

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for expedited) DOCKET NO. 970096-EQ
approval of agreement with Tiger) ORDER NO. PSC-97-0429-PHO-EQ
Bay Limited Partnership to) ISSUED: April 16, 1997
purchase Tiger Bay cogeneration)
facility and terminate related)
purchased power contracts by)
Florida Power Corporation.)

Pursuant to Notice, a Prehearing Conference was held on Monday, March 31, 1997, in Tallahassee, Florida, before Commissioner Diane K. Kiesling, as Prehearing Officer.

APPEARANCES:

JAMES P. FAMA, Esquire, and JAMES A. MCGEE, Esquire, Post Office Box 14042, St. Petersburg, Florida 33733-4042 and CHRIS S. COUTROULIS, Esquire, Carlton Fields Ward Emmanuel Smith & Cutler, P.O. Box 3239, Tampa, Florida 33601

On behalf of Florida Power Corporation (FPC).

PATRICK K. WIGGINS, Esquire, and DONNA L. CANZANO, Esquire, Wiggins and Villacorta, Post Office Drawer 1657, Tallahassee, Florida 32302

On behalf of Tiger Bay Limited Partnership (TBLP).

JOHN W. McWHIRTER, JR., Esquire, McWhirter Reeves McGlothlin Davidson Rief & Bakas, P.A., Post Office Box 3350, Tampa, Florida 33601-3350 and VICKI GORDON KAUFMAN, Esquire, McWhirter Reeves McGlothlin Davidson Rief & Bakas, P.A., 117 South Gadsden Street, Tallahassee, Florida 32301

On behalf of Florida Industrial Power Users Group (FIPUG).

JOHN ROGER HOWE, Esquire, Deputy Public Counsel, Office of Public Counsel c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400

On behalf of the Citizens of the State of Florida (OPC).

LORNA R. WAGNER, Esquire, and WM. COCHRAN KEATING IV, Esquire, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

On behalf of the Commission Staff (Staff).

DOCUMENT NUMBER-DATE

03847 APR 16 97

FPSC-RECORDS/REPORTING

PREHEARING ORDER

I. CASE BACKGROUND

On January 22, 1997, Florida Power Corporation filed its petition for expedited approval of an agreement to purchase the Tiger Bay cogeneration facility and termination of related purchased power contracts. Tiger Bay Limited Partnership, Florida Industrial Power Users Group and Office of Public Counsel were granted intervenor status in this proceeding. At the prehearing conference, the parties reached agreement on Issues 3, 4, 7, and 19. Accordingly, these issues are shown as stipulated in this Prehearing Order.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the

hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting's confidential files.

Post-hearing procedures

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. The rule also provides that if a party fails to file a post-hearing statement in conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

A party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

III. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

IV. ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issue #</u>
<u>Direct</u>		
R. D. Dolan	FPC	1 - 6, 8, 12 - 15, 19, 23 - 26
J. Scardino, Jr.	FPC	6 - 13, 16 - 18, 20 - 23
Charles C. Cook	TBLP	1 - 6

<u>Witness</u>	<u>Appearing For</u>	<u>Issue #</u>
R. J. Falkenberg	FIPUG	7, 8, 10 - 25, 27
<u>Rebuttal</u>		
R. D. Dolan	FPC	1 - 6, 8, 12 - 15, 19, 23 - 26
J. Scardino, Jr.	FPC	6 - 13, 16 - 18, 20 - 23

V. BASIC POSITIONS

FPC: FPC has a unique opportunity to terminate the Tiger Bay contracts, one of FPC's most expensive capacity and energy sources, and purchase the facility. This transaction will save ratepayers an estimated \$1.9 - \$2.4 billion (\$203 - \$388 million on an NPV basis). The contemplated five year recovery of the purchase cost through the Capacity Cost Recovery clause, and recovery of the natural gas fuel costs through the Fuel Adjustment Clause, are appropriate. Such an arrangement reasonably balances the savings for ratepayers, avoids a short-term but substantial rate increase, avoids unfairly burdening FPC's shareholders through a longer recovery period.

TBLP: Tiger Bay supports Florida Power's (FPC's) petition for approval of the purchase agreement. Through its participation in this proceeding, Tiger Bay will provide to the Commission first-hand information about the operational reliability and economic viability of Tiger Bay's 220 megawatt generating facility located in Polk County, Florida (the "Tiger Bay Facility"), as well as the sufficiency of fuel supply and transportation for the facility.

More specifically, the Commission should approve recovery by FPC of (i) the purchase price to be paid for its purchase of , and (ii) the cost of natural gas purchased by FPC to fuel the Tiger Bay Facility pursuant to Tiger Bay's gas supply arrangements which are to be assigned to and assumed by FPC. The Tiger Bay Facility is operationally reliable and economically viable, with sufficient fuel supply and transportation.

- FIPUG:** FPC's proposal to require ratepayers to finance the termination of several power purchase contracts with TBLP and buy the Tiger Bay facility for FPC over a short time period is not a good deal for ratepayers, as presently structured. It will take too long for ratepayers to receive any benefits from this transaction, if they ever do.
- OPC:** The Office of Public Counsel is primarily concerned with the application of present value analyses which treat customers as if they have the same benefit horizons as long-lived corporations. Customers should be treated as a collection of individuals, not as a homogeneous group, in cases where net benefits are not expected to materialize for many years. When the ages of residents within Florida Power's service area are considered, along with the migration of customers into and out of the service area, it is clear that many of today's customers will never see a benefit from the company's proposal.
- STAFF:** Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VI. ISSUES AND POSITIONS

TIGER BAY'S VIABILITY

- ISSUE 1:** Has Florida Power Corporation provided adequate assurances regarding the operational reliability of the Tiger Bay generating facility?

POSITIONS

- FPC:** Yes. FPC's and Tiger Bay's testimony establishes that the facility can be expected to be operationally reliable. It uses desirable technology, has had an excellent performance history, and fits well with the remainder of FPC's generating fleet, allowing FPC to draw on its already developed expertise to continue operating and even improve the facility's performance. In addition, FPC's answers to Staff's Interrogatory Numbers 27 through 31, 33 and 34 provide further support for FPC's position on this issue.

TBLP: Yes. During 1996 (the second year of operation), the Tiger Bay Facility's annual average availability factor was greater than 97% (excluding scheduled downtime) and it operated with a 12-month average (ending December 1996) capacity factor (as defined in the PPAs, as amended and/or clarified) of 93.26%. Routine operation and maintenance of the Tiger Bay Facility has been effectively problem-free, and the condition of the equipment is such that, assuming that it is maintained in accordance with the manufacturers' recommendations and good electric industry practice, the Tiger Bay Facility will have no difficulty achieving the capacity factor required under the PPAs over the full term of those contracts.

FIPUG: No position.

OPC: No position.

STAFF: Yes.

ISSUE 2: Has Florida Power Corporation provided adequate assurances regarding the financial viability of the Tiger Bay generating facility?

POSITIONS

FPC: Yes. FPC has demonstrated that it has undertaken due diligence to evaluate the facility's viability and that such due diligence indicates the project is profitable and capable of satisfying the terms of the PPAs. Tiger Bay's testimony also supports this position. The facility's technical characteristics, ownership structure, revenue streams under the PPAs and the facility's financial obligations, including its gas contract, have been described. Based on those descriptions, there is no reason to believe the facility is not financially viable and no party has maintained to the contrary. FIPUG's expert has agreed that the facility should be able to meet its obligations.

TBLP: Yes. Financial viability is established by financial history of the Tiger Bay Facility. For example, it has achieved an annual average debt service coverage ratio approximately 0.55 points higher than that required by nonrecourse financing arrangements and the debt service coverage ratio is projected to increase even further over

the term of the PPAs. Also, the Tiger Bay Facility has generated positive cash flow and the Tiger Bay partners have enjoyed consistent cash distributions during the two years the facility has operated under the PPAs. Moreover, the Tiger Bay partners anticipate that if the Purchase Agreement transaction does not close, the Facility will generate positive cash flow and annual cash distributions throughout the terms of the PPAs.

FIPUG: No position.

OPC: No position.

STAFF: Yes, pending further discovery.

STIPULATED

ISSUE 3: Has Florida Power Corporation provided adequate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Tiger Bay facility?

POSITION: Yes. The Gas Agreements, which will be assigned to FPC in the Purchase Agreement transaction, include service agreements between Tiger Bay, as shipper, and Florida Gas Transmission Company, as transporter, for 33,003 MMBtus/day of firm transportation capacity to the Tiger Bay Facility, for the duration of the PPAs. This quantity of capacity is sufficient to meet the operating requirements of the Tiger Bay Facility.

FUEL ISSUE

STIPULATED

ISSUE 4: Is Florida Power Corporation's fuel price forecast reasonable?

POSITION: Yes. However, resolution of this issue should not preclude Staff from analyzing the effects of other fuel price forecasts on the cost-effectiveness of the buyout.

ACCOUNTING, COST OF CAPITAL AND RISK ANALYSIS

ISSUE 5: Are Florida Power Corporation's projections of non-fuel operating expenses for the Tiger Bay generating facility reasonable?

POSITIONS

FPC: Yes. FPC's projected non-fuel operating expenses are reasonable. FPC has provided an estimate of these costs, and they are reflected in its computations of expected customer savings. The relatively modest amount of these expenses is explained by the facts that the facility has desirable technology, fits well with FPC's current generating fleet, and is located close to FPC's new Polk site, allowing for efficiencies between the two. Moreover, FPC will be absorbing all such costs in its base rates for the foreseeable future, minimizing the impact of any deviations in such projections.

TBLP: Yes.

FIPUG: No position.

OPC: No position.

STAFF: Yes. However, under FPC's proposed methodology for cost recovery, non-fuel operating and maintenance expenses for the Tiger Bay facility, consisting of the facility's O&M expenses, property taxes, site lease payments, insurance, and the carrying costs of the deferred tax asset, will be initially absorbed by FPC until the utility's next base rate proceeding. These expenses will be subject to a prudence review at that time.

ISSUE 6: Are Florida Power Corporation's financial assumptions reasonable?

POSITIONS

FPC: Yes. FPC has used reasonable and conservative financial assumptions.

TBLP: Yes.

FIPUG: No position.

OPC: No position.

STAFF: Yes. Pending further development of the record, Staff finds FPC's financial assumptions to be reasonable.

STIPULATED

ISSUE 7: Are the purchase power agreement termination payments properly classified as an acquisition adjustment?

POSITION: No. If approved, the termination payments should be recorded in Account 182.3, Other Regulatory Assets.

ISSUE 8: Is there an acquisition adjustment associated with the purchase of plant facilities?

POSITIONS

FPC: No. Florida Power is purchasing the plant facilities at the estimated net book value of \$75.9 million based on our original cost analysis. FPC's answers to Staff's Interrogatory Numbers 2, 8, and 14 provide further support for FPC's answer on this issue.

TBLP: Adopt position of FPC.

FIPUG: No. (Falkenberg)

OPC: No.

STAFF: Yes.

DEPRECIATION ISSUES

ISSUE 9: What is the appropriate annual accrual amount for the provision of final dismantlement of the Tiger Bay facility?

POSITIONS

FPC: The estimated catch-up fossil dismantlement accrual for 1995 and 1996 is \$241,000 and \$253,000 respectively. The estimated 1997 fossil dismantlement accrual for the Tiger Bay facility is \$266,000. FPC's answers to Staff's Interrogatory Numbers 4 and 5 provide further support for FPC's answer on this issue.

TBLP: Adopt position of FPC.
FIPUG: No position.
OPC: No position.
STAFF: Florida Power's proposed accrual amounts appear reasonable pending further discovery.

ISSUE 10: What is the appropriate remaining life, net salvage, reserve, and resultant depreciation rate for the Tiger Bay facility?

POSITIONS

FPC: Florida Power Corporation proposes an average service life of 20 years, an average remaining life of 18 years, net salvage rate of negative 10 percent, and a depreciation rate of 5.5%. FPC's answers to Staff's Interrogatory Numbers 1,2 and 3 provide further support for FPC's answer on this issue.

TBLP: Adopt position of FPC.

FIPUG: The multi-million dollar investment related to the purchase of the plant should be treated like any other plant investment. (Falkenberg)

OPC: No position.

STAFF: An average service life of 20 years, an average remaining life of 18 years, net salvage rate of negative 10 percent, and a depreciation rate of 5.5% appears reasonable pending further discovery and resolution of other issues.

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?

POSITIONS

FPC: No. However, in response to Staff's interrogatories, Florida Power voluntarily conducted an original cost analysis by obtaining an EPC (engineer, procure and

construct) budget estimate for a similar type of facility from Black & Veatch and indexing these costs to the year of construction using an appropriate Handy-Whitman construction cost index. FPC's answer to Staff's Interrogatory Number 8 provides further support for FPC's answer on this issue.

TBLP: Adopt position of FPC.
FIPUG: Yes. (Falkenberg)
OPC: Yes.
STAFF: Yes, pending further discovery.

APPROVAL OF PURCHASE AGREEMENT

ISSUE 12: Is Florida Power Corporation's proposal to purchase the Tiger Bay facility and terminate the related power purchase agreements prudent?

POSITIONS

FPC: FPC's proposal is prudent, as it will provide substantial benefit to FPC's ratepayers as compared to maintaining the contract obligations as currently structured and approved. FPC notes that it does not believe this is a proper issue in the context of this proceeding. It attempts to apply issue analysis traditionally applied to the construction of new generation to a transaction that does not involve FPC constructing a new generation resource, but which rather is being undertaken to mitigate the costs to ratepayers of purchased power contracts that have already been found prudent by this Commission and the costs of which are therefore eligible for full cost recovery, even if uneconomic compared to current new generation.

TBLP: Yes.

FIPUG: No. As to the purchase, the price appears to be more than 50% higher than the costs of plants now under construction and it would be necessary for FPC to prove prudence in its next rate case. As to the contract buy out, the five-year purchase period through a surcharge is unfair to customers. (Falkenberg)

ORDER NO. PSC-97-0429-PHO-EQ
DOCKET NO. 970096-EQ
PAGE 13

OPC: No. Too many of Florida Power's current customers will never see any benefit from the proposal.

STAFF: No position at this time pending further discovery.

ISSUE 13: Should the Commission approve the purchase agreement for Florida Power Corporation to purchase the Tiger Bay facility and terminate the related power purchase agreements?

POSITIONS

FPC: Yes. The agreement will provide ratepayers substantial savings over time compared to the costs those ratepayers would incur under the current purchase power agreements. Thus, this transaction is a reasonable way in which to mitigate the effects of the high cost purchase power agreements previously entered into by FPC with Commission approval. The associated cost recovery terms in the acquisition agreement, providing that the Commission must approve a five year recovery period in order for the deal to close, are reasonably balanced to avoid undue short-term impact on ratepayers while ensuring the maximum possible total benefit to ratepayers without placing an unfair burden on FPC's shareholders.

In light of FPC's commitment to assume the gas contract obligations under Tiger Bay's current supply contract, the transaction will have no meaningful effect on Vastar Gas Marketing and therefore there is no reason to delay approval. Such delay can only work to the detriment of FPC's ratepayers by providing Vastar leverage by which it can threaten to disrupt the entire transaction and thereby demand concessions and accommodations to which it has no legal entitlement.

TBLP: Yes.

FIPUG: No, not as presently structured. If the Commission wants to approve this transaction, it should hold ratepayers neutral and ensure that the proposal is self-financed as outlined in Mr. Falkenberg's testimony. (Falkenberg)

OPC: No.

STAFF: No position at this time pending further discovery.

Pending approval of the purchase agreement of the Tiger Bay generating facility and the termination of the PPA's, the following issues will be considered:

METHOD OF RECOVERY

ISSUE 14: Should the Commission approve recovery of the fuel costs associated with the Vastar natural gas supply contract through the Fuel and Purchased Power Cost Recovery Clause?

POSITIONS

FPC: Yes. FPC's willingness to undertake this transaction depends on it receiving advance approval to recover the Vastar fuel costs it would assume under the transaction. Tiger Bay is only willing to undertake the transaction if FPC assumes Tiger Bay's gas obligations, thus relieving it of "take" obligations that for which it would have no use without a facility to burn the gas. Thus, FPC's assumption of the Tiger Bay's gas obligations is essential to the transaction. The Fuel and Purchased Power Recovery Clause is the appropriate recovery mechanism as recovery in this manner is consistent with Commission precedent. It distributes the fuel costs and capacity costs associated with this transaction in a manner that, to the greatest degree possible while remaining consistent with Commission precedent, maintains the ratio of fuel costs and capacity costs that would be experienced if the contracts were not terminated and the contract costs instead continued to be passed through to ratepayers. FPC's answer to Staff's Interrogatory Number 24 provides further support for FPC's answer on this issue.

TBLP: Yes.

FIPUG: No, the post-acquisition costs of the Vastar gas contract are much higher than the cost of the coal-fired energy on which the contract is based. These additional costs should not be borne by ratepayers. (Falkenberg)

OPC: No.

STAFF: Yes.

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?

POSITIONS

FPC: Yes. FPC's willingness to undertake this transaction depends on it receiving advance approval to recover the fuel transportation costs it would assume under the transaction. Tiger Bay is only willing to undertake the transaction if FPC assumes Tiger Bay's gas obligations, thus relieving it of "take" obligations for which it would have no use without a facility to burn the gas. Thus, FPC's assumption of the Tiger Bay's gas obligations is essential to the transaction. The Fuel and Purchased Power Recovery Clause is the appropriate recovery mechanism as recovery in this manner is consistent with Commission precedent. It distributes the fuel costs and capacity costs associated with this transaction in a manner that, to the greatest degree possible while remaining consistent with Commission precedent, maintains the ratio of fuel costs and capacity costs that would be experienced if the contracts were not terminated and the contract costs instead continued to be passed through to ratepayers.

TBLP: Yes.

FIPUG: No. (Falkenberg)

OPC: No.

STAFF: Yes. The Fuel and Purchased Power Cost Recovery Clause is the appropriate recovery mechanism for these costs. Transportation costs will be based on standardized FGT tariff rates.

ISSUE 16: What is the appropriate method for recovering the cost of the Tiger Bay generating facility?

POSITIONS

FPC: As an integrated transaction, all costs should be recovered using the same method. Because the benefits to be achieved are 100% capacity related, the appropriate method of recovery is through the Capacity Cost Recovery Clause.

TBLP: Adopt position of FPC.

FIPUG: The investment related to the purchase of the plant should be treated like any other rate base investment. (Falkenberg)

OPC: Agree with FIPUG.

STAFF: Traditional rate making suggests that the costs of a generating facility should be included within the utility's rate base. However, Staff supports recovery of the cost of the Tiger Bay generating facility through the Capacity Cost Recovery Clause, until the earlier of Florida Power Corporation's next base rate proceeding or until the cost of the Tiger Bay generating facility is fully recovered. Staff's position on this issue depends on further development of the record.

ISSUE 17: What is the appropriate method for recovering the cost of terminating the power purchase agreements?

POSITIONS

FPC: As an integrated transaction, all costs should be recovered using the same method. Because the benefits to be achieved are 100% capacity related, the appropriate method of recovery is through the Capacity Cost Recovery Clause.

TBLP: Adopt position of FPC.

FIPUG: Assuming the Commission approves this transaction, the costs of terminating the power purchase contracts, should be charged to ratepayers based on the current contract payments and any unrecovered termination charges should be deferred. (Falkenberg)

OPC: There is no appropriate method for recovering the costs of termination because so many current customers cannot be expected to be made whole under the company's proposal.

STAFF: The cost of terminating the PPAs should be recovered through the Capacity Cost Recovery Clause. Staff's position is dependent on the development of the record.

ISSUE 18: What is the appropriate method of recovering the cost of the Materials & Supplies Inventory?

POSITIONS

FPC: As an integrated transaction, all costs should be recovered using the same method. Because the benefits to be achieved are 100% capacity related, the appropriate method of recovery is through the Capacity Cost Recovery Clause. FPC's answer to Staff's Interrogatory Number 24 provides further support for FPC's answer on this issue.

TBLP: Adopt position of FPC.

FIPUG: Materials and supplies should be treated as they would with any other FPC power plant. (Falkenberg)

OPC: Agree with FIPUG.

STAFF: The Materials & Supplies Inventory should be booked in M&S and included in working capital.

STIPULATED

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

POSITION: Yes. If approved, revenues pursuant to the steam sales agreement with US Agri-Chemicals Corporation should be credited through the Fuel and Purchase Power Cost Recovery Clause.

ISSUE 20: What is the appropriate amortization period for recovering the cost of the Tiger Bay generating facility?

POSITIONS

FPC: Since the costs of the Tiger Bay generating facility is part of a single integrated transaction undertaken for the benefit of the customer, the Company should be allowed to recover the costs over 5 years. A five year recovery period represents a reasonable balancing of the timing of costs versus the recognition of benefits resulting from this transaction (which would be delayed through a longer recovery period), avoids a short-term but substantial rate increase (which might be required with a shorter recovery period), and avoids placing an unfair burden on FPC's shareholders by requiring them to support the buydown financing through a longer recovery period. The fairness of the five-year period is especially evident when one considers that FPC's shareholders will not recognize one penny of the savings achieved, and, indeed, will absorb significant additional operating and other costs over the foreseeable future.

TBLP: Adopt position of FPC.

FIPUG: The appropriate amortization period for the plant is twenty-seven years (the remaining life of the plant). (Falkenberg)

OPC: Agree with FIPUG.

STAFF: Staff has set forth two positions for the appropriate amortization period: (1) The appropriate amortization (depreciation) period for recovering the cost of the Tiger Bay generating facility should be over the remaining life of the facility, and (2) FPC should recover the cost of the Tiger Bay generating facility and the cost to terminate the PPAs in annual amounts not to exceed the cost of continuing the current contracts minus fuel and non-fuel expenses. These positions are pending further development of the record.

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

POSITIONS

FPC: Since the costs of terminating the power purchase agreements are part of a single integrated transaction undertaken for the benefit of the customer, the Company should be allowed to recover the costs over 5 years. As noted in response to Issue 20 above, a five year recovery period represents a reasonable balancing of the timing of costs versus the recognition of the benefits resulting from this transaction.

TBLP: Adopt position of FPC.

FIPUG: The appropriate period for recovering contract termination charges is as long as it takes so that ratepayers remain indifferent to this transaction. (Falkenberg)

OPC: The appropriate amortization period would be one which treats the majority of customers within all age groups fairly.

STAFF: Staff has set forth two positions for the appropriate amortization period: (1) The appropriate amortization period for recovering the cost of terminating the power purchase agreements should be over the remaining life of the agreements. However, we would not object to a shorter amortization period, and (2) FPC should recover the cost of the Tiger Bay Generating facility and the cost to terminate the PPAs in annual amounts not to exceed the cost of continuing the current contracts minus fuel and non-fuel expenses. These positions are pending further development of the record.

ISSUE 22: Should Florida Power be granted the latitude to manage the collection of the purchase price over the amortization period?

POSITIONS

FPC: Yes. This latitude may take the form of a non-levelized recovery of the purchase cost using a "constant purchasing power" methodology similar to that authorized

by the Commission for fossil plant dismantlement cost recovery, and/or deferring the commencement of the five-year recovery period to April or October 1998. The sole purpose of this latitude would be to stabilize the total rate charged to customers to the extent that recovery of the Tiger Bay purchase cost may interact with other changes in Florida Power rates.

- TBLP:** Yes.
- FIPUG:** Assuming the transaction is approved in its present form, no. The Commission should delineate how the purchase price will be amortized at the outset of the transaction. (Falkenberg)
- OPC:** No.
- STAFF:** No position at this time pending further discovery.

MISCELLANEOUS

ISSUE 23: Should this docket be closed?

POSITIONS

- FPC:** Yes.
- TBLP:** Yes, upon final approval of the purchase.
- FIPUG:** If the Commission denies the petition or is inclined to approve this transaction, Mr. Falkenberg's proposal should be adopted and this docket should be closed. (Falkenberg)
- OPC:** Yes.
- STAFF:** No position at this time pending further discovery.

VII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Dolan	FPC	(RDD - 1)	House Bill No. 338 "Ratepayer Protection Act"
		(RDD - 2)	Excerpts from Relevant FERC Decisions
		(RDD - 3)	Customer's QF Costs vs. Current Estimated Avoided Costs
		(RDD - 4)	Savings Due to Purchase of Tiger Bay
		(RDD - 5)	Impact of Tiger Bay Purchase on Customers
Scardino	FPC	(JS - 1)	Savings due to the Purchase of Tiger Bay Scenario #3 - Proposed Methodology for Cost Recovery
		(JS - 2)	Florida Power Corporation Fuel and Purchase Power Cost Recovery Clause Capacity-to-Energy Recovery Ratios for Tiger Bay Contract Versus Purchase
		(JS - 3)	Florida Power Corporation Estimated Allocation of Purchase Price of Tiger Bay Limited Partnership
		(JS - 4)	Florida Power Corporation Acquisition of Tiger Bay (In Thousands)

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		<u>(JS - 5)</u>	Florida Power Corporation Proforma of Impact of Tiger Bay Transaction (In Thousands)
Falkenberg	FIPUG	<u>(RJF - 1)</u>	Resume - Qualifications
		<u>(RJF - 2)</u>	Economic analysis of proposal
		<u>(RJF - 3)</u>	Illustration of deferral & recovery of costs
		<u>(RJF - 4)</u>	Comparison of FPC rate case & surcharge requests

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

At the Prehearing Conference, several proposed stipulations were reached. All of the parties and Staff have agreed that the following stipulations are reasonable and should be accepted by the Commission.

1. Florida Power Corporation provided adequate assurances that sufficient natural gas pipeline capacity will be available to transport natural gas to the Tiger Bay facility. The Gas Agreements, which will be assigned to FPC in the Purchase Agreement transaction, include service agreements between Tiger Bay, as shipper, and Florida Gas Transmission Company, as transporter, for 33,003 MMBtus/day of firm transportation capacity to the Tiger Bay Facility, for the duration of the PPAs. This quantity of capacity is sufficient to meet the operating requirements of the Tiger Bay Facility. (Issue 3)

2. Florida Power Corporation's fuel price forecast is reasonable. However, Staff is not precluded from analyzing the effects of other fuel price forecasts on the cost-effectiveness of the buyout. (Issue 4)
3. The purchase power agreement termination payments will be recorded in Account 182.3, Other Regulatory Assets. (Issue 7)
4. The revenue from the steam sales agreement with US Agri-Chemicals Corporation shall be credited through the Fuel and Purchased Power Cost Recovery Clause. (Issue 19)

IX. PENDING MOTIONS

1. Vastar Gas Marketing, Inc.'s Emergency Motion for Reconsideration of Order No. PSC-97-0345-PCO-EQ and a separate request for oral argument.

X. RULINGS

1. Vastar Gas Marketing, Inc.'s Motion to Intervene and Request for Oral Argument was denied March 31, 1997.
2. Florida Power Corporation's Motion for Preliminary Prehearing Conference to Establish Issues to be Determined in this Docket is moot.

It is therefore,

ORDERED by Commissioner Diane K. Kiesling, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

ORDER NO. PSC-97-0429-PHO-EU
DOCKET NO. 970096-EQ
PAGE 24

By ORDER of Commissioner Diane K. Kiesling, as Prehearing
Officer, this 16th day of April, 1997.



DIANE K. KIESLING, Commissioner
and Prehearing Officer

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.