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March 21, 1997

KAREN D. WALKER
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Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Conference Center, Room 110
Tallahassee, FL 32399-0850

Via Hand Delivery

Re: In re: Petition for expedited approval of an agreement to purchase the Tiger Bay cogeneration facility and terminate related purchased power contracts by Florida Power Corporation, Docket No. 970096-EQ

Dear Ms. Bayo:

Enclosed for filing in the docket referenced above are the original and 15 copies of Vastar Gas Marketing, Inc.'s Prehearing Statement. Also enclosed is a diskette containing this document. For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter.

Thank you for your consideration in this matter.

Sincerely,

HOLLAND & KNIGHT LLP

Karen D. Walker
Karen D. Walker

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG 2 *Cudley*
- LEG 2
- LIN 5 Enclosure
- OPC _____ KDW/sms
- RCH _____ cc: Norma Rosner, Esq.
- SEC 1
- WAS _____
- OTH _____

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[Signature]

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DOCUMENT NUMBER DATE

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for expedited)
approval of an agreement to)
purchase the Tiger Bay)
cogeneration facility and)
terminate related purchased)
power contracts by Florida)
Power Corporation.)
_____)

Docket No. 970096-EQ

Filed: March 21, 1997

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**VASTAR GAS MARKETING, INC.'S
PREHEARING STATEMENT**

Vastar Gas Marketing, Inc. ("VGM"), by and through undersigned counsel, pursuant to Rule 25-22.038(3), Florida Administrative Code, and Order No. PSC-97-0173-PCO-EQ hereby submits its Prehearing Statement in this proceeding. VGM reserves the right to supplement and revise the matters contained in this Prehearing Statement.

Witnesses

VGM intends to call as its witness, Joseph P. Catasein, Manager of Business Development for VGM and Vice President of Vastar Power Marketing, Inc. Mr. Catasein will testify as to the background leading to the execution of the Gas Sales and Purchase Contract (the "Gas Sales Contract") between VGM and Tiger Bay Limited Partnership ("TBLP") and the assumptions upon which the Gas Sales Contract was based. Mr. Catasein will describe how the transactions contemplated by the Purchase Agreement between Florida Power Corporation ("FPC") and TBLP (the "Purchase Agreement") will impact the Gas Sales Contract, and will explain why it would be premature for the Florida Public Service Commission (the "Commission") to vote on the Purchase Agreement until VGM's consent has been obtained. Mr. Catasein will also

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FPSC-RECORDS/REPORTING

testify as to why the Commission should approve the Gas Sales Contract for cost recovery if it is assigned to FPC. Finally, Mr. Catasein will testify as to the precedential impact of the Commission's decision in this proceeding.

Exhibits Identified At This Time

The prefiled direct testimony of Joseph P. Catasein is the only exhibit that VGM intends to introduce at this time.

Basic Position

VGM's basic position is that it would be premature for the Commission to vote on the Purchase Agreement before VGM's consents required by the Gas Sales Contract have been obtained by TBLP. In order to vote on the Purchase Agreement prior to VGM consenting, the Commission would have to make a public interest determination without the availability of all necessary facts. Not only would this hamper the decision making process, it would invite litigation to the detriment of FPC's ratepayers. The assignment of the Gas Sales Contract by TBLP to FPC is an integral and necessary part of the Purchase Agreement. Accordingly, the Gas Sales Contract must remain in full force and effect and VGM's rights under the Gas Sales Contract must not be compromised in order for the transactions contemplated by the Purchase Agreement to occur.

If, however, the Gas Sales Contract is assigned to FPC with VGM's consent, the Commission should approve cost recovery under the Gas Sales Contract. The Gas Sales

Contract must be acquired by FPC as part of the Purchase Agreement in order for FPC to realize the more substantial capacity savings. Moreover, cost recovery approval is necessary to preserve VGM's valid and binding rights and interest in the Gas Sales Contract.

The Gas Sales Contract is a long term agreement which extends for a period of 16 years commencing January 1, 1995. The Gas Sales Contract was competitively procured by TBLP in 1993. TBLP entered in to the Gas Sales Contract with VGM in 1993 because VGM could commit to satisfying TBLP's future needs at the best available price. If the Purchase Agreement is approved by the Commission and the Gas Sales Contract is assigned to FPC with VGM's consent, FPC will be stepping into TBLP's shoes as the buyer of gas under the Gas Sales Contract. The Commission should not evaluate the prudence of the Gas Sales Contract against today's market. Rather, the Commission should approve cost recovery of the Gas Sales Contract because it was reasonable and prudent when executed as an integral contract required for the financing, construction and on-going operations of the Tiger Bay Project.

Questions of Fact

There are no purely factual issues to be addressed by Joseph P. Catasein.

Questions of Law

There are no purely legal issues to be addressed by Joseph P. Catasein.

Questions of Policy

VGM considers the following a policy question, to be addressed by Joseph P. Catasein:

What impact will this proposal have on competition in the electric industry?

Mixed Questions of Fact, Law and Policy

VGM considers the following mixed questions of fact, law and policy, to be addressed by Joseph P. Catasein:

Should the Commission approve recovery of the fuel costs associated with the VGM Gas Sales Contract through the Fuel and Purchased Power Cost Recovery Clause?

Whether it is premature for the Commission to consider FPC's Petition until TBLP has obtained VGM's consents as required by the terms of the Gas Sales Contract.

Positions on the Issues

Issue 1 Has FPC provided adequate assurances regarding the operational reliability of the Tiger Bay generating facility?

Position No position at this time.

Issue 2 **Has FPC provided adequate assurances regarding the financial viability of the Tiger Bay generating facility?**

Position No position at this time.

Issue 3 **Are FPC's projections of non-fuel operating expenses reasonable.**

Position No position at this time.

Issue 4 **Has FPC provided adequate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Tiger Bay facility?**

Position No position at this time.

Issue 5 **Is FPC's fuel price forecast reasonable?**

Position No position at this time.

Issue 6 **Are FPC's financial assumptions reasonable?**

Position No position at this time.

Issue 7 **What is the appropriate annual accrual amount for the provision of final dismantlement of the Tiger Bay facility?**

Position No position at this time.

Issue 8 **What is the appropriate remaining life, net salvage, reserve, and resultant depreciation rate for the Tiger Bay facility?**

Position No position at this time.

Issue 9 **Are the purchase power agreement termination payments properly classified as an acquisition adjustment?**

Position No position at this time.

Issue 10 **Is there an acquisition adjustment associated with the purchase of plant facilities?**

Position No position at this time.

Issue 11 **Should FPC be required to perform an original cost study for the Tiger Bay generating plant to determine the appropriate amount of investment and reserve to include in Account 101?**

Position No position at this time.

Issue 12 **Is FPC's proposal to purchase the Tiger Bay facility and terminate the related power purchase agreements prudent?**

Position No position at this time.

Issue 13 **Should the Commission approve the purchase agreement for FPC to purchase the Tiger Bay facility and terminate the related power purchase agreements?**

Position It would be premature for the Commission to approve the purchase agreement until VGM has consented to the assignment of the Gas Sales Contract to FPC.

Issue 14 **Should the Commission approve recovery of the fuel costs associated with the VGM Gas Sales Contract through the Fuel and Purchased Power Cost Recovery Clause?**

Position The Commission should approve cost recovery of the Gas Sales Contract if it is assigned to FPC. The Gas Sales Contract is part and parcel of the Purchase Agreement. Moreover, cost recovery is necessary to preserve and protect VGM's valid and binding contractual rights. The Gas Sales Contract was competitively procured by TBLP in 1993. TBLP entered into the Gas Sales Contract with VGM because VGM could provide TBLP with the gas supply needed at the best price. If the Commission approves the Purchase Agreement and the Gas Sales Contract is assigned to FPC with VGM's consent, the Commission should not evaluate cost recovery of the Gas Sales Contract based on today's market. Instead, the Commission should approve cost recovery of the Gas Sales Contract because it was reasonable and prudent when executed as an integral contract for the financing, construction, and on-going operations of the Tiger Bay Project.

Issue 15 Should the Commission approve recovery of the natural gas transportation costs associated with the Tiger Bay facility through the Fuel and Purchased Power Cost Recovery Clause?

Position No position at this time.

Issue 16 **What is the appropriate method for recovering the cost of the Tiger Bay generating facility?**

Position No position at this time.

Issue 17 **What is the appropriate method for recovery the cost of terminating the power purchase agreements?**

Position No position at this time.

Issue 18 **What is the appropriate method for recovering the cost of the Materials & Supplies Inventory?**

Position No position at this time.

Issue 19 **Should the revenue from the steam sales agreement be credited through the Fuel and Purchased Power Cost Recovery Clause?**

Position No position at this time.

Issue 20 **What is the appropriate amortization period for recovery the cost of the Tiger Bay generating facility?**

Position No position at this time.

Issue 21 What is the appropriate amortization period for recovering the cost of terminating the power purchase agreements?

Position No position at this time.

Issue 22 Should FPC be granted the latitude to manage the collection of the purchase price over the amortization period?

Position No position at this time.

Issue 23 Will the contract buyout and plant purchase cause rate shock?

Position No position at this time.

Issue 24 Will the proposal impact economic development within FPC's service area?

Position No position at this time.

Issue 25 **What impact will this proposal have on competition in the electric industry?**

Position Parties in the electric utility industry are positioning themselves for changes as the market moves to a competitive environment. The Commission's decision in this docket will set precedent and guide fuel suppliers and other entities involved in the generation of electricity in future actions in Florida.

Issue 26 **Whether it is premature for the Commission to consider FPC's Petition until TBLP has obtained VGM's consents as required by the terms of the Gas Sales Contract.**

Position Yes. FPC's acquisition of the facility and termination of the power purchase agreements without TBLP having obtained VGM's consent rights would be imprudent. By ignoring VGM's consent rights under the Gas Sales Contract, FPC would invite costly and time consuming litigation. Thus, the Commission should not vote on the Purchase Agreement until VGM's consents have been obtained.

Issue 27 **Should this docket be closed?**

Position No position at this time.

Issues Stipulated To By the Parties

None at this time.

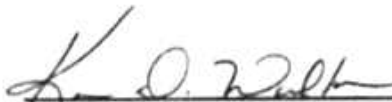
Pending Motions or Matters VGM Seeks Action Upon

VGM seeks action upon its Petition for Leave to Intervene and Request for Oral Argument that VGM filed with the Commission on February 6, 1997. Also outstanding is VGM's First Set of Interrogatories to FPC and VGM's First Request for Production of Documents to FPC.

Requirements With Which VGM Cannot Comply

At this time, VGM can comply with all of the requirements set forth in Order No. PSC-97-0173-PCO-EQ.

Respectfully submitted,



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**Attorneys for Vastar
Gas Marketing, Inc.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of Vastar Gas Marketing, Inc.'s Prehearing Statement was furnished by *hand delivery or U.S. mail to the following this 21st day of March, 1997:

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