



ORIGINAL

September 3, 1999

RECORDS AND REPORTING

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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

Re: Florida Power & Light Company's Request for Confidential Classification In Connection With the Review of the FGT Contract

991266-EI

Dear Ms. Bayò:

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 LDA

R. Wade Litchfield

RWL/jsb
Enclosure

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14
FPSC-BUREAU OF RECORDS

an FPL Group company

Letter with B+C
DOCUMENT NUMBER-DATE
10624 SEP-3 99
FPSC-RECORDS/REPORTING

Conf - Exh A
DOCUMENT NUMBER-DATE
10625 SEP-3 99
FPSC-RECORDS/REPORTING

- AFA
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AMENDED EXHIBIT A

CONFIDENTIAL DOCUMENTS
FILED UNDER SEPARATE COVER

AMENDED EXHIBIT B

1.3 Methodology

1 Staff reviewed FPL's responses to document requests and interviewed FPL employees
2 responsible for contracting for the long-term natural gas transportation services. The information
3 was analyzed to learn what steps were taken, when FPL solicited potential gas transportation
4 providers for this project, and how FPL decided to award the gas transportation contract to FGT.
5 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
7 to verify the accuracy of its content. Staff conducted a preliminary exit interview with FPL to
8 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
11 (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 [REDACTED]
13 [REDACTED] The cost factors and volumes [REDACTED]
14 [REDACTED]

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

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

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

30 A more timely notice may have allowed ANR, Williams-Transco, and others to strengthen
31 their proposals regarding [REDACTED]
32 [REDACTED] and appeared to be [REDACTED]

4 [REDACTED]. It may also have brought a response from other
2 vendors who were apparently not made aware of FPL's intentions.

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

4
5
6
7 *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

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

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

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

7 In its review, staff found that the philosophy expressed by FPL is still prevalent, as it applies
8 to the Natural Gas Transportation Group. It is this philosophy that permitted FPL staff to engage
9 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

10 In mid-1997, there was a recognition by FPL forecasters that the system would need
11 increased megawatt capacity if they were to meet load requirements in the general time frame of
12 2002-2003. Given this forecast, it was decided that one or more current plants would need to be
13 modified to produce additional cost-effective power. The modification options soon narrowed
14 down to replacing some existing gas/oil fired units with larger ones that burned only gas, which FPL
15 determined to be the most economically-sound approach for its situation. This process resulted in
16 a separate RFP being issued on March 5, 1998, and a contract being signed on September 11, 1998,
17 with General Electric Corporation for the new combustion-turbines.

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

22 According to FPL, [REDACTED]
23 [REDACTED]

- 24 ◆ [REDACTED]
- 25 ◆ [REDACTED]
- 26 ◆ [REDACTED]
- 27 ◆ [REDACTED]
- 28 ◆ [REDACTED]
- 29 ◆ [REDACTED]
- 30 ◆ [REDACTED]
- 31 ◆ [REDACTED]
- 32 ◆ [REDACTED]
- 33 ◆ [REDACTED]

1 On August 7, 1998, FGT
 2 agreed to a delivery capability of
 3 260,000 mmbtu/day, and it also
 4 agreed in principle to the concept
 5 of ramping the delivery quantities
 6 during the start-up period in
 7 October 2000. (This ramping
 8 concept required FERC's
 9 approval, which FGT did not yet
 10 have.) On October 28, 1998, FGT
 11 filed for approval to provide the
 12 ramp-up volumes required by
 13 FPL, as shown in Exhibit 4.

FGT's Scheduled "Ramp-up" Capacity From Start of Turbine Testing to Full In- Service Date	
MONTH-YEAR	MMBTU/day
Oct. 2000	40,000
Nov. 2000	40,000
Dec. 2000	40,000
Jan. 2001	80,000
Feb. 2001	120,000
Mar. 2001	160,000
Apr. 2001	200,000
May 2001	255,000

EXHIBIT 4

Source: FPSC Analysis (DR-1)

14 At the point when FGT was
 15 selected (September 25, 1998),
 16 FGT had agreed to construct a
 17 new pipeline from the Tampa area
 18 to the Fort Myers plant. It made
 19 no commitment to the construction of a Fort Myers to West Palm Beach pipeline, which had been
 20 an earlier option. However, FGT did agree to provide capacity for the delivery of 255,000
 21 mmbtu/day of natural gas to the Fort Myers plant. It also agreed to an option to deliver 256,000
 22 mmbtu/day to the Sanford plant.

23 **American Natural Resources (Volume)**

24 From the outset, American Natural Resources

On August 21, 1998,

25 ANR announced

26 enable FPL to at the Fort Myers plant.

(Exhibit 4)

28 FPL would have the right to take up to the quantities set forth each period.

29 **3.2.2 Pricing Structure**

30 The shown in Exhibit 5 indicate that FPL
 31 negotiated

32 In the latter
 33 weeks of the negotiation, FPL was
 34 exchanging letters of agreement with

	A	B	C
	30.5		
	←		
	ANR vs. FGT		
COST	(August 1, 1998)		(August 25, 1998)
Average Cost			
Overall Cost			

EXHIBIT 5

Source: FPSC Analysis (DR-1)

Florida Gas Transmission (Price)

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

3 ◆ 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
5 in July 2015. The FTS-1 maximum charge for natural gas transmission is
6 \$0.40/mmbtu.

7 ● The FTS-2 schedule grew out of FGT's Phase III expansion, which started in about
8 1993. This schedule governs current FPL contracts that first began in March 1995 and
9 will expire in July 2015. The FTS-2 charge for natural gas transmission is
10 \$0.80/mmbtu. (Note: The portion of the FTS-2 Phase III contract that covers the
11 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
13 Myers plant. As part of the negotiations, FPL was able to persuade FGT to establish
14 the rates for this additional new capacity under the umbrella of the FTS-2 rate
15 schedule, which already existed. The additional transportation capacity, added under
16 this Phase IV contract in the November 17, 1998 agreement, will start on May 1,
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
19	▶	2002:	\$0.7436/MMBtu/d
20	▶	2003:	\$0.7436/MMBtu/d
21	▶	2004:	\$0.7760/MMBtu/d
22	▶	Post-2004 maximum Base Rate Cap:	\$0.8000/MMBtu/d

American Natural Resources (Price)

23 The final amendment to ANR's offer was made on September 13, 1998. [REDACTED]
24 [REDACTED]
25 which already had an established rate schedule, i.e., the FTS-2 contract schedule. However, the price
26 quotations offered [REDACTED] in Exhibit 5.

27 [REDACTED]
28 [REDACTED]
29 other stipulations or contingencies
30 such as a [REDACTED]
31 [REDACTED] for the Sanford plant contract, but
32 for the Sanford plant business. [REDACTED] However,
33 [REDACTED] while confirming that it was
34 [REDACTED]

3.3 Qualitative Analysis

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

6 The data shown in [REDACTED] which also appeared in FPL's June 1998 briefing, discloses
 7 not only [REDACTED] In the case of
 8 [REDACTED] Staff found no
 9 evidence that [REDACTED] it can be seen here
 10 that [REDACTED]

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

14.5

A B C [REDACTED] - ANR vs FGT June 1998		
	ANR	FGT
15 Firm Capacity ([REDACTED]	[REDACTED]	[REDACTED]
16 [REDACTED]	[REDACTED]	[REDACTED]
17 Firm Capacity	[REDACTED]	[REDACTED]
18 Term of Contract (In Years)	[REDACTED]	[REDACTED]
19 Ability to [REDACTED] 20 in Florida	[REDACTED]	[REDACTED]
21 Supply	[REDACTED]	[REDACTED]
22 Gas Deliverability for [REDACTED]	[REDACTED]	[REDACTED]

EXHIBIT 6

Source: FPSC Analysis (DR-1)

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

3 FGT could get a pipeline to the Fort Myers plant fairly quickly by extending its current
4 system pipeline southward from Tampa to Fort Myers. [REDACTED] a segment of
5 pipeline from FGT's West Palm Beach station westward to Fort Myers and then [REDACTED]
6 [REDACTED] had its mainline (across the Gulf of Mexico) in
7 place at the plant.

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

3.3.1 Florida Gas Transmission Performance and Reliability Factors

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

- 17 ♦ FGT's pipeline system from the Mobile Bay area to a point South of Tampa [REDACTED]
18 [REDACTED]
- 19 ♦ [REDACTED] needed to lay a new pipeline from the Tampa Bay area to service the
20 Fort Myers plant.
- 21 ♦ With approximately 75 miles of pipeline to construct, [REDACTED]
22 [REDACTED]
- 23 ♦ [REDACTED] additional FERC permission was
24 required. [REDACTED] with state and county rights of way
25 for the extension from Tampa Bay to the Fort Myers plant.
- 26 ♦ [REDACTED]
27 [REDACTED]
28 controlled it within 24 hours, and its customers had their gas restored.

3.3.2 American Natural Resources Performance and Reliability Factors

29 [REDACTED] ANR was known to FPL from prior attempts to penetrate the Florida market in the
30 late 1980's and early 1990's, [REDACTED] ANR, which
31 currently has no pipelines installed within the state of Florida, would have to lay new 30-inch line

1 from the Mobile Bay area to the Fort Myers plant. [redacted] nearly all of the proposed pipeline
2 would be underwater. [redacted]
3 [redacted] no first-hand experience with
4 [redacted]
5 [redacted] of underwater pipeline. [redacted]
6 [redacted]
7 [redacted] routing if there was
8 [redacted]
9 [redacted] The acceptance of ANR's proposal would have provided FPL
10 with a true alternative source of natural gas transportation to south Florida. This would have
11 ensured a competitive alternative for the future, [redacted]

12 As shown in the following list, [redacted]

- 13 ◆ In order for ANR to be able to meet the October 2000 start-up date, it would have
14 had [redacted]
15 [redacted]
16 Installation of this segment would have been required
17 [redacted]
- 18 ◆ ANR proposed to reach a [redacted]
19 [redacted] for the initial transportation of the gas required. ANR
20 wanted to [redacted] required during the
21 initial period.
- 22 ◆ [redacted]
23 [redacted] feed line to Florida would have to be installed underwater through the Gulf
24 of Mexico to the Fort Myers area. This pipeline, which would have been
25 approximately 550 miles of 30-inch line, would then have proceeded up the
26 Caloosahatchee river a few miles to the Fort Myers plant.
- 27 ◆ Based on the [redacted] it would appear
28 that [redacted] but it is
29 reasonable to assume that [redacted]
30 [redacted]
- 31 ● As with FGT, ANR would also require numerous state and county right-of-way
32 permits, in addition to agreements with multiple landowners for any West Palm
33 Beach extension (FGT's Station #21 to the Fort Myers plant).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

FPL's Conclusion

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

**AMENDED
EXHIBIT C**

COMPANY: Florida Power & Light Company
TITLE: List of Confidential Workpapers
DATE: September 2, 1999

**FLORIDA
STATUTE
366.093(3)
Subsection:**

WKPAPER NO.	DESCRIPTION	PAGE NO.	CONF. Y/N	LINE NO./ COL. NO.	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

**AMENDED
EXHIBT C**

Audit Control No. 99-033-4-1

WK PAPER NO.	DESCRIPTION	NO. OF PAGES	CONF. Y/N	LINE NO./ COL. NO.	FLORIDA 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