991266-EI

Exhibit A

CONFIDENTIAL DOCUMENTS

(SUBMITTED SEPARATELY)

1.3 Methodology

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.

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 discuss the audit report. FPL's comments are included in Chapter 5.

1.4 Overall Opinion

The procurement process that FPL followed resulted in a valid competition between two 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, ANR's non-selection was based more upon its demanding risks of on-time performance and permitting, than on cost/mmbtu and volume. The cost factors and volumes were basically the same for both bidders.

(A)

Staff acknowledges the fact that FPL's negotiation approach to procuring this long-term 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 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 possible for vendors other than FGT.

(B)

A more timely notice may have allowed ANR, Williams-Transco, and others to strengthen their proposals regarding the risk factor issues of licensing, construction, and maintainability of the pipeline. These issues were of great concern to FPL evaluators and appeared to be the primary

(B) factors on which the group based its final decision. 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

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.

According to FPL, its Fuel Management Group's primary objectives in its evaluation of the proposals from ANR and FGT were focused on the company's desire to accomplish the following:

- Promote competition in gas transportation to Florida.
- Increase diversity in gas supply sources.
- Reduce cost of gas supply to FPL.
- Reduce "take-or-pay" risk of excess gas transport.
- Increase operational flexibility of FPL system.
- Minimize licensing risk.
- Minimize construction schedule risk.
- Facilitate maintainability of the pipeline.
- Reduce gas transportation price.
- Reduce total gas transport cost.

3.0 FPL's Selection Alternatives

3.1 FPL's Criteria for Comparing Proposals

One of the goals of any negotiation process is to arrive at an acceptable dollar cost (which in this case also includes sufficient volume capacity) for the service being sought. However, in many cases, the bottom dollar cost is not the only consideration. An evaluation must also weigh the cost against the expected performance by the vendor. Cost is irrelevant if a vendor fails to deliver its service as expected.

This chapter provides insight as to the evaluation methodology and results for both the quantitative (economic) factors and the qualitative (performance and overall benefit) factors involved in this contract. In addition, it provides the responses of FPL's own evaluators regarding how well the company's objectives were met by its selection of FGT for this contract.

3.2 Quantitative Analysis

3.2.1 Volume Required

At the time that FPL first started talking to FGT about needing a new source of gas transportation, the precise volume of natural gas that would be required at the Fort Myers plant was undefined. However, during the course of the negotiations, the volume requirements were firmly identified. All parties soon agreed that FPL needed to have a 30-inch pipeline in place prior to the in-service production date. While a completed pipeline installation would be required by October 2000, the actual gas volume flowing through the pipeline would be in incremental units that constitute something less than the full 260,000 mmbtus. Therefore, each bidder offered a schedule of increasing amounts of gas (from October 2000 to May 1, 2001) to be used for testing the newly-installed turbines.

Florida Gas Transmission (Volume)

In the fall of 1997, FGT made an initial offer of 40,000 mmbtu/day under its open-season program. FPL's subsequent initial study of the repowering requirements revealed a need for 240,000 to 255,000 mmbtu/day.

As shown in **Exhibit 3**, FPL sent FGT the following counteroffer on July 31, 1998, regarding the incremental contract volumes by months to be delivered by FGT beginning May 1, 2001.

FPL's Initial Volume Request to FGT

Months	Fort Myers Plant (mmbtu/day)	Sanford Plant (Option)
May-Sept (5 mo.)	100,000	240,000
Nov-Mar (5 mo.)	255,000	256,000
Apr & Oct	214,000	249,000

EXHIBIT 3 *Source: FPSC Analysis (DR-1)*

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 concept required FERC's 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**.

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
[illegible]	120,000
[illegible]	160,000
[illegible]	200,000
May 2001	255,000

EXHIBIT 4 *Source: FPSC Analysis (DR-1)*

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

American Natural Resources (Volume)

From the outset, American Natural Resources offered a total incremental volume capacity of 260,000 mmbtu/day to the Fort Myers plant and 240,000 to the Sanford plant. On August 21, 1998, ANR announced its planned delivery schedule for meeting FPL's ramp-up requirements. The ramp-up period would enable FPL to test the equipment at the Fort Myers plant. While there was some variation in the monthly amounts to be transported, the variation from FGT's agreement (**Exhibit 4**) was insignificant. FPL would have the right to take up to the quantities set forth each period.

3.2.2 Pricing Structure

The final cost comparisons shown in **Exhibit 5** indicate that FPL negotiated a competitive price-point between FGT and ANR. In the latter weeks of the negotiation, FPL was exchanging letters of agreement with both companies, which helped drive the cost and performance factors in FPL's favor.

[illegible]

COST	ANR (August 1, 1998)	FGT (August 25, 1998)
Average Cost	$0.77 /mmbtu	$0.79 /mmbtu (capped)
Overall Cost	$0.62	$0.61 (capped)

EXHIBIT 5 *Source: FPSC Analysis (DR-1)*

Florida Gas Transmission (Price)

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.

- The FTS-1 schedule represents FGT's Phase I and Phase II expansion periods. The 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 $0.40/mmbtu.

- 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.)

- 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 schedule, which already existed. The additional transportation capacity, added under this Phase IV contract in the November 17, 1998 agreement, will start on May 1, 2001, and will expire April 30, 2021. It will be phased in as follows:

Phase IV In-Service through 12/31/2001:	$0.7436/MMBtu/d
2002:	$0.7436/MMBtu/d
2003:	$0.7436/MMBtu/d
2004:	$0.7760/MMBtu/d
Post-2004 maximum Base Rate Cap:	$0.8000/MMBtu/d

American Natural Resources (Price)

The final amendment to ANR's offer was made on September 13, 1998. FPL was unable to bargain for "capped" costs (an established rate schedule) with ANR as it was able to do with FGT, which already had an established rate schedule, i.e., the FTS-2 contract schedule. However, the price quotations offered by ANR can be seen in **Exhibit 5**.

As seen in **Exhibit 6**, ANR's pricing involved two separate price figures: one at $0.62 for only the Fort Myers Plant, and one at $0.59 for both the Fort Myers Plant and the Sanford Plant. FGT's pricing at $.065 was for the Fort Myers plant only. ANR also had other stipulations or contingencies such as a take-or-pay clause, and it was also interested in a contract for the Sanford plant business. FGT did not negotiate as openly for the Sanford plant contract, but FPL threw in an option agreement for the Sanford plant business to be exercised within two years. However, FPL denied that the take-or-pay clause was a consideration in its economic analysis, while confirming that it was a consideration in the qualitative analysis.

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 **Exhibit 6**, which also appeared in FPL's June 1998 briefing, discloses not only price and volume comparisons but also some performance comparisons. In the case of ANR, an on-time performance bond was established in the amount of $20 million. Staff found no evidence that FGT pledged any such dollar amount in regards to its performance. It can be seen here that FPL was concerned with the terms of the contract, the ability to redeploy the gas in Florida, and potential supply sources. 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

FPL's Qualitative Comparison - ANR vs. FGT June 1998		
	ANR	FGT
Firm Capacity ($/MMBTU)	$0.62 (PFM only)	$0.65
	$0.59 (PFM + PSN)	
Required Incremental Firm Capacity	260,000 MMBtu/d	200,000 MMBtu/d (Winter) 100,000 MMBtu/d (Summer)
[illegible]	20,15,10	20,15,10
Ability to Redeploy the gas in Florida	Only if a tie to FGT system is constructed	Yes, with some constraint as to amount delivered south of Fort Pierce
Supply	Mobile Bay with limited ties to other pipelines	Mobile Bay with extensive on-shore connections
Gas Deliverability for Future Generation Additions	If for the Fort Myers plant only, 3000 MW. with construction of laterals to alternate plant sites	Pipeline is fully subscribed, expansion required for additional MW

EXHIBIT 6 *Source: FPSC Analysis (DR-1)*

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

FGT could get a pipeline to the Fort Myers plant fairly quickly by extending its current system pipeline southward from Tampa to Fort Myers. ANR would have to build a segment of pipeline from FGT's West Palm Beach station westward to Fort Myers and then secure a contract with FGT to use FGT's pipeline system until ANR had its mainline (across the Gulf 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, FGT chose not to propose 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. In addition to its prior relationships with FPL, FGT had the following physical advantages to offer:

- FGT's pipeline system from the Mobile Bay area to a point South of Tampa was already in the ground.
- FGT only needed to lay a new pipeline from the Tampa Bay area to service the Fort Myers plant.
- With approximately 75 miles of pipeline to construct, the reliability of its on-time completion was more probable.
- This short segment was the only one for which additional FERC permission was required. However, FGT also had to deal with state and county rights of way for the extension from Tampa Bay to the Fort Myers plant.
- Another reliability factor that impressed FPL was FGT's performance in responding to the Perry, Florida, gas line explosion on August 14, 1998. FGT controlled it within 24 hours, and its customers had their gas restored.

3.3.2 American Natural Resources Performance and Reliability Factors

While ANR was known to FPL from prior attempts to penetrate the Florida market in the late 1980's and early 1990's, FPL had no operating experience with the company. ANR, which currently has no pipelines installed within the state of Florida, would have to lay new 30-inch line

from the Mobile Bay area to the Fort Myers plant. The fact that nearly all of the proposed pipeline would be underwater gave rise to concerns not only for ANR's ability to have it in place on time, but also for ANR's ability to guarantee uninterrupted flow. FPL had no first-hand experience with underwater pipeline reliability, which became a major concern that FPL staff had to evaluate.

FPL was concerned with ANR's 550-miles of underwater pipeline. Its first concern was whether or not ANR could get it to Fort Myers on time. Its second concern was whether or not ANR could provide a viable alternative routing if there was a major disruption in the gas flow. Underwater pipeline, as far as FPL was concerned, was untested technology as to its potential repair time if such a disruption occurred. The acceptance of ANR's proposal would have provided FPL with a true alternative source of natural gas transportation to south Florida. This would have ensured a competitive alternative for the future, which was one of FPL's stated goals.

As shown in the following list, ANR had much more of a performance challenge than FGT.

- In order for ANR to be able to meet the October 2000 start-up date, it would have had to install about 120 miles of underground pipeline from FGT's compressor station #21, located in West Palm Beach, Florida, westward to the Fort Myers plant. Installation of this segment would have been required because ANR's trans-gulf pipeline might not be completed until around June 2001.

- ANR proposed to reach a separate bargaining agreement (at no added cost to FPL) with FGT to use FGT's lines for the initial transportation of the gas required. ANR wanted to pay FGT for the use of its lines and any back-haul required during the initial period.

- In addition to the east-west line from West Palm Beach to Fort Myers, ANR's primary feed line to Florida would have to be installed underwater through the Gulf of Mexico to the Fort Myers area. This pipeline, which would have been approximately 550 miles of 30-inch line, would then have proceeded up the Caloosahatchee river a few miles to the Fort Myers plant.

- Based on the magnitude of the differing construction requirements, it would appear that ANR had many more federal permitting challenges than FGT, but it is reasonable to assume that ANR had expectations of meeting these challenges in a timely manner.

- As with FGT, ANR would also require numerous state and county right-of-way permits, in addition to agreements with multiple landowners for any West Palm Beach extension (FGT's Station #21 to the Fort Myers plant).

3.4 FPL's Summary of Stated Objectives

As previously stated in Section 2.3, FPL documented the following ten objectives that it considered in its comparison of the proposals from FGT and ANR:

- Promote competition in gas transportation to Florida.
- Increase diversity in gas supply sources.
- Reduce cost of gas supply to FPL.
- Reduce "take-or-pay" risk of excess gas transport.
- Increase operational flexibility of FPL system.
- Minimize licensing risk.
- Minimize construction schedule risk.
- Facilitate maintainability of the pipeline.
- Reduce gas transportation price.
- Reduce total gas transport cost.

The following statements from the FPL evaluators address their perception of the outcome of this evaluation in relationship to the company's objectives entering the contracting process. These statements are included verbatim.

1. Promote Competition in Gas Transportation to Florida

Contracting with ANR would bring a second pipeline into the state. In this event, FPL would have two contracts with FGT and one with ANR. This would bring a degree of competition into the state, particularly when the various contracts expire between 2005 and 2020. At that time FPL will be free to contract with one or the other, or both, for a shorter term. The benefit of impending competition has been a key factor, in the short term. Without the viable ANR proposal, FGT would not have offered as generous terms as it has. Without the FGT presence, ANR would not have offered as competitive and credible a proposal as it has. Therefore, a significant component of the benefit of competition has already been achieved in getting both proposals to be as good as possible. Contracting with ANR would have other competitive benefits in the future.

2. Increase Diversity in Gas Supply Sources

As proposed by ANR, their pipeline will be connected to supplies in the Mobile Bay area. According to our FPL gas buyers, the FGT line continues to provide access to more sources of natural gas in various producing areas of the U.S. Gulf, both on-shore and off-shore, including Mobile Bay. Therefore the FGT pipeline has the potential to provide somewhat greater gas supply diversity.

3. Reduce Cost of Gas Supply to FPL

The FGT pipeline reaches into the zone with the cheapest gas in the U.S. Gulf area - Zone I in Texas. Although contracting with FGT does not automatically give FPL additional receipt points into the FGT pipeline in Zone 1, it does provide the potential for acquiring such receipt points. As currently designed, the ANR pipeline does not offer that opportunity.

4. Reduce 'Take-or-pay' Risk of Excess Gas Transport

As shown graphically, and also numerically in our economic comparison, ANR requires FPL to commit to firm transportation in greater volumes than those that FPL needs, while FGT's proposal matches FPL's needs almost exactly. Over time, ANR requires FPL to take 562 billion btus more in order to build the pipeline to serve PFM. There will be times when FPL will not be able to use the "excess" gas. At those times, FPL's customers will have to pay for some transportation that FPL cannot utilize. Although it is not always possible to match need with contract amounts, the FGT proposal will minimize the frequency of instances when FPL and its customers will pay a "take-or-pay" penalty.

5. Increase Operational Flexibility of FPL System

Having the capability to deliver gas to different plants enables FPL to maximize the efficiency of its generating system and thereby reduce the cost of electricity to its customers. It is essential that, if one plant is not operating due to overhaul work, the gas initially intended for that plant can be delivered to other gas burning plants. In addition, there are times when different fuels (e.g., fuel oil and gas) will be were economic at one plant than at another. In order to operate the generation system as economically as possible, it is very important to have a flexible gas delivery system.

The terms offered by FGT provide such flexibility. FPL can use all of the gas designated for PFM at other FPL locations, at no additional cost. ANR cannot provide that flexibility on its own. It is up to FPL to negotiate that type of flexibility with FGT. ANR does not guarantee the cost of such flexibility. This represents risk to FPL. Therefore, FGT is deemed to offer a more flexible system to FPL than the combination of ANR and FGT would be.

6. Minimize Licensing Risk

ANR's proposal consists of two pipelines. The major pipeline will be built under the ocean, directly from Mobile Bay, Alabama, to the area of Fort Myers, Florida. The shorter pipeline extends from Fort Myers to West Palm Beach,

Florida. FGT's proposal consists of building a 30" diameter pipeline from the area of Tampa, to the Fort Myers plant. In the opinion of FPL's environmental licensing experts, there is less uncertainty associated with obtaining the necessary environmental approvals for the FGT pipeline than there would be with obtaining those approvals for the two pipelines proposed by ANR.

7. Minimize Construction Schedule Risk

FPL is repowering the Fort Myers plant in order to add generating capacity to meet increasing demand for electricity in its service territory. FPL has scheduled the repowered plant to begin partial operation as early as October, 2000, with full "in service" operation by May, 2001. Therefore it is important that construction of the pipeline that will deliver gas be completed by October, 2000. This is an ambitious schedule. Our review of the magnitude of each proposal suggests that there is less uncertainty in the construction of the FGT- proposed pipeline [than] in that proposed by ANR.

8. Facilitate Maintainability of the Pipeline

FPL has no experience with interruptions to underwater gas pipelines. Since pipeline maintenance and repairs to the ANR pipeline would have to be made deep under water, it is our opinion that ease of maintainability is greater with the FGT proposal. Since the Fort Myers plant will not have alternate fuel capability (to minimize the cost of the plant), it is very important that the pipeline operate reliably and that repairs be completed quickly.

FGT has recently experienced accidents to its pipeline. FGT reacted very quickly, and was able to restore partial flows in short order, and to have full flows in its pipeline in a matter of a few days. We do not know how quickly an underwater interruption would take to repair.

9. Reduce Gas Transportation Price

As a result of continued discussions with both pipelines, the initial price proposals from both FGT and ANR were significantly improved before the final decision was made. As discussed in detail in the ECONOMIC ANALYSIS summaries, both ANR and FGT ultimately offered very competitive pricing provisions. In fact, the difference in the prices is very small. So much so, that a small change in some of the assumptions, such as how much gas transported by ANR to PFM would have to be "re-delivered" to other FPL units, can give the advantage to one or the other proposal. Therefore, from a transportation pricing viewpoint, both proposals were viable.

10. Reduce Total Gas Transport Cost

Because of ANR's larger firm commitment requirement, the total gas transport cost is projected to be lower with FGT. While it is true that FPL would receive more gas with the ANR proposal, it is our view that some of that gas will be in excess to what FPL will need in the future. This point is discussed in greater detail in the ECONOMIC ANALYSIS summaries.

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.