FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

May 7, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (DUDLEY, BOHRMANN, GING, FUTRELL)
DIVISION OF LEGAL SERVICES (ELIAS, WAGNER, KEATING)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (CAUSSEAUX, DRAPER, LEE, MERTA, MAUREY, ROMIG, SLEMKEWICZ)

RE: DOCKET NO. 970096-EI - FLORIDA POWER CORPORATION - PETITION FOR EXPEDITED APPROVAL OF AGREEMENT WITH TIGER BAY LIMITED PARTNERSHIP TO PURCHASE TIGER BAY COGENERATION FACILITY AND TERMINATE RELATED PURCHASED POWER CONTRACTS BY FLORIDA POWER CORPORATION

AGENDA: 05/19/97 - REGULAR AGENDA - DECISION ON STIPULATION IN LIEU OF HEARING - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\970096EI.RCM

CASE BACKGROUND

On January 22, 1997, Florida Power Corporation (FPC) filed a Petition for Expedited Approval of an Agreement, dated January 20, 1997, with Tiger Bay Limited Partnership (Tiger Bay) to purchase the Tiger Bay cogeneration facility (Facility) and terminate the five related purchased power agreements: three with General Peat, one with Ecopeat, and one with Timber2 (the PPAs). The petition further requested that the Commission approve recovery of the purchase cost, approximately $445 million, through the Capacity Cost Recovery Clause (CCRC) over a period not to exceed five years. In addition, FPC requested that the fuel expense associated with the operation of the Facility be approved for recovery through the Fuel and Purchased Power Cost Recovery Clause (Fuel Clause). The matter was scheduled for hearing on April 17-18, 1997.

On April 14, 1997, FPC, the Office of Public Counsel (OPC), and the Florida Industrial Power Users Group (FIPUG) filed a Joint Motion for Approval of Stipulation (Stipulation). The Stipulation resolves all disputed issues between the parties. On April 16, 1997 FPC submitted a supplement to the Stipulation (Supplemental Stipulation) concerning the accounting treatment of the transaction. The Stipulation and Supplemental Stipulation are attached to the recommendation as Attachments 1 and 2, respectively.

At the April 17, 1997, hearing, the Commission was presented with both the Stipulation and the Supplemental Stipulation. The Commission directed staff to review the stipulations and present its recommendation on the proposed stipulations at the May 19, 1997, regularly scheduled Agenda Conference.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the Stipulation between Florida Power Corporation, the Florida Power Industrial Users Group, and the Office of Public Counsel relating to FPC's petition to purchase the Tiger Bay cogeneration facility and to terminate related power purchase agreements?

RECOMMENDATION: Yes, the Stipulation should be approved. Although there are advantages and disadvantages with the Stipulation, overall, it reduces FPC's ratepayer liability throughout the remaining term of the PPAs and allows for potential ratepayer neutrality to the transaction. However, the Commission should encourage FPC to take all necessary steps to buy-out or buy-down fuel contracts when those actions are projected to produce ratepayer savings.

STAFF ANALYSIS: The Stipulation is summarized as follows:

1) $75 million of the approximately $445 million purchase cost will be included in FPC's rate base.

2) The remaining amount, approximately $370 million, will be classified as the Tiger Bay Regulatory Asset and recorded in Account 182.3.

3) All non-fuel expenses associated with the operation of the Facility will be included in FPC's base rate earnings and recovered accordingly.

4) FPC will terminate the PPAs upon closing of the transaction.

5) FPC will continue to recover costs from its ratepayers under the CCRC and the Fuel Clause as if the PPAs were still in effect.

6) The PPAs costs will be determined assuming full capacity payments and the appropriate energy payments were being made.

7) The PPAs revenues will be used to first pay for the natural gas supply and transportation costs associated with operation of the Facility, and second to amortize the retail portion of the Tiger Bay Regulatory Asset.

8) For as long as the current Vastar Gas contract remains in effect or until the remaining principle of the retail portion of the Tiger Bay Regulatory Asset has been reduced to zero, the PPA revenues will continue to be recovered.

9) If FPC is able to negotiate a buy-out or buy-down of the current Vastar Gas contract, and the Commission approves such buy-out or buy-down, the retail portion of the cost associated with such buy-out or buy-down will be added to the amount of the retail portion of the Tiger Bay Regulatory Asset.

10) In no event will the amount recovered through the Fuel Clause or the CCRC, the PPA revenues, exceed the sum of the balance of the retail portion of the Tiger Bay Regulatory Asset plus the natural gas supply and transportation costs associated with operation of the Facility.

11) FPC may, at its option, increase the dollar amount of amortization of the retail portion of the Tiger Bay Regulatory Asset and such amounts should be considered a prudent regulatory expense in calculating FPC's regulatory earnings for purposes of surveillance reporting.

12) In the event of a rate proceeding, OPC and FIPUG will support as a prudent expense for cost recovery in FPC's base rates, all non-fuel expenses associated with the Facility, including but not limited to the return on the remaining undepreciated rate base of the Facility, all operating and maintenance expenses, taxes, and depreciation, but not including future capital additions and associated increases in non-fuel expenses.

13) OPC and FIPUG will support FPC's average annual increased dollar amount of amortization of the retail portion of the Tiger Bay Regulatory Asset, for the period beginning on the day of closing of the transaction and ending at the conclusion of the twelve month period preceding the rate case test year, as a prudent expense for cost recovery in FPC's CCRC.

14) Once the retail portion of the Tiger Bay Regulatory Asset has been reduced to zero, FPC will remove any average annual dollar amounts associated with the Tiger Bay Regulatory Asset from its CCRC.

15) If, in the future, restructuring of the electric industry prevents FPC from recovering the retail portion of the Tiger Bay Regulatory Asset, OPC and FIPUG will not object to FPC's legislative or regulatory efforts to include the unamortized balance of the retail portion of the Tiger Bay Regulatory Asset for recovery by an appropriate mechanism designed as a non-bypassable charge for recovery of stranded PURPA contract costs.

Staff believes there are advantages and disadvantages with the Stipulation. Taken as a whole, however, we believe that the Stipulation reduces FPC's ratepayer liability throughout the remaining term of the PPAs. Furthermore, the Stipulation represents a reasonable balance between potential ratepayer neutrality to the transaction and encouragement of company contributions. Staff recommends that the Stipulation be approved. The advantages and disadvantages are discussed below.

Advantages: Approving the proposed Stipulation provides the potential for FPC's ratepayers to be unaffected by the cost of the transaction. In other words, though they would not receive a benefit until the regulatory asset has been fully amortized, FPC's ratepayers also would not undergo any additional cost. Absent a rate proceeding, FPC's customers are not projected to incur any cost above that which they are currently committed to under the existing PPAs. Furthermore, though FPC may be unable to buy-out or buy-down the current Vastar Gas contract, its ratepayers are projected to receive an additional benefit in the form of reduced fuel costs once the contract terminates in 2010.

Pursuant to the Stipulation, FPC will place $75 million of the purchase cost in existing rate base. This treatment reduces FPC's ratepayer's responsibility, namely for the amount of the Tiger Bay Regulatory Asset, which will be amortized through recovery of the PPA revenues. Reducing the amount of the regulatory asset by $75 million is projected to shorten the recovery period by approximately two years.

Section 2(e) of the Stipulation provides FPC the discretionary ability to contribute dollar amounts from its earnings to accelerate the amortization of the Tiger Bay Regulatory Asset. There are currently no assurances nor any requirements that FPC will exercise this provision of the Stipulation. However, staff notes that such contributions would be to the advantage of both FPC and its ratepayers in the form of reduced liability.

According to FPC's projections, the method for amortizing the Tiger Bay Regulatory Asset proposed in the Stipulation, using PPA revenues minus fuel expense, results in the asset being fully amortized by January 2008. However, if FPC is able to contribute revenues to accelerate the amortization as permitted under Section 2(e) of the Stipulation, the asset could be fully amortized as early as October 2005.

FPC projects that approving the Stipulation and its proposal to purchase the Facility and terminate the five related PPA's will produce savings for its ratepayers in amounts ranging from $238 to $516 million NPV. These savings are based on the cumulative interaction of assumptions ranging from FPC's projection of Medium-Term note financing costs, the timing of FPC's next rate proceeding, fuel price projections, and the potential that FPC will be able to accelerate the amortization of the Tiger Bay Regulatory Asset using revenues as compared to the PPA costs.

Disadvantages: Approving the Stipulation provides no assurances that FPC will not petition for a rate increase prior to the regulatory asset being fully amortized. Filing a rate proceeding would potentially reduce the overall savings of the transaction as customers' base rates would be adjusted to support the Facility's non-fuel operating costs as well a return on any undepreciated amount of the $75 million net plant investment.

Under the Stipulation, FPC, OPC, and FIPUG have agreed that the PPA revenues will continue to be recovered through the CCRC and the Fuel Clause until the Tiger Bay Regulatory Asset is fully amortized or as long as the current Vastar contract remains in effect. Though the total PPA revenues recovered will not exceed the fuel expense once the Tiger Bay Regulatory Asset has been fully amortized, staff considers this provision to be a potential disadvantage of approving the Stipulation. FPC currently projects that the Tiger Bay Regulatory Asset will be fully amortized in the year 2008. Absent a buy-out or buy-down, the Vastar Gas contract will not terminate until 2010. High load factor customers stand to lose the benefit of lower cost coal based energy pricing under the existing PPAs only to bear the currently projected higher cost Vastar Gas contract during years 2008 to 2010. (TR 41, 42) Continuing to recover capacity revenues through the CCRC to compensate for the increased cost in the Fuel Clause, once the regulatory asset has been fully amortized, will offset this impact. Consequently, low load factor customers, residential, will be adversly impacted. Recovering capacity revenues through the CCRC from all rate classes to reprieve FPC's high load factor customers in the Fuel Clause is a clear example of cross-class subsidization. Absent a buy-down or buy-out of the Vastar contract, cross-class subsidization will occur. Staff believes that if the Tiger Bay Regulatory Asset is fully depreciated prior to the termination of the current Vastar Gas contract, FPC should recover the appropriate energy payment pursuant to the PPAs and a reduced capacity payment through the CCRC to minimize the impact of this subsidization.

Other Matters: Within paragraph 2(e) of the Stipulation, the parties have agreed to the following:

> On a going forward basis, FPC may, at its option, increase the amortization of the retail portion of the Tiger Bay Regulatory Asset, and each year's increased amount of amortization shall be deemed a prudent regulatory expense in calculating FPC's regulatory earnings for purposes of surveillance reporting, pursuant to Rule 25-6.024, F.A.C.

Staff was concerned that this language was intended to bind the Commission to a finding in future reviews that these additional amortization amounts would be considered a prudent regulatory expense. (TR 43) However, as indicated by both FPC and FIPUG, this is not the case. (TR 43) Both FPC and FIPUG agreed that the intent of this language was directed at the parties and that a determination of prudence remained with the Commission. (TR 43, 44)

The Stipulation contemplates that FPC will seek to buy-out or buy-down the current Vastar Gas contract. Fuel prices under this contract are projected to be greater than forecasted market prices. Staff recommends that the Commission encourage FPC to take all necessary steps to buy-out or buy-down fuel contracts when those actions are projected to produce ratepayer savings.

ISSUE 2: Should FPC's proposed accounting treatment relating to its petition to purchase the Tiger Bay cogeneration facility and to terminate related power purchase agreements as specified in the Supplemental Stipulation be approved?

RECOMMENDATION: Yes. The Supplemental Stipulation clarifies certain parts of the original Stipulation and resolves outstanding accounting issues in this proceeding.

STAFF ANALYSIS: The Supplemental Stipulation is summarized as follows:

1) All future Materials and Supplies for the Facility acquired by FPC after the closing of the Tiger Bay purchase will be recorded in Account 154 and included in working capital for surveillance reporting purposes;

2) Deferred taxes associated with the Tiger Bay acquisition will be reflected in FPC's capital structure for surveillance reporting purposes;

3) Fossil dismantlement accruals for the Facility in the amount of $241,000 for 1995, $253,000 for 1996, and $266,000 for 1997, will be recorded in 1997 subsequent to closing the Tiger Bay purchase;

4) The Facility will have the following depreciation characteristics: Average service life of 20 years, Average remaining life at closing of 18 years, Net salvage value of negative 10 percent and a depreciation rate of 5.5 percent;

5) The non-fuel costs referenced in the original Stipulation are defined to include operation and maintenance expenses, taxes, site lease payments, insurance, rate base investment, and the carrying costs of the deferred taxes. These costs will be initially absorbed by FPC's existing base rates and included as utility expenses for surveillance reporting purposes.

Following is a discussion of the items in the Supplemental Stipulation.

Materials and Supplies

As part of the Stipulation, Materials and Supplies for the Facility included in the purchase cost shall constitute a regulatory asset and shall be recorded in Account 182.3, Other

Regulatory Assets. According to the Uniform System of Accounts (USOA), Materials and Supplies should be recorded in Account 154, Plant Materials and Operating Supplies. Since staff believes that the Stipulation provides substantial benefits to both FPC and its ratepayers, staff recommends accepting the accounting treatment proposed in the Stipulation. On a prospective basis, however, staff recommends that Materials and Supplies be accounted for in accordance with the USOA. In the Supplemental Stipulation, the parties have agreed that all future purchases of Materials and Supplies for the Facility by Florida Power Corporation shall be recorded in Account 154 and be included in working capital for surveillance purposes.

Deferred Income Taxes

FPC's original filing in this proceeding contemplated recovery of the carrying costs of debit balance deferred income taxes related to the buy-out of the Tiger Bay contracts through existing base rates. These debit balance deferred income taxes will be created if FPC cannot take a current deduction for the Tiger Bay buy-out costs, not related to depreciable plant, on its income tax return. The filing contemplated this worst case scenario since the Internal Revenue Service (IRS) had not issued a private letter ruling on deductibility. FPC estimates that the maximum amount of debit balance deferred taxes will be approximately $42 million, which will reverse to a zero balance over 15 years. FPC's Supplemental Stipulation states that the deferred taxes will be reported in the capital structure for surveillance purposes.

Staff reviewed FPC's draft letter ruling request and believes that FPC's position is reasonable. The premise behind FPC's request is that the costs of buying-out unfavorable contracts are deductible if the result of the buy-out is to reduce expenses into the future. FPC cited cases and rulings dating back to the 1920's in support of its position. The request was filed with the IRS on April 30, 1997. FPC anticipates a response by late fall.

If FPC is successful in obtaining a favorable letter ruling, the deferred taxes will carry a credit balance of approximately $100 million, which will reverse to a zero balance. FPC believes that the effect of these credit balance deferred taxes should also flow through existing base rates and be reported in the capital structure for surveillance purposes. By doing so, additional dollars will be provided which FPC may use to write-down the regulatory asset more rapidly. Further, FPC plans to issue intermediate term debt which will have an established payment schedule not necessarily tied to the actual write-down of the regulatory asset and does not believe a direct offset against the debt is practical.

FPC requested that the Commission grant FPC the flexibility to establish the amount of the regulatory asset to be written-off each year. All other things being equal, the additional dollars provided by the reversing credit balance deferred taxes may allow a write-off over a shorter period of time. If FPC receives a favorable letter ruling and the write-off of the regulatory assets is not accelerated, the Commission will still have the ability to review the prudence and reasonableness of FPC's actions during surveillance reviews.

Staff believes it is reasonable for FPC to report either debit or credit balance deferred taxes in the capital structure for surveillance purposes and to allow the effect to flow through existing base rates. Therefore, staff recommends that the proposed accounting treatment be approved.

Fossil Dismantlement

FPC has estimated a $4.1 million (1997 dollars) fossil dismantlement provision for the Facility. A more detailed site specific estimate will be submitted with FPC's regular depreciation and fossil dismantlement study due in November, 1997. Utilizing the same assumptions used in FPC's 1993 study, the dismantlement accrual for the Facility for 1995 and 1996 should have been $241,000 and $253,000, respectively. The estimated 1997 accrual is $266,000. Staff reviewed these accrual amounts and believes them to be reasonable at this time. A site specific dismantlement study to be filed later this year will determine the appropriate amount of the final dismantlement provision for the Facility. Since Tiger Bay has made no provision for future dismantlement, FPC proposes, and staff recommends, recording the accrual amount for 1995 - 1997 during 1997 subsequent to closing the purchase.

Depreciation Rate

FPC has proposed a 5.3% depreciation rate (20 year service life, 18 year average remaining life, negative 10% net salvage) for the Facility to be implemented upon the purchase closing which is currently estimated to be July 1, 1997. The life and salvage factors are predicated on the currently prescribed factors for the University of Florida co-generation plant which FPC asserts is similar to the Facility. Staff therefore recommends acceptance of FPC's proposal. A site specific study will be filed as part of its next comprehensive depreciation and fossil dismantlement study no later than November 27, 1997 at which time the appropriate remaining life, net salvage, and the depreciation rate will be determined.

Non-Fuel Expenses

As referenced in Issue 1, pursuant to the original Stipulation, FPC, OPC, and FIPUG have agreed that all non-fuel expenses associated with the operation of tne Facility will be included in FPC's base rates and recovered accordingly. These non-fuel expenses are defined to include operation and maintenance expenses, taxes, site lease payments, insurance, rate base investment, and the carrying costs of the deferred taxes. Staff reviewed these amounts and believes them to be reasonable at this time. The prudence of these expenses may be reviewed by the Commission at any time.

Staff believes that the Supplemental Stipulation clarifies certain parts of the original Stipulation and resolves outstanding accounting issues in this proceeding. Therefore, staff recommends that the Supplemental Stipulation be approved.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no party files a Motion for Reconsideration or Notice of Appeal of the Commission's Final Order, no further action will be required in this docket, and it should be closed.

STAFF ANALYSIS: If no party files a Motion for Reconsideration or Notice of Appeal of the Commission's Final Order, no further action will be required in this docket. Therefore, this docket should be closed.

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

STIPULATION

This Stipulation is entered into by and among Florida Power Corporation ("FPC"), the Office of Public Counsel ("Public Counsel"), and the Florida Industrial Power Users Group ("FIPUG") (collectively, "the Parties"), as follows:

1. Public Counsel and FIPUG hereby withdraw any and all objections they have made, shall make no further objections, and shall fully support FPC's petition for approval of its agreement to purchase the Tiger Bay Facility ("the Facility"), terminate its five purchase power agreements, and recover the financing costs associated therewith (collectively the "Purchase Cost"), and for approval of the method and timing of recovery by FPC of the retail portion of the Purchase Cost, as set forth in this Stipulation.

2. FPC's request for recovery of the Purchase Cost shall be modified so that recovery will occur in the following manner, instead of in the manner set forth in FPC's petition and pre-filed testimony.

a. $75 million of the Purchase Cost shall be included in FPC's rate base, and all non-fuel expenses associated with the Facility shall be included in FPC's base

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rates and recovered accordingly. The remaining amount of the Purchase Cost (approximately $370 million),which shall be determined in an amount certain at closing, shall constitute a regulatory asset ("the Tiger Bay Regulatory Asset") and shall be recorded in Account 182.3, *Other Regulatory Assets*. The retail portion of the Tiger Bay Regulatory Asset shall be amortized in accordance with sub-paragraphs (b) through (g) below.

b. Upon closing of the transaction to purchase the Facility and terminate the five (5) power purchase agreements (three with General Peat, one with Ecopeat, and one with Timber2) (the "PPA's"), FPC shall continue to recover costs from FPC's ratepayers under the Capacity Cost Recovery Clause ("CCR") and the Fuel Adjustment Clause ("FAC"), as part of FPC's Fuel and Purchased Power Cost Recovery proceedings, and as if the PPA's were still in effect such that the full capacity payments and the appropriate energy payments were being made. This shall continue for as long as the existing gas contract with Vastar Gas Marketing, Inc. (the "Vastar Gas Contract") remains in effect, or a balance on the retail portion of the Tiger Bay Regulatory Asset exists. In no event shall the amount collected hereunder exceed the sum of the balance on the retail portion of the Tiger Bay Regulatory Asset plus the Natural Gas Costs as defined in sub-paragraph (c) below.

c. The revenues recovered through the mechanism set forth in sub-paragraph (b) above shall be utilized by FPC first to pay for the natural gas supply and transportation costs associated with the operation of the Facility (the "Natural Gas

Costs"), and second to amortize the principal and interest costs associated with the retail portion of the Tiger Bay Regulatory Asset. For as long as the Vastar Gas Contract remains in effect or a balance on the retail portion of the Tiger Bay Regulatory Asset exists, the charges shall be recovered from FPC's customers in the following manner: The coal energy charge specified in the PPA's, less steam payments if any (the "PPA Energy Cost"), shall be recovered through the FAC. The capacity charge specified in the PPA's shall be recovered through the CCR and shall be applied only to: (1) the remaining fuel cost (the Natural Gas Costs less the PPA Energy Costs) if any, (2) interest applicable to the unamortized balance of the retail portion of the Tiger Bay Regulatory Asset, and (3) amortization of the remaining principal of the retail portion of the Tiger Bay Regulatory Asset. Once the retail portion of the Tiger Bay Regulatory Asset has been reduced to a zero balance and the Vastar Gas Contract is terminated or replaced, recovery pursuant to sub-paragraph (b) above shall cease and the Natural Gas Cost shall be recovered through the FAC.

d. In the event FPC negotiates a buy-out or buy-down of the Vastar Gas Contract, and the Commission issues an order approving such buy-out or buy-down, the retail portion of costs associated with such buy-out or buy-down shall be added to the amount of the retail portion of the Tiger Bay Regulatory Asset and recovered in the same manner as set forth in sub-paragraphs (b) and (c) above, and sub-paragraphs (e) through (g) below. Public Counsel and FIPUG shall retain the right to participate in any proceeding relating to the buy-down or buy-out of the Vastar Gas Contract.

e. On a going-forward basis, FPC may, at its option, increase the dollar amount of amortization of the retail portion of the Tiger Bay Regulatory Asset, and each year's increased amount of amortization shall be deemed a prudent regulatory expense in calculating FPC's regulatory earnings for purposes of surveillance reporting, pursuant to Rule 25-6.024, F.A.C.

f. In the event of a general rate proceeding on the level of FPC's base rates, Public Counsel and FIPUG shall support as a prudent FPC expense for cost recovery in FPC's base rates, all non-fuel expenses associated with the Facility, including but not limited to the return on the remaining undepreciated rate base of the Facility, all operating and maintenance expenses, taxes, and depreciation, but not including future capital additions and associated increases in non-fuel expenses. Public Counsel and FIPUG shall also support as a prudent FPC expense for cost recovery in FPC's CCR, FPC's average annual increased dollar amount of amortization of the retail portion of the Tiger Bay Regulatory Asset for the period beginning on the day of closing of the transaction to purchase the Facility and ending at the conclusion of the twelve month period preceding the rate case test year; provided, however, that once the retail portion of the Tiger Bay Regulatory Asset has been reduced to a zero balance, FPC shall remove this average annual amount from its CCR expense.

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g. If, in the future, the electric utility industry in Florida is deregulated or restructured in a manner that prevents FPC from continuing to recover the retail portion of the Tiger Bay Regulatory Asset as set forth in sub-paragraphs (b) through (f) above, Public Counsel and FIPUG shall not object to legislative or regulatory efforts by FPC to include the unamortized balance of the retail portion of the Tiger Bay Regulatory Asset for recovery by an appropriate mechanism designed as a non-bypassable charge for recovery of stranded costs or PURPA contract costs; provided, however, that Public Counsel and FIPUG shall retain the right to otherwise participate in any proceeding relating to the recovery of stranded costs or PURPA contract costs, including but not limited to the appropriate level of total stranded or PURPA contract costs to be recovered by FPC.

3. This Stipulation is contingent on approval in its entirety by the Commission.

4. This Stipulation may be executed in counterpart originals. A facsimile of an original signature shall be deemed an original.

FLORIDA POWER CORPORATION
OFFICE OF THE GENERAL COUNSEL

JAMES P. FAMA
JAMES A. McGEE
Post Office Box 14042
St. Petersburg, Florida 33733-4042
Telephone: (813) 866-5184
Facsimile: (813) 866-4931

and

CARLTON, FIELDS, WARD, EMMANUEL
SMITH & CUTLER, P.A.

Chris S. Coutroulis
Fla. Bar No. 300705
One Harbour Place
777 S. Harbour Island Boulevard
Tampa, Florida 33602-5799
Telephone: (813) 223-7000
Facsimile: (813) 229-4133

By: James P. Fama
James P. Fama

OFFICE OF THE PUBLIC COUNSEL

Jack Shreve, Esquire
Public Counsel
John Roger Howe, Esquire
Deputy Public Counsel
c/o The Florida Legislature
111 W. Madison Street
Room 812
Tallahassee, Florida 32399-1400

By: Jack Shreve

FLORIDA INDUSTRIAL POWER USERS GROUP

John W. McWhirter, Jr.
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas
P. O. Box 3350
Tampa, Florida 33601

and

T#529377.&

Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas
117 South Gadsden Street
Tallahassee, Florida 32301

By: Vicki Gordon Kaufman

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DOCKET NO. 970096-EQ

FLORIDA POWER CORPORATION SUPPLEMENTAL STIPULATION

In addition to the matters stipulated to by Florida Power in the April 14, 1997 Stipulation entered into among Florida Power, Office of Public Counsel and FIPUG in this case (the Stipulation), Florida Power Corporation further stipulates and agrees as follows:

1. All future Materials and Supplies for the Tiger Bay facility acquired by Florida Power after closing the Tiger Bay purchase shall be recorded in Account 154 and included in working capital for surveillance reporting purposes.

2. Deferred taxes associated with the Tiger Bay acquisition shall be reflected in Florida Power's capital structure for surveillance reporting purposes.

3. Fossil dismantlement accruals for the Tiger Bay facility of $241,000 for 1995, $253,000 for 1996 and $266,000 for 1997 will be recorded in 1997 subsequent to closing the Tiger Bay purchase.

4. For depreciation purposes, the Tiger Bay facility shall have the following characteristics:
   - Average service life = 20 years
   - Average remaining life at closing = 18 years
   - Net salvage = negative 10%
   - Depreciation rate = 5.5%

5. Other than the Tiger Bay Regulatory Asset, as defined in the Stipulation, all non-fuel costs associated with the acquisition and operation of the Tiger Bay facility (operation and maintenance expenses, taxes, site lease payments, insurance, rate base investment and the carrying costs of the deferred taxes) will be initially absorbed by Florida Power's existing base rates and included as utility expenses for surveillance reporting purposes.

FLORIDA POWER CORPORATION

By James P. Fama

James P. Fama
April 16, 1997