

ORIGINAL

Exhibit B

REDACTED DOCUMENTS

991266-EI

AFA	<u>1</u>
APP	_____
CAF	_____
CMU	_____
CTR	_____
EAG	_____
LEG	_____
MAS	_____
OPC	_____
PAI	_____
SEC	<u>1</u>
WAW	_____
OTH	_____

### 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,

(A) [REDACTED]

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) [REDACTED]

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).

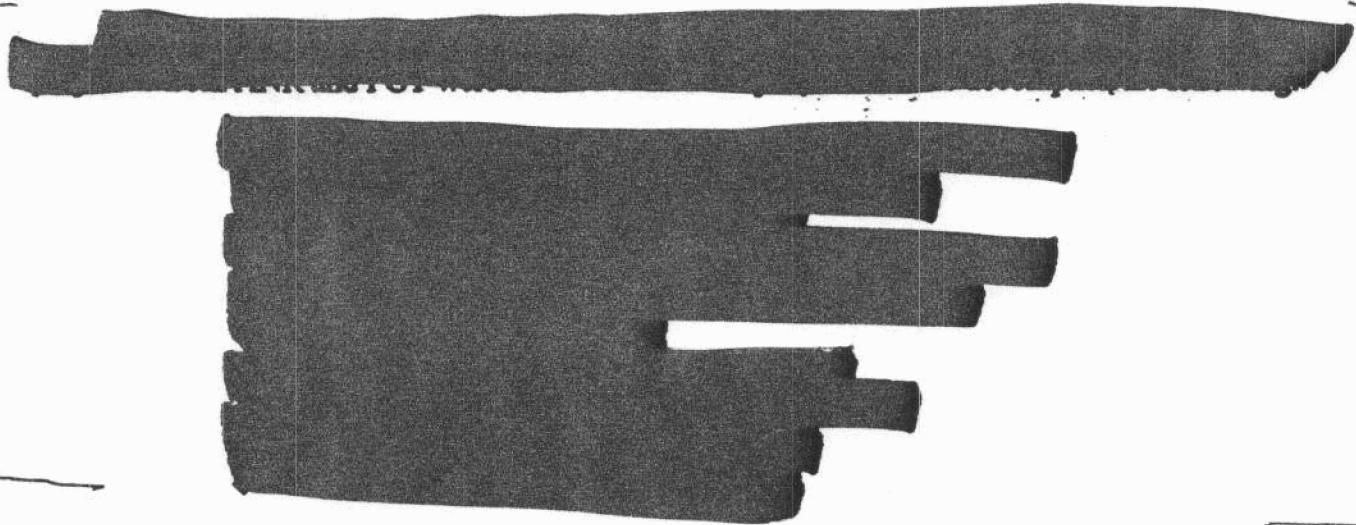
FPL has further stated that its system relies heavily on employee empowerment: providing personnel with a thorough understanding of their job and giving them the authority to get the job done. According to FPL, guidance is provided to the employees throughout their efforts by way of coaching, critical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



(c)

## 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.

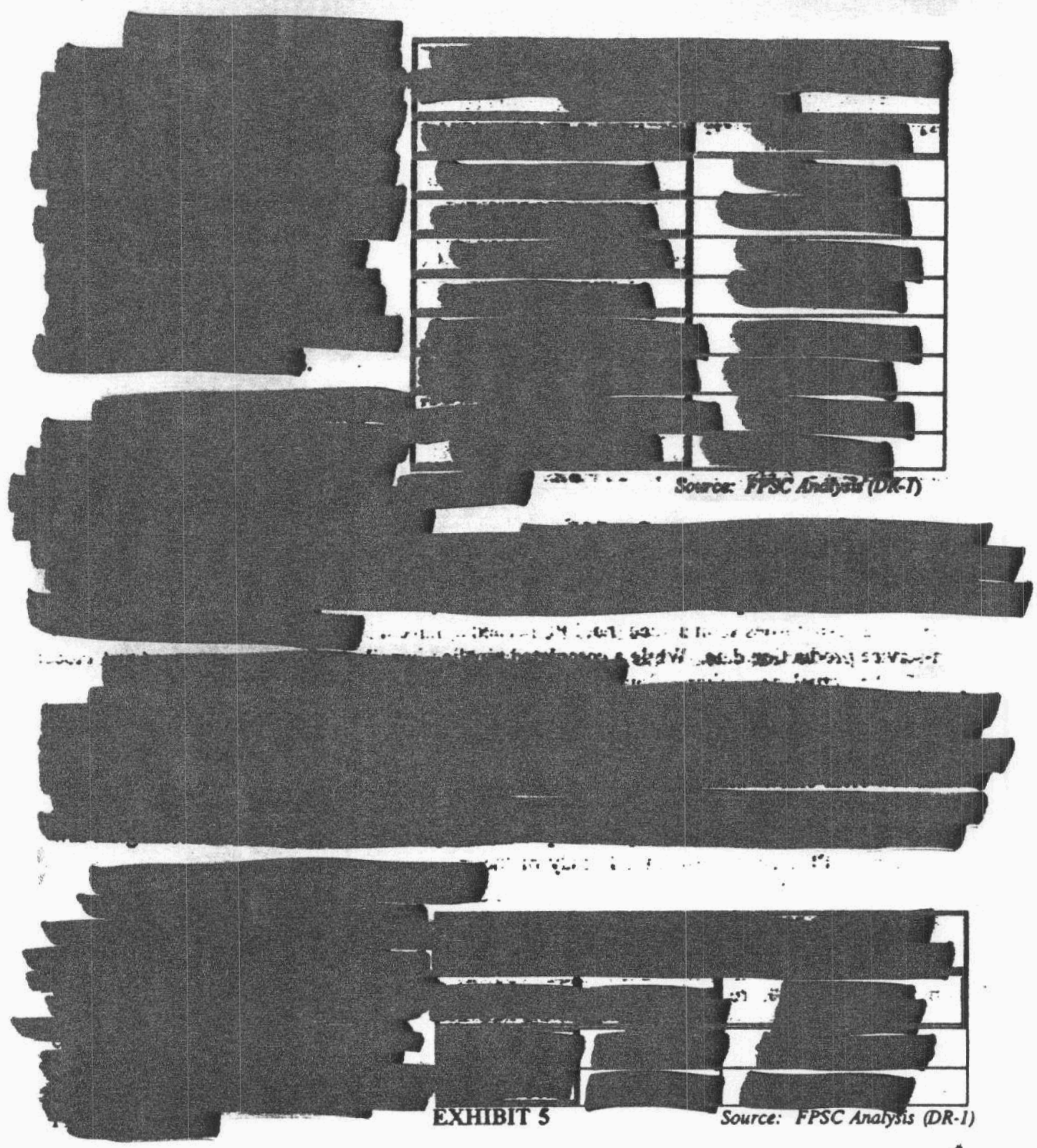
### 3.2 Quantitative Analysis

#### 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.

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Source: FPSC Analysis (DR-1)

EXHIBIT 5

Source: FPSC Analysis (DR-1)

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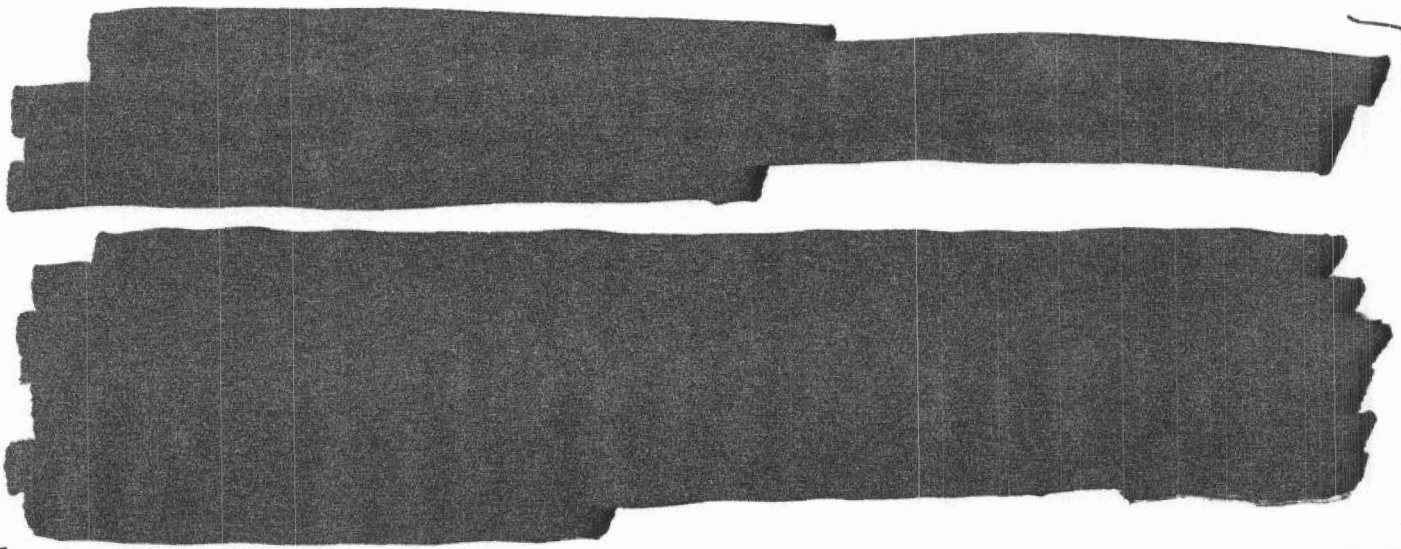
**Florida Gas Transmission (Price)**

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:

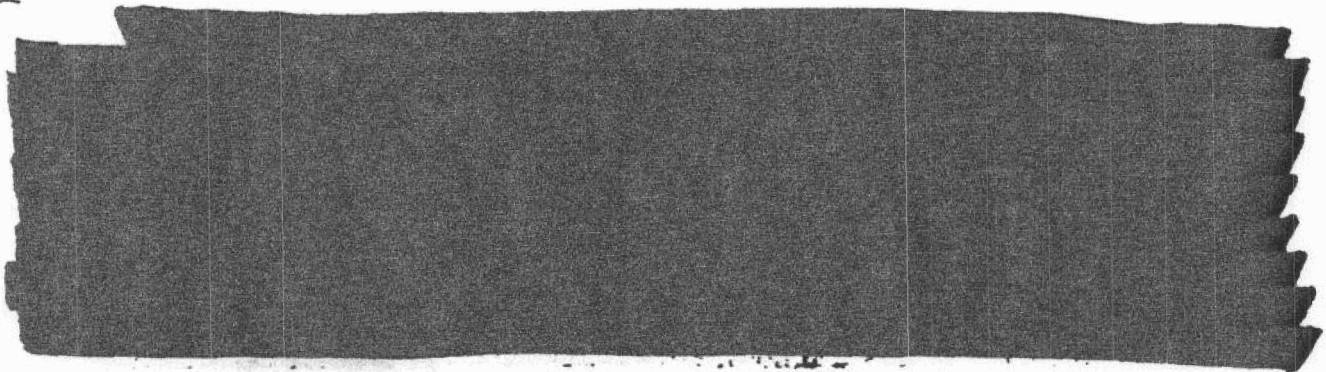
▶ Phase IV In-Service through 12/31/2001:	\$0.7436/MMBtu/d
▶ 2002:	\$0.7436/MMBtu/d
▶ 2003:	\$0.7436/MMBtu/d
▶ 2004:	\$0.7760/MMBtu/d
▶ Post-2004 maximum Base Rate Cap:	\$0.8000/MMBtu/d

(E)



### 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.



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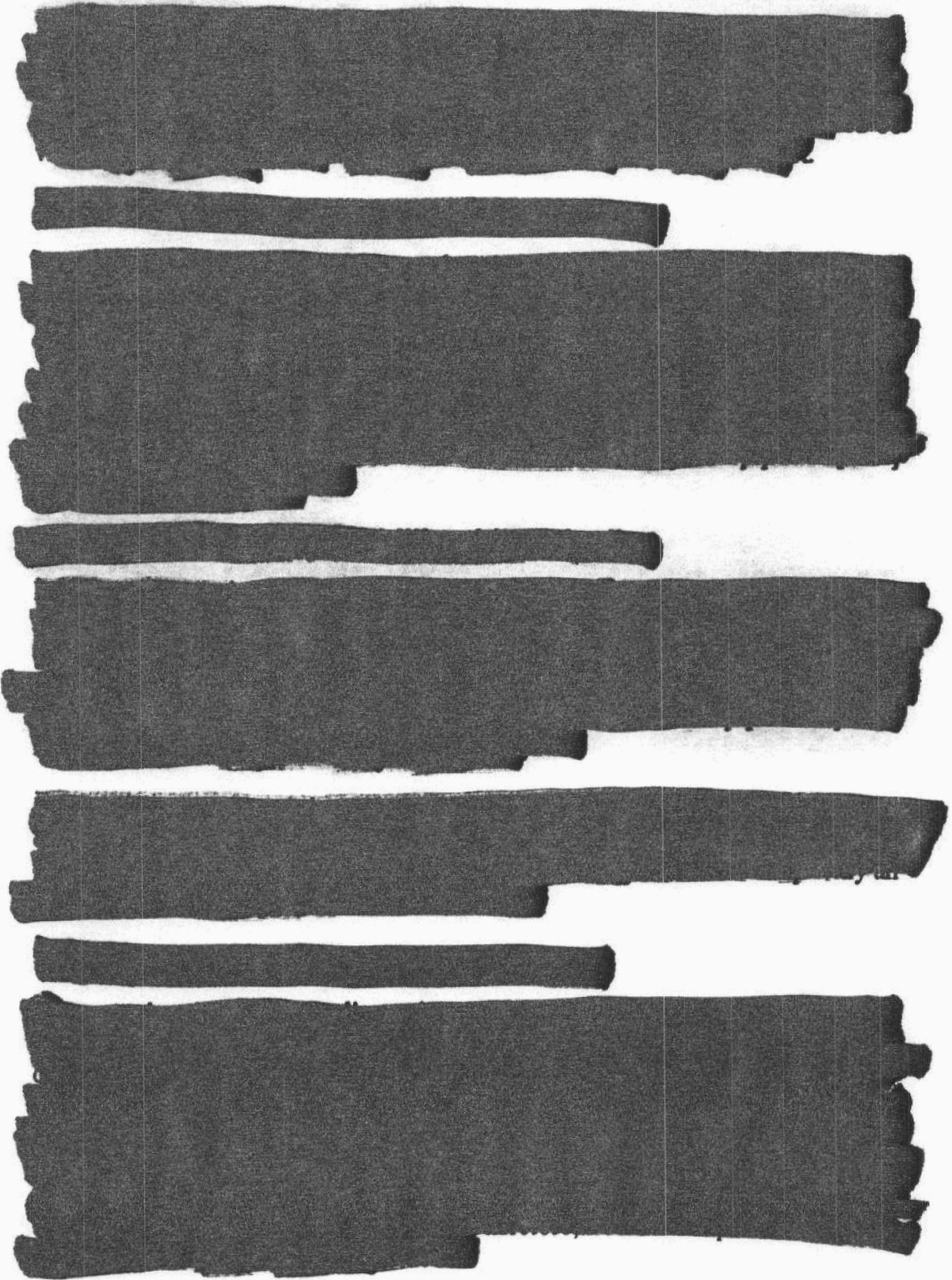
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