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December 8, 2004

Eugene Ungar
LNG RFP Contact Person
Florida Power & Light Company
700 Universe Blvd.
Juno Beach, FL 33408
Via E-mail: gungar@fpl.com

Re: FPL LNG RFP

Dear Mr. Ungar:

AES LNG Marketing, L.L.C. ("LNG Marketing") and AES Ocean LNG, Ltd. ("Ocean LNG", and, together with LNG Marketing, "AES Entities") are pleased that Florida Power & Light Company ("FPL") has postponed the date for responses to its Liquefied Natural Gas ("LNG") Request for Proposals, dated August 20, 2004 ("RFP"), as supplemented and revised. We assume that this extension reflects FPL's decision to reconsider the various limitations imposed by the RFP and to correct the lack of balance in the submission and evaluation process.

If FPL is indeed rethinking the framework of the RFP, AES urges FPL to make a number of changes in light of the issues raised to date by potential respondents in the "Questions on the LNG RFP" posted on FPL's web site. In AES's view, among the most important revisions that FPL could make to the RFP would be to allow for the submission of non-integrated bids. FPL's current requirement that proposals reflect a complete LNG supply chain is an unnecessary and unduly restrictive condition that will eliminate potential respondents. Another feature of the RFP that discourages bidders is the "last look" provided to FPL's affiliate, Sailfish Natural Gas, Ltd. ("FPL Affiliate"), which suggests to capable industry participants a preordained outcome.[1]

The complexities of the LNG supply and delivery chain make it difficult for one entity to have control over supply and shipping as well as receiving and delivery infrastructure. As FPL observes, the LNG terminal and the transporting pipeline likely will be controlled by one entity.[2] Similarly, as is typical in the industry, the gas supply, liquefaction and shipping likely will be controlled by one entity. Yet as structured, the RFP effectively precludes the entities that routinely control these assets from separately participating in the RFP. While the RFP contemplates that multiple entities can pair their resources to submit a Conforming Proposal encompassing the full supply chain, doing so within the short proposal timeframe is highly problematic, as it would require multiple sets of negotiations and difficult risk allocation decisions among various parties,

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[1] In singling out these issues, we do not mean to suggest that these changes, alone, would address the other deficient elements of the RFP. But we will not detail our other concerns here.

[2] *See* Supplement, Q&A 156 ("FPL anticipates that the owner/operator of the regasification terminal will be the owner/operator of the pipeline from the terminal to the delivery point.").

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which FPL itself has acknowledged. These difficulties are compounded by the binding nature of the Conforming MOU, the extraordinary security requirements and the "last look" afforded to the FPL Affiliate. In short, it is unrealistic to expect that, in less than a two-month period,[3] separate entities can successfully negotiate the commercial arrangements necessary to submit an integrated, joint Conforming Proposal, or that they would be willing to bear the costs associated with such efforts at the mere proposal stage. The end result is that the RFP precludes potential respondents from fashioning proposals that would benefit FPL's customers by taking advantage of a respondent's distinct assets and capabilities. Revising the RFP to allow for the submission of partial proposals would enhance the prospect of FPL receiving competitive responses. Moreover, revising the RFP structure in such a way would be consistent with the historical transportation and commodity contracting structure FPL employs in its fuel purchases.[4]

As you know, Ocean LNG and its affiliate, AES Ocean Express LLC ("Ocean Express"), are actively developing the necessary infrastructure to receive LNG in the Bahamas and to deliver regasified LNG to Florida, including directly to existing FPL power stations. The AES Entities have met frequently with you to update you on this project and describe its benefits as a competitive supplier of LNG to FPL. By our Notice of Intent to submit a partial proposal in response to FPL's RFP dated October 22, 2004, we outlined a partial proposal consisting of LNG terminal (tolling) and send-out services, to be performed by Ocean LNG on Ocean Cay and the connecting send-out pipeline, for a daily quantity between 400,000 MMBtu/day and 600,000 MMBtu/day. Transportation to delivery points in Broward County would be provided on the Ocean Express pipeline through released capacity currently held by LNG Marketing.

The AES Entities' proposal is precisely the type of proposal that offers obvious advantages to FPL. The Ocean Express pipeline has already been authorized by FERC and the Ocean Cay project is expected to receive shortly the final Bahamian governmental approval, following the favorable environmental impact analysis of the Ocean Cay project. Consequently, the AES Entities can commence services earlier than other options and thereby provide greater value to FPL.[5] If the AES Entities' tolling and transportation services were coupled with the already existing separate LNG supply arrangement identified in the FPL Affiliate proposal (or LNG supply that other suppliers would doubtless make available under a properly structured sales agreement), then FPL would have a full LNG supply package that provides the "lowest overall system cost to FPL's customers while enhancing diversity of supply and maintaining system reliability and performance."[6] Accordingly, if FPL were to modify its RFP to permit partial proposals, such as the AES Entities', it would inure to the benefit of FPL's customers.

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[3] Prior to FPL's decision to extend the Proposal Due Date, the time allotted for multiple entities to fashion a joint proposal was just five weeks.

[4] To permit FPL to evaluate proposals (whether full or partial) effectively, FPL should require that prices for the separate functions be broken out by asset control (*i.e.*, terminal and transportation services, LNG supply). In addition to promoting transparency, this approach would be consistent with how FPL has structured RFPs for power purchases, in which they have requested bidders to submit separate prices for capacity, O&M and fuel.

[5] *See* Supplement, Q&A 80 ("[A] Target Date earlier than August 1, 2008 would be expected to provide a greater overall value to FPL's customer [sic] than an August 1, 2008 Target Commencement Date.").

[6] Supplement, Q&A 100.

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We look forward to seeing a modified structure in your RFP. In the meantime, if you have any questions regarding the AES Entities' capabilities, please do not hesitate to contact me at (508) 229-0141.

Very truly yours,

Edward G. Cahill

Edward G. Cahill
Vice President, AES LNG Marketing, L.L.C.

cc: Blanco S. Bayó (Director, Division of the Commission Clerk and Administrative Services, Florida Public Service Commission ("FPSC"))
Timothy Devlin (Director, Division of Economic Regulatory, FPSC)