

ORIGINAL

September 3, 1999

VIA HAND DELIVERY

Ms. Blanca S. Bayò Director Division of Records and Reporting Florida Public Service Commission 2540 Shumard Oak Boulevard, Room 110 Tallahassee, FL 32399-0850

> Florida Power & Light Company's Request for Re:

Confidential Classification In Connection With the Review of the FGT Contract

Dear Ms. Bayò:

991266-EI

Upon further review of my file Florida Power & Light Company has determined that it can reduce the amount of information for which confidential classification is sought with regard to the above-captioned matter. Therefore, I enclose for filing amended Exhibits A, B, and C to replace those originals filed on August 31, 1999.

Once the enclosed documents have been filed with your office, please return to me the Exhibit A confidential documents previously filed.

If you have any questions or need further information, please feel free to call me. Thank you for your assistance in this matter.

Sincerely,

R. Wade Litchfield

RWL/jsb Enclosure

RECEIVED & FILED

CMU CTR

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OPC PAI

an FPL Group company

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FPSC-RECORDS/REPORTING

AMENDED EXHIBIT A

CONFIDENTIAL DOCUMENTS FILED UNDER SEPARATE COVER

AMENDED EXHIBIT B

1.3 Methodology

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Staff reviewed FPL's responses to document requests and interviewed FPL employees responsible for contracting for the long-term natural gas transportation services. The information was analyzed to learn what steps were taken, when FPL solicited potential gas transportation providers for this project, and how FPL decided to award the gas transportation contract to FGT. The audit included a specific evaluation of FPL's contract process for this contract.

6 Once staff's analysis was concluded, a draft report was written and provided to the company to verify the accuracy of its content. Staff conducted a preliminary exit interview with FPL to 7 discuss the audit report. FPL's comments are included in Chapter 5.

1.4 Overall Opinion

9 The procurement process that FPL followed resulted in a valid competition between two 10 alternative suppliers: Florida Gas Transmission Company (FGT) and American Natural Resources (ANR). Both companies made a viable bid for the contract_FGT was selected. In staff's opinion. 12 ANR's non-selection was based more upon The cost factors and volumes 13.

15 Staff acknowledges the fact that FPL's negotiation approach to procuring this long-term 14 contract did result in a competitive bid. However, initiation of this process was more the result of an uncontrolled, informal process, which depended upon the potential suppliers coming forward ig rather than of FPL seeking out the suppliers through a controlled Request-for-Proposal (RFP) solicitation process.

Staff also acknowledges that the number of credible potential providers of natural gas transmission into the state of Florida may be somewhat restricted; however, that only increases the necessity for FPL to have planned ahead and issued a RFP at the earliest possible time. If FPL had prequalified its potential vendors, the company may have had a list of vendors who were capable of competing for this contract.

It is also staff's opinion that if FPL had provided ANR, Williams-Transco, and any other potential bidder(s) with specific evaluation criteria by issuing an RFP, it may have altered the dynamics of the selection process. Not only should an RFP have been issued, but it should have been issued far enough in advance to allow for the major construction/permitting processes to be **э.**В 29 possible for vendors other than FGT.

A more timely notice may have allowed ANR, Williams-Transco, and others to strengthen د،3 their proposals regarding t 31 32 and appeared to be

1. It may also have brought a response from other vendors who were apparently not made aware of FPL's intentions.

Based upon staff's analysis, the following audit issue was identified:

FPL's reluctance to proactively identify all potential vendors and to issue an RFP to all respondents in a timely manner, leaves open the question of whether or not it actually did receive the most advantageous offer for the pipeline to the Fort Myers Plant.

1.5 Implementation

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Given that the company has disagreed with staff's recommendation, there will be no implementation program associated with this review.

policies and procedures (e.g., human resources, corporate level operations, product inspection procedures for fuel oil, and nuclear operations).

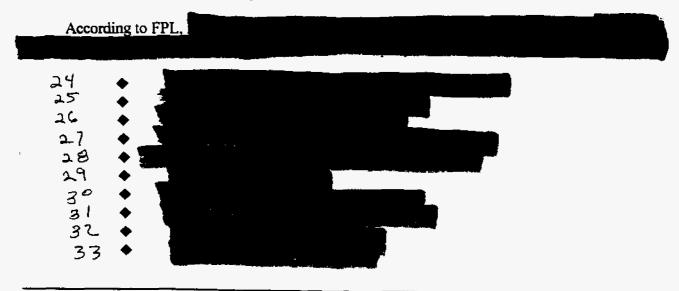
FPL has further stated that its system relies heavily on employee empowerment: providing personnel with a thorough understanding of their job and giving them the authority to get the job done. According to FPL, guidance is provided to the employees throughout their efforts by way of coaching, critical review, and debriefing after completion of a project.

In its review, staff found that the philosophy expressed by FPL is still prevalent, as it applies to the Natural Gas Transportation Group. It is this philosophy that permitted FPL staff to engage in a twenty-year contract without issuing a timely Request-for-Proposal to the pipeline marketplace.

2.3 FPL's Goals and Objectives for This Transportation Contract

In mid-1997, there was a recognition by FPL forecasters that the system would need increased megawatt capacity if they were to meet load requirements in the general time frame of 2002-2003. Given this forecast, it was decided that one or more current plants would need to be modified to produce additional cost-effective power. The modification options soon narrowed down to replacing some existing gas/oil fired units with larger ones that burned only gas, which FPL determined to be the most economically-sound approach for its situation. This process resulted in a separate RFP being issued on March 5, 1998, and a contract being signed on September 11, 1998, with General Electric Corporation for the new combustion-turbines.

The primary goal of the transportation contract was to secure a firm commitment for the transportation of natural gas to meet FPL's deadline to have a pipeline in place. FPL sought to be ready to transport partial test volumes of gas to the Fort Myers plant by October 2000 and the full volume by the in-service date of May 1, 2001.



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On August 7, 1998, FGT agreed to a delivery capability of 260,000 mmbtu/day, and it also agreed in principle to the concept of ramping the delivery quantities during the start-up period in October 2000. (This ramping required FERC's concept approval, which FGT did not yet have.) On October 28, 1998, FGT filed for approval to provide the ramp-up volumes required by FPL, as shown in Exhibit 4.

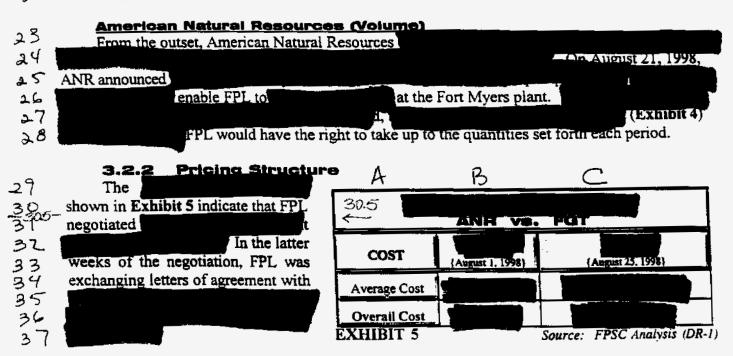
At the point when FGT was selected (September 25, 1998), FGT had agreed to construct a 16 new pipeline from the Tampa area to the Fort Myers plant. It made

FGT's Scheduled "Ramp-up" Capacity From Start of Turbine Testing to Full In-Service Date MMBTU/day MONTH~YEAR Oct. 2000 40,000 40.000 Nov. 2000 40,000 Dec. 2000 000,08 Jan. 2001 120,000 Feb. 2001 160,000 Mar. 2001 200,000 Apr. 2001 255,000 May 2001

EXHIBIT 4

Source: FPSC Analysis (DR-1)

18 no commitment to the construction of a Fort Myers to West Palm Beach pipeline, which had been 19 an earlier option. However, FGT did agree to provide capacity for the delivery of 255,000 20 mmbtu/day of natural gas to the Fort Myers plant. It also agreed to an option to deliver 256,000 اہ mmbtu/day to the Sanford plant.



<u>Florida Gas Transmission (Price)</u>

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4_ FGT has two designated pricing structures for transportation rates: an FTS-1 schedule and an FTS-2 schedule. FPL had contracts under both schedules prior to the Fort Myers contract. 2

The FTS-1 schedule represents FGT's Phase I and Phase II expansion periods. The 4 FTS-1 schedule contains current contracts that began in August 1990 and will expire in July 2015. The FTS-1 maximum charge for natural gas transmission is 5 \$0.40/mmbtu. O

> The FTS-2 schedule grew out of FGT's Phase III expansion, which started in about 1993. This schedule governs current FPL contracts that first began in March 1995 and will expire in July 2015. The FTS-2 charge for natural gas transmission is \$0.80/mmbtu. (Note: The portion of the FTS-2 Phase III contract that covers the transportation capacity originally contracted for, will expire in February 2010.)

12 The FTS-2 schedule will now also encompass FGT's Phase IV, at least for the Fort Myers plant. As part of the negotiations, FPL was able to persuade FGT to establish the rates for this additional new capacity under the umbrella of the FTS-2 rate 14 schedule, which already existed. The additional transportation capacity, added under 15 this Phase IV contract in the November 17, 1998 agreement, will start on May 1, 16 17 2001, and will expire April 30, 2021. It will be phased in as follows:

18 Phase IV In-Service through 12/31/2001: \$0.7436/MMBtu/d 18 2002: \$0.7436/MMBtu/d 20 2003: \$0.7436/MMBtu/d 2004: الد **\$0.77**60/MMBtu/d Post-2004 maximum Base Rate Cap: \$0.8000/MMBtu/d 2 2_

<u>American Natural Resources (Price)</u>

The final amendment to ANR's offer was made on September 13, 1998.

which already had an established rate-schedule, i.e., the FTS-2 contract schedule. However, the price quotations offered in Exhibit 5.

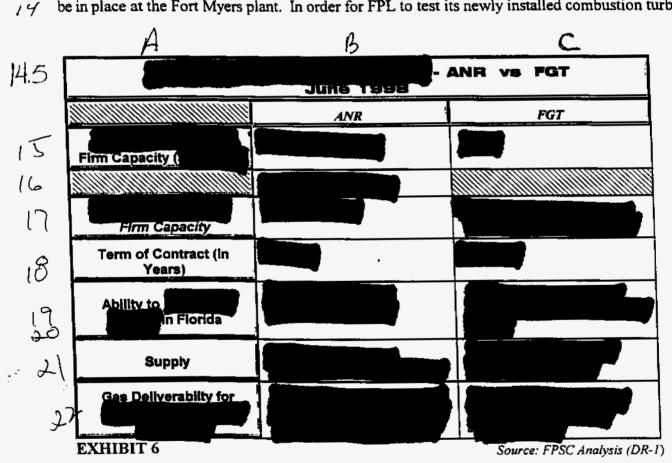
other stimulations or contingencies such as a for the Sanford plant contract, but for the Sanford plant business 32 However, 33 while confirming that it was 34

3.3 Qualitative Analysis

This section pertains to those factors for which judgement must be applied by the evaluators. While experience and good faith may play a role, the decision maker(s) must ultimately weigh the risks (perceived and real) of the vendor not being able to perform in a timely manner. Any failure to perform the original installation on time or to perform reliably throughout the contract could be a major problem for FPL in meeting its service commitments.

The data shown in which also appeared in FPL's June 1998 briefing, discloses not only In the case of Staff found no evidence man.

The final in-service date of May 1, 2001, was not firmed up until some time after ANR's proposal in April 1998. However, during the negotiation process, FPL redefined the effective in-service date to be October 1, 2000. This was the date by which the pipeline had to be in place at the Fort Myers plant. In order for FPL to test its newly installed combustion turbines



prior to going into full-service operation, it had to have a minimum amount (40,000 mmbtu/day) of natural gas at the plant.

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FGT could get a pipeline to the Fort Myers plant fairly quickly by extending its current system pipeline southward from Tampa to Fort Myers.

a segment of pipeline from FGT's West Palm Beach station westward to Fort Myers and then had its mainline (across the Guir of Mexico) in place at the plant.

To reach Fort Myers from compressor station #21, both FGT and ANR would have had to lay pipe through marshland and residential neighborhoods at the Palm Beach end. This would involve a time-consuming process laden with complex environmental permitting and multiple levels of government approvals. However, an east-west pipeline between its compressor station #21 at West Palm Beach and Fort Myers.

3.3.1 Florida Gas Transmission Performance and Reliability Factors

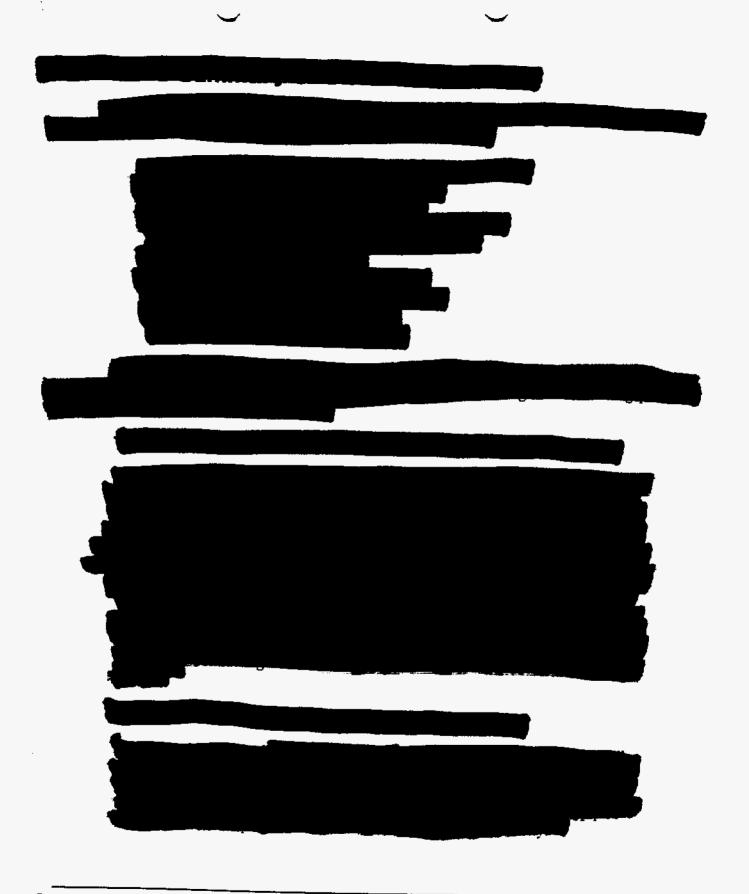
FGT was definitely a vendor that was well known to FPL. The two companies had many years of experience with each other, and, in fact, FGT was a current contract supplier under both a FTS-1 and a FTS-2 rate schedule for FPL.

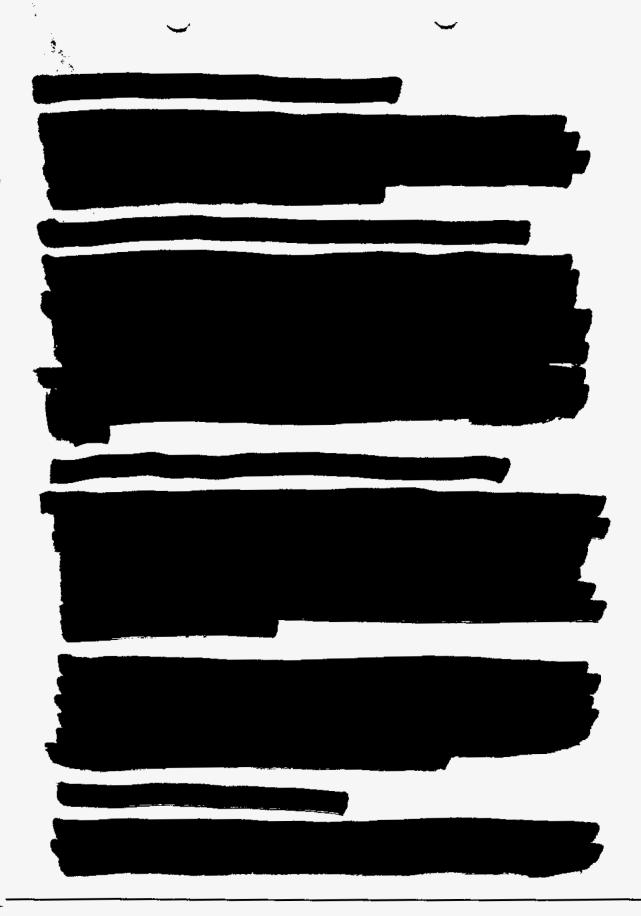
- FGT's pipeline system from the Mobile Bay area to a point South of Tampa
- The second receded to lay a new pipeline from the Tampa Bay area to service the Fort Myers plant.
- With approximately 75 miles of pipeline to construct,
- 23 Iditional FERC permission was required. With state and county rights of way for the extension from Tampa Bay to the Fort Myers plant.
- 26 \$\alpha 27 controlled it within 24 nours, and its customers had their gas restored.

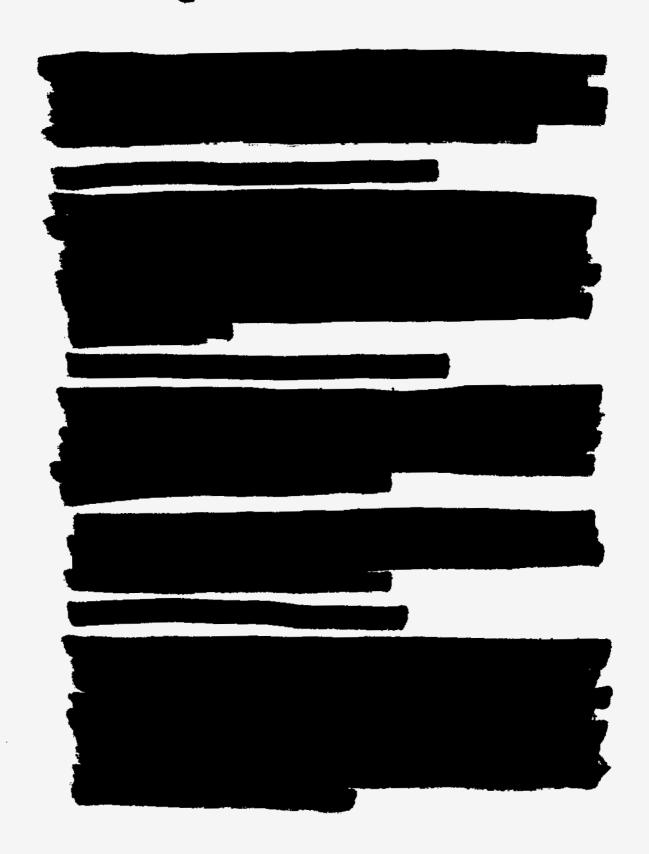
3.3.2 American Natural Resources Performance and Reliability Factors

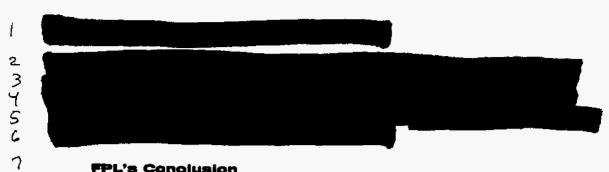
ANR was known to FPL from prior attempts to penetrate the Florida market in the late 1980's and early 1990's,

ANR, which currently has no pipelines installed within the state of Florida, would have to ray new 30-inch line









FPL's Conclusion

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Based on the results of the evaluation, as summarized above, it is recommended that FPL conduct negotiations with FGT, and if it reaches final agreement on all key issues, contract with FGT.

AMENDED EXHIBIT C

COMPANY: TITLE:

Florida Power & Light Company List of Confidential Workpapers September 2, 1999

DATE:

FLORIDA STATUTE

WKPAPER NO.	DESCRIPTION	PAGE NO.	CONF. Y/N	LINE NO./ COL. NO.	366.093(3) Subsection:	AFFIANT
	Review of FPL Contractor Selection Process	4	Y	Line Nos.12, 13, 14, 31, 32	(d) (e)	Rene Silva
· · · · · · · · · · · · · · · · · · ·		5	Y	Line No. 1	(d) (e)	Rene Silva
		10	Y	Line Nos. 22,23, 24, 25, 26, 27, 28, 29, 30,31, 32, 33	(d) (e)	Rene Silva
		20	Y	Line Nos. 23, 24, 25, 26, 27, 28, 29, 30.5, 31, 32, 35, 36, 37, Cols. B, C	(d) (e)	Rene Silva
		21	Y	Line Nos. 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34	(d) (e)	Rene Silva
		22	Y	Line Nos. 6, 7, 8, 9, 10, 11, 14.5, line 15- cols A,B, C; line 16- col. B; line 17- cols. A, B, C; line 18-cols B, C; line 19-col. A, B, C; line 20-cols. A, B, C; line 21-cols B, C; line 22- cols. A, B, C	(d) (e)	Rene Silva
		23	Y	Line Nos. 4, 5, 6, 11, 15, 16,	(d) (e)	Rene Silva

Fuel Cost Recovery Clause

Audit Control No. 99-033-4-1

AMENDED EXHIBT C

WKPAPER NO.	DESCRIPTION	NO. OF PAGES	CONF. Y/N	LINE NO./ COL. NO.	STATUTE 366.093(3) Subsection:	AFFIANT
				17, 18, 19, 21, 22, 23, 24, 26, 27, 29, 30		
		24	Y	Line Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 15, 16, 17, 18, 19, 20, 22, 23, 27, 28, 29, 30	(d) (e)	Rene Silva
		25	Y	All of Page No. 25	(d) (e)	Rene Silva
		26	Y	All of Page 26	(d) (e)	Rene Silva
		27	Y	All of Page 27	(d) (e)	Rene Silva
		28	Y	Line Nos. 1, 2, 3, 4 5, 6	(d) (e)	Rene Silva