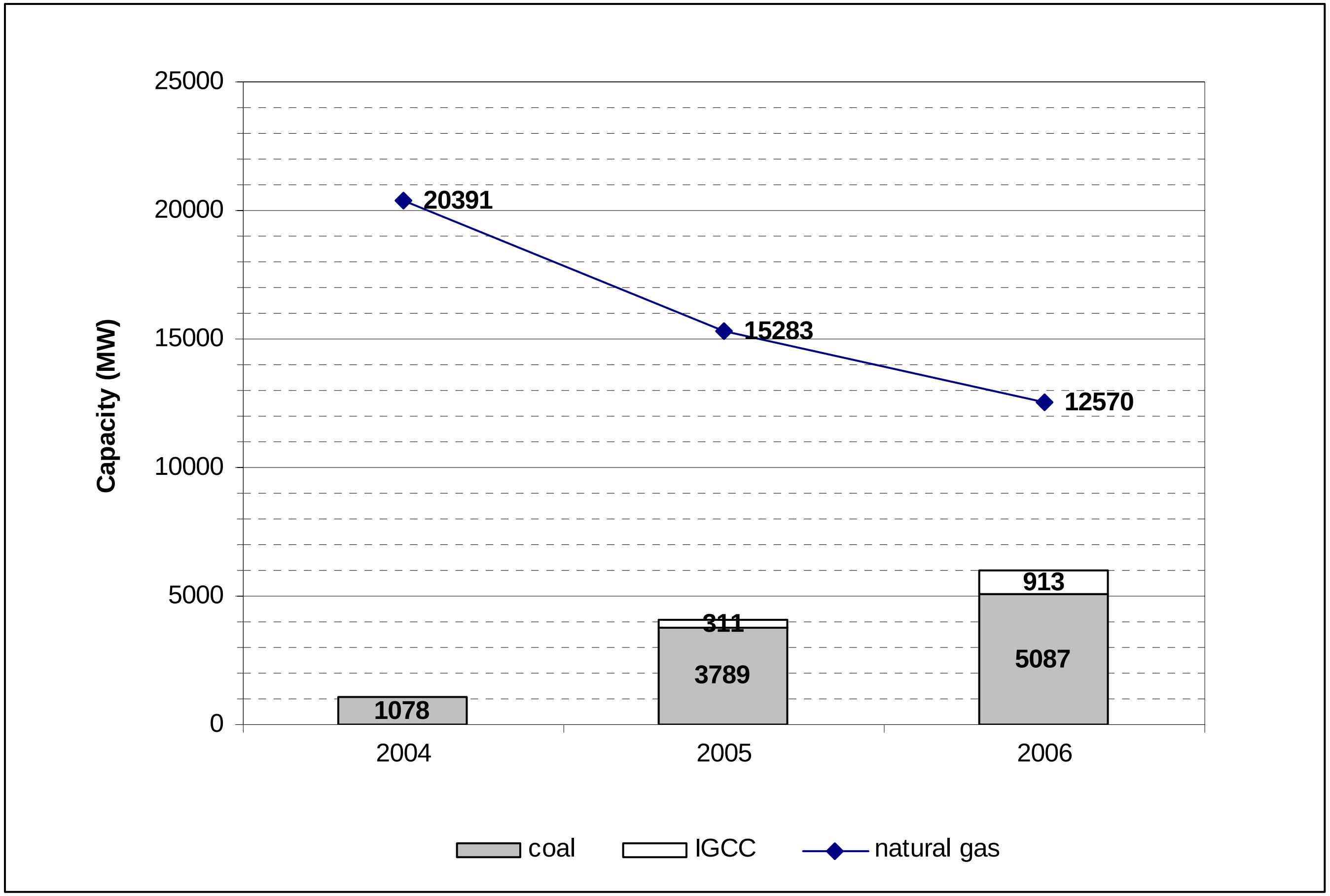

Utilities - Future Actions to Promote Fuel Diversity

- Renewable resources and cost-effective DSM
- Potential plant sites for coal capability
- Joint ownership of coal-fired units to lessen cost impact
  - Successful history of shared coal units (Stanton, McIntosh, St. Johns River Power Park)
- Investigate DOE financial assistance (Stanton Unit B)

Utilities - Future Actions to Promote Fuel Diversity (continued)

- Investigate diversity within fuel types
  - Coal: rail and water
  - Gas pipelines: alternatives to FGT & Gulfstream
  - LNG
- Pursue other generation technologies
  - FPL & PEF evaluating nuclear option
  - TECO plans large-scale (630 MW) IGCC unit