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COMMISSION
CLERK

DATE: August 10, 2004

TO: Kay B. Flynn, Chief of Records, Division of the Commission Clerk & Administrative Services

FROM: William B. McNulty, Public Utilities Supervisor, Division of Economic Regulation *WBM*

RE: Transfer of the June 21, 2004 Anonymous Letter filed with the Division of Regulatory Compliance and Consumer Assistance Re: FPL's Low Gravity Oil Program to Docket File (Docket No. 040001-EI-- Fuel and Purchased Power Cost Recovery)

Please insert the attached materials in the file of Docket No. 040001-EI. The materials include:

1. An anonymous letter filed June 21, 2004, with the Division of Regulatory Compliance and Consumer Assistance pertaining to FPL's Low Gravity Oil Program;
2. A July 21, 2004, e-mail from me to Tim Devlin, Joe Jenkins, and Bob Trapp containing a notification of a request to FPL for a presentation of specified related subject areas; and
3. FPL low gravity oil program presentation materials (identified as "Florida Power and Light Company Low API Oil (LAPIO) Program Issues") provided to Staff and the Office of Public Counsel at a meeting held at the Commission on August 10, 2004.

The referenced letter pertains to recovery of fuel-related costs recoverable through the Fuel and Purchased Power Cost Recovery Clause and was forwarded to the Division of Economic Regulation for review. The letter and the follow-up documentation are germane to the activities of the clause and thus are appropriate for inclusion in the docket file consistent with APM 2.10-C-3. Please notify me if you have any questions (413-6443). Thank you.

cc: Mary Bane, Executive Director
 Rick Melson, General Counsel
 Tim Devlin, Director of Economic Regulation
 Dan Hoppe, Director of Regulatory Compliance and Consumer Assistance

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C027:Bob

ORIGINAL

Florida Public Service Commission
2540 Shumard Oak Blvd
Tallahassee, FL 32399

RECEIVED

JUN 21 2004

RE: Florida Power & Light
Low API Oil Use
Unfulfilled Commitments

Florida Public Service Commission
Division of RCA

In 1997, FPL requested permission from the Commission to burn Low API Oil, commonly known as LAPIO, at its oil burning power plants. This was a cheaper fuel and cost savings would be passed along to the ratepayers. Due to the heavier nature of this oil, FPL wanted to install new equipment as additions to the existing oil/water separation systems to better assure effective removal of LAPIO should it reach the plants' stormwater collection system. FPL requested that the initial cost of this new equipment, on the order of \$6 million, be taken out of the cost savings to be passed to the ratepayers. Mr. R. Silva, in his testimony before the Commission, indicated that FPL would install, operate and maintain this new equipment. The Commission subsequently approved FPL's request.

As an employee in the environmental area at FPL, it has come to my attention that some of this new equipment has not been maintained and is not operational. For example, I have been told that the equipment installed at the plant located in the Port Everglades facility is not operational and is currently bypassed. The bypass may also be in effect at other power plants. A few individuals brought this to the attention of management, but nothing was done. Given the current state of affairs at FPL concerning job security, those individuals did not push the issue and possibly risk being labeled a troublemaker or not a team player. At FPL, we all know that those individuals can find themselves out the door at the earliest convenience when their position is eliminated. So, I believe you can understand why I must remain anonymous. I realize that you are uncomfortable acting on information from anonymous sources, so I suggest you review the file for this case, then have one of your inspectors go in the field and see for themselves. Simply put, the equipment will either be bypassed or not, and it will either be operational or not.

cc: Palm Beach Post
Sun Sentinel

Copies to: M. Bane
Chuck H.
D. Hoppe
Tim Devlin
K. Bloom
Dale Mailhot

Bill McNulty

From: Bill McNulty
Sent: Wednesday, July 21, 2004 5:02 PM
To: Tim Devlin; Joe Jenkins; Bob Trapp
Cc: Todd Bohrmann; Jim Breman; Jim Ruehl; Cochran Keating; Adrienne Vining; Denise Vandiver
Subject: RE: Presentation to Staff on Low Gravity Oil Program

FYI - I contacted Bill Feaster to see what arrangements were being made. He said their Low Gravity Oil expert is on vacation but will return Monday. Bill said he would call me Monday to say when they could arrange a presentation on the topic for later next week. I'll keep you posted.

-----Original Message-----

From: Bill McNulty
Sent: Friday, July 16, 2004 2:47 PM
To: 'Bill_Feaster@fpl.com'
Cc: Bob Trapp; Tim Devlin; Jim Breman; Jim Ruehl; Cochran Keating; Adrienne Vining; Todd Bohrmann; Joe Jenkins; Denise Vandiver
Subject: Presentation to Staff on Low Gravity Oil Program

Hello, Bill;

As we discussed, Commission staff is interested in learning more about FPL's Low Gravity Fuel Oil Program as implemented at FPL's power plants. Our interest in this relates to the anonymous letter we received on this topic on June 21, 2004, which we forwarded to your office last week. Staff requests a informational presentation of the status of this program by FPL. In general, we're interested in getting an update as to the actual implementation of Order No. PSC-97-0359-FOF-EI, Page 11, bottom paragraph, and how the program has actually performed as compared to the testimony set forth by Rene Silva and Rosemary Morley in testimony filed 1/16/97. In particular, we would like to understand:

1. the status of the expenditures related to this program as recovered through the fuel clause during the years since the Order was issued or in base rates as adjusted in 2002,
2. the savings achieved during the years since the program was implemented and how those savings were calculated,
3. the status of the equipment installations (active versus bypassed),
4. low and intermediate gravity oil purchases during the period prior to and after 1999,
5. current environmental regulatory requirements related to low gravity and intermediate gravity oil, and how they have changed since the inception of the program for FPL,
6. FPL's plans for continued use of the equipment, purchase of low gravity oil, the program in general, given the status of related environmental requirements, and
7. If the program does have a future with FPL, any O&M required to either restart bypassed equipment or to continue the operation/maintenance of equipment currently on-line. If the program does not have a future with FPL, FPL's plans for salvage of the equipment and related credits, if any, to the fuel clause.

Please let me know when would be a convenient time for FPL's personnel to brief us on these areas of inquiry.
Thanks, Bill!

Bill McNulty

Florida Public Service Commission
Phone: (850)413-6443
Fax: (850)413-6444
E-mail: bmcnulty@psc.state.fl.us

**FLORIDA POWER & LIGHT COMPANY
LOW API OIL (LAPIO) PROGRAM ISSUES**

Issue 1**Status of expenditures**

Between the period October 1997 through December 2000, FPL recovered approximately \$3.5 million of LAPIO Program related expenses through the Fuel Clause.

Issue 2**Status of savings****Chart #1**

FPL FUEL OIL USAGE SORTED BY API GRAVITY						
Year	Low Gravity Oil less than or = to 8API Millions of bbls	Intermediate Gravity Oil Greater than 8 and less than or = to 10 API Millions of bbls	Oil Greater than 10 API Millions of bbls	Total Millions of bbls	Index Cost Per BBL	Savings
1997	4.7	15.1	6.1	25.9	16.85	\$3,781,948
1998	3.5	12.3	28.2	44	12.26	\$2,171,606
1999	11.6	10.6	14.2	36.4	15.48	\$4,668,416
2000	7.8	15.6	12.1	35.5	26.34	\$7,453,306
2001	7.3	12.3	18.7	38.3	21.82	\$5,303,568
2002	9.7	10.3	10.5	30.5	22.55	\$5,993,178
2003	8.8	10.5	12.5	31.8	28.26	\$7,122,946
Thru Apr 2004	2.8	1.3	2.4	6.5	27.76	\$1,690,120
Total	56.2	88	104.7	248.9		\$38,185,088

Savings Calculation for 1997

	<u>MMBTU/BBL</u>	
Heat Content 6 API Gravity oil	6.45	
Heat Content 8 API Gravity oil	6.40	
Heat Content 10.1 API Gravity oil	6.34	
Percent of bbls saved 6 API vs 10.1 API	$(6.45\text{MMBTU/BBL} - 6.34\text{ MMBTU/BBL})/6.34\text{ MMTBU/BBL}$	0.017
Percent of bbls saved 8 API vs 10.1 API	$(6.40\text{MMBTU/BBL} - 6.34\text{ MMBTU/BBL})/6.34\text{ MMTBU/BBL}$	0.009
Saving for 6 API Oil	4.7 million bbl x \$16.85/bbl x 0.017	\$1,374,046
Saving for 8 API Oil	15.1 million bbl x \$16.85/bbl x 0.009	<u>\$2,407,902</u>
Total		\$3,781,948

Issue 3

Status of the LAPIO installations

Chart #2

Facility	Status	Comments
Turkev Point Plant	In service	
Port Everglades Plant	Not in service	During a BMP-3 analysis, the LAPIO equipment was recognized as a bottleneck in processing the storm water, increasing the probability of discharge to surface water instead of plant basins. To prevent this increased risk, the plant bypassed the LAPIO equipment to ensure discharges would be contained within the plant basins which can and are routinely cleaned.
Riviera Plant	In service	
Martin Plant	In service	
Martin Terminal	In service	
Cape Canaveral Plant	In service	
Sanford Plant	Not in service	LAPIO equipment was installed prior to Sanford's repowering to burn primarily natural gas. Due to the conversion to natural gas and the substantially reduced use of oil, as well as other engineering controls that are presently in place to prevent the release of low API fuel,
Ft. Myers Plant	In service	
Boca Grande Terminal	Not in service	LAPIO removed from service with the removal of the terminal. 10/2/02

Issue 4

Low and intermediate gravity oil purchases during the period prior to and after 1999

Please refer to chart in item 2.

Issue 5

Current environmental regulatory requirements related to low gravity and intermediate gravity oil and how they have changed since the inception of the program for FPL

Current regulatory requirements for low gravity and intermediate gravity oils are found in the Code of Federal regulations 40 CFR 112, typically referred to as EPA's Spill Prevention Control & Countermeasure (SPCC) Plan requirements. These regulations provide requirements to prevent spills of oil from reaching "navigable

waters" of the U.S. This regulation pertains to all petroleum and non-petroleum oils including low API gravity oils (LAPIO).

The SPCC rule was originally promulgated in 1973 and was amended in July of 2002 to: (1) provide some regulatory relief to industry, (2) clarify that the rule is mandatory and (3) provide performance-based requirements to address spill prevention measures at facilities. In pertinent part, none of the regulatory changes necessitated changes to FPL's Low Gravity Fuel Oil Program.

Issue 6

FPL's plans for continued use of the equipment, purchase of low gravity oil, the program in general, given the status of related environmental requirements

FPL plans to continue the purchase and use of low API fuel due to the substantial cost savings to our customers, and therefore, plans to continue use of the equipment as referenced in item 3.

Issue 7

If the program does have a future with FPL, any O&M required to either restart bypassed equipment or continue the operation / maintenance of equipment currently on-line. If the program does not have a future with FPL, FPL's plans for salvage of the equipment and related credits, if any, to the fuel clause

FPL will continue to assess our methods of ensuring reliable, cost effective and environmentally conscientious operations which includes the continual maintenance and upkeep of all our systems. Estimates indicate that O&M expenditures of the LAPIO systems are \$10,000 to \$20,000 per year. The LAPIO equipment which is not in service is available for spare parts.


EXHIBIT A


August 6, 2004

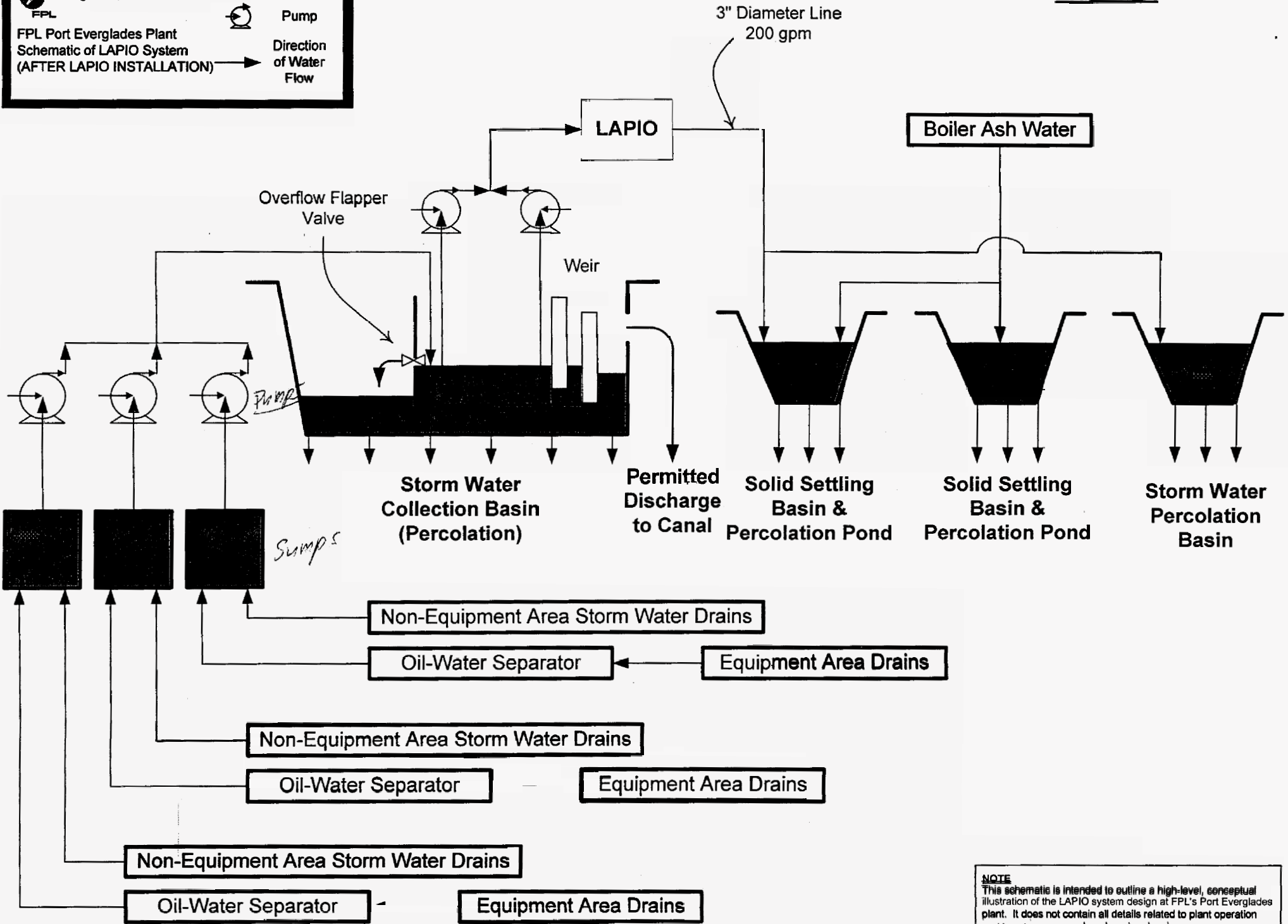
FPL

FPL Port Everglades Plant
Schematic of LAPIO System
(AFTER LAPIO INSTALLATION)

Legend

 Pump

 Direction of Water Flow



NOTE
This schematic is intended to outline a high-level, conceptual illustration of the LAPIO system design at FPL's Port Everglades plant. It does not contain all details related to plant operation and is not an approved engineering drawing.


EXHIBIT B


August 6, 2004

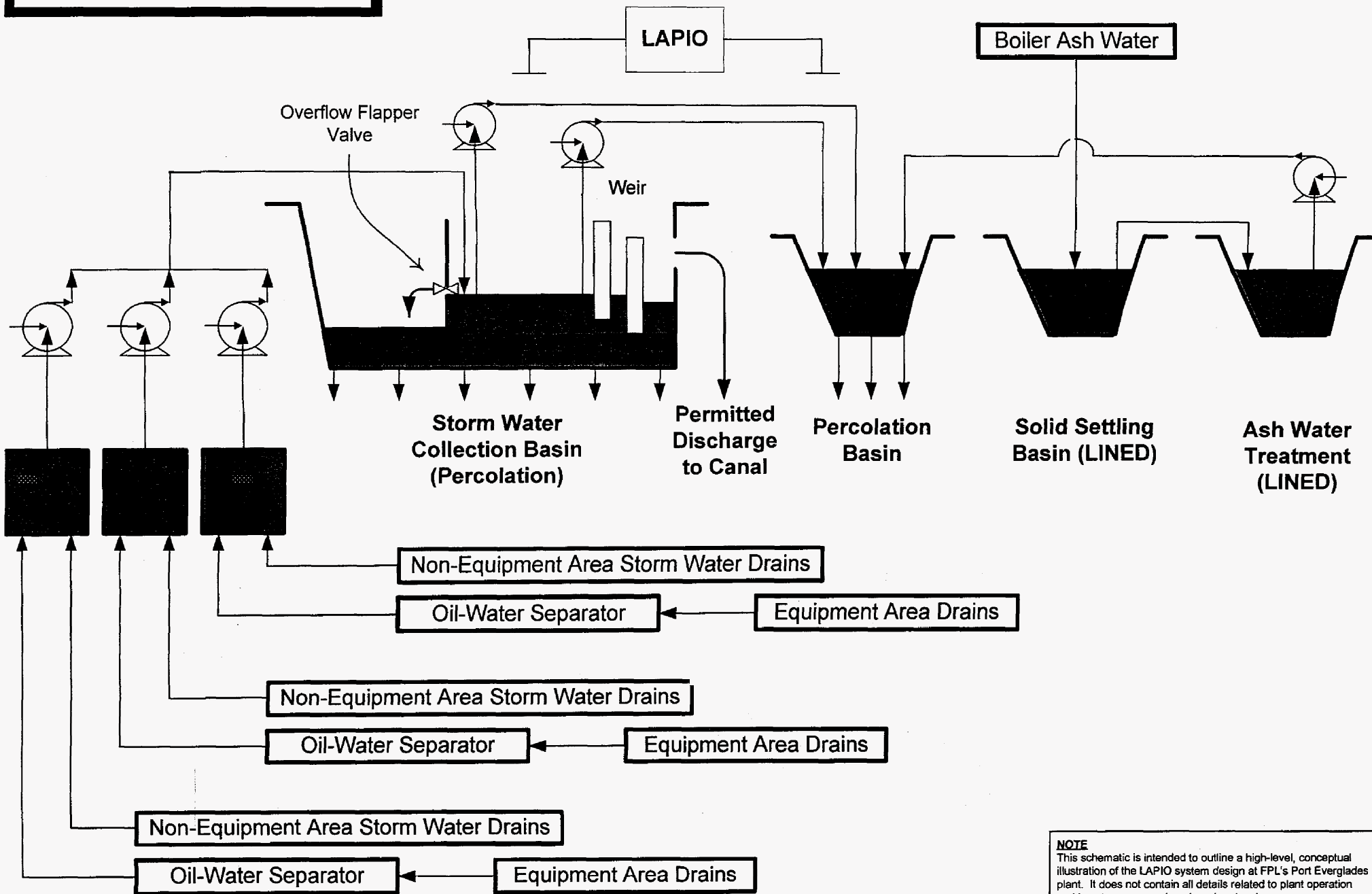
FPL

FPL Port Everglades Plant
Schematic of LAPIO System
(AFTER BMP-3 UPGRADE)

Legend

 Pump

 Direction of Water Flow



NOTE
This schematic is intended to outline a high-level, conceptual illustration of the LAPIO system design at FPL's Port Everglades plant. It does not contain all details related to plant operation and is not an approved engineering drawing.