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101 East Gaines Street
Tallahassee, Florida 32399-0850

September 11, 1992

JDJ

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FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
EXECUTIVE SUMMARY

In summary, we recommend the following revenue increase:

	Order 92-0208	Final Staff <u>Recommendation</u>
Interim:	31,208,000	<u>16,739,000</u>
Interim Refund:		14,469,000

	FPC <u>Request</u>	Staff <u>Recommendation</u>
Permanent:		
November, 1992	90,998,000	29,488,000
April, 1993	15,513,000	14,403,000
November, 1993	<u>25,437,000</u>	<u>22,577,000</u>
Totals:	131,948,000	66,468,000

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	Approximate Revenue Requirement (millions of \$)	
	<u>1992</u>	<u>1993</u>
Other Post Employment Benefits (46)	17.7	18.8
DeBary Peaking Units (168, 182)	11.1	11.1
Crystal River Cooling Towers (171, 175)	-0-	14.2
Intercession City Peaking Units (169, 172, 174)	-0-	12.8
University of Florida Project (170, 173, 176)	-0-	9.0
Performance Reward (109 - 118)	2.8	3.1

The above listed issues are the major items contributing to FPC's need for rate relief based on the Staff's recommendation. These amounts do not necessarily add up to the Staff's recommended rate relief because only major issues have been identified for the purposes of this schedule.

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**PROPOSED PREHEARING
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CASE BACKGROUND

On January 31, 1992, Florida Power Corporation (FPC) filed a petition requesting a rate increase, with supporting testimony, and minimum filing requirements (MFRs). In its petition the company requested a total permanent rate increase of \$145,853,000 based on projected test years of 1992 and 1993. This request was later reduced to \$131,948,000 as a result of several audit findings and FPC's decision not to request an increase in part due to the Sebring purchase due to its uncertainty. FPC also requested a \$9,990,000 reward for excellent performance, and that the proposed increase be implemented in several steps. The requested rate increase is based on a 13.60% return on common equity.

FPC filed supplemental MFRs after its initial MFRs were determined to be deficient by the Director of the Division of Electric and Gas of the Florida Public Service Commission. On April 14, 1992, we issued Order No. PSC-92-0208-FOF-EI, suspending the rate schedules filed by FPC, and authorizing FPC to increase its rates on an interim basis to generate additional annual revenues of \$31,208,000. On June 19, 1992, a prehearing conference was conducted in this docket. Hearings were held on FPC's petition for a permanent rate increase July 9 through 10, July 13 through 17, July 20 and July 22 through 24, 1992.

DISCUSSION OF ISSUES

TEST PERIOD

ISSUE 1: Is Florida Power Corporation's request for permanent rate relief based on a current test period of calendar year 1992 and a projected test period of calendar year 1993 appropriate?

RECOMMENDATION: Yes. With the adjustments recommended by staff in the following issues, the 1992 and 1993 projected test years are appropriate. (Merta)

POSITION OF PARTIES:

FPC: Yes. In Order No. 25292 dated November 4, 1991, the Commission tentatively accepted the Company's selection of test periods for rate relief. The use of dual test periods is expressly authorized by Section 366.076(2), F.S., and Commission Rule 25-6.0425, F.A.C., and has been accepted by the Commission in prior base rate proceedings (Docket No. 830465-EI).

OPC: The use of a 1992 projected test year in this case is not inappropriate. The budget has been through an extensive review process and found by management to be suitable to guide operations during 1992. The 1993 forecast test year, however, is inappropriate. The Commission should not base regulatory decisions on a speculative forecast that has not yet been refined to the point where the company would use it to guide its own day-to-day operations.

OCCIDENTAL: With appropriate adjustments, the 1992 projected test year is a reasonable basis for the determination of FPC's revenue requirement and any resulting deficiency or surplus. The Commission should reject the 1993 forecast test year.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. [TR 2778] Based on the filing date of FPC's request for a rate increase and the Commission's decision in September, 1992, the first year that the new rates will be in effect is approximately from November 1, 1992 to October 31, 1993.

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Therefore, the Commission should be evaluating the financial operations of FPC for the twelve months from November 1, 1992 to October 31, 1993.

There are primarily two options for evaluating FPC's expected financial operations. The first option is to use a historical test year and make proforma adjustments to the test year. The second is to use a projected test year. Both of these options have strengths and weaknesses.

The historical test year has the advantage of using actual data for much of rate base, NOI and capital structure; however, the proforma adjustments usually do not represent all the changes which occur from the end of the historical period to the time new rates are in effect. Therefore, this option generally does not present as complete an analysis of the expected financial operations as a projected test year.

The main advantage of a projected test year is that it includes all information related to rate base, NOI and capital structure for the time new rates will be in effect. However, the data is projected and its accuracy depends on the company's ability to forecast. Many companies are not able to forecast accurately enough to use the forecast for setting rates.

FPC has requested the use of two fully projected test years, calendar years 1992 and 1993. It has selected the period in which new rates will become effective. The parties agree that, with adjustments, the 1992 test year is appropriate. At issue is the use of the 1993 forecast year. FPC believes that its forecast of financial operations for the years that new rates will be in effect is complete and accurate and provides a valid basis on which to set rates prospectively. [TR 3773] The use of dual test periods is authorized by Section 366.076(2), F.S., and Commission Rule 25-6.0425, F.A.C., and is consistent with Commission practice. See Order No. 13537, issued July 24, 1984 in Docket No. 830465-EI (FPL rate case). OPC and Occidental believe that the forecast is inaccurate and unreliable and that the authorization of dual test periods would set a dangerous Commission precedent. [TR 2768, 2697-98, 2992-93] In its Brief, FPC pointed out that the precedent for dual test years was set eight years ago and has not produced the dire consequences predicted by the intervenor witnesses. In addition, the Commission monitors utility earnings through surveillance reports and could require FPC to file MFR's should it exceed its allowed return.

The parties and the staff have conducted extensive discovery on FPC's forecast. The Commission has held hearings to investigate issues raised by the parties and staff. In the following issues,

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the staff is recommending that certain adjustments be made to FPC's forecast. With the inclusion of these adjustments, staff believes that the forecast of FPC's financial operations for 1992 and 1993 is accurate enough to use as a basis for setting rates.

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ISSUE 2: Are Florida Power's forecasts of Customers and KWH by Revenue Class, and System KW for the 1992 and 1993 test years reasonable?

RECOMMENDATION: Yes. Florida Power's originally submitted forecasts of Customers and KWH by Revenue Class, and System KW for 1992 and 1993 as shown in Exhibit 147 are reasonable. (Stallcup)

POSITION OF PARTIES:

FPC: Yes. Florida Power's forecasts for 1992 and 1993 were based on reasonable assumptions and prepared in accordance with accepted procedures. However, because of the significant over-estimation of economic recovery and resulting sales in the August 1991 forecast, there is virtually no likelihood that the Company will be able to recover the revenue requirements approved by the Commission if that forecast is used to establish billing determinants. It is appropriate, therefore, that the updated load forecast reflected in Ex. 148 be accepted by the Commission for purposes of establishing the Company's billing determinants in this proceeding.

OPC: FPC's forecasted KWH for 1992 are understated. This case is predicated on the addition of peaking capacity purportedly needed to serve additional load on the utility's system. In fact, the in-service date of the Debary units was accelerated into the 1992 test year. The sales level used to justify the additional units should be used for rate-setting purposes. To do otherwise would penalize the customers unfairly by requiring them to pay for new generation through rates that are inflated because the generation is not needed currently. Florida Power's use of the 1993 forecast test year is inappropriate.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff reviewed both the forecast models and forecast assumptions used to produce the 1992 and 1993 Customer, KWH, and KW forecasts presented in the original filing, and described in Mr. Wieland's prefiled testimony (Exhibit 147). The Company's forecast models appear to be appropriate and capable of producing reliable forecasts. The forecast assumptions, although

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not inappropriate at the time of their formulation, anticipated a stronger economic recovery in 1992 than has been actually experienced.

Staff also reviewed the performance of the forecasts over the first 5 months of 1992 (Exhibit 37) and found that the Company's actual Retail KWH Sales to be running below forecast by approximately 5.8 percent, while the Retail Customer forecast was less than 0.2 percent below forecast. Company Witness Wieland testified [TR 1858] that approximately half of the forecast error in the Retail KWH was attributable to a weaker than expected economy. This leaves approximately 2.9% of the forecast error attributable to abnormally mild weather during the first half of 1992, normal modelling error, etc.

Company Witness Wieland recommends [TR 1874] that a more current Load Forecast for 1992 and 1993 be substituted for the Load Forecast submitted in the original filing. Although staff agrees on a philosophical level that more current information is preferable, staff can not support Mr. Wieland's recommendation in this case. Other than Exhibit 148 which compares the original forecast with the newer forecast, the Company has not provided any information on the record to indicate that the newer forecast is intrinsically superior to the original forecast. In particular, the Company failed to enter into the record any information describing the forecasting methodology and/or assumptions used to produce the newer forecast, or the 1992 and 1993 projected financial statements that would result from its adoption. Furthermore, Staff has estimated that adoption of the newer forecast could increase Revenue Requirements by approximately \$23 million. Given the magnitude of the increase in Revenue Requirements, together with a lack of supporting information for the newer forecast, Staff can not recommend the adoption of the newer forecasts.

Because of the fact that actual KWH Sales are running below forecasted KWH Sales for the first half of 1992, Staff can not agree with OPC's position that the Company's forecasts are understated.

Staff recommends that the Commission adopt the originally filed Load Forecasts as presented in Exhibit 147. Although these forecasts appear to overstate Retail KWH Sales, it is Staff's opinion that after observing that approximately half of the forecast error seen through May, 1992 is attributable to events that are non-recurring (i.e. weather, modelling error, etc.), that the remaining forecast error is not unreasonable.

RATE BASE

ISSUE 3: Is FPC's forecast of inflation rates appropriate?

RECOMMENDATION: Yes. The forecasted inflation rates for 1992 and 1993 are appropriate for rate making purposes. (Stallcup)

POSITION OF PARTIES:

FPC: Yes. However, a general, corporate-wide inflation rate is provided to managers as a budget guideline in the development of only those limited items for which a rate of increase specific to that item is unavailable. As a result, the inflation rates of 3.7% for 1992 and 3.8% for 1993 listed in MFR Schedule F-17 were not directly used in developing either of the two test years.

OPC: No. Public Counsel accepts the inflation rates filed with the Commission by FPC in late filed Exhibit 190.

OCCIDENTAL: No. The appropriate inflation assumption is 3.1% for the 1992 current test year. Taking into account this projection, the 1992 test year O&M expense should be reduced by \$2,642,000. If the Commission does not reject the 1993 projected test year, the appropriate inflation assumption is 3.3%. The inflation adjustment for the 1993 projected test year reduces O&M expense by \$5,334,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF: FPC filed an original inflation forecast, as measured by the Consumer Price Index, of 3.7% for 1992 and 3.8% for 1993. These forecasts were taken from the DRI Forecast for the US Economy of May 1991 (LF Exhibit 190). This compares to the June 1992 inflation forecast from DRI of 3.3% for 1992 and 3.5% for 1993 (LF Exhibit 190). In the hearing, witness Kollen recommended an inflation forecast of 3.1% for 1992, and 3.3% for 1993 (Tr. 2759).

Since FPC formulated their original CPI forecast in May 1991, Staff recognizes that inflationary expectations have declined by approximately one half of one percent for both 1992 and 1993.

The inflation forecast is used for rate making purposes to determine the appropriate amount of test year expenses. While

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staff recognizes that inflationary expectations have declined by one half of one percent for both 1992 and 1993 since FPC prepared their forecast in May 1991, staff believes that FPC's inflation forecasts are appropriate for rate making purposes. See Issue 58 for the application of the CPI forecast toward the determination of test year expenses.

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ISSUE 4: Is Florida Power's requested level of Plant in Service in the amount of \$4,245,287,000 (\$4,715,371,000 system) for the 1992 current test year and \$4,617,090,000 (\$5,175,330,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Plant in Service should be \$4,223,383 for 1992 and \$4,593,506 for 1993. This is a calculation based on the resolution of all other Plant in Service issues. (Brand)

POSITION OF PARTIES:

FPC: Yes. The major test year additions to Plant in Service are the DeBary and Intercession City Peaking Units, the University of Florida Project, and the Crystal River Cooling Towers. Each of these major capital additions have been stipulated. The remainder of the 13-month average Plant in Service balances were formulated to reflect Florida Power's budgeted capital additions and retirements expected to occur during each test year.

OPC: No. Plant in Service should be adjusted by \$17,023,000 (jurisdictional).

OCCIDENTAL: No. FPC's request is based on inappropriate inflation assumptions, excessive growth rates in salaries and wages, and an excessive AFUDC rate. Although precise adjustments to rate base cannot be made, the Commission should consider the inaccuracy, uncertainty, and detriment to ratepayers as further reason for rejecting the 1993 test year.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: This issue is dependent of the resolution of Issues 5 - 8 and 166 in this proceeding.

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ISSUE 5: Should an adjustment be made in any test year for the purchase of three aircraft?

RECOMMENDATION: Yes. Since use of the aircraft by its affiliated companies is substantial, FPC and its affiliates should share the investment in flight equipment and the related depreciation. One-half of flight equipment should be removed from plant in service for the 1992 and 1993 test years and one-half of the related depreciation expense should be excluded from expenses. The system and jurisdictional amounts are shown below:

	1992		
	<u>System</u>	<u>Factor</u>	<u>Jurisdictional</u>
Flight equipment	3,465,000	.941986	3,263,981
Accumulated Depreciation	(288,000)	.93045	(270,157)
Depreciation expense	237,000	.938045	222,317
	1993		
	<u>System</u>	<u>Factor</u>	<u>Jurisdictional</u>
Flight equipment	3,465,000	.942785	3,266,750
Accumulated Depreciation	(525,000)	.938942	(492,945)
Depreciation expense	238,000	.938942	223,468

(Reeves)

POSITION OF PARTIES:

FPC: No. The three aircraft, 2 helicopters and 1 fixed wing, are used extensively in travel to and from points within the Company's service territory and for long range travel, as well as for line patrol of the Company's transmission system. As such, the aircraft are used and useful in providing electric service.

OPC: The transfer of the flight department from Florida Progress was done at the insistence of the parent company. The transfer would require the utility's customers to support additional investment in assets not shown to be necessary to provide efficient electric utility service. Flight equipment should be removed from rate base. Electric plant in service should be reduced by \$6,482,000, and O&M expense should be reduced by \$598,000 on a jurisdictional basis.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

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AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The record indicates that none of the investment in flight equipment is allocated to the affiliates of FPC and that none of the related depreciation expense is recovered from any of the affiliates [TR 2568]. MFR schedule B-8a, reflects thirteen month average balances for flight equipment used and new of \$1,266,000 and \$5,664,000 for a total of \$6,930,000. Staff requested a late filed exhibit (LF Exhibit 181) on the amount of flight equipment included in rate base to determine if any other accounts contained flight equipment such as spare parts and to determine the appropriate separation factors. However, this exhibit shows a total for flight equipment plant in service for 1992 of only \$6,072,219.

FPC does allocate other major costs (fuel, salaries, hangar fees) of operating the aircraft to their affiliates. Generally the initial charge for use of the aircraft is based on 70% of commercial coach fare. Remaining expenses which are not recovered through this initial charge are allocated based on the totals of the fares. LF Exhibit no. 182, Allocation of Lear Jet Expense - Critchfield indicates that the total charges to Florida Progress related to Critchfield's flight to Philadelphia were \$551. [TR 2573] Commissioner Easley requested:

And included in that calculation I trust will be the hourly cost of operating the jet, because that would give it--if I had the hourly rate, I could tell you pretty much what the total cost of a flight is.

This exhibit further states that the hourly variable cost of operating the Lear Jet is \$427, based on 1991 actual variable cost and flight hours on an annualized basis. The 1991 "actual variable costs" is mostly fuel cost. Page 42 of 61 of exhibit no. 79 shows that the total for "variable" cost for November 1991 was \$21,528 and fuel costs were \$17,675 of that total. The only other major "variable" costs for November were \$1,822 for maintenance and inspection and \$1,530 for training. Since other major costs such as depreciation, pilots salaries, insurance and hangar costs are not included the \$427 hourly cost, it does not provide a reasonable estimate of total flight costs.

Although FPC's allocation procedure is somewhat unsophisticated, staff's major concern is that the investment and depreciation expense is not allocated to affiliates. Substantial use of the aircraft is made by the affiliates of FPC. For example, exhibit 79, page 44 of 61, shows Lear Jet usage charges year to date

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November 1991 of \$86,276 (this is the initial expense allocation only) related to Florida Progress, Talquin and EFC. Therefore, we are recommending adjustments, for ratemaking purposes, to remove one-half of flight equipment plant in service, accumulated depreciation and depreciation expense for 1992 and 1993. This will result in FPC recognizing expenses for flights on a basis approximately equivalent to their affiliates.

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ISSUE 6: Should adjustments be made to any test year Plant-In-Service and Accumulated Depreciation to correct errors related to the rescinded purchase of an airplane by FPC?

RECOMMENDATION: Yes. For the 1991 interim test year, Plant-in-Service should be increased by \$265,000 (\$278,000 system) and Accumulated Depreciation should be increased by \$38,000 (\$40,000 system). For the 1992 and 1993 test years, no adjustments are necessary. (C. Romig, Meeks)

POSITION OF PARTIES:

FPC: Yes, for the 1991 interim test year. The Company incorrectly prepared a pro forma adjustment to remove the effects of a rescinded Piper Cheyenne sale to Florida Power from Florida Progress. The Company concurs with Audit Disclosure No. 3 of Staff's audit of the interim test year. The pro forma adjustments made to both the 1992 and 1993 test years correctly removed the effects of the rescinded aircraft sale.

OPC: Yes. Flight equipment should not be reflected in the rate base. Electric plant in service should be decreased by \$6,482,000, Accumulated depreciation decreased by \$539,000, and O&M decreased by \$598,000.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: In December 1990, Florida Power purchased a Piper Cheyenne from Florida Progress. In August 1991, the purchase was rescinded and Plant-in-Service and Accumulated Depreciation were adjusted, as though the purchase had never occurred. Consequently, the aircraft and the related accumulated depreciation were on Florida Power's books during a portion of the interim test period and therefore included in the utility's per books MFRs.

On MFR Schedule G-3, page 2 of 3 [Company Exhibit No. 5], the utility made pro forma adjustments to remove the aircraft's effect on rate base, reducing Plant-in-Service by \$833,000 and reducing Accumulated Depreciation by \$68,000. However, the pro forma adjustments were calculated incorrectly, as if the Piper Cheyenne had been on the books for thirteen months, rather than nine.

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Consequently, the pro forma adjustments reducing plant and reducing accumulated depreciation were overstated (Staff Audit Report, Disclosure No. 3). [Staff Exhibit No. 77]

Staff recommends adjustments to the 1991 Interim Test Year to correct Florida Power's pro forma adjustments. The recommended adjustments increase Plant-in-Service by \$265,000 (\$278,000 system) and increase Accumulated Depreciation by \$38,000 (\$40,000 system). The pro forma adjustments made to both the 1992 and 1993 test years correctly removed the effects of the rescinded aircraft purchase. Accordingly, no adjustments are recommended to these test years.

The adjustments referenced in OPC's position statement relate to other aircraft which are still owned by Florida Power and have been addressed in Issue 5.

Staff's recommended O & M adjustments have been addressed in Issue 37.

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ISSUE 7: Is the acquisition and inclusion of \$2,310,000 (\$2,500,000 system) for Sebring's ownership share of Crystal River 3 in rate base for the 1992 current test year appropriate?

RECOMMENDATION: Yes. The acquisition of Sebring's ownership share of Crystal River 3 is cost-effective and an appropriate addition to rate base. (Futrell)

POSITION OF PARTIES:

FPC: Yes. The uncontroverted evidence in this case demonstrates the appropriateness of Florida Power's purchase of Sebring's share of Crystal River 3.

OPC: The prospective purchase should be excluded from Rate Base.

OCCIDENTAL: No position.

FIPUG: No position.

PCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power's purchase of the Sebring Utilities Commission's share (3.5 megawatts) of Crystal River 3 is cost-effective compared to FPC's avoided cost, resulting in a savings of \$893,000 over the remaining life of CR3. (LFExhibit 146) The Office of Public Counsel states that the purchase should be excluded from Rate Base, however, no contradictory evidence was presented in opposition of the purchase.

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ISSUE 8: Is the inclusion of \$10,838,960 (\$14,381,000 system) in the 1992 current test year for capital additions at the Lake Tarpon Substation appropriate?

RECOMMENDATION: Yes. The substation expansion will maintain system reliability, and the installation of the terminal point for the Lake Tarpon-Kathleen 500kv transmission line is a cost-effective addition. (Futrell)

POSITION OF PARTIES:

FPC: Yes. The Lake Tarpon substation project will be closed to Plant in Service in September 1992 and used in conjunction with other operational 500kv lines and the Crystal River Energy Complex.

OPC: The Lake Tarpon substation was upgraded because it is intended to anchor a new 500 KV transmission line. The transmission line is scheduled, however, to follow the substation work by two years. [TR-1707] The company did not establish an independent justification (apart from the 500 KV project) for the upgrade before the work was done. [TR-1712] The upgrade should not be included in rate base.

OCCIDENTAL: The 1993 forecast test year should be rejected. (See Issue No. 1, supra). Rate base treatment therefore should not be afforded for 1993 capital additions.

FIPUG: No position.

FCAN: No. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The expansion of the Lake Tarpon substation was needed to protect existing equipment which was operating at or near its existing emergency rating. [TR. 1672] An outage of the existing transformer would jeopardize reliable service. [TR. 1710] Public Counsel argues that the substation "was upgraded because it is intended to anchor a new 500kv transmission line." However, the substation upgrade was needed despite the fact that it will serve as the terminal point for the Lake Tarpon-Kathleen 500kv line. [TR. 1708] The installation of the terminal for the Lake Tarpon-Kathleen 500kv line is appropriate in that the company would have to take an additional outage on the substation and incur additional equipment and personnel costs if the work had not been done.

ISSUE 9: Should the Commission approve FPC's request to move from a cash basis to an accrual basis when accounting for pension expense for ratemaking purposes? That is, should the Commission approve FPC's request to set its pension expense at a level equal to the expense calculated for accounting purposes under the provisions of Statement of Financial Accounting Standard (FAS) No. 87?

RECOMMENDATION: Yes, FPC should use FAS 87 to determine the pension expense level. (Salak)

POSITION OF PARTIES:

FPC: Yes. Adoption of the accrual accounting treatment specified in FAS 87 for pension expense complies with Generally Accepted Accounting Principles and is consistent with sound ratemaking practices. Accrual accounting allows the costs associated with this form of deferred compensation to be recognized in rates over the active service life of employees, and thus matches the full cost of the benefits with the periods in which the employees earned them.

OPC: No. The company is improperly seeking recovery of both a positive expense for 1992 and an amortization of the sum of past positive and negative expenses over a three-year period. Instead, the total expense since 1988 should be amortized over a five-year period. The projected 1992 test year is overstated by \$4,724,000 jurisdictional (\$5,054,000 system).

OCCIDENTAL: No. FPC has not justified its request to accelerate the recognition of its pension expenses in customer rates. Accounting requirements should not dictate the decisions of rate regulators. FAS No. 71 sets forth the GAAP requirements to recognize timing differences between rate recognition and accounting.

FIPUG: No. In 1992, FPC will contribute \$0 to its pension fund. In 1993, its cash contribution will be half its FAS No. 87 "expense." Ratepayers should not pay for a higher FAS No. 87 expense when they have already provided more than enough cash to fully fund the plan.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC has included in its filing pension expense based upon a calculation in accordance with SFAS 87, "Employer's Accounting for Pensions." [TR 2248-2249] The intervenors argue that the accounting pronouncement should not be used to determine the level of FPC's pension expense. The intervenors argue that the cash contributions made by the company to its pension fund should be used. FIPUG witness Carlson makes the point that SFAS was adopted for financial statement purposes and is not required for ratemaking purposes. [TR 2665] She further states that FPC's pension plan is overfunded and will not receive a contribution until 1993. She believes it is unfair to require the ratepayers to pay more when the fund is more than fully funded. [TR 2663-2666]

SFAS 87 has been in effect since 1987 for financial reporting purposes. FPC has been using SFAS 87 to determine the expense amount, but they have been making a regulatory adjustment under SFAS 71, "Accounting for the Effects of Certain Types of Regulation", to net the expense to zero. (See Issue 48) Both Occidental witness Kollen and FIPUG witness Carlson believe that SFAS 71 should continue to be used to account for the difference in cash contributions to the pension plan versus the amount calculated under SFAS 87. [TR 2890-2891, 2667] Witness Kollen also believes that the resulting regulatory asset should not earn a return. [TR 2891]

SFAS 87 is a method to record pension expense on the accrual basis. Company witness Scardino states that accrual accounting more closely matches the cost of the benefit with the period the service is provided and refers to pensions as deferred compensation. [TR 3762] He further makes the point that under the cash basis or the accrual basis, "pension expense will match the Company's obligation to provide pension benefits to its employees through funding." [TR 3763]

Staff believes the purpose of the SFAS 87 is to accrue pension expense over the time the employees earn the benefits. While FPC will not make a cash contribution until 1993, Staff believes that the benefits earned by today's employees should be paid by today's ratepayers. Therefore, SFAS 87 should be used for ratemaking purposes. Staff believes this issue is closely associated with using accrual accounting for Other Postretirement Benefits found in Issue 10.

Staff recommends using the framework for SFAS 87 for ratemaking purposes. Staff is recommending adjustments to the expense amounts in Issues 47 and 48.

ISSUE 10: Should the Commission approve FPC's request to move from a cash basis to an accrual basis when accounting for post-retirement benefits other than pensions (OPEB) for ratemaking purposes? That is, should the Commission approve FPC's request to

RECOMMENDATION: Yes. The Commission should use FAS 106 for ratemaking purposes. Therefore, the allowed OPEB expense should be calculated according to FAS 106. (Lester)

POSITION OF PARTIES:

FPC: Yes. Adoption of the accrual accounting treatment specified in FAS 106 for post-retirement benefits other than pensions complies with Generally Accepted Accounting Principles and is consistent with sound ratemaking practices. Accrual accounting allows the costs associated with this form of deferred compensation to be recognized in rates over the active service life of employees, and thus matches the full cost of the benefits with the periods in which the employees earned them.

OPC: FPC's request to implement FAS 106 should be denied at this time. Post-retirement benefits other than pensions expense should be limited to the pay-as-you-go amount (i.e., the level of expense determined on the cash basis of accounting).

(A). The Commission should not approve FPC's request to implement FAS No. 106 for ratemaking purposes and the company's pro-forma OPEB adjustment should be eliminated.

(B). If FAS No. 106 is approved, the discount rate used should be the Commission's allowed return on equity.

(C). If FAS No. 106 is approved, the Commission should establish a mechanism to refund to the ratepayers any overrecovery of OPEB costs.

(D.) The prior period OPEB costs ("transition obligation") should remain on the pay-as-you-go principle. It would be unwise for the Commission to change its policy in "mid-stream." Additionally, recovery of the transition obligation would be inconsistent with concepts of accrual accounting that purportedly match expenses with the period of time employees are providing service to customers.

(E.) OPEB interest expense, which is calculated based on OPEB costs that have already been recognized in setting rates, should be recorded below-the-line.

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OCCIDENTAL: No. FPC has not justified its request to accelerate the recognition of OPEB expense in customer rates. Accounting requirements should not dictate the decisions of rate regulations. FAS 106 sets forth the GAAP requirements to recognize timing differences between rate recognition and accounting.

FIPUG: No. FAS No. 106 is a financial accounting standard to be used for financial reporting. It is inappropriate for ratemaking purposes because it uses speculative assumptions to create liabilities which may never be paid and it creates intergenerational inequities. Further, it is unnecessary to comply with generally accepted accounting standards.

FCAN: No. FPC's desire to implement FAS No. 106 should be denied at this time. FAS No. 106 is an accounting standard which requires OPEB expense to be reported for financial reporting purposes on an accrual basis. FAS No. 106 specifically recognizes that OPEB expense for ratemaking purposes may be determined on a different basis. The present pay-as-you-go method is working, and is fairer to ratepayers.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Six witnesses provided testimony regarding FAS 106. FPC witnesses Twery, Scardino, and Bongers testified that FAS 106 should be used for ratemaking purposes. OPC witness Montanaro, FIPUG witness Carlson, and Occidental witness Kollen testified that FAS 106 is unsuitable for ratemaking purposes.

As a partner of Hewitt Associates, FPC's consulting actuary, witness Twery testified that FAS 106 will be the standard accounting practice for postretirement benefits other than pensions after December 15, 1992. [TR 1905, 1908] He states that FAS 106 and FAS 87 are very similar. He notes that both statements are based on the matching principle, by which the costs of deferred benefits are recognized during the period that employees earn the rights to those benefits through services done for the employer. [TR 1906] He reviews the calculation of FPC's obligation under FAS 106 and states that the expense for 1992 is \$25,887,000. He also notes the sensitivity of the FAS 106 estimates to changes in the assumptions. [TR 1923, 1933, Exhibit 151, p. 28] Witness Twery suggests that funding of the FAS 106 obligation is not a satisfactory option for FPC at this time. [TR 1921] Finally, witness Twery states that every benefit program has an ultimate cost and that all accounting methods must recognize the same costs, with the difference in the methods being the timing of cost recognition. [TR 1934] Witness Twery acknowledged that FPC

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revised its retiree medical plan and lowered its discount rate, thus reducing its FAS 106 costs for the 1992 and 1993 test years. [TR 1940]

FPC witness Scardino states that FPC offers life insurance and health insurance as postretirement benefits other than pensions. He states that FAS 106 views such benefits as a form of deferred compensation that should be recognized on an accrual basis during the periods that employees render service to earn those benefits. [TR 2255] He states that the adoption of FAS 106 for ratemaking purposes represents an appropriate matching of the cost of service with the customers receiving those services. [TR 3775] He states that FPC completed union negotiations in December 1991 and that these negotiations resulted in significant changes to retiree medical costs. He attached an exhibit to his rebuttal testimony that updated the accrued liability and expense under FAS 106 due to these changes. [TR 3766, Exhibit 223] He testifies that FPC reduced working capital by the amount of the accrued liability under FAS 106. [TR 3768, 2256, Exhibit 195, Exhibit 225]

FPC witness Bongers testifies that FAS 106 should be used for ratemaking purposes because it matches current costs to current ratepayers, it reduces rate shock that might eventually occur under pay-as-you-go accounting, it eliminates differences with generally accepted accounting principles, and it eliminates deferral of the cost as an issue. [TR 3510-3512] He also testified that FAS 71 may not be applicable if the Commission continues the pay-as-you-go practice. [TR 3530-3531]

FIPUG witness Carlson testified that the Commission should continue to account for postretirement benefits other than pensions on a pay-as-you-go basis and that the Commission should authorize FPC to create a regulatory asset to recognize the difference between the pay-as-you-go amount and the FAS 106 amount. [TR 2655-2656] She testifies that the pay-as-you-go method should be continued because FAS 106 is based upon assumptions that are speculative and because the pay-as-you-go method achieves better intergenerational equity. She also notes that FAS 71 allows differences between regulatory accounting and financial accounting and that FPC has not proved that externally funding the FAS 106 obligation is less costly than internally funding the obligation. [TR 2656-2657]

Occidental witness Kollen testifies that accounting standards should not drive ratemaking policy. He contends that FPC's current use of a partial accrual method for OPEBs proves that timing of recovery, not recoverability, is the issue. [TR 2879, 2887] He recommends that the Commission require the pay-as-you-go method for ratemaking, with the company deferring the difference between pay-

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as-you-go and the FAS 106 amount as a regulatory asset pursuant to FAS 71. [TR 2891-2892]

OPC witness Montanaro opposes the adoption of FAS 106 for ratemaking purposes. She believes FPC may restructure its benefits plan after the Commission sets rates in this case, which could reduce costs and overcompensate the company. She also believes that the FAS 106 calculations are inherently unreliable, that the amortization of the transition obligation causes an intergenerational inequity, and that there is no assurance FPC will pay the promised deferred compensation to its employees. [TR 2076-2078]

Staff believes that the Commission should use FAS 106 for ratemaking purposes because accrual accounting matches the cost of employees' services to the period in which the employees provide the services. [TR 1906, 3532, 3765] Continuing pay-as-you-go would cause future customers to pay for costs related to past years. [TR 3765] Ultimately, the costs of retirement benefits under FAS 106 will not vary from costs under pay-as-you-go accounting but the timing of the recognition of these costs will be different. [TR 1934] Staff believes the accrual accounting prescribed by FAS 106 appropriately recognizes the cost of retirement benefits and, therefore, is appropriate for ratemaking purposes. In Docket No. 910980-TL, the recent rate case for United Telephone Company of Florida, the Commission approved the concept of using FAS 106 for ratemaking purposes because FAS 106 allows recognition of a future liability for current employees who provide service to today's customers (See Order No. PSC-92-0708-FOF-TL, issued July 24, 1992). In that order, the Commission noted that it can still make adjustments to the cost of retirement benefits within the framework of FAS 106.

Those witnesses opposing the use of FAS 106 for ratemaking purposes raised seven arguments, which staff will address in turn. First, witness Montanaro stated that FPC could restructure its benefits plan, which would lower its FAS 106 cost after the rate case. [TR 2076-2077] Staff notes that FPC has already updated its FAS 106 cost to a lower amount based on its most recent collective bargaining agreement. Still, staff believes that FPC is constrained from making substantial changes from year to year due to a binding union contract, employee relations problems that could result from such changes, and labor market competitiveness. [TR 3766] To the extent FPC continues cost containment measures, those measures will be reflected in FAS 106 costs and this effect can be monitored by staff with the existing surveillance methodology.

Witnesses Montanaro and Carlson testify that the calculation of FAS 106 cost is unreliable and speculative. They note that the

FAS 106 amount is sensitive to changes in the assumptions used in its calculation, particularly the health care cost trend rate. Witness Montanaro also notes that the calculations do not reflect cost containment measures that the company may enact in the future nor do the calculations reflect the possibility of government intervention (in the health care area). [TR 2077, 2657-2658] As rebuttal to this testimony, witness Bongers states that the assumptions represent the best estimate of a particular future event. He notes that the assumptions and measurements used in reporting FAS 106 costs are reviewed by independent auditors and must be reasonable and appropriate to be in accordance with FAS 106. [TR 3515] Staff notes that FAS 106 contains a self-correcting methodology that encompasses changes in assumptions, experience being different from what the company assumed, and changes in plan amendments. (FAS 106, paragraphs 50-62) Changes in the FAS 106 costs would be accounted for with this methodology but could not be recognized until the company's next rate case. However, such changes would affect earnings and this effect would be monitored with the Commission's present surveillance methodology. [TR 3577-3578] Staff believes that the uncertainty surrounding FAS 106 costs is no different from the uncertainty involved with the cost of equity, depreciation expense, nuclear decommissioning expense, fossil fuel dismantlement, or any other costs based upon estimates and considered for ratemaking. [TR 2162-2164, see also Order No. PSC-92-0708-FOF-TL]

OPC argues in its brief that, if the Commission approves FAS 106, the Commission should establish a mechanism to refund to ratepayers the overrecovery of OPEB costs. OPC suggests that the Commission require these refunds on an annual basis. In its brief, FPC recommends that the Commission adopt a dollar tracking procedure to account for any differences that may develop between the FAS 106 expense included in rates and subsequent changes to the amount of FAS 106 expense. Witness Scardino states that this method could go either way: in favor of the ratepayer or stockholder. [TR 2492-2493] As noted above, staff believes that requiring surveillance reports and requiring companies to file MFRs every four years will adequately monitor the effects of changes in FAS 106 costs. Staff has discussed the dollar tracking procedure under Issue 48.

Thirdly, witnesses Montanaro and Carlson testify that using FAS 106 for ratemaking purposes can create an intergenerational inequity since the amortization of the transition obligation is a part of FAS 106 expense. [TR 2102, 2138, 2658] The transition obligation is, essentially, the unrecognized amount of the postretirement benefit obligation as of the date a company initially applies FAS 106. (Exhibit 157, p. 205) Staff notes that the transition obligation represents the present value of benefits

to be paid in the future and that the amortization of the transition obligation allocates the present value of those future benefits to a 20 year period in the future. [TR 3767, Exhibit 151, p. 12] Staff believes that under pay-as-you-go accounting a mismatch between when an employee earns postretirement benefits and when the company recognizes the cost of those benefits will always exist. Even with the amortization of the transition obligation, FAS 106 is closer to achieving intergenerational equity than the pay-as-you-go method. [TR 3541-3542]

Witness Kollen testifies that accounting requirements should not drive the ratemaking process and that utility accounting follows the rate actions of a regulator. [TR 2879-2880] Staff notes that generally accepted accounting principles do not have to be used for ratemaking purposes. However, staff believes that accrual accounting provides more relevant and useful information than cash basis accounting. [TR 3510] To the extent that regulatory accounting and generally accepted accounting principles are the same, the accounting and auditing functions could be simplified. [TR 3511] Therefore, staff believes that following generally accepted accounting principles can be appropriate for ratemaking purposes.

Fifth, witnesses Carlson and Kollen testify that FAS 71 can be used to defer the difference between FAS 106 costs and pay-as-you-go costs. [TR 2655-2656, 2891-2892] In rebuttal, witness Bongers testifies that the Securities and Exchange Commission (SEC) has taken the position that continued pay-as-you-go accounting is unacceptable. [TR 3528] He believes that generally accepted accounting principles are the basis for determining cost of service and that continuing the pay-as-you-go method represents a significant departure from cost based regulation. This, in turn, raises questions about the applicability of FAS 71. [TR 3517, 3531] Staff believes that a FAS 71 deferral of the difference between FAS 106 costs and pay-as-you-go costs is appropriate if done in the manner of the recent rate case for United Telephone Company of Florida (see Order No. PSC-92-0708-FOF-TL). However, staff believes that a deferral over a long period, with uncertainty of recovery, would not qualify under FAS 71.

For the sixth argument, OPC recommends in its brief that the transition obligation remain on a pay-as-you-go basis, stating that it would be unwise for the Commission to change its policy in "midstream." Witness Montanaro states that the calculation of the transition obligation can date back as far as 20 or 30 years. [TR 2120] As stated above, staff believes that FAS 106 is appropriate for ratemaking purposes. Staff notes that the calculation of the FAS 106 expense includes the amortization of the transition obligation. (Exhibit 157, paragraph 46)

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Finally, OPC argues in its brief that interest expense on OPEB costs that have already been recognized be excluded from the FAS 106 expense calculation. OPC states that if the company funded its OPEB plan, the plan assets would earn profits that would offset interest. Staff notes that funding of OPEBs could be more costly due to the lack of a comprehensive funding method. [TR 1921-1922] Staff also notes that interest cost is inherent with the present value concepts behind FAS 106. [TR 3767-3768, Exhibit 157, paragraph 48]

OPC also argues that the discount rate should be the Commission's allowed return on equity. Staff disagrees, and the reason for this as well as the discussion of staff's adjustment to the discount rate are discussed under Issue 46. Staff discussed the working capital aspects of FAS 106 under Issue 21. Issues 92 and 95 consider FAS 106 implementation and the Administrative and General benchmark.

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ISSUE 11: Is Florida Power's requested level of Construction Work in Progress in the amount of \$124,340,000 (\$139,203,000 system) for the 1992 current test year and \$110,567,000 (\$123,348,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate CWIP amounts allowed in rate base for the 1992 and 1993 test years are \$92,052,000 and \$82,921,000. This is a calculation based on the resolution of all other Construction Work in Progress issues. (Reeves)

POSITION OF PARTIES:

FPC: Yes. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106. Thus, the revised amounts of CWIP in Rate Base are \$121,823,000 (\$136,764,000 System) for the 1992 current test year and \$112,040,000 (\$124,806,000 System) for the 1993 projected test year.

OPC: No. Florida Power significantly over-projected its CWIP balances based on a comparison of actual-versus-budget through March 1992. The 1992 projected test year CWIP balance should be reduced by \$32,295,000 (\$36,156,000 system) because of the over-projections and an additional \$1,335,000 (jurisdictional) as part of the FAS 106 adjustment.

OCCIDENTAL: No. The Company's adjustments to CWIP for the effects of FAS Nos. 87 and 106 should be rejected. This reduces rate base by \$1,710,000 (jurisdictional) for the 1992 test year. For the 1993 forecast test year, adjustments reduce rate base by \$1,401,000 (jurisdictional).

FIPUG: No position.

FCAN: No. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The level of CWIP for the 1992 test year falls out from the resolution of issues 12, 46, 47, 48, 166, and 193

The level of CWIP for the 1993 test year falls out from the resolution of issues 46, 47, 48, 166 and 193.

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ISSUE 12: Should an adjustment be made to the balance of Construction Work In Progress for 1991, 1992, or 1993?

RECOMMENDATION: Yes. CWIP allowed in rate base for 1991 should be adjusted for errors made in classifying CWIP as AFUDC eligible or ineligible. For the 1991 interim test year jurisdictional CWIP allowed in rate base should be reduced by \$2,314,122 and increased by \$1,069,179 for a net decrease of \$1,244,943. CWIP for 1992 should be reduced by \$1,254,066 (\$1,405,000 system) for an AFUDC eligible project that was included in rate base. Also, jurisdictional CWIP allowed in rate base for 1992 and 1993 should be reduced by the over projection factor of 25%. The adjustment amounts are \$30,684,000 for the 1992 test year and \$27,640,000 for the 1993 test year. (Reeves)

POSITION OF PARTIES:

FPC: Yes, for the 1991 interim test year. The Company agrees with Staff's position that CWIP should be decreased, but in the amount of \$1,244,943 (\$1,320,216) not \$14,539,093 (\$15,834,026). As part of its audit of the Interim Test Year, Staff issued Audit Disclosure Nos. 4, 5, and 6 which dealt with CWIP issues. Florida Power accepts Staff's recommendation regarding Audit Disclosure Nos. 4 and 5, but disagrees with No. 6. None of the three audit disclosures impact the CWIP request in the 1992 current test year or the 1993 projected test year.

OPC: The 1992 CWIP balance should be reduced by \$32,295,000 (\$36,156,000 system). See position on Issue 11.

OCCIDENTAL: Yes. See Issue No. 11, supra.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: For the 1991 interim test year, CWIP should be reduced by \$2,314,122 (\$2,452,067 system) for construction projects which were included in Account 107.20 - CWIP Not Eligible for AFUDC, but accrued AFUDC. CWIP should be increased by \$1,069,179 (\$1,131,851 system) for construction work orders which did not accrue AFUDC and were not included in CWIP. These recommended adjustments are based on audit disclosures 4 & 5 and relate only to the 1991 interim test year. These errors which result in a net decrease to 1991 rate base were documented by our auditors and

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confirmed by FPC. The auditors findings regarding audit disclosure no. 6 were based on the organizational structure of FPC's chart of accounts and no adjustment is appropriate.

Regarding the 1992 and 1993 projected test years OPC witness Larkin testified [TR 2998] that one project was classified as Rate Base CWIP in the 1992 test year even though it accrued AFUDC. Therefore 1992 CWIP should be reduced by \$1,254,066 (\$1,405,000 system). Mr. Larkin also testified that actual CWIP for the months of December 1991 through March 1992 were approximately 25% lower than the balances projected by the Company. FPC witness Scardino testified [TR 3747] that:

Mr. Larkin omitted from actual CWIP that portion of CWIP that is considered completed but not classified to electric plant in service (i.e., the 106 classification within the 107 CWIP account). The CWIP balance in this account is not eligible for AFUDC treatment and therefore should be included in rate base. Once this amount is included in the actual average amounts, the percent variance drops from 25% to 19.8%.

Witness Scardino further testified [TR 2445]

Account 106 is for projects that are classified in service but have not been finally accounted for in terms of primary accounts within plant in service. So it's possible, for example, when you buy a vehicle, that vehicle, that automobile, is in service upon purchase, and so it would be recorded as a component of 106 and then ultimately placed in Account 101, under "Transportation Equipment."

Witness Scardino also testified [TR 2545] that:

Mr. Howe, you remember you were inquiring about whether FERC account 106 had been included in our test periods. And we have, upon research of the information, we did not provide any forecast for Account 106, either in CWIP as a component or as a separate stand-alone. So all we dealt with was construction work in progress and plant in service, just those two accounts.

Since account 106 is for projects that are classified in service, the amounts in account 106 should not be considered to be CWIP, but should be considered plant in service. Therefore the variance is 25%.

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The Company forecasts the CWIP not eligible for AFUDC using historical trend analysis as it would not be practicable to forecast by project. [TR 2994]. Witness Larkin recommended applying the over projection factor to the projected CWIP balances for 1992. FPC's position advocated by John Scardino Jr. [TR 3747] is:

Mr. Larkin fails to acknowledge that the timing of expenditures can reshape monthly CWIP balances. Finally, Mr. Larkin indiscriminately assumes past variances should be imputed on future projections.

Since the company forecast CWIP based on a historical trend, and the over projection factor is based on the beginning months of the two year forecasts which should be the easiest to accurately project, it is appropriate to apply these early variances to the future projections. CWIP allowed in rate base should be reduced by 25% for both the 1992 and 1993 test years.

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ISSUE 13: Is Florida Power's requested level of Property Held for Future Use in the amount of \$9,559,000 (\$11,145,000 system) for the 1992 current test year and \$9,436,000 (\$11,145,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate jurisdictional level of Property Held for Future Use is \$2,374,000 for 1992 and \$2,363,000 for 1993. This is a calculation based on the resolution of Issue 14. (Merta)

POSITION OF PARTIES:

FPC: Yes. Each of the items included in Property Held for Future Use has been recorded at cost, purchased for specific projects, and has an assigned in-service date. The only question raised regarding Florida Power's level of Property Held for Future Use concerns Avon Park Unit 2, which is addressed in Issue 14, below.

The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106. Thus, the revised amounts of Electric Plant Held for Future Use are \$9,550,000 (\$11,145,000 System) for the 1992 current test year and \$9,425,000 (\$11,145,000 System) for the 1993 projected test year.

OPC: Yes, but only if lease revenues of \$1,200,000 are included in test year revenue. If lease revenues are not recognized, rate base should be reduced.

OCCIDENTAL: No. FPC's requested level of property held for future use should be adjusted for the exclusion of Avon Park II. See Issue No. 14, *infra*.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Commission rate case decisions in the past have reflected the importance of retaining certain properties held for future use in view of Florida's projected growth rate, the burden on the utilities to meet this growth rate, and the expense that might be incurred if the properties were sold and had to be replaced in the future at a greater cost.

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Except for the inclusion of Avon Park Unit 2, which is discussed in Issue 14, the parties agree that the level of Property Held for Future Use is appropriate.

In reviewing the detail of Schedule B-12a, 1992 MFR page 73 and 1993 MFR page 40, all items have been recorded at cost, have been purchased for specific projects, and have been assigned in-service dates. However, the Sebring distribution system and Avon Park Unit 2 should be removed from rate base as discussed in Issues 166 and 14, respectively. The remaining items appear reasonable. Therefore, based on an evaluation of the record and consideration of the Commission's past treatment of this issue, Staff recommends that the appropriate jurisdictional level of property held for future use is \$2,374,000 for 1992 and \$2,363,000 for 1993.

ISSUE 14: Is Florida Power's requested level of Property Held for Future Use for Avon Park Unit II in the amount of \$7,182,000 (\$8,178,000 system) for the 1992 current test year and \$7,067,000 (\$8,178,000 system) for the 1993 projected test year appropriate considering the company's agreement to lease the plant to Eco Peat in 1994?

RECOMMENDATION: No. Avon Park Unit 2 should be removed from rate base and allowed to accrue a carrying charge equivalent to the AFUDC rate until the unit is returned to service or the lease is operational. This is consistent with the Commission's treatment in FPC's 1984 rate case. (Order No. 13771) For the 1992 and 1993 test years, the following reductions should be made to remove Avon Park Unit 2 from Plant Held for future Use:

	(000)			
	1992		1993	
	Juris.	System	Juris.	System
PHFU	\$7,176	\$8,178	\$7,062	\$8,178
Acc.Dep/Amort.	(6,276)	(6,797)	(6,259)	(6,797)
Fossil Dsmtlmt.	(326)	(353)	(541)	(588)
Working Capital	473	508	472	508
	\$1,047	\$1,536	\$ 733	\$1,301

(LFExhibit 227, TR 3802) (Merta/Ballinger)

POSITION OF PARTIES:

FPC: Yes. The Company has entered into a contract with Eco-Peat to lease the Avon Park Unit 2 for a period of 32 years, with 30 years of operation and 2 years of construction. The annual expected lease revenues range from \$500,000 per year to \$1,200,000 per year. The net investment in Avon Park 2 in the 1992 current test year is only \$1,099,000 (\$1,028,000 System) when accumulated depreciation is considered. The net investment in Avon Park 2 in the 1993 projected test year is only \$891,000 (\$796,000 System) when accumulated depreciation is considered.

OPC: Yes, but only if lease revenues of \$1,200,000 are included in test year revenue. If lease revenues are not recognized, rate base should be reduced.

OCCIDENTAL: No. Exclusion of Avon Park II reduces rate base by 1.050 million, yielding a revenue requirement reduction of \$.113 million for 1992 and \$.079 million for 1993.

FIPUG: No position.

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FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: In FPC's 1984 rate case, the Commission ordered that seventeen of its units in extended cold shutdown, including Avon Park Unit 2, be excluded from rate base, but allowed to accrue a carrying charge equivalent to the AFUDC rate until such time as they were returned to commercial service. Avon Park 2 is projected by FPC, in the 1992 test year, to be the only unit of the original seventeen that is still in extended cold shutdown. The Company has included this unit in Property Held for Future Use.

According to the terms of a lease between FPC and Eco Peat Avon Park, this unit will be leased for 32 years beginning in 1994 if Eco Peat meets its performance and construction dates. At present, Eco Peat appears to be on target to meet these dates. (LFExhibit 228, TR 3806) Eco Peat plans to convert Unit 2 to a 40 megawatt electric generating facility fired by peat or other permitted fuels. The lease revenues from Unit 2 range from \$500,000 to \$1,200,000 per year plus bonus payments, if the tenant exceeds certain profitability thresholds. [Exhibit 74, TR 388] The net book value of the unit is about a \$1,028,000 system. [TR 2777]

The Commission has several options. First, Avon Park Unit 2 could be excluded from rate base but allowed to accrue a carrying charge equivalent to the AFUDC rate as the Commission ordered in the 1984 rate case. Any lease revenues would be recorded below the line. In this case, carrying charges would be deferred but eventually increase the investment in plant when the unit is returned to service. Second, the unit could be excluded from rate base. The Company would not earn a return on the unit and any lease revenues would go to the stockholders. Third, the unit could be included in rate base. The Company would earn a return on the unit and FPC's expenses related to Unit 2 and rental revenues would be recorded above-the-line. In this case, revenues would be imputed for the 1993 test year.

Occidental recommends the second option, that Unit 2 be excluded from rate base. Occidental Witness Kollen argued that the unit is not used and useful now and may never be used and useful for retail ratepayers. This is further evidenced by the fact that FPC has signed a 32 year lease agreement beginning in 1994 with Eco Peat. [TR 2723] In Order No. 13771, FPC's 1984 rate case, the Commission determined that FPC's investment in Avon

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Park Unit 2 could be included in rate base when it was again placed in service. [TR 2722-23].

Staff disagrees with Public Counsel's recommendation that the unit be included in rate base and revenues be recorded above the line. There is a possibility that the lease would not become operational in 1994. In that case, ratepayers would pay a return on a unit that was not in service and from which no lease revenue would be recognized.

Staff also disagrees with Occidental's opinion that the unit be excluded from rate base. While it is true that the unit is not used and useful at the present time, to exclude it from rate base entirely would deny the Company the opportunity to recover its investment.

Staff considered the option of placing Unit 2 in plant in service and imputing revenues for 1993. However, given the chance that the lease may not become operational and the difficulty in calculating revenues to be imputed since we do not have an executed lease setting specific lease payments, we declined this option. Instead, Staff recommends that the unit be excluded from rate base but allowed to accrue a carrying charge at the AFUDC rate until such time as the unit is returned to commercial service or the lease becomes operational. When the lease becomes effective, the unit should be recorded in plant-in-service and lease revenues recorded above the line.

There is a difference of approximately \$3,000 in the jurisdictional amounts that Occidental and Staff are recommending for disallowance. The difference is due to the fact that Staff calculated the jurisdictional amount of the disallowance from Exhibit 227 using the separation factors that exclude the Sebring acquisition and Occidental used the jurisdictional amounts directly from Exhibit 227. [Exhibits 25 & 25, TR 388]

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ISSUE 15: Is Florida Power's requested level of Working Capital in the amount of \$55,920,000 (\$65,537,000 system) for the 1992 current test year and \$54,817,000 (\$67,159,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate jurisdictional amounts for 1992 and 1993 are \$41,920,000 and \$56,858,000. This is a calculation based on the resolution of all other Working Capital issues. (Reeves)

POSITION OF PARTIES:

FPC: Yes. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106. Thus, the revised amounts of Working Capital Allowance are \$56,855,000 (\$65,026,000 System) for the 1992 current test year and \$59,564,000 (\$72,256,000 System) for the 1993 projected test year.

OPC: No. FPC's 1992 working capital should be increased by \$9,686,000 (\$11,395,294 system) to adjust for the interest on tax deficiency, FAS 106 and Sebring Utilities issues.

OCCIDENTAL: No. Adjusted rate base for the 1992 test year should be reduced by \$75,443,000 (jurisdictional). If the Commission considers the 1993 forecast test year, the Company's adjusted 1993 forecast test year rate base should be reduced by \$92,086,000 (jurisdictional).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The level of the working capital allowance for the 1992 test year falls out from the resolution of Issues 14, 17, 19, 21, 23, 24, 47, 48, 102, 166, 178, and 193

The level of the working capital allowance for the 1993 test year falls out from the resolution of Issues 14, 21, 47, 48, 102, 166, 178 and 193

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ISSUE 16: Should the Commission direct FPC to, in its next base rate filing, calculate working capital based upon a lead/lag methodology in lieu of the current methodology?

RECOMMENDATION: No. (Reeves)

POSITION OF PARTIES:

FPC: No. The Commission has adopted the balance sheet method as its policy for the calculation of working capital in base rate proceedings and should therefore be used in the Company's next base rate filing unless the Commission adopts a different policy. The balance sheet method has been consistently utilized by the Commission over the last decade and is a proven, well understood approach for calculating working capital. It should not be abandoned in favor of conducting complex, time consuming and expensive lead/lag studies.

OPC: No.

OCCIDENTAL: Yes.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Occidental witness Lane Kollen testified that:

The balance sheet methodology, although perhaps a more expedient and less data intensive methodology, is simply not as accurate as the lead/lag methodology. The lead/lag working capital methodology specifically measures the time leads and lags for the company's expenditures flows, both incoming and outgoing. The balance sheet methodology is incapable of properly capturing the timing effects of these flows. [TR 2727]

FPC witness John Scardino Jr. testified that the Commission should not order FPC to develop a lead/lag study as a basis for its working capital calculation in the next base rate proceeding. He further testified that:

The balance sheet method consistently used by this Commission over the last decade is a proven, well understood approach for calculating working capital and should not be abandoned in

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favor of conducting complex, time consuming and expensive lead/lag studies. [TR 3750]

Neither Mr. Kollen nor Mr. Scardino provided any compelling data to support their respective opinions. It would be inappropriate to single out FPC from all of the regulated utilities in Florida by ordering the company to calculate the working capital allowance based on a lead/lag study in their next case. Since utilities in all of the industries have used the balance sheet approach any change in this regard would best be handled in a generic proceeding. Even the proponent of the lead/lag study methodology concedes it may be less expedient and more data intensive than the balance sheet approach. There is no convincing record data which demonstrates the alleged superiority of the lead/lag study approach.

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ISSUE 17: Is Florida Power's requested Property Insurance Reserve of \$3,732,000 (\$4,010,000 system) for the 1992 current test year and \$4,587,000 (\$4,936,000 system) for the 1993 projected test year, which reflects a change in scope of its current storm damage reserve to include not only tropical storms and hurricanes but also other destructive acts of nature, appropriate?

RECOMMENDATION: This issue should be considered along with Issue 51.

1. The 1992 Property Insurance Reserve as proposed by Florida Power Corp. is appropriate.
2. The 1993 Property Insurance Reserve is: Funded \$3,732,000 (\$4,010,000 System); Unfunded \$100,000 or \$50,000 on a 13 month average. Working Capital should be reduced \$46,465 (\$50,000 System) for the unfunded reserve.
3. FPC should establish an unfunded reserve effective January 1, 1993 in accordance with the provisions of Commission Rule 25-6.0143.
4. Funding of the current reserve should be discontinued in December, 1992.
5. All future charges, to include not only tropical storms and hurricanes, but also other destructive acts of nature as provided for by Commission Rule 25-6.0143, should be made first against the funded reserve until it is extinguished.
6. All investments should be liquidated upon maturity or sooner if economically feasible with the net proceeds recorded in the company's general cash account.
7. Any gains associated with the sale of investments should be recorded in a deferred account until the company's next rate case. Any gains should then be amortized over a period to be determined in the company's next rate case.
8. The Company's requested cap of \$5 million on the property insurance reserve should be denied. (L.Romig)

POSITION OF PARTIES:

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FPC: Yes. The scope of the storm damage reserve should be expanded to recognize the fact that these acts of nature can inflict the same, if not greater, physical and financial hardship on the Company as do tropical storms and hurricanes.

OPC: No.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power currently maintains a funded Property Insurance Reserve to cover losses inflicted by major storms as approved by the Commission. The Company has been accruing \$1,104,000, since its last case (Docket No. 870220-EI) in which base rates were adjusted, through 1992.

In this case, the Company is requesting to increase the scope of its current storm damage reserve to include not only tropical storms and hurricanes, but also other destructive acts of nature. This request is in accordance with the provisions of Commission Rule 25-6.0143.

For 1993 the Company reduced its requested accrual to \$314,000 annually to attain its requested cap of \$5 million to its reserve or the amount of its Property Insurance deductibles. The staff agrees with the Company's request to expand the scope of its reserve; however, Staff recommends that the Company should continue its accrual to the reserve even if the balance exceeds the \$5 million requested cap before its next rate case. This recommendation is based on the events that occurred subsequent to the hearing; the catastrophic damage caused by Hurricane Andrew. Florida Power currently has \$70 million in insurance coverage after the \$5 million deductible. After \$75 million in losses the Company is self insured. In the event the Company were to experience losses to the extent caused by Hurricane Andrew the amount of coverage would not be adequate. Taking the events of Hurricane Andrew into account it would be appropriate to review the adequacy of the reserve in the Company's next rate case. Based on past experience the Company's proposal to attain the \$5 million balance would be appropriate.

For 1993 staff further recommends that the Company:

- 1) **Establish an unfunded reserve effective January 1, 1993.** Mr. Scardino stated that he would have no problem with changing to an unfunded reserve as long as the liquidation of the securities were to be done in an orderly process. This could be accomplished during the fourth quarter of 1992 or about the time new rates would be prescribed. [TR 2531-32] Mr. Scardino further testified that in his opinion an unfunded reserve would result in lower revenue requirements in the long run than a funded reserve, because rate base would be reduced and the customer would be given credit at the overall cost of capital approved by the Commission. [TR 2531]
- 2) **Discontinue funded reserve December 31, 1992.** Mr. Scardino stated during cross examination that he would support the changing from a funded to an unfunded reserve. [TR 2531]

Mr. Scardino expressed concerns about being ordered to change from a funded to an unfunded reserve. He stated that "I would like to reserve the liquidation process to be one that would be orderly. I would not want to have to sell off securities and take a loss if that was the prudent thing to do...." [TR 2532]

Mr. Scardino responded to the following question from Commissioner Deason: "So you think the best thing to do is do it as soon as possible, with flexibility to manage the portfolio to its best advantage?" Witness Scardino: "Yes sir, I do, and I don't have any problems if it was decided to go unfunded...."

In addition all future charges should be made first against the funded reserve until it is extinguished. Also, all investments should be liquidated upon maturity or sooner if economically feasible with the net proceeds recorded in the general cash account. This would enable the company to go to an unfunded reserve as soon as practical, as agreed to by Mr. Scardino at TR 2533.

- 3) **Record any Gain on sale of investments in a deferred account.** In staff's opinion it would be appropriate for the company to record any gains associated with the sale of investments in a deferred account until its next rate case. The disposition of these gains would then be determined in the company's next case, even though this treatment was not addressed during cross examination. This treatment would be appropriate since the customers provided the funds to be invested.

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- 4) **Accrue \$100,000 annually.** Based on staff's recommendation in Issue 51, the annual accrual of \$100,000 would result in a December 31, 1993, balance of \$100,000 or \$50,000 on average in the Unfunded Property Insurance Reserve. Working Capital should be reduced \$46,465 (\$50,000 System).

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ISSUE 18: Should an adjustment be made to the working capital allowance for 1992 and 1993 to correct an error in the 13-month average for contract retainage?

RECOMMENDATION: No adjustment to the 1992 and 1993 working capital allowance is appropriate. (L. Romig)

POSITION OF PARTIES:

FPC: No. The contract retainage error effects only the 1991 interim test year. The 1992 and 1993 balances included in the working capital allowance are projected amounts. See Staff's Audit Report for the interim test year, Audit Disclosure No. 3, which discusses the working capital adjustments.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power made an error in the 1991 interim test year by removing the wrong amount for contract retainage from working capital. (Staff Audit Report, Disclosure No. 2) (Staff Exhibit No. 77) For 1992 and 1993 the Company removed the correct amount; therefore, no adjustment is recommended.

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ISSUE 19: Should the net over recovery of fuel and conservation expenses of \$8,434,000 (\$4,651,000 system) for the current 1992 test year be included in the calculation of working capital allowance?

RECOMMENDATION: Yes. Consistent with Commission practice, the net over recovery should be included as a reduction to working capital. Working Capital should be reduced by \$8,434,000 (\$4,651,000 system) for the 1992 test year. (Merta)

POSITION OF PARTIES:

FPC: No. The Company has matched forecasted current month fuel/conservation revenues with the appropriate forecasted expenses. The forecast is done in a manner consistent with the Commission's fuel/conservation cost recovery procedure. In a projected test year, the accumulated net overrecovery of fuel/conservation expenses does not overstate the customer accounts receivable component of working capital, as may be the case with a historic test year, because the monthly fuel/conservation revenues have been modeled to be less than the applicable expense. For this reason, the Commission's past practice of including fuel overrecoveries in calculating working capital does not apply because the objective of such an inclusion has been satisfied in this case by the understatement of the Company's revenues.

OPC: Yes. The net overrecovery of fuel is a current liability (or deferred credit) on the utility's books. If this balance were not recognized in the calculation of working capital, rate base would increase by the amount of the overrecovery and customers would be forced to pay a return on their overpayments to the utility. This is inconsistent with policy decisions in the fuel cost recovery docket. Additionally, removing this from the working capital calculation would increase rate base without a concomitant increase in capital.

OCCIDENTAL: No. position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: It has long been the policy of the Commission that net fuel and conservation overrecoveries are included as liabilities in working capital. This reduces working capital and

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consequently rate base. FPC has excluded from working capital the net overrecovery of fuel and conservation expenses in its 1992 test year and the net under recovery in the 1993 test year.

Through the Fuel and Conservation Clause Adjustment, the Company receives interest on underrecoveries and pays interest on overrecoveries. This acts as an incentive to the Company to make its projections as accurate as possible. If overrecoveries were excluded from working capital, rate base would be increased and ratepayers would provide the interest to pay themselves. In Order No. 13537, issued July 24, 1984 in Docket No. 830465-EI, Florida Power & Light's rate case, the Commission stated:

...if over recoveries were excluded, working capital would be increased and the company would earn a return on the amount of the underrecovery that was excluded. Stated simply, the ratepayer would provide the interest that the Company return to them in the conservation clause proceedings for overrecoveries.

In Order No. 9273, Docket No. 74680-CI, we determined that interest should be applied to over/underrecoveries in order to counter any incentive to bias projections in either direction. If the ratepayer has to provide the interest on both over/under recoveries, the company will have no incentive to make its projections as accurate as possible.

In FPL's last rate case and in subsequent rate cases involving other electric utilities, we have consistently determined that adjustment clause overrecoveries should be included as a reduction to working capital.

In the most recent electric rate case, Order No. 23573 issued October 3, 1990 in Docket No. 891345-EI, no adjustment for overrecoveries was necessary because Gulf Power Company did not project an overrecovery. In Order No. 22224 issued November 27, 1989 in Docket No. 881056-EI, Florida Public Utilities Fernandina Beach rate case, the Commission ordered that overrecoveries be included in working capital.

FPC disagrees with the Commission's past practice of including overrecoveries in working capital because in a projected test year, the Company matches the current month fuel/conservation revenues with the appropriate expenses through the corporate model. Company witness Scardino stated that any overrecovery is eliminated by year end by understating the monthly revenues to be collected during the year. The Company argued that customer accounts receivable are not overstated by the accumulated net overrecovery of fuel/conservation expenses, but are really understated because the monthly

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fuel/conservation revenues have been modeled to be less than the applicable expense in order to eliminate the accumulated net overrecovery. [TR 3767-68]

Public Counsel, FCAN and Staff recommend that the overrecovery be included in working capital. At no time has the Company argued that the overrecovery did not exist, nor does the Company dispute the amount of the overrecovery. [TR 2406-08] Both the accounts receivable and the overrecovery are 13-month average amounts. Even though these accounts were adjusted throughout the year and an overrecovery no longer existed at year end, there would still be a 13-month average amount which should be included in rate base. To exclude the overrecovery from working capital would mean that ratepayers would be paying the Company a return on the amount of the overrecovery for years after the refund to customers had, in fact, taken place. [TR 2410] In addition, the amount paid to the Company by ratepayers would exceed many times the one-time refund with interest the Company is required to pay.

Based on the above, Staff recommends that the net fuel/conservation overrecovery be included in rate base and that working capital be reduced by \$8,434,000 (\$4,651,000 system) for the 1992 test year. No adjustment is necessary for 1993 because the Company properly excluded its projected net under recovery of \$2,328,000 (\$6,244,000 system) from working capital.

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ISSUE 20: Should adjustments be made to working capital for 1992 and 1993 to exclude accrued utility revenues?

RECOMMENDATION: No. FPC has appropriately included accrued utility revenues in working capital. (Merta)

POSITION OF PARTIES:

FPC: No. The balance sheet and the income statement are integral components of the ratemaking process. The Company records unbilled revenue as other operating revenues and reduces the gross cost to be recovered from the customer in providing electric service accordingly. Accrued utility revenues which is the offset to the unbilled revenue is appropriately included in working capital as it compensates for the timing difference between revenue recognition and cash receipt to the Company.

OPC: No position.

OCCIDENTAL: Yes. For the 1992 current test year this reduces rate base by \$50,864,000 (jurisdictional), yielding a revenue requirement reduction of \$5,471,000. If the Commission decides to use the 1993 projected test year, the appropriate reduction to rate base is \$54,060,000 (jurisdictional), yielding a revenue reduction of \$5,780,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Accrued utility revenue is unrecorded revenue applicable to unread meters. Since meters are read on a cycle basis, at the end of any given accounting period, there are certain meters which have not been read for as many as 30 days. The kwh's recorded on these unread meters represent service actually rendered to customers. Unbilled revenues are booked by the utilities in order to preserve the matching principle - matching revenues with expenses (services rendered). Commission practice has been to include accrued utility revenues in working capital. (Order No. 13771 issued October 12, 1984 in Docket No. 930470-EI, FPC's rate case.)

Occidental witness Kollen believes that accrued utility revenue should be excluded from working capital because it is an accounting created asset that has no associated carrying cost. He

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stated that there is no carrying cost because unlike accounts receivable, which have already been billed, these have not been billed. In addition, the amount at issue is the ongoing balance from the initial recognition of accrued utility revenues, not year-to-year changes in that balance. [TR 2783-87]

This position has been considered and rejected repeatedly in the past. In Order No. 830012-EI, Tampa Electric Company's rate case Docket No. 830012-EI, the Commission stated:

We have considered Public Counsel's recommended approach in the recent past and rejected it... the record in this case shows that unbilled revenues have been addressed as far back as the Company's 1975 rate case and that the change to begin booking unbilled revenues produced no cash nor increased the revenues collected from the ratepayers. Therefore, no adjustment will be made.

The Company has included accrued utility revenues in working capital. FPC witness Scardino stated that the company records unbilled revenue as other operating revenues and as such reduces the gross cost to be recovered from the customer. Accrued utility revenues which are the offset to the unbilled revenue compensates for the timing difference between revenue recognition and cash receipt to the company. Therefore, to remove accrued utility revenues from rate base without removing unbilled revenues from net operating income, as recommended by Mr. Kollen, would result in a severe mismatch between the income statement and balance sheet. [TR 3751-52]

Staff agrees with the company that accrued utility revenue is a proper component of working capital. Consistent with Commission treatment in prior rate cases, Staff recommends that no adjustments be made and that the accrued utility revenues be included in working capital.

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ISSUE 21: Should adjustments be made to working capital for 1992 and 1993 to exclude FAS 106 net assets?

RECOMMENDATION: No. The implementation of FAS 106 results in a net liability that reduces working capital for 1992 and 1993. (Lester)

POSITION OF PARTIES:

FPC: No. The implementation of FAS 106 results in a net liability, not a net asset, for 1992 or 1993.

OPC: Yes. For the year 1992 the deferred tax debit in the amount of \$4,225,000 (jurisdictional) should be eliminated from working capital, thereby reducing rate base by \$4,225,000. If these dollars are not included in working capital then cost free monies in the capital structure should be increased by \$4,225,000. See position on Issue 10 for a discussion of the proper treatment of OPEB costs.

OCCIDENTAL: Yes. For the 1992 test year this reduces rate base by \$3,444,000 (jurisdictional), yielding a revenue requirement reduction of \$370,000. If the Commission decides to use the 1993 forecast test year, rate base should be reduced by \$3,595,000 (jurisdictional), yielding a revenue requirement reduction of \$384,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Occidental witness Kollen states that FPC accounted for the implementation of FAS 106 by reclassifying \$34.7 million from a miscellaneous deferred debit to a liability. The company then makes a negative adjustment for the same amount, reducing the liability balance by \$34.7 million. [TR 2733] He contends that FPC then increased the FAS 106 liability by \$12 million, resulting in a net increase to working capital of \$22.8 million. [TR 2733] He states that the appropriate working capital reduction is \$63.8 million. [TR 2812] Witness Kollen states that the \$34.7 million is the accrued amount of the difference between pay-as-you-go and a modified accrual method of accounting for OPEBs. [TR 2792]

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FPC witness Scardino testifies that implementation of FAS 106 will cause a net working capital reduction. He provides a table showing the calculation of the reduction. [TR 3752, 3772] He states that FPC has used a modified accrual method for OPEB accounting since 1985 and that the \$34.7 million represents the unamortized portion of the medical/life liability for current retirees. [TR 3768, 3772]

Staff believes that the implementation of FAS 106 results in an increase in the liability side of the working capital calculation that causes a reduction in working capital. Staff believes Exhibit No. 195 clearly shows this.

Staff notes that FPC updated its FAS 106 costs due to a new collective bargaining agreement and a new discount rate. [TR 1940, 3775, Exhibit 225] Staff has also adjusted the discount rate, which is discussed under Issue 46. The effect of these changes is to reduce FAS 106 costs, reduce the liability associated with FAS 106, and increase working capital. To reflect these changes, staff reduced the FAS 106 liability by \$3,168,207 (\$3,388,095 system) for 1992 and by \$10,565,031 (\$11,288,633 system) for 1993.

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ISSUE 22: Should adjustments be made to working capital for 1992 and 1993 to exclude the vacation pay accrual asset?

RECOMMENDATION: No adjustment should be made. (Brand)

POSITION OF PARTIES:

FPC: No. The vacation pay accrual asset represents the amount of vacation earned but not taken that is estimated to be capitalized. The balance sheet and the income statement are integral components of the ratemaking process. The Company charges O&M and the vacation pay accrual asset and credits the accrued vacation pay liability for vacation pay when earned. The vacation pay accrual asset is appropriately included in working capital as it compensates for the timing difference between vacation earned and vacation taken for payroll that will be charged to construction. This issue was not addressed at the hearing and therefore no basis exists for an adjustment.

OPC: No position.

OCCIDENTAL: Yes. For the 1992 test year this reduces rate base by \$3,444,000 (jurisdictional), yielding a revenue requirement reduction of \$370,000. If the Commission decides to use the 1993 forecast test year, rate base should be reduced by \$3,595,000 (jurisdictional), yielding a revenue requirement reduction of \$384,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Occidental's Witness Kollen stated on page 51 of his prefiled Revenue Requirements testimony that the vacation pay accrual asset should be a liability rather than an asset. He testified that FPC does reflect a liability amount, and that the asset should be excluded from working capital.

The Company explained in its prehearing position that the vacation pay accrual asset represents the amount of vacation earned but not taken that is estimated to be capitalized. The Company charges O&M and vacation pay accrual asset and credits the accrued vacation pay liability for vacation pay when earned. The vacation pay accrual asset compensates for the timing difference between

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vacation earned and vacation taken for payroll that will be charged to construction.

This issue was not addressed at the hearing through cross examination, and Staff finds that the Company's explanation adequately responds to Occidental's concern. No adjustment should be made.

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ISSUE 23: Should adjustments be made to working capital for 1992 and 1993 to exclude interest on tax deficiency?

RECOMMENDATION: No. The 1992 and 1993 working capital allowances properly include the deferred debit and the accrued tax liability related to the interest expense on tax deficiencies which staff is recommending be included in the 1992 and 1993 test year O&M expenses, in Issue 53. (C. Romig)

POSITION OF PARTIES:

FPC: No. The Company believes that its customers are direct beneficiaries of our tax administration policies. The Commission has previously recognized that customers are the primary beneficiaries of tax planning and established a precedent for allowing such costs in rates. See Order No. 13948, Docket No. 830465-EI, Florida Power & Light Company. The issue and underlying principle involved in that case are equally applicable to the Company in this case.

OPC: Yes. Working capital should be increased by \$1,122,000.

OCCIDENTAL: To the extent the Company has properly quantified and accounted for, in working capital, a liability associated with interest on tax deficiency, the recoverable amount of the corresponding asset (i.e., deferred debit) should not exceed FPC's liability.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The inclusion in O&M expense of interest on tax deficiencies is discussed extensively in Issue 53. Based on its analysis, staff believes that Florida Power has justified that its ratepayers will benefit in 1992 and 1993 from its tax administration policies, which gave rise to this interest expense. For this reason, staff recommends that the related balance sheet accounts be given corresponding treatment in the 1992 and 1993 working capital allowances.

Moreover, when the Company prevails on a contested tax matter, customers benefit through the Company's reduced tax liability which results in greater zero-cost deferred taxes. If the Company does not prevail, the inclusion of interest on the tax deficiency in

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working capital is only a recognition of zero-cost funds of which the Company and its ratepayers have had the use.

Accordingly, staff does not recommend that the 1992 and 1993 working capital allowances be adjusted to exclude interest on tax deficiencies.

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ISSUE 24: Is Florida Power's requested level of light oil inventory in the amount of \$9,671,512 (\$11,095,000 system) for the 1992 current test year and \$10,976,446 (\$12,592,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The 1992 current test year should be reduced by \$574,522 (\$637,120 system). Staff recommends no adjustment be made to the fuel inventory for the 1993 test year. (Colson)

POSITION OF PARTIES:

FPC: Yes. The Company's projected light oil inventory targets for 1992 and 1993 comply with the Commission's guidelines when the inventory requirements of the new DeBary and Intercession City peaking units are properly taken into account.

OPC: No position.

OCCIDENTAL: The 1993 forecast test year should be rejected. (See Issue No. 1, supra). Rate base treatment therefore should not be afforded for 1993 capital additions.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Commission's guidelines used to justify Florida Power's fuel inventory levels were approved in Order No. 12645. These guidelines allow for a 30-day level of light oil inventory at peaker units when measured at a high rate of burn and for a 45-day level of inventory at steam units when measured at the average rate of burn. According to FPC's witness D. D. Williams, FPC's 1992 fuel inventory target level for light oil inventory is 383,000 barrels. (Exhibit No. 149) FPC's methodology for calculating its light oil inventory for 1992 has included a full year of fuel inventory for the DeBary Peakers, which will go in service in November 1992. [TR 1889] Since the Commission will establish a separate level of working capital for 1993, it is appropriate to set a 1992 working capital level on 1992 levels, and not based on a "representative" test year level. Staff believes that the fuel inventory for the DeBary plant should be adjusted to reflect only those two months that the plant is scheduled to be in service. This is consistent with the capital and O&M treatment for the DeBary units. Excluding DeBary, Order No. 12645 prescribes a

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1992 level for light oil inventory of 346,729 barrels. Two months of inventory for the DeBary Peakers in 1992 would be approximately 14,000 bbls. FPC's 1992 fuel inventory using the Commission's methodology and including DeBary is calculated to be 361,102 bbls.

In 1993, DeBary will be in service for the entire year. The Intercession City peaking units are not schedule to be in service until November of 1993. (Exhibit No. 150) The 1993 projected test year of 433,000 bbls of light oil reflects the full amount of inventory for DeBary and Intercession City plants. It is appropriate to include a full year of Intercession City light oil inventory in the 1993 test year working capital request because of the "representative" test year concern. FPC should be allowed to recover the full amount of their requested fuel inventory for 1993. (see Exhibit No. 150)

Staff recommends that \$9,096,990 (10,457,880 system) be the appropriate light oil inventory level for the 1992 test year.

Staff recommends no adjustment for the 1993 test year. Staff's recommendation is based on the following adjustments:

Adjustment:

383,000 Bbls - Williams
(361,000 Bbls) - Order No. 12645

22,000 Bbls - Disallowed

Total dollars 22,000 bbls X \$28.96 = \$637,120
\$637,120 X .901749 = \$574,522 Jurisdictional

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ISSUE 25: Is Florida Power's requested level of Accumulated Depreciation in the amount of \$1,483,255,000 (\$1,673,510,000 system) for the 1992 current test year and \$1,628,030,000 (\$1,837,549,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate amount of accumulated depreciation is \$1,472,175,000 for 1992 and \$1,609,988,000 for 1993 which includes Staff recommended adjustments. This is a calculation based on the resolution of all other Depreciation issues. (Meeks, L.Romig)

POSITION OF PARTIES:

FPC: Yes. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106. Thus, the revised amounts of Accumulated Depreciation are \$1,483,222,000 (\$1,668,360,000 System) for the 1992 current test year and \$1,626,222,000 (\$1,830,785,000 System) for the 1993 projected test year.

OPC: No. Accumulated Depreciation for the 1992 test year should be decreased by \$14,380,000 (\$16,157,303 system).

OCCIDENTAL: The 1993 forecast test year should be rejected. (See Issue No. 1, supra). Rate base treatment therefore should not be afforded for 1993 capital additions.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The appropriate amount of accumulated depreciation is \$1,472,175,000 for 1992 and \$1,609,988 for 1993. FPC used zero net salvage in forecasting the depreciation reserve for the 1992 and 1993 test years which, in Staff's opinion, is unrealistic. Witness Scardino agreed that zero is not a likely estimate. [TR 2608, Scardino] Staff requested and received an exhibit forecasting the depreciation reserve using the currently prescribed net salvage value. (Exhibit 19) FPC witness Scardino agreed, at the hearing, that this is a viable method to use in forecasting or estimating net salvage dollars for the reserve. [TR 2608-2609, Scardino] Using the figures from this exhibit, Staff recommends

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that the depreciation reserve, as filed, be reduced by \$5,596,000 (\$6,321,000, System) for 1992 and \$10,581,000 (\$11,958,000, System) for 1993. With this adjusted figure as the starting point, Staff recommendation reflects a calculated figure based on adjustments recommended in other issues.

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ISSUE 26: This issue was stipulated at the prehearing conference. It has been moved to the stipulated section of the prehearing order. In an effort to avoid confusion, it will keep the same Issue number.

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ISSUE 27: Is Florida Power's requested adjustment to the 1992 and 1993 accumulated depreciation to reflect the effect of implementation of a levelized fossil fuel dismantlement expense appropriate?

RECOMMENDATION: No. FPC's 1992 adjustment should be increased \$1,421,455 (\$1,705,503 System), and its 1993 adjustment should be increased \$1,374,802 (\$1,707,003 System). (Neil, Lee)

POSITION OF PARTIES:

FPC: Yes. Florida Power's requested adjustment was determined in accordance with the Commission's decision in its generic investigation into the treatment of fossil dismantlement costs (Docket No. 890186-EI).

OPC: No position.

OCCIDENTAL: See Issue Nos. 96, 98, and 99, infra.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The increase in the dismantlement expense recommended in Issue 98 also serves as a rate base reduction. An increase in the dismantlement expense reduces rate base because of the corresponding increase in the depreciation reserve. [TR 2797]. Staff recommends an increase in FPC's yearly fossil fuel dismantlement accrual based on the analysis discussed in Issue 98, therefore the associated reserve should also be adjusted.

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ISSUE 28: Is Florida Power's requested rate base of \$3,006,775,000 (\$3,318,818,000 system) for the 1992 current test year and \$3,211,239,000 (\$3,592,614,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate jurisdictional amount of rate base is \$2,945,890,000 for 1992 and \$3,176,130,000 for 1993. This is a calculation. (Schedule 1) (Merta)

POSITION OF PARTIES:

FPC: See Table 2 in the Company's brief for a summary of the appropriate rate base by major components for the Company's 1992 and 1993 test years.

OPC: No. FPC's requested rate base for the 1992 current test year should be reduced by \$31,541,000 (\$34,814,324 system), producing an adjusted jurisdictional rate base of \$2,975,234,000 (\$3,284,003,676 system).

OCCIDENTAL: No. The Company's adjusted rate base for the 1992 current test year and the related revenue effects are as follows:

	REDUCTION TO RATE BASE JURISDICTION (\$000)	REDUCTION TO REV. REQ. (\$000)
Avon Park 2 ECS Unit	1,050	113
CWIP-SFAS Nos. 87 and 106	1,710	184
Working Capital	<u>75,443</u>	<u>8,114</u>
Total Reductions to FPC Request	<u>\$78,203</u>	<u>\$8,411</u>

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The Company's adjusted rate base and resulting revenue effects for the 1993 forecast test year are as follows:

	REDUCTION TO RATE BASE JURISDICTION (\$000)	REDUCTION TO REV. REQ. (\$000)
Avon Park 2 ECS Unit	734	079
CWIP-SFAS Nos. 87 and 106	1,401	150
Working Capital	<u>92,086</u>	<u>9,845</u>
Total Reductions to FPC Request	<u>\$94,221</u>	<u>\$10,074</u>

FIPUG: No position.

FCAN: No. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The parties' positions are shown on the following table and are discussed in the appropriate issues.

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1992 Rate Base
Jurisdictional
(000's)

	FPC	Staff	Public Counsel
Pl.-in-Serv.	4,226,647	4,223,383	4,228,264
Acc. Deprec.	<u>(1,483,222)</u>	<u>(1,472,175)</u>	<u>(1,468,875)</u>
Net P.I.S.	2,743,425	2,751,208	2,759,389
CWIP	121,823	92,052	92,045
PHFU	9,550	2,374	9,559
Nuc. Fuel	<u>58,336</u>	<u>58,336</u>	<u>58,351</u>
Net Plant	2,933,134	2,903,970	2,919,344
Work. Cap.	<u>52,403</u>	<u>41,920</u>	<u>55,891</u>
Total	\$2,985,537	\$2,945,890	\$2,975,235

1993 Rate Base
Jurisdictional
(000's)

	FPC	Staff	Public Counsel
Pl.-in-Serv.	4,596,773	4,593,506	0
Acc. Deprec.	<u>(1,626,222)</u>	<u>(1,609,988)</u>	0
Net P.I.S.	2,970,551	2,983,518	0
CWIP	112,040	82,921	0
PHFU	9,425	2,363	0
Nuc. Fuel	<u>50,470</u>	<u>50,470</u>	0
Net Plant	3,142,486	3,119,272	0
Work. Cap.	<u>56,312</u>	<u>56,858</u>	0
Total	\$3,198,798	\$3,176,130	0

COST OF CAPITAL

ISSUE 29: What is the appropriate cost of common equity capital for Florida Power?

RECOMMENDATION: The cost of common equity capital is 11.5%. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Maurey)

POSITION OF PARTIES:

FPC: Florida Power's requested return on common equity of 13.6% is appropriate, as evidenced by the testimony of Mr. Seligson, which supports a range of 13.8% to 14.5% as a reasonable return on common equity for the Company.

OPC: The appropriate cost of common equity for Florida Power Corporation is 10.80%, as determined by the Citizens' expert witness, Mark A. Cicchetti, who utilized two tried and proven methods, the Discounted Cash Flow model and a risk-premium analysis, which have been presented before this Commission on numerous occasions in the past. [TR 361, 365]

OCCIDENTAL: A cost of common equity of 10.65% is sufficient for FPC to maintain its financial integrity, to attract capital, and to balance the interests of FPC's shareholders and ratepayers.

FIPUG: No position.

FCAN: The appropriate cost of common equity capital for Florida Power is 10.8%, as evidenced by the testimony of Mr. Cicchetti.

AHCLG: FPC has requested a return on common equity of 13.6%. This is excessive and should be rejected. While he did not present a rate of return analysis, Mr. Wells did examine the impact of a lower return on equity (11.8%) on FPC and demonstrated that a 13.6% return is not necessary to satisfy the parameters of various financial indicators. The Commission should adopt a return on equity no greater than 11.8%.

LEAF: No position.

STAFF ANALYSIS: Three witnesses presented testimony concerning the fair rate of return on common equity (ROE) for FPC. Witness Carl H. Seligson, testifying on behalf of FPC, recommends an ROE of 14.15%. [TR 162] Witness Mark A. Cicchetti, testifying on behalf of the OPC, recommends an ROE of 10.80%. [TR 306] Witness Richard A. Baudino, testifying on behalf of Occidental, recommends an ROE of 10.65%. [TR 466]

SUMMARY OF WITNESSES' TESTIMONY

Witness Carl H. Seligson, testifying on behalf of FPC, relied on a risk premium approach based on the logic of the Capital Asset Pricing Model (CAPM) in arriving at his estimate of a fair ROE for FPC. [TR 159, 258-259] The risk premium approach attempts to estimate the ROE by recognizing the higher return investors require on equity securities than on debt securities. [TR 160]

The CAPM requires an estimate of the risk-free rate, the market risk premium, and the Beta coefficient of the company under consideration. The risk-free rate he used was an estimate of the long-term U.S. Treasury Bond rate of 8.1%. He derived this estimate by extrapolating between the Value Line 1992 estimate of 7.8% and the Value Line 1994-1996 estimate of 8.8%. The market risk premium he used was 7.1%. This risk premium represents the difference between the arithmetic mean equity return for the Standard & Poor's (S&P) Composite Index and the arithmetic mean return on long-term government bonds over the period 1926 through 1990. This data was provided by Ibbotson & Associates (Ibbotson). Although witness Seligson's risk premium analysis is patterned after the CAPM, he does not believe Beta is a measure of the total risk for a stock and therefore did not use Beta to adjust the market risk premium to reflect the difference in risk between FPC and the index. Instead, he used his personal judgement to determine that FPC bears only 80% to 90% of the risk of the S&P Composite Index. [TR 159-163, 571-574]

Witness Seligson's risk premium analysis produced an ROE range of 13.8% to 14.5%. He recommends the midpoint of this range, 14.15%, for setting rates for 1993. [TR 162]

Witness Mark A. Cicchetti, testifying on behalf of the OPC, utilized two methodologies in arriving at his estimate of a fair ROE for FPC. He first performed a Discounted Cash Flow (DCF) analysis on an index of high quality electric utility companies. He also performed a risk premium analysis on the same index of companies. [TR 296]

To arrive at his estimate of an ROE for FPC, witness Cicchetti first performed a DCF analysis on a group of comparable-risk electric utility companies. The DCF model he used assumed a two-stage dividend growth rate, annual receipt of dividends, and an adjustment for flotation costs of 3%. [TR 296-299]

In a DCF analysis, the cost of equity is the discount rate which equates the present value of expected cash flows associated with a share of stock to the present price of the stock. The DCF model requires an estimate of the current stock price, the expected

dividend growth rate, and the expected dividends. The current stock price was determined by averaging the high and low stock prices for each company for April 1992. This data was obtained from the S&P Stock Guide. The initial growth rate for the period 1992 through 1996 was derived from the explicit forecast of dividends in Value Line. The constant growth rate expected after 1996 was calculated using the earnings retention method ($b \times r$ approach). Witness Cicchetti relied on the Value Line forecast of the expected return on equity (r) and expected retention rate (b) for each company for 1996 to calculate the expected long-term dividend growth rate. Finally, a forecast of the expected dividends for each company was obtained from Value Line. Witness Cicchetti's DCF analysis produced an ROE of 10.20%. [TR 296-301]

Witness Cicchetti then performed a risk premium analysis of the same index of electric companies he relied on in his DCF analysis. The risk premium approach he used measured the expected risk premium for the yield on high quality electric stocks over the current yield on long-term government bonds. [TR 301]

Witness Cicchetti calculated the risk premium as the difference between the expected monthly ROE for the index and the concurrent risk-free rate. He first determined the expected monthly ROE for the index over the 120 month period June 1982 through May 1992. The expected ROE for the index was calculated using the same DCF methodology described previously. Next, he used the then current yield on long-term government bonds as reported by Moody's as a proxy for the risk-free rate. The average risk premium calculated over the 120 month period was 2.80% (rounded). After estimating the risk premium, he chose the May 1, 1992 Blue Chip Financial Forecast (Blue Chip) consensus forecast for the long-term government bond yields for the coming year of 8.00% as an estimate of the expected long-term risk-free rate. Witness Cicchetti's risk premium analysis produced an ROE of 10.80%. [TR 301-303]

Based on the combined results of his DCF and risk premium analyses, witness Cicchetti determined that the investor required ROE for the index is within the range of 10.20% to 10.80%. He then noted that FPC is of "slightly higher risk than that of the index of high quality electric utilities" and that FPC is embarking on a significant construction phase. However, he also noted that FPC has increased, and is expected to continue to increase, its common equity ratio to strengthen its balance sheet and better position itself for the projected increase in capital expenditures. In the end, he stated that he believes the top of the range, 10.80%, represents the required ROE for FPC. [TR 304-306]

Witness Richard A. Baudino, testifying on behalf of Occidental, utilized two methodologies in arriving at his estimate of a fair ROE for FPC. He first performed a DCF analysis on a group of comparable electric companies and on FPC's parent, Florida Progress Corporation. He also performed a "revised" risk premium analysis based on the analysis done by witness Seligson. [TR 442]

Witness Baudino used the traditional version of the DCF model to estimate the ROE for FPC. In his analysis, he used the average dividend yield for the six month period November 1991 through April 1992 for each of the companies considered in his analysis. He calculated the average dividend yields by dividing the annualized dividend by the average of the monthly high and low stock price over the six month period ended April 1992. This data was obtained from the S&P Stock Guide. He then determined an expected growth rate. The expected growth rate was based on averaging the dividend growth forecasts for 1992 through 1995-97 from Value Line, the five-year earnings growth forecast from the Institutional Brokers' Estimate System (IBES), and the results of the earnings retention method (b x r approach). He relied on data from Value Line to calculate the earnings retention growth rate. After determining the current dividend yield and expected growth rate, he derived the expected dividend yield for Florida Progress by multiplying the current dividend yield by one plus one-half the expected growth rate. He determined the expected dividend yields for the other comparable electric utility companies by multiplying the current dividend yields by one plus the fraction of the following year that the dividend increase will be in effect. [TR 447-457]

Witness Baudino's DCF analysis produced a 10.30% ROE for Florida Progress and an average ROE for the index of 9.62%. However, because of the more risky non-utility holdings of Florida Progress, he cautioned that the return for the parent is probably higher than the return requirement for FPC as a stand-alone company. [TR 446, 453, 457]

Witness Baudino also conducted a risk premium analysis based on the analysis performed by witness Seligson. He started with the analysis that witness Seligson conducted but made three changes to the assumptions. Specifically, he used the then-current yield on 30 year U. S. Treasury Bonds of 7.9% instead of witness Seligson's estimate of 8.1%, he used the average of the 65 year arithmetic and geometric average return differentials rather than solely the arithmetic average, and he used the actual Beta of Florida Progress rather than the personal estimate employed by witness Seligson. Based on these changes, he determined that the risk premium approach produced an ROE of 12.06%. [TR 459-465]

Witness Baudino concludes that his analyses indicate a cost of equity range of 9.62% to 12.06%. He recommends the average of his two DCF analyses and his "revised" risk premium analysis of 10.65% as a fair ROE for FPC. [TR 466]

STAFF ANALYSIS OF WITNESSES' TESTIMONIES

Witness Seligson, in arriving at his recommended return of 14.15% for FPC, relied exclusively on a risk premium analysis based on historical, earned returns over the period 1926 through 1990. However, both witnesses Cicchetti and Baudino point out that the determination of the appropriate cost of capital is by definition forward looking. [TR 394, 460] Witness Seligson agreed that a risk premium analysis based upon historical, earned returns is valid only if investors today expect to receive the same relative returns on investments in the future that they have received in the past. [TR 250]

Witness Baudino argues that the use of historical data may be inappropriate to measure investors current expectations of the risk premium. To support his position, he cites an article published in the Spring 1985 issue of Financial Management titled "The Risk Premium Approach to Measuring a Utility's Cost of Equity" written by University of Florida professors Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson.

There are both conceptual and measurement problems with using I&S (Ibbotson) data for purposes of estimating the cost of capital. Conceptually, there is no compelling reason to think that investors expect the same relative returns that were earned in the past. Indeed, evidence presented in the following sections indicates that relative expected returns should, and do, vary significantly over time. Empirically, the measured historic premium is sensitive both to the choice of estimation horizon and to the end points. These choices are essentially arbitrary, yet they can result in significant differences in the final outcome. [TR 461]
[Emphasis added]

Witness Seligson admitted that his risk premium analysis was based upon historical, earned returns; that earned returns can vary significantly from required returns; and that the determination of the risk premium was dependent upon, and sensitive to, the period of time utilized in the study. [TR 249]

Witness Seligson defended his selection of the 65 year period 1926 through 1990. He stated that an analysis conducted over a long period of time would "even out the peaks and valleys that

might occur" and would eliminate the need to select a specific period and look at the business cycles that were achieved in that period. [TR 128, 160-161, 249-250] However, although he agreed that an assumption of his risk premium analysis is that the current relationship between debt and equity total returns is the same as the average over the past 65 years, he did not conduct any analysis or provide any other evidence that demonstrates that the average earned risk premium used in his study reasonably approximates the expected risk premium investors currently require. [TR 250-257]

Witness Baudino raised two additional concerns regarding witness Seligson's risk premium analysis. Witness Baudino argued that witness Seligson failed to consider all the information available from Ibbotson and erroneously used his subjective estimate rather than the readily available Beta measure to adjust for the fact that FPC is less risky than the S&P Composite Index. [TR 461-465]

Witness Baudino noted that Ibbotson provides both arithmetic and geometric average returns. Although he questioned to what extent investors currently rely on historical data at all, he stated that he believed rational investors would employ all of the data available to them. Witness Baudino used both sets of data in his "revised" risk premium analysis. However, he also admitted that Ibbotson takes the position that the arithmetic average is more appropriate for cost of capital estimation. [TR 463]

Witness Baudino also questioned witness Seligson's use of a subjective estimate of the risk adjustment factor of .80 to .90 when objective measures of this factor are readily available. Although he agreed with witness Seligson that FPC is less risky than the S&P Composite Index, he disagreed with how he quantified this lower level of risk. [TR 463-465] Witness Seligson admitted that the Beta for Florida Progress is .65 and that in the CAPM, the company's Beta is used to adjust the risk premium upward or downward. Nevertheless, for reasons discussed later witness Seligson chose to use his subjective estimate of the relative riskiness of FPC compared to the S&P Composite Index rather than the readily available Beta measure. [TR 258-260]

Witness Cicchetti, in arriving at his recommended return of 10.80% for FPC, relied on a DCF analysis and a risk premium study of a group of high quality electric utility companies. However, witness Seligson argued that the DCF analyses conducted by both witnesses Cicchetti and Baudino are flawed. Witness Seligson also argued that since witness Cicchetti's risk premium study is based on his DCF analysis, that this analysis is also flawed. [TR 156-159, 373]

Witness Seligson argued that the DCF analyses performed by witnesses Cicchetti and Baudino are self-defeating due to the significant difference between the market price of Florida Progress' stock and its book value per share, his belief that the DCF model requires a constant interest rate environment, and the fact that FERC no longer publishes an advisory benchmark ROE. [TR 156-159] In its legal brief, the Company also argued that the DCF methodology employed by the intervenors understates FPC's required ROE because the witnesses have assumed annual rather than quarterly dividends and because their recommendations are lower than the returns allowed for a selected group of utilities from their indices of comparable companies. [TR 316-344, 358-366, 565]

Because Florida Progress' stock price exceeds its book value by approximately 60%, witness Seligson argued that the DCF model is self-defeating. Witness Seligson cited a chapter from Dr. Roger A. Morin's text titled Utilities' Cost of Capital that he contends supports his argument. (Exhibit 10) Witness Seligson also performed a "revised" DCF analysis based on a market-to-book (M/B) ratio adjustment discussed in Dr. Morin's book. [TR 156, 560-564] Both witnesses Cicchetti and Baudino disagreed with witness Seligson's belief that the DCF model is self-defeating. [TR 396-399, 467-470] Witness Cicchetti stated that there is no requirement that the stock price must be approximately the same as the book value for the DCF model to be useful in determining a fair ROE. Witness Cicchetti also pointed out that Dr. Morin does not say that an adjustment would be appropriate or necessary to account for a M/B ratio significantly above one. In his text, Dr. Morin only states that "a strong case can be made for a market price at least equal to book value" and then he provides a mathematical formula for targeting a specific M/B ratio. All of the examples used to demonstrate the application of the formula in the chapter cited by witness Seligson dealt with companies with M/B ratios below one. No where in this chapter does Dr. Morin recommend that this formula be used in the manner presented by witness Seligson. [TR 399, 406-407; Exhibit 10, pp. 237-246]

Although witness Seligson admitted that the DCF model has produced reasonable results in the past and that he has noted in recent years an increasing trend toward using the DCF model more than other methods such as the Comparable Earnings approach or the risk premium analysis, he argued that he does not believe that the DCF method is appropriate for the determining FPC's ROE in this case. [TR 155-156, 566] Witness Cicchetti agreed that the DCF model is the most commonly used market based approach for estimating a utility investor's required ROE. However, he disagreed with witness Seligson's arguments against the DCF model. He testified that the current market environment of declining short-term interest rates and an upward sloping yield curve, as

well as the other limitations cited by witness Seligson, in no way invalidate the DCF model. [TR 296, 396-399] Witness Baudino elaborated that he believed witness Seligson's chief quarrel with the DCF in this instance appears to arise from the fact that the DCF produces a seemingly low cost of equity under prevailing market conditions. However, he pointed out that when the cost of equity is viewed as an opportunity cost, accepting a return of 10.65% to invest in a high quality, low risk electric utility like FPC is quite rational for investors. He stated that given the current low yields of 3% to 4% for certificates of deposit (CDs) and 7% to 8% for long-term government bonds, it would be quite reasonable for an investor to require a 10.65% return on a relatively liquid and low risk investment such as FPC. [TR 468-469]

Witness Seligson also implied that the validity of the DCF methodology is questioned by the fact that FERC no longer publishes an advisory benchmark ROE. However, he admitted that this was his opinion and that the FERC made no pronouncement that the DCF model is no longer useful. [TR 158-159, 178] Finally, he argued against the intervenor witnesses' DCF analyses because they assumed annual dividends when companies typically pay dividends quarterly and because witness Baudino's analysis did not make an adjustment for flotation costs. [TR 565] Witness Cicchetti defended his assumption of annual dividends even though investors typically receive dividends quarterly. He stated that he did not recognize the quarterly compounding of dividends from the investors' perspective because the Company does not recognize the monthly compounding of payments from the ratepayers perspective in the ratemaking process. [TR 360-366] Witness Baudino stated that he did not take quarterly compounding of dividends into account because he believes it is already done by investors in the stock price. Witness Baudino did not specifically address the issue of flotation costs. [TR 517-518] However, although witness Seligson criticized the intervenors' analyses for assuming annual dividends, he admitted that in his "revised" DCF analysis he assumed annual dividends. In addition, he admitted that he did not know if FPC requested an allowance for flotation costs and further stated that it didn't matter whether the Commission allowed flotation costs or not. [TR 582-583]

Finally, in its legal brief the Company argued that the return levels recommended by the intervenors are much lower than the returns recently allowed in other jurisdictions for five of the companies chosen from the witnesses' groups of comparable companies. Because of its belief that FPC is more risky than these comparable companies, it argued that FPC should be awarded an ROE greater than 12.6%. [TR 314-346] Although in its brief it calculated an average return for the five companies of 12.6%, the Company incorrectly used 12.75% instead of the 12.0% that Oklahoma

Gas & Light's rates were actually based. [TR 401-402] This correction lowers the average to 12.45%. However, witness Cicchetti cautioned that it is not appropriate to determine the cost of equity for FPC based on the returns allowed in other jurisdictions. He pointed out that there is no theoretical basis for determining a required ROE for a company based on looking at what returns other commissions are allowing. He also pointed out that no one knows what evidence was in the record in those cases, the quality of the case presented by the parties, or the motives of the regulators in these other jurisdictions. In addition to being a theoretically flawed methodology, he stated that because these Orders were issued between mid 1991 and early 1992, that the record upon which these decisions were based was from early to mid 1991 when capital costs were higher than they are now. [TR 314-320] Witness Baudino stated that, although he would not use the specific returns allowed in different jurisdictions because they vary so widely, he did agree that these returns could be examined to determine general trends in rates. He noted that the trend is downward and he cited two recent cases where the ROEs allowed for two electric utility companies were under 12%. [TR 529-530]

Witness Seligson also criticized witness Cicchetti's risk premium analysis because he argued that it was not an independent analysis but "merely a repackaging" of his DCF analysis. Because of his disagreement with witness Cicchetti's DCF analysis, he argued that witness Cicchetti's analysis is not really a risk premium analysis. [TR 569-570] Earlier, it was mentioned that witness Baudino cited a passage from the Brigham, et. al., paper that discussed the risk premium approach to estimating a utility's cost of equity. A complete copy of a paper of the same title by the same authors but released in August 1984 by the Public Utility Research Center was entered into the record as Exhibit 23. This paper indicates that risk premium analyses must measure the difference between expected future returns on stocks and bonds, not historical earned return differentials such as the study prepared by witness Seligson. The paper also indicates that the valid comparison is between expected bond yields and DCF estimates of future stock returns such as the study prepared by witness Cicchetti. (Exhibit 23) Although witness Seligson argued that witness Cicchetti had not conducted a true risk premium analysis, this paper supports the analysis done by witness Cicchetti and cast doubt on the reliability of the analysis done by witness Seligson.

Witness Baudino, in arriving at his recommended return for FPC of 10.65%, relied on a DCF analysis of Florida Progress and a group of comparable companies and a "revised" risk premium study based on the analysis prepared by witness Seligson. [TR 466] Witness Seligson's criticisms of the DCF model were discussed previously.

Witness Seligson also criticized witness Baudino's "revised" risk premium. [TR 565-574]

Witness Seligson disagreed with witness Baudino's use of Beta to adjust for the difference in risk between FPC and the S&P Composite Index. He argued that Beta is not a measure of total risk and therefore is not appropriate for use in the risk premium analysis. [TR 571-573] Although witness Seligson was willing to accept the work of Dr. Morin to support an adjustment to the DCF model, he was unwilling to accept Dr. Morin's suggestion that Beta was an appropriate measure of risk for use in a risk premium analysis. [TR 585-589] Both witnesses Cicchetti and Baudino testified that Beta was a more reasonable measure of risk for well diversified investors than the subjective estimate used by witness Seligson.

Although he did not rely on this analysis in arriving at his ROE recommendation, witness Baudino did perform a second risk premium analysis using his DCF results for the group of comparable companies and the then current rate for AA-rated utility bonds as reported by Moody's. He came to the conclusion that this risk premium was somewhat low and that investors probably required a greater premium. [TR 459]

Finally, in its legal brief the Company pointed out that witness Baudino admitted that his DCF results are lower than the return levels that investors are expecting. However, although he agreed that the results of his analysis are low, he would not agree that there was a flaw in his process. [TR 493-498] He also maintained that a 10.65% return will maintain the Company's financial integrity and is a reasonable return commensurate with the risk faced by investors in a high quality, low risk electric utility such as FPC. [TR 468-469]

CONCLUSION AND RECOMMENDATION

Three witnesses presented testimony concerning the fair rate of return on common equity for FPC. Witness Carl H. Seligson, testifying on behalf of FPC, recommends an ROE of 14.15%. [TR 162] Witness Mark A. Cicchetti, testifying on behalf of the OPC, recommends an ROE of 10.80%. [TR 306] Witness Richard A. Baudino, testifying on behalf of Occidental, recommends an ROE of 10.65%. [TR 466]

Staff reviewed the models used, the assumptions made, and the results tendered by all the witnesses. There is ample evidence that the methodology of relying on historical, earned returns to estimate current return requirements is unreliable. In addition, in the current market environment there is just no compelling

reason to believe that investors' return requirements are approximated by the average earned returns over the past 65 years. However, although returns on alternative investments, most notably debt instruments, are at 20 year lows, there is also evidence that returns under 10% may be unrealistically low.

The Company argued that it should be awarded a return no lower than the average return allowed in other jurisdictions for five particular companies of 12.6%. However, this is not a reasonable request given the current market conditions and the timing of these other decisions. First, FPC can now issue long-term debt at rates more than 200 basis points lower than it could issue long-term debt at the time its last allowed ROE of 12.6% was set. [TR 214-216] Second, the true average return allowed for the five companies cited by FPC of 12.45% was based on testimony and financial conditions that existed in early to mid 1991. Capital costs have come down since these decisions were rendered. Its very doubtful that if capital costs were moving in the opposite direction that the Company would want its ROE based on cases from a year earlier. Because of these factors, Staff believes the 12.6% ROE the Company is currently allowed may be the top of the appropriate range.

It appears that the Company's main criticism of the intervenors' recommendations is that they are too low to maintain FPC's financial integrity (bond rating). Both witnesses Cicchetti and Baudino calculated interest coverage ratios to determine if FPC would be downgraded if their recommended ROEs were allowed. Both admitted that the interest coverage ratios would be at or just below the standard for a AA-rated company. However, they also both argued that blindly supporting a bond rating without considering the costs/benefit trade-offs for the ratepayers would be inappropriate. Although they both state that due to its sound qualitative factors FPC may very well maintain its current bond ratings if their recommended ROEs are approved, they also note that even if FPC were downgraded the ratepayers would be better off than allowing the Company's recommended ROE of 13.6%.

Although he did not present cost of capital models, witness Wells, testifying on behalf of ADHOC, did prepare an analysis of the reasonableness of an ROE of 11.8%. [TR 2640-2641; Exhibit 192] He calculated the same five ratios discussed in witness Seligson's testimony and demonstrated that an ROE of 11.8% would provide the Company with ratios that are well within the ranges prescribed by S&P for four out of the five indicators. The one exception is net cash flow as a percentage of capital expenditures. The level based on an ROE of 11.8% of 60.4% is below the level of 70.4% based on the Company's recommended ROE of 13.6% and the bottom of the range for a AA company of 65%, but is significantly above the currently maintained level of 40.2%. It would be difficult to argue that the

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Company would be downgraded for one indicator being below the standard when that same indicator had been substantially below the minimum to begin with.

Based upon the evidence in the record and a detailed review of the cost of equity capital methodologies presented, Staff has determined that the cost of common equity capital for FPC falls within the range of 10.5% to 12.5%. Since a point estimate of the cost of equity must be used to set rates, Staff recommends the midpoint of this range of 11.5% be used for ratemaking purposes. The fact that 11.8% and 11.5% are very close leads Staff to believe that a return of 11.5% would continue to provide the Company with comfortable coverage ratios that, along with its strong qualitative factors, maintain the Company's present credit rating. In addition, this ROE is reasonable given the current market conditions and the relatively low risk associated with this high quality, well managed electric utility.

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ISSUE 30: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year?

RECOMMENDATION: The weighted average cost of capital is 8.19% for the 1992 test year and 8.18% for the 1993 test year. (Maurey)

POSITION OF PARTIES:

FPC: A summary of the appropriate components, amounts and cost rates associated with the Company's capital structure for the 1992 and 1993 test years.

13-Month Average <-----In Thousands----->				
	Fully Adjusted Jurisdictional	Ratio	Cost Rate	Weighted Cost
<u>1992 Current Test Year</u>				
Common Equity	\$1,127,806	37.77%	13.60%	5.14%
Preferred Stock	186,791	6.26%	7.28%	0.46%
Long-Term Debt				
Fixed Rate Debt	937,821	31.41%	8.53%	2.68%
Variable Rate Debt	87,777	2.94%	6.11%	0.18%
Short Term Debt	89,922	2.78%	7.40%	0.21%
Customer Deposits				
Active	69,680	2.33%	8.23%	0.19%
Inactive	525	0.02%	0.00%	0.00%
Investment Tax Credit				
3%	1,088	0.04%	0.00%	0.00%
Post '70 - Equity	58,824	1.97%	12.70%	0.25%
- Debt	45,882	1.54%	8.32%	0.13%
Deferred Income Taxes	386,421	12.94%	0.00%	0.00%
	<u>\$2,985,537</u>	<u>100.00%</u>		<u>9.24%</u>

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1993 Projected Test Year

Common Equity	\$1,208,077	37.76%	13.60%	5.14%
Preferred Stock	181,461	5.67%	7.18%	0.41%
Long-Term Debt				
Fixed Rate Debt	1,008,667	31.53%	8.63%	2.72%
Variable Rate Debt	90,150	2.82%	6.11%	0.17%
Short Term Debt	144,855	4.53%	7.50%	0.34%
Customer Deposits				
Active	73,782	2.31%	8.23%	0.18%
Inactive	523	0.02%	0.00%	0.00%
Investment Tax Credit				
3%	814	0.03%	0.00%	0.00%
Post '70 - Equity	56,376	1.76%	12.77%	0.22%
- Debt	44,585	1.39%	8.42%	0.12%
Deferred Income Taxes	389,508	12.18%	0.00%	0.00%
	<u>\$3,198,798</u>	<u>100.00%</u>		<u>9.30%</u>

OPC: The weighted cost of capital should be no greater than 8.02%. The proper components, amounts and cost rates are as follows:

Common Equity	4.08%
Preferred Stock	0.46%
Long-Term Debt	
Fixed Rate Debt	2.58%
Short-Term Debt	0.21%
Variable Rate	0.18%
Customer Deposits	0.21%
Active	0.19%
Inactive	0.00%
Investment Tax Credits	
3%	0.00%
Post '70 - Equity	0.20%
- Debt	0.12%
Deferred Taxes	0.00%
	<u>8.02%</u>

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OCCIDENTAL: For the 1992 test year, the appropriate weighted cost of capital is 7.91% (6.69% after tax), comprised of the following components (detailed in Ex. 93):

Common Equity	4.02%
Preferred Stock	0.46%
Long Term Debt	
- Fixed Rate	2.62%
- Variable Rate	0.18%
Short Term Debt	0.11%
Customer Deposits	
- Active	0.19%
- Inactive	0.00%
Investment Tax Credit	
- 3%	0.00%
- Post '70	
- Equity	0.20%
- Debt	0.13%
Deferred Income Taxes	0.00%
Total	<u>7.91%</u>

For the 1993 forecast test year, the appropriate weighted cost of capital is 7.87% (6.65% after tax), comprised of the following components (detailed in Ex. 93):

Common Equity	4.02%
Preferred Stock	0.41%
Long Term Debt	
- Fixed Rate	2.61%
- Variable Rate	0.17%
Short Term Debt	0.18%
Customer Deposits	
- Active	0.19%
- Inactive	0.00%
Investment Tax Credit	
- 3%	0.00%
- Post '70	
- Equity	0.18%
- Debt	0.11%
Deferred Income Taxes	0.00%
Total	<u>7.87%</u>

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Based upon the proper components, amounts, and cost rates associated with the capital structures for the test years ending December 31, 1992 and December 31, 1993, Staff recommends that the weighted average cost of capital is 8.19% and 8.18%, respectively. Schedules 2 and 9 detail Staff's recommendation.

The Company per book amounts were taken directly from FPC's MFR filing. [Exhibit 5, Sch. D-1, p. 1, 1992 and 1993] Specific adjustments were made to the Investment Tax Credit and Deferred Tax balances. These adjustments are discussed in Issue Nos. 31, 32, and 167. After all specific adjustments were made, a pro rata adjustment was made across all other sources of capital to reconcile the capital structure with the rate base recommended by Staff. The recommended rate base is discussed in Issue No. 28.

Staff agreed with and used the respective cost rates provided by FPC with the exception of the cost rates for common equity, long-term debt, and short-term debt. Staff used the ROE recommended in Issue No. 29 of 11.5% instead of the ROE recommended by the Company of 13.6%, the ROE recommended by OPC of 10.8%, or the ROE recommended by Occidental of 10.65%. The determination of the ROE for FPC is discussed in Issue No. 29.

In addition to the ROE, Staff adjusted the cost rates the Company projected for the issuance of long-term and short-term debt during the 1992 and 1993 test years. The Company projected that it would issue \$150 million of first mortgage bonds at 9.70%, \$100 million of medium term notes at 9.00%, and \$50 million of pollution control revenue bonds at 8.00% during 1992. The Company also projected that it would issue \$100 million of first mortgage bonds at 9.7% in 1993. [Exhibit 5, Schedule D-10a, 1992 and 1993]

Company witness Bongers testified that in the KPMG Peat Marwick audit of FPC, the audit staff came to the conclusion that the interest rate assumptions made by the Company concerning its long-term debt were too high relative to the level of interest rates currently prevailing. He stated that KPMG Peat Marwick believed a rate of 8.5% was more reasonable than the 9.7% projected by the Company. [TR 2208] Company witness Seligson testified that FPC could issue first mortgage bonds at 8.25% or more based on the U.S. long-term bond trading at a yield of 7.40%. [TR 138-139] Although he stated that he did not believe the 8.25% rate was wrong, he did state that since the time of his prefiled direct testimony the spread between the rate FPC could probably issue first mortgage bonds and the yield on long-term treasury bonds had narrowed to 70 to 75 basis points. [TR 166-167] Based on witness Bongers testimony, Staff used the rate of 8.5% instead of 9.7% for

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the first mortgage bonds the Company projects to issue in 1992 and 1993. [Exhibit 5, Schedule D-10a, 1992 and 1993]

Company witness Seligson testified that FPC could issue medium-term notes at a rate of 7.25% or less. He also noted that Southern California Edison (SCE), a AA-rated electric utility that OPC witness Cicchetti used in his index of comparable-risk companies and that FPC cited in its legal brief as comparable to FPC as discussed in Issue No. 29, recently issued medium term notes at a rate of 6.22%. Staff used the rate of 7.25% which is conservatively between the 9.0% used by the Company in its MFR filing and the 6.22% recently incurred by SCE for the medium term notes the Company projects to issue in 1992. [Exhibit 5, Schedule D-10a, 1992]

Company witness Greene testified that in 1991 FPC refinanced its 10.0% and 10.25% pollution control revenue bonds at a rate of 7.2%. [TR 635]. He also testified that more recently the Company established the interest rate on its annual tender pollution control bonds at 6.625%. [TR 760] Company witness Bongers testified that this new rate would result in further refinancing of tender pollution control bonds in early 1992. [TR 2190-2191] Staff used the rate of 7.2% which is conservatively between the 8.0% used by the Company in its MFR filing and the 6.625% that has recently been established for its annual tender pollution control bonds for the pollution control revenue bonds the Company projects to issue in 1992. [Exhibit 5, Schedule D-10a, 1992]

Although the Company did not issue the bonds and notes as projected in its MFR filing, witness Greene did testify that the Company still planned to issue this debt during its projected 1992 and 1993 test years. [TR 758-760] In addition, the embedded cost of fixed rate long-term debt the Company used to calculate its recommended overall cost of capital reflects the cost rates for these debt issues. [Exhibit 5, Sch. D-4a, pp. 1-4, 1992 & 1993] The adjustments made by Staff had the effect of reducing the Company's embedded cost of fixed rate long-term debt in 1992 and 1993 from 8.53% to 8.24% and from 8.63% to 8.26%, respectively.

Also reflected in the Company's overall cost of capital calculation is an assumption of short-term borrowing at rates of 7.4% in 1992 and 7.5% in 1993. Occidental witness Baudino testified that these rates are excessive and do not correspond with current market rates for commercial paper and short-term loans from banks. He stated that based on the Federal Discount Rate of 3.5%, commercial paper rates are at most only 4.0%. He also stated that it would be prudent for FPC to use the most cost effective short-term financing available, i.e., commercial paper. [TR 484-485] Since the time of his prefiled testimony, the Federal Reserve

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lowered the Discount Rate again. [TR 171] Although the cost of commercial paper dropped with the decline in the Discount Rate, Staff used the rate of 4.0% instead of 7.4% or 7.5% for the short-term debt the Company projects to issue in 1992 and 1993.

Schedules 2 and 9 show the components, amounts, cost rates, and weighted average cost of capital associated with the respective test year capital structures.

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ISSUE 31: Are Florida Power's requested balances of accumulated deferred investment tax credits in the amount of \$106,584,000 for the 1992 current test year and \$102,088,000 for the 1993 projected test year appropriate?

RECOMMENDATION: No. Staff recommends that ITCs be \$106,121,000 for the 1992 test year and \$101,666,000 for the 1993 projected test year. (C.Romig)

POSITION OF PARTIES:

FPC: Yes. The Company's 13-month average balances properly recognize the amortization of the ITCs. This issue was not addressed or contested by the other parties at the hearing.

The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of accumulated deferred investment tax credits are \$105,794,000 (\$130,830,000 System) for the 1992 current test year and \$101,775,000 (\$122,545,000 System) for the 1993 projected test year.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company's adjusted jurisdictional Investment Tax Credits (ITCs) per MFR Schedule D-1 are \$106,584,000 for the 1992 current test year and \$102,088,000 for the 1993 projected test year. [Company Exhibit No. 5]

In stipulated Issue 166, agreement was reached to exclude the Company's projected acquisition of the Sebring Transmission and Distribution System (Sebring T & D) from consideration in this proceeding. Consequently, in Issue 166, staff is recommending that the Company's Sebring T & D pro forma adjustments to the 1992 and 1993 Rate Base and NOI be reversed.

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On MFR Schedule D-1, the Company made specific adjustments totalling \$463,000 for 1992 and \$422,000 for 1993. These adjustments increased its per books ITCs and were identified as adjustments for the Sebring acquisition. Thus, reversing these adjustments to exclude Sebring requires adjustments of \$463,000 for 1992 and \$422,000 for 1993, reducing the ITC balance as filed. The result of these recommended adjustments decreases 1992 ITCs from \$106,584,000 as filed to the recommended \$106,121,000 and decreases 1993 ITCs from \$102,088,000 as filed to the recommended \$101,666,000.

As stated in its position statement, the Company has agreed to remove and/or modify certain issues. Staff believes that the Company's revised ITCs, also shown in its position statement, resulted from pro rata treatment in allocating rate base adjustments to its capital structure components. Staff believes that specific adjustments are superior to pro rata adjustments for ITCs and should be utilized when possible. Furthermore, the record does not indicate the Company's calculation of its revisions or calculation of its revised amounts. Finally, the Company's revisions do not include consideration of other adjustments recommended by staff.

Consequently, staff recommends that the ITCs be \$106,121,000 for the 1992 test year and \$101,666,000 for the 1993 projected test year.

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ISSUE 32: Are Florida Power's requested balances of accumulated deferred taxes in the amount of \$388,551,000 for the 1992 current test year and \$391,231,000 for the 1993 projected test year appropriate?

RECOMMENDATION: No. Staff recommends that the Accumulated Deferred Taxes be \$388,208,000 for the 1992 current test year and \$394,836,000 for 1993 projected test year. (C.Romig)

POSITION OF PARTIES:

FPC: Yes. The 13-month average balance was determined from activities shown in the budgeted and forecasted income statements. This issue was not addressed or contested by the other parties at the hearing.

The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of accumulated deferred taxes are \$386,421,000 for the 1992 current test year and \$389,508,000 for the 1993 projected test year.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company's adjusted jurisdictional Accumulated Deferred Taxes per MFR Schedule D-1 are \$388,551,000 for the 1992 current test year and \$391,231,000 for the 1993 projected test year. [Company Exhibit No. 5]

Staff's recommended adjustments to the 1992 current test year and the 1993 projected test year are comprised of three elements: the reversal of the Company's pro forma adjustments for the Sebring Transmission and Distribution (Sebring T & D) acquisition; the effect of staff's recommended adjustments to rate base; and the effect of staff's recommended adjustments to operating expenses.

In stipulated Issue 166, agreement was reached to exclude the Company's projected Sebring T & D acquisition from consideration in this proceeding. Consequently, in Issue 166, staff is recommending that the Company's Sebring T & D pro forma adjustments to the 1992 and 1993 Rate Base and NOI be reversed.

On MFR Schedule D-1, the Company made specific adjustments of \$1,760,000 for 1992 and \$1,830,000 for 1993. These adjustments increased its per books Accumulated Deferred Taxes and were identified as adjustments for the Sebring acquisition. Thus, reversing these adjustments to exclude Sebring requires adjustments which decrease the Accumulated Deferred Tax balances by \$1,760,000 for 1992 and \$1,830,000 for 1993.

Furthermore, in Issue 5, staff recommends disallowance of certain aircraft. Based on this disallowance, staff recommends removal of the related Accumulated Deferred Taxes. Because the specific amounts are not identifiable in the record, staff recommends that the related Accumulated Deferred Taxes be estimated. Staff based its estimate on the ratio of recommended net plant disallowance to the net plant in total, applied to the Accumulated Deferred Taxes as filed. This methodology results in estimated reductions of \$421,000 for 1992 and \$363,000 for 1993.

Finally, the net operating income adjustments recommended by staff in other issues, which have a deferred tax impact, also impact the Accumulated Deferred Tax balances. The consequence is estimated to be a \$1,839,000 increase to the 1992 balance and a \$5,798,000 increase to the 1993 balance. The 1993 increase encompasses 1992 carryovers as well as 1993 averages.

In summary, staff's recommended adjustments decrease the 1992 Accumulated Deferred Tax balance by \$343,000 and increase the 1993 Accumulated Deferred Tax balance by \$3,605,000 resulting in the recommended balances of \$388,208,000 for 1992 and \$394,836,000 for 1993.

As stated in its position statement, the Company has agreed to remove and/or modify certain issues. As a result, it has shown revised amounts of Accumulated Deferred Taxes relating to its removals/modifications. These revised amounts are not supported in the record and do not include consideration of other adjustments recommended by staff.

Accordingly, staff recommends that the Accumulated Deferred Taxes be \$388,208,000 for the 1992 current test year and \$394,836,000 for 1993 projected test year.

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ISSUE 33: Should the effect of implementing FAS 109, Accounting for Income Tax, in early 1993 be reflected in setting current rates?

RECOMMENDATION: No. Because the Commission's current review of the regulatory implications of implementing FAS 109 has not been concluded and the belief that its implementation should be revenue neutral, staff recommends that its effect be excluded from consideration in this proceeding. (C.Romig)

POSITION OF PARTIES:

FPC: Yes. Adoption of the new pronouncement will be required for financial statement purposes in 1993. Florida Power supports the concept of the asset and liability approach required by the new standard and believes that both the Company and its ratepayers would benefit from adoption of the amended pronouncement for regulatory purposes. The adoption of FAS No. 109 will have no effect on the ratemaking process if the regulatory assets and liabilities resulting from the implementation of the standard are treated in the same manner as accumulated deferred income taxes in the capital structure.

OPC: No.

OCCIDENTAL: No. There should be no direct effect; rather, it should be revenue neutral.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: "The calculation of current and deferred income taxes was based on the Company's operating and construction forecasts and the statutory tax rates in effect for both the federal and state jurisdictions. The method of calculating deferred income taxes followed the guidelines established in Accounting Principles Bulletin, Opinion No. 11, 'Accounting for Income Taxes.'" [TR 2252]

FAS 109, which changes the method of accounting for income taxes, was issued in February 1992, which is subsequent to the date Florida Power's MFRs were filed. However, implementation of this Statement is mandatory for financial reporting for tax years

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beginning after December 15, 1992. Consequently, the Company will be required to implement the accounting during the 1993 projected test year.

Staff believes that the most significant difference between APB 11 and FAS No. 109 is the shift from an income statement to a balance sheet approach to deferred taxes which involves the definition and evaluation of accumulated deferred tax balances. Under APB No. 11, the deferred taxes are recorded at the statutory tax rates in effect when recorded and reverse at that same rate even if the tax rate changes. Under FAS No. 109, the accumulated deferred tax balances would be reevaluated if the tax rate changes. For example, if the deferred taxes are recorded at 48% and the statutory tax rate changes to 34%, the accumulated deferred tax balance would be written down to reflect the 14% decrease. FAS No. 109, takes more of a liability approach and it says that we are still going to have deferred taxes, but those deferred taxes need to be valued at the rate at which you expect to pay them back.

In the nonregulated environment, companies that have fluctuation under GAAP would credit an income account or retained earnings for the difference between the statutory rate they have set up and the new rate. However, in the regulated environment, consideration should be given to reflecting the differences through the use of regulatory asset or regulatory liability accounts. This treatment results in the equitable treatment of tax rate changes. In other words, the ratepayers will benefit and the stockholders will not realize a "windfall" from a decrease in tax rates which results in a write down of deferred tax balances, and vice versa.

Other ramifications may involve the grossing up of the equity portion of AFUDC as well as an alteration of the current method of accounting for investment tax credits.

Mr. Scardino states that the adoption of FAS No. 109 will be revenue neutral and have no effect on the ratemaking process if the regulatory assets and liabilities resulting from the implementation of the standard are treated in the same manner as accumulated deferred income taxes in the capital structure. [TR 2558] This issue was not contested by any other party at the hearing. It was addressed by staff in the form of informational questions on cross-examination of Mr. Scardino. [TR 2556-61] Mr. Scardino did agree, however, that implementation of FAS 109 in this proceeding may be premature, in view of the Commission's currently ongoing review of the matter. [TR 2561]

Because the Commission's current review of the regulatory implications of implementing FAS 109 has not been concluded and the belief that its implementation should be revenue neutral, staff

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recommends that its effect be excluded from consideration in this proceeding.

NET OPERATING INCOME

ISSUE 34: Is Florida Power's requested level of Total Operating Revenues in the amount of \$958,462,000 (\$1,047,013,000 system) for the 1992 current test year and \$997,294,000 (\$1,096,519 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Total Operating Revenues are \$950,995,000 for the 1992 current test year and \$989,523,000 for the 1993 projected test year. (Brand)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Total Operating Revenues are \$950,995,000 (\$1,039,447,000 System) for the 1992 current test year and \$989,523,000 (\$1,088,625,000 System) for the 1993 projected test year.

OPC: No. FPC's total operating revenues for the 1992 current test year should be increased by at least \$11,540,000 jurisdictional.

OCCIDENTAL: See specific issues, infra.

FIPUG: No. The Commission should reduce FPC's requested operating revenues due to FPC's overstatement of its fossil fuel plant dismantlement expense and to reflect continuation of the Commission's pay as you go policy for pension and OPEB benefits. See Issues 9, 10, 46-48, 96, 09-100.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: MFR Schedule C-3 shows that Florida Power's Jurisdictional Adjusted Operating Revenues in the filing were \$958,462,000 (\$1,047,013,000 System) for the 1992 current test year and \$997,294,000 (\$1,096,519 System) for the 1993 projected test year. The Company has agreed that 1992 Operating Revenues should be reduced by \$7,467,000 (\$7,566,000 System) and 1993 Operating Revenues by \$7,771,000 (\$7,889,000 System), associated with the

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removal of the Sebring Distribution System. The revised amounts of Total Operating Revenues are \$950,995,000 (\$1,039,447,000 System) for the 1992 current test year and \$989,523,000 (\$1,088,625,000 System) for the 1993 projected test year.

The adjustments recommended by intervenors represent reductions in the revenue deficiency, rather than adjustments to actual revenue accounts. This issue was not directly addressed by any intervenor at the hearing.

Staff agrees with the Company that 1992 Operating Revenues should be reduced by \$7,467,000 (\$7,566,000 System) and 1993 Operating Revenues by \$7,771,000 (\$7,895,000 System), associated with the removal of the Sebring Distribution System. The recommended amounts of Total Operating Revenues are \$950,995,000 (\$1,039,447,000 System) for the 1992 current test year and \$989,523,000 (\$1,088,625,000 System) for the 1993 projected test year.

ISSUE 35: Are the company's estimated revenues for sales of electricity based upon reasonable estimates of customers, KW, and KWH billing determinants by rate class?

RECOMMENDATION: Yes. The Company's revised billing determinants found in exhibit 211 are reasonable. (Berg)

POSITION OF PARTIES:

FPC: Florida Power's estimates of billing determinants for 1992 and 1993 were based on a reasonable forecast of electric sales and prepared in accordance with accepted procedures. However, billing determinants for 1993 should be based on the Company's updated sales forecast contained in Exhibit 48, which reflects the level of economic recovery currently anticipated. See the discussion under Issue 2 above.

OPC: No. Forecast KWH sales for the 1992 current test year are understated. The company should not be permitted to use KWH projections for ratemaking purposes that are less than the KWH projections used to justify the generation additions that create the utility's perceived need for rate relief. Jurisdictional revenues should be increased by \$11,540,000.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Billing determinants are the quantities of billing units used to derive rate levels. FPC's original billing determinants, found in MFR E-16C, include customers in the Sebring service area and some questionable migration estimates resulting from the restructuring of the General Service schedules. Exhibit 211 provides a revised estimate of billing determinants which removes the Sebring billing units and corrects the migration issue.

Excluding customer migration and the Sebring billing units, FPC's billing determinants are derived from the Load and Budgeting Forecast. Consequently, the forecast which is used in this proceeding will have an impact on the billing determinants.

The positions taken by both FPC, that billing determinants are understated and OPC, billing determinants are overstated, result from differing positions on the appropriate forecast. Issue 2

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addresses which forecast should be used in this rate case. The billing determinants found in Exhibit 211 are based on FPC's originally filed forecast, and also the forecast recommended by Staff in Issue 2.

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ISSUE 36: Is Florida Power's requested level of Operation and Maintenance Expense in the amount of \$409,492,000 (\$445,335,000 system) for the 1992 current test year and \$435,083,000 (\$479,570,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate jurisdictional amount of Operation and Maintenance Expense is \$389,598,000 for 1992 and \$415,722,000 for 1993. This is a calculation based on the resolution of all other Operation and Maintenance Expense issues. (Merta)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Operation and Maintenance Expense are \$397,010,000 (\$431,766,000 System) for the 1992 current test year and \$423,508,000 (\$466,834,000 System) for the 1993 projected test year.

OPC: No. Operation and Maintenance Expense for the 1992 current test year should be reduced by at least \$36,074,805 jurisdictional.

OCCIDENTAL: No. The adjusted O&M expense for the 1992 current test year is \$332,366,000 (jurisdictional):

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	TOTAL CO. (\$000)	FPC JURISD* FACTOR	JURISD. (\$000)
FPC O&M Expense Request	\$440,292		\$409,492
Adjustments:			
Reduce Inflation Assumption	(2,642)	.9195	(2,429)
Reduce Salaries and Wages Growth	(1,809)	.9195	(1,663)
Reduce Employee Growth	(2,051)	.9195	(1,886)
Fossil Production Unjustified Benchmark Excess	(16,609)	.9009	(14,963)
Nuclear Production Unjustified Benchmark Excess	(22,654)	.9390	(21,272)
Distribution Specific Adjustments	(2,552)	.9917	(2,531)
Administrative and General Specific Adjustments	(\$ 34,670)	.9340	(\$ 32,382)
Total Adjustments	(\$ 82,987)		(77,126)
Recommended O&M Expense	<u>\$357,305</u>		<u>\$332,366</u>

*FPC Schedule C-9

The adjusted O&M expenses for the 1993 forecast test year is \$353,031,000 (jurisdictional).

FIPUG: No Position.

FCAN: No position.

AHCLG: No. In addition to the adjustments recommended by other parties, FPC's O&M expenses should be reduced by \$5,917,000 for the 1992 test year and \$6,061,000 for the 1993 test year to reflect adjustments related to customer service operations (Issue 89) and Florida Progress overhead (Issue 91).

LEAF: No position.

STAFF ANALYSIS: This is a calculation based on the resolution of all O&M issues. The appropriate jurisdictional O&M expense is \$389,163,000 for 1992 and \$415,257,000 for 1993 based on the adjustments recommended in Issues 38-S194.

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ISSUE 37: Should adjustments be made to any test year O&M, and Income Tax Expense to correct errors related to the rescinded purchase of an airplane by FPC?

RECOMMENDATION: Yes. For the 1991 interim test year, O&M expense should be increased by \$65,000 (\$65,000 system). The income tax effect is addressed within the income tax issues. For the 1992 and 1993 test years, no adjustments are necessary. (C. Romig, Meeks)

POSITION OF PARTIES:

FPC: Yes, for the 1991 interim test year. (See the Company's position under Issue 6 above.)

OPC: Flight equipment should not be reflected in the rate base. The related O&M and Income Tax Expense should also be eliminated.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Flight equipment should not be reflected in the rate base.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: In December 1990, Florida Power purchased a Piper Cheyenne from Florida Progress. In August 1991, the purchase was rescinded and the utility's books were adjusted, as though the purchase had never occurred.

From the Net Operating Income standpoint, the 1991 aircraft depreciation was charged to a clearing account, which was cleared monthly to various expenses and construction work in progress (CWIP). In August 1991, the company reversed the \$84,554 of depreciation taken on the airplane since acquisition. This reversal, which was also booked to the clearing account, removed the CWIP and the NOI effect from the interim test period. (Staff Audit Report, Disclosure No. 3) [Staff Exhibit No. 77]

On MFR Schedule G-15, page 4 of 7 [Company Exhibit No. 5], Florida Power made a pro forma adjustment to remove \$65,000 from interim O & M expenses. However, as noted above, the book adjustment made by the company in August 1991 had already removed the effect of depreciation ultimately charged to expenses and CWIP

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accounts. Consequently, the company's MFR adjustment is inappropriate and results in the understatement of O&M expenses.

Staff recommends an adjustment to the 1991 Interim Test Year to reverse Florida Power's O&M pro forma adjustment. The adjustment increases O&M Expense by \$65,000 (\$65,000 system). The pro forma adjustments made to both the 1992 and 1993 test years correctly removed the effects of the rescinded aircraft purchase. Accordingly, no adjustments are recommended to these test years.

The Income Tax effect is addressed within the income tax issues.

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ISSUE 38: What is the appropriate amount of advertising expense to be allowed in operating expense for the interim, 1992, and 1993 test years?

RECOMMENDATION: Account 909.30 should be reduced by \$434,815 (\$434,815 System) in 1992 and \$465,233 (\$465,233 System) in 1993. (Brand)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Advertising Expense are \$2,535,000 (\$2,535,000 System) for the 1992 current test year and \$2,730,000 (\$2,730,000 System) for the 1993 projected test year. In addition, these amounts have been further adjusted to reflect Mr. Scardino's agreement during cross-examination by Staff that the costs of certain "Real People" should be removed.

OPC: Mr. Larkin recommended a \$553,200 (jurisdictional) adjustment be made to the 1992 current test year to remove the costs of advertisements which merely promote the Company and the use of electricity. However, Late-Filed Exhibit 169 indicates an additional \$900,000 (\$841,230 jurisdictional) related to the company's strategic plan should also be removed.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Agree with Public Counsel. Special attention should be paid to ensure that all expenses associated with the Company's nuclear power promotional campaign are adjusted out, along with other image enhancing ads and those which promote the use of electricity.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company projected advertising expense of \$3,090,000 (\$3,075,000 System) for 1992, as shown on MFR Schedule C-26, page 2 of 4. MFR Schedule C-3a, page 2 of 6, shows an adjustment of \$544,000, which represents the total of Accounts 913 and 930. The remaining balance of \$2,546,000 is the amount in Account 909. Under cross-examination, FPC witness Scardino agreed

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that the "Real People" advertisements in Account 909 should be removed [TR 2519-20], leaving \$2,535,000 (\$2,535,000 System) for the 1992 current test year.

OPC witness Larkin recommended a \$553,200 jurisdictional adjustment to the 1992 test year, to remove the costs of advertisements which promote the Company and the use of electricity. He explained on page 24 of his direct testimony that he calculated the ratio of the 1991 advertisements he identified as inappropriate for ratepayer recovery to the total 1991 balance of Account 909.30, and then applied this factor to the projected 1992 Account 909.30 balance. [TR 2236] Mr. Larkin provided a list of the advertisements he felt were inappropriate, as Attachment HL-1, Schedule 6, to his direct testimony, but did not present sufficient evidence to disallow all of the ads on his list. [TR 2212]

Mr. Larkin recommends an additional \$900,000 adjustment (\$841,230 jurisdictional) related to the Company's strategic plan, based on Late Filed Exhibit 169. [TR 2378] The exhibit states that \$900,000 is budgeted in the strategic plan for Advertising to increase communications with customers, employees, shareholders and regulators to increase awareness of programs, services and practices, and of the Company's commitment to various target market segments. The strategic plan includes an educational advertising series on nuclear energy, positive environmental impacts and information on rates, reliability and tips on what consumers can do to save energy. [TR 2377] Staff does not believe that the information contained in this late-filed exhibit is sufficient basis for an adjustment.

A billboard relating to nuclear power was discussed several times during the hearing. Under cross-examination, Company witness Keesler testified that the purpose of the billboard was to educate the public on the positive aspects of nuclear power so that it remains an option in terms of building future generating plants. [TR 91-92] Company witness Beard testified that the Company has no current plans for the construction of a new nuclear plant, and that it would be at least 15 years before one could be completed. Witness Beard also testified that the Company's concern is not limited to their service territory, but is worldwide. [TR 1497-1501]

Exhibit No. 63 contains a list of 1991 advertisements and bill inserts, and copies of certain items on the list. [TR 2518] Staff believes that certain costs which are itemized in this exhibit should be disallowed. Staff believes that, as discussed above, the stated purposes of the nuclear advertisements and the time frame for the construction of a potential additional nuclear plant are beyond the scope of this rate case. All nuclear-related

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advertisements should be disallowed, reducing Account 909.30 by \$13,879 in 1991. Copies of the advertisements numbered 111, Christmas 1990 Spot, and 113, PBS - WEDU, are included on pages 15 and 20 of Exhibit No. 63. Staff believes that these two ads provide no specific information for customers, and are merely image enhancing. The cost of these two ads, totalling \$95,579 should also be removed from Account 909.30. Other advertisements discussed during the course of the hearing may also be image-enhancing, but are insignificant in amount. [TR 2517] Staff therefore recommends a total reduction of 1991 advertising expense of \$109,459.

Since we do not have a detailed list of the ads projected for 1992 and 1993, a method of calculating the appropriate deductions for those two years is necessary. The comparison of actual to budgeted expenses on MFR Schedule C-12, pages 6 and 11 of 12, indicates that Account 909 was significantly under the budgeted amounts in 1987, 1989, 1990, and 1991, and that 1992 is the largest budgeted increase since 1987. Because the Company has consistently overbudgeted in this account, Staff believes that the adjustment should be greater than just the rate of inflation, and has used OPC's method of calculating the adjustments to Account 909.30. Staff therefore recommends an adjustment for the ads in Exhibit 63 of \$387,000 for 1992, and \$414,000 for 1993.

Staff recommends a total reduction to advertising expense in Account 930 of \$434,815 (\$434,815 System) in 1992 and \$465,233 (\$465,233 System) in 1993.

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ISSUE 39: Are lobbying expenses included in any of the test years? If so, should any of those lobbying expenses be reclassified below the line?

RECOMMENDATION: No specific adjustments to remove lobbying expenses are recommended in this issue. (L.Romig)

POSITION OF PARTIES:

FPC: No. The Company has removed all lobbying expenses from cost of service in all three test years. The amounts charged to FERC Accounts 920.20 and 921.20, as cited in Staff's position, are for liaison activities and as such were incorrectly identified as lobbying expenses. For purposes of determining cost of service for the 1992 and 1993 test years, the Company has made a pro forma adjustment to reflect the cost of liaison activities above the line. The Company's liaison efforts benefit its customers and the Commission and our customers.

OPC: Any lobbying should be excluded from O&M. This results in an reduction of \$819,000 jurisdictional.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: Yes. We disagree with the Company's characterization of "liaison expenses" as non-lobbying. Such activities, along with all direct lobbying expenses identified by Staff, should be reclassified.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The company has stated that there are no lobbying expenses recorded above-the-line, including expenses associated with the Tallahassee and Washington offices. The only expense would be liaison-related expenses and addressed under the company's position for this issue.

The company made an adjustment to transfer \$114,000 above-the-line in 1992 and \$120,000 for Jim Stanfield, the Tallahassee based employee. [TR 2528] This adjustment was made pursuant to Staff Advisory Bulletin No. 36 which states that all lobbying expenses shall be recorded below-the-line including liaison related expenses. When preparing a rate case, the company may make an

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adjustment to transfer these expenses above-the-line. The company must then justify any amounts charged to jurisdictional expenses.

Mr. Scardino testified that the adjustment for liaison related expenses included salary and benefits, expense accounts, travel etc. (T.2528) Additionally, Mr. Scardino responded to the following staff question related to liaison expenses:

Q. Are office rent, utilities, secretarial fees included in this figure?

A. No, they are not. They are left below-the-line as a lobbying function because they are in the office that he occupies. There are other people that occupy that same office and they are lobbying in terms of how we have categorized them. We have been conservative and left the entire office space and associated expenses as part of lobbying, by not assigning them to liaison. [TR 2529]

In the last Gulf Power rate case (Order No. 23573, Docket No. 891345-EI) the Commission disallowed a portion of its liaisons expenses, which included a portion of the Tallahassee office expenses. In Staff's opinion, the adjustment made by the company to include a portion of the liaison's related expenses are reasonable and consistent with the Commission's decision in the Gulf case. Therefore, no adjustment is recommended to disallow any of the requested expenses in this case.

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ISSUE 40: Are Florida Power Corporation's budgeted Industry Association Dues in the amount of \$6,751,000 (\$7,142,000 system) for the interim test year, \$7,044,000 (\$7,373,000 system) for the 1992 current test year, and \$7,406,000 (\$7,765,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: The staff recommends that system totals of \$769,000 (TY 1991), \$523,000 (TY 1992) and \$551,000 (TY 1993) should be disallowed. As such, system totals of \$6,348,000 (TY 1991), \$6,829,000 (TY 1992) and \$7,189,000 (TY 1993) should be allowed. Of these amounts, we are recommending that lobbying expenses of \$36,366 (TY 1991), \$84,000 (TY 1992) and \$88,000 (TY 1993) be allowed. This represents a change in past Commission practice and we are requesting this because the lobbying expenses are related to obtaining nuclear waste facilities and conservation objectives. (McLean)

POSITION OF PARTIES:

FPC: Yes. The lobbying activities reflected in these Industry Association Dues frequently benefit the Company's customers and should not be summarily disallowed where such benefit exists. The appropriate amounts of Industry Association Dues are as follows: \$6,624,000 (\$7,007,000 system) for the interim test year (see Company's response to Staff's audit disclosure No. 15), \$7,044,000 (\$7,373,000 system) for the 1992 current test year, and \$7,406,000 (\$7,765,000 system) for the 1993 projected test year.

OPC: No. A \$363,970 (\$380,961 system) adjustment to the 1992 current test year is necessary to remove membership dues paid to organizations involved in lobbying activities or activities which do not benefit ratepayers.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No. Agree with Public Counsel.

AHCLG: No. The Local Governments support OPC's position.

LEAF: No position.

STAFF ANALYSIS: The only adjustment reflected in the Company's Brief is for a system amount of \$135,000 that represents 1/3 of EEI administrative dues that is attributed to lobbying expenses for test year 1991. The Company neglected to note that additional system amounts of \$25,000, \$21,000 and \$25,000 for test years 1991,

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1992 and 1993, respectively, were removed by the Company from cost of service with a pro forma adjustment in MFR Schedule C-3a.

Public Counsel's Brief presents the industry association dues recommendation presented in Witness Hugh Larkin's Direct Testimony for test year 1992, and did not address test years 1991 and 1993. Witness Larkin's testimony reflects that he used the NARUC Audit Report of EEI Expenditures that used 1988 data to determine an overall percentage of EEI expenditures to be disallowed.

As reflected in MFR Schedule C-27, system totals of \$7,142,000 (TY 1991), \$7,373,000 (TY 1992) and \$7,765,000 (TY 1993) were originally budgeted by the Company for industry association dues. However, the Company removed \$25,000 (TY 1991), \$21,000 (TY 1992) and \$25,000 (TY 1993) of these system amounts by a pro forma adjustment on MFR Schedule C-3a. The Company provided a description of the industry associations in its response to interrogatories (Exhibit No. 186) to describe the benefits of the organizations shown on Schedule C-27. The staff's suggested test year dues adjustments are shown in the staff's industry association dues tabulation included herein.

Based on the recommendation of the NARUC Staff Subcommittee on Accounts regarding EEI lobbying expenditures, as presented in the Subcommittee Preliminary Report and reflected in Commission Order No. 13537 (Docket No. 830465-EI), the staff recommends that 100% of the EEI Media Communications Fund dues (i.e., \$180,000 (TY 1992) and \$189,576 (TY 1993)) be disallowed. One third of the EEI administrative dues was already adjusted out by the Company as lobbying expenses for 1992 and 1993 based on its understanding of the Commission's past practice in this regard (Exhibit No. 185).

The dues for the U.S. World Energy organization (\$1000 (TY 1992) and \$1053 (TY 1993)) and the U.S. Council for Energy Awareness (\$342,000 (TY 1992) and \$360,000 (TY 1993)) are recommended for disallowance. The dues for the U.S. World Energy organization should be disallowed since the Company decided not to participate in this organization after including the dues in the budget for the 1992 and 1993 test years (Exhibit No. 185). The U.S. Council for Energy Awareness was formerly called the Atomic Industrial Forum prior to its name change in November 1987. The dues for this organization have been disallowed in past rate cases and should not be allowed because of the organization's pro-nuclear lobbying (Exhibit No. 67).

The American Nuclear Energy Council and the EEI Utility Nuclear Waste and Transportation Program are described as lobbying organizations in Exhibit No. 186 and would be disallowed consistent with past Commission practice. However, because of the importance

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of the nuclear waste issue and the lobbying activity of these two organizations toward achieving a nuclear waste repository, it is suggested that an exception be made to allow the dues for these organizations. The EEI Utility Nuclear Waste and Transportation Program is also addressed in Issue 41.

The Earth Energy Association is a lobbying organization that is attempting to influence Federal legislation to promote the use of geothermal systems. In addition, the Electric Transportation Coalition is a lobbying organization that is attempting to improve air quality and contribute environmental benefits to the customers. (Exhibit No. 66) The staff believes that the benefits to the customers from the Company's membership in these two organizations from the standpoint of conservation are justified and suggests that the membership dues be allowed.

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Docket No. 910890-EI
Industry Associations Evaluated by Staff(a)(1)
(MFR Schedule C-27; Section C, Page 88 for TY 1992 and Page 62 for TY 1993)

Organizations	\$ Amount Budgeted by Company		\$ Amount Recommended by Staff to be Disallowed	
	TY 1992	TY 1993	TY 1992	TY 1993
Organizations Requested by the Company				
1. American National Standards Inst.	7,000	7,000	0	0
2. American Nuclear Energy Council	34,000	35,000	0	0
3. American Nuclear Society	9,000	9,000	0	0
4. Earth Energy Association	10,000	11,000	0	0
5. Edison Electric Institute-EEI(b)				
a. Administrative Dues	425,212	447,833	0	0
b. Various EEI Committees	8,706	9,169	0	0
c. Media Communications Fund	180,000	189,576	180,000(c)	189,576(c)
d. Lobbying Total	(141,737)(d)	(149,278)(d)	-	-
e. Other Organizations included with EEI on MFR Schedule C-27(e)				
(1) Fla Electric Power Coordinating Group(f)	80,000	84,256	0	0
(2) Southeast Electrical Exchange	21,000	22,117	0	0
(3) Southeast Electric Reliability Council	24,000	25,277	0	0
(4) CIGRE(h)	500	527	0	0
(5) Electrical Council of Florida(f)	75	79	0	0
(6) U.S. World Energy	<u>1,000</u>	<u>1,053</u>	<u>1,000(j)</u>	<u>1,053(j)</u>
Subtotal - 5.e.(1) through (6)	126,575	133,309	1,000	1,053
f. Total EEI Dues Per MFR Schedule C-27	599,000	631,000	181,000	191,000
6. Electric Council of Florida(f)	2,000	2,000	0	0
7. Electric Power Research Institute	5,362,000	5,648,000	0	0
8. Electric Transportation Coalition	5,000	5,000	0	0
9. Electric Utility Cost Group	5,000	5,000	0	0
10. Florida Business Roundtable	5,000	5,000	0	0
11. Florida Electric Power Coordinating Group(f)	146,000	153,000	0	0
12. Florida Municipal Electric Association	1,000	1,000	0	0
13. Fossil Operat. and Main. Information Service	8,000	9,000	0	0
14. Institute of Nuclear Power Operations	645,000	679,000	0	0
15. Nuclear Utility Mgmt. and Resources Council	92,000	97,000	0	0
16. U.S. Council for Energy Awareness(k)	342,000	360,000	342,000(g)	360,000(g)
17. Utilities Telecommunications Council	9,000	9,000	0	0
18. EEI Utility Nuclear Waste and Transp.	35,000	37,000	0	0
19. U.F. - Fla Public Utilities Research Center	29,000	30,000	0	0
20. Institute of Electrical & Electronic Eng.	1,000	1,000	0	0
21. American Compensation Association	1,000	1,000	0	0
22. National Society for Performance & Instruct.	1,000	1,000	0	0
23. American Society of Mech. Engineers	2,000	2,000	0	0
24. Utility Industry Software Committee	<u>2,000</u>	<u>2,000</u>	<u>0</u>	<u>0</u>
Total Dues Requested by Company	7,352,000	7,740,000	523,000	551,000
Organizations adjusted out in Schedule C-3a				
1. Various	<u>21,000(i)</u>	<u>25,000(i)</u>		
Total Industry Association Dues	7,373,000	7,765,000		
(Explanatory notes are presented on the following page)				

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Industry Associations Evaluated by Staff(a)(1)

(MFR Schedule C-27; Section C, Page 88 for TY 1992 and Page 62 for TY 1993)

Notes:

- (a) All dollar amounts are per books (system) - jurisdictional factors are 0.9554 for TY 1992 and 0.9538 for TY 1993
- (b) This breakdown of EEI dues was provided by the Company in response to Interrogatories. (Exhibit No. 185)
- (c) Commission policy established in Docket No. 830465-EI that reflects the recommendations of the NARUC Staff Subcommittee on Accounts (i.e., disallow one-third of EEI Administrative dues and 100% of Media Communications Fund).
- (d) One-third of the EEI administrative dues was adjusted out by the Company as lobbying expenses based on its understanding of the Commission's past policy in this regard. This amount was subtracted out and not requested as EEI dues in the Original Filing Request. (Exhibit No. 185) [TR 2584-2585]
- (e) The Company inadvertently included six non-EEI organizations in the amounts of \$126,575 (TY 1992) and \$133,309 (TY 1993) as part of the EEI dues total of \$599,000 (TY 1992) and \$631,000 (TY 1993). (Exhibit No. 185)
- (f) The Florida Electric Power Coordinating Group and Electric Council of Florida were inadvertently budgeted in two places with a different amount in each place.
- (g) Lobbying and pro-nuclear advertising (Exhibit No. 67)
- (h) U.S. National Committee, International Conference on Large High Voltage Electric Systems (Exhibit No. 185)
- (i) The Company removed these amounts from cost of service with a pro forma adjustment on MFR Schedule C-3a as "Other" for unidentified industry association dues.
- (j) This organization was included in the budget for the 1992 and 1993 test years because the Company planned to participate in this organization. Subsequently, the Company decided not to become a member of this organization. (Exhibit No. 185)
- (k) This organization was formerly called the Atomic Industrial Forum prior to its name change in November 1987.
- (l) Descriptions of industry association dues organizations are presented in Exhibit No. 186.

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ISSUE 41: What amount has Florida Power budgeted to fund the EEI Utility Waste Management Group and is this amount appropriate?

RECOMMENDATION: FPC has budgeted \$35,000 in 1992 and \$37,000 in 1993 to the EEI Utility Nuclear Waste and Transportation Program (formerly, the EEI Utility Nuclear Waste Management Group). Staff recommends that no adjustment be made to this expense. This represents a change in past Commission practice because \$27,000 in 1992 and \$28,000 in 1993 has been identified as lobbying expense by the NARUC Audit Report on the Expenditures of the Edison Electric Institute (Exhibit No. 68). The staff believes that the resolution of the nuclear waste problem is of such a magnitude as to warrant this type of lobbying expense by Florida's nuclear utilities.
(McLean)

POSITION OF PARTIES:

FPC: Late-filed Exhibit 187 establishes that no costs are included in either the 1992 or 1993 test years related to the EEI utility Waste Management Group. Florida Power is thus seeking to recover no costs related to this program. A description of the benefits Florida Power customers derive from the program was also provided in Exhibit 187 for the information of the Commission Staff.

OPC: No position.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company stated in its brief that no costs are included in either the 1992 or 1993 test years related to the EEI Utility Waste Management Group. However, the Company previously stated in response to interrogatories that the EEI Utility Nuclear Waste and Transportation Program (UWASTE) replaced the Utility Nuclear Waste Management Group (same group). Accordingly, the EEI Utility Nuclear Waste and Transportation Program is included under this new name in MFR Schedule C-27 for test years 1992 and 1993 and is addressed in Issue 40.

Company Witness Keesler stated in his rebuttal testimony that rate payers across the country have paid over \$7 billion into a

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trust fund controlled by the Federal Government for the disposal of nuclear fuel without any meaningful progress being made toward establishing a nuclear waste storage facility. The staff believes that, contrary to the past Commission practice of disallowing all lobbying expenses and because of the importance of the nuclear waste issue, the membership dues of the EEI Nuclear Waste and Transportation Program should be allowed even though this organization is engaged in lobbying activity.

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ISSUE 42: Is FPC's assumed growth in salaries and wages appropriate? If not, what adjustment is necessary?

RECOMMENDATION: No. Salaries and Wages should be reduced by \$745,530 (\$797,244 System) in 1992 and by \$783,086 (\$836,759 System) in 1993, as discussed in Issue 43. (Brand)

POSITION OF PARTIES:

FPC: Yes. The growth in Florida Power's test year salaries and wages is based on the levels necessary to attract and retain qualified employees in competition with other employers in local, regional and national labor markets.

OPC: No. The Company's budgeted payroll includes excessive employee growth and excessive projected wage increases. O&M expense for the 1992 current test year should be reduced \$6,148,671 (\$6,578,229 System) plus \$1,051,538 (\$1,125,000 System) for incentive compensation.

OCCIDENTAL: No. Salaries and wages are projected by FPC to grow substantially in excess of inflation. Assumed growth should be limited to inflation. Test year 1992 O&M expenses should be reduced by \$1,663,000 (jurisdictional). If the 1993 forecast test year is accepted, O&M expenses should be reduced by \$3,735,000 (jurisdictional).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: SEE ISSUE 43.

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ISSUE 43: Is Florida Power's requested O&M expense level of Salaries and Employee Benefits in the amount of \$163,960,000 (\$176,135,000 system) and \$56,408,000 (\$60,300,000 system) for the current 1992 test year, and \$171,939,000 (\$184,948,000 system) and \$89,001,000 (\$95,058,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. Salaries and wages should be reduced by \$745,530 (\$797,244 System) in 1992 and by \$783,086 (\$836,759 System) in 1993. Fringe benefits should be reduced by \$184,796 (\$197,614 System) and by \$288,671 (\$308,457 System) in 1993. (Brand)

POSITION OF PARTIES:

FPC: Yes, except for the effect of updated FAS 106 and FAS 87 expenses described in Issues 46 and 47 below. Florida Power's test year salaries and wages are based on the levels necessary to attract and retain qualified employees in competition with other employers in local, regional and national labor markets.

OPC: No. For the 1992 current test year, salaries and employee benefits should be reduced by \$6,148,671 (\$6,578,229 system) and \$2,457,000 (\$3,231,224 system), respectively.

OCCIDENTAL: No. See Issue Nos. 42, 44, and 45.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: OPC witness Larkin testified that the Company's 1992 budgeted payroll is excessive. He expressed concern that, even though the budget is prepared based on the number of authorized positions, it isn't reviewed or verified on that same basis. [TR 3022] On page 35 of his direct testimony, Mr. Larkin argued that the Company's projection of 269 new positions for 1992 is excessive. He testified that the Company budgeted only 77 for 1990 and 71 for 1991, and that they had only hired 41 by March, 1992. His stated concern is that the budget assumes that new positions will be filled when scheduled, which he says hasn't happened as of March 31, 1992, and that the \$1,236,760 difference

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between budget less expected is actually unexplained budgeted dollars. [TR 3020-3021]

Occidental also took the position that the Company's projected number of employees significantly exceeds its average actual growth rates and should be reduced. [TR 2856]

In rebuttal, Company witness Greene stated that, of the 269 new positions budgeted to be hired by December 1992, no more than 89 are included in this rate case filing. Of those 89, a portion are budgeted to capital projects and not included in O&M. The other 172 are ECCR employees and new Customer Service System (CSS) programmers, neither of which is included in this rate case filing. [TR 3190-3191]

MFR Schedule C-33 shows that the average annual increase in number of employees was 63 from 1987 - 1991, and that only 59 new employees are projected for 1993. The 89 that were included in the filing for the 1992 test year represent a significant increase over the average.

Staff agrees with the Company that no adjustment is necessary for the 180 positions that were not included in the filing, but also agrees with OPC that 89 positions for 1992 is excessive. Based on the information in MFR Schedule C-33, Staff recommends adjusting the 1992 projection from 89 to the average increase of 63, or a decrease of 26 employees. Salaries and wages should be reduced using the average salaries and fringe benefit levels on the same schedule.

In his direct testimony, OPC Witness Larkin recalculated the payroll by increasing the annualized pay for the 138 Economic Conservation Cost Recovery (ECCR) positions, increasing that by 5% for a merit raise, and then adding the net of the Company's accrual and reversal of for a final total payroll of \$235,551,143. [TR 3022] He then allocated the difference between his recommended payroll and the Company's projected payroll to O&M based on the Company's O&M allocation factor, for a proposed O&M adjustment of \$4,910,897. [TR 3022] In his supplemental testimony, he revised the merit increase to 4%, because the actual increases granted by the Company were lower than budgeted. [TR 3041-3042] He explained that the actual average increase was "more than the 5% I originally used, but less than the effective 6.09% budgeted by the Company. Therefore, a revised adjustment is required to take into consideration the lower increases actually granted by FPC." Witness Larkin went on to say that the revised 4% increase was based on the actual increase granted to the bargaining unit, because "there is no reason that justifies FPC granting a higher merit increase to the other labor classes." [TR 3042] He stated

that the increases granted by the Company to their bargaining unit over the years have been less than those granted to the other labor classes, but that he believes a higher increase is not justified. He then explained that his calculation puts the 4% increase into effect earlier than it actually should, which dilutes the difference between his calculation and the Company's. [TR 3043]

Occidental's witness Kollen testified that assumed growth in salaries and wages should be limited to inflation. Beginning at page 29 of his direct testimony on O&M expenses, Mr. Kollen proposed a reduction to limit the growth in salaries and wages to the rate of inflation. He stated that the projected average salaries and wages growth for 1992 is substantially higher than the rate of inflation, and that it is inconsistent with the Company's historical growth in salaries and wages per average employee. He recommends adjusting salaries and wages from 4.6% projected growth in the 1992 test year to the 3.1% inflation level, and from 4.96% to 3.8% for 1993. [TR 2852-2855]

Beginning on page 39 of his direct testimony, Witness Kollen argues that the Company should demonstrate increased productivity as an offset to salaries and wages inflation. He states that many utilities, including other Florida utilities, have actually reduced their salaries and wages, and others have managed the rate of increase to less than or equal to inflation through aggressive pursuit of productivity improvement. [TR 2862]

FPC witness Greene disagreed with Mr. Larkin's analysis, because the majority of Mr. Larkin's adjustment comes from reducing the percentage increase assumption by approximately 2% to match exactly the increase in the last bargaining unit agreement. Mr. Larkin also applied the increase incorrectly in January 1992 instead of the specific time in March 1992 when FPC actually budgets and implements the increase. [TR 3192] He explained that, by their nature, the bargaining unit agreements cover many issues besides a payroll increase, and that a number of these issues have nothing to do with exempts and Office and Technical (O&T) employees. There are often many weeks of negotiation on work rules and conditions of employment as well as a wage increase. Exempt and O&T employee compensation is market based and not tied to the increases negotiated in FPC's bargaining unit agreements. Therefore, it would be inappropriate to adjust all salary increases to the level negotiated for the bargaining unit employees. [TR 3192]

Witness Greene continued that OPC witness Larkin's testimony omits data, misinterprets facts and is based on several faulty assumptions in calculating the reduction of payroll and benefits. [TR 3189-91] He attached to his rebuttal testimony Exhibit GEG-2,

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demonstrating the flaws he found in Mr. Larkin's analysis. Mr. Greene testified that FPC calculates budgeted payroll vacancy based on historical data, and that the Company deducts vacant positions that are not budgeted because management has no plans to fill them in the near future. Mr. Larkin's analysis ignores this and instead simply deletes the vacancy in April 1991, a snap-shot in time. [TR 3191]

Mr. Greene also disagreed with Mr. Larkin's merit increase analysis. The majority of Mr. Larkin's adjustment comes from reducing the percentage increase assumption by approximately 2% to match exactly the increase in the last bargaining unit agreement. Mr. Greene argued on pages 31 - 32 of his direct testimony that FPC's "overall objective is to maintain a market based pay structure which rewards excellent performance." Pay for Bargaining Unit employees is established by union negotiation, and the Company's plan is "to avoid being either ahead of or significantly behind wages for comparable work paid by other investor-owned electric utilities in Florida. The pay for Office & Technical (O&T) employees is competitive with salaries paid by other large employees in the service area for comparable work." [TR 3208-3209] He also stated that total Exempt pay is within approximately one percent of the total Exempt market values. Compared with the other peninsular Florida investor-owned utilities, the Company's overall average and Exempt average compensation is two percent less than average. [TR 636]

Staff does not recommend an adjustment to the rate of increase is appropriate. There is not convincing evidence that the merit increases are excessive. Staff does recommend, however, that salaries and wages and fringe benefits for the effect of removing 26 employees to match the average increases from 1987 to 1991. Salaries and wages should be reduced by \$745,530 (\$797,244 System) in 1992 and by \$733,086 (\$836,759 System) in 1993. Fringe benefits should be reduced by \$184,796 (\$197,614 System) and by \$288,671 (\$308,457 System) in 1993.

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ISSUE 44: Is the Company's calculation of pro forma payroll for 1992 and 1993 appropriate?

RECOMMENDATION: No. See Issue No. 43. (Brand)

POSITION OF PARTIES:

FPC: The Company has made no pro forma payroll calculation for the 1992 and 1993 test years.

OPC: No. FPC's forecast of employees to be hired and wage increases during the 1992 current test year is overstated and should be adjusted. See position on Issues 42 and 43.

OCCIDENTAL: No. See Issue Nos. 42, 43 and 45.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: SEE ISSUE 43.

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ISSUE 45: Is the Company's budgeted level of employees in the 1992 and 1993 test years appropriate?

RECOMMENDATION: No. As discussed in Issue 43, the budgeted number of employees for 1992 should be reduced from 89 to 63. (Brand)

POSITION OF PARTIES:

FPC: Yes. The 1992 budgeted increase in employees equals 4.8%. However, after removing new employees for the MACS Energy Conservation program, the new Customer Service System and the Environmental Affairs Department, the 1992 employee growth rate is only 1.4%. The 1993 budgeted increase in employees is 1.0%.

OPC: No. FPC's forecast of employees to be hired during the 1992 current test year is overstated and should be adjusted. See positions on Issues 42 and 43.

OCCIDENTAL: No. FPC's projected number of employees significantly exceeds its average actual growth rates. For the 1992 test year, adjustments reduce O&M expense by \$2,051,000 (System). If the 1993 forecast test year is considered, adjustments reduce O&M expense by \$4,102,000 (System).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: SEE ISSUE 43.

ISSUE 46: Is Florida Power's requested level of Other Post Employment Benefits Expense in the amount of \$24,215,000 (\$25,887,000 system) for the 1992 current test year and \$26,117,000 (\$27,894,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate amounts for Other Post Employment Benefits Expense is \$17,658,368 (\$13,883,935 system) for 1992 and \$18,804,655 (\$20,092,590 system) for 1993. These amounts reflect FAS 106 accounting, FPC's updates to its FAS 106 costs, and a discount rate of 8.25%. (Lester, Salak, Merta)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Other Post Employment Expense are \$18,687,000 (\$19,983,000 System) for the 1992 current test year and \$19,898,000 (\$21,262,000 System) for the 1993 projected test year.

OPC: No. The Commission should not adopt FAS No. 106 for regulatory purposes. See position on Issue 10 for a discussion of the proper treatment of OPEB costs.

OCCIDENTAL: No. The Commission should limit the level of OPEB expense to the cash pay-as-you-go level of \$3,825,000. The Commission should order FPC to defer the timing difference between ratemaking expenses and the FAS 106 accrual level as a non-rate base regulatory asset. See Issue No. 10, supra.

FIPUG: No. It should be noted that FPC has changed its OPEB benefit estimate from that stated above due to a change in its benefit plan. It is FIPUG's position that FPC should only collect the pay as you go amount for OPEB benefits (\$761,000 in 1992 and \$638,000 in 1993).

FCAN: No. The OPEB expense should be reduced to the pay-as-you-go total, and adjusted to reflect the Company's collective bargaining agreement with its workers. The Commission should not adopt SFAS No. 106 for regulatory purposes.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Under Issue 10, Staff recommended that the Commission use FAS 106 for ratemaking purposes. FPC Witnesses

Twery and Scardino testified that FPC had updated the amounts in the MFRs to reflect its latest estimates of its FAS 106 costs. [TR 1940, 3766-3767, Exhibit 223] This update of the FAS 106 estimates reflects a new collective bargaining agreement ratified in January 1992. [TR 3766] It also reflects a change in the discount rate from 8.75 % to 7.75%. [TR 1917, 1940, 1975, Exhibit 223, p. 8] Staff believes that this update, which represents the most current information, should be used for the rate case. Therefore, for both test years, staff has made adjustments to reduce the amount of O&M expenses, to reduce the amount of CWIP, and to reduce the liability associated with FAS 106 (this increases working capital). (Revised Exhibit 225) These adjustments reflect the removal of the Sebring system. However, Staff believes that the 7.75% discount rate is too low and has made a further adjustment, discussed below, to reflect a discount rate of 8.25%.

OPC Witness Montanaro stated that non-regulated companies used 9.00% for discount rates for 1992, in contrast to FPC's discount rate of 7.75%. She stated that the higher the discount rate, the lower the expense. [TR 2169-2170] She finds FAS 106's criteria for selecting a discount rate to be conservative and therefore believes that FPC's original selection of an 8.75% discount rate is inappropriate. She believes that, for regulatory purposes, the discount rate should match the theoretical return rate used for investment decisions. [TR 2098-2099] In its brief, OPC states that the discount rate should be the Commission's allowed return on equity.

Witness Twery states that FPC's original discount rate, 8.75%, was selected in September, 1991 and that interest rates have since declined. He states that FPC's selection of 8.75% was based on the then existing 8.50% pension discount rate. [TR 1917, 1977] He states that the company would have some discretion regarding the selection of the discount rate. [TR 1953] He further states that a rough range of discount rates as of the original measurement date was from 7.50% to 9.00%. He notes that a 1% change in the discount rate would result in an 11% change in the FAS 106 expense, based on the revised estimates. [TR 1976-1977]

FPC Witness Seligson states that the current 30 year Treasury Bond yield is 7.60%. He states that FPC has a AA bond rating and that it would have to issue new first mortgage bonds at 70-75 basis points above the Treasury Bond yield, i.e., 8.30-8.35%. [TR 166] In his prefiled direct testimony, he stated that FPC would have to issue bonds at 8.25%. [TR 138-139]

FAS 106 states that the discount rate should be based on "high-quality fixed-income investments currently available whose cash flows match the timing and amount of expected benefit

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payments." [TR 1916, Exhibit 157, paragraph 31] Staff believes this statement disqualifies the return on equity as a suitable discount rate. Staff notes that FPC's current discount rate of 7.75% is very close to the current Treasury Bond yield of 7.60%, reflecting a rate of the highest quality. Staff believes that AA bonds are high-quality fixed-income investments. [TR 296] Staff believes that an 8.25% rate is in line with or slightly lower than current yields on AA rated bonds. Therefore, Staff has chosen 8.25% as the appropriate discount rate.

A 1% increase in the discount rate causes an 11% decrease in the FAS 106 expense. [TR 1977, Exhibit 223, p. 5] Staff recommends increasing the discount rate by .50%, which results in a 5.50% decrease in the FAS 106 expense for 1992 and 1993. This adjustment also decreases by 5.50% the FAS 106 amount capitalized as CWIP and the FAS 106 liability (see Issue 21). The combined adjustment to reduce expense for both the update and the change in the discount rate for 1992 is \$5,196,528 (\$5,557,190 system) and for 1993 it is \$5,874,536 (\$6,276,885 system). The adjustment to reduce CWIP, for both the update and the change in the discount rate, is \$454,181 (\$456,555 system) for 1992 and \$478,603 (\$481,105 system).

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ISSUE 47: Is Florida Power's requested level of Pension Expense in the amount of \$4,270,000 (\$4,561,000 system) for the 1992 current test year and \$6,257,000 (\$6,683,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No, FPC's net pension expense should be reduced by \$2,653,000 for the 1992 test period and \$2,464,000 for the 1993 test period. The pension liability should be decreased by \$1,672,000 and \$4,876,000 for 1992 and 1993, respectively. CWIP should be reduced by \$232,000 and \$31,000 for 1992 and 1993, respectively. (Salak, Merta)

POSITION OF PARTIES:

FPC: Yes. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Pension Expense are \$2,770,000 (\$2,962,000 System) for the 1992 current test year and \$5,044,000 (\$5,390,000 System) for the 1993 projected test year.

OPC: No. The company is seeking to recover \$4,561,000 as a positive expense in 1992 plus \$1,233,000 as an amortization based, in part, on the 1992 expense. This double counts the 1992 expense which is not even representative of future expense levels. The \$5,794,000 should be disallowed and, instead, the Commission should allow only \$740,000, which amortizes the average expense since 1988 over the next five years. The jurisdictional expense reduction would be \$4,724,000 (\$5,054,000 system).

OCCIDENTAL: No. See Issue No. 9, supra. The Commission should limit the allowed pension expense to the projected \$0 million 1992 funding level. The Commission should order the Company to defer the timing difference between that \$0 million ratemaking level and the \$4.561 million FAS No. 87 level of pension expense as a non-rate base regulatory asset.

FIPUG: No. FPC's pension fund is overfunded. FPC should collect only that amount necessary to fund its pension fund on a pay as you go basis (\$31,000 in 1992 and \$2,620,000 in 1993).

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The intervenors' adjustments to pension expense are based on their positions that cash basis accounting should be used to determine the pension expense instead of SFAS 87. Staff has recommended using SFAS 87 in Issue 9. However, Staff recommends several adjustments to the pension expense level as filed by FPC.

First, FPC updated their filing to reflect the results of bargaining unit negotiations and a reduction in the discount rate. According to Late-Filed Exhibit 225, the Company's net pension expense request decreased from \$3,386,000 to \$2,199,000 for 1992 and from \$5,034,000 to \$4,337,000 for 1993. While Staff does not take issue with using the terms of the bargaining unit negotiations, Staff believes that the new discount rate being used by the company is too low. The Company's original filing included a discount rate of 8.5%. [TR 2030] The Company subsequently dropped its estimate to 7.25%. [TR 2064] This appears to be an excessive drop since the time testimony was filed in January to the time it was updated in May. Company witness Peterson testified that a 50 basis point shift in the discount rate would have a \$1.2 million dollar impact at the Florida Progress level. [TR 2064]

The definition of the discount rate under SFAS 87 is identical to the definition of the discount rate under SFAS 106. As discussed under Issue 46, Staff is recommending an adjustment to the discount rate used for SFAS 106. The relationship between the discount rates used for SFAS 87 and SFAS 106 should remain somewhat constant for the time frame of the test period.

Company witness Peterson testified that the Pension Benefit Guaranty Corporation (PBGC) publishes a rate that can be used to discount pension liabilities. [TR 2065] The PBGC interest rates have dropped from 7.25% to 6.5% from January, 1991 through June, 1992--a drop of 75 basis points. (Exhibit 35) The Company dropped its discount by 125 basis points since the time it filed in January to the time of the update in May. Staff recommends that the discount rate used for pensions should be increased from 7.25% to 8.00%. This will decrease pension expense by \$1,573,342 (\$1,682,000 system) for 1992 and by \$1,574,857 (\$1,682,000 system) for 1993.

The professional expense included in pension expense was calculated using 1991 as a base period. Professional expense was calculated as a percentage of the asset value of the pension fund. In 1991, the professional fees were .71% of the asset value. If a five year average from 1987 through 1991 is used, the percentage is .63%. FPC witness Peterson stated that the five year average would be reasonable to use. [TR 2063-2064] Staff believes that an average is more reflective of the typical professional fees;

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therefore, Staff has adjusted professional fees by \$291,812 (\$312,199 system) for 1992 and \$295,945 (\$316,620 system) for 1993 using the five-year average.

Staff's recommends adjustments to net pension expense of \$2,653,000 (\$2,653,000 system) for 1992 and \$2,464,000 (\$2,632,000 system) for 1993. The corresponding working capital adjustments are an increase to working capital in 1992 and 1993 of \$1,672,000 (\$1,787,000 system) and \$4,876,000 (\$5,210,000 system), respectively. CWIP would be decreased by \$232,000 (\$233,000 system) in 1992 and \$31,000 (\$31,000 system) in 1993.

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ISSUE 48: Should FPC be allowed to include as operating expense the amortization of the \$3.7 million regulatory asset related to pension expense which was deferred in prior years?

RECOMMENDATION: No, net amortization associated with the pension regulatory asset should not be recovered in 1992 or 1993 in the amounts of \$916,000 and \$927,000, respectively. For 1992 and 1993, \$752,000 and \$2,696,000, respectively, should be removed from rate base. CWIP in the amount of \$80,000 and \$12,000 should also be removed from rate base for 1992 and 1993, respectively. (Salak)

POSITION OF PARTIES:

FPC: Yes. Since the 1987 base rate proceeding the Company recorded periodic pension expense on its books in accordance with FAS 87 but, for ratemaking purposes, removed that entry by recording adjusting journal entries to comply with FAS No. 71. These entries were made to conform the accounting for pensions to the ratemaking established in the 1987 proceeding and also because this Commission had not established a ratemaking policy to account for pension expense for electric utilities. In effect the Company has employed a "dollar tracking" method of accounting for pension expense since 1988 and has used this method to prepare the 1992 test year data.

OPC: No. Florida Power deferred recognizing the increased income from negative expenses in the years 1988, 1989 and 1990 without Commission authorization. The \$3.7 million regulatory asset is positive only because of the effect of the positive expense for 1992. See position on Issue 47.

OCCIDENTAL: No. The "regulatory asset" was created by the Company through its unilateral accounting actions from 1987 through 1992.

FIPUG: If the Commission directs FPC to use the pay as you go method, the regulatory asset is legitimate. The asset should not be amortized until the cash payment exceeds the FAS No. 87 expense. If the Commission allows recovery in rates of FAS No. 87 expense, the deferrals are not legitimate.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The intervenors in this case believe that the regulatory asset should be included if the cash basis is used for

accounting for pensions, but not amortized at this time. [TR 2667, 2891] If, however, the Commission uses SFAS 87 to account for pension expense, then the regulatory asset should be disallowed. [TR 2668] OPC also believes that the amounts for 1992 are double counted if pension expense is included in the 1992 test year and the pension amount for 1992 is amortized as a regulatory asset. Occidental witness Kollen does not believe the regulatory asset should earn a return since there is not actual cash outflow. [TR 2891]

In 1987, FPC began recording pension expense for financial statement purposes under SFAS 87. In addition, the Company decided to use SFAS 71 to record the difference between the amount of pension expense allowed in rates of \$0 and the amount recorded for financial statement purposes as a regulatory liability. FPC had negative pension expense from 1988 through 1990. [TR 2485] It was not until 1991 that FPC had a positive pension expense under SFAS 87. In 1992, FPC forecasts a positive pension expense resulting in a net regulatory asset which FPC wants to amortize over three years. [TR 2240]

Witness Scardino testified that the Company unilaterally decided to record its pension expense using SFAS 71. [TR 3811] The Company argues that pension expense should be "tracked" from year to year. [TR 2249, 3763] The difference allowed in rates versus the recorded expense should be recorded as a regulatory asset or liability under SFAS 71. In the next rate case the regulatory asset or liability should be amortized through rates.

Staff believes that the regulatory asset and its amortization should be disallowed for ratemaking purposes. First, in order to record an asset or a liability under SFAS 71, there must be an indication from the Commission that the asset or liability will be recoverable. Witness Scardino admits that there was no such indication from this Commission. FPC's external auditors did not take exception to FPC using this methodology; however, FPC witness Bongers, a partner with KPMG, stated that the amounts were immaterial and an auditor would pass on them as a matter of course whether the appropriate criteria existed or not under SFAS 71. [TR 3580-3581] Staff believes that it was inappropriate for FPC to use SFAS 71 without prior Commission approval.

Second, Staff does not believe pension expense should be "tracked." The pension expense will be run through earnings and will fluctuate. Staff believes that earnings should be reviewed in aggregate and there should not be a true-up provision for certain expenses. If a true-up is allowed for one expense, it can easily be argued that all the expenses should be true-up--especially when forecasted test years are being used. As stated by witness

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Carlson, "Other expenses also change....but the change itself does not justify the deferral of expenses. Utilities are given an opportunity, not a guarantee, to recover their costs. If costs change, the entire cost to serve must be re-evaluated. The individual changes in costs should not be deferred for future recovery in another rate case." [TR 2668]

Staff recommends disallowance of the regulatory asset and its amortization. Net amortization associated with the pension regulatory asset is \$916,000 (\$979,000, system) and \$927,000 (\$992,000, system) for 1992 and 1993, respectively. For 1992 and 1993, \$752,000 (\$804,000, system) and \$2,696,000 (\$2,881,000, system), respectively, should be removed from rate base. CWIP in the amount of \$80,000 (\$80,000, system) and \$12,000 (\$12,000, system) should also be removed from rate base for 1992 and 1993, respectively. Based on Staff's recommendation, OPC's issue of double counting is eliminated.

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ISSUE 49: What is the appropriate amount of outside services expense to be allowed in operating expense?

RECOMMENDATION: The appropriate amount of outside services expense is \$12,106,515 (\$13,088,960 system) for 1992 and \$12,555,047 (\$13,586,498 system) for 1993. (Merta)

POSITION OF PARTIES:

FPC: The appropriate amount of outside services expense to be allowed in operating expense is \$12,106,515 (\$13,088,960 system) for the 1992 current test year, and \$12,555,047 (\$13,586,498 system) for the 1993 projected test year.

OPC: All one-time outside professional services should be disallowed. Additionally, the Commission should not allow any outside services related to the company's new strategic plan shown in Late-Filed Exhibit 169 to be \$640,000 (\$598,000 jurisdictional), which includes projected expenditures for activities such as \$200,000 to identify endangered species inhabiting company property which should not be allowed in rates.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

PCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Public Counsel's recommendation that all one time outside professional services be disallowed has no basis in the record. Staff believes that although one-time services may not recur each year, they may be replaced with other new services, thus continuing the annual cycle of expense. However, only a reasonable level of non-recurring expense should be allowed in O&M expenses. Since there is no record basis to support what a reasonable level of one-time services would be, Staff recommends no adjustment.

Further, Public Counsel recommends disallowing all outside services related to FPC's strategic plan. In the Brief, Public Counsel points out that though FPC's desire to become more environmentally aware is a laudable pursuit, it is unrelated to the provision of electric utility service. In addition FPC has not performed a cost benefit analysis to determine the overall effect

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on ratepayers. [TR 988] In 1992 the Company budgeted \$640,000 for the following items:

- \$200,000 Land Identification - identification of endangered species inhabiting FPC property.
- \$100,000 Water Conservation - study and recommendation of water conservation and reuse techniques.
- \$90,000 Solid Waste - analyze waste streams to reduce solid waste and to use more integrated material management.
- \$100,000 Computer Program Development - Develop materials management and tracking system for solid waste management program. Develop automated air quality reporting system. Develop an environmental commitment tracking system.
- \$150,000 Air Quality - air quality modeling to evaluate opportunities to reduce air quality impacts.

(Exhibit 169)

FPC Witness Hancock explained that this will allow the company to contract with specialized environmental consultants to cope with evolving regulatory requirements and to meet its goal to exercise good environmental stewardship. [TR 3495-96] In Order No. 23727, FPL's Tax Savings Docket No. 890319-EI, the Commission allowed \$208,700 for endangered species booklets, a videotape entitled "Seasons in the Swamp" and for swamp tours. However, the Commission stated:

. . . While we caution the utility that not all such expenditures will be allowed, we will allow the expenses in question because they are reasonable in amount and provide information to the public which will aid the utility in plant siting and other related issues. . . .

In this case, FPC is requesting \$640,000 for studies, recommendations, and modeling. Staff recommends that these expenses be allowed.

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ISSUE 50: Is FPC's 1992 and 1993 test year requested accrual for medical/life reserve-active employees and retirees appropriate?

RECOMMENDATION: Yes. The accrual for the 1992 and 1993 claims reserve is appropriate. (L.Romig, Brand)

POSITION OF PARTIES:

FPC: Yes. The use of these reserves are in compliance with Commission Rule 25-6.0143. The accruals for medical/life (active employees) of \$16,413,000 (\$17,546,000 system) for 1992 and \$18,171,000 (\$19,408,000 system) for 1993 are based on past experience on a pay-as-you-go basis. The test year accruals for post retirement medical/life (active employees and retirees) are based on the requirements of FAS No. 106, as stated in the Company's position under Issue 46.

OPC: No. The Company's projected level of expense should be reduced based on the projected wage level adjustment. Included in the fringe benefit adjustment is a reduction of \$2,451,000 jurisdictional.

OCCIDENTAL: No. The 1992 test year requested accrual should be reduced \$1,523,000. If the Commission considers the 1993 forecast test year, the requested accrual should be reduced \$1,800,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power maintains an unfunded medical/life reserve for active and retired employees in compliance with Commission Rule 25-6.0143, F.A.C. and the Uniform System of Accounts as prescribed by the Commission. The Company has maintained this reserve since 1984. The Company is self insured and uses the reserve to pay claims. The medical portion of the reserve is managed by Blue Cross and Blue Shield. (Exhibit 153)

The amount accrued is based on the pay-as-you-go basis and is separate and apart from Issue 46 related to the requirements of FAS 106.

The Office of Public Counsel has not recommended a specific adjustment to the accrual for the medical/life reserve but has

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proposed an adjustment to the overall fringe benefit expense based on adjustments to projected wages (Issue 43).

Occidental witness Kollen has recommended that FPC be ordered to amortize the reserve balance over five years as a negative expense. [TR 2905] No specific adjustment to the company's expense was proposed other than the amortization of the reserve balance. Mr. Kollen also testified that the company was unable to identify other self insured utilities which maintain a medical/life insurance reserve for active employees. [TR 2904]

In Staff's opinion the use of the reserve concept for the self insurance program should be continued in accordance with the reserve accounts established pursuant to Commission Rule 25-6.0143, F.A.C. In addition, Mr. Kollen's comments regarding the failure to identify other self-insured utilities is irrelevant. Staff, therefore, recommends no specific adjustment to the medical/life expense other than any adjustment to fringe benefits discussed in Issue 43.

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ISSUE 51: Is FPC's requested accrual for storm damage for the 1992 and 1993 test years appropriate?

RECOMMENDATION: The 1992 requested accrual of \$1,104,000 is appropriate. The 1993 requested accrual of \$314,000 should be reduced \$196,962 (\$214,000 system). O&M expenses should be reduced \$69,152 (\$75,134 system) for the earnings on the Funded Reserve.
(L.Romig)

POSITION OF PARTIES:

FPC: Yes. The accrual was projected in the same manner as the Company proposed in its 1987 base rate proceeding. The Company will accrue for storm damage until the amount in the storm damage reserve equals the deductible of the T&D property insurance policy.

OPC: No. Florida Power should not be allowed to expand the category of events within the definition of storm damage.

OCCIDENTAL: No. FPC should amortize over five years the remaining deficiency of \$1,636,000 that existed at December 31, 1991. Annual amortization would be \$327,000, reducing the Company's request by \$777,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC requested an accrual of \$1,104,000 for 1992 and \$314,000 in 1993 in order to attain the \$5 million deductible of the property insurance policy. [TR 2534] Once the cap is reached the company would cease accruals or sometime in 1993 which is consistent with past Commission orders. [TR 2534] Mr. Scardino, in response to staff questioning, stated that the \$314,000 requested expense would continue to be included in rates even though an expense would no longer be incurred. [TR 2535]

Public Counsel did not address the accrual issue, other than to state that the company should not be allowed to expand the scope of the reserve.

Occidental witness Kollen testified that the expense accrual is an accounting derived cost due to its discretionary amortization of its reserve deficiency. [TR 2901] "The company has significant discretionary control over its reserve related expense accruals.

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[TR 2902] He further stated that, "the company decided to amortize the \$2 million reserve deficiency over 22 months or the three year test period utilized by the company in its filing". [TR 2901] Mr. Kollen recommended that the \$1.636 million reserve deficiency at December 31, 1991, be amortized over five years or \$327,000 annually. [TR 2902] This would result in a \$777,000 reduction in the company's proposed expense for 1992.

Staff believes that the company does not have significant control over its reserve related expense accruals, contrary to Mr. Kollens beliefs, based on Commission Rule 25-6.0143, F.A.C., the use of Accumulated Provision Accounts, including property insurance. Section (4)(a) of the rule states that "... the provision level and accrual rate for each account ... shall be evaluated at the time of a rate proceeding and adjusted as necessary. However, utility may petition the Commission for a change in the provision level and accrual outside of a rate proceeding."

Mr. Kollen also recommended a \$777,000 reduction in the 1992 accrual or an annual expense of \$327,000. Based on the company's proposed 1993 expense of \$314,000, this would require a \$13,000 increase in expenses.

In Staff's opinion, it would be appropriate to accept the company's proposed accrual for 1992. This would erase any concerns expressed by Mr. Scardino of requiring any retroactive adjustments to the 1992 funded reserve.

For 1993 the expense accrual should be set at \$100,000 or a \$214,000 reduction in expenses. This should ensure that the Company will continue to incur the expense over the time period in which the expense will be included in the cost of service and enable the company to attain the \$5 million deductible of the property insurance policy. Florida Power did not project any charges or catastrophic events in determining the reserve balance. The only charges for storm damage was in 1989 for damages of \$736,000 inflicted by tropical storm Keith as reflected on Exhibit No. 73. The accrual should continue even though the \$5 million deductible is reached and recommended in Issue 17. The accrual and the provision level would then be evaluated in the company's next rate case or sooner if the Company files a petition outside of a rate proceeding.

If the Commission accepts the Staff recommendation to discontinue the funded reserve, it would be appropriate to credit O&M expenses for the earnings on the funded reserve until it is extinguished. This is consistent with the company's treatment in 1993 where it credited O&M expenses by the after-tax earnings on

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the fund or \$52,600. The reason for this treatment is to avoid increasing the funded reserve beyond a reasonable level. This would also enable the company to extinguish the funded reserve sooner than it otherwise would. This treatment is also consistent with a Commission decision in a prior FPC rate case, Order No. 5619, Docket No. 71370-EU and in an FPL rate case, Order No. 6591, Docket No. 74509-EU. Staff therefore recommends that O&M expenses be reduced \$69,152 (\$75,134 System) for the pre-tax 1993 earnings credited to the funded reserve by the Company.

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ISSUE 52: Is FPC's 1992 and 1993 test year requested expense accrual for the claims reserve appropriate?

RECOMMENDATION: Yes. The accrual for the 1992 and 1993 claims reserve is necessary. (L.Romig, Brand)

POSITION OF PARTIES:

FPC: Yes. The use of this reserve is in compliance with Commission Rule 25-6.0143. The test year accruals are based on a matching of expected current year charges. This issue was not addressed or contested by the other parties at the hearing.

OPC: No position.

OCCIDENTAL: No. The 1992 test year requested accrual should be reduced \$1,011,000. If the Commission considers the 1993 forecast test year, the requested accrual should be reduced \$1,011,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power maintains an unfunded injuries and damages and Worker's Compensation reserve in accordance with Commission Rule 25-6.0143, F.A.C. and the Uniform System of Accounts as prescribed by the Commission. The account has been established to meet the probable liability for deaths or injuries to employees or to others not covered by insurance.

For 1991 the Company expensed \$4.081 million and projected expenses of \$4.2 and \$4.568 million for 1992 and 1993 respectively. The Company stated on MFR Schedule C-28 that the desired balance for the reserve is based on a matching of current year charges and accounting accruals while also maintaining an adequate balance to cover unforeseen incidents. The Company has projected an increase in the reserve from \$4.009 million at 11/31/91 the interim test year, to \$4.340 million at 12/31/93.

The Office of Public Counsel took no position on this issue.

Occidental Witness Kollen testified that the 1992 projected charges are twice as high as 1991 actual costs and nearly \$.8 million in excess of the 1991 accrual. [TR 2903]

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Additionally, the Company's request does not reflect an amortization for perceived reserve deficiency. [TR 2903] Witness Kollen further testified that the 1992 requested accrual should be reduced by \$1.011 million, and if the Commission considers the 1993 projected test year the 1993 accrual should also be reduced by \$1.011 million.

Based on MFR Schedule C-28 the amount charged to expense (not accrual) was \$4.081 million in 1991, \$4.208 in projected 1992 and \$4.568 million in 1993, for injuries and damages and worker's compensation. The Company projected the worker's compensation expense to decrease \$200,00 from 1991 to 1993 and injuries and damage to increase \$487,000 over the same period for a net increase of \$287,000.

The Company calculated on MFR Schedule C-57d page 1 an A&G benchmark variance of \$6.864 million for the period 1987 vs. 1992. Included as part of the justification for this variance was a decrease of \$3.873 million during this period for injuries and damages expense. The Company stated that claims have decreased since the middle of 1980's because of efforts to educate the public on the hazards of electrical contact with overhead lines.

Also, worker's compensation has increased at a decreasing rate since the end of 1987. This can be attributable to the implementation of self insured programs and several cost containment procedures. (MFR Schedule C-57d, page 2 of 3)

In Staff's opinion, witness Kollen did not take into consideration or dispute the statements provided by the Company in the above referenced benchmark schedule. In addition, even though he proposed a \$1.011 million reduction in expense he did not propose a corresponding adjustment increasing working capital. Also, Mr. Kollen has recommended an adjustment reducing expenses \$1.011 for 1992 and 1993 injuries and damage when actually the increase from 1991 to 1992 was \$537,000 and \$150,000 from 1992 to 1993 for injuries and damage. As stated above the Company has projected a decrease in worker's compensation from 1991-1993. Staff recommends no adjustment to the injuries and damage and worker's compensation expense or reserve.

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ISSUE 53: Should interest on tax deficiencies of \$2,141,000 (\$2,378,000 system) for 1992 and \$1,167,000 (\$1,308,000 system) for 1993 be included in O&M expense?

RECOMMENDATION: Yes. Interest on tax deficiencies of \$2,141,000 (\$2,378,000 system) for 1992 and \$1,167,000 (\$1,308,000 system) for 1993 should be included in O&M expense. The Company has demonstrated that the benefits accruing from its tax strategy are beneficial to the ratepayers for 1992 and 1993. (C. Romig)

POSITION OF PARTIES:

FPC: Yes. The Company believes that its customers are direct beneficiaries of our tax administration policies. The Commission has previously recognized that customers are the primary beneficiaries of tax planning and established a precedent for allowing such costs in rates. See Order No. 13948, Docket No. 830465-EI, Florida Power & Light Company. The issue and underlying principle involved in that case are equally applicable to the Company in this case.

OPC: No. The 1992 current test year should be reduced by \$2,141,000 (\$2,378,000 system).

OCCIDENTAL: No. Since the ratepayers did not receive the interest or return benefit of the disallowed ITC utilization in the past, it is not appropriate for the ratepayers now to pay for the Company's "lost" interest benefit.

FIPUG: No position.

FCAN: No. Agree with Occidental.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power is requesting consideration of interest on tax deficiencies in its cost of service. Although the Company included this expense as an O&M expense in its last full revenue requirements proceeding, Docket No. 870220-EI, this proceeding concluded in a stipulation. Consequently, the Commission has never explicitly addressed the propriety of interest expense on tax deficiencies as an element of Florida Power's cost of service. However, since 1987, the Company has recognized its accrual and amortization on its books and records and also as components of costs of service in its monthly surveillance reports filed with the Commission. [TR 2281]

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The interest expense for which consideration is requested arises from the accrual and amortization of interest for actual and potential tax deficiencies. Actual tax deficiencies result at the conclusion of an Internal Revenue Service or Department of Revenue audit and have been either assessed or proposed and agreed to by the Company. Potential deficiencies result from carryover items from previous audits and disclosure items. [TR 3759-3761]

Carryover items are items whose tax treatment extends beyond the tax year in which they arise. These items result because of the lag in time between filing the tax return and reaching a final agreement on the appropriate tax treatment of an item for a given tax year; i.e. revenues, deductions or capitalization. For example, a deduction is disallowed when the 1985 return is audited and agreement is reached in 1991. If that same deduction has been consistently taken on each return between 1985 and 1990, there is a high probability that the deduction will be disallowed also when the 1986 through 1990 returns are audited. [TR 3760] However, the disallowances for these years may not be concluded until 1994, following the next audit. Therefore, the estimated interest to be assessed for 1986 through 1990, which is associated with the 1985 disallowed deduction is recorded.

Disclosure items relate to income/deduction/capitalization tax positions on which the Company considers tax law unclear or those items on which the Company has intentionally taken a controversial position. They may or may not be allowed. However, the Company has disclosed its position and tax treatment to the taxing authority on its tax return, thereby avoiding understatement penalties. [TR 3761] Although less probable than carryover items, the interest associated with the disclosure items is also recorded.

The Company is recording these interest costs as deferred debits and accrued liabilities as they are known and/or estimated, and requests regulatory recognition of their amortization over a three-year period [TR 2553] as an O&M expense.

Staff believes that there are two parts to this issue. One, has the Company demonstrated that its aggressive tax strategy (which results in tax deficiencies and the ensuing interest) benefitted the ratepayer such that the interest should be considered a cost of service component for 1992 and 1993? Two, if the interest is considered a cost of service component, is the requested three-year amortization period reasonable?

Mr. Scardino states that, "When the Company is required to pay interest on a deficiency, it is because the Company has withheld cash payments from a taxing authority and has used the cash to displace external capital financing. To the extent that other

capital financing has been displaced, the cost of capital displaced presents a savings to the customers of the Company." [TR 3757]

The Company prepared a cost/benefit analysis for the latest closed years for which it was assessed interest on deficiencies, 1982 through 1985. [Staff Exhibit No. 28, pp. 6-17] The Company's analysis indicates that its conservative estimate of the gross benefits through January 1, 1991 resulting from aggressive tax preparation for the tax years 1982 through 1985 were \$19,839,000 and its conservative estimate of net benefits were \$17,798,000, as illustrated below. [TR 2549]

The first part of the analysis compares the interest owed on the tax deficiency to the avoided interest expense through December 31, 1991. The displaced cost of capital was computed conservatively using short-term interest rates (rather than a mixture of funds) incurred by the Company. The difference between the interest on deficiencies and the interest that would have been incurred if the deferred taxes related to the deficiencies were replaced by short-term borrowings results in an estimated net cost (emphasis added) of \$2,000,000. (Staff Exhibit No. 28, pp. 4-5)

The second part of the analysis estimates the savings derived from appeals negotiations, also computed using short-term borrowing rates. The Company compared major issues in the Revenue Agent's Report where deficiencies were asserted, that were subsequently resolved at Appeals for lesser amounts. The Company states that comparing Revenue Agent's Report audit assessments to Appeals settlements provides a conservative estimate of the benefits, because many aggressive positions are never questioned by the agents and many issues that are questioned by the agents are settled at lesser amounts than the agents originally proposed and are never included in the Revenue Agent's Report. Finally, many audits are settled at the agent level and are never appealed. [Staff Exhibit No. 28, p. 5]

The estimated net savings (emphasis added) from aggressive positions that were sustained at Appeals were \$19,800,000. [Staff Exhibit No. 28, pp. 5-6] The savings represent a combination of permanent tax savings and avoided interest expense on timing differences. Consequently, the Company's analysis indicates that its conservative estimate of the net savings from its aggressive tax strategies for tax years 1982 through 1985 is \$17,800,000 (the \$2,000,000 cost from the first part of its analysis and the \$19,800,000 "savings" from the second part of its analysis). [Staff Exhibit No. 28, p. 6]

Based on the above, staff believes that the utility has demonstrated that its tax strategies have benefitted the ratepayers

through avoided cost-based external financing. Moreover, in Order No. 13948 in Docket No. 830465, the Commission allowed Florida Power & Light (FPL) to recognize in cost of service the amortization of interest on tax deficiencies because the Commission determined that FPL demonstrated that its ratepayers received some benefits from its practice of aggressively seeking to reduce its tax liability. Although Order No. 13948 was not a generic order, Staff believes that the issue involved and the underlying principles are equally applicable to Florida Power Corporation. Consequently, staff recommends that the interest be included as a component of its cost of service.

As far as the amortization period, Mr. Scardino states that a three-year amortization period was chosen because "three years seemed to be kind of a midpoint of amortization periods that the Commission had utilized for Florida Power in a variety of other issues." Staff believes this to be reasonable. Also, this amortization period is consistent with the time period being recommended in Issue 55 for rate case expense amortization. (See Issue 55 for rationale of three-year period.)

The Office of Public Counsel (OPC) takes the position that the interest on deficiencies should not be included in O&M expense. Mr. Larkin states that "it is not appropriate to require ratepayers to pay for an estimated cost that is calculated based on a potential tax deficiency." Furthermore, "the potential tax deficiency is just that, a potential, rather than a known deficiency. Since no actual obligation exists, no interest should be calculated. An interest accrual of this type and magnitude only acts as a signal to the IRS that the Company has taken a position on a tax issue that even the Company itself considers questionable." [TR 3005-3006]

First, as described in detail above, the interest accrual relates to both actual and potential deficiencies; carryovers and disclosures. Mr. Larkin addresses only the potential deficiencies. As far as the potential deficiencies, Witness Larkin has made a valid point, that the potential tax deficiencies are not known at the time the related interest is accrued. However, staff believes that the Company has shown that both the liability and the related interest are highly probable and may be reasonably estimated. Therefore, the accrual of the interest expense should be recorded on the Company's books and records. Second, Mr. Scardino states "that the IRS is already aware of any carryover items from prior audit cycles" and that it becomes aware of other potential items through the disclosure process. Therefore the IRS is not given any information of which it is not already aware or can't discover through the disclosure statements. "Therefore, the interest accruals do not provide signals to auditors." Furthermore, he states that the "tax laws, rules and regulations are subject to

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varying interpretations. Often times there is little or no guidance with the respect to proper treatment of an item. Under these circumstances, the Company will interpret the law to protect the customers' interests, not that the positions taken are inappropriate or questionable." [TR 3755-3756]

Occidental Chemical Corporation also takes the position that the interest expense on tax deficiencies should be disallowed. Witness Kollen states that the interest expense should not be recovered from ratepayers because it is "similar to the costs of any other penalty or fine assessed by government agencies." Furthermore, he states that in conjunction with normalization requirements, "the utility is prohibited from reducing rate base (or return) by any portion of the allowable credit. The utility reaps the benefit of interest free capital. The Commission is prohibited from passing this benefit on to the ratepayers under penalty of losing all ITC tax benefits. Since the ratepayers have never received the interest or return benefit of the disallowed ITC utilization in the past, it is not appropriate for the ratepayers to pay for the Company's "lost" interest benefit now." [TR 2898]

Regarding Mr. Kollen's statement that the interest is similar to any other penalty or fine assessed by government agencies, Mr. Scardino states that "the IRS and states assess many penalties and fines for actions that they deem inappropriate in the preparation of filing of returns. For instance, there are substantial understatement penalties, as well as penalties for fraud and negligence. The IRS assesses interest expense for the use of money and for no other reason. Interest on tax assessments, unlike penalties and fines, is fully deductible for tax purposes. Although most, if not all, penalties and fines can be abated for reasonable cause, interest expense cannot be, because if a tax assessment is made, the taxpayers have had use of the money for some period of time." [TR 3756]

Regarding Mr. Kollen's statement that the ratepayer never received the interest or return benefit of the disallowed ITC utilization in the past, Mr. Scardino's testimony indicates that the interest related to ITC disallowances was a minor portion of the interest included in the test years. He states that test years 1992 and 1993 include amortization of interest on tax deficiencies related to disallowed ITC in the approximate amounts of \$24,000 and \$42,000. [TR 3756] Furthermore, as admitted by Mr. Kollen on cross-examination, Mr. Kollen did not address the fact that even though the return benefit may not be passed on to ratepayers, the amortization of the ITCs may be utilized to reduce the cost of service income tax expense. [TR 2961-2962] Furthermore, Mr. Kollen did not address the savings realized by the ratepayers from the use of zero cost of capital for the increased balance of deferred taxes.

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Based on the above, staff recommends that the requested interest on tax deficiencies of \$2,141,000 (\$2,378,000 system) for 1992 and \$1,167,000 (\$1,308,000 system) for 1993 be included in O&M expense.

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ISSUE 54: Is Florida Power's requested level of Bad Debt Expense in the amount of \$2,500,000 (\$2,500,000 system) for the 1992 current test year and \$2,700,000 (\$2,700,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Yes. The requested amount is appropriate.
(L.Romig)

POSITION OF PARTIES:

FPC: Yes. The requested level of Bad Debt expense was forecasted for both the 1992 and 1993 test years based on historical experience for charge-offs for the past 5 years. This issue was not contested at the hearing.

OPC: No position.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power Corp. projected \$2,521,000 (\$2,521,000 System) and \$2,722,000 (\$2,722,000 System) for 1992 and 1993 respectively for Bad Debt Expense including Sebring Utilities. Subsequent to the filing FPC requested that the Sebring acquisition be dropped for consideration in this docket. Accordingly Bad Debt Expense was reduced \$21,000 and \$22,000 for 1992 and 1993, respectively, under the Sebring related issues.

Staff determined that after the adjustments removing the effect of Sebring the net write-offs as a percentage of sales were 0.14% for 1992 and 1993 and agreed to by Mr. Scardino. [TR-2536] This percentage equates to a three-year average of net write-offs as a percent of sales and is consistent with the test used by the Commission in determining the reasonableness of Bad Debt Expense; i.e., Order Nos. 23727, 22224, 16195, 23536, in Docket Nos. 890319-EI, 881056-EI, 850172-GU, and 890324-EI respectively, and more recently Order No. PSC-92-0580-FOF-GU in Docket No. 910778-GU.

Based on the above it is Staff's opinion that Bad Debt Expense for 1992 and 1993 are reasonable and no adjustment are necessary.

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ISSUE 55: Is Florida Power's requested Rate Case Expense in the amount of \$424,200 appropriate?

RECOMMENDATION: No. The appropriate amount of rate case expense is \$596,726 amortized over 3 years beginning November 1, 1992. Therefore the appropriate amount of rate case expense for 1992 and 1993 is \$198,909, a reduction to expenses of \$13,091. (Merta)

POSITION OF PARTIES:

FPC: Yes.

OPC: No. Rate case expense should be reduced by 50% to recognize the excess expense associated with the 1993 test year and the company's request for a totally unjustified performance reward.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: There appears to be no record basis for Public Counsel's position that rate case expense be reduced by 50% to recognize excess expense associated with the 1993 test year and the company's request for an unjustified performance reward. Staff believes that a fifty percent disallowance is unreasonably high, since most of the work was necessary for the 1992 test year as well. Outside services, legal services and paid overtime could possibly decrease, but meals and travel and "other expenses" would change very little.

The Company projected rate case expense of \$424,200. At the Hearing, Staff requested an update of rate case expense to include total actual expenses through July 31, 1992 plus additional expenses forecasted through the end of the case. Based on Late File Exhibit 189 [TR 2600], actual expenses through July 31, 1992 are \$583,626 and the revised total amount through the end of the case is \$596,726. This is \$172,526 higher than originally requested in MFR Schedule C-24 and is detailed below:

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	Total Forecasted Expenses	Budget MFR C24	Variance
Outside Services	405,860	325,000	80,860
Legal Services	20,488	25,000	(4,512)
Meals and Travel	101,381	52,200	49,181
Paid Overtime	17,628	20,000	(2,372)
Other Expenses			
Duplicating	8,453		8,453
Mats. & Supp.	3,513		3,513
Postage & Fedx.	6,224		6,224
Public Notif.	24,849		24,849
Xerox Rental	5,424		5,424
Misc.	2,906	2,000	906
TOTAL	\$596,726	\$424,200	\$172,526

The argument was made in the Florida Public Utilities-Marianna Division rate case that a company should not be granted an increase in rate case expense due to a revised estimate. Order No. 21532 in that case stated "We do not feel it wise to allow FPUC to increase the projected amount in this account and ignore the possibility that projected amounts in other accounts may have decreased." However, in Order No. PSC-92-0580-FOF-GU issued June 29, 1992, West Florida Natural Gas Company's last rate case, an increase in expense based on a revised estimate was allowed. The Commission stated:

In the past, there have been instances where we did not allow any increase in rate case expense due to a revised estimate. However, in this case, there have been several rate base as well as other NOI issues in which the Company's original position has been modified by our Staff because of updated information. Often updated information works to the detriment of a company. Yet, for fairness and consistency, when appropriate, updated information should be used to help a company as well. .

..

The actual expense incurred for the 1987 rate case was \$400,254. In Staff's opinion, the rate case expenses for this case appear reasonable. \$583,626 of the \$596,726 represents actual expenses with \$13,100 in additional expenses forecasted through the end of the case. As in the West Florida case above, updated information has been used by Staff in rate base and NOI issues, e.g., the removal of the Sebring acquisition. Staff recommends that \$596,726 in rate case expense is appropriate. At issue is the amortization period over which the expense will be spread.

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In the last electric utility rate case, the Commission ordered Gulf Power Company to amortize rate case expense over a 4 year period. (Order No. 23573 issued October 3, 1990 in Docket No. 891345-EI) In Order No. 22224, issued November 27, 1989, the Commission approved a 5 year amortization period for Florida Public Utilities Fernandina Beach Division.

The Company has requested a 2 year amortization period because the Commission approved a 2 year amortization period in its 1984 and 1987 rate cases and the assumption was made in the current Five Year Business Plan that FPC would file its next rate case in 1994. [TR 2600-03]

It has been 8 years since FPC's last rate case where a rate increase was granted and 5 years since its last rate case. [TR 2600] Pursuant to Chapter 366, Florida Statutes, FPC must file Modified Minimum Filing Requirements (MMFR's) in 1996. [TR 2602-03] Based on these facts and the arguments presented above, Staff believes the amortization period should be greater than the 2 years ordered in FPC's last rate cases but less than the 5 years between cases, since the Company must file MMFR's in 4 years. Staff recommends that rate case expense be amortized over 3 years beginning November 1, 1992. If FPC files for another rate increase in less than 3 years and there is an unamortized balance left on the books as a result of this case, the recovery can be considered at that time. Expenses should be reduced by \$13,091. (\$596,726/3 - \$212,100 = \$13,091).

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ISSUE 56: What adjustments, if any, should be made to O&M expenses for the 1992 current test year and the 1993 projected test year?

RECOMMENDATION: No adjustments other than those discussed in the O & M issues are necessary. (Merta)

POSITION OF PARTIES:

FPC: Florida Power's test year O&M expenses are reasonable and the increases above the O&M benchmark have been justified in the testimony of the Company's witnesses and the supporting MFR schedules (C-57a, b, c and d).

OPC: The following adjustments should be made to O&M expense for the 1992 current test year:

- A. Flight Department O&M should be reduced by \$598,000 (\$639,778 system)
- B. Tree Trimming Expense should be reduced by \$1,925,978 (\$1,934,490 system)
- C. Advertising Expense should be reduced by \$553,200 (\$553,200 system)
- D. Industry Association Dues should be reduced by \$363,970 (\$380,961 system)
- E. Economic Development Activities Expense should be reduced by \$455,336 (\$487,147 system)
- F. Payroll Expense should be reduced by \$6,148,671 (\$6,578,229 system)
- G. Fringe Benefits Expense should be reduced by \$2,451,000 (\$2,291,000 system)
- H. Incentive Compensation Expense should be reduced by \$1,051,538 (\$1,125,000 system)
- I. Fossil Plant O&M Expense should be reduced by \$10,684,000 jurisdictional.
- J. Nuclear O&M Expense should be reduced by \$6,563,000 jurisdictional.
- K. Amortization of the pension asset should be reduced by \$4,724,000 (\$5,054,000 system)
- L. Interest on Tax Deficiency should be reduced by \$2,141,374 (\$2,378,512 system)
- M. Customer Service and Information expense should be reduced by \$2,134,000.

OCCIDENTAL: See Issue No. 36, supra.

FIPUG: No position.

FCAN: No position.

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AHCLG: See Local Government's statement of position for Issue 36.

LEAF: No position.

STAFF ANALYSIS: Since the O&M adjustments mentioned by the parties are discussed in the specific issues, it appears that the parties agree that no further adjustment to O&M expenses is necessary in this issue. Staff recommends no further adjustments.

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ISSUE 57: Should the O&M benchmark be applied to the Company as a whole, or to FPC's individual functional units?

RECOMMENDATION: The O&M benchmark should be applied to FPC's individual functional units. (Shine, Merta)

POSITION OF PARTIES:

FPC: The O&M benchmark test would serve as a more meaningful and realistic measure of Florida Power's actions in managing its O&M expenses if it were applied to the Company as a whole. Florida Power manages and sets limits on its O&M budget in total, maintaining the flexibility to allocate the budget to activities based on the greatest need or efficiency. Applying the benchmark test to individual functional areas adversely influences this allocation of the O&M budget away from areas with unfavorable benchmark variances, irrespective of the need or efficiency of expenditures in those areas. Better regulatory policy would hold the utility accountable for its overall expense levels and allow management to determine where and how the expenses are incurred.

OPC: The benchmark should be applied to individual functional units. It is inappropriate for the Company to justify O&M expenses in excess of the benchmark in one functional area by O&M expenses below the benchmark in a unrelated area. Even without the benchmark methodology, a review of individual functional units is required for an accurate regulatory assessment of prudent expenses. In addition, the company's request to disregard individual functional units seems to be inconsistent with internal company policy. FPC Senior Vice President Greene indicated the FPC philosophy in rewarding company performance among employees is by functional units.

OCCIDENTAL: The O&M benchmark should be applied to FPC's individual functional units, (unless the Commission adopts a strict application of the benchmark methodology).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff supports the calculation and application of the O&M benchmark analysis on individual functional units. The benchmark is simply a test, not a reward penalty mechanism. Certain expenses may not grow at the benchmark levels while others

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may exceed the benchmark level, in which case the utility is given the opportunity to justify the benchmark variance. The benchmark forces the company to justify why it is unable to hold its expenses to within the rate of inflation (and customer growth). Functional areas of an electric utility are well delineated and any notion of using expense variances below the benchmark to offset expense variances above the benchmark masks the use of the benchmark.

In another issue we are recommending a reward for low rates which subsumes FPC's achievements in holding expenses down. We feel it an improper use of the benchmark to offset positive variances of one functional group with negative variances of another functional group.

FPC believes that Commission decisions about what amounts should be allowed or disallowed should be made on the basis of whether the Company's O&M expenses, as a whole, satisfy the benchmark test. [Tr.82] FPC's proposed approach would allow the Company to offset benchmark variances in functional areas with expenditures which are below the benchmark in other functional areas.

OPC and Occidental believe that the current application of the benchmark methodology is appropriate. FPC does not have a corporate goal or management objective to limit budgeted O&M expenses to the benchmark amounts. [Tr. 702-03] The Company develops a five year business plan which includes O&M budgets for the functional areas and allows management sufficient flexibility to shift the emphasis of O&M expenditures within each functional area.

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ISSUE 58: What are the appropriate Consumer Price Index factors to use in determining test year expenses?

RECOMMENDATION: The appropriate CPI factors are shown on MFR Schedule C-56. (Shine, Haff, Merta)

POSITION OF PARTIES:

FPC: The appropriate CPI factors are shown on MFR Schedule C-56.

OPC: The CPI factors reflected in Late-Filed Exhibit 190.

OCCIDENTAL: A 3.1% CPI factor is appropriate for the 1992 test year. If the Commission considers the 1993 forecast test year, a 3.3% CPI factor is appropriate. Incorporating these adjustments, the 1992 O&M benchmark level is \$365,105,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recommends the initial CPI factors filed in MFR C-53 and C-56 as the appropriate factors to use in determining test year expenses. FPC will be required to true-up the forecasted CPI to the actual data during the Company's next full requirements rate case. As discussed in Issue 3, FPC filed the 1992 CPI Factor of 3.7% and the 1993 CPI Factor of 3.8% relying on the May 1991 DRI/McGraw-Hill Forecast for the U.S. Economy. (LF Exhibit 190) During the hearing, an updated June 1992 DRI CPI forecast was requested which indicated a 3.3% CPI Factor for 1992 and a 3.5% CPI Factor for 1993. (LF Exhibit 190)

OPC believes that the Commission should use the updated (June 1992) forecast for CPI to determine test year expenses. Occidental recommends the Commission use a 3.1% CPI factor for 1992 and a 3.3% factor for 1993 as recommended by Mr. Kollen. [Tr. 2759, 2843] The ultimate effect of using a lower CPI for the O&M expenses in the 1992-1993 test years increases the benchmark variances for the functional areas. Traditionally, the Commission's MFR's, Schedule C-53 and C-56 incorporate a true-up of the CPI and Customer Growth multipliers from those forecasted in the Company's prior rate case to the actual factors. FPC filed both the initial and supplemental C-53 and C-56 Schedules, which include a true-up of the CPI and Customer Growth compound multipliers for the periods 1987-1992 and

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1984-1987. These adjustments are applied to the Commission's allowed level of O&M to calculate the base year O&M benchmark levels for the current rate case.

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ISSUE 59: Is Florida Power's requested level of Nuclear O&M in the amount of \$92,037,897 (\$97,819,000 system) for the 1992 current test year and \$95,763,861 (\$101,779,000 system) for the 1993 projected test year appropriate?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: No, \$2,148,481 jurisdictional (\$2,289,000 system) should be disallowed in 1992 and \$2,142,861 jurisdictional (\$2,289,000 system) should be disallowed in 1993 due to the double counting of specific programs and rejecting a request to include O&M amounts previously disallowed in FPC's 1984 rate case. (Shine)

POSITION OF PARTIES:

FPC: Yes. The requested levels of Nuclear O&M costs for the 1992 current test year and for the 1993 projected test year are justified.

OPC: Public Counsel's recommendation for 1992 escalates the company's 1989 actual expenses by the inflation rate. In addition, the company is allowed additional expenses for regulatory-driven and NRC compliance programs. Thus, in 1992, when the company is generating approximately the same amount as in 1989, expenses are allowed to increase in step with the rate of inflation plus regulatory-driven and compliance programs. This results in a 1992 jurisdictional level of non-fuel nuclear O&M expense of \$85,474,746 (\$90,833,950 system). Test year 1992 O&M should therefore be reduced by \$6,503,151. If the Commission permits use of a 1993 forecast test year, 1992 expenses should be allowed to increase no more than by the rate of inflation. This results in a 1993 recommended level of jurisdictional expense of \$88,124,464 (\$93,649,802 system) which would entail a reduction of \$7,639,397 from the company's request.

OCCIDENTAL: No. FPC's nuclear production O&M expense should be reduced by \$21,272,000 (jurisdictional) for the 1992 current test year. If the Commission decides to use the 1993 forecast test year, it should decrease nuclear production O&M for the 1993 forecast test year by \$21,218,000 (jurisdictional).

FIPUG: No position.

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FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: Nuclear O&M expenses should not be disallowed because of the company's failure to justify the variance. That nuclear O&M expenses track inflation is a heroic assumption that is not recommended. Nuclear expenses should be allowed as a ratemaking expense unless found to be imprudently incurred, which is not the case in the instant docket.

ALTERNATE STAFF ANALYSIS: Staff recommends a total nuclear disallowance of \$2,148,481 jurisdictional (\$2,289,000 system) for 1992 and \$2,142,861 jurisdictional (\$2,289,000 system) for 1993. Issue 59 incorporates all recommendations relating to FPC's requested level of Nuclear O&M including the adjustments contained in Issues 60-74. Discussions of the recommended disallowances are contained in the following issues: Issue 60 (\$1,463,000), Issue 62 (\$28,000), Issue 63 (\$414,000), Issue 64 (\$317,000), and Issue 72 (\$67,000).

Typically, there are five areas which Staff recommends an O&M disallowance in the benchmark analysis, they are as follows:

1. Explanations of variances without commensurate benefits or regulatory requirements.
2. Marketing activities at variance to the KW and KWH conservation goals.
3. Amounts or portions of amounts in the base year and hence already accounted for in the benchmark.
4. Second bites at the apple where expenditures were previously disallowed.
5. Miscellaneous.

FPC has a total O&M benchmark variance of \$20.4 million for the period 1984-1992 while offering justification for \$26.5 million of expenses. For the period 1987-1992 FPC's benchmark variance is \$9,783,000, the Company offered justifications for \$14,503,000 of expenses. FPC's witness Beard identified the major components of the \$26.5 million of expenses to include the following three categories. First, \$17 million or 63% is for regulatory driven activities, a majority of which were required by the Nuclear Regulatory Commission. These costs are targeted at plant safety

and changes in the areas of maintenance, engineering security, training and various projects. [Tr. 1397] Second, \$6.1 million is for additional scope to improve efficiency and reduce costs in conducting business in both the regulatory driven activities and management-driven initiatives. [Tr. 1396-97] Lastly, management-driven additional scope initiatives are programs aimed at improving plant reliability and reducing customer costs through reduced replacement power costs. [Tr. 1397]

OPC maintains that FPC's requested level of non-fuel Nuclear O&M expenses for 1992-93 is not consistent with past non-fuel O&M expenses from 1987 to 1991. (MFR C-12, pg. 4,9) OPC calculated non-fuel nuclear O&M expenses to increase by 21.7% from 1988 to 1989 and a 11.5% increase in 1992 resulting in a 40.8% increase from the 1988 level. OPC cites a corresponding forced outage rate of 39% and a capacity factor of 40% for 1989 and believes that this is the primary reason for the 21.7% increase of O&M expenses in 1989. (Witness Beard Prefiled Testimony Part E Sheet 7,8) OPC recommends that FPC escalate the 1989 actual expenses by the inflation rate and include expenses for regulatory driven programs and NRC compliance programs. This results in a disallowance of \$6,379,254 jurisdictional (\$6,779,948 system) in 1992 and \$7,201,536 jurisdictional (\$7,685,737 system) in 1993.

Occidental believes that merely citing new scope as the reason for its nuclear O&M costs exceeding the CPI does not justify the O&M benchmark variance. FPC's nuclear managers lack incentive to operate within the benchmark because the Company's Management Incentive Compensation Program does not consider the O&M benchmark in determining bonuses. [TR 1513] Occidental witness Kollen testified the Commission must be satisfied that the programs are cost-effective, costs are incremental and non-recurring. [TR 2909-11] Occidental believes that FPC has selectively proffered only explanations that address certain of the reasons for its increased nuclear costs, in particular FPC does not cite as a reason for the increased costs it incurred over the 1984-92 period to improve the dismal performance of Crystal River 3. [TR 2871] Occidental recommends a \$21,272,000 jurisdictional reduction of nuclear O&M expenses due to a failure to justify these variances.

FPC witness Beard testified that the Company's nuclear O&M expenses have increased at significantly less than the industry average from 1985 to 1991, (7.8% for FPC verse 10.9% for the industry). [TR 1582] Over the period 1985 to 1990, the generation costs in O&M mills-per-kilowatt hour generated less fuel for CR-3 was 24, while the four comparison plants of similar design was 29. [TR 1588-89] Witness Beard also testified to the improvements the plant has experienced in capacity factor, declining forced outage rate, and reduced generation of low-level radioactive waste. [TR

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1370] The Nuclear Regulatory's Systematic Assessment of Licensee Performance and Institute for Nuclear Power Operations ratings for the CR-3 plant have improved over the period 1984-1992. [TR 1586-87] Witness Beard testified that management driven additional scope includes programs aimed at improving plant reliability in order to reduce costs to the customer in the future. [TR 1397-98] Most of these initiatives have focused on maintenance, improving scheduling to shorten outages and carrying out programs to prevent recurring problems. All are part of FPC's long-range plan for excellence which is projected to result in annual replacement power costs savings to the customer in the range of \$19 to \$24 million when compared to the plant's past performance. [TR 1397-98]

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ISSUE 60: For the 1984 thru 1987 time period, has Florida Power justified \$3,010,880 (\$3,200,000 system) of expenses associated with Increased Personnel in excess of the 1992 Nuclear O&M benchmark?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: FPC should not be allowed to recover O&M costs previously disallowed in Order No. 13771 Docket No. 830470-EI, \$1,373,188 jurisdictional (\$1,463,000 system) should be disallowed in 1992 and \$1,369,596 jurisdictional (\$1,463,000 system) disallowed in 1993. The remaining personnel costs of \$1,637,692 jurisdictional (\$1,737,000 system) for 1992 and \$1,604,404 jurisdictional (\$1,737,000 system) for 1993 should be allowed. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with positions in Training, Operations (including NRC License premiums), Radiation Protection, Radioactive Waste Management, and other areas in which additional work was required as a result of NRC and other industry mandated requirements.

OPC: No position.

OCCIDENTAL: FPC has presented no cost reduction activities, productivity improvements, or staffing level reductions. [Tr. 2871; Ex. 5, MFR Sch. C-57b]. FPC has not presented evidence to justify its expenses for wages and increased personnel in excess of inflation. The benchmark variance should be disallowed.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: See Primary Staff Analysis in Issue 59.

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ALTERNATE STAFF ANALYSIS: Staff recommends a disallowance of \$1,463,000 for the previously disallowed nuclear O&M costs because the Company provided an inadequate justification in their request for a second bite at the apple. FPC is attempting to get two bites at the apple by requesting inclusion of an amount previously disallowed by the Commission in FPC's last rate case. In Order No. 13771 Docket No. 830470-EI the Commission stated " the remaining \$6,802,000 was not justified by the Company is disallowed." It is interesting to note that FPC has not identified or requested approval of the balance (\$6,802,000 - \$1,463,000 = \$5,339,000) of previously disallowed O&M expenses.

FPC states that the \$6,802,000 disallowance was nonspecific with regards to the categories that were presented in the 1983 rate case. For purposes of the instant docket, the Company took a pro-rata share (21.5%) of the 1983 nuclear wage justification multiplied times the prior disallowance ($\$6,802,000 \times 21.5\% = \$1,463,000$). [Tr. 1579-80] FPC witness Beard stated that there were no positions which were disallowed, and FPC did not cut any positions as a result of this disallowance. [Tr. 1581] Dr. Beard indicated that all the then existing positions were required to run the plant in addition to the additional positions added since 1984. [Tr. 1581-82]

OPC witness Kollen testified that FPC did not cite offsetting cost reduction activities, productivity improvements, and no staffing level reductions in areas other than those cited where increases actually occurred. [Tr. 2870-71]

Staff recommends recovery of the balance (\$1,737,000 system) of increased personnel costs which are not included in the second bite at the apple amount ($\$3,200,000 - \$1,463,000 = \$1,737,000$). FPC witness Beard cited increased work scope due to regulatory requirements which are non-discretionary, [Tr. 1582] and a need for additional positions which were required to perform additional work that resulted from NRC and other industry mandated requirements. (MFR C-57b Supplemental pg. 2)

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ISSUE 61: For the 1987 thru 1992 time period, has Florida Power justified \$408,351 (\$434,000 system) of expenses associated with the B&W Owner's Group in excess of the 1992 Nuclear O&M benchmark?

RECOMMENDATION: Yes. The pooling of research expenditure is projected to save approximately \$1.4 to \$4.1 million over performing the research outside of the Owner's Group. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with the B&W Owners Group, an organization which provides the mechanism to manage and take action on issues and problems common to B&W plants. The B&WOG provides an effective method of resolving common issues by pooling the resources of the owners and vendor to assess issues and develop viable resolution alternatives. It also allows the members to share the costs of detailed technical work required to support the resolution of these issues.

OPC: No position.

OCCIDENTAL: No.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recognizes the cost avoidance of the B&W Owners Group through the pooling of research expenditures in response to regulatory driven programs. Staff recommends recovery of these expenditures which address issues and problems common to B&W nuclear plants.

The B&W Owner's Group allows the owners of plants to share the costs of regulatory programs and modifications, without the need for each utility to alone spend the full amount needed to respond to any such issue. [MFR C-57b] The owners group is recognized by the NRC as the focal point for specific regulatory issues generic to the B&W plant design.

Occidental cites the response of FPC witness Beard to OPC's question concerning instances where membership in the B&W Owners group may result in higher costs than non-membership. [TR 1569-70] However, witness Beard further explained that a utility which had

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not participated in the owner's group would not be likely to avoid any of the costs of complying with the NRC requirements or anticipated NRC requirements, due to the fundamental nature of most of these programs although theoretically a single plant might avoid a given program. [TR 1568-69] Membership in the B&W Owners Group is projected to avoid expenditures of approximately \$1.6 million to \$4.1 million if FPC performed the project research outside of the owners group. [MFR C-57b]

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ISSUE 62: For the 1987 thru 1992 time period, has Florida Power justified \$135,490 (\$144,000 system) of expenses associated with the Motor Operated Valve Testing System in excess of the 1992 Nuclear O&M benchmark?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: No. FPC has acknowledged that a portion of these expenses are already included in the benchmark amount. The following amounts should be disallowed due to double counting, \$26,281 jurisdictional (\$28,000 system) in 1992 and \$26,212 jurisdictional (\$28,000 system) in 1993. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear benchmark associated with the Motor Operated Valve Testing System (MOVATS) program. The MOVATS program was initiated in 1989 as a response to NRC Generic Letter 89-10 dealing with inspection and testing of valves. However, the justified amount should be \$112,000 (\$119,000 System).

OPC: No position.

OCCIDENTAL: No. FPC has not presented any evidence to justify expenses above the benchmark.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: See Primary Staff Analysis in Issue 59.

ALTERNATE STAFF ANALYSIS: Staff recommends a disallowance of \$26,281 jurisdictional (\$28,000 system) for that portion of the O&M expenses associated with the motor operated valve program which are already accounted for in the benchmark amount.

Occidental witness Kollen states that the Motor Operated Valve Testing System program expenditures should result in longer term,

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if not immediate, reductions in O&M expenses. [TR 2873] Occidental believes that FPC has failed to quantify any cost reduction savings from this program and has not justified the expenditures above the benchmark.

FPC states that this program was initiated in response to an NRC Generic Letter dealing with the inspection and testing of motor operated valves. [MFR C-57b] FPC acknowledged a reduced benchmark variance (\$28,000 system) resulting from Staff's discovery, and provided Exhibit 142 identifying the changes to O&M programs contained in Issues 62, 63, 64, and 72. FPC witness Beard testified that there were some programs and expenses included in the 1987 benchmark that were not properly accounted for in 1992 when determining the benchmark variance, and we have corrected that, the sum result is that our benchmark variance for the period 1987 to 1992 has been reduced by \$826,000. [TR 1514, 1579]

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ISSUE 63: For the 1987 thru 1992 time period, has Florida Power justified \$2,861,277 (\$3,041,000 system) of expenses associated with the Long Term Maintenance Plan in excess of the 1992 Nuclear O&M benchmark?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: No. FPC has acknowledged that a portion of these expenses are already included in the benchmark amount. The following amounts should be disallowed due to double counting, \$388,585 jurisdictional (\$414,000 system) in 1992 and \$387,569 jurisdictional (\$414,000 system) in 1993. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses over the 1992 Nuclear O&M benchmark associated with the Long Term Maintenance Plan (LTMP). The LTMP is an innovative long-term approach to upgrading existing maintenance of primary side components. It covers a period of ten years which includes five mid-cycle outages and five refueling outages. The LTMP provides Florida Power and its customers with predictable maintenance costs for these components through levelized annual payments and takes advantage of the greater maintenance experience of vendor personnel. Therefore, the LTMP strongly supports the objective of improved reliability, availability, and predictable and levelized costs.

OPC: No position.

OCCIDENTAL: No. FPC has failed to quantify cost savings from the expenditures.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: See Primary Staff Analysis in Issue 59.

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ALTERNATE STAFF ANALYSIS: Staff recommends a disallowance of \$388,585 jurisdictional (\$414,000 system) for that portion of the O&M expenses associated with the Long Term Maintenance plan which are already accounted for in the benchmark amount.

The Long Term Maintenance Plan is a program designed to improve plant reliability and availability, and to make costs more level and predictable. [TR 1383-84] This program looks at the cause of past forced outages at CR-3 and other B&W plants to see if a more cost-beneficial preventive and corrective maintenance can be performed, then compares the cost of doing the work in-house or contracting it. FPC determined that a team of three major vendors should perform the work. (MFR Schedule C-57b)

Occidental witness Kollen states that the Long Term Maintenance plan expenditures should result in longer term, if not immediate, reductions in O&M expense. [TR 2873] Occidental believes that FPC has failed to quantify any cost reduction savings from this program and has not justified the expenditures above the benchmark.

FPC recognizes that this program may have little measurable impact in the test years, but should have a significant impact over the 10 year-term in which it is in effect. FPC acknowledged a reduced benchmark variance (\$414,000 system) resulting from Staff's discovery, and provided Exhibit 142 identifying the changes to O&M programs contained in Issues 62, 63, 64, and 72. FPC witness Beard testified that there were some programs and expenses included in the 1987 benchmark that were not properly accounted for in 1992 when determining the benchmark variance, and we have corrected that, the sum result is that our benchmark variance for the period 1987 to 1992 has been reduced by \$826,000. [TR 1514, 1579]

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ISSUE 64: For the 1987 thru 1992 time period, has Florida Power justified \$478,918 (\$509,000 system) of expenses associated with the Operator Training Simulator in excess of the 1992 Nuclear O&M benchmark?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: No. FPC has acknowledged that a portion of these expenses were already included in the benchmark amount. The following amounts should be disallowed due to double counting, \$297,540 jurisdictional (\$317,000 system) in 1992 and \$296,762 jurisdictional (\$317,000 system) in 1993. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses over the 1992 Nuclear O&M benchmark associated with maintenance of the Operator Training Simulator (and associated building) at the Training Facility in Crystal River. The simulator was evaluated as the most cost effective method to comply with significantly more stringent federal regulations governing Licensed Operator training. Routine corrective and preventive maintenance of the simulator and hardware and software enhancements are required to ensure its availability for use in conducting simulator training programs. However, the justified amount should be \$632,000 (\$672,000 System) to include the associated building maintenance which was justified but the expense was inadvertently not included in the MFR Schedule C-57b.

OPC: No position.

OCCIDENTAL: No. FPC has not justified its expenditures above the benchmark.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: See Primary Staff Analysis in Issue 59.

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ALTERNATE STAFF ANALYSIS: Staff recommends a disallowance of \$297,540 jurisdictional (\$317,000 system) for that portion of O&M expenses associated with the Operator Training Simulator program which are already accounted for in the benchmark amount.

FPC decided to install its own simulator as the most cost-effective means of complying with new and more stringent federal regulations regarding plant specific operator training. Routine preventive and corrective maintenance is required to ensure the simulator's availability. Periodic hardware and software upgrades are required to maintain the simulator's conformity to the actual plant control room. (MFR Schedule C-57b) Previously, the Company sent employees to an out of state program for simulator training. These out of state simulator training costs should offset a portion of the new simulator training costs and building maintenance costs.

Pursuant to Staff's discovery request, FPC revised the simulator training costs (\$533,655) which were already included in the 1987 benchmark amount. (Exhibit 142) To calculate the revised 1992 benchmark amount for simulator training, the 1987 benchmark amount is multiplied by the 1987-1992 CPI ($\$533,655 \times 1.2425\% = \$663,066$). FPC also reported a revised 1992 budget for simulator training and building maintenance costs (\$854,752). To calculate the 1992 benchmark variance, subtract the revised 1992 benchmark from the revised 1992 budget ($\$854,752 - \$663,066 = \$191,686$). (Ex. 142)

To calculate the recommended disallowance, subtract the revised 1992 benchmark variance from the benchmark variance initially reported ($\$509,000 - \$191,686 = \$317,314$). FPC acknowledged the reduced benchmark variance (\$317,000 system) resulting from Staff's discovery. FPC witness Beard testified that there were some programs and expenses (Issues 62, 63, 64, and 72) included in the 1987 benchmark that were not properly accounted for in 1992 when determining the benchmark variance, and we have corrected that, the sum result is that our benchmark variance for the period 1987 to 1992 has been reduced by \$826,000. [TR 1514, 1579]

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ISSUE 65: For the 1984-87 time period, has FPC justified expenses in excess of the Nuclear O&M Benchmark of \$2,537,000 for Wage Differential?

RECOMMENDATION: Although Staff is concerned with the explanation provided by the Company, no disallowance is recommended. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1987 Nuclear O&M benchmark associated with the wage differential which was necessary to attract and retain qualified personnel on a parity with peers in the industry.

OPC: No position.

OCCIDENTAL: FPC has not presented evidence which shows productivity or other benefits from its increase in wages above inflation. FPC therefore failed to justify an increase in the benchmark for wage differential. (Ex. 5, MFR Sch. C-57b).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance but is concerned that FPC's comparison is self-fulfilling, where FPC's employees deserve annual raises exceeding the level of CPI merely because the comparison groups received raises which exceeded the level of CPI. A more appropriate comparison would include a discussion of the employees entire benefit package including such items as retirement plans, stock options, health insurance, and vacation time. Also, FPC did not provide an analysis of increases or decreases in employee retention rates resulting from annual wage increases which was a justification put forth by the Company.

FPC stated that the wage increases above the CPI were necessary to maintain parity with peers in the industry. The wage program is required to attract and retain qualified personnel. The effect of the wage differential is based on 1984 manpower scope only. (MFR C-57b) Occidental states that FPC has not presented evidence which shows an increase in productivity or other benefits from its increase in wages above inflation, and therefore the Company has failed to justify these expenses.

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FPC presented a comparison of budgeted merit increases for office and technical employees and exempt employees to the level of CPI and to merit increases for the comparison groups American Compensation Association and 16 southeastern companies. (MFR C-57a Fig. 5, 10) FPC's annual merit increases range from 6% to 8% during the period 1984-1990. (MFR C-57a)

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ISSUE 66: For the 1984-87 time period, has FPC justified expenses in excess of the Nuclear O&M Benchmark of \$1,757,000 for Plant Maintenance?

RECOMMENDATION: Yes. The record evidence supports the justification of these expenses. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1987 Nuclear O&M benchmark for additional maintenance requirements associated with new plant systems (Emergency Feedwater Initiation and Control System and Emergency Feedwater Upgrade; Expansion of Remote Shutdown Panel and Controls; Reactor Vessel Level Indicating; Post Accident Sampling System; and Automated condenser cleaning system (Amertap)). These expenses also include Pooled Inventory Management Program Membership; Fully Integrated Materials Information System (FIMIS); and added contractor cost to support the establishment of the Fire Protection Program and for implementing portions of the OSHA and EPA regulations concerning hazardous material and waste.

OPC: No position.

OCCIDENTAL: No. FPC's plant maintenance expense should decrease, not increase, in light of its other O&M programs. FPC has not presented evidence to justify its variance.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recognizes the increased scope of existing and new programs required for plant maintenance. Therefore, Staff recommends the Company recover the Plant Maintenance expenses.

Occidental witness Kollen testified that FPC has initiated or increased spending for numerous nuclear programs which should decrease, not increase Plant Maintenance expense. [TR 2872] Although FPC cites improvements in efficiency as one of the underlying reasons for its identified programs, there are no cost reduction savings quantified. [TR 2873]

Installations of new plant systems have resulted in FPC performing additional maintenance to the equipment installed after

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1984. Additional contractor support was also necessary. The Pooled Inventory Management Program allows FPC to share with other utilities the cost of major components and eliminates the need to carry the entire cost of such spare components. [MFR C-57b Supplemental] The Fully Integrated Materials Information System which tracks inventory was put in place when maintenance of software for the predecessor inventory control program became too high and no more vendor support was available. Finally, the Fire Protection Program implemented in response to the NRC, continued to evolve in responses to developing requirements and to demand contractor support. [MFR C-57b Supplemental]

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ISSUE 67: For the 1984-87 time period, has FPC justified expenses in excess of the Nuclear O&M Benchmark of \$5,230,000 for Projects and Modifications?

RECOMMENDATION: Yes. Expenses in this category exceed the benchmark due to increased NRC regulatory requirements. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1987 Nuclear O&M benchmark associated with Projects and Modifications relating to regulation and licensing requirements.

OPC: No position.

OCCIDENTAL: No. This category includes nonrecurring costs which should not be utilized to justify a higher base for the next computation of the benchmark and costs that should be capitalized, and FPC has not shown cost savings.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance for the Projects and Modifications expense, increased NRC regulatory requirements have caused these expenditures to increase faster than the benchmark.

Occidental witness Kollen states that FPC has identified no projects or modifications incurred in 1984 that were not incurred in 1987. [TR 2872] Occidental believes that some of these expenses are for new or modified systems to improve the performance of CR-3, they should result in a net reduction of O&M expense. [TR 2872] Mr. Kollen states that costs associated with introduction or modification of these systems should be capitalized [TR 2872]

FPC witness Beard admitted that the expenses for this program include nonrecurring items, which he claims is justified because there will likely always be activities that could qualify under this umbrella. [TR 1521-23] Although specific items of maintenance projects may not recur, historic data and current forecast indicate that similar efforts will recur. [MFR C-57 b] This category is the most heavily impacted by the increased regulatory requirements imposed by the NRC which account for 75% of the total costs. (MFR

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C-57 b) The remainder is attributable to management driven projects which respond to the increased emphasis by the NRC to scrutinizing operating nuclear plants for safety issues.

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ISSUE 68: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$2,281,000 for Configuration Management?

RECOMMENDATION: Yes. Expenses in this category exceed the benchmark due to increased NRC requirements. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with Configuration Management. The project will resolve design basis issues and to construct and maintain an on-line CM Information System.

OPC: No position.

OCCIDENTAL: No. Computer development programs should be capitalized, not expensed. Further, FPC has been unable to quantify cost savings to the program.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance for the Configuration Management expenses, increased NRC regulatory requirements have caused these expenses to increase faster than the benchmark.

The majority of these costs are for the projects to resolve design basis issues and to construct and maintain an online Information System consisting of complex databases which document technical specifications. [MFR C-57b] Occidental witness Kollen testified that this program should result in improved and more efficient maintenance which should result in long term, if not immediate, reductions in O&M expense. [TR 1873])

All capital cost associated with the development of the software have been capitalized, maintenance of the information system is on ongoing O&M expense. [TR 1519] The primary justification for the Configuration Management program is the safety driven NRC initiative, while the program may also have beneficial effects on the efficiency of plant maintenance and O&M costs.

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ISSUE 69: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$307,000 for Maintenance Activity Control System?

RECOMMENDATION: Yes. Expenses in this category exceed the benchmark due to increase regulatory requirements. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with the Maintenance Activity Control System (MACS) which is a computerized work process and control system that allows on-line planning, review, and approval of maintenance activities.

OPC: No position.

OCCIDENTAL: No. Computer development programs should be capitalized, not expensed. FPC has been unable to quantify cost savings to this program.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance for the Maintenance Activity Control System expense. This program is an enhancement to the control and implementation of the nuclear maintenance program, which has caused these expenditures to increase faster than the benchmark.

The Maintenance Activity Control System is a computerized work process and control system which allows online planning, review, and approval of maintenance activities. The regulatory environment requires detailed documentation and approval of all maintenance activities. [MFR C-57b]

Occidental witness Kollen testified that these expenditures should result in long term, if not immediate, reductions in O&M expense. [TR 2873] Occidental believes that the software development and hardware construction should be capitalized, not expenses. FPC witness Beard testified that the only costs attributable to this system are maintenance cost, not capital cost. [TR 1520]

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ISSUE 70: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$136,000 for Electrical Calculation Program?

RECOMMENDATION: Yes. Expenses in this category exceed the benchmark due to increased NRC regulatory reporting requirements. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with the Electrical Calculation Program which is an ongoing effort to identify areas of potential non-compliance with the plant design basis.

OPC: No position.

OCCIDENTAL: No. FPC has not been able to quantify cost savings to the program.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance for the Electrical Calculation program expense, increased NRC regulatory requirements have caused these expenditures to increase faster than the benchmark.

The NRC has identified that analysis performed for early nuclear plant designs was not always adequate to demonstrate compliance with the plant design basis. This program is an ongoing effort to identify areas of potential non-compliance with the plant design basis. [MFR C-57b] When deficiencies are identified, the Electrical Calculations program constructs individual modification packages to correct the problem. [MFR C-57b]

Occidental witness Kollen testified that this program should result in long term, if not immediate, reductions in O&M expense. [TR 2873]

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ISSUE 71: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$201,000 for Planning and Scheduling?

RECOMMENDATION: Yes. This program will provide greater scheduling accuracy and efficient management of outages and daily maintenance. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with Planning and Scheduling. Planning precision and schedule accuracy are requirements which must be met in order to achieve higher levels of success in daily maintenance and outage periods as well as cost management.

OPC: No position.

OCCIDENTAL: No. FPC has not been able to quantify cost savings to the program.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff does not recommend a disallowance of the Planning and Scheduling expense, efficient management of outages should reduced forced outage rates and directly benefit the customer through reduced replacement fuel cost.

Occidental witness Kollen testified that the Planning and Scheduling expenditures should result in longer term if not immediate, reductions in O&M expense. [TR 2873] FPC states that planning precision and schedule accuracy are essential to efficient management of outages and daily maintenance. [MFR C-57b] The impact of this program can be seen in the development of the midcycle outage and shorter refueling outages now being conducted at CR-3. [TR 1555] FPC witness Beard testified that this new outage maintenance approach should reduce forced outages between refueling outages. [TR 1553-54]

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ISSUE 72: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$200,000 for Valve Reliability Program?

PRIMARY RECOMMENDATION: Unless use of the O&M Benchmark uncovers through the companies justification imprudently incurred nuclear O&M expenses, these expenses should not be disallowed because of the companies failure to justify the variance. These expenses should not be disallowed because a prior Commission did so eight years ago. (Jenkins)

ALTERNATE RECOMMENDATION: No. FPC has acknowledged that a portion of these expenses were already included in the benchmark amount. The following amounts should be disallowed due to double counting, \$62,887 jurisdictional (\$67,000 system) in 1992 and \$62,722 jurisdictional (\$67,000 system) in 1993. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with the Valve Reliability Program which targets critical valves (other than regulatory required) and performs periodic assessment and maintenance prior to failure. This is another initiative aimed at reducing potential causes of plant down time. Upon further review, the Company has determined that the expenses justified for this Program were not in excess of the 1992 Nuclear O&M benchmark for similar expenses incurred in 1987.

OPC: No position.

OCCIDENTAL: No. FPC has not been able to quantify cost savings to the program.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

PRIMARY STAFF ANALYSIS: See Primary Staff Analysis in Issue 59.

ALTERNATE STAFF ANALYSIS: Staff recommends a disallowance of \$62,887 jurisdictional (\$67,000 system) for that portion of the expenses associated with the Valve Reliability program which were already accounted for in the benchmark amount.

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Occidental witness Kollen testified that the Valve Reliability Program should result in longer term, if not immediate, reductions in O&M expense. [TR 2873] This program targets critical valves (other than regulatory required) for periodic assessment and maintenance prior to failure. (MFR C-57) FPC acknowledged a reduced benchmark variance (\$67,000 system) resulting from Staff's discovery, and provided Exhibit 142 identifying the changes to O&M programs contained in Issues 62, 63, 64, and 72. FPC witness Beard testified that there were some programs and expenses included in the 1987 benchmark that were not properly accounted for in 1992 when determining the benchmark variance, and we have corrected that, the sum result is that our variance for the period 1987 to 1992 has been reduced by \$826,000. [TR 1514, 1579]

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ISSUE 73: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$135,000 for Technical Specification Improvement?

RECOMMENDATION: Yes. Expenses in this category exceed the benchmark due to FPC's response to industry and NRC concerns. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with the Technical Specification Improvement which is a multi-utility/NRC effort to refine and upgrade generic Technical Specifications for nuclear plants.

OPC: No position.

OCCIDENTAL: FPC has not presented evidence to justify its Technical Specification Improvement expenditures above the benchmark. [TR 2874] The variance should be disallowed.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recommends the Company recover the Technical Specifications expenses which are a result of increased regulatory requirements.

This program is a multi-utility/NRC effort. Assembled teams from several utilities are working together to refine and upgrade generic Technical Specifications for nuclear plants. [MFR C57-b] The upgrade will reduce administrative burdens on operators, increasing their flexibility to properly operate the plant. This will result in improved availability and enhanced safety. These cost will continue over the lifetime of the plant due to continuous revisions of operating specifications. [MFR C57-b]

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ISSUE 74: For the 1987-92 time period, has FPC justified expenses in excess of the Nuclear Production O&M Benchmark of \$133,000 for Industry Groups?

RECOMMENDATION: Yes. Membership in these groups allows FPC to take advantage of combined operating experience when addressing regulatory concerns. (Shine)

POSITION OF PARTIES:

FPC: Yes. Florida Power has justified the expenses in excess of the 1992 Nuclear O&M benchmark associated with Industry Groups which are designed to take advantage of the combined operating experience of other nuclear utilities and maintain good standing with regulatory agencies. (Nuclear Backfitting and Reform Group; the Seismic Qualification Utility Group; the Station Blackout Clearinghouse; and the Electrical Distribution System Clearinghouse.)

OPC: No position.

OCCIDENTAL: FPC has not presented evidence to justify its Industry Groups expenditures above the benchmark. [TR 2874; Ex. 5, MFR Sch. C-57b, p. 7] The variance should be disallowed.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recommends recovery of these expenditures which address emerging issues resulting from implementation of NRC rules.

The Industry Groups includes the cost of membership in several groups made up from various utilities within the nuclear industry working to resolve major issues within regulatory requirements. These efforts are pointed toward achieving consistency and efficient resolutions of generic issues among owners of nuclear plants. [MFR C-57b]

ISSUE 75: Is Florida Power's requested level of Total Fossil O&M in the amount of \$88,844,000 (\$101,071,000 system) for the 1992 current test year and \$100,496,000 (\$114,336,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The requested level of Fossil O&M should be \$86,127,216 (\$98,055,150 System) for the 1992 current test year and \$97,935,651 (\$111,512,874 System) for the 1993 projected test year. These amounts reflect a reduction of \$2,716,784 (\$3,015,850 System) in 1992 and \$2,560,349 (\$2,823,126 System) in 1993. (Haff, Shine)

POSITION OF PARTIES:

FPC: Yes, Florida Power's requested level of Total Fossil O&M is appropriate. The Company has justified O&M expenses of \$11,351,000 greater than the total benchmark variance of \$29,935,000.

OPC: Public Counsel's recommendation is to allow the company to escalate 1990 fossil steam actual expenses by the inflation rate. Thus, in 1992, when the utility is generating approximately the same amount of electricity with its fossil units as in 1990, expenses should grow no faster than the rate of inflation since 1990. No adjustment is made in the other power generation category. This recommendation would result in a disallowance in the level of Fossil O&M in the amount of \$11,160,000 (\$12,695,875 System) for the 1992 current test year and \$15,272,499 (\$17,375,780 System) for the 1993 projected test year. These disallowances result in Fossil O&M expense levels of \$77,683,936 (\$88,375,051 System) for the 1992 current test year and \$85,223,500 (\$96,960,218) for the 1993 projected test year.

OCCIDENTAL: No. FPC's Fossil O&M expense should be reduced by \$14,963,000 (jurisdictional) for the 1992 current test year. 1993 forecast Fossil O&M expense should be reduced by \$18,262,000 (jurisdictional).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Issue 75 is a math issue which incorporates all recommended adjustments related to FPC's requested level of Fossil

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O&M expenses. The total recommended disallowance in this issue includes two areas: the total of all O&M benchmark variance disallowances that are contained in Issues 76-86, and specific O&M expense adjustments. The recommended O&M disallowances are summarized in the following table:

SUMMARY OF RECOMMENDED O&M EXPENSE DISALLOWANCES

<u>Issue</u>	<u>Test Year</u>	<u>Topic of Disallowance</u>	<u>Recommended Disallowance (System)</u>
77	1992	Environmental Changes (O&M Variance)	\$215,850
--	1992	Budgeted 1991 O&M Expenses Deferred Into 1992 Test Year (Normalization)	\$2,800,000
		TOTAL Disallowance for 1992	<u>\$3,015,850</u>
--	1993	Scheduled Outages (Normalization)	<u>\$2,823,126</u>
		TOTAL Disallowance for 1993	<u>\$2,823,126</u>

Staff's recommended disallowance on Environmental Changes, addressed in the Staff Analysis in Issue 77, arises from an O&M benchmark variance not being adequately justified.

The other two recommended adjustments for 1992 and 1993 were discovered during the course of the hearing and are not part of any lack of justification for an O&M benchmark variance. Instead, these disallowances are adjustments recommended to normalize Fossil O&M expenses. The scheduled outage cost normalization adjustment, calculated by averaging FPC's requested 1993 and 1994 budgeted amounts and subtracting this result from the requested 1993 budget amount, as shown in the following table:

OUTAGE-RELATED O&M EXPENSES

<u>Year</u>	<u>FPC's Outage Expenses</u>	<u>Adjusted Outage Expenses</u>	<u>Recommended Adjustment (System)</u>
			0
1990	\$17,464,704	\$17,464,704	0
1991	\$24,294,087	\$24,294,087	0
1992	\$26,385,965	\$26,385,965	0
1993	\$29,579,567	\$26,756,441	-\$2,823,126
1994	\$23,933,315	\$26,756,441	\$2,823,126

The deferred O&M expense normalization adjustment stems from FPC's Corporate Budget (Exhibit 117), which shows that some maintenance work was deferred from 1991 into 1992 because FPC's management ordered a 4% reduction of expenses in 1991 to protect 1991 earnings. As a result, \$2.8 million (System) in O&M expenses were deferred into the 1992 test year. Because \$2.8 million was placed into the 1992 budget for deferred work, Staff believes this amount should not be included in the allowed Fossil O&M expenses for purposes of setting permanent rates for 1992. Therefore, Staff recommends that the Commission disallow \$2,522,346 (\$2,800,000 System) in the 1992 test year due to deferral of O&M expenses.

Public Counsel recommends that the Commission escalate FPC's actual 1990 fossil steam expenses by inflation to create a new benchmark for 1992 and 1993. Public Counsel argues that FPC's fossil generation is approximately the same in 1992 as in 1990, and as a result, expenses should grow no faster than the inflation rate since 1990. While Staff agrees with this statement of fact, it is not a reason to disallow O&M expenses which exceed the benchmark. FPC Witness Hancock explained that some fossil O&M expenditures were environmental or regulatory in nature, and did not result in additional energy generation (Tr. 1106). Additionally, FPC listed several items (in Schedule C-57a of its 1992 MFR) which incurred increased expenses between 1987 and 1992 but did not result in additional generation of energy or improvement in the outage rate of FPC's fossil units.

Occidental's recommended reduction of Fossil O&M expenses in 1992 and 1993 is the sum of individual amounts stated by Occidental in Issues 76-86. Staff disagrees with Occidental's position, with the exception of recommended adjustments noted previously. See Staff Analysis on Issues 76-86.

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ISSUE 76: For the 1984 thru 1987 and the 1987 thru 1992 time periods, has Florida Power justified \$4,950,000 (\$5,281,000 system) of expenses in excess of the 1987 Fossil Production O&M benchmark and \$6,676,254 (\$7,541,233 system) of expenses in excess of the 1992 Fossil Production O&M benchmark associated with Scheduled Outage Expenses.

RECOMMENDATION: Yes. These expenses have been justified by the Company. (Shine)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified its scheduled outage expenses in excess of the 1987 and 1992 benchmarks. These expenses are fully justified in MFR Schedule C-57a and C-57a (Supplemental) starting on page 203 for 1992 and page 26 for 1987.

OPC: No position.

OCCIDENTAL: No. Despite numerous programs intended to decrease outage costs, outage costs have continued to increase. The only Scheduled Outage Expenses justified by FPC are the outage costs associated with Crystal River 5 (\$3,797,000).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Staff recommends no adjustment to 1987 or 1992 scheduled outage amounts because the increase in O&M expenditures are a result of increased levels of planned maintenance due to plant aging and increased generation from existing plant.

Scheduled Outage expenses for 1992 exceed the benchmark by \$7.5 million and represent approximately 45% of the total Fossil Production benchmark variance of \$16.9 million. FPC identified expanded scope and increased costs associated with O&M programs addressing the increasing operating hours of the generating units, plant aging, and increased system demand. [TR 1067, MFR C-57a]

Public Counsel states that FPC was unable to identify any studies that related plant aging to increased outage costs. [TR 1281-82, 1309] FPC witness Hancock testified that the truest measure of actual performance was the non-fuel O&M per MWH of actual generation. [TR 1171] Public Counsel points out that FPC's

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non-fuel O&M increased by 30% from \$3.40 per MWH to \$4.40 per MWH between 1990 and 1992. [TR 1221-22]

Occidental witness Kollen does not believe that FPC has justified incremental expenses which are recurring in nature. [TR 2833] Occidental believes that FPC has not quantified or identified fuel savings other than avoided cost which are not recorded in the Company's records or books. [TR 3281-83] Occidental points out that Equivalent Availability Factor (EAF) of FPC's oil and gas units has declined by 8% between 1984 and 1991, and has show no improvement for the coal-fired plants. [TR 3459, 3465, Ex. 215]

FPC cites the reduced Equivalent Forced Outage Rate (EFOR) as the underlying theme and justification for the O&M variance [TR 1070] In 1988, the EFOR rate was 11.24%; due to the increased O&M expenses FPC has lowered the EFOR to 5.32% in 1992. (Exhibit 126) FPC witness Hancock states that 1992 fuel costs would have increased \$23 million if the 1988 EFOR rate was used. [TR 1070] However, witness Hancock failed to note FPC's 1987 EFOR of 6.55% was significantly lower than the 11.24% EFOR reported in 1988 which the Company relies upon to estimate fuel savings. (Exhibit 126) Staff notes that it took FPC over three years to reduce the EFOR to the 1987 level during which time replacement fuel costs were higher to the customers.

FPC also cites increased generation as a cause of the increased level of O&M expense. In 1987, generation at the oil and gas units had increased by 52% above the 1984 level, and by 70% in 1992 [TR 1097, 2957] The increased generation has resulted in the need for an increase in the frequency of scheduled maintenance outages. Boiler outages have also increased from 10 performed in 1984 to 17 scheduled for 1992. [Tr. 1348-49, Ex. 126]

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ISSUE 77: For the 1987 thru 1992 time period, has Florida Power justified \$4,017,892 (\$4,538,453 system) of expenses associated with Environmental Changes in excess of the 1992 Fossil Production O&M benchmark?

RECOMMENDATION: No. The 1992 Fossil Production O&M benchmark should be reduced by \$194,438 (\$215,850 system) for unjustified expenses related to FPC's Ongoing Energy Efficiency Program. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified O&M expenses in excess of the 1992 benchmark associated with Environmental Expenses. Many of these expenses are new scope requirements, as detailed in the Fossil Benchmark Justification, MFR Schedule C-57a.

OPC: No position.

OCCIDENTAL: No. FPC has not justified the costs of the variance over the O&M benchmark for the Solid Waste Minimization Program (\$63,000), the Water Conservation Program (\$140,000), the Ongoing Energy Efficiency Program (\$216,000), the Crystal River Hazardous Waste (\$209,000), or Other Hazardous Waste (\$220,000).

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC has provided no justification for \$194,438 (\$215,850 system) related to its Ongoing Energy Efficiency Program. FPC believes that the program consists of new regulatory scope, falling under the section Regulatory and Governmental Requirements in the 1992 MFR. However, in its explanation of this program, FPC did not refer to any governmental or regulatory order which would require FPC to implement this program. Moreover, Schedule C-57a, page 170, states only that FPC will:

"Develop, implement, monitor, and up-grade an ongoing program to incorporate energy efficiency into all generating facilities and facility construction methods. It is important for the company to set an example in energy efficiency. Conservation will result in long-term avoidance of costs associated with additional generation and will reduce daily operating costs."

FPC's witness for Fossil O&M, Mr. Hancock, testified that the energy efficiency program would result in future cost avoidance. However, he did not explain what activities or methods would be used to implement energy efficiency, nor did he state where these activities would be performed. Furthermore, he did not qualify the types of costs which would be avoided, nor did he quantify any current or future cost savings resulting from this program. [TR 1178-9] Finally, he did not refer to any governmental or environmental requirement which would require FPC to implement such a program. Staff readily agrees that energy efficiency issues are important, and we believe that any energy efficiency program that results in quantifiable avoided costs is prudent. In no way does Staff believe it to be imprudent for a utility to implement programs to comply with governmental requirements. In Staff's opinion, FPC has not identified an environmental or regulatory mandate that calls for an energy efficiency program for its facilities, nor has FPC justified the expenses in excess of the 1992 Fossil O&M benchmark which have been identified in the MFR's. For these reasons, Staff recommends disallowance of \$194,438 (\$215,850 system).

Staff believes that Occidental's recommendation to disallow expenses related to the Solid Waste Minimization Program (\$62,700), the Water Conservation Program (\$139,750), the Crystal River Hazardous Waste (\$208,894), and Other Hazardous Waste (\$219,763) is not valid. Occidental's reason for recommending disallowance for these programs is that FPC did not quantify any current or future cost savings which would result from them. [TR 1176-81] While Staff agrees with this assertion, Staff believes that the four programs in question are justified by Schedule C-57a because they address new regulatory and environmental requirements. FPC should be allowed to recover expenses in excess of the O&M benchmark due to these four programs:

The Solid Waste Minimization program is justified because the Florida Solid Waste Act, implemented in 1988 and expanded in 1992, will continue to make it more expensive to dispose of solid waste and less likely that landfill space will be available (Schedule C-57a, p. 170).

The Water Conservation program is justified because federal and state agencies continue to enact restrictions on water use. In addition, the cost of water is becoming increasingly expensive, so this program is a good business decision as well (Schedule C-57a, p. 170).

The Crystal River Hazardous Waste and Other Hazardous Waste programs are justified because increasing federal, state, and local regulations have caused the list of hazardous wastes to

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continue to grow. Facing the need to dispose of more waste at higher cost, FPC established a centralized hazardous solid waste disposal site at the Crystal River site. Other Hazardous Waste expenses are incurred by the handling and transport of hazardous waste materials from plant sites to the centralized location (Schedule C-57a, pp. 172-4).

As stated before, Staff believes that FPC has not identified an environmental or regulatory mandate that calls for an Ongoing Energy Efficiency Program for its facilities. FPC has not justified this program's expenses in excess of the 1992 Fossil O&M benchmark which have been identified in the MFR's. For these reasons, Staff recommends disallowance of \$194,438 (\$215,850 system).

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ISSUE 78: For the 1987 thru 1992 and the 1992 thru 1993 time periods, has Florida Power justified \$703,672 (\$794,840 system) of expense in excess of the 1992 Fossil Production O&M benchmark and \$183,803 (\$207,617 system) of expenses in excess of the 1993 Fossil Production O&M benchmark associated with Increased Painting Costs?

RECOMMENDATION: Yes. Expenses associated with FPC's increased painting costs are justified. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified Increased Painting Expenses in excess of the 1992 and 1993 benchmarks. These justifications are detailed starting on page 198 of the Fossil Benchmark Justification in MFR Schedule C-57a (1992) and on page 131 of MFR Schedule C-57a (1993), and in Late-filed Exhibit No. 11 to Mr. Hancock's deposition by Staff.

OPC: No position.

OCCIDENTAL: No. FPC has offered no justification for increased painting costs other than the fact that they have been budgeted.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: In Schedule C-57a of its 1992 MFR (pp. 199-201), FPC provided a table which showed specific detail of the facilities that require painting, the interval between paintings, and the projected cost each time a facility is painted. By estimating an annual cost for painting its facilities, FPC has reasonably leveled future expenses. The majority of the facilities which now have recurring painting costs were not included when the 1987 O&M benchmark was set.

Staff believes that Occidental's recommendation to disallow painting expenses that exceed the O&M benchmark is not valid. Occidental offered no reason for its position other than a belief that the expenses were not justified. FPC has shown in its MFR's that painting expenses escalated primarily due to the increased scope of facilities that require periodic painting. Staff believes that this is reasonable, and we believe that FPC has justified its painting expenses. Staff recommends that FPC be allowed to recover painting expenses which exceed the O&M benchmark.

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ISSUE 79: For the 1987 thru 1992 and the 1992 thru 1993 time periods, has Florida Power justified \$1,987,002 (\$2,244,439 system) of expenses in excess of 1992 Fossil Production O&M benchmark and \$689,419 (\$781,300 system) of expenses in excess of the 1993 Fossil Production O&M benchmark associated with Aging and Maturation Activities at Florida Power's coal, oil, and natural gas plants?

RECOMMENDATION: Yes. Expenses associated with Aging and Maturation activities at FPC's fossil plants are justified. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified Aging and Maturation expenses in excess of the 1992 and 1993 benchmark. These expenses are justified starting on page 191 of the Fossil Benchmark Justification in MFR Schedule C-57a (1992) and starting on page 127 of MFR Schedule C-57a (1993), and in Late-filed Exhibit Nos. 7, 9, and 10 to Mr. Hancock's deposition by Staff.

OPC: No position.

OCCIDENTAL: No. FPC has not justified plant aging as a "new scope" of O&M costs. Many of the systems cited by FPC are related to capital replacements and should be capitalized, not expensed.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: As stated by FPC in its position, this issue received considerable attention at the hearing. FPC Witness Hancock testified that the largest factor influencing outage costs is plant aging. [TR 1067] He testified that the average age of FPC's fossil steam plants is 29 years, and that a facility's age affects the amount of maintenance required. Witness Hancock used an automobile as an analogy to a power plant, to describe that an older power plant tends to need more maintenance than a newer one. [TR 1068]

In Schedule C-57a of its 1992 MFR, FPC identified several factors related to its coal, oil, and gas plants which resulted in expenses which exceeded the 1992 Fossil O&M benchmark (pp. 192-5). Some of these expenses include the following:

- o replacement of boiler controls and plant computer at Crystal River 2 due to aging of existing equipment no longer supported by the manufacturer
- o increasing maintenance and repair expenses related to elevators at Crystal River 1 and 2, whose age is nearly 25 years
- o replacement and repair of control systems at the oil and gas plants, whose average is nearly 33 years
- o increased repair and replacement of mobile equipment, boiler systems, and structures (Bartow and Higgins)

In Schedule C-57a of its 1993 MFR, FPC identified particular maintenance programs for its coal, oil, and gas plants which they believed would result in fewer forced outages (pp. 127-9). These maintenance programs include ones for large motors, air heaters, and fans. FPC stated that this equipment needs very little maintenance during the first several years, but that as the equipment ages, maintenance becomes necessary more frequently (1993 MFR, Schedule C-57a, pp. 127-8). As stated before, FPC believes that implementing equipment maintenance programs will help reduce the duration and severity of forced outages.

Staff does not consider Occidental's position on this issue to be valid. Staff disagrees with Occidental's assertion that FPC did not provide evidence to justify its aging and maturation activities above the benchmark. Occidental says that "many of the systems cited by FPC are related to capital replacements and should be capitalized, not expensed." (Occidental's brief, p. 36). Staff contends that the majority of FPC's activities, as discussed above, comprise maintenance expenses. Staff believes that these expenses were prudently incurred and not "lumped" into either of the two test years. Therefore, Staff recommends that the Commission allow all expenses in excess of the 1992 and 1993 Fossil O&M benchmark attributed to aging and maturation activities.

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HEARING

STIPULATED

ISSUE 80: For the 1992 thru 1993 time period, has Florida Power justified \$970,245 (\$1,099,552 system) of expenses associated with the Activation of the New Intercession City Peaking Units in excess of the 1993 Fossil Production O&M benchmark?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Haff)

POSITION STIPULATED BY PARTIES: Yes. Assuming that the 1993 projected test year is approved, Florida Power has justified O&M expenses associated with the activation of the new Intercession City Peaking Units.

STAFF ANALYSIS: This issue was stipulated to at the start of the hearing (Tr. 22-25). Occidental's position is that expenses related to the 1993 test year should be disallowed. This subject will be decided in Issue 1.

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HEARING

STIPULATED

ISSUE 81: For the 1992 thru 1993 time period, has Florida Power justified \$2,406,305 (\$2,727,000 system) of expenses associated with the University of Florida Cogeneration Unit in excess of the 1993 Fossil Production O&M benchmark?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Haff)

POSITION STIPULATED BY PARTIES: Yes. Assuming that the 1993 projected test year is approved, Florida Power has justified O&M expenses associated with the activation of the University of Florida Cogeneration Unit.

STAFF ANALYSIS: This issue was stipulated to at the start of the hearing (Tr. 22-25). Occidental's position is that expenses related to the 1993 test year should be disallowed. This subject will be decided in Issue 1.

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ISSUE 82: For the 1984-87 time period, has FPC justified expenses in excess of fossil O&M Benchmark of \$344,000 associated with Existing Gas Turbines?

RECOMMENDATION: Yes. O&M expenses for FPC's existing gas turbines are justified. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified expenses in excess of the 1987 benchmark for Existing Gas Turbines. These expenses are justified starting on page 20 of the Fossil Benchmark Justification in MFR Schedule C-57a (Supplemental).

OPC: No position.

OCCIDENTAL: No. The 1987 expense level was overstated, because it included nonrecurring mothballing costs. FPC's explanation results in the improper compounding of costs.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The 1987 Fossil O&M benchmark for expenses was set in the 1984 rate case. At that time, FPC did not budget any expenses to mothball 16 gas turbine units which were subsequently placed into extended cold shutdown (ECS) status (Schedule C-57a Supplemental, p. 20). As such, FPC allocated a large portion of its 1987 Fossil O&M budget for planned mothballing costs for the 16 ECS units. The mothballing costs for the 16 ECS units and the maintenance costs for the four remaining units caused FPC to exceed the 1987 Fossil O&M benchmark by \$322,431 (\$344,000 System). Staff believes that these expenses were reasonable.

Staff does not agree with Occidental's position that FPC's 1987 expense level was overstated because it included nonrecurring mothballing costs. There is no discussion or evidence in the record to support this conclusion. Staff asserts that Schedule C-57a (Supplemental) justifies expenses for existing gas turbine maintenance. Therefore, Staff recommends that the Commission allow recovery of these expenses which exceed the 1987 benchmark.

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ISSUE 83: For the 1984-87 time period, has FPC justified expenses in excess of fossil O&M Benchmark of \$202,000 for Predictive Maintenance?

RECOMMENDATION: Yes. Expenses related to FPC's predictive maintenance program are justified. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified expenses in excess of the 1987 benchmark for Predictive Maintenance. These expenses are justified on page 21 of the Fossil Benchmark Justification in MFR Schedule C-57a (Supplemental).

OPC: No position.

OCCIDENTAL: No. FPC's increased predictive maintenance has not resulted in reductions in unscheduled outage or offsetting O&M reductions.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Occidental Witness Kollen testified in part that predictive maintenance costs have not resulted in a reduction of O&M expenses. [TR 2860-1, 2954] In rebuttal, FPC Witness Hancock testified that FPC could identify specific fuel and O&M costs which were avoided due to the predictive maintenance program. [TR 3263-4] In fact, FPC has credited its predictive maintenance program with avoided fuel and maintenance cost savings in 1988, 1989, and 1990 which far outweigh the expense of implementing the program (Schedule C-57a Supplemental, page 21). Staff asserts that expenses related to FPC's predictive maintenance program has been fully justified, and we recommend that the Commission allow recovery of program expenses which exceeded the 1987 Fossil O&M benchmark.

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ISSUE 84: For the 1984-87 time period, has FPC justified expenses in excess of fossil O&M Benchmark of \$575,000 for Engineering Services?

RECOMMENDATION: Yes. Expenses for FPC's Engineering Services Department related to outage planning are justified. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified expenses in excess of the 1987 benchmark for Engineering Services. These expenses are justified on page 21 of the Fossil Benchmark Justification in MFR Schedule C-57a (Supplemental).

OPC: No position.

OCCIDENTAL: No. FPC has provided no justification for the \$575,000 related to outage planning.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC stated in its 1987 MFR that the outage planning program was strengthened to minimize total outage costs, to "reduce overall outage costs through detailed planning, material staging, and daily control of all aspects from labor performance, to parts requisitioning and expediting, to purchasing." (Schedule C-57a Supplemental, p. 21).

Occidental's Witness Kollen testified that FPC didn't identify any offsetting savings in O&M expenses resulting from its outage planning program; thus, the expenses are not justified. [TR 2871] FPC made no claim that a reduction in O&M expenses would result from this program. FPC said that improved productivity of its work force allows the size of the work scope to increase for the same amount of O&M dollars (Schedule C-57a Supplemental, p. 21). FPC cited a test of the outage planning program on a turbine outage at Anclote Unit 1 in 1985, which was performed with an eleven percent (11%) improvement in productivity over similar previous outages.

Staff believes that FPC has justified its expenditures in excess of the 1987 Fossil O&M benchmark, as discussed above. Staff recommends that the Commission allow recovery of these expenses related to FPC's outage planning program.

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ISSUE 85: For the 1984-87 time period, has FPC justified expenses in excess of fossil O&M Benchmark of \$398,000 for Non-Fossil Departments?

RECOMMENDATION: Yes. Expenses for FPC's Non-Fossil Departments related to wages above CPI are justified. See Issue 42. (Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified expenses in excess of the 1987 benchmark for Non-Fossil Departments. These expenses are justified starting on page 22 of the Fossil Benchmark Justification in MFR Schedule C-57a (Supplemental).

OPC: No position.

OCCIDENTAL: No. FPC has not justified the \$398,000 portion of the Non-Fossil Departments expense related to wages above CPI.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: See Staff analysis on Issue 42 for discussion of wages above CPI.

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ISSUE 86: For the 1984-87 time period, has FPC justified expenses in excess of fossil O&M Benchmark of \$2,205,000 for Wages above CPI?

RECOMMENDATION: No adjustment is necessary. See Issue 43.
(Brand, Haff)

POSITION OF PARTIES:

FPC: Yes, Florida Power has justified expenses in excess of the 1987 benchmark for Wages Above CPI. These expenses are justified starting on page 56 of the Fossil Benchmark Justification in MFR Schedule C-57a (Supplemental).

OPC: No position.

OCCIDENTAL: No. FPC has not shown offsetting productivity improvements concomitant with its wage increases, even though productivity has increased nationwide over a five-year period.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position at this time.

STAFF ANALYSIS: This issue was discussed in Issue 43.

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ISSUE 87: Is FPC's requested level of tree-trimming expense of \$8,879,000 for 1992 and \$7,320,000 for 1993 appropriate?

RECOMMENDATION: No. Expenses for the 1992 current test year should be reduced by \$1,554,884 (\$1,559,000 system). This adjustment reduces FPC's tree trimming expenses for 1992 to \$7,301,000 (\$7,320,000 System) to reflect ongoing operations. Staff recommends no adjustment for the 1993 test year. (Colson)

POSITION OF PARTIES:

FPC: Florida Power agrees that tree trimming expense for the 1992 test year should be reduced to the 1993 level of \$7,301,000 (\$7,320,000 system).

OPC: No. The utility deferred tree-trimming activities in 1990 and 1991. This activity is on a three-year cycle. 1992 is apparently the third year of the cycle and charged with absorbing deferrals the preceding two years. This has caused the 1992 test year to not be representative of future operations. The 1992 test year expenses should be reduced by \$1,925,978 (\$1,934,490 system).

OCCIDENTAL: No. FPC's request should be limited to a five-year average of \$6,327,000.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC tree trimming expenses for the past five years were as follows:

1987	\$6,396,000
1988	\$5,808,000
1989	\$6,902,000
1990	\$6,207,000
1991	\$6,323,912

(Tr. 1014-7)

According to FPC Witness Scardino, actual 1990 and 1991 tree trimming expenses were under budget because work was deferred to 1992. Increased expenditures for 1992 were required to "catch-up" with deferred work (Exhibit 172). Mr. Scardino agreed with Commissioner Deason's assessment that the \$7.3 million projected

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for 1993 would be more indicative of ongoing operations in 1992. He also agreed that the amount of \$7,320,000 should be the proper level of tree trimming expense for both 1992 and 1993 test years (Tr. 2405). Staff recommends that \$7.3 million be the appropriate level of tree trimming expense for both the 1992 and 1993 test years. Staff recommends the following adjustment for 1992:

\$8,879,000	(FPC's requested 1992 tree trimming expense)
<u>(\$7,320,000)</u>	(Indicative of ongoing operations for 1992)
\$1,559,000	1992 adjustment (System)
X .99736	Jurisdictional Separation Factor
\$1,554,884	

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ISSUE 88: Is Florida Power's requested level of Customer Accounts Expense in the amount of \$36,456,000 (\$36,569,000 system) for the current 1992 test year and \$38,845,000 (\$38,845,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Yes. FPC's requested level of Customer Accounts expense for the 1992 and 1993 test years is appropriate. (Merta)

POSITION OF PARTIES:

FPC: Yes. Florida Power's Customer Accounts Expense for the 1992 and 1993 test years is below the Customer Accounts O&M benchmark. These expenses have been fully justified in the testimony of Mr. Phillips and supporting MFR Schedule C-57c.

OPC: No position.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Customer Accounts expenses are recorded under five categories: supervision, meter reading expense, customer records and collection expense, uncollectible accounts, and miscellaneous customer accounts expense.

FPC's projected expenses in the Customer Accounts functional area are below the benchmark in 1992 and 1993. Staff recommends no adjustment in this issue.

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ISSUE 89: Is Florida Power's requested level of Customer Service Expense in the amount of \$7,984,000 (\$7,984,000 system) for the 1992 current test year and \$8,541,000 (\$8,541,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate level of Customer Service Expense is \$7,496,853 for 1992 and \$8,029,496 for 1993. In Issue 38, Staff recommended that Account 909.3, Other Informational, Instructional, Conservation Advertising, be reduced by \$487,147 for 1992 and by \$511,504 for 1993. Since Account 909 is part of the Customer Service functional area, those adjustments should be made here for purposes of the benchmark analysis. The remaining level of Customer Service expense appears reasonable and no further adjustments are recommended. (Merta)

POSITION OF PARTIES:

FPC: Yes. Florida Power's Customer Service Expense for the 1992 and 1993 test years is below the Customer Service O&M benchmark. These expenses have been fully justified in the testimony of Mr. Phillips and supporting MFR Schedule C-57c.

OPC: In the area of customer service and information, the adjusted 1992 budget exceeded the 1992 bench-mark (based on the 1987 comparison) by 106.5%, or \$4,079,000. [TR 978; Exhibit 107, Part H, Sheet 1 of 2] The purported justification: a reallocation of \$4 million in costs from the distribution area into the customer service category. MFR Schedule C-21, page 4 of 7, line 33 (MFR page 75), however, shows that total customer service and information expenses have increased by \$2,134,000 from historic 1991 to projected 1992. The explanation on C-21, page 7 of 7 (MFR page 78), states that the majority of the increase is related to advertising expenses associated with the company's strategic planning efforts. If the majority of a \$2.1 million difference between 1991 and 1992 can be explained in these terms, then the benchmark variance between 1987 and 1992 cannot be directly related to a reallocation of expenses from distribution to customer service. [TR 978-91; Exhibit 108] Obviously, the company simply picked a \$4 million activity to "justify" the benchmark variance because the dollars fit. Expenses should be reduced by at least \$2.1 million.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

PCAN: No. Agree with Public Counsel.

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AHCLG: No. \$1,155,000 for the 1992 test year and \$1,037,000 for 1993 test year should be disallowed.

LEAF: No position.

STAFF ANALYSIS: The Company stated that it is under the benchmark in Customer Service. This is true only if you look at the overall variance for Transmission, Distribution, Customer Accounts, Customer Service and Sales. [TR 936] Staff contends that FPC is over the benchmark by \$4,079,000 in the Customer Service functional area for the 1987-92 period and under the benchmark by \$385,000 for the 1984-87 period as reflected in MFR Schedule C-53.

The following is a table of the Customer Services functional group.

Account	Variance from the Benchmark	
	1992	1993
	(000)	
907 Customer Serv. & Info.	\$ 477	\$ 1
908 Customer Assistance	2,856	18
909 Infor. & Instutl. Ad.	484	7
910 Misc. Cust. Ser.& Info.	<u>292</u>	<u>2</u>
	\$4,079	\$28

The greatest variance from the benchmark occurred in Account 908, Customer assistance. FPC witness Phillips explained that this variance, as well as those in Accounts 907 and 910, was due to the reclassification of Customer Field and District Representatives from the Distribution area to the Customer Service area in order to better match the work performed to the appropriate FERC category. [TR 978] The variance in Account 909, Information and Institutional Advertising is due to advertising expenses associated with the Company's strategic planning efforts. [TR 980] It should be noted that in Issue 38, Staff recommended disallowances of \$487,147 for 1992 and \$511,504 for 1993 in Account 909.

Public Counsel based its disallowance of \$2.1 million on what they believe to be an inconsistency in justifying the variance. The \$4,079,000 variance in Exhibit 107 is detailed in MFR Schedule C-57c. MFR Schedule C-21 compares 1991 actual expenses to 1992 test year amounts and explains the changes. In one case you are analyzing variances over the benchmark and in the other, increases over 1991. According to Schedule C-21, the greatest increase is in Account 909, Advertising, whereas Schedule C-57c shows the greatest variance in Account 908, Customer Assistance. This is not

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necessarily contradictory. The benchmark variance depends on the level of expenses approved in 1984/1987 versus the 1992 expenses and the C-21 amounts depend on the 1991 level of expenses versus 1992.

AHCLG argued that excesses above the benchmark of \$1,155,000 for 1992 and \$1,037,000 for 1993 should be disallowed because the installation of efficient computer based customer service and information systems should save money through time saved in handling inquiries and complaints. In addition, the investment should eventually reduce complaints. [TR 2639] Staff has been unable to locate a record basis for the calculation of this disallowance. The hardware used in a Customer Service System would be capitalized and would not influence a benchmark calculation.

As discussed in Issue 38 Staff recommended that Account 909 be reduced by \$487,147 (system) for 1992 and \$511,504 (system) for 1993. Those adjustments should be made here for purposes of the benchmark calculation. Based on the above, Staff recommends no further adjustments to the Customer Services functional area.

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ISSUE 90: Is Florida Power's requested level of Sales Expense in the amount of \$942,000, (\$942,000 system) for the 1992 current test year and \$1,007,000 (\$1,007,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. Sales Expense should be reduced by \$487,147 (\$487,147 System) for 1992 and by \$511,504 (\$511,504 System) for 1993. (Brand)

POSITION OF PARTIES:

FPC: Yes. Florida Power Corporation's requested level of Sales Expense for the 1992 and 1993 test years is reasonable and the increases above the O & M Benchmark have been justified in the testimony of Mr. Phillips and supporting MFR Schedule C-57c.

OPC: The increased sales expense is apparently tied to the company's economic development activities which have been adjusted out of O&M expenses in the position taken on Issue 56.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Actual Sales Expense was significantly under budget in 1987 and 1988, and slightly under budget in 1990 - 1992. Exhibit 65 states that the increase to the Demonstration and Sales Expense accounts reflects activity in the areas of economic development and new products and services. [TR 1012]

MFR Schedule C-12 shows that actual expenses in the Sales Accounts has decreased each year since 1987. [TR 1008] Exhibit 65 states that the projected increase to the Demonstration and Sales accounts is due to economic development and new products and services. [TR 1012] It also states that economic development expenses are projected to increase by 22.8% from 1991 to the 1992 test year. These economic development activities are carried out in connection with the Florida Department of Commerce, the Florida Economic Development Council, the Florida Chamber of Commerce, and local economic development groups, to improve the overall economy of the state. [TR 1012]

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All economic development expenses were disallowed by this Commission in Order No. 23573, Docket No. 891345-EI:

"It appears that Gulf has assumed some the of responsibilities of local chambers of commerce of development boards. ... In seeking to expand industry or business activity in general, Gulf is actively attempting to increase sales of electricity." (Exhibit 65;TR 1013)

Secretary Greg Farmer of the Florida Chamber of Commerce testified at the hearing about a new strategic approach taking place in Florida, concerning economic development and the philosophy of a public/private partnership. He testified that "there needs to be a more integrated effort between the public and the private sector. [TR 35] He went on to say that most of the states which Florida competes with allow economic development expenditures to be recovered from ratepayers, although there is some inconsistency in the definition of economic development activity among the various states. [TR 38]

Mr. Farmer's testimony deserves the consideration of this Commission, but was presented on a generic basis, rather than addressing this case in particular. [TR 46] The Commission seemed to agree that it should be handled as a generic investigation, rather than through this hearing. [TR 46]

This recommendation must be based on the record in this case. Therefore, Staff recommends disallowance of all economic development expenses in this docket, as shown in the schedule on page 6 of Exhibit 65. Sales Expense should be reduced by \$487,147 (\$487,147 System) for 1992 and by \$511,504 (\$511,504 System) for 1993.

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ISSUE 91: Is Florida Power's requested level of Administrative and General Expense in the amount of \$103,584,000 (\$110,816,000 system) for the current test year and \$107,648,000 (\$115,093,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Yes, except for adjustments to Administrative and General Expenses made under specific issues. (L.Romig)

POSITION OF PARTIES:

FPC: Yes, except for the effect of updated FAS 106 and FAS 87 expenses described in Issues 46 and 47 above. Florida Power Corporation's requested level of Administrative and General Expense for test years 1992 and 1993 are reasonable and the increases above the O & M Benchmark have been justified in the testimony of Mr. Scardino and supporting MFR schedules.

OPC: No. The following adjustment should be made to the 1992 current test year Administrative and General Expense:

- a. Industry Association Dues should be reduced by \$363,970 (\$380,961 system);
- b. Economic Development Activities Expense should be reduced by \$455,336 (\$487,147 system);
- c. Payroll Expense should be reduced by \$6,148,671 (\$6,578,229 system);
- d. Fringe Benefits Expense should be reduced by \$2,451,000 (\$2,622,000 system);
- e. Incentive Compensation Expense should be reduced by \$1,051,538 (\$1,125,000 system);
- f. Amortization of the pension asset should be reduced by \$4,724,000 (\$5,054,000 system).

OCCIDENTAL: No. FPC's administrative and general O&M expense should be reduced by \$32.382 million (jurisdictional) for the 1992 test year. If the Commission decides to use the 1993 forecast test year, it should also reduce O&M expenses for the 1993 forecast test year by \$29.288 million (jurisdictional).

FIPUG: No position.

FCAN: No position.

AHCLG: No. FPC's O&M expenses should be reduced for overhead charges paid to Florida Progress in the amount of \$4,762,000 for the 1992 test year and \$5,024,000 for the 1993 test year.

LEAF: No position.

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STAFF ANALYSIS: The position taken by local governments is discussed in Issue 162. Public Counsel and Occidental recommended that specific disallowances for certain costs in the A&G functions be made for reasons other than the benchmark application. Other than the specific disallowances recommended in other issues, no additional adjustments are recommended to the A&G function.

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ISSUE 92: For the 1984-87 time period, has FPC justified expenses in excess of the Administrative and General Benchmark of \$3,001,000 for Post Retirement Benefits Other than Pensions?

RECOMMENDATION: Yes. The expenses in excess of the benchmark are justified since FPC was beginning the transition from pay-as-you-go accounting to accrual accounting for OPEBs. (Lester, L.Romig)

POSITION OF PARTIES:

FPC: Yes. In December 1985, the Company began the transition of recognizing the liability for postemployment benefits other than pensions (OPEB's) for current retirees from a pay-as-you-go basis to an accrual basis in response to the issuance of FAS No. 87, "Employer's Accounting for Pensions." The Company viewed the obligation for postemployment benefits other than pensions similar to the pension liability in that both forms of benefits represent a form of deferred compensation that should be recognized in cost of service during the employee's years of active service rather than in the post employment period.

OPC: No. The Commission should only allow OPEB expenses at the pay-as-you-go level. See position on Issue 10 for a discussion of the proper treatment of OPEB costs.

OCCIDENTAL: No. See Issues Nos. 9, 10, 46, and 47, supra.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Under Issue 10, staff is recommending that FAS 106 be used for ratemaking purposes. As stated in the discussion of that issue, staff believes that accrual accounting as prescribed by FAS 106 appropriately recognizes the future liability for OPEBs and properly matches the OPEB costs to the period in which the employees earn the benefits. Staff notes that Schedule C-57d Supplemental of the MFRs provides an explanation for OPEB costs being above the benchmark. In December, 1985, FPC began accruing the cost of OPEBs for current retirees of the company. The company believed that this accrual was appropriate since the OPEB liability was similar to the pension liability in that both represented a form of deferred compensation that should be recognized during the employees' active service instead of the post-employment period.

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For this reason, staff believes that the increase above the Administrative and General Benchmark is justified.

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ISSUE 93: For the 1984-87 time period, has FPC justified expenses in excess of the Administrative and General Benchmark of \$600,000 for Management Incentive Compensation Plan?

RECOMMENDATION: Yes. No adjustments should be made to the Management Incentive Plan expense. (L.Romig)

POSITION OF PARTIES:

FPC: Yes. Beginning in 1985, the Company recognized the need for improving overall corporate performance based on the performance of Florida Power against a nationwide group of investor owned electric utilities who were designated as "peer group" companies. The Company's plan places a portion of the total compensation of specific key employees at risk by requiring the achievement of certain goals and objectives established at the beginning of each year.

OPC: No. The Management Incentive Plan is based on the company first achieving a specified return on equity. Essentially, the stockholders have agreed that a portion of their return above a certain level can be retained by utility management. It is, therefore, a cost properly borne by the stockholders and not the ratepayers. To do otherwise would convert a return component into an expense item and require customers to pay both. Expense in the amount of \$1,052,000 (jurisdictional) should be disallowed.

OCCIDENTAL: FPC has failed to justify recovery in the 1992 test year \$1.125 million of expenses for its management incentive compensation plan and long term incentive compensation plan.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power Corp. filed MFR Schedule C-57D, O&M Benchmark Variance by Function, comparing the 1984 O&M expenses allowed versus the 1987 benchmark. The benchmark variance for the A&G function was a variance of \$13,153,000. The company selected a number of new activities or scope changes between the 1984 case and 1987 to justify the variance. One of the areas selected was the Management Incentive Compensation Plan (MICP).

In 1985 FPC developed an incentive compensation plan which is a part of the total compensation plan for its key employees. Mr.

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Scardino in his rebuttal testimony stated that the company "has used incentive compensation to focus the attention and efforts of our key employees on achieving goals that have a direct and significant influence on individual, organizational and corporate performance." "The amount of the total incentive award is influenced by the degree to which the company meets its return on equity expectations." This prevents an award payment if the current year's financial performance was subpar. [TR 3189] Achieving individual goals determines how the award is allocated. Many of the individual goals relate directly to controlling costs, encouraging good customer service and energy efficiency. [TR 3183-84]

The company has placed a portion of the total compensation of specific key employees at risk by requiring the achievement of certain goals and objectives. [TR 755] "And if we look at the total compensation, our officers' base pay is 17% below comparable compensation for other companies. So that portion is at risk. [TR 755] "... it's a well-established concept. You have base pay, plus incentive comp, which together constitutes total compensation. Placing part of executives' pay at risk has proven to be a substantial performance motivator. In 1991, 82% of EEI utilities of comparable size have management incentive plans. [TR 3190] In 1992 over 90% of the EEI companies had incentive plans. [TR 3190]

In response to Occidental Interrogatory 52(a), Staff Exhibit 72, the company provided the MICP expense for 1987-1991 and projected for 1992 and 1993. The 1992 and 1993 projections were much less than the previous years. Mr. Greene, in response to questioning, stated that the company budgets on a midpoint value. The company never budgets on the assumption that there will be a 100% payout. "We budget on a 50% payout." [TR 756].

OPC witness Larkin testified that the MICP (\$750,000) and long term incentive plan (\$375,000) should be disallowed. The rationale used is that the payment of compensation is based on the achievement of corporate earnings goals or a financial return on equity. That management should not be rewarded for achieving goals that are in actuality established by the Commission when it allows a return on equity. Mr. Larkin further stated that if the company earns the allowed returns, management gets a bonus (emphasis added) and if not the company can request an increase. [TR 3026]

Occidental witness Kollen testified that the incentive plans provide for compensation rewards based on the achievement of certain company goals and it does not put at risk any portion of compensation that otherwise would have been received. [TR 2895]

The cost of the company's plans are based on the achievement of a target return on equity. The incentive reward component would reward the company for maintaining high rate levels or seeking the highest possible level of rate increases. [TR 2896] Mr. Kollen further testified that the incentive plans reward management for achievement of budget rather than attainment of the Commission's benchmark level or less. [TR 2896] Mr. Kollen recommended the disallowance of the \$1.125 million cost of the incentive plans for 1992. [TR 2897]

The company's incentive plans are similar to other plans adopted by other electric utilities in Florida where the plan places at risk a portion of the available compensation for eligible employees. In the last Gulf Power Company rate case the Commission allowed recovery of the expenses associated with its incentive compensation plan. (Order No. 23573, Docket No. 891345-EI) In the recent Peoples Gas rate case, the Commission accepted that company's plan. An adjustment, however, was made to expenses to recognize that Peoples' projected a 100% payout but in reality the historical payout percentage was less than 100%. In this case the company projections are based on a 50% payout. [TR 756]

The adoption of incentive plans among EEI utilities have increased from 82% in 1991 to over 90% in 1992.

In Staff's opinion, incentive plans that are tied to some extent on the achievement of corporate earnings goals are appropriate and do in fact provide an incentive to control costs thereby increasing the company's return on equity without rate increases. For instance, the company has not had a rate increase since its 1984 case, and a stipulated rate reduction in 1987; therefore, it would appear that the company has controlled the increase its O&M expense to some extent. We believe that the incentive plans have contributed to this control.

Staff also believes that the incentive plans should be considered as part of the overall compensation and benefits package of Florida Power.

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ISSUE 94: For the 1987-92 time period, has FPC justified expenses in excess of the Administrative and General Benchmark of \$5,794,000 for Pension Expense?

RECOMMENDATION: Yes. The increase over the benchmark is justified since FAS 87 requires accrual accounting for pension expense thus recognizing the cost of benefits as the employees earn the benefits. (Salak, L.Romig)

POSITION OF PARTIES:

FPC: Yes. The gross pension expense of \$4,561,000 included in the 1992 test year reflects a scope change from the test year benchmark. In 1986, the Company adopted the actuarial cost method required by FAS 87. This substantially reduced pension costs in 1986 and resulted in zero pension expense in the 1987 test year cost of service. In addition to the \$4,561,000 shown above, the 1992 test year pension expense also includes \$1,233,000 related to the amortization of a regulatory pension asset resultant from the deferral of pension expense based on FAS 71. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amount of gross pension expense contributing to the A&G benchmark variance is \$3,498,000 for the 1992 current test year.

OPC: No. The company is seeking to recover \$4,561,000 as a positive expense in 1992 plus \$1,233,000 as an amortization based, in part, on the 1992 expense. This double counts the 1992 expense which is not even representative of future expense levels. The \$5,794,000 should be disallowed and, instead, the Commission should allow only \$740,000, which amortizes the average expense since 1988 over the next five years. The jurisdictional expense reduction would be \$4,724,000 (\$5,054,000 system).

OCCIDENTAL: No. See Issues 9, 10, 46 and 47.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: According to Schedule C-57d, p. 3 of 3, of the MFRs, the 1987 pension expense was zero. Witness Scardino recognized that the implementation of FAS 87 would cause the 1992

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test year amount to be above the benchmark. [TR 2242] Under Issue 9, staff is recommending that the Commission use FAS 87 for ratemaking purposes. As stated in the discussion of that issue, staff believes that the accrual accounting prescribed by FAS 87 is appropriate for ratemaking purposes. Therefore, staff believes that the increase over the benchmark is justified.

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ISSUE 95: For the 1987-92 time period, has FPC justified expenses in excess of the Administrative and General Benchmark of \$18,287,000 for Post Retirement Benefits Other than Pensions?

RECOMMENDATION: Yes. The increase over the benchmark is justified since FAS 106 requires accrual accounting for OPEBs, thus recognizing the cost of benefits as the employees earn the benefits. (Lester, L.Romig)

POSITION OF PARTIES:

FPC: Yes. FAS 106 requires an employer to accrue the costs of OPEBs over the career of an employee rather than the pay-as-you-go method. The catalyst for change to accrual accounting is due to the fact that the cost of these benefits are similar to pension benefits and should be recognized during the working life of the employee. The 1987 cost of service included approximately \$5,316,000 of OPEB expense for current retirees. The gross amount included in the 1992 test year recognizes the costs for both active employees and retirees. The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of gross OPEB expense contributing to the A&G benchmark variance is \$19,983,000 for the 1992 current test year.

OPC: No. The Commission should only allow OPEB expenses at the pay-as-you-go level. See position on Issue 10 for a discussion of the proper treatment of OPEB costs.

OCCIDENTAL: No. See Issues 9, 10, 46 and 47.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: According to Schedule C-57d, p. 3 of 3, of the MFRs, the 1987 cost of OPEBs reflects only the expense for current retirees. Witness Scardino recognized that the implementation of FAS 106 would cause the 1992 test year amount to be above the benchmark. [TR 2242] Under Issue 10, staff is recommending that the Commission use FAS 106 for ratemaking purposes. As stated in the discussion of that issue, staff believes that the accrual accounting prescribed by FAS 106 is appropriate for ratemaking

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purposes. Therefore, staff believes that the increase over the benchmark is justified.

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ISSUE 96: Is Florida Power's requested Depreciation Expense of \$210,428,000 (\$231,898,000 system) for the 1992 current test year and \$226,109,000 (\$251,178,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. The appropriate jurisdictional Depreciation Expense is \$204,299,000 for 1992 and \$220,711,000 for 1993. This is a calculation. (Meeks, Merta)

POSITION OF PARTIES:

FPC: Yes. The Company's depreciation expense was computed based on the budget process and other known adjustments. The basis for budgeted depreciation expense is the Electric Plant in Service balances, which are estimated based on the projected expenditures to Construction Work in Progress and subsequent closings to Electric Plant. Retirements from Electric Plant are also estimated. The resulting plant balances are then multiplied by the approved depreciation rates (Order No. 23957, Docket No. 891335-EI) to determine the budgeted depreciation expense.

The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Depreciation Expense are \$201,678,000 (\$223,327,000 System) for the 1992 current test year and \$218,184,000 (\$243,358,000 System) for the 1993 projected test year.

OPC: No. The following adjustments should be made to the 1992 projected test year Depreciation Expense:

- a. Depreciation Expense should be increased by \$524,031 (\$577,000 system); and
- b. Nuclear Decommissioning Expense should be decreased by \$4,102,596 (\$4,441,000 system).

OCCIDENTAL: Fossil dismantlement expense is overstated. See Issues 98, 99, infra.

FIPUG: No. FPC's requested depreciation expense is overstated because FPC seeks to include a 25% contingency in its estimate of dismantlement costs for fossil fuel plants and ignores the future value of the associated land. See Issues 98-100.

FCAN: No position.

AHCLG: No position.

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LEAF: No position.

STAFF ANALYSIS: This is a calculation based on adjustments addressed in other issues. The appropriate jurisdictional Depreciation Expense is \$204,299,000 for 1992 and \$220,711,000 for 1993.

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ISSUE 97: Is Florida Power's requested adjustment to depreciation expense for 1992 and 1993 associated with Sebring's portion of Crystal River #3 appropriate?

RECOMMENDATION: Yes. (Meeks)

POSITION OF PARTIES:

FPC: Yes. The uncontroverted evidence in this case demonstrates the appropriateness of Florida Power's purchase of Sebring's share of Crystal River 3. The adjustment to depreciation expense was based on the net book value of this purchase and the Company's depreciation rates approved by the Commission.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company has correctly calculated the depreciation expense for Crystal River #3 based on the plant in service and using the depreciation rates as prescribed by the Commission. No contradictory evidence was presented in opposition to the Company's calculations.

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ISSUE 98: Is Florida Power's adjustment to increase Fossil Fuel Dismantlement Expense in 1992 by \$3,919,000 (\$4,643,000 system) and to decrease the expense in 1993 by \$3,590,000 (\$4,390,000 system) appropriate?

RECOMMENDATION: No. FPC's fossil fuel dismantlement expense adjustment should be increased by \$2,842,911 (\$3,411,006 System) for 1992 and by \$2,749,604 (\$3,414,006 System) in 1993 from what was filed in the MFR's. (Neil, Lee)

POSITION OF PARTIES:

FPC: The Company and certain intervenors reached a stipulation approved by the Commission in Order No. 24566, Docket No. 910154-EI, which postponed implementation of any additional increase in the Company's depreciation expense related to dismantlement cost until its next base rate proceeding. The adjustment for the 1992 and 1993 test year MFR filing was prepared as an estimate and should be adjusted to the actual amount as determined by this Commission. The Company is proposing the correct amount of Fossil Dismantlement expense in Part O of the exhibits to Mr. Scardino's direct testimony.

OPC: No position.

OCCIDENTAL: No. For the 1992 current test year FPC's revenue requirement should be reduced by \$3,711,0000 (jurisdictional). If the Commission considers the 1993 forecast test year, FPC's revenue requirement should be reduced by \$3,711,000 (jurisdictional).

FIPUG: No. FPC's 25% contingency factor should be eliminated because FPC has shown no basis for it. Additionally, FPC should be required to consider the future value of the land on which the plants sit in its dismantlement study since such land will be worth millions of dollars in the future.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: As ordered in Docket No. 890186-EI, the Company has filed an expense adjustment in this proceeding to reflect changes in methodology for calculating the dismantlement accrual. FIPUG and Occidental believe the expense should be reduced by the 25% contingency factor that has been added to the cost study. FIPUG additionally wants the adjustment reduced by the value of the land at the plant sites. Because the 25% contingency factor and

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the land value have been separated into Issue 99 and Issue 100, respectively, Staff will address the intervenors' concerns in the specific issues.

Staff is attempting to analyze each of the four electric utility's dismantlement expenses in the same manner. If the same methodology can be used to inflate then discount the dollars resulting from each utility's cost study, the utilities and ratepayers will receive equal treatment each time the accrual is adjusted. This will provide fairness to the ratepayers of Florida. (Exhibit 62 p. 9) The basis for determining the accrual was examined in fossil fuel dismantlement Docket 890186-EI, Order No. 24741. This general methodology has been used to calculate the appropriate dismantlement accrual in the depreciation studies for FPL in Docket No. 910081-EI and Tampa Electric in Docket No. 910686-EI. (Exhibit 62 p. 11)

In general, FPC has followed the outline of Order No. 24741, although Staff recommends a few changes which increase the expense adjustment filed in the MFR's. The first and most important change is to use the most current inflation indices. [TR 2515] As stated in Order No. 24741, the "indices should come from the most current DRI Review of the U.S. Economy that is available." When the Company filed its MFR's, the Summer 1991 edition was the most current. In February, the Winter 1991-92 edition was released. (Exhibit 191) Staff has updated the indices accordingly.

Once the indices are used to compute the future cost of dismantlement, these dollars must be discounted back to a current accrual. FPC discounted the dollars with CPI because it "more closely matches the expected change in our customer's purchasing power." (Exhibit 60 p. 2) Staff believes the cost to the customer should relate to the increase in the cost of dismantling the plant. The increase in the annual accrual should be designed to capture the rising cost of labor and material to dismantle a plant. Therefore, the DRI inflation rates used to escalate the expenses in the cost study also are used to discount the future costs. This represents a second change from what has been filed in this proceeding.

The last change concerns the retirement date. The Company forecasts a mid-year retirement with "dismantling to begin in the same year the retirement was recorded" while Staff recommends a year-end retirement. (Exhibit 60 p. 2) A year-end retirement method recognizes that the plant will retire at some time before the end of a specific year with the dismantlement process beginning in the following year.

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Staff accepts FPC's use of the Metal and Metal Products Index for inflating the salvage value of the plants. Order No. 24741 directs the use of the Intermediate Materials, Supplies and Components Index for inflating salvage value but further states "we are willing to accept evidence from a utility that adjustments may be necessary to the escalation rates." Witness Scardino, at his deposition, explained that salvage is driven by scrap value which is best represented by the metals index. (Exhibit 62 p. 12) A representative from DRI confirms the metals index is "a reasonable measure for tracking and/or projecting movements in scrap metal prices." He adds further that "price movements for metals and metal products and scrap metal are highly correlated." (Exhibit 61)

Combining the information in the fossil fuel dismantlement cost study filed by Witness Hancock with the changes and updates that Staff proposes increases the fossil fuel dismantlement expense by \$3,411,006 in 1992 and by \$3,414,006 in 1993. The jurisdictional expense is \$2,842,911 in 1992 and \$2,749,604 in 1993 using the jurisdictional separation factors that exclude the acquisition of Sebring. (Exhibit 177) This represents a three year average accrual which assumes the Company will file a new depreciation study and receive a new accrual in 1995.

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ISSUE 99: Is FPC's practice of increasing fossil plant dismantlement expense by a contingency factor of 25% appropriate?

RECOMMENDATION: Yes. At this time, a 25% contingency factor is appropriate. The 15% scope omission and error contingency and the 10% pricing contingency should be reexamined in the Company's next dismantlement cost study. (Neil, Lee)

POSITION OF PARTIES:

FPC: Yes. The purpose of the contingency factor is to allow for the costs of high probability program problems occurring in the field where the occurrence, duration, and severity cannot be accurately predicted and have not been included in the basic estimate. Its purpose is not to provide for uncertainties associated with period between the time the estimate is made and the time dismantlement activities will begin (i.e., the need for a contingency factor is not reduced as date of dismantlement draws nearer). Years of industry experience are used to set the level of the percentage contingency.

OPC: No position.

OCCIDENTAL: No. There is no need for a contingency, as expense assumptions are periodically adjusted. A contingency on an estimate compounds uncertainty, provides the Company with little incentive for controlling costs and thus unfairly penalizes ratepayers.

FIPUG: No. The 25% contingency factor unnecessarily inflates the expense and is unnecessary since FPC revises its dismantlement study every four years. Any changes in dismantlement can be factored into the study when it is revised.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company believes the uncertainties and difficulties that may arise when a plant is dismantled call for a 25% contingency factor to be included in the dismantlement cost study. [TR 1354, 2512] Witness Carlson representing FIPUG and Witness Kollen representing Occidental assert there is no need for the 25% contingency because the dismantlement cost study is periodically updated. [TR 2672, 2742-2743] Witness Kollen also

testifies that the estimate itself is inherently uncertain and adding a contingency adds to the uncertainty. [TR 2801, 2806]

The validity of the 25% contingency factor can be determined if it is segmented into its two components, the 15% scope omission and error contingency and the 10% pricing contingency. The scope contingency is determined "considering the conceptual nature of the estimate and the difficulty in obtaining quantity records on such old units." The pricing contingency provides "confidence that the estimate will not overrun due to pricing error." (Exh 111 Part Q Pg 32)

The scope omission and error contingency is designed to provide for the surprises or unexpected costs during the actual dismantlement. [TR 1115, 1352] Included in this would be weather conditions that may slow down the dismantlement process, labor strikes, or unexpected environmental concerns. [TR 1355-1357] Company witnesses Hancock and Scardino acknowledged that although this contingency is needed, it could change in the future as the industry gains experience from actually dismantling some plants. [TR 1317-1318, 1353, 2511-2513, 2515] Witness Scardino explains:

"As we complete these dismantlements, we will have a much better feel for what we anticipated the cost to be and what the actual turns out to be. And I think as we gain more experience, we'll be able to better focus in on the contingency factor." [TR 2513]

This testimony, in Staff's opinion, relates to the scope omissions and errors portion of the contingency. Staff agrees that a contingency factor for unexpected costs should continue to be factored into the cost study, but the amount of 15% should be reevaluated every four years in the dismantlement study filed with the Commission.

The pricing contingency was discussed by Witness Hancock who defined it three times for the Commission. He testified:

"The second piece of that 25% contingency, the 10% remaining, has to do with pricing itself, the uncertainty factor with regard to the cost of actually doing the scope that one has to do." [TR 1115]

"...The pricing of what the marketplace requires that we spend to get the job done, with various specialty contractors and engineers, and whatever the case may be, it has an uncertainty of that, that we attach 10% to." [TR 1115-1116]

"The matter of pricing, the marketplace for the services and the types of people and skills that are used to do this sort of thing is very volatile, as we all know."
[TR 1324]

A specific adjustment to the 10% pricing contingency is not recommended for this proceeding, but Staff regards this contingency less relevant as the plant retirement dates near. If Witness Hancock has defined the pricing contingency correctly, Staff believes difficulties in this type of pricing decrease as the dismantlement dates approach. Changes in the cost of "specialty contractors and engineers" needed to dismantle the plants should be captured in the periodic updates of the inflation indices. This would mean that pricing becomes relatively clear in the few years preceding dismantlement. This contingency should be further developed and accounted for in the Company's next depreciation/dismantlement study filed before the Commission.

The current 25% contingency may or may not overcompensate the dismantlement reserve, but it will not cause a disincentive for the Company to control costs for two reasons. [TR 1354, 2743, 2804] First, although dollars have been booked to the reserve through the years prior to dismantlement, those dollars have actually already been spent. The Commission, in Docket No. 890186, decided an unfunded reserve is appropriate. This means the Company could use those revenues collected from the ratepayer for any utility purposes and have the opportunity to earn FPC's internal rate of return on those dollars. At the plant dismantlement date, then, the dollars used to dismantle the plant are dollars taken away from other Company uses. That is why, in that docket, it was important to determine whether there will be too much dismantlement expenses incurred at one time; the Company will have to fund the dismantlement of the plants while continuing to finance its regular operations. Witness Kollen states if there were less dollars than what the Company actually anticipated spending, the Company would be behaviorally oriented towards trying to bring the cost of dismantling in at a lower level. [TR 2798] Actually, since it is an unfunded reserve, there will be no cash dollars at the time of dismantlement.

Second, if the dismantlement process was a plant investment that produced additional revenues for the utility, spending more would mean more revenue and potential returns generated for the Company. Dismantlement is a non-revenue generating process, though, with nothing gained with a dollar spent. [TR 2802] Any gain would be indirect, such as additional work for contractors. These two reasons will be incentive for the Company to keep dismantlement costs reasonable. Introducing a negative contingency

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or lowering the accrual to encourage the Company to contain costs is not needed. [TR 2797-2804]

In summary, the 15% scope omission and error contingency is appropriate due to its nature, but may be adjusted by the Company or the Commission in the future pending experience gained from actually dismantling plants. The 10% pricing contingency is currently appropriate, but Staff believes a 10% factor may not be suitable as the dismantlement dates approach because pricing will become more definitive. Finally, Staff does not believe the 25% contingency will cause a disincentive for the Company to control costs.

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ISSUE 100: Should FPC consider the future value of the land on which the plants to be dismantled are located in calculating the appropriate fossil fuel dismantlement expense?

RECOMMENDATION: No. The value of the land should not be considered as an offset to the fossil fuel dismantlement accrual.
(Neil, Lee)

POSITION OF PARTIES:

FPC: No. Dismantlement costs properly include only the estimated cost of removal. The attempt to include the future market value of land as a credit to the cost of dismantlement charged to current customer would represent a significant departure from traditional original cost regulation. In addition it would add an element of significant speculation into process of estimating dismantlement costs.

OPC: No position.

OCCIDENTAL: Yes.

FIPUG: Yes. The value of the land on which the FPC power plants sit is worth millions of dollars. If this is not considered in FPC's dismantlement expense, the expense will be excessive.

FCAN: Yes. Agree with Public Counsel, Occidental and FIPUG.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Witness Carlson representing FIPUG has addressed whether the value of land should be offset with the cost of dismantlement. Witness Carlson supports factoring the land value into the dismantlement cost study to reduce the accrual "just as the positive salvage value of other salable items is factored into the study." [TR 2672] She testifies that if land is not factored into the study, there is an intergenerational inequity when the land is sold after dismantlement because the future ratepayers receive the benefit of the gain while past ratepayers paid for the cost of dismantlement.

The Company believes selling the land is an entirely different transaction that should not be considered as part of dismantling a plant. [TR 1136, 2319, 2321] Witness Scardino summarized the Company's position in the following statement:

"The facility depreciates over time, wears out, is consumed. The land still has value. The land still has functional purpose for the utility. And so we are just not, in the general sense, in the business of selling off our raw property, whether it has use as a replacement for the facility that was there or some new application. Land is a resource that is difficult to come by for us and so we maintain what we have." [TR 2310-2311]

If land value is considered as an offset to dismantlement costs, and FPC does not sell the land at the end of dismantlement, FPC will not have accrued enough expense to pay for the cost of dismantlement. Future ratepayers will have to pay this unrecovered cost after the plant is no longer serving the public. [TR 2516-2517] Intergenerational inequities will still exist. The misconception in Witness Carlson's testimony is that the Company will sell the land when the plant is dismantled.

The treatment of land is a separate issue from fossil fuel dismantlement. Under the current Commission practice, as long as the land is retained by the Company, it will remain in rate base at its original cost and continually earn a return from each generation of ratepayers. The intergenerational inequity will occur only when and if the land is finally sold.

Using historical based accounting, intergenerational inequities concerning the sale of land cannot be resolved. If the sale date of the land could be determined, one alternative would be to forecast the future value of the land. The future value could then be recovered equitably over the remaining life of the plant site rather than recognizing a one time gain. This would solve some of the inequity concerns raised by the Commissioners at the hearing. [TR 1322] Witness Scardino testifies that forecasting land value is beyond the scope of reasonableness, though. [TR 2319] He believes incorporating future land value in today's rates departs from original cost historical expenditures. [TR 2321]

A second alternative to solving the intergenerational inequity would be to exclude land from rate base. Land would be a long-term, below the line investment. The cost of the investment would be paid by the Company and any gain on the sale would belong to the Company. This would be a fundamental change from current methodology, though, and testimony concerning this alternative has not been presented in this case.

As long as land is considered a part of rate base at its historical cost, there will be an intergenerational inequity when the land is finally sold. This phenomenon exists without regard to fossil fuel dismantlement. Netting the value of land against the

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cost of dismantling the current site may cause a reserve deficiency because more plants may be built at the same location. [TR 1325]
Staff recommends keeping the value of land and the cost of plant dismantlement separate.

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ISSUE 101: Is Florida Power's requested level of Taxes Other Than Income Taxes in the amount of \$63,617,000 (\$69,969,000 system) for the 1992 current test year and \$72,911,000 (\$80,785,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. Taxes Other Than Income Taxes should be reduced by \$1,027,033 (\$1,062,990 System) for 1992 and by \$1,137,906 (\$1,188,012 System) for 1993. (Brand)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following items: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Taxes Other Than Income Taxes are \$63,360,000 (\$69,744,000 System) for the 1992 current test year and \$72,632,000 (\$80,552,000 System) for the 1993 projected test year.

OPC: No. To correspond with OPC's adjustment to Payroll Expense, a \$583,692 adjustment should be made to the 1992 current test year Taxes Other Than Income Taxes Expense.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company's position in the prehearing order was that an adjustment is required for the change in the rate of the Regulatory Assessment Fee. At the time of the filing, the rate was 0.125%. Since that time, the rate was changed to 0.083% for the period of January 1992 and beyond. (Docket No. 911130-EI, Order No. 25585, dated January 8, 1992.) The Company's prehearing position was that the Regulatory Assessment Fees should be revised along with the revenue expansion factor. The revenue expansion factor calculated in Issue 107 reflects the new rate of 0.083%. Staff agrees that the Regulatory Assessment Fee rate should also be adjusted in this issue. The effect of this adjustment is a decrease to Taxes - Other of \$745,000 (\$745,000 System) in 1992 and \$845,000 (\$845,000 System) in 1993.

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Staff also agrees with the Company that, as a result of the Company's adjustment for the Sebring Acquisition, Taxes Other Than Income Taxes should also be reduced by \$225,000 (\$257,000 System) for 1992 and by \$233,000 (\$279,000 System) for 1993.

In conjunction with the adjustment to Salaries in Issue 43, Payroll Taxes should be reduced by \$57,033 (\$60,990 System) for 1992 and by \$59,906 (\$64,012 System) for 1993.

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ISSUE 102: Are Florida Power's requested Income Tax expenses in the amount of \$58,597,000 (\$63,234,000 system) for the 1992 current test year and \$49,316,000 (\$51,587,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: No. Jurisdictional Income Tax expense is \$70,540,000 for the 1992 current test year and \$61,697,000 for the 1993 projected test year. The 1992 expense consists of \$97,667,000 current, (\$19,675,000) deferred and (\$7,452,000) ITC amortization. The 1993 expense consists of \$93,103,000 current, (\$24,023,000) deferred and (\$7,383,000) ITC amortization. (C.Romig)

POSITION OF PARTIES:

FPC: The calculation of current and deferred income taxes was based on the Company's operating and construction forecasts and the statutory tax rates in effect for both federal and state jurisdictions. The method of calculating deferred income taxes followed the guidelines in Accounting Principles Bulletin No. 11 "Accounting for Income Taxes". The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Income Tax Expense are \$63,972,000 (\$68,816,000 System) for the 1992 current test year and \$53,865,000 (\$56,427,000 System) for the 1993 projected test year.

OPC: No. OPC's proposed adjustments in total to Net Operating Income will result in an increase to Income Tax expenses.

OCCIDENTAL: FPC should be allowed to recover only just and reasonable expenses.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The Company's adjusted jurisdictional Income Tax expense per MFR Schedule C-2 is \$58,597,000 for the 1992 current test year and \$49,316,000 for the 1993 projected test year. [Company Exhibit No. 5]

The 1992 expense consists of \$89,061,000 current, (\$23,230,000) deferred and (\$7,234,000) ITC amortization. Staff

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increased current taxes by \$8,606,000, increased deferred taxes by \$3,555,000 and decreased ITC amortization by \$218,000, resulting in the recommended \$97,515,000 current, (\$19,675,000) deferred and (\$7,452,000) ITC amortization. The 1993 expense consists of \$84,644,000 current, (\$28,160,000) deferred and (\$7,168,000) ITC amortization. Staff increased current taxes by \$8,459,000, increased deferred taxes by \$4,137,000 and decreased ITC amortization by \$215,000, resulting in the recommended \$92,945,000 current, (\$24,023,000) deferred and (\$7,383,000) ITC amortization.

The recommended increases to deferred taxes result in decreases to these accounts because the amounts included in the MFRs are credits, which reduce total income tax expense. Therefore, increasing deferred taxes results in a decrease to the credit deferred tax balances and an increase to total tax expense.

The adjustments which are stated above were made for the specific exclusion of the pro forma Sebring Transmission and Distribution acquisition and for the tax effect of other staff recommended adjustments to revenues, expenses and cost of capital. Consequently the recommended adjustments to Income Tax expense include adjustments to Florida Power's interest reconciliation and ITC interest synchronization adjustments. Florida Power's parent, Florida Progress, is 100 percent equity. Consequently, no parent debt adjustment is necessary.

As stated in its position statement, the Company has agreed to remove and/or modify certain issues. As a result, it has shown revised amounts of Income Tax expense relating to its removals/modifications. These revised amounts are not supported in the record and do not include consideration of other adjustments recommended by staff.

In its position statement, the Office of Public Counsel (OPC) recognizes that Income Tax expense will increase as a result of its proposed adjustments to Net Operating Income, however OPC has not quantified its position on this issue and makes no specific recommendation.

Thus, staff recommends jurisdictional Income Tax expense of \$70,540,000 for the 1992 current test year and \$61,697,000 for the 1993 projected test year. The 1992 expense consists of \$97,667,000 current, (\$19,675,000) deferred and (\$7,452,000) ITC amortization. The 1993 expense consists of \$93,103,000 current, (\$24,023,000) deferred and (\$7,383,000) ITC amortization.

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ISSUE 103: Are consolidating tax adjustments appropriate, and if so, what are the appropriate amounts for the 1992 current test year and for the 1993 projected test year?

RECOMMENDATION: No. Consolidating Tax Adjustments (CTAs) are inappropriate in the ratemaking process, even though the IRS has moved from a long-held ruling position that CTAs violate the normalization provisions to their currently stated view that, in the absence of guidance from Congress, CTAs do not violate the normalization rules. Consequently, staff recommends that no CTA adjustments be made for the 1992 current test year and for the 1993 projected test year. (C.Romig)

POSITION OF PARTIES:

FPC: No. CTA's are inappropriate ratemaking adjustments because they: 1) may violate the normalization rules, 2) violate the stand alone approach which has worked well for many years, 3) complicate the ratemaking process, 4) may create volatility in the tax expense included in the cost of service, and 5) are unfair and inequitable. No CTA has been proposed by any party to this proceeding.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: "The term 'consolidated tax adjustment' (CTA) refers to the controversial ratemaking procedure whereby utility regulators pass through to ratepayers tax benefits attributable to the losses of non-regulated corporate affiliates. A CTA can be made either by (1) adjusting the ratemaking tax expense (and, ultimately, cost of service) of the utility for a portion of the tax benefits arising from the loss affiliates; or (2) treating as no-cost capital or, alternatively, excluding from rate base, an amount representing the utility's share of the federal income tax benefits attributable to the filing of a consolidated tax return."
[TR 2267]

The Commission has a long-standing policy of not considering CTAs in the cost of service of Florida utilities. One of the

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reasons is that CTAs would violate IRS normalization rules. "It appears that the IRS has moved from a long-held ruling position that the CTAs violate the normalization provisions to their currently stated view that, in the absence of guidance from Congress, CTAs do not violate the normalization rules." [TR 2268]

Florida Power files a consolidated federal income tax return with its parent, Florida Progress, and other Florida Progress subsidiaries. Therefore, in light of the IRS's apparent change of posture, staff believes the Commission's current policy of excluding CTAs from consideration in setting cost of service should be reexamined and clarified.

Florida Power takes the position that CTAs may violate the normalization rules, do violate the stand alone approach which has worked well for many years, may create volatility in the tax expense included in the cost of service, and are unfair and inequitable. [TR 2267-2272]

A staff member testified on behalf of the Commission at hearings on proposed regulations related to this subject matter before the Internal Revenue Service in Washington on February 8, 1991. To quote from the witnesses's written outline of the oral comments at the hearing:

A basic premise of regulation is that utility operations should not subsidize other operations nor should they be subsidized by other operations. This is true whether the operations are those of an affiliate joining in the filing of a consolidated federal tax return or the utility. Regulators remove the assets, capital, revenue and expenses associated with these activities from rate base, cost of service and capital structure. Most of these adjustments would have a tax effect. However, the tax effect is coincidental to the adjustment. That is, the adjustment to taxes is not made in an effort to alter the tax expense. It is a result of allowing the tax effect of the regulatory changes to follow the related revenue or expense item. [TR 2269]

Furthermore, staff agrees with Florida Power Corporation that the Commission's stand alone approach has worked well for many years, that CTAs could create volatility in the tax expense included in the cost of service, and that they are inequitable. Moreover, staff believes that the tax effect should follow the related activities. Therefore, to pass through the tax benefits of affiliated losses without reflecting the corresponding adjustments

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to cost of service, rate base, and capital structure for the nonregulated assets, capital, revenue, and expenses would contradict sound regulatory policy. Moreover, no CTA has been proposed by any party to this proceeding.

In conclusion, aside from the possible violation of normalization rules, staff believes that the other reasons indicated above adequately support continuing the current Commission policy of excluding CTAs from cost of service consideration.

Consequently, staff believes that CTAs are inappropriate in the ratemaking process, even though the IRS has moved from a long-held ruling position that CTAs violate the normalization provisions to their currently stated view that, in the absence of guidance from Congress, CTAs do not violate the normalization rules. Accordingly, staff recommends that no CTA adjustments be made for the 1992 current test year and for the 1993 projected test year.

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ISSUE 104: Is Florida Power's requested Net Operating Income of \$216,611,000 (\$236,658,000 system) for the 1992 current test year and \$214,144,000 (\$233,455,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: The appropriate amount of projected Net Operating Income is \$224,688,000 and \$220,355,000 for 1992 and 1993 respectively. (L.Romig)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following items: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of Net Operating Income are \$225,260,000 (\$245,875,000 System) for the 1992 current test year and \$221,604,000 (\$241,510,000 System) for the 1993 projected test year. See Table 9 in the attachments hereto for a summary of the major components of the Company's test year NOI.

OPC: No. FPC's projection of the 1992 projected test year net operating income should be increased by at least \$44,683,000 jurisdictional.

OCCIDENTAL: No. Occidental supports these adjustments to FPC's requested Net Operating Income for the 1992 test year:

	INCREASE TO OPERATING INC. JURISDICTION (\$000)	REDUCTION TO REV. REQ. (\$000)
• Performance Reward	\$ 9,642	\$ 9,669
Less: Income Tax Effect	(3,628)	
• Operating and Maint. Exp.	77,126	77,341
Less: Income Tax Effect	(29,023)	
• Avon Park 2 Amortization	262	262
Less: Income Tax Effect	(99)	
• Fossil Dismantlement	3,700	3,711
Less: Income Tax Effect	(1,392)	
Total	<u>\$56,588</u>	<u>\$90,983</u>

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If the Commission decides to use the 1993 forecast test year, Occidental supports the following adjustments to FPC's Net Operating Income:

	INCREASE TO OPERATING INC. JURISDICTION (\$000)	REDUCTION TO REV. REQ. (\$000)
Performance Reward	\$ 9,962	\$ 9,990
Less: Income Tax Effect	(3,748)	
Operating and Maint. Exp.	82,052	82,282
Less: Income Tax Effect	(30,876)	
Avon Park 2 Amortization	299	300
Less: Income Tax Effect	(113)	
Fossil Dismantlement	3,700	3,711
Less: Income Tax Effect	(1,392)	
Total	<u>\$59,884</u>	<u>\$96,283</u>

FIPUG: No. See Issues 9-10, 48, 96, 98-100.

FCAN: No position.

AHCLG: No. See Local Governments statement of position on Issue 36.

LEAF: No position.

STAFF ANALYSIS: This is a fallout issue and depends on the resolution of other issues.

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ISSUE 105: Should the Commission direct FPC to undergo a management audit focused upon the achievement of operating efficiencies and cost reductions?

RECOMMENDATION: No. (Reeves)

POSITION OF PARTIES:

FPC: No. A management audit of Florida Power Corporation is totally unwarranted by the record before the Commission.

OPC: No.

OCCIDENTAL: Yes. FPC has not undergone a comprehensive management audit since 1984 and has allowed its O&M expenses to grow substantially in excess of inflation.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Witness Kollen testified [TR 2847], that FPC had not undergone a comprehensive management audit since 1984. He strongly urged the commission to direct FPC to undergo a comprehensive management audit focused on achieving efficiencies and cost reductions. Mr. Kollen further testified [TR 2908], that:

And I believe that based on the excessive level of growth, above and beyond that explained by the benchmark methodology, that it would be appropriate to direct this Company to undergo a comprehensive management audit, focused specifically on achieving efficiencies and cost reductions.

However, it is not appropriate to require one utility to undergo a management audit without requiring all similarly situated utilities to also undergo a management audit. If the commission decided to require each utility with O & M expense growth in excess of a specified level to contract with a firm to obtain a management audit, adoption of a rule would be a reasonable way to proceed. Given the long interval without an audit and the growth in O & M expenses, we recommend that we forward copies of the pertinent information to the Bureau of Regulatory Review in the Division of

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Research for their consideration in scheduling the next PSC management audit of FPC.

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ISSUE 106: In determining whether any portion of the \$31,208,000 interim increase granted by Order No. PSC-92-0208-FOF-EI should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The refund should be calculated using the 1992 test year and adjusted to remove the Debary Peaking Unit annualizing adjustments. \$14,469,000 plus interest on an annual basis or approximately \$7 million during the interim period should be refunded. (L.Romig, Reeves, Kummer)

POSITION OF PARTIES:

FPC: Florida Power concurs with Audit Disclosure Nos. 1 - 5, 13, 15, 16, 21 and 22 in Staff's audit of the interim test year and, therefore, agrees that a refund in the annualized amount of \$907,000 is appropriate. The refund should be calculated in accordance with Rule 25-6.109, F.A.C., by applying a refund factor of 2.906306% to the consumption of customers during the period from April 23, 1992 to the effective date of new permanent rates.

OPC: Yes. The full amount of the interim increase should be refunded with interest. The amount to be refunded should be calculated based on a decision whether the company's actual earnings during the pendency of the proceeding exceeded the return authorized by the Commission on a going-forward basis. Annualization adjustments made to the 1992 test year for the Debary units, for example, should be backed out of 1992 test year data to calculate the interim refund because they were not in service during the pendency of the proceeding. It is possible, under the interim statute, for a utility to receive a permanent increase and still have to make an interim refund.

OCCIDENTAL: Yes. The full amount of the interim rate increase should be refunded with interest.

FIPUG: No position.

FCAN: Yes. The full amount of the interim increase should be refunded, with interest.

AHCLG: The full amount of the interim increase should be refunded.

Fixture rental charges under Rate Schedules SL and OL were increased on an interim basis, despite the fact that FPC appropriately proposed and the rate design settlement confirmed a permanent rate decrease for this service. Therefore, the interim increase paid by these customers for fixture rental should be

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refunded.

LEAF: No position.

STAFF ANALYSIS: Florida Power was granted an interim increase of \$31,208,000 by Order No. PSC-92-0208-FOF-EI dated April 14, 1992 effective April 23, 1992. The interim increase was based on a November 30, 1991 test year and a 12.60% return on equity, the floor of the company' last authorized return on equity.

The Company has proposed to refund \$907,000 of the interim increase using the interim test year and adjusted for certain audit disclosures contained in staff's audit report covering the interim test year.

In our evaluation we have used a 11.50% return on equity or a 8.176% overall return. This return was used in accordance with the interim statute (F. S. 366.071) whereby any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return.

The 1992 test period used for permanent rates significantly overlaps the period that interim rates are to be in effect. Therefore, this period is being used in determining the appropriate amount of interim rate relief. Included in rate base and net operating income for setting permanent rates were annualizing adjustments for the Debary Peaking Units. For purposes of calculating rate base and net operating income these annualizing adjustments have been removed.

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After making the above adjustments staff has calculated a refund of \$14,469,000 plus interest on an annual basis. Our calculation of the interim refund is shown below. Since the interim increase will be in effect for six months the refund will be approximately \$7 million. The refund should be made in accordance with the provisions of Commission Rule 25-6.109 F.A.C.

(000)

1992 Staff Adjusted Rate Base	\$2,945,890	
DeBary Annualizing Adjustments	<u>(48,104)</u>	
1992 Adjusted Rate Base		2,897,786
Required Rate of Return		<u>8.17%</u>
Required N.O.I.		236,749
1992 Staff Adjusted N.O.I.	224,688	
DeBary Annualizing Adjustments	<u>1,646</u>	
1992 Adjusted N.O.I.		<u>\$226,334</u>
N.O.I. Deficiency		10,415
Revenue Expansion Factor		<u>1.607157</u>
Revenue Increase-Interim		16,739
Interim Increase-Granted		<u>(31,208)</u>
Amount to be Refunded		<u>\$14,469</u>

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ISSUE 107: Are Florida Power's proposed revenue expansion factors appropriate?

RECOMMENDATION: No. The appropriate expansion factors for 1992 and 1993 are 1.607157 which excludes the gross receipts tax component and includes the current Regulatory Assessment Fee rate of 0.0830. (L.Romig)

POSITION OF PARTIES:

FPC: No. The Company's revenue expansion factors for both the 1992 and 1993 test years include the Regulatory Assessment Fees at the .125% rate in effect at the time its filing was prepared. Subsequently the rate in effect for the period of January 1992 and beyond was changed to .083%. In addition, the Company has prepared its filing excluding Gross Receipts Tax from base rates.

OPC: The appropriate revenue expansion factor is 1.607828.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Florida Power originally included in its revenue expansion factor Regulatory Assessment Fees of 0.125%, the rate then in effect. Subsequent to its filing the rate was changed to 0.083%. Therefore, it would be appropriate to recognize the current Regulatory Assessment Fee rate.

In addition the Company also proposed to exclude the Gross Receipts Tax as a component of the expansion factor and recover this tax through base rates. In its prehearing statement the Company expressed concerns over pending litigation (United States vs. Delaware) wherein the Company may propose to recover the tax through base rates instead of a separate line item on the customer's bill.

Mr. Scardino stated his concerns that he had with this case. In that case the U.S. government asserted that the state was taxing the government by having a tax that looked like the gross receipts tax as a separate line item on the bill. The government was successful in its contention that it was illegal for a state to tax the federal government. Mr. Scardino further stated that the

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Company still supports, absent any new information, to include the tax as a separate line item on the customer's bill. [TR 2539]

Chairman Beard:

"If I'm the U.S. Government and I know the Gross Receipts Tax, which is statutorily set, is a part of base rates, I mean, am I not more likely to still come forward and say fine, you're still taking the U.S. Government, regardless of where you put it and what you call it," [TR 2539]

The Commission has approved the recovery of the Gross Receipts Tax as a separate line item on the customers' bills in other proceedings. One of the more recent cases was the West Florida Natural Gas Company rate case, Docket No. 910778-GU. In that proceeding the Federal Government intervened, with no exception taken to the billing of the Gross Receipts Tax as a separate line item or paying this tax or any other taxes through base rates.

Staff would, therefore, recommend that the Company recover the Gross Receipts Tax as a separate line item on the customers' bills.

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ISSUE 108: Is Florida Power's requested annual operating revenue increase of \$108,096,000 for the 1992 current test year and an additional \$37,757,000 for the 1993 projected test year appropriate?

RECOMMENDATION: The appropriate revenue increase is \$29,488,000 for the 1992 current test year and \$22,577,000 for the 1993 projected test year. This is a calculation based on the resolution of all other operating revenue issues. (Brand)

POSITION OF PARTIES:

FPC: The Company has agreed to remove and/or modify the following issues: Sebring T&D Acquisition, Reversal of FPSC Reserve Transfers, Increased Nuclear Decommissioning Expense, FAS 87, FAS 106, tree trimming expense, advertising expense. Thus, the revised amounts of annual operating revenue increase are \$90,998,000 for the 1992 current test year and an additional amount of \$40,950,000 for the 1993 projected test year. See Table 1 in the Attachments hereto for a summary of the major components in the Company's requested revenue increase.

OPC: No. FPC is currently collecting excessive revenues of approximately \$30 million. Rates should be adjusted accordingly.

OCCIDENTAL: No. Based on FPC's original revenue request, FPC has a \$65,007,000 revenue surplus for the 1992 test year, and a \$41,043,000 surplus for the 1993 forecast test year. The Commission should adopt the recommendations of Occidental witnesses and calculate the amount of FPC's revenue surplus based upon the record, utilizing the summary in Tables 1 and 9 of Mr. Kollen's testimony as a guide. [Tr. 2714, 2749].

FIPUG: No. See Issues 9-10, 48, 96, 98-100. The Commission should reduce FPC's requested OPEB and pension expense and FPC's requested dismantlement expense.

FCAN: No. FPC's requested operating revenue increase is overstated and should be adjusted downward to reflect only increases associated with reasonable and prudent operating expenses.

AHCLG: No. See Local Government statements of position on Issues 29, 36, 56, 89, and 109.

LEAF: No position.

STAFF ANALYSIS: The appropriate revenue increase is \$26,647,000 for the 1992 current test year and \$22,577,000 for the 1993

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projected test year. The resolution of this issue is determined by decisions made in other issues.

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ISSUE 109: Should Florida Power's requested performance reward based on superior management in the amount of \$9,669,000 for the 1992 current test year and \$321,000 for the 1993 projected test year be granted?

RECOMMENDATION: Florida Power Corporation should be rewarded 11.0 basis points for corporate performance in the areas of residential rates and customer service and 4.0 basis points for corporate performance in the area of energy efficiency programs for a total of 15.0 basis points. This reward should be added to the Commission authorized mid-point of return on equity and not impact the authorized range of ROE. The reward should stay in effect until the Company's next rate case. This amount is based on the primary recommendation in Issue 110, therefore, if the Commission adopts the alternate recommendation in Issue 110, then FPC's total reward would be 9.5 basis points. Total mid-point ROE's would thereby be increased to either 11.65 or 11.60. (Ballinger)

POSITION OF PARTIES:

FPC: Yes. This request is based on established Commission precedent for adjusting ROE within a narrow band of reasonableness to reward or penalize management performance. FPC has demonstrated superior performance which the Commission should reward as a matter of sound regulatory policy.

OPC: No. FPC's case for a performance reward is full of inconsistencies. The company is not clear about the time period for which their performance should be evaluated. For example, in the area of service reliability the company argues for a time period of 16 years, but in the area of nuclear operations the time period for evaluation is less than one year. In addition, the company is inconsistent in the comparisons it makes between utilities. For example, when comparing residential rates, FPC chooses to compare FPC rates with two utilities. FPC argues that this limited comparison is appropriate because other utilities "operate in a somewhat different environment." [TR 649] However, in the area of customers per employee FPC compares itself to 26 utilities from the southeast region of the U.S.. [TR 655] Finally, FPC has not presented in this case a list of specific objectives or goals that were identified in the past and subsequently achieved by the actions of FPC management. [TR 667] In effect, the company has retrospectively identified issue areas and evaluated their performance using inconsistent methodologies. A performance reward based on such an approach is inappropriate; \$9,669,000 should be removed from the 1992 current test year and \$321,000 should be removed from the 1993 projected test year.

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OCCIDENTAL: No. FPC does not quantify the benefits of performance and relies on subjective, ad hoc determinations of performance quality. Many of the activities FPC claims are examples of "excellent performance" are nothing more than prudent management. There is no clearly defined nexus between the level of performance and the level of reward. Further, FPC's proposal is one-sided and provides no corresponding penalty for poor performance.

FIPUG: No. FPC has provided no basis for the reward it seeks. It is a utility's function to provide to the extent possible reliable and cost-effective service.

FCAN: No, absolutely not. Florida Power's performance, particularly with regard to its operation of the Crystal River nuclear plant, has not been superior, but has been among the worst in the nation, and the Company has blatantly discriminated against nuclear workers at the plant in retaliation for their nuclear safety related activities. The requested performance reward is neither a cost of service nor a cost of capital, therefore there is no basis for its consideration. Rather, it is purely a smokescreen to attain an even higher rate of return, and should be removed from both the current and projected test years.

AHCLG: No. The Commission should reject FPC's request for a "performance award". FPC has failed to present a cohesive basis for determining such an incentive and to demonstrate that it merits the reward that it seeks.

LEAF: No position.

STAFF ANALYSIS: FPC's reward request is based upon a 50 basis point increase on the Company's requested equity component. [TR 660] As justification for this amount, FPC proposed that the Commission review the company's performance in nine different areas. These areas were residential rates, fuel mix, O&M expense control, fossil and nuclear plant performance, energy efficiency programs, environmental awareness, customer service, T&D reliability, and bond ratings. These specific areas are more fully discussed in Issues 110 through 118. The table below is a summary of the various recommendations.

PERFORMANCE AREA	FPC	STAFF PRI.	STAFF ALT.	INTERVENOR
1. Rates	--	5.5	0.0	0.0
2. Fuel Mix	--	0.0	0.0	0.0
3. O&M Expense	--	0.0	0.0	0.0
4. Plant Performance	--	0.0	0.0	0.0
5. Energy Efficiency	--	4.0	4.0	0.0
6. Environmental	--	0.0	0.0	0.0
7. Customer Service	--	5.5	5.5	0.0
8. T&D Reliability	--	0.0	0.0	0.0
9. Bond Ratings	--	0.0	0.0	0.0
BASIS POINTS	50.0	15.0	9.5	0.0
APPROX. \$ (millions)	10.0	3.0	1.9	0.0

To arrive at the total reward of 15 basis points, Staff had to develop a methodology to assign a reward value to each area. The simplest way was to divide the 50 basis point request by the number of categories, 9, to arrive at approximately 5.5 basis points for each area. This results in a reward of 11.0 basis points for rates and customer service. Energy efficiency, or DSM, has often been thought of as three areas; load management, conservation of energy, and cogeneration. All three are efficiency methods for natural resources and therefore, Staff further divided the reward for "energy efficiency" into three equal parts. As discussed in Issue 114, Staff has recommended that FPC be rewarded for its efforts in load management and the University of Florida project which results in a recommended reward of 3.7 basis points. Since ROE is typically carried out to the second decimal place, the recommended reward for energy efficiency should be rounded up to 4.0 basis points for a total reward of 15.0 basis points.

The application of a rewards and penalties for past performance is not something new to the Commission [TR 640, 746, 747]. The basic premise of regulation is after the fact review. The twist in FPC's request is that they have compared themselves to the other peninsular utilities and have contended that they are the "best performing electric utility under the supervision and

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regulation of this Commission." [TR 640] FPC also stated that the reward request "will serve as an example to other utilities in the state" and the primary comparisons offered by FPC were low rates and customer service. [TR 647, 732] Low rates and customer service are the crux of a utility's business and if the Commission adopts the Staff recommendation, these same subjects would be litigated at future rate cases with other electric utilities.

FPC asked that the Commission consider all the areas of performance together but agreed that the Commission could just as well consider each area of performance separately [TR 729, 732]. Staff would recommend that the Commission review individual areas because even FPC's witness Greene agreed that several of the individual comparisons are subsumed by other comparisons, such as a rate comparison includes the O&M and fuel mix comparisons. [TR 811]. As discussed in detail in issues 110 through 118, Staff is recommending that FPC be rewarded for its efforts in three areas; rates, energy efficiency, and customer service.

The parties who objected to the reward request basically argued two points; rewards should be judged against established goals and a utility should not be rewarded for circumstances beyond its control. With regard to established goals, this is true for an incentive program but not for traditional after the fact regulation. FPC's reward request is nothing more than another argument for a greater ROE. Staff agrees with the other parties that a utility should not be rewarded for events beyond its control, but the three areas that Staff is recommending a reward for are impacted by FPC's management decisions. Rates are somewhat controlled by reducing costs; customer service is predominantly management driven and energy efficiency is also management's discretion as to which resources the company pursues.

Staff is also recommending that the reward remain in effect until FPC's next rate case. This may be as soon as 1994 according to FPC witness Scardino. [TR 2602]. FPC agrees that at the time of its next rate case, the proposed reward would again be subject to approval. [TR 659]

In summary, Staff has recommended a reward for FPC for the three basic areas that directly affect FPC's customers. The Commission's actions on this issue should also send a signal to other utilities in Florida regarding the Commission's views on management performance.

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ISSUE 110: Should Florida Power be rewarded/penalized based on the level of its rates as compared to other utilities?

PRIMARY RECOMMENDATION: Yes. Florida Power should be rewarded for their performance in the area of residential rates, until their next rate case. (Ballinger)

ALTERNATIVE RECOMMENDATION: No. The Commission should not reward or penalize utilities based on the level of their rates. (Wheeler, Palecki)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Rates as compared to other utilities are presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. Among the four major investor-owned utilities in the state of Florida, FPC ranks second in residential rates. In addition, FPC rates would have been higher absent the impact of external forces. For example, in the 1984 rate case FPC did not receive the entire rate increase they were seeking. And in 1987, a petition of an intervenor resulted in a stipulation reducing rates by \$121 million. FPC has never volunteered for a rate reduction. FPC Senior Vice President Greene stated that utility costs are controlled "by only doing things that the Commission will find prudent." [TR 674] Public Counsel argues that in a regulatory environment where administrative bodies are charged with setting fair and reasonable rates, FPC has little control over the level of these rates and therefore does not deserve a reward.

OCCIDENTAL: FPC should not be rewarded. Rate comparisons reflect supply and demand factors outside of the utility's control, and have very little to do with performance. See Issue No. 109, supra.

FIPUG: No. The other utilities to which Florida Power sought to compare itself are not comparable in that the systems have different units, different fuel types, different service territories Therefore, the comparison presented by Florida Power Corporation is flawed.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

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AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: (Primary) FPC has requested a performance award which is equal to 50 basis points of return on equity (ROE). This request is based on their alleged excellence in 9 areas, one of which is the level of its residential rates. Staff believes that the level of a utility's rates is a fundamental, bottom-line reflection of its performance, and as such it is a legitimate criterion upon which to base a reward or penalty. FPC has demonstrated that its residential rates are the lowest of the three investor-owned electric utilities in peninsular Florida and thus Staff believes that they should be rewarded.

Hearing Exhibit 96, Part E, sponsored by Witness Greene, presents a comparison of average monthly 1,000 kwh residential bills between FPC, the national average, and the two remaining peninsular Florida investor-owned utilities (Tampa Electric Company and Florida Power and Light Company), for the years 1987 through 1990. This comparison shows that for these years, FPC had the lowest residential rates of the three. As such, they should be rewarded.

Staff also recommends that, should the Commission approve a reward in this rate case based on FPC's rate levels, it should also consider such a reward or penalty in all subsequent investor-owned electric utility rate case proceedings.

FPC believes a reward is appropriate when all of the criteria it has cited are considered together. Particularly, FPC believes that its low rates, in combination with its level of customer service, are basic indicators of excellence which should be rewarded.

The remainder of the parties are opposed to a reward based on FPC's level of rates. OPC argues that since FPC operates in a regulated environment, and its rates are set by the Commission, they essentially have no control over their rates. These "fair and reasonable" rates thus reflect only prudent decisions made by the company.

Staff believes that this overstates the case. Staff believes that excellent performance by a company can result in lower rates than would otherwise result if this excellence were absent.

FIPUG and OCCIDENTAL also oppose an award based on rate levels. Their opposition focuses on the contention that rates are not a valid measure of a utility's performance. They believe factors which are outside the utilities' control, such as differences in unit types and ages, service territories, and other factors render

a comparison between utilities on the basis of rates meaningless.

While Staff concedes that many factors affect rate levels, they believe rates are nonetheless a basic indicator, along with level of customer service, of a utility's performance.

STAFF ANALYSIS: (Alternative) Staff believes that the relative level of a utility's rates is not an appropriate criterion with which to determine rewards or penalties. As Witness Falkenberg has testified, there are many factors which determine the level of a utility's rates which are not related to the utility's performance.

One important determinant of rates identified by Witness Falkenberg was the age of the utility's plants. Those utilities whose plants are relatively old will have much lower capital costs when compared to other utilities who have added more expensive generation recently. In fact, if a utility has not added capacity recently, this may indicate excess capacity in past years. Thus the present lower rates resulting from older plants may reflect poor decisions, and thus higher rates, in prior years. [TR 3152-53]

Another exogenous factor identified by Witness Falkenberg was fuel prices in world markets. Witness Falkenberg testified that FPC uses older, oil-fired generating units, which in the past were considered a liability. Due to lower oil prices in the last several years however, these plants have become a lower cost source of generation than other alternatives. This is not a result of utility excellence, but of world energy market conditions which are beyond the control of FPC. [TR 3153-54]

Because rate levels are not a true reflection of management performance, Staff does not believe that they should be used in determining a reward or penalty. Gulf Power Company, whose rates are lower than those of FPC [TR 683], was penalized 50 basis points of ROE in its last rate case because of its management performance. Witness Greene testified in fact that FPC's 50 basis point reward level was based on the Commission's penalty in that case. [TR 766] Staff thus can not justify a reward for excellence based on rate levels.

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ISSUE 111: Should Florida Power be rewarded/penalized because of the diversity of its fuel mix?

RECOMMENDATION: No. A utility's diversity in fuel mix is subsumed in a comparison of rates. (Colson)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. The diversity of its fuel mix is presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. FPC Senior Vice President Greene stated that the diversity of its fuel mix has been driven by external factors. [TR 685-992] Public Counsel argues that no reward should be given under such circumstances.

OCCIDENTAL: FPC should not be rewarded. FPC must achieve an economic fuel mix, as anything less would be disallowed as imprudent. See Issue No. 109, supra.

FIPUG: No. A prudent utility must make appropriate fuel choice decisions in the course of managing the utility. Such choices provide no basis for a reward.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: See staff analysis contained in Issue 112.

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ISSUE 112: Should Florida Power be rewarded/penalized because of its management of the operation and maintenance expenses of its generating facilities?

RECOMMENDATION: No. Operation and maintenance expense control are subsumed in a comparison of rates. (Ballinger)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Efficient resource management is presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. Over the period 1987 to 1990, FPC O&M expense (less fuel & ECCR) increased a total of 1.6%. [MFR SCHEDULE A-7, PAGE 1 of 2, LINE 17]. Per the evidence in this rate case, FPC O&M expense (less fuel & ECCR) will increase 34.3% over the period 1990 to 1993. [MFR SCHEDULE C-21, PAGE 5 of 6, LINE 28 & EX. 109, PAGE 3 of 3]. The evidence indicates that management of O&M expenses has been inconsistent over time and deserves no performance reward.

OCCIDENTAL: FPC should not be rewarded. A major reason for FPC's rate increase is its failure to control O&M costs compared to the O&M benchmark. See Issue No. 109, supra.

FIPUG: No. The evidence in this case showed that Florida Power exceeded the O & M benchmark in a number of categories. It has not demonstrated any basis for reward in this area.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC asked that the Commission consider all the areas of performance together but agreed that the Commission could just as well consider each area of performance separately [TR 729, 732]. Staff would recommend that the Commission review individual areas because even FPC's witness Greene agreed that several of the individual comparisons are subsumed by other comparisons, such as a rate comparison includes the O&M and fuel mix comparisons. [TR 811] Therefore, FPC's reward request for O&M expense control is

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one of the components that contribute to the Company's overall rates.

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ISSUE 113: Should FPC be rewarded/penalized for its generating unit performance in both fossil and nuclear plants?

RECOMMENDATION: No. Generating unit performance is subsumed in the GPIF and a comparison of rates. (Colson)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Generating unit performance in both fossil and nuclear plants is presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. Increased O&M expenses have purported spent to increase performance, but fossil plant availability has not improved and nuclear performance has only been marginal.

OCCIDENTAL: FPC should not be rewarded. FPC's fossil and nuclear performance is sub-par. See Issue No. 109, supra.

FIPUG: No. The availability of Florida Power's fossil plants has actually declined from 86.33% on 1984 to 78.19% in 1991. Exhibit 215. Additionally, the performance of Florida Power's Crystal River nuclear plant has been less than exemplary.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: According to FPC's witness Mr. Greene, the GPIF is a "good system" to evaluate the performance of FPC's base load plants. [TR 800] The GPIF was approved by the Commission to reward/penalized the investor-owned utilities for the operating efficiency of their generating units which contribute a total of not less than 80 per cent of the estimated total system net generation for the period. The Broker allows any utility to sell generation not needed to serve its native load to less efficient utilities for a profit. The profits from these sales are excluded from the utilities' ratebase. Staff believes that FPC should not be rewarded/penalized for its generation performance because FPC has been rewarded for its improvements through GPIF rewards and through Broker sales. The GPIF and Broker were created to increase generating efficiency and reward utilities for good performance. No additional reward is warranted. Also, an increase in generator

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efficiency results in lowered operating costs which are subsumed in a comparison of rates.

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ISSUE 114: Should Florida Power be rewarded/penalized because of its energy efficiency program achievements in light of current regulatory requirements?

RECOMMENDATION: Florida Power should be rewarded for its load management program and for the University of Florida cogeneration project, but should not be rewarded for its efforts in programs which conserve energy. (Futrell)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Energy efficiency program achievements are presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No.

OCCIDENTAL: FPC should not be rewarded. FPC has done nothing more than carry out its responsibilities under existing regulations and policies. See Issue No. 109, supra.

FIPUG: *No. The Commission requires all utilities to have energy conservation programs on file. FPC's activities in this area provide no basis for a reward.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: As discussed in issue 109, energy efficiency covers demand reducing programs, energy conserving programs, and cogeneration. FPC has been successful in load management in that over 30% of its customers participate, and the company is considered a national leader in load management. [TR 627, 628, 780]

Florida Power should not be rewarded for its efforts in energy conserving programs. In 1991 only 13 percent of Florida Power's demand side management program costs were for energy reducing programs, with the balance spent on demand-reducing programs such as load management. Ex. 104. In addition under cross examination, witness Greene stated, "that there is more to be gained by demand reduction programs..." [TR 781, 782]. As stated in issue 109, the company should be rewarded for areas under its direct control,

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however, because of the discrepancy in resource allocation in its demand side management programs, Florida Power should not be rewarded for efforts in energy conserving programs.

Florida Power should be rewarded for the University of Florida cogeneration project and its associated efficiencies. The waste heat from the process will be captured and used by the University of Florida. [TR 1675]. This will have the effect of reducing the electric energy needs of the university. The unit has a lower heat rate than FPC's overall system, and will back down higher cost plants. [TR 1656]. Florida Power's innovative efforts with the University of Florida project deserve a reward based on reduced fuel cost for the company and reduced electric energy costs for the University of Florida.

The University of Florida high thermal efficiency cogeneration project is an example of what utilities ought to be doing in conservation and cogeneration. This project would appear to pass the rate impact test in that Florida Power would not participate in this project if it were to have an adverse impact on rates. A reward is a good signal to send to further efforts of this nature.

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ISSUE 115: Should Florida Power be rewarded/penalized because of its environmental awareness and actions affecting environmental quality?

RECOMMENDATION: No. A utility should not be rewarded for complying with environmental regulations. (Ballinger)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Environmental awareness is presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. Senior Vice President Greene argued in his prefiled testimony that FPC's strong environmental awareness is evident in the construction of the Mariculture Center and the helper cooling towers. Cross-examination of the witness revealed that the construction of these projects were mandated by the Federal Government. [TR 705] Public Counsel argues that no performance reward should be considered under these circumstances. FPC wants the customers to both pay for the utility's environmental awareness and pay a reward for spending customer funds in an area not always related to electric service.

OCCIDENTAL: FPC should not be rewarded. FPC has conducted no cost benefit analysis to determine the effects of its environmental programs on its ratepayers. See Issue No. 109, supra.

FIPUG: No. Florida Power has shown no basis for such an award.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Most of the actions taken by FPC with regard to the environment have either been the result of regulations or a cost saving measure. For example, the Mariculture center was the result of negotiations with the EPA and the DER. While the negotiations resulted in a projected cost savings, the fact still remains that they were the result of impending requirements. Also, every recycling program initiated by FPC adds to the Company's bottom line between rate cases, just like any reduction in O&M expenses. Therefore, Staff would recommend that FPC has not demonstrated that they have initiated environmental programs that

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were not the result of some other requirement or common business sense.

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ISSUE 116: Should Florida Power be rewarded/penalized for its efforts in customer service?

RECOMMENDATION: Yes. FPC should be rewarded based on low customer complaints. (Ballinger)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. Customer service is presented as but one of Florida Power's strengths. This request is based on no one standard or strength.

OPC: No. Senior Vice President Greene states that the "attention we pay to our customers helps minimize Commission complaints." [TR 634] FPC compares justified commission complaints with other utilities and submits this as supporting evidence for a performance reward. How much is FPC charging the rate payer to minimize Commission complaints and how does such expenses compare to other utilities in the state of Florida? Nowhere in the rate case filing does the company compare customer service expense with other utilities. However, the rate filing does indicate that in the FERC function level of Customer Service the company is seeking a 36.95% increase in expenses over the 1991 level for 1992. [1992 MFR SCHEDULE C-21, PAGE 4 of 7, LINE 33] Public Counsel argues that the evidence does not support a performance reward in the area of customer service.

OCCIDENTAL: FPC should not be rewarded. FPC provides no more customer service than is necessary to deliver reliable, economical service to its customers. See Issue No. 109, supra.

FIPUG: No. Florida Power should provide that amount of customer service that is needed to provide reliable, cost-effective service to its customers.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: Probably the single most important indicator of a utility's customer service is its complaint record. As indicated in Exhibit Number 604, part F, FPC's justified complaints per 1000 customers is far below the other peninsular investor owned utilities. Also, Staff witness Pruitt stated that FPC "had fewer

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complaints per 1000 customers than the industry as a whole." [TR 3084]. This fact was not challenged by any party. FPC's requested reward is premised on low rates and good service. Low customer complaints is the second part of that request.

ISSUE 117: Should FPC be rewarded/penalized for its transmission and distribution reliability performance?

RECOMMENDATION: No. FPC's transmission and distribution system is designed to provide its customers with adequate electric service with few interruptions. There is no evidence in the record to show that FPC has out performed other similar utilities or increased its service reliability over the last 4 years. (Colson)

POSITION OF PARTIES:

FPC: This should be a consideration in the Commission's in deciding whether Florida Power's overall performance has been superior. The Company has not requested a reward based on any one of the separately stated performance criteria in Issues 110 through 118, but believes each of them contribute to the conclusion that the Company's overall performance has, in fact, been superior.

Florida Power has developed a transmission grid through which economic bulk power transactions and lower generation reserve margins result in holding down the cost of electricity. [TR 625]. Florida Power's frequent use of interchange and wheeled power indicates a well utilized transmission system. [TR 834].

Aggressive availability goals contribute to high distribution system reliability. [TR 626]. In fact, Florida Power's system service reliability has improved by about 50 minutes of interruption per customer since 1975. [TR 626, 643, 834]; Ex. 96D, Sheet 3. Reliability data is not compared to an industry average because utilities do not currently keep comparable statistics. Tr. 685. Also, a long term trend is a meaningful observation of system reliability. Tr. 700, 1040. Exhibit 107J also illustrates a downward 15-year trend for customer interruptions. Tr. 930. Transmission and generation outages are included in the data underlying exhibit 107J. Tr. 1025. It also excludes unusual occurrences such as hurricanes or extremely cold weather. Tr. 930-31; Ex. 107J. This improvement is significant in light of Florida Power's low O&M costs per customer.

Annual variances in reliability trends serve to emphasize the importance of looking at a long term trend line which tends to levelize annual variances and provide a more accurate picture. Tr. 1021. While a shorter time frame (1988-1991) may indicate an increase in average minutes of interruption, the longer term trend is obviously a decreasing average for customer outages. Tr. 1022-23, 1039; Ex. 96D; Ex. 107J. Such a short-term increase does not indicate a decline in the quality of service. Tr. 1039. This can be substantiated in the Company's consistently low justified commission complaint ratio. The cause is likely a deviation around the norm. Tr. 1040.

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OPC: No. Senior Vice President Greene agreed that service reliability minutes of interruption per customer has been trending upward from 1988 to 1990. [TR 685] No data was presented after 1990 and no comparison between other utilities was offered by FPC. [TR 699].

OCCIDENTAL: FPC should not be rewarded. Interconnection with neighboring utilities is not an "excellent" idea originated by FPC, but has been a routine facet of the industry for quite some time. See Issue No. 109, supra.

FIPUG: No. A central function of utility is to provide reliable transmission and distribution. FPC has showed no basis for a reward in this area. Further, the minutes of interruption on Florida Power's system have actually increased recently.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: According to FPC's witness M. H. Phillips, FPC has not compared its service reliability to similar utility companies. [TR 1034] Mr Phillips stated that all storm related data were pulled out of FPC's average minutes of interruption used in its reliability trend. [TR 1020] According to his testimony the average minutes of interruption per customer for 1990 and 1991 were 84.13 and 95 minutes respectively. FPC's latest five years of reliability data show an increase in average minutes of interruption per customer although Mr. Phillips stated that the average minutes of interruption had decreased over time. He based his statement on a 15 year trend line shown on exhibit 107, part J, attached to his testimony. [TR 1019] Staff agrees that FPC should compare its performance over time. Staff does not agree that a 15 year trend line shows an accurate picture of what has happened in the last five years. In comparing FPC's reliability, staff chose the years 1987 - 1991, which are the years Mr Phillips used in FPC's non-reliability comparisons. According to Phillips' testimony and exhibit 107, part J, FPC's service reliability has decreased four out of the five years. [TR 1023] Staff recommends that FPC should not be rewarded/penalized for its transmission and distribution reliability performance because there is no evidence in the record to show that their reliability is better than similar utilities.

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ISSUE 118: Should Florida Power be rewarded/penalized because of its bond ratings?

RECOMMENDATION: No. FPC should not be rewarded or penalized because of its bond ratings. (Maurey)

POSITION OF PARTIES:

FPC: Florida Power requests a reward for building and maintaining key strengths in many areas across the Company. This request is based on no one standard or strength.

OPC: No. FPC presents no data that indicates that their double A bond rating represents a superior rating when compared to other utilities. [TR 634-635] However, this rating was achieved by customers paying rates that provided high coverage ratios. The ratepayers have already purchased FPC's bond rating.

OCCIDENTAL: FPC should not be rewarded. FPC's AA- bond rating allows FPC to attract investors, accruing FPC a lower cost of capital between rate cases. In any event, FPC has failed to establish that a high bond rating benefits ratepayers. See Issue No. 109, supra.

FIPUG: No.

FCAN: No. Utility rates are set on the basis of reasonable and prudent costs and a fair rate of return, based on the cost of capital.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: FPC's senior secured debt is currently rated AA- (or its equivalent) by Standard & Poors Corporation (S&P), Moody's Investors Service, Duff & Phelps (D&P), and Fitch Investors Service. [TR 138] In theory, it is generally accepted that a company's cost of capital moves inversely with its bond rating. In other words, the higher a company's bond rating, the lower its cost of capital will be and vice versa. [TR 199, 209] As a result, it can be argued that the Company's relative bond rating is recognized in its cost of capital. The Company did not provide any evidence that their cost of capital is lower or that their AA bond rating represents a superior rating when compared to other utilities. [TR 634-635] Therefore, Staff recommends that the Commission neither reward nor penalize the Company for its bond rating.

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ISSUE 119: Is Florida Power's request that permanent new rates become effective on November, 1992 for the 1992 current test year, April, 1993 to reflect the cooling tower additions at Crystal River, and November, 1993 to reflect the addition of the Intercession City peaking units and the University of Florida Cogeneration project appropriate?

RECOMMENDATION: Yes. (Brand, Kummer)

POSITION OF PARTIES:

FPC: Yes. Florida Power's proposal attempts to lessen the confusion to the customer caused by 8 adjustments to the price of electricity during an 18 month period. Such a proposal if considered workable by the Commission would also reduce the administrative burden on the Commission and the Company of trying to implement these price adjustments.

OPC: No.

OCCIDENTAL: No. These property additions are not significant enough to support a multi-step, multi-year rate increase.

FIPUG: No position.

FCAN: No position.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The timing of the increases as proposed by the Company in this issue coincide with the test years approved in Issue 1. The annualization of the cooling towers at Crystal River was stipulated in Issues 171 and 175; the annualization of the Intercession City Peaking Units was stipulated in Issues 172 and 174; and the annualization of the University of Florida Cogeneration Project was stipulated in Issues 173 and 176. The record supports granting this request.

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COST OF SERVICE AND RATE DESIGN

NOTE: All parties who have taken positions on Cost of Service and Rate Design issues have entered a comprehensive stipulation, dated July 22, 1992 (a copy of which is included as Schedule 3 which resolves Issues 120 through 159.

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STIPULATED

ISSUE 120: Are Florida Power's separation of amounts for wholesale and retail jurisdictions appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: In the cost of service and rate design stipulation the Company's separation of joint system costs between the wholesale and retail jurisdictions for 1992 and 1993 in Exhibits 40 and 41 is accepted. Exhibits 40 and 41 are the company's separation and retail cost of service studies with Sebring removed. In its separation study the company used methodologies and procedures that are acceptable and consistent to both the Federal Energy Regulatory Commission and the Florida Public Service Commission. The most significant allocation factor is the one used for production plant. The company used the twelve months coincident peak methodology (12 CP KW) methodology, which has been used widely for wholesale rate cases.

The only dispute on the separation study regarded the development of the 12 CP KW. In the development of the 12 CP KW the company removed the expected load reduction from residential and general service load management for all twelve months and the interruptible and curtailable load for four of the twelve months. At least one party's position was that the company should have removed the interruptible and curtailable load for all twelve months in developing the retail jurisdiction's 12 CP KW.

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STIPULATED

ISSUE 121: Should the interruptible and curtailable service rate classes be treated in the cost of service study based on the class' load characteristics and be provided a credit based on the avoided cost?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The stipulation provides for the interruptible and curtailable service rate classes to be assigned costs within the cost of service study based on each class's respective use characteristics, without adjustment to coincident demands. The nonfirm nature of interruptible and curtailable service is to be recognized through credits to the demand charges approved for these classes. The parties negotiated, for purposes of settlement, credits of \$6.30 and \$3.15 per coincident KW for the interruptible and curtailable rate classes. The negotiated values were tested by the Commission's conservation cost-effectiveness methodology; additionally it was stipulated that the negotiated values are reasonable based on the embedded cost standards preferred by FIPUG and Occidental.

Florida Power's present interruptible and curtailable class rates were based on a cost of service study which excludes the demands of interruptible load and fifty percent of the curtailable loads in the development of the twelve monthly coincident peaks (12 CP KW) portion of the 12 CP and 1/13th weighted average demand allocation factor for production plant. The interruptibility of these customers' service was thus recognized through the allocation or responsibility for no demand-related production plant cost or, in the case of curtailable service, a reduced level of demand-related production plant cost.

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STIPULATED

ISSUE 122: What is the appropriate cost of service methodology to be used in designing the rates of Florida Power?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: In the Cost of Service and Rate Design Stipulation the Company's 12 CP and 1/13th weighted average demand retail class cost of service studies for 1992 and 1993 in Exhibits 40 and 41 is accepted. Exhibits 40 and 41 are the company's separation and retail class cost of service studies with Sebring removed.

The 12 CP and 1/13th weighted average demand methodology is used to allocate only production and transmission plant investment and expense. Other methodologies are used to allocate the utility's investment and expense for other types of equipment and functions. Only the methodology for allocating production and transmission plant and the treatment of interruptible and curtailable load (Issue No. 121) in the retail class cost of service study was being disputed in this docket. The 12 CP and 1/13th weighted average demand cost of service methodology was approved for the company's last rate case that went to hearing (Docket 830470-EI).

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STIPULATED

ISSUE 123: Is the company's proposed general service rate structure which allows general service customers to opt for the rate schedule which is most cost effective for them and eliminates the minimum billing demand appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated that the company's proposed restructuring of its general service rates will be adopted. Under the new rate structure, FPC will have only two standard general service rates, a non-demand rate (GS-1) and a demand rate (GSD-1). Mandatory demand billing will be eliminated, as will minimum billing demand.

Any customer whose annual usage exceeds 24,000 kwh will be allowed to choose either the demand and non-demand rate, based upon which rate will result in the lower bill. Those customers with high load factors will migrate to the demand rate (GSD-1), while those with low load factors will take service on the non-demand rate (GS-1).

As a result of the restructuring, the general service large demand (GSLD-1) rate, municipal service transition rate (MS-1), and optional transition rates will be eliminated. See issues 127, 126, and 125 for further discussion of these rates.

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STIPULATED

ISSUE 124: Should Florida Power be required to offer an opportunity sales tariff for non-firm customers?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The utility agreed as part of the stipulation to designing and proposing at least two additional interruptible rates as DSM programs for Commission approval, subject to the conditions that such programs are beneficial to both the general body of ratepayers and the Company.

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STIPULATED

ISSUE 125: Should the transition rate provision on the general service demand and general service large demand rate schedules (GSD, GSDT, GSLD, and GSLDT) be eliminated?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The elimination of FPC's general service transition rates was stipulated to by the parties. These rates are no longer necessary due to the stipulation on issue 123, in which the company's proposed restructuring of its general service rates was accepted. The restructuring results in two standard general service rates, GS-1 and GSD-1, and eliminates mandatory demand billing.

The transition rates were implemented after the adoption of mandatory demand billing. Their purpose was to mitigate the impact of mandatory demand billing on low load factor customers who were required to take service under a demand rate. Since the new rate structure allows customers to migrate to either the demand (GSD-1) or non-demand (GS-1) rate, depending on which rate is cost-effective for them, the transition rates are no longer necessary.

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STIPULATED

ISSUE 126: Should the municipal service transition rate schedule (MS) be eliminated?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated to the elimination of the municipal service transition rate. This rate was established after the Commission voted to eliminate the Municipal Service rate in FPC's 1982 rate case, Docket No. 820100-EI, because it was not cost-based. It was available only to those municipal customers who had franchise agreements with FPC.

When the rate was eliminated in 1982, the existing Municipal Service customers were transferred to their appropriate general service rate schedules. However, those customers who would have been transferred to the GS-1 rate would have experienced large bill increases. In order to mitigate this impact, the commission created the MS-1 transition rate for these customers, which is a non-demand rate. The parties stipulate that this rate is not cost-based and is no longer necessary, and thus should be eliminated.

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September 11, 1992

STIPULATED

ISSUE 127: Should the general service large demand rate schedules (GSLD and GSLDT) be eliminated?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated that the general service large demand rate schedules should be eliminated. These rates are no longer necessary due to the restructuring of FPC's general service rates, which was stipulated to in issue No. 123.

After the restructuring, FPC will have only two standard general service rates, a non-demand (GS-1) and a demand (GSD-1) rate. Under the new rate structure, customers are not mandatorily assigned to rate classes based on their maximum monthly demands. Instead, customers who consume more than 24,000 kwh per year can opt for either rate, depending upon which is cost-effective for them. Higher load factor customers will migrate to the demand rate, while lower load factor customers will take service on the non-demand rate. Thus the GSLD rate, which is designed for customers whose maximum monthly demands exceed 499 kw, is no longer necessary.

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STIPULATED

ISSUE 128: If the Commission approves a rate increase, how should it be allocated among the classes?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The allocation of a rate increase among the classes should be determined by a compliance cost of service study which incorporates all Commission decisions on issues affecting the Company's revenue requirements and cost allocation methods used in this proceeding. The rate increase for each rate class should be determined by comparing the revenues under present rates to the revenues established by the compliance cost of service study for each rate class.

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STIPULATED

ISSUE 129: Is the method used by the utility for calculating the increase in unbilled revenues by rate class appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation, paragraph 16b. Attachment ().

STAFF ANALYSIS: Parties agreed to accept the Company's method for calculating the increase in unbilled revenues as shown in MFR Schedule E-15. The method employed by FPC to determine unbilled MWHs relies on historical relationships of unbilled to billed MWHs by rate class. These ratios are multiplied by the projected total MWH and the average price of electricity. This method is reasonable.

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STIPULATED

ISSUE 130: What are the appropriate service charge levels?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation, paragraph 16c. Attachment ().

STAFF ANALYSIS: The service charges are cost based and reasonable. The company has proposed the following revisions to its service charges:

TYPE OF CHARGE	Present	1992	1993
Service Charges			
Initial Connection	\$15.60	\$24.50	\$30.50
Reconnections	\$13.00	\$14.50	\$15.00
Transfers of Account	\$5.20	\$5.50	\$5.50
Reconnect/Nonpayment	\$23.40	\$25.50	\$27.00
Temporary Service			
Single Phase Overhead	\$38.98	\$71.00	\$74.00
Three Phase Overhead	\$54.57	\$71.00	\$74.00
Single Phase Underground	\$29.45	\$71.00	\$74.00
Three Phase Underground	\$30.32	\$71.00	\$74.00

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STIPULATED

ISSUE 131: What is the appropriate time-of-use rate design?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The time of use rate design for all classes sets off-peak energy rates at the average system energy component from the cost of service study. The cost study showed these costs did not differ significantly across classes. The on-peak charge for non-demand classes is determined by a break-even calculation to achieve the standard rate non-fuel energy revenue, using the class's on-peak and off-peak energy consumption from the current load research study.

For demand classes, a maximum demand charge is established to recover the distribution costs, on the principle that these costs are related to the maximum demand a customer places on the system, whether that demand occurs on-peak or off-peak. As a transition measure to mitigate adverse customer impact, this charge is set at 1/2 the unit cost for distribution shown in the current cost of service study. The on-peak demand charge shall include the on-peak unit cost of transmission and the remainder of distribution unit costs. The customer charges reflect the differential in metering costs for TOU equipment.

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STIPULATED

ISSUE 132: What are the appropriate customer charges?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation, paragraph 16d. Attachment ().

STAFF ANALYSIS: The customer charges closely track unit cost as generated from the cost of service study. The customer charges agreed to in the stipulation are as follows:

<u>RATE CLASS</u>	<u>VOLTAGE LEVEL</u>	<u>Present</u>	<u>1992</u>	<u>1993</u>
RS*	Secondary	\$5.32	\$8.50	\$8.85
GS*	Unmetered	\$2.61	\$6.25	\$6.60
	Secondary	\$5.32	\$11.50	\$11.70
	Primary	\$5.32	\$145.00	\$148.00
	Transmission	N/A	\$720.00	\$730.00
GS2	Unmetered	\$2.61	\$6.25	\$6.60
	Metered	\$5.32	\$11.50	\$11.70
GSD*	Secondary	\$15.46	\$11.50	\$11.70
	Primary	\$15.46	\$145.00	\$148.00
	Transmission	N/A	\$720.00	\$730.00
CS	Secondary	N/A	\$76.50	\$76.70
	Primary	\$152.49	\$210.00	\$213.00
	Transmission	\$152.49	\$785.00	\$795.00
IS	Secondary	N/A	\$281.50	\$281.70
	Primary	\$413.91	\$415.00	\$418.00
	Transmission	\$413.91	\$990.00	\$1000.00
SS-1	Secondary	\$101.50	\$101.50	\$101.70
	Primary	\$174.28	\$235.00	\$238.00
	Transmission	\$174.28	\$810.00	\$820.00
SS-2	Secondary	N/A	\$306.50	\$306.70
	Primary	\$435.69	\$440.00	\$443.00
	Transmission	\$435.69	\$1015.00	\$1025.00
SS-3	Secondary	N/A	\$101.50	\$101.70
	Primary	\$174.28	\$235.00	\$238.00
	Transmission	\$174.28	\$810.00	\$820.00
LS	Unmetered	\$1.83	\$1.13	\$1.20
	Metered	\$1.83	\$3.38	\$3.45

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* An amount of \$7.50 is added to the customer charge if a Time-of-Use (TOU) rate is requested. An additional \$6.00 is added if a three-phase TOU meter is requested.

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STIPULATED

ISSUE 133: What are the appropriate contributions-in-aid-of-construction for time-of-use customers opting to make a lump sum payment for a time-of-use meter in lieu of the higher time-of-use customer charge?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation, paragraph 16e. Attachment (). (Berg)

STAFF ANALYSIS: This issue was addressed in the stipulation with all parties agreeing to accept the company's proposal that the appropriate contribution in aid of construction for customers opting to make a lump sum meter payment is \$258 for single phase service and \$393 for three phase service. The amount of the lump sum payment is cost based and reflects the additional cost of time-of-use metering.

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STIPULATED

ISSUE 134: How should the general service demand and energy charges be set?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The General Service demand and energy charges will be set such that the combination of the two charges closely tracks the General Service cost curve and produces the revenue requirements established for that class by the cost of service study.

The cost curves will be developed like those contained in the prefiled direct testimony of Samuel Nixon (Exhibit Part H). These cost curves were based on the company's 1989 load research data, and the unit costs developed in the company's 1992 and 1993 Cost of Service studies filed in the rate case.

The company will prepare a final Cost of Service study which will reflect the Commission's decisions. The unit costs from this final study will be used to develop a new cost curve. The new cost curve will then be used to develop the general service demand and energy charges.

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STIPULATED

ISSUE 135: What are the appropriate Demand and Energy charges for the non-time of use Curtailable Service and Interruptible Service rates?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The demand charges per billing KW were designed to recover the classes' unit costs for Transmission Plant and Distribution Plant from the cost of service study, plus the absolute amount of the credit per billing KW for interruptible and curtailable service. The energy charges will be designed to collect the balance of each class's revenue requirement after subtracting the revenues from customer charges and demand charges.

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STIPULATED
ISSUE 136: Should the curtailable class be costed and priced separately from the general service demand class?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The Stipulation specifies that the curtailable class will be treated as a separate rate class with rates designed to produce the revenue requirements of that class identified in the cost of service study. Thus, the level of curtailable service rates (exclusive of the curtailment credit) will depend on the load characteristics of the curtailable class only and not on the characteristics of both the curtailable class and the general service demand classes.

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STIPULATED

ISSUE 137: What are the appropriate delivery voltage credits?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation, paragraph 16f.

STAFF ANALYSIS: Parties agreed to accept the Company's proposed delivery voltage credits are 30 cents per KW of billing demand for primary delivery voltage and 69 cents per KW of billing demand for transmission delivery voltage. The delivery voltage credits reflect the allocated line transformation costs assigned through the approved cost of service study.

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STIPULATED

ISSUE 138: What are the appropriate metering voltage adjustments?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation, paragraph 16g.

STAFF ANALYSIS: The parties agreed to accept the company's proposed metering voltage credits of 1% for distribution primary delivery and 2% for transmission delivery. The stipulated metering voltage adjustment maintains Commission policy of recognizing only losses associated with transformation.

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STIPULATED

ISSUE 139: Should the general service non-demand service rate schedules (GS and GST) provide for a distribution voltage credit and a metering voltage adjustment?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation, Paragraph 12c.

STAFF ANALYSIS: The parties have agreed that the general service non-demand rates (GS-1 and GST-1) will provide only a metering voltage adjustment of 1% for distribution primary delivery and 2% for transmission delivery.

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STIPULATED

ISSUE 140: What are the appropriate lighting rate schedule charges?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated to FPC's methodology in developing the final lighting schedule charges.

The basis for calculating the final lighting rates is contained in Attachment No. 3 to the stipulation. The non-fuel energy charges are to be based on the estimated monthly kwh for each fixture type applied to the non-fuel energy unit cost as developed in the cost of service study.

Maintenance charges are to be based on the estimated cost of maintaining the each fixture type, as developed in Attachment No. 3. The customer charges for lighting are to be set at unit cost as developed in the cost of service study. The remaining revenue requirement attributable to the lighting fixtures is to be recovered through the Fixture Charges. The pole charges are to be designed to recover the revenue requirement for poles as developed in the cost of service study.

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STIPULATED

ISSUE 141: Are the changes proposed by the company to the terms and conditions on the lighting schedules appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated that the lighting schedule terms and conditions will be as FPC has proposed, with the exception of special provision numbers 7 and 9.

Special provision number 7 will be modified to eliminate the requirement that notice of burned out fixtures be made to FPC in writing. Special provision number 9, relating to the imposition of surcharges due to changes in the National Electrical Safety Code will be eliminated in its entirety.

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STIPULATED

ISSUE 142: What is the appropriate monthly fixed carrying charge for poles of a type not listed on rate schedule LS-1, and for distribution equipment that the company may optionally provide to a customer under any rate schedule?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: Under the terms of the stipulation, the monthly fixed carrying charge for lighting poles and for all distribution equipment that the company optionally provides to a customer will be 1.67% of the installed cost, which is a cost-based rate developed from the 1992 cost of service study submitted by FPC.

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STIPULATED

ISSUE 143: What is the appropriate fixed carrying charge for lighting fixtures of a type not listed on rate schedule LS-1?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated to a monthly fixed carrying charge rate of 1.57% of the installed cost for lighting fixtures of a type not listed on the LS-1 rate schedule for 1992. This is a cost-based rate developed from the 1992 cost of service study submitted by FPC. The rate for the first step 1993 rates will be 1.59%. The permanent 1993 rate will be 1.57%, which is based on the 1993 cost of service study.

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STIPULATED

ISSUE 144: Is the company's estimate of customer migration due to rate structure changes reasonable?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: In the Stipulation the customer migration identified in Exhibits 38 and 39 and in Attachments 1 and 2 to the Stipulation is accepted for establishing rates and revenues for the general service class. This portion of the Stipulation means that the company will be allowed to recover through base rates the shortfall associated with customers migrating to a different rate class due to the Company's proposed restructuring of the general service rate schedules (see Issue 123).

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STIPULATED

ISSUE 145: If there is a revenue shortfall resulting from migration, how should it be recovered?

RECOMMENDATION: Staff recommends that the stipulation be accepted.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: Any revenue shortfall resulting from customer migration should be recovered in the development of the base rates designed to produce the revenue requirements for each rate class, taking into account the transfer of billing determinants between rate schedules associated with customers migration to the most advantageous rate.

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STIPULATED

ISSUE 146: Should the Commission approve FPC's proposal to treat Interruptible and Curtailable service as demand-side management programs and authorize recovery of "program costs" through the ECCR?

RECOMMENDATION: Staff recommends that the Commission accept the stipulation.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The treatment of interruptible and curtailable service as a demand side management program is consistent with similar load management programs.

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STIPULATED

ISSUE 147: Is the company's proposed methodology for determining cost effective levels of non-firm load appropriate?

RECOMMENDATION: Staff recommends that the Commission accept the stipulation.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The methodology proposed by the company is in conformance with the Commission's approved Conservation Cost Effectiveness Methodology, used to evaluate other conservation programs. However, the stipulation in this docket expressly preserves the rights of parties to challenge this approach in future rate proceedings.

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STIPULATED

ISSUE 148: What is the appropriate level of credit per coincident KW for interruptible service (IS-1)?

RECOMMENDATION: Staff recommends that the Commission accept the stipulation.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: Parties stipulated to a credit of \$6.30 per coincident KW for interruptible load. This level meets the Commission's Conservation cost effectiveness Test and is reasonable based on the embedded valuation approach proposed by intervenors.

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STIPULATED
ISSUE 149: What is the appropriate level of credit per coincident KW for curtailable service (CS-1)?

RECOMMENDATION: Staff recommends that the Commission accept the stipulation.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: Parties have negotiated for purposes of settlement, a credit of \$3.15 per coincident KW for the curtailable class. This value meets both the Commission's Conservation Cost Effectiveness Test and the embedded standards proposed by intervenors.

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STIPULATED

ISSUE 150: Should the level of interruptible credit for IS and CS increase over time?

RECOMMENDATION: Staff recommends that the Commission accept the stipulation.

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: There was considerable discussion during the negotiations on the merits of changing any non-firm credit as the avoided unit changed. Arguments were made that since non-firm load continues to avoid or defer plant, the value of non-firm load changes as the unit avoided changes. However, equally compelling is the argument that customers defer or avoid a specified unit and any credit must be tied to that unit, and therefore remain fixed. Since there was no consensus on how or when to change the credit, the agreement was to maintain the specified credits until the next rate case.

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STIPULATED

ISSUE 151: If the Commission approves FPC's methodology for treating the Interruptible class within the cost of service study, what is the appropriate total dollar amount of credit which should be associated with the interruptibility feature of the Interruptible rate?

RECOMMENDATION: Staff recommends that the Stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: In paragraph 3 of the Stipulation, the parties agree that "the interruptible and curtailable service rate classes will be assigned costs within the Company's cost of service study based on each class's respective use characteristics, without adjustment to coincident demands; the fact that such customers accept nonfirm service will be recognized in the form of credits to the demand charges developed for these classes. The Parties have negotiated for purposes of settlement, credits of \$6.30 and \$3.15 per coincident KW for interruptible and curtailable tariffs, respectively." In addition in paragraph 6, the parties agree to credits on a billing KW basis of \$3.37 and \$2.33 per billing KW, for interruptible and curtailable service, respectively. Because the parties have agreed to the level of the credit per coincident KW and per billing KW, it is not necessary to calculate the total dollar amount.

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STIPULATED
ISSUE 152: How should the credits for interruptible and curtailable service be distributed to IS-1 and CS-1 customers?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The parties have stipulated that the credits for interruptible and curtailable service will be distributed based on the interruptible and curtailable customers' billing KW for the standard rate and the customers' on-peak billing KW for the time-of-use rate. Expressed on a billing KW basis, the credits for interruptible and curtailable service are \$3.37 and \$2.33 per billing KW, respectively. (Stipulation, paragraph 6)

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STIPULATED

ISSUE 153: How should the credits for interruptible and curtailable service be recovered from the ratepayers?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation. (Meeter)

STAFF ANALYSIS: The Stipulation approves interruptible and curtailable service as demand-side management (DSM) programs with authorized recovery of the credit through the Company's Energy Conservation Cost Recovery (ECCR) clause as a program cost. The Stipulation also provides for the ECCR expenses associated with load management, interruptible and curtailable programs (including the interruptible and curtailable credits for the period of November 1992 through March 1993, which will be included in the ECCR true-up provision, and all other similar future dispatchable DSM programs) to be allocated to rate classes based on the methodology currently employed in the Capacity Cost Recovery mechanism of the Fuel and Purchased Power Cost Recovery clause, beginning with the six-month period of April through September, 1993. (Stipulation, paragraphs 5 and 6.) For Florida Power Corporation, the Capacity Cost Recovery mechanism will assign cost responsibility to each rate class on the basis of a 12 CP and 1/13th weighted allocation factor; the cost is recovered on KWH with the class-specific factor derived by dividing the allocated cost responsibility for the six-month period by the projected KWH for the class for the same time period.

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STIPULATED

ISSUE 154: Should the statement of the interruptible rate at primary voltage be changed to secondary voltage?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation, paragraph 7. Attachment ().

STAFF ANALYSIS: FPC has given customers within a rate class the option of choosing the voltage level which best suits individual needs. Stating the interruptible rate at secondary voltage make this rate schedule consistent with the remaining schedules. The appropriate voltage and metering discounts apply.

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STIPULATED

ISSUE 155: Should the company's proposal to make the emergency purchase power provision of the interruptible service rate schedule mandatory be approved?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation. (Meeter)

STAFF ANALYSIS: The special provision for the "buy through" of purchased power in lieu of interruption by the company will now be mandatory. The Company is to attempt to develop a procedure which provides the customer with real-time estimates of the cost of such purchases. The customer will now have the flexibility of deciding on a case-by-case basis whether to receive the purchased power or to interrupt itself. Currently the customer must provide written notification when it wants the company to attempt to minimize interruptions by purchasing power and energy from other sources during periods of normal interruption. Likewise the customer has had to provide written notice to the company to terminate the purchase of emergency power in lieu of interruption. Currently, all interruptible customers are having the company purchase power for them through the special provision. (Nixon, Tr. 3341)

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STIPULATED

ISSUE 156: Should the company's proposal to make the purchase power costs an additional charge in lieu of the otherwise applicable fuel charge plus 3.0 mills on IS and CS schedules be approved?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: The Stipulation provides for interruptible customers to pay the actual purchase power cost in lieu of the otherwise applicable energy charges (including fuel charges), plus 3 mills, for power purchased pursuant to the Special Provision. The basis of charges for power purchased for interruptible customers is the same as in the current rate schedule but the language in the rate schedule has been modified for clarity. The Company had requested that the interruptible customer also be charged the rate schedule nonfuel energy charge when purchasing power.

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STIPULATED

ISSUE 157: What is the appropriate design and level of charges for firm standby service (SS-1)?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: Paragraph 13 of the Stipulation specifies that the standby service rates (SS-1, SS-2 and SS-3) will be developed from the final cost of service study consistent with the methodology contained in the Commission's standby rate Order No. 17159 in Docket No. 850673-EU. In paragraph 18 the parties agree that the term "cost of service" used in the Stipulation is intended to refer to a Company-prepared compliance cost of service study which incorporates the Commission's decisions on all issues in this proceeding. However, the Parties recognize that due to the timing of the Commission's decisions, a compliance cost of service study may not be available for use. In that event, the cost of service study prepared by the Company based on the Staff's recommendation, as adjusted by Staff to reflect the Commission's decisions, is to be used.

Commission Order No. 17159 on standby rates on page 13 states that "a combination of a reservation charge and a daily demand charge incorporating time-of-use pricing are most appropriate for the recovery of demand-related and transmission costs for firm backup and maintenance services. The reservation charge is to be calculated by multiplying an assumed 10 percent forced outage rate...times the utility system's unit cost per coincident peak kilowatt (CPKW) for demand-related production and transmission (P&T) functions.... The daily demand charge is to be calculated by dividing the utility's system P&T unit cost per CPKW by the average number of days per month that contain on-peak hours." On pages 14 and 15 this order specifies that the nonfuel energy charge should be set at the system energy unit cost, including generation plant costs classified as energy-related and allocated to classes on the basis of energy, with appropriate adjustments to reflect different line losses at different service voltage levels, if applicable. Pages 17 and 18 of the order describe the necessity of a local facilities charge to recover distribution system costs. The charge is to be set at the distribution unit cost, calculated using 100 percent ratcheted billing KW as the billing determinant, for the class to which the customer would otherwise belong. Finally, the order on page 18 specifies that the customer charge should be the

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customer charge for the otherwise applicable curtailable rate, plus \$25.

Standby Service rate charges will be included in the rate spread sheets for the final agenda conference. These will be based on the aforementioned unit costs from the Company's compliance cost of service; if the compliance cost of service study is not available, the unit costs from the Company's cost of service study based on the staff recommendation will be used.

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STIPULATED

ISSUE 158: What is the appropriate design and level of charges and credit for interruptible standby (SS-2) and curtailable standby (SS-3)?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Meeter)

POSITION STIPULATED BY THE PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS:

Paragraph 13 of the Stipulation specifies that the interruptible standby service (SS-2) and curtailable standby service (SS-3) rates will be developed from the final cost of service study consistent with the methodology contained in the Commission's standby rate Order No. 17159 in Docket No. 850673-EU. The Company-prepared compliance cost of service study which incorporates the Commission's decisions on all issues in this proceeding will be used to develop the unit costs. If the compliance cost of service study is not available for use due to the timing of the Commission's decisions, the cost of service study prepared by the Company based on the Staff's recommendation is to be used.

The generation and bulk transmission and energy charges for both classes and the customer charge for curtailable standby service will be the same as for firm standby service (SS-1). See the Discussion for Stipulated Issue 158 for the rate design for standby service specified by Order No. 17159. With respect to the customer charge for interruptible standby service, Order No. 17159 on page 16 specifies that the customer charge for interruptible standby service will be set equal to the customer charge for the utility's full requirements interruptible rate schedule, plus \$25 for additional metering and billing costs. The charge for local transmission and distribution for each of the two classes is to be set at the distribution unit cost, calculated using 100 percent ratcheted billing KW as the billing determinant, for the class to which the customer would otherwise belong.

The credit for the nonfirm nature of the interruptible and curtailable service standby classes is to apply to the reservation and daily demand charges. Paragraph 6 of the Stipulation specifies that the credits for full-requirements interruptible and curtailable service are to be \$3.37 and \$2.33 per billing KW, respectively. Therefore, the credit for the reservation charge for the interruptible and curtailable standby service classes should be ten percent of the \$3.37 and \$2.33, or

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\$.34 and \$.23 per KW per month, respectively. The credit for the daily demand charge for the interruptible and curtailable standby service classes should be \$3.37 and \$2.33 divided by 21, the average number of days in a month with on-peak hours, or \$.16 and \$.11, respectively.

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STIPULATED

ISSUE 159: If the company's proposed performance reward is approved, how should it be recovered?

RECOMMENDATION: Staff recommends that the Commission accept the Stipulation shown in Attachment (1).

POSITION STIPULATED BY PARTIES: See Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS.: Concerns were raised by FIPUG and Occidental that the revenue requirement determined by inclusion of non-firm load as firm in the cost of service study would be also be used for determining those classes' share of any performance award responsibilities. Parties agreed that the revenue requirements to be used for this or any other allocation based on relative revenue requirements would use only the revenue requirement of non-firm classes as determined by the firm base revenue less non-firm credits.

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OTHER ISSUES

ISSUE 160: Should adjustments be made for the rate base effects of transactions with affiliated companies?

RECOMMENDATION: No, except for adjustments made in other issues. (Brand)

POSITION OF PARTIES:

FPC: No. This issue was not addressed in the testimony of any intervenor witness nor in the cross-examination of any Florida Power witness. Accordingly, there is no basis for any such adjustment.

OPC: No position.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: This issue was not addressed in the testimony of any intervenor witness nor in the cross-examination of any Florida Power witness. Accordingly, there is no basis for any such adjustment.

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ISSUE 161: Should adjustments be made for the capital structure effects of transactions with affiliated companies?

RECOMMENDATION: No. This issue was not addressed in any testimony or in cross examination at the hearing. There is no record basis for any adjustment. (Brand)

POSITION OF PARTIES:

FPC: No. See the Company's position under Issue 160 above.

OPC: Yes. Investment in Non Utility properties should be removed from Common Equity.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: This issue was not addressed in any testimony or in cross examination at the hearing. There is no record basis for any adjustment.

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ISSUE 162: Should adjustments be made for the net operating income effects of transactions with affiliated companies?

RECOMMENDATION: No. There is no record basis for any adjustment. (Brand)

POSITION OF PARTIES:

FPC: No. See the Company's position under Issue 160 above.

OPC: Yes.

OCCIDENTAL: No position.

FIPUG: No position.

FCAN: Yes. Agree with Public Counsel.

AHCLG: No position.

LEAF: No position.

STAFF ANALYSIS: The only testimony regarding this issue was in the prefiled testimony of AHCLG witness Wells, who recommended that all of Florida Progress' overhead charges passed through to FPC's ratepayers should be disallowed because those charges have not been justified. [TR 2640] This point was not developed further by AHCLG or addressed by any other party. There is not a sufficient record basis for the proposed adjustment.

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ISSUE 163: Should Florida Power implement revenue and sales decoupling? And, if so, how?

RECOMMENDATION: No, not at this time. FPC has offered to file a decoupling proposal with the Commission within 60 days after the issuance of the Order in this docket. Staff recommends that a more thorough evaluation be conducted at that time to determine whether revenue and sales decoupling should be implemented by FPC. (Ballinger)

POSITION OF PARTIES:

FPC: Florida Power believes it would be premature to determine in this proceeding the type of decoupling mechanisms which might be appropriate for the Company to implement. Through the rebuttal testimony of Mr. Wieland, the Company has offered to submit a proposal for revenue decoupling and conservation incentives within 60 days after the conclusion of this proceeding.

OPC: No position.

OCCIDENTAL: Occidental supports the positions of FIPUG set forth in the Prehearing Order.

FIPUG: No. It would be premature to implement revenue and sales decoupling because not enough information has been provided to enable the Commission to fully evaluate such a large policy shift. This issue should be the focus of a separate generic investigation.

FCAN: Yes. In order to achieve the goals of the Florida Energy Efficiency and Conservation Act, we must align the utilities' economic interest with the public interest. This is not achieved under the present rate system, through which utilities receive additional profit from each additional kilowatt-hour of electricity sold.

FCAN agrees with LEAF and the other public interest intervenors on these issues. We recommend the Commission adopt a Revenue per Customer decoupling mechanism for FPC, and believe this docket should remain open until this is accomplished.

AHCLG: No position.

LEAF: I. THE COMMISSION SHOULD ADOPT A RATE ADJUSTMENT MECHANISM THAT ELIMINATES ("DECOUPLES") THE CURRENT REGULATORY CONNECTION BETWEEN FPC'S SALES AND REVENUES.

- A. The Current Regulatory Connection Between FPC's Sales and Revenues Creates Strong Economic Disincentives to FPC's Provision of Reliable Energy Services at the Lowest Cost.
 - 1. Decoupling would provide the Level Playing Field for Demand and Supply Side Resources that is Essential to FPC's Provision of Service at Lowest Cost.
 - 2. Decoupling FPC's Sales and Revenues would enable the Commission to Meet its Statutory Responsibility to Set Rates that are "Fair, Just and Reasonable" in Conformance with Florida Statutes.
 - B. The Current Regulatory Connection Between FPC's Sales and Revenues Creates Strong Economic Disincentives to FPC's Implementation of Energy Efficiency Programs that Reduce Energy Usage.
 - C. Decoupling FPC's Sales and Revenues would Improve FPC's Achievements Pursuant to the Legislature's Directive to Increase the Efficiency of Energy Use.
 - D. Economically Reasonable Levels of Energy Conservation and Load Management will not be Implemented without Utility Intervention, i.e., through Utility Investment in DSM Measures that Allow Provision Energy Services at Least Cost.
 - E. Decoupling FPC's Sales and Revenues would Minimize Load Forecast Gaming, Stabilize Utility Earnings and Reduce the Risk of Experimental Rate Design.
 - F. Decoupling FPC's Sales and Revenues would Minimize Environmental Damage and Reduce the Financial Costs and Risks Posed by Supply Side Resources.
 - G. This Case Presents a Valuable Opportunity to Pilot Regulatory Reforms in Florida without Significant Risk.
- II. THE COMMISSION SHOULD ADOPT REVENUE PER CUSTOMER DECOUPLING FOR FPC.

- A. The Revenue per Customer Decoupling Method is the Most Effective for FPC in Light of Other Relevant Regulatory Practices Applicable to the Company.

III. Florida Power should be directed to File, within 60 Days After the Final Order a RPC Decoupling Proposal that Conforms to the Procedures in Appendix A and the Standards Stated in Part II, A, Above.

STAFF ANALYSIS: The reasons expounded by the parties for implementing a decoupling mechanism varied from the removal of a disincentive for conservation to revenue stability. [TR 3087] Both of these factors could be taken care of in a variety of ways. One singular method for both of these concerns would be to have a set schedule of rate cases. [TR 3657] Even if the Commission were to order FPC to implement a decoupling mechanism, the record lacks proposals specific to FPC with which to make a meaningful decision.

The party who raised this issue, LEAF, did so because it believes that a decoupling mechanism would increase FPC's efforts in demand side management (DSM). In support of this theory, witness Stutz suggests that because other utilities' efforts in DSM have increased after decoupling and incentives, that FPC's efforts would logically follow suit. [TR 3660] Dr. Stutz made this conclusion without comparing the other utilities' current efforts in DSM, residential rates, load shapes, and other factors, to FPC. [TR 3660-3664] Also, the record is unclear as to whether decoupling alone will increase FPC's efforts in DSM. Witness Stutz acknowledged that decoupling alone may not produce the same benefits and that the other utilities he offered as a comparison had both decoupling and incentives. [TR 3656-3657] Witness Keesler, FPC's President, stated that FPC is committed to satisfying 1/2 of its needs through DSM without incentives or decoupling. [TR 114-115] Also, FPC has an internal policy of implementing conservation programs that pass the rate impact measure or RIM test. [TR 1720-1721] LEAF's arguments were centered around which cost-effectiveness test to use, the RIM test or total resource test. [TR 1724, 1727]

If more conservation is desired, it may have to be done at the expense of increasing rates while somehow simultaneously lowering total bills for all customers. Before a recommendation can be made, we need to understand the interaction of decoupling and incentives with the dichotomy between rates and bills. FPC may file whatever proposal it wants to; however, it should be prepared to address whether the RIM test should be adhered to. The decoupling of revenues and sales does not necessarily result in the

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abandonment of the RIM test. The viability of the RIM test in the face of a decoupling program is a separate issue which staff believes must be more fully addressed.

The benefit of revenue stability can be obtained by having pre-determined schedule of rate cases. [TR 3665] Also, witness Stutz agreed that the disincentive for energy conservation is short term, i.e. between rate cases. [TR 3657] FPC's witness Scardino stated that FPC would probably be back before the Commission with a rate request as early as 1994, only one year after the last test year in this case. [TR 2602] Thus, it is not clear whether a disincentive for energy conservation exists for FPC.

Therefore, Staff would recommend that FPC not be required to implement a decoupling mechanism at this time. FPC has agreed on the record at the Prehearing Conference and at the hearing to file a proposal for the decoupling of revenues and sales within 60 days of the issuance of the Order in this docket. This will provide an opportunity for a more thorough evaluation of the concept of decoupling, with focus on a specific plan. Staff recommends that a more thorough study be conducted, if and when a decoupling plan is filed, to determine whether the decoupling of revenues and sales should be implemented by FPC.

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ISSUE 164: Should Florida Power implement Demand Side Management incentives? And, if so, how?

RECOMMENDATION: No, not at this time. FPC has offered to file an incentives proposal with the Commission within 60 days of the issuance of the Order in this docket. Staff recommends that a more thorough evaluation be conducted at that time to determine whether a special DSM incentives program for FPC should be implemented. (Ballinger)

POSITION OF PARTIES:

FPC: Florida Power favors incentive regulation and conservation incentives in particular. The Company would be willing to include an incentive proposal as part of the decoupling submittal suggested under Issue 163 above.

OPC: No position.

OCCIDENTAL: Occidental supports the positions of FIPUG set forth in the Prehearing Order.

FIPUG: No. Not enough information has been provided to enable the Commission to fully evaluate such a large policy shift. This issue should be the focus of a generic investigation.

FCAN: Yes. FCAN supports the adoption of a shared savings approach to DSM incentives, and agrees with LEAF and the other public interest intervenors on this issue.

Any such incentive mechanism should be based on real, measurable energy savings, not engineering estimates. Numerical goals should be set with rewards for achieving or exceeding such targets coupled with rebates to the ratepayers for failing to meet projections. The key is accountability, and the goal should be to reduce, not shift, per-capita demand for electricity. Only then do we realize the environmental and economic potential of demand-side management programs.

AHCLG: No position.

LEAF: I. THE COMMISSION SHOULD ORDER IMPLEMENTATION OF A SHARED SAVINGS INCENTIVE MECHANISM FOR FLORIDA POWER WHICH PROVIDES ECONOMIC REWARDS FOR DSM SAVINGS THAT REDUCE CUSTOMER COSTS.

A. Economic Incentives Are Essential To Obtaining Optimal DSM Performance by FPC.

- B. A DSM Incentive Mechanism Is Necessary To Support Florida Power's Efforts To Capture All Demand and Energy Savings Available At A Cost Lower Than Supply Side Resources.
 - 1. Decoupling alone does not overcome the economic and institutional barriers to full implementation of DSM.
 - 2. To give FPC the proper economic signals, the PSC must provide incentives for successes in achieving cost-effective energy efficiency and demand savings.
- C. The Record Supports Immediate Commission Action To Order Implementation Of An Incentive Mechanism For Florida Power.
 - 1. The evidence shows that this proceeding is both an appropriate and the best context for determining whether to order the implementation of DSM incentives for FPC.
 - 2. The testimony shows that the Commission should not delay action on DSM incentives for FPC, but should take the opportunity to provide timely and essential regulatory support for FPC efforts to reduce the need for new generating facilities.
 - 3. The evidence shows that there is a need for changes in regulatory incentives and that FPC's current knowledge of DSM and willingness to pursue decoupling and incentives provide the Commission an opportunity to pilot these important regulatory reforms in Florida.
- D. The Record Provides Clear Regulatory Standards For A DSM Incentive Mechanism Appropriate For FPC.
 - 1. A DSM incentive mechanism should make FPC's least-cost resource plan its most profitable plan, provide appropriate impacts on stockholder and customers, and

- be simple, understandable and easy to administer.
2. DSM incentives should make implementation of a least-cost resource plan FPC's most profitable course of action.
 3. An incentive mechanism should assure appropriate impacts for both shareholders and customers.
 4. A DSM incentive mechanism should be practical to implement, simple to understand and easy to regulate.
 5. In a fair performance-based incentive mechanism, reasonable savings targets must be established and economic rewards or penalties allocated based on FPC's achievements in relation to the targets.
- E. The Commission Should Order FPC To File A Shared Savings DSM Incentive Proposal That Complies With the Standards Set Forth In Part II, D Above.
1. Florida Power should be directed to develop, and file for Commission approval of, a DSM incentive plan that allows the Company to keep a portion of the net benefits achieved by its DSM programs.
 2. Florida Power should be directed to file within 60 days after the Final Order a shared savings proposal which complies with the regulatory standards noted in Part II, D above.

STAFF ANALYSIS: The record of this proceeding is void of any specific incentive proposals. The gist of the evidence in the record was summed up by witness Barron who stated "This is America, and incentives work!" [TR 1748] Also, the discussion contained in Issue 163 regarding the RIM test applies equally to incentives.

Staff is currently addressing incentives for DSM programs in Docket No. 920606-EG. There is not sufficient evidence in the record here to warrant implementing an incentive program for a

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single utility when a proceeding has been established to evaluate this issue on an industry wide basis.

FPC has agreed on the record at the Prehearing Conference and at the hearing to file an incentive proposal with the Commission within 60 days of the issuance of the Order in this docket. Staff recommends that a more thorough evaluation be conducted if and when FPC files an incentive plan to determine whether a special DSM incentives program for FPC should be implemented.

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PROPOSED STIPULATIONS

STIPULATED

ISSUE 165: Is the acquisition and inclusion of \$12,624,000 (\$13,000,000 system) for the electric distribution system of the Sebring Utilities Commission in rate base for the 1992 current test year and \$12,847,000 (\$13,230,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Futrell, Colson)

POSITION STIPULATED BY PARTIES: The proposed Sebring acquisition will not be included in this rate proceeding.

STAFF ANALYSIS: This issue was stipulated to pursuant to section IX, part A, page 179 of the prehearing order in this docket. At the request of staff, Florida Power Corporation removed its proposed acquisition of the Sebring distribution system from consideration in this rate proceeding.

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PREHEARING STIPULATED

ISSUE 166:What is the appropriate rate base accounting treatment for FPC's acquisition of the electric distribution system of Sebring Utilities?

RECOMMENDATION: Staff recommends that the stipulation be approved.

POSITION STIPULATED BY PARTIES: The proposed Sebring acquisition will not be included in this rate proceeding.

STAFF ANALYSIS: For the 1992 and 1993 test years the following reductions should be made to remove the Sebring electric distribution system acquisition from rate base:

	1992		1993	
	System	Juris.*	System	Juris.*
Plant In Service	15,924,000	18,640,000	17,150,000	20,317,000
Less:Acc.Dep.	5,787,000	6,910,000	6,783,000	8,011,000
CWIP	0	91,000	0	76,000
Working Capital	2,863,000	2,436,000	2,863,000	2,719,000
PHFU	0	9,000	0	11,000
Nuclear Fuel-Net	0	15,000	0	17,000
Regulatory Prac.	0	25,000	0	24,000
Total	\$13,000,000	\$14,306,000	\$13,230,000	\$15,153,000

*The jurisdictional amounts include the difference due to the change in the allocation factor. This additional amount represents the impact on the jurisdictional amounts resulting from the removal of the Sebring sales from the system.

[Exhibits 24 & 25, TR 388] (Merta)

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PREHEARING STIPULATED

ISSUE 167: What is the appropriate net operating income accounting treatment for FPC's acquisition of the electric distribution system of Sebring Utilities?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Merta)

POSITION STIPULATED BY PARTIES: The proposed Sebring acquisition will not be included in this rate proceeding.

STAFF ANALYSIS: For the 1992 and 1993 test years the following reductions should be made to remove the Sebring electric distribution system acquisition from net operating income:

	1992		1993	
	System	Juris.*	System	Juris.*
Op. Revenues	6,927,000	6,927,000	7,158,000	7,158,000
Other Op. Revs.	<u>640,000</u>	<u>540,000</u>	<u>736,000</u>	<u>613,000</u>
Total Op.Revs.	\$7,567,000	\$7,467,000	\$7,894,000	\$7,771,000
O&M	6,723,000	6,011,000	6,964,000	6,203,000
Deprec. & Amort.	677,000	800,000	705,000	848,000
Taxes Other	221,000	253,000	229,000	275,000
Rev. Taxes	4,000	4,000	4,000	4,000
Income Tx.-Fed.	(286,000)	(132,000)	(266,000)	(120,000)
Income Tx.-St.	(47,000)	(22,000)	(41,000)	(20,000)
Deferred Tax	146,000	122,000	131,000	104,000
ITC-Net	0	(7,000)	0	(8,000)
Regulatory Prac.	<u>0</u>	<u>1,000</u>	<u>0</u>	<u>1,000</u>
Total Op. Exp.	\$7,438,000	\$7,030,000	\$7,726,000	\$7,287,000

*The jurisdictional amounts include the difference due to the change in the allocation factor. This additional amount represents the impact on the jurisdictional amounts resulting from the removal of the Sebring sales from the system.

[Exhibits 24 & 25, TR 388]

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Stipulations subject to Commission's decision on Issue 1

PREHEARING STIPULATED

ISSUE 168: Is the inclusion of \$60,292,000 (\$89,707,000 system) of new peaking generation at the DeBary plant site in rate base in the 1992 current test year and an additional \$830,000 (\$1,301,000 system) in rate base for the 1993 projected test year appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Futrell)

POSITION STIPULATED BY PARTIES: Yes. The annualization of new peaking generation at the DeBary plant site is necessary for the total investment in the 1992 current test year to be representative of conditions that will exist when the peaking units are in service and when the rates established in this proceeding are in place. The following table identifies the components of total annualized rate base amount for the new DeBary units.

	<u>13-Month Average</u> <u>Jurisdictional</u>	<u>System</u>
Electric Plant in Service	\$61,003,000	\$90,765,000
Accum Reserve For Depr.	(1,421,000)	(2,114,000)
Fuel Inventory	1,024,000	1,454,000
Working Cap.-Inc. Tax Payable	<u>(1,898,000)</u>	<u>(2,823,000)</u>
Total Annualized Rate Base	<u>\$58,708,000</u>	<u>\$87,282,000</u>

STAFF ANALYSIS: This issue was stipulated to pursuant to section IX, part B, page 180 of the prehearing order in this docket. Occidental's position that anything related to the 1993 test year should be disallowed shall be determined in Issue 1.

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PREHEARING STIPULATED

ISSUE 169: Is the inclusion of \$72,514,000 (\$113,623,000 system) of new peaking generation at the Intercession City plant site in rate base for the 1993 projected test year appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Futrell)

POSITION STIPULATED BY PARTIES: Yes. The annualization of new peaking generation at the Intercession City plant site is necessary for the total investment in the 1993 test year to be representative of conditions that will exist when the peaking units are in service and when the rates established in this proceeding are in place. The following table identifies the components of total annualized rate base amount for the new Intercession City units.

	<u>13 Month Average</u> <u>Jurisdictional</u>	<u>System</u>
Electric Plant in Service	\$72,511,000	\$113,623,000
Accum Reserve For Depr.	(1,693,000)	(2,653,000)
Fuel Inventory	875,000	1,463,000
Working Cap.-Inc. Tax Payable	(2,202,000)	(3,450,000)
Total Annualized Rate Base	<u>\$69,491,000</u>	<u>\$108,983,000</u>

STAFF ANALYSIS: This issue was stipulated to pursuant to section IX, part B, page 180 of the prehearing order in this docket. Occidental's position that anything related to the 1993 test year should be disallowed shall be determined in Issue 1.

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PREHEARING STIPULATED

ISSUE 170: Is the inclusion of \$35,532,000 (\$42,477,000 system) for the new cogeneration project at the University of Florida in rate base for the 1993 projected test year appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Futrell)

POSITION STIPULATED BY PARTIES: Yes. The annualization of new cogeneration project at the University of Florida is necessary for the total investment in the 1993 test year to be representative of conditions that will exist when the peaking units are in service and when the rates established in this proceeding are in place. The following table identifies the components of total annualized rate base amount for the University of Florida project.

	Fully Adjusted 13-Month Average <-----In Thousands----->	
	<u>Juris.</u>	<u>System</u>
Electric Plant in Service	\$35,535,000	\$42,478,000
Accum Reserve For Depr.	(962,000)	(1,150,000)
Fuel Inventory	0	0
Working Cap.-Inc. Tax Payable	(1,385,000)	(1,611,000)
Total Annualized Rate Base	<u>\$33,188,000</u>	<u>\$39,717,000</u>

STAFF ANALYSIS: This issue was stipulated to pursuant to section IX, part B, page 180 of the prehearing order in this docket. Occidental's position that anything related to the 1993 test year should be disallowed shall be determined in Issue 1.

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PREHEARING STIPULATED

ISSUE 171: Is the inclusion of \$76,525,956 (\$83,054,000 system) for Helper Cooling Towers for Crystal River 1, 2, and 3 in the 1993 projected test year appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Ballinger)

POSITION STIPULATED BY PARTIES: Yes. The annualization of the Helper Cooling Towers at Crystal River is necessary for the total investment in the 1993 test year to be representative of conditions that will exist when the cooling towers are in service and when the rates established in this proceeding are in place.

STAFF ANALYSIS: The helper cooling towers at the Crystal River complex are an environmental requirement in order to lower the cooling water discharge temperature into the Gulf of Mexico. Therefore, Staff recommends that the inclusion of the helper cooling towers in FPC's rate base is appropriate for the 1993 test year.

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PREHEARING STIPULATED

ISSUE 172: Is Florida Power's adjustment to working capital of the 1993 projected test year of \$2,594,000 (\$2,791,000 system) to annualize Accrued Taxes Payable related to the Intercession City Peakers appropriate?

RECOMMENDATION: No adjustment should be made based on this issue to FPC 's working capital for the 1993 projected test year.
(Reeves)

POSITION STIPULATED BY PARTIES: Yes. (See table in Florida Power's position under Issue 169 above.)

STAFF ANALYSIS: This company adjustment to the 1993 projected test year to increase accrued taxes payable is shown on line 18 of Schedule B-4, Rate Base Adjustments page 4 of 4, (p. 20). At the time of the prehearing this issue was no longer an issue as no party was actively pursuing.

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PREHEARING STIPULATED

ISSUE 173: Is Florida Power's adjustment to working capital of the 1993 projected test year of \$1,268,000 (\$1,365,000 system) to annualize Accrued Taxes Payable related to the University of Florida Project appropriate?

RECOMMENDATION: No adjustment should be made based on this issue to FPC 's working capital for the 1993 projected test year. (Reeves)

POSITION STIPULATED BY PARTIES: Yes. (See table in Florida Power's position under Issue 170 above.)

STAFF ANALYSIS: This company adjustment to the 1993 projected test year to increase accrued taxes payable is shown on line 19 of Schedule B-4, Rate Base Adjustments page 4 of 4, (p. 20). At the time of the prehearing this issue was no longer an issue as no party was actively pursuing.

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PREHEARING STIPULATED

ISSUE 174: Are Florida Power's 1993 Intercession City Peaking Units annualization adjustments to non-fuel O&M expenses, depreciation expense, taxes other than income, and income taxes appropriate?

RECOMMENDATION: If the Commission accepts the stipulation in Issue 169 to annualize the new peaking generation at Intercession City, then staff recommends that this stipulation be approved. (C.Romig, Meeks, Brand)

POSITION STIPULATED BY PARTIES: Yes. Annualization adjustments to 1993 NOI related to the Intercession City generation are appropriate.

STAFF ANALYSIS: The following table identifies the non-fuel NOI annualization adjustments as reflected in Florida Power's 1993 MFRs.

	Jurisdictional		System
	-----		-----
O&M	\$ 666,000	\$	1,040,000
Depreciation	2,332,000		3,639,000
Property Taxes	1,996,000		2,237,000
Income Taxes-			
Current	(3,526,000)	(a)	(4,884,000)
Deferred	1,127,000	(a)	1,561,000
Total Annualizing			
NOI Adjustments	\$ 2,595,000	\$	3,593,000
	=====		=====

The annualization of new peaking generation at the Intercession City plant site is recommended in Issue 169. Therefore, for consistency, it is appropriate to annualize the related NOI implications.

Consequently, staff believes that the 1993 NOI annualization adjustments are appropriate if the Commission accepts the stipulation in Issue 169.

- (a) System income tax adjustments were separately identified in the MFRs; jurisdictional amounts were not identified. Therefore, jurisdictional tax adjustments were allocated using the same ratio as the system amounts.

PREHEARING STIPULATED

ISSUE 175: Are Florida Power's 1993 Crystal River Cooling Towers annualization adjustments to non-fuel O&M expenses, depreciation expense, taxes other than income, and income taxes appropriate?

RECOMMENDATION: If the Commission accepts the stipulation in Issue 171 to annualize the Crystal River Cooling Towers at the Crystal River plant site, then staff recommends that this stipulation be approved. (C.Romig, L.Romig, Meeks)

POSITION STIPULATED BY PARTIES: Yes. Annualization adjustments to 1993 NOI related to the Crystal River Cooling Towers at the Crystal River plant site are appropriate.

STAFF ANALYSIS: The following table identifies the non-fuel NOI annualization adjustments as reflected in Florida Power's 1993 MFRs.

	Jurisdictional -----	System -----
Other Operating Revenues	\$ 549,000	\$ 552,000
O&M	127,000	138,000
Depreciation	1,005,000	1,091,000
Property Taxes	161,000	180,000
Income Taxes -		
Current	(774,000) (a)	(892,000)
Deferred	69,000 (a)	79,000
	-----	-----
Total Annualizing NOI Adjustments	\$ 39,000 =====	\$ 44,000 =====

The annualization of Helper Cooling Towers at the Crystal River plant site is recommended in Issue 171. Therefore, for consistency, it is appropriate to annualize the related NOI implications.

Consequently, staff believes that the 1993 NOI annualization adjustments are appropriate if the Commission accepts the stipulation in Issue 171.

- (a) System income tax adjustments were separately identified in the MFRs; jurisdictional amounts were not identified. Therefore, jurisdictional tax adjustments were allocated using the same

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ratio as the system amounts.

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PREHEARING STIPULATED

ISSUE 176: Are Florida Power's 1993 University of Florida Cogeneration Project annualization adjustments to non-fuel O&M expenses, depreciation expense, taxes other than income, and income taxes appropriate?

RECOMMENDATION: If the Commission accepts the stipulation in Issue 170 to annualize the University of Florida Cogeneration Project, then staff recommends that this stipulation be approved. (C.Romig, Brand, Meeks)

POSITION STIPULATED BY PARTIES: Yes. Annualization adjustments to 1993 NOI related to the University of Florida Cogeneration Project are appropriate.

STAFF ANALYSIS: The following table identifies the non-fuel NOI annualization adjustments as reflected in Florida Power's 1993 MFRs.

	Jurisdictional	System
	-----	-----
O&M	\$ 2,498,000	\$ 2,756,000
Depreciation	1,555,000	1,859,000
Property Taxes	1,111,000	1,245,000
Income Taxes -		
Current	(2,231,000) (a)	(2,532,000)
Deferred	21,000 (a)	24,000
Total Annualizing	-----	-----
NOI Adjustments	\$ 2,954,000	\$ 3,352,000
	=====	=====

The annualization of the University of Florida Cogeneration Project is recommended in Issue 170. Therefore, for consistency, it is appropriate to annualize the related NOI implications.

Consequently, staff believes that the 1993 NOI annualization adjustments are appropriate if the Commission accepts the stipulation in Issue 170.

- (a) System income tax adjustments were separately identified in the MFRs; jurisdictional amounts were not identified. Therefore, jurisdictional tax adjustments were allocated using the same ratio as the system amounts.

STIPULATED ISSUES

PREHEARING STIPULATED

ISSUE 177: Should an adjustment be made to the working capital allowance for any test year to exclude temporary cash investments?

RECOMMENDATION:

Yes, The stipulation should be approved. An adjustment should be made to exclude temporary cash investments in the amount of \$2,559,000 (\$2,692,000 system) from the working capital allowance for the 1991 interim test year. (Reeves)

POSITION STIPULATED BY PARTIES:

Yes. Through an oversight in preparing the 1991 Interim Test Year, the Company left temporary cash investments and prepaid interest in working capital. As part of their audit of the Interim Test Year, Staff issued Audit Disclosure No. 2, which recommended reducing working capital to correct the clerical error associated with temporary cash investments and prepaid interest by the following amounts:

	<u>Jurisdictional</u>	<u>System</u>
Temporary Cash Investments	\$2,559,000	\$2,692,000
Prepaid Interest	\$ 186,000	\$ 196,000

The Company concurs with Staff's audit recommendation. In its response to the audit disclosure, the Company noted that the proforma adjustments made to both the 1992 current test year and the 1993 projected test year correctly removed the effects of temporary cash investments but did not remove prepaid interest. The 13-month average adjustment to remove prepaid interest from the working capital allowance for each of the test years is shown below:

	<u>Jurisdictional</u>	<u>System</u>
1992 Current Test Year	\$ 229,000	\$ 246,000
1993 Projected Test Year	\$ 330,000	\$ 355,000

STAFF ANALYSIS: MFR Schedule B-2a, Balance Sheet - Jurisdictional Assets Calculation, page 4 of 12 (page 6) line 6 shows that temporary cash investments were erroneously included in the calculation of the working capital allowance for the 1991 interim test year.

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PREHEARING STIPULATED

ISSUE 178: Should an adjustment be made to the working capital allowance for 1992 and 1993 to exclude prepaid interest?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Brand)

POSITION STIPULATED BY PARTIES:

Yes. Through an oversight in preparing the 1991 Interim Test Year, the Company left temporary cash investments and prepaid interest in working capital. As part of their audit of the Interim Test Year, Staff issued Audit Disclosure No. 2, which recommended reducing working capital to correct the clerical error associated with temporary cash investments and prepaid interest by the following amounts:

	<u>Jurisdictional</u>	<u>System</u>
Temporary Cash Investments	\$2,559,000	\$2,692,000
Prepaid Interest	\$ 186,000	\$ 196,000

The Company concurs with Staff's audit recommendation. In its response to the audit disclosure, the Company noted that the proforma adjustments made to both the 1992 current test year and the 1993 projected test year correctly removed the effects of temporary cash investments but did not remove prepaid interest. The 13-month average adjustment to remove prepaid interest from the working capital allowance for each of the test years is shown below:

	<u>Jurisdictional</u>	<u>System</u>
1992 Current Test Year	\$ 229,000	\$ 246,000
1993 Projected Test Year	\$ 330,000	\$ 355,000

STAFF ANALYSIS: MFR Schedule B-2a, Balance Sheet - Jurisdictional Assets Calculation, page 4 of 12 (page 6) line 6 shows that prepaid interest was erroneously included in the calculation of the working capital allowance for the 1991 interim test year. We agree with the stipulation that working capital should be reduced as follows to exclude prepaid interest:

	<u>Jurisdictional</u>	<u>System</u>
1991 Interim Test Year	\$ 186,000	\$ 196,000
1992 Current Test Year	229,000	246,000
1993 Projected Test Year	330,000	355,000

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PREHEARING STIPULATED

ISSUE 179: Are adjustments removing \$734,631,000 (\$734,631,000 system) in fuel revenues for 1992 and \$780,053,000 (\$780,053,000 system) for 1993 and the related expenses recoverable through the Fuel Adjustment Clause appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Merta)

POSITION STIPULATED BY PARTIES: Yes. Fuel revenues and related recoverable expenses have been removed in the same manner as previously accepted by the Commission in the Company's prior base rate proceedings.

STAFF ANALYSIS: The adjustments made by FPC to remove fuel revenues and expenses for 1992 and 1993 are appropriate and are consistent with the Commission's treatment in prior rate cases.

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PREHEARING STIPULATED

ISSUE 180: Are adjustments removing conservation revenues of \$84,473,000 (\$84,473,000 system) for 1992 and \$94,622,000 for 1993 and the related expenses recoverable through the Conservation Cost Recovery Clause appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Merta)

POSITION STIPULATED BY PARTIES: Yes. ECCR revenues and related recoverable expenses have been removed in the same manner as previously accepted by the Commission in the Company's prior base rate proceedings.

STAFF ANALYSIS: The adjustments made by FPC to remove conservation revenues and expenses for 1992 and 1993 are appropriate and are consistent with the Commission treatment in prior rate cases.

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PREHEARING STIPULATED

ISSUE 181: Should an adjustment be made to any test year for the Operation and Maintenance Expense to disallow membership dues in the Chambers of Commerce and the Committee of 100?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(L.Romig)

POSITION STIPULATED BY PARTIES:

Yes. The Company concurs with Staff's position to reduce 1991 Interim Test Year O&M by \$52,390. Florida Power also included dues of this nature in the 1992 and 1993 test year and agrees that past Commission practice removes these types of expenses from cost of service. Please see the Company's response to the Staff's Audit Report, Audit Disclosure No. 22. (Staff Exhibit 77) Shown below is a table that summarizes the jurisdictional and system amounts in the 1992 current and 1993 projected test year amounts.

	<u>Jurisdictional</u>	<u>System</u>
1992 Current Test Year	\$ 71,654	\$75,000
1993 Projected Test Year	\$ 75,827	\$79,500

STAFF ANALYSIS: Expenses should be reduced \$71,654 (\$75,000 System) and \$75,827 (\$79,500 System) for 1992 and 1993, respectively, to remove membership dues in the Chambers of Commerce and Committee of 100. This adjustment is consistent with past Commission practices.

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PREHEARING STIPULATED

ISSUE 182: Are Florida Power's 1992 Debary Peaking Units annualization adjustments to non-fuel O&M expenses, depreciation expense, taxes other than income, and income taxes appropriate?

RECOMMENDATION: If the Commission accepts the stipulation in Issue 168 to annualize the rate base investment in the Debary Peaking Units, then the annualization adjustments to non-fuel O&M expenses, depreciation expense, taxes other than income, and income taxes are appropriate as well. (C.Romig, Meeks, Merta)

POSITION STIPULATED BY PARTIES: Yes. Annualization adjustments to 1992 NOI related to the Debary Peaking Units are appropriate.

STAFF ANALYSIS: The following table identifies the non-fuel NOI annualization adjustments as reflected in Florida Power's 1992 MFRs.

	<u>Jurisdictional</u>	<u>System</u>
O&M	\$ 672,000	\$ 999,000
Property Taxes	1,943,000	2,891,000
Depreciation	1,783,000	1,980,000
Income Taxes -		
Current	(3,044,000) (a)	(4,063,000)
Deferred	<u>955,000 (a)</u>	<u>1,275,000</u>
Total Annualizing NOI Adjustments	\$ 2,309,000 =====	\$3,082,000 =====

The planned in-service date for the units is November 1992. The annualization of new peaking generation at the Debary plant site is recommended in Issue 168. Therefore, for consistency, it is appropriate to annualize the related NOI implications.

Consequently, staff believes that the annualization adjustments are appropriate if the Commission accepts the stipulation in Issue 168.

- (a) System income tax adjustments were separately identified in the MFRs; jurisdictional amounts were not identified. Therefore, jurisdictional tax adjustments were allocated using the same ratio as the system amounts.

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PREHEARING STIPULATED

ISSUE 183: Is the company's proposal to lower the minimum amount of load subject to curtailment from 200 to 25 KW and eliminate the 500 KW requirement for interruptible general service (IS) reasonable?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Meeter)

POSITION STIPULATED BY PARTIES: See the Cost of Service and Rate Design Stipulation.

STAFF ANALYSIS: At the prehearing conference the parties agreed to stipulate that the Company's proposal to lower the minimum load subject to curtailment from 200 KW to 25 KW and to eliminate the 500 KW requirement for interruptible general service is reasonable. In addition the Cost of Service and Rate Design Stipulation limits curtailable service to those customers who agree to curtail the greater of 25 KW or 25 percent of their maximum annual billing KW. The requirement for curtailable service customers to curtail the greater of 25 KW or 25 percent of their maximum annual billing KW limitation was included in the Stipulation because the stipulation provided for the curtailable class to be treated as a separate rate class with rates designed to produce the revenue requirements of that class identified in the cost of service. The load characteristics of curtailable service customers are such that their rates will be lower than the general service demand (GSD) class's rates. Therefore, the requirement that curtailable service customers curtail 25 percent of their maximum annual billing KW if this amount is greater than 25 KW is necessary to preclude customers who are willing to have only a small proportion of their load subject to curtailment from taking service on curtailable service just to get the lower rate. In the company's filing, curtailable service and general service demand customers would have paid the same rates with curtailable service customers getting a curtailable demand credit.

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PREHEARING STIPULATED

ISSUE 184: Should the outdoor lighting (OL) and street lighting (SL) rate schedules be combined into a single rate schedule LS-1?

STAFF RECOMMENDATION: Staff recommends that the stipulation reached during the Prehearing be approved.

POSITION STIPULATED BY PARTIES: The rate schedules for Outdoor Lighting (OL) and Street Lighting (SL) should be combined.

STAFF ANALYSIS: There is no cost justification to support a different rate level for private outdoor lighting service than for street lighting service.

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PREHEARING STIPULATED

ISSUE 185: Should the Commission approve FPC's proposal to eliminate the time-of-use feature of the Interruptible rate schedule?

STAFF RECOMMENDATION: Staff recommends that the stipulation be accepted.

POSITION STIPULATED BY PARTIES: The time-of-use feature of the Interruptible rate class should not be eliminated as proposed by the Company.

STAFF ANALYSIS After consideration of FIPUG witness Pollock's testimony, the Company believes it is appropriate to continue to offer an interruptible TOU rate schedule, designed in the manner described in the Company's position under Issue 175 above.

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Stipulations between FPC and Staff

PREHEARING STIPULATED

ISSUE 186: Are Florida Power's forecasted fuel prices for 1992 and 1993 reasonable?

RECOMMENDATION: Florida Power's fuel price forecast for coal was derived from current contracts and are reasonable. (Colson)

POSITION STIPULATED BY PARTIES: Florida Power's fuel prices are reasonable.

STAFF ANALYSIS:

The fuel prices attached to Mr. William testimony, (Exhibit No.150, Part B) reflect present and historical fuel prices and are based on current contracts. The fossil fuel price forecast is based on the current price of fuel purchased under existing contracts escalated by published indices. Florida Power's fuel forecast for nuclear fuel includes a combination of actual dollar expenditures, an estimate of future purchases, the projected allowance for funds used during construction for each reload batch, and the amount of energy expected to be extracted during the cycle and appears to be reasonable.

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PREHEARING STIPULATED

ISSUE 187: Is Florida Power's requested level of heavy oil inventory in the amount of \$14,477,194 (\$16,608,000 system) for the 1992 current test year and \$15,169,323 (\$17,402,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Yes. Florida Power's system inventory target levels for heavy oil are reasonable. (Colson)

POSITION STIPULATED BY PARTIES: Florida Power's system inventory target levels for heavy oil are reasonable.

STAFF ANALYSIS: The level of heavy oil inventory requested for inclusion in working capital during the 1992 and 1993 test years is less than the level specified as "reasonable" by the generic heavy fuel oil inventory target specified by Commission Order No. 12645. In that order, the Commission determined that a 45-day level of heavy oil inventory based on projected burn is reasonable.

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PREHEARING STIPULATED

ISSUE 188: Is Florida Power's requested level of coal inventory in the amount of \$31,036,007 (\$35,604,000 system) for the 1992 current test year and \$30,870,384 (\$35,414,000 system) for the 1993 projected test year appropriate?

RECOMMENDATION: Yes. Florida Power's system inventory target levels for coal is reasonable. (Colson)

POSITION STIPULATED BY PARTIES: Florida Power's system inventory target levels for coal is reasonable.

STAFF ANALYSIS: The level of coal inventory requested for inclusion in working capital during the 1992 and 1993 test years is less than the level specified as "reasonable" by the generic coal inventory target specified by Commission Order No. 12645. In that order, the Commission determined that a 90-day level of heavy oil inventory based on projected burn is reasonable.

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PREHEARING STIPULATED

ISSUE 189: For the 1987 thru 1992 time period, has Florida Power justified \$942,311 (\$1,064,397 system) of expenses associated with the Activation of the New DeBary units in excess of the 1992 Fossil Production O&M benchmark?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Haff)

POSITION STIPULATED BY PARTIES: Yes, Florida Power has justified new scope O&M expenses for the activation of the new DeBary units, as detailed in the direct testimony of Mr. Hancock, beginning on page 13.

STAFF ANALYSIS: This issue was stipulated between FPC and Staff, pursuant to Section IX, part D, page 188 of the prehearing order. No other party took a position on this issue and, therefore, did not participate in this stipulation.

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PREHEARING STIPULATED

ISSUE 190: For the 1987 thru 1992 time period, has Florida Power justified \$2,446,966 (\$2,763,996 system) of expenses associated with the Reactivation of Existing Peaking Units in excess of the 1992 Fossil Production O&M benchmark?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Haff)

POSITION STIPULATED BY PARTIES:

Yes, Florida Power has justified O&M expenses exceeding the 1992 benchmark associated with the Reactivation of Existing Peaking Units. These new scope expenses are justified starting on page 186 of the Fossil Benchmark Justification in MFR Schedule C-57a.

STAFF ANALYSIS:

This issue was stipulated between FPC and Staff, pursuant to section IX, part D, page 188 of the prehearing order. No other party took a position on this issue and, therefore, did not participate in this stipulation.

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PREHEARING STIPULATED

ISSUE 191: For the 1987 thru 1992 time period, has Florida Power justified \$652,556 (\$737,101 system) of expense associated with Material Technology (Plant Life Extension) Programs in excess of the 1992 Fossil Production O&M benchmark?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Haff)

POSITION STIPULATED BY THE PARTIES: Yes, Florida Power has justified O&M expenses exceeding the 1992 benchmark associated with Material Technology Programs. These programs are justified starting on page 195 of the Fossil Benchmark Justification in MFR Schedule C-57a.

STAFF ANALYSIS: This issue was stipulated between FPC and Staff, pursuant to Section IX, part D, page 188 of the prehearing order. No other party took a position on this issue and, therefore, did not participate in this stipulation.

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PREHEARING STIPULATED

ISSUE 192: Should FPC be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

RECOMMENDATION: Staff recommends that the stipulation be approved.
(Merta)

POSITION STIPULATED BY PARTIES: Yes.

STAFF ANALYSIS: Various adjustments will be made to the records of Florida Power Corporation as a result of findings in this rate case. Florida Power Corporation should be required to fully describe all entries to the accounting records which are affected by changes ordered by the Commission. In some cases, these changes will be reflected in information filed with the Commission in the future. Staff must be informed of the changes the Company has made to adequately evaluate the financial integrity and records of the Company.

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Depreciation reserve stipulation

PREHEARING STIPULATED

ISSUE 193: Are Florida Power's requested adjustments to accumulated depreciation for 1992 and 1993 to reflect the reversal of reserve transfers appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Neil, Meeks, L.Romig)

POSITION STIPULATED BY PARTIES: Pursuant to the Commission's decision in Docket No. 920096-EI, the figures associated with this issue have been reversed.

STAFF ANALYSIS: The Commission's decision in Docket No. 920096-EI, Order No. PSC-92-0680-POF-EI, dated July 21, 1992, denied FPC's petition to reverse the transfer of reserves. Therefore, all figures associated with this adjustment should be reversed. The accumulated depreciation should be increased by \$6,877,000 (\$637,000 System) for 1992 and \$6,468,000 (\$19,000 System) for 1993. Construction Work In Progress should be increased by \$507,000 (\$510,000, System) for 1992 and \$492,000 (\$495,000, System) for 1993. Working Capital should be increased by \$32,000 (\$35,000, System) for 1992 and decreased by \$666,000 (\$714,000, System) for 1993.

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PREHEARING STIPULATED

ISSUE 194: Are Florida Power's requested adjustments to depreciation expense for 1992 and 1993 to reflect the reversal of reserve transfers appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Meeks, C. Romig)

POSITION STIPULATED BY PARTIES: Pursuant to the Commission's decision in Docket No. 920096-EI, all adjustments associated with this issue as filed in the MFR's have been reversed.

STAFF ANALYSIS: The Commission's decision in Docket No. 920096-EI, Order No. PSC-92-0680-FOF-EI, dated July 21, 1992, denied FPC's petition to reverse the transfer of reserves. Therefore, all figures associated with this adjustment should be reversed. The depreciation expense should be decreased by \$3,850,000 (\$3,453,000 System) for 1992 and \$2,987,000 (\$2,674,000 System) for 1993. The effect of the tax adjustments has been considered in the tax issues.

<u>1992</u>	<u>System</u>	<u>Jurisdictional</u>
Operation and Maintenance	\$1,203,000	\$1,157,000
Depreciation	(3,453,000)	(3,850,000)
Inc. Taxes-Currently Payable	956,000	1,150,000
Deferred Inc. Tax (Net)	(196,000)	(178,000)
Amort. of Inv. Tax Credit	(250,000)	(225,000)
	-----	-----
Total	(\$1,740,000)	(\$1,946,000)
<u>1993</u>	<u>System</u>	<u>Jurisdictional</u>
Operation and Maintenance	\$1,176,000	\$1,132,000
Depreciation	(2,674,000)	(2,987,000)
Inc. Taxes-Currently Payable	491,000	634,000
Deferred Inc. Tax (Net)	73,000	66,000
Amort. of Inv. Tax Credit	(250,000)	(223,000)
	-----	-----
Total	(\$1,184,000)	(\$1,378,000)

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PREHEARING STIPULATED

ISSUE 26: Are FPC's requested adjustments to accumulated depreciation for 1992 and 1993 to reflect its adjustment to nuclear decommissioning expense appropriate?

RECOMMENDATION: Staff recommends that the stipulation be approved. (Neil, Meeks, L.Romig)

POSITION STIPULATED BY PARTIES: The adjustments made to accumulated depreciation based on the Company's nuclear decommissioning study shall be reversed.

STAFF ANALYSIS: The adjustments made to accumulated depreciation are based on the Commission's decision in Docket No. 910081-EI regarding FPC's nuclear decommissioning study. Nuclear decommissioning expense remains unchanged and these recommended adjustments reflect that status. The accumulated depreciation should be reduced by \$2,221,000 (\$2,052,000, System) for 1992 and \$6,662,000 (\$6,139,000, System) for 1993. This adjustment is included in the line item adjustment removing the entire nuclear decommissioning reserve from rate base and has a zero effect.

PROPOSED FINDINGS OF FACT

1. The current regulatory connection between FPC's sales and revenues creates strong economic disincentives to FPC's provision of reliable energy services at the lowest cost.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

2. A level playing field for demand and supply-side resource options is necessary to support FPC's provision of reliable energy services at least cost. The current regulatory connection between FPC's sales and revenues operates as a disincentive to demand-side resource options and thus provides an unbalanced playing field for demand and supply-side resource options.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

3. FPC needs to be more aggressive in the area of energy reducing programs.

RECOMMENDATION: Reject. Conclusory opinion, not a fact.

4. The current regulatory connection between FPC's sales and revenues creates strong economic disincentives to FPC's implementation of energy efficiency programs that reduce energy usage.

RECOMMENDATION: Reject. Conclusory and vague.

5. Decoupling FPC's sales and revenues would improve FPC's achievements in energy reducing programs.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

6. Decoupling FPC's sales and revenues would minimize load forecast gaming.

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RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

7. Decoupling FPC's sales and revenues would help stabilize utility earnings.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

8. Decoupling FPC's sales and revenues would reduce the risk of innovative rate designs.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

9. Decoupling does not remove all significant financial and institutional barriers to that quantity of DSM that would be part of FPC's least cost plan to provide reliable electric service.

RECOMMENDATION: Reject. Conclusory, vague, and overbroad.

10. DSM incentives are required to remove the significant financial and institutional barriers that remain after decoupling FPC's revenues and sales.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

11. DSM incentives are required to make successful implementation of a least cost plan FPC's most profitable course of action.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

12. DSM Incentives would improve FPC's performance in energy efficiency programs, particularly energy reducing programs.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

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13. Economically reasonable levels of energy conservation and load management will not be implemented without utility intervention, i.e., through utility investment in DSM measures that allow provision energy services at least cost.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

14. Decoupling FPC's sales and revenues and adopting DSM Incentives for FPC would minimize environmental damage and reduce the financial costs and risks posed by supply side resource options.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

15. Decoupling and DSM incentives are required to make successful implementation of a least cost plan FPC's most profitable course of action.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

16. Decoupling and incentives together are necessary to get the very best utility performance in the area of DSM acquisition over the long run.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

17. There are a variety of tools, including rate design, that may be used to minimize any adverse financial impacts on low income consumers from demand and supply-side programs.

RECOMMENDATION: Reject. Conclusory, vague, overbroad, and not supported by the record.

18. DSM programs can help FPC's low- or fixed-income consumers to get a higher quality of life out of the dollars they can budget for energy.

RECOMMENDATION: Reject. This is an opinion, not a fact.

19. Decoupling methods should meet the following standards:
- a. remove the lost sales disincentive to conservation, and so avoid the "conflicting incentives" problem with respect to marketing both energy sales and energy conservation.
 - b. be as practical and administratively convenient as is reasonably feasible.
 - c. not have unacceptable side effects. In particular, decoupling-related shifts in risk are limited.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

20. Only the RPC and ERAM methods remove the "lost sales" disincentive to energy efficiency programs.

RECOMMENDATION: Reject. Conclusory and not supported by the record.

21. The RPC method as described in Appendix A, attached hereto and hereby incorporated herein, is very simple and creates very little, if any additional administrative burden.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

22. An RPC method in which various customer classes are not aggregated is unnecessarily complex and not likely to be worth the effort.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

23. ERAM, as implemented in California, is a very elaborate system and involves additional regulatory procedures, "little mini-yearly rate cases," where a complicated set of adjustments are made.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

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24. The linkage between revenues and customers is at least as soundly based in both theory and statistics as the current regulatory linkage between revenues and sales.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

25. RPC best avoids unacceptable side effects and limits decoupling-related shifts in risk.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

26. DSM incentives for FPC should:

a. limit FPC's economic rewards from DSM investments to no more than 15% of the net financial benefits (above established target levels) that said investments create for FPC's customers; and

b. be designed to make FPC's least-cost resource plan its most profitable plan, provide appropriate impacts on stockholder and customers, and be simple, understandable and easy to administer (as more fully described in Appendix B, attached hereto and incorporated herein by this reference.)

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

27. FPC's resource planning process rejects any DSM program that does not pass the rate impact measure ("RIM") test -- without even considering whether revenue requirements would be less if that program was included in the Company's DSM portfolio.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

28. DSM programs rejected by FPC for failure to pass the RIM test are not submitted for the Commission's consideration or approval.

RECOMMENDATION: Accept.

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29. A single demand-side management measure, even if the measure were free and even if the measure saved significant amounts of electricity, could still fail the rate impact test because a certain amount of fixed costs would be spread over a smaller number of kilowatt hours.

RECOMMENDATION: Accept.

30. Any DSM programs that pass the TRC test will be less expensive than new generating resources (even if said programs failed the RIM test).

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record. This statement is a vague prediction of future events. It is not a fact.

31. Since any DSM program that fails the RIM test is excluded from FPC's DSM portfolio, DSM programs that would save significant amounts of electricity at little or no cost would be rejected by FPC without even being submitted for consideration by the Commission.

RECOMMENDATION: Reject. Conclusory, vague, and not supported by the record.

32. Supply-side resources are selected primarily on the basis of least cost, that is, to minimize the present value of revenue requirements, and are not eliminated because they have a rate impact on nonparticipating customers.

RECOMMENDATION: Reject. Immaterial. Planning issues were removed from consideration in this case.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida Power
Corporation for authority to
increase its rates and charges.

Docket No. 910890-EI

**COST OF SERVICE
AND RATE DESIGN
STIPULATION**

Florida Power Corporation (the Company), the Florida Industrial Power Users Group (FIPUG), Occidental Chemical Corporation (Occidental), and the Ad Hoc Committee of Local Governments (collectively, the Parties), by and through their undersigned counsel, hereby stipulate and agree to resolve Issues 120 through 159 contained in the Prehearing Order No. PSC-92-0606-PHO-EI, pertaining to Cost of Service and Rate Design, as follows:

1. The Company's separation of joint system costs between the wholesale and retail jurisdiction for 1992 and 1993 contained in Exhibits 40 and 41 is accepted. (Issue 120)
2. The 12 CP and 1/13 Average Demand cost of service methodology as contained in Exhibits 40 and 41 is accepted for determining the class revenue requirements and unit costs used in designing the Company's rates. (Issue 122)
3. The interruptible and curtailable service rate classes will be assigned costs within the Company's cost of service study based on each class's respective use characteristics, without adjustment to coincident demands; the fact that such

customers accept nonfirm service will be recognized in the form of credits to the demand charges developed for these classes. The Parties have negotiated, for purposes of settlement, credits of \$6.30 and \$3.15 per coincident KW for interruptible and curtailable tariffs, respectively. The negotiated values have been tested by the Commission's conservation cost-effectiveness methodology based on the avoidance of a January 1, 1993 combustion turbine which produces a benefit-to-cost ratio of 1.2 to 1. In addition, the negotiated values are reasonable based on the embedded cost standards preferred by FIPUG and Occidental. The Parties further agree that the stipulation with respect to these credits is for settlement purposes only, shall have no precedential value, and shall be without prejudice to the right and opportunity of Parties to present and argue the rate design considerations and rate levels they deem to be appropriate for non-firm rates in future rate proceedings before this Commission. (Issues 121, 147, 148, 149, 151)

4. The Parties stipulate to the approval of interruptible and curtailable service as demand-side management (DSM) programs with authorized recovery of the credit through the Company's Energy Conservation Cost Recovery (ECCR) clause as a program cost. (Issues 146, 153)

5. The ECCR expenses associated with load management, interruptible and curtailable programs (including the interruptible and curtailable credits for the period of November 1992 through March 1993, which will be included in the ECCR true-up provision, and all other similar future dispatchable DSM programs) will be allocated to rate classes based on the methodology currently employed in

the Capacity Cost Recovery mechanism of the Fuel and Purchased Power Cost Recovery clause, beginning with the six-month period of April through September, 1993. (Issue 153)

6. The credits for interruptible and curtailable service will be distributed based on the interruptible and curtailable customers' billing KW for the standard rate and the customers' on-peak billing KW for the time-of-use rate. Expressed on a billing KW basis, the credits for interruptible and curtailable service are \$3.37 and \$2.33 per billing KW, respectively. (Issue 152)

7. The interruptible rate will be stated at secondary voltage in order to make this rate consistent with the statement of the Company's other rates. The Demand charge for the interruptible and curtailable service will include the classes unit costs for Transmission Plant and Distribution Plant developed from the cost of service study, plus the absolute amount of the credit per billing KW for interruptible and curtailable service, respectively. (Issues 135, 154)

8. The curtailable class will be treated as a separate rate class with rates designed to produce the revenue requirements of that class identified in the cost of service study. Curtailable service will be limited to those customers who agree to curtail the greater of 25 KW or 25% of their maximum annual billing KW. (Issue 136)

9. The interruptible and curtailable credits will remain fixed at the level established in paragraphs 3 and 6 above until the Company's next rate case. (Issue 150)

10. The Company's proposed "Purchase Power" special provision contained in the interruptible and curtailable rate schedules shall be modified such that the customer will pay the actual purchase power cost in lieu of the otherwise applicable energy charges (including fuel charges), plus 3 mills. In addition, the Company will attempt to develop a procedure which provides the customer with real-time estimates of the cost of such purchases. (Issues 155, 156)

11. The Company commits to designing and proposing at least two additional interruptible rates as DSM programs for Commission approval, based on the criteria that the programs are beneficial to both the general body of ratepayers and the Company. (Issue 124)

12. (a) The Company's proposed general service rate structure, which allows general service customers with annual consumption of 24,000 KWH or greater to opt for the rate schedule (GS-1 or GSD-1) most cost effective for them and which eliminates mandatory demand billing, minimum billing demands, optional transition rates, the municipal transition rate, and the general service large demand rate (GSLD-1), is accepted. In addition, the customer migration identified in Exhibits 38 and 39 and in Attachment 1 and 2 hereto is accepted for

establishing rates and revenues for the general service class. (Issues 123, 125, 126, 127, 144, 145)

(b) The general service demand and energy charges will be set such that the combination of the two charges closely tracks the general service cost curve which produces the revenue requirements established from the cost of service study. (Issue 134)

(c) The general service non-demand rates (GS-1 and GST-1) will provide only a metering voltage adjustment of 1% for distribution primary delivery and 2% for transmission delivery. (Issue 139)

13. The Standby rates (SS-1, SS-2, SS-3) will be developed from the final cost of service study consistent with the methodology contained in the Commission's standby rate Order No. 17159 in Docket No. 850673-EU. (Issues 157, 158)

14. The rate design for all Time-Of-Use (TOU) rates will set the off-peak energy rate at the average system energy component from the cost of service study (approximately 0.580 cents per KWH). The on-peak charge will then be the result of a break even calculation with the standard rate, based on the rate class's or combined rate classes' on-peak and off-peak energy consumption. (The combined classes will be the RS-1 and GS-1 classes and the GSD-1 and GSLD-1 classes; the CS-1 class and IS-1 class will be individual classes.) For Demand TOU rates, a demand charge equivalent to $\frac{1}{2}$ of the unit cost for Distribution Plant will be applicable to the customer's maximum measured demand. The on-

peak demand charge shall include the on-peak unit cost for Transmission Plant and 1/2 of the on-peak unit cost for Distribution Plant. The on-peak demand charge for interruptible and curtailable TOU rates shall also include the absolute amount of the credit per billing KW for interruptible and curtailable service, respectively. (Issue 131)

15. The Parties agree that for purposes of apportioning among rate classes matters for which an individual rate class's share is dependent upon the revenues of the rate class relative to the overall total revenues, the nonfirm rate classes' allocators will be based on the difference between the firm base revenue requirements and the nonfirm credits paid to these rate classes for DSM programs (RSL-1, GSLM-1, CS-1, IS-1). (Issue 159)

16. (a) The allocation of the rate increase among the classes will be determined by the cost of service study which incorporates all Commission decisions on issues affecting the Company's revenue requirements. (Issue 128)

(b) The Company's method for calculating the increase in unbilled revenues by rate class identified in MFR Schedule E-15 is appropriate. (Issue 129)

(c) The appropriate service charges are as follows:

<u>Service</u>	<u>1992</u>	<u>1993</u>
Initial Service	\$24.50	\$30.50
Re-establishment of service with field trip	\$14.50	\$15.00
Transfer of account	\$ 5.50	\$ 5.50
Reconnection for nonpayment	\$25.50	\$27.00
Temporary Service	\$71.00	\$74.00

(Issue 130)

(d) The customer charges will be designed to produce the customer cost component from the cost of service study. For the general service rates (GS-1 and GSD-1) the customer charges will be stated by voltage delivery. For unmetered general service accounts, the customer charge will be based on average unit cost excluding metering investment (approximately \$6.25). For all time of use rates except CST-1 and IST-1, the customer charge will reflect the average additional TOU metering costs (approximately \$7.50). For the curtailable service rates (CS-1 and CST-1), the customer charge will be the customer charges contained in the general service rates plus the additional costs for hourly metering (approximately \$65). For the interruptible service rates (IS-1 and IST-1), the customer charge will be the customer charges contained in the general service rates plus the additional costs for hourly metering and interruptible equipment (approximately \$270). For the Lighting service rate (LS-1) the unmetered customer charge shall be based on lines of billing, with an additional charge for metered accounts to reflect the average cost of metering investment (approximately \$2.25). (Issue 132)

(e) The appropriate contribution in aid of construction for time of use customers opting to make a lump sum meter payment is \$258 for single-phase service and \$393 for three-phase service. (Issue 133)

(f) The delivery voltage credits will be 30 cents per KW of billing demand for distribution primary delivery voltage and 69 cents per KW of billing demand for transmission delivery voltage. (Issue 137)

(g) The metering voltage credits will be 1 % for distribution primary delivery and 2 % for transmission delivery. (Issue 138)

17. The Company's proposed Lighting rate schedule LS-1 is accepted subject to Commission approved revenue requirements for the lighting class developed from the cost of service study, provided that proposed special provision No. 9 shall be eliminated and proposed special provision No. 7 shall be modified to eliminate the requirement of written notification. The methodology used in Attachment No. 3 of this stipulation will be used to develop final fixture and maintenance charges. The monthly fixed carrying charge for poles of a type not listed in rate schedule LS-1, and for distribution equipment that the Company may optionally provide to a customer under any rate schedule shall be 1.67 percent of the installed cost. (Issues 140, 141, 142, 143)

18. The term "cost of service study" as used herein is intended by the Parties to refer to a compliance cost of service study prepared by the Company which incorporates the Commission's decisions on all issues in this proceeding affecting the Company's revenue requirements or billing determinants. The Parties recognize, however, that due to the timing of the Commission's decisions, such final compliance cost of service study may not be available for such use. In that event, the Parties intend that the cost of service study prepared by the

Company based on Staff's recommendations regarding revenue requirements issues, as adjusted by Staff to reflect the Commission's decisions, will be used.

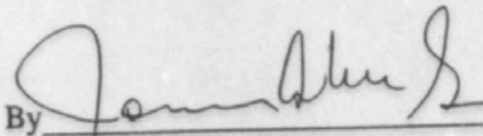
19. Nothing in this stipulation is intended to preclude the Commission from using the Company's updated sales forecast, identified as Exhibit 148. In the event the Commission determines that the updated sales forecast should be utilized, this stipulation shall be modified as necessary to incorporate the effects of the updated sales forecast on the provisions hereof.

20. Each of the provisions set forth in paragraphs 1 through 19 above have been negotiated as essential, interdependent components to a comprehensive settlement of the cost of service and rate design issues in this proceeding and, therefore, collectively constitute a single stipulation between the Parties. As such, the Parties agree that if this stipulation is not approved by the Commission in its entirety, it shall be null and void and of no binding effect on the Parties. The Parties further agree that this stipulation is for settlement purposes only, shall have no precedential value, and shall be without prejudice to the right and opportunity of the Parties to present and argue the cost of service and rate design considerations and rate levels they deem to be appropriate in future rate proceedings before this Commission.

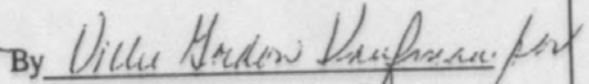
Dated: July 22, 1992.

FLORIDA POWER CORPORATION

FLORIDA INDUSTRIAL POWER
USERS GROUP

By 

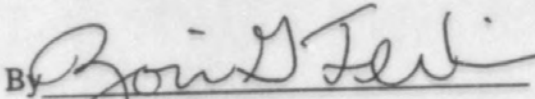
James A. McGee
Office of the General Counsel
Post Office Box 14042
St. Petersburg, FL 33733

By 

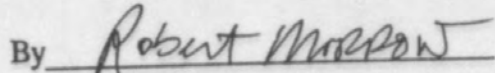
John W. McWhirter, Jr.
McWhirter, Grandoff & Reeves
201 East Kennedy, Suite 800
Post Office Box 3350
Tampa, FL 33601-3350

OCCIDENTAL CHEMICAL CORPORATION

AD HOC COMMITTEE OF LOCAL
GOVERNMENTS

By 

Zori G. Ferkin
Sutherland, Asbill & Brennan
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404

By 

Robert R. Morrow
Sutherland, Asbill & Brennan
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2404

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
Docket No. 910890-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Stipulation has been furnished to the following individuals by hand or express delivery(*), facsimile (**), or U.S. Mail this 22nd day of July, 1992:

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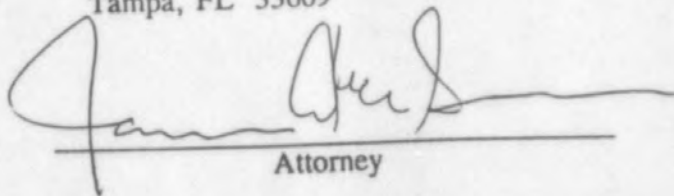
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4100 W. Kennedy Blvd., #128
Tampa, FL 33609


Attorney

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1997

COMPARATIVE RATE BASES

SCHEDULE 1
10-Sep-92
10:44 AM

LINE NO.	CO. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			PLANT IN SERVICE		4,245,287								
2	4		BUDGET VS. ACTUAL			0		0		5,156			
3	5		AIRCRAFT			0		(3,264)		(6,482)			
4	S166		SEBRING DISTRIBUTION SYS.			(18,640)		(18,640)		(15,697)			
5													
6													
7													
8													
9			Total plant in service		4,245,287	(18,640)	4,226,647	(21,904)	4,223,383	(17,023)	4,228,264	0	4,245,287
10													
11													
12			DEPRECIATION RESERVE		1,483,255								
13	5		AIRCRAFT			0		(270)		(539)			
14	14		AVON PARK UNIT 2			0		(6,602)		0			
15	25		BUDGET VS. ACTUAL			0		(5,596)		(8,103)			
16	S26		NUCLEAR DECOMMISSIONING			0		0		0			
17	27		FOSSIL FUEL DISMANTLEMENT			0		1,421		0			
18	S166		SEBRING DISTRIBUTION SYS.			(6,910)		(6,910)		(5,738)			
19	S193		REVERSAL OF RESERVE TRANSFERS			6,877		6,877		0			
20													
21			Total depreciation reserve	0	1,483,255	(33)	1,483,222	(11,080)	1,472,175	(14,380)	1,468,875	0	1,483,255
22													
23													
24			Net plant in service	0	2,762,032	(18,607)	2,743,425	(10,824)	2,751,208	(2,643)	2,759,389	0	2,762,032
25													
26													
27			CONSTRUCTION WORK IN PROGRESS		124,340								
28	12		MISCLASSIFICATION			0		(1,254)		(32,295)			
29	12		OVERPROJECTION TREND			0		(30,684)					
30	46		FAS 106			(2,287)		(454)		0			
31	47		PENSIONS			(646)		(232)		0			
32	48		UNAMORTIZED PENSION ASSET			0		(80)		0			
33	S166		SEBRING DISTRIBUTION SYS.			(91)		(91)		0			
34	S193		REVERSAL OF RESERVE TRANSFERS			507		507		0			
35													
36			Total CWIP		124,340	(2,517)	121,823	(32,288)	92,052	(32,295)	92,045	ERR	ERR
37													
38													
39													
40			PROPERTY HELD FOR FUTURE USE		9,559								
41	14		AVON PARK UNIT 2			0		(7,176)		0			
42	S166		SEBRING DISTRIBUTION SYS.			(9)		(9)		0			
43													
44			Total prop. held for future use	0	9,559	(9)	9,550	(7,185)	2,374	0	9,559	0	9,559
45													

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1992

COMPARATIVE RATE BASES

SCHEDULE 1
10-Sep-92
10:44 AM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
48													
49													
50													
51			NUCLEAR FUEL		58,351								
52													
53			S166 SEBRING DISTRIBUTION SYS.			(15)		(15)		0			
54													
55			Total nuclear fuel	0	58,351	(15)	58,336	(15)	58,336	0	58,351	0	58,336
56													
57													
58			Net utility plant	0	2,954,282	(21,148)	2,933,134	(50,312)	2,903,970	(34,938)	2,919,344	ERR	ERR
59													
60													
61			WORKING CAPITAL		52,493								
62													
63			14 AVON PARK UNIT 2			0		(473)		0			
64			19 FUEL & CONSERV. OVERRECOVERY			0		(8,434)		0			
65			21 FAS 106			2,761		3,168		(9,677)			
66			23 INTEREST ON TAX DEFICIENCY			0		0		9,894			
67			24 LIGHT OIL INVENTORY			0		0		1,122			
68			47 PENSION EXPENSE			0		(575)		0			
69			48 UNAMORTIZED PENSION ASSET			192		1,672		4,724			
70			102 ACCRUED INC. TAXES PAYABLE			0		(752)		0			
71			S166 SEBRING DISTRIBUTION SYS.			0		(1,907)		0			
72			S178 PREPAID INTEREST			(2,461)		(2,461)		(2,665)			
73			S193 REVERSAL OF RESERVE TRANSFERS			0		(229)		0			
74						(582)		(582)		0			
75													
76													
77													
78													
79													
80			Total working capital	0	52,493	(90)	52,403	(10,573)	41,920	3,398	55,891	ERR	ERR
81													
82													
83			TOTAL RATE BASE	0	3,006,775	(21,238)	2,985,537	(60,885)	2,945,890	(31,540)	2,975,235	ERR	ERR

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
13 MONTH AVERAGE CAPITAL STRUCTURE
TEST YEAR ENDING 12/31/92
STAFF RECOMMENDATION

SCHEDULE 2

DOLLARS IN THOUSANDS

CAPITAL COMPONENT	COMPANY FILING (JURIS.)	ADJUSTMENTS		ADJUSTED	RATIO	% COST RATE	% WEIGHTED COST
		SPECIFIC	PRO RATA				
COMMON EQUITY	1,136,208	0	(27,178)	1,109,030	0.3765	11.50%	0.0433
PREFERRED STOCK	188,185	0	(4,501)	183,684	0.0624	7.28%	0.0045
LONG-TERM DEBT							
FIXED RATE	944,820	0	(22,600)	922,220	0.3131	8.24%	0.0258
VARIABLE RATE	88,432	0	(2,115)	86,317	0.0293	6.11%	0.0018
SHORT-TERM DEBT	83,541	0	(1,998)	81,543	0.0277	4.00%	0.0011
CUSTOMER DEPOSITS							
ACTIVE	69,927	0	(1,673)	68,254	0.0232	8.23%	0.0019
INACTIVE	527	0	(13)	514	0.0002	0.00%	0.0000
DEFERRED TAXES	388,551	(343)	0	388,208	0.1318	0.00%	0.0000
INVESTMENT TAX CREDITS							
3%	1,096	(5)	0	1,091	0.0004	0.00%	0.0000
POST 1970 - EQUITY	59,263	(257)	0	59,006	0.0200	10.90%	0.0022
POST 1970 - DEBT	46,225	(201)	0	46,024	0.0156	8.06%	0.0013
TOTAL	3,006,775	(806)	(60,079)	2,945,890	1.0000		0.0819

THE OVERALL WEIGHTED AVERAGE COST OF CAPITAL TO BE USED FOR RATEMAKING PURPOSES
FOR THE TEST YEAR ENDING 12/31/92 IS 8.19%.

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1992

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
10-Sep-92
03:27 PM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			REVENUE FROM SALES OF ELECTRICITY		915,054	0		0		7,177			
2		35	LOAD FORECAST			(6,927)		(6,927)		0			
3			S167 SEBRING DISTRIBUTION SYS.										
4													
5			Total sales of electricity	0	915,054	(6,927)	908,127	(6,927)	908,127	7,177	922,231	0	915,054
6													
7													
8													
9			OTHER OPERATING REVENUES		43,408	(540)		(540)		0			
10			S167 SEBRING DISTRIBUTION SYS.										
11													
12			Total other operating revenues	0	43,408	(540)	42,868	(540)	42,868	0	43,408	0	43,408
13													
14													
15			Total operating revenues	0	958,462	(7,467)	950,995	(7,467)	950,995	7,177	965,639	0	958,462
16													
17													
18													
19			OPERATING EXPENSES:		409,492								
20			OPERATION & MAINTENANCE			0		0		(372)			
21		5	AIRCRAFT			(11)		(435)		(869)			
22		38	ADVERTISING EXPENSE			0		(500)		(226)			
23		40	INDUSTRY ASSOCIATION DUES			0		(931)		(5,348)			
24		43	SALARIES & WAGES			(4,381)		(5,197)		(9,533)			
25		46	FAS 106 ACCRUAL			(1,683)		(2,653)		(2,946)			
26		47	PENSION EXPENSE			0		(916)		0			
27		48	PENSION ASSET AMORTIZATION			0		0		(373)			
28		49	OUTSIDE SERVICES			0		0		(2,208)			
29		53	INTEREST ON TAX DEFICIENCY			0		(13)		(132)			
30		55	RATE CASE EXPENSE			0		0		(4,093)			
31		59	NUCLEAR O&M			0		0		0			
32		60	NUC. O&M-INCREASED PERSONNEL			0		0		0			
33		62	NUC.O&M-VALVE TESTING SYSTEM			0		0		0			
34		63	NUC.O&M-LONG TERM MAINT. PLAN			0		0		0			
35		64	NUC.O&M-OPERATOR TRAINING SIMULATOR			0		0		0			
36		72	NUC.O&M-VALVE RELIABILITY PROG.			0		(2,523)		(6,664)			
37		75	FOSSIL O&M			0		(194)		0			
38		77	FOSSIL O&M-ENVIRONMENTAL CHANGES			(1,554)		(1,555)		(1,198)			
39		87	TREE TRIMMING EXPENSE			0		0		(1,331)			
40		88	CUSTOMER ACCOUNTS			0		(487)		(283)			
41		90	SALES EXPENSE			0		0		(654)			
42		95	MANAGEMENT INCENTIVE PLAN			0		0		0			
43		S167	SEBRING DISTRIBUTION SYS.			(6,010)		(6,010)		0			
44		S181	MEMBERSHIP DUES			0		(72)		0			
45		S194	REVERSAL OF RESERVE TRANSFERS			1,157		1,157		0			
46													
47													

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1992

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
10-Sep-92
03:27 PM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING			COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS
49														
50														
51														
52														
53														
54														
55														
56														
57														
58														
59														
60														
61														
62														
63														
64														
65														
66														
67														
68														
69														
70														
71			Total operation & maintenance	0	409,492	(12,482)	397,010	(20,329)	389,163	(36,230)	373,262	0	409,492	
72														
73														
74			DEPRECIATION AND AMORTIZATION		210,428									
75		4	ACTUAL VS. BUDGETED			0		0		326				
76		5	AIRCRAFT			0		(722)		0				
77		98	FOSSIL FUEL DISMANTLEMENT			0		2,843		0				
78		S167	SEBRING DISTRIBUTION SYS.			(800)		(800)		0				
79		S194	REVERSAL OF RESERVE TRANSFERS			(3,850)		(3,850)		0				
80		R195	NUCLEAR DECOMM. ACCRUAL			(4,100)		(4,100)		(2,589)				
81														
82														
83			Total depreciation and amortization	0	210,428	(8,750)	201,678	(6,129)	204,299	(2,263)	208,165	0	210,428	
84														
85														
86			TAXES OTHER THAN INCOME		63,617									
87		43	SALARIES & WAGES			0		(57)		(363)				
88		101	REGULATORY ASSESS. FEE			0		(745)		0				
89		S167	SEBRING DISTRIBUTION SYS.			(257)		(225)		0				
90														
91			Total taxes other than income	0	63,617	(257)	63,360	(1,027)	62,590	(363)	63,254	0	63,617	
92														
93														

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1992

COMPARATIVE NET OPERATING INCOME

SCHEDULE 3
10-Sep-92
03:27 PM

LINE NO.	CD.	ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
					SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
94				INCOME TAXES CURRENTLY PAYABLE	0	89,061	154		154		227			
95				S167 SEBRING DISTRIBUTION SYS.							1,124			
96							158		4,487		0			
97				N/A Interest expense reconciliation			2,963		3,965					
98				N/A Effect of other adjustments							1,351	90,412	0	89,061
99					0	89,061	3,275	92,336	8,606	97,667				
100				Total income taxes - current										
101														
102					0	(23,230)			(122)		0			
103				DEFERRED INCOME TAXES (NET)			(122)							
104				S167 SEBRING DISTRIBUTION SYS.					3,677		0			
105							2,440							
106				N/A Effect of other adjustments							0	(23,230)	0	(23,230)
107					0	(23,230)	2,318	(20,912)	3,555	(19,675)				
108				Total deferred income taxes (net)										
109														
110						(7,234)			7		0			
111				INVESTMENT TAX CREDIT (NET)			7		(225)		0			
112				S167 SEBRING DISTRIBUTION SYS.			(225)							
113				N/A Effect of other adjustments							0	(7,234)	0	(7,234)
114					0	(7,234)	(218)	(7,452)	(218)	(7,452)				
115				Total investment tax credit (net)										
116														
117						(84)			(1)		0			
118				(GAIN)/LOSS ON SALE			(1)		(1)		0			
119				S167 SEBRING DISTRIBUTION SYS.			(1)							
120				REGULATORY PRACTICES RECONC.									0	(283)
121					0	(283)	(2)	(285)	(2)	(285)		(283)		
122				Total (gain)/loss on sale & Regulatory Practices Reconc.										
123														
124					0	741,851	(16,116)	725,735	(15,544)	726,307	(37,505)	704,346	0	741,851
125				Total operating expenses										
126														
127					0	216,611	8,649	225,260	8,077	224,688	44,682	261,293	0	216,611
128				Net operating income										
129														

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
O & M BENCHMARK VARIANCE BY FUNCTION
1992

SCHEDULE 4
Page 1 of 4
10-Sep-92

	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Other Adjustments (000)	Total (000)
1987 FPSC Allowed O&M-System	\$67,696	\$70,854	\$1,540	\$13,262	\$45,173	\$26,996	\$2,662	\$879	\$72,105	\$2,277	\$303,444
1987-1992 Compound Multiplier	1.2425	1.2425	1.4389	1.4389	1.4389	1.4389	1.4389	1.4389	1.4389	0	408,415
1992 O&M Benchmark - System	84,112	88,036	2,216	19,083	64,999	38,845	3,830	1,265	103,752	2,277	440,292
1992 Adj. O&M - System	101,071	97,819	1,692	13,981	60,917	36,269	7,909	917	110,616	9,101 *	31,877
Benchmark Variance	16,959	9,783	(524)	(5,102)	(4,082)	(2,576)	4,079	(348)	6,864	6,824	(22,203)
Staff Adjustments-System	(3,016)	0	0	0	(8,282)	0	(435)	(487)	(9,983)	0	209
Adjustments to all Functions										209	209
Adjusted Variance-System	13,943	9,783	(524)	(5,102)	(12,364)	(2,576)	3,644	(835)	(3,119)	7,033	9,883
1992 O&M Benchmark - System	84,112	88,036	2,216	19,083	64,999	38,845	3,830	1,265	103,752	2,277	408,415
Juris. Separation Factors	0.8853	0.9409	0.8145	0.7537	0.9918	0.9969	1.0000	0.9992	0.9346	0.9003	0
1992 Benchmark - Juris.	74,464	82,833	1,805	14,383	64,466	38,725	3,830	1,264	96,967	2,050	409,495
1992 Adj. O&M - Juris.	88,844	91,854	1,438	10,540	60,410	36,157	7,909	917	103,397	8,029 **	28,700
Juris. Benchmark Variance	14,379	9,018	(367)	(3,843)	(4,055)	(2,569)	4,079	(347)	6,426	5,979	(20,555)
Staff Adjustments-Juris.	(2,717)	0	0	0	(7,565)	0	(435)	(487)	(9,351)	0	226
Adj. to all Functions-Juris.										226	226
Adjusted Variance-Juris.	\$11,662	\$9,018	(\$367)	(\$3,843)	(\$11,620)	(\$2,569)	\$3,644	(\$834)	(\$2,925)	\$6,205	\$8,372
Includes: Interest on Tax Deficiency		*System \$2,378	**Jurisd. \$2,141								
Sebring Acquisition		6,723	5,888								
		\$9,101	\$8,029								

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
1992 O & M BENCHMARK VARIANCE BY FUNCTION (SYSTEM)

SCHEDULE 4
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	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
							(435)			(435)
38 ADVERTISING EXPENSE									(523)	(523)
40 INDUSTRY ASSOC. DUES										(994)*
43 SALARIES & WAGES									(5,557)	(5,557)
46 FAS 106 ACCRUAL									(2,836)	(2,836)
47 PENSION EXPENSE									(979)	(979)
48 PENSION ASSET AMORT.									(13)	(13)
55 RATE CASE EXPENSE		0								0
60 INCREASED PERSONNEL		0								0
62 VALVE TESTING SYS.		0								0
63 LONG TERM MAINT. PLAN		0								0
64 OPERATOR TRAIN. SIMULATOR		0								(2,800)
72 VALVE RELIABILITY PROG.										(216)
75 1991 DEFERRED O&M	(2,800)									(1,559)
77 ENVIRONMENTAL CHANGES	(216)				(1,559)					(487)
87 TREE TRIMMING EXP.								(487)		(6,723)
90 SALES EXPENSE					(6,723)					(75)
S167 SEBRING DISTR. SYS.									(75)	1,203 *
S181 MEMBERSHIP DUES										
S194 REVERSAL OF RES. TRANSFERS										
TOTAL SYSTEM	(3,016)	0	0	0	(8,282)	0	(435)	(487)	(9,983)	(21,994)

*THESE ADJUSTMENTS RELATE TO ALL FUNCTIONS

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
1992 O & M BENCHMARK VARIANCE BY FUNCTION (JURISDICTIONAL)

SCHEDULE 4
Page 2 of 4
10-Sep-92

	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
38 ADVERTISING EXPENSE							(435)		(500)	(435)
40 INDUSTRY ASSOC. DUES									(500)	(500)
43 SALARIES & WAGES									(931)*	(931)*
46 FAS 106 ACCRUAL									(5,197)	(5,197)
47 PENSION EXPENSE									(2,653)	(2,653)
48 PENSION ASSET AMORT.									(916)	(916)
55 RATE CASE EXPENSE									(13)	(13)
60 INCREASED PERSONNEL		0								0
62 VALVE TESTING SYS.		0								0
63 LONG TERM MAINT. PLAN		0								0
64 OPERATOR TRAIN. SIMULATOR		0								0
72 VALVE RELIABILITY PROG.		0								(2,523)
75 1991 DEFERRED O&M	(2,523)									(194)
77 ENVIRONMENTAL CHANGES	(194)				(1,555)					(1,555)
87 TREE TRIMMING EXP.								(487)		(487)
90 SALES EXPENSE					(6,010)					(6,010)
S167 SEBRING DISTR. SYS.									(72)	(72)
S181 MEMBERSHIP DUES										1,157 *
S194 REVERSAL OF RES. TRANSFERS										
TOTAL JURISDICTIONAL	(2,717)	0	0	0	(7,565)	0	(435)	(487)	(9,351)	(20,329)

*THESE ADJUSTMENTS RELATE TO ALL FUNCTIONS

FLORIDA POWER COMPANY
DOCKET NO. 910890-EI

O & M COMPOUND MULTIPLIERS

Schedule 4
Page 4 of 4
10-Sep-92

Year	Total Customers			Average CPI-U (1982-1984=100)			Inflation and Growth Compound Multiplier
	Amount	%Increase	Compound Multiplier	Amount	& Increase	Compound Multiplier	
1987	1,023,222		1.0000	113.6		1.0000	1.0000
1988	1,060,971	3.69%	1.0369	118.3	4.10%	1.0410	1.0794
1989	1,101,817	3.85%	1.0768	124.0	4.80%	1.0910	1.1748
1990	1,135,499	3.06%	1.1098	130.7	5.40%	1.1499	1.2762
1991	1,159,538	2.12%	1.1333	136.2	4.20%	1.1982	1.3579
1992	1,184,915	2.19%	1.1581	141.2	3.70%	1.2425	1.4389
1993	1,217,404	2.74%	1.1898	146.6	3.80%	1.2897	1.5345
1993 USING 1992 AS BASE YR.	1,217,404	2.74%	1.0274	146.6	3.80%	1.0380	1.0664

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-EI
TEST YEAR: DECEMBER 31, 1992

COMPARISON OF
REVENUE EXPANSION FACTORS

SCHEDULE 5
10-Sep-92
10:38 AM

LINE NO.	DESCRIPTION	COMPANY AS FILED	COMPANY AS REVISED	STAFF	PUBLIC COUNSEL
1	Revenue Requirement	100.000000	100.000000	100.000000	100.000000
2					
3	Gross Receipts Tax	0.000000	0.000000	0.000000	0.000000
4					
5	Regulatory Assessment Rate	(0.125000)	(0.083300)	(0.083300)	(0.125000)
6					
7	Uncollectible Accounts	(0.154500)	(0.154500)	(0.154500)	(0.154500)
8					
9	Net Before Income Taxes	99.720500	99.762200	99.762200	99.720500
10					
11	State Income Tax Rate	5.5000%	5.5000%	5.5000%	5.5000%
12					
13	State Income Tax	5.484628	5.486921	5.486921	5.484628
14					
15	Net Before Federal Income Taxes	94.235873	94.275279	94.275279	94.235873
16					
17	Federal Tax Rate	34.0000%	34.0000%	34.0000%	34.0000%
18					
19	Federal Income Tax	32.040197	32.053595	32.053595	32.040197
20					
21	Revenue Expansion Factor	62.195676	62.221684	62.221684	62.195676
22					
23	Net Operating Income Multiplier	1.607828	1.607157	1.607157	1.607828
24					
25					

COMPANY: FLORIDA POWER CORPORATION
 DOCKET NO.: 910890-EI
 TEST YEAR: DECEMBER 31, 1992

COMPARATIVE REVENUE REQUIREMENTS

SCHEDULE 6
 10-Sep-92
 03:27 PM

LINE NO.	DESCRIPTION [1]	COMPANY AS REVISED [2]	STAFF RECOMMENDATION [3]	PUBLIC COUNSEL [4]	NOT USED [5]
1	Adjusted Jurisdictional Rate Base	\$2,985,537	\$2,945,890	\$2,975,235	
2					
3	Required Rate of Return	9.24%	8.19%	8.02%	ERR
4					
5					ERR
6	Required Net Operating Income	275,864	241,268	238,614	
7					ERR
8	Adjusted Achieved Test Year				
9	Jurisdictional Net Operating Income	225,260	224,688	261,293	216,611
10					
11	Jurisdictional NOI Deficiency	50,604	16,580	(22,679)	ERR
12					
13	Revenue Expansion Factor	1.607157	1.607157	1.607828	
14					
15	Revenue Increase - Test Year	81,329	26,647	(36,464)	ERR
16					
17	PERFORMANCE REWARD	9,669	2,841	0	
18					
19	Total Revenue Increase	90,998	29,488	(36,464)	ERR
20					

APRIL 1992 REVENUE REQUIREMENT
Jurisdictional Revenue Requirements of Crystal River Cooling Towers

	Company	Jurisdictional (000)	Staff
Annualized Rate Base			
Electric Plant in Service	\$76,528		\$76,528
Accumulated Depreciation	(1,987)		(1,987)
Fuel Inventory	0		0
Working Capital-Income Taxes Payable	(2,335)		(2,335)
TOTAL Annualized Rate Base	<u>\$72,206</u>		<u>\$72,206</u>
Annualized NOI			
O&M	\$2,519		\$2,519
Property Taxes	166		166
Depreciation	3,406		3,406
Income Taxes -			
Direct Current	(3,708)		(3,708)
Direct Deferred	1,512		1,512
Imputed Interest	(962)		(883)
Total Annualized NOI	<u>(\$2,933)</u>		<u>(\$3,012)</u>
Calculation of Revenue Requirement			
Fully adjusted Cost of Capital	9.30%		8.24%
NOI Requirement	\$6,715		\$5,950
NOI Deficiency	\$9,648		\$8,962
NOI Multiplier	1.607157		1.607157
Revenue Requirement	<u>\$15,506</u>		<u>\$14,403</u>
Calculation of Taxes on Imputed Interest			
Weighted Cost of Debt Capital			
Long Term Debt Fixed Rate	2.72%		2.60%
Long Term Debt Variable Rate	0.17%		0.17%
Short Term Debt	0.34%		0.18%
Customer Deposits	0.19%		0.19%
JDIC	0.12%		0.11%
	<u>3.54%</u>		<u>3.25%</u>
Imputed Interest	\$2,556		\$2,347
Income Taxes on Imputed Interest at 37.63%	(\$962)		(\$883)

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE RATE BASES

**Public Counsel did not express an opinion concerning the 1993 test year since their recommendation was to disallow it.

SCHEDULE 8
09-Sep-92
12:14 PM

LINE NO.	CO. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			PLANT IN SERVICE		4,617,090								
2	5		AIRCRAFT			0		(3,267)		0			
3			S166 SEBRING DISTRIBUTION SYS.			(20,317)		(20,317)		0			
4													
5													
6													
7													
8													
9													
10													
11													
12			Total plant in service		4,617,090	(20,317)	4,596,773	(23,584)	4,593,506	0	4,617,090	0	4,617,090
13													
14													
15			DEPRECIATION RESERVE		1,628,030								
16	5		AIRCRAFT			0		(493)		0			
17	14		AVON PARK UNIT 2			0		(6,800)		0			
18	25		BUDGET VS. ACTUAL			0		(10,581)		0			
19	S26		NUCLEAR DECOMMISSIONING			0		0		0			
20	27		FOSSIL FUEL DISMANTLEMENT			0		1,375		0			
21	S166		SEBRING DISTRIBUTION SYS.			(8,011)		(8,011)		0			
22	S193		REVERSAL OF RESERVE TRANSFERS			6,203		6,468		0			
23													
24			Total depreciation reserve	0	1,628,030	(1,808)	1,626,222	(18,042)	1,609,988	0	1,628,030	0	1,628,030
25													
26													
27			Net plant in service	0	2,989,060	(18,509)	2,970,551	(5,542)	2,983,518	0	2,989,060	0	2,989,060
28													
29													
30			CONSTRUCTION WORK IN PROGRESS		110,667								
31	12		OVERPROJECTION TREND			0		(27,640)					
32	46		FAS 106			1,025		(479)		0			
33	47		PENSION EXPENSE			(68)		(31)		0			
34	48		UNAMORTIZED PENSION ASSET			0		(12)		0			
35	S166		SEBRING DISTRIBUTION SYS.			(76)		(76)		0			
36	S193		REVERSAL OF RESERVE TRANSFERS			492		492		0			
37													
38			Total CWIP	0	110,667	1,373	112,040	(27,746)	82,921	0	110,667	0	110,667
39													
40													
41			PROPERTY HELD FOR FUTURE USE		9,436								
42	14		AVON PARK UNIT 2			0		(7,062)		0			
43	S166		SEBRING DISTRIBUTION SYS.			(11)		(11)		0			
44													
45			Total prop. held for future use	0	9,436	(11)	9,425	(7,073)	2,363	0	9,436	0	9,436
46													
47													

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE RATE BASES

**Public Counsel did not express an opinion concerning the 1993 test year since their recommendation was to disallow it.

SCHEDULE 8
09-Sep-92
12:14 PM

LINE NO.	CO. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
48													
49													
50													
51			NUCLEAR FUEL		50,487								
52			5166 SEBRING DISTRIBUTION SYS.			(17)		(17)		0			
53													
54													
55			Total nuclear fuel	0	50,487	(17)	50,470	(17)	50,470	0	50,470	0	50,470
56													
57													
58			Net utility plant	0	3,159,650	(17,164)	3,142,486	(40,378)	3,119,272	0	3,159,633	0	3,159,633
59													
60													
61			WORKING CAPITAL		51,589								
62			14 AVON PARK UNIT 2			0		(472)		0			
63			17 PROPERTY INSURANCE RESERVE			0		(46)					
64			21 FAS 106			9,308		10,565		0			
65			47 PENSION EXPENSE			661		4,876		0			
66			48 UNAMORTIZED PENSION ASSET			0		(2,696)		0			
67			102 ACCRUED INC. TAXES PAYABLE			0		(1,382)		0			
68			5166 SEBRING DISTRIBUTION SYS.			(2,743)		(2,743)		0			
69			5178 PREPAID INTEREST			0		(330)		0			
70			5193 REVERSAL OF RESERVE TRANSFERS			(2,503)		(2,503)		0			
71													
72													
73													
74													
75													
76													
77													
78													
79													
80			Total working capital	0	51,589	4,723	56,312	5,269	56,858	0	51,589	0	51,589
81													
82													
83			TOTAL RATE BASE	0	3,211,239	(12,441)	3,198,798	(35,109)	3,176,130	0	0 **		3,211,222

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FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
13 MONTH AVERAGE CAPITAL STRUCTURE
TEST YEAR ENDING 12/31/93
STAFF RECOMMENDATION

SCHEDULE 9

DOLLARS IN THOUSANDS

CAPITAL COMPONENT	COMPANY FILING (JURIS.)	ADJUSTMENTS				% COST RATE	% WEIGHTED COST
		SPECIFIC	PRO RATA	ADJUSTED	RATIO		
COMMON EQUITY	1,211,778	0	(17,072)	1,194,706	0.3762	11.50%	0.0433
PREFERRED STOCK	182,022	0	(2,564)	179,458	0.0565	7.18%	0.0041
LONG-TERM DEBT							
FIXED RATE	1,011,783	0	(14,255)	997,528	0.3141	8.26%	0.0259
VARIABLE RATE	90,429	0	(1,274)	89,155	0.0281	6.11%	0.0017
SHORT-TERM DEBT	147,347	0	(2,076)	145,271	0.0457	4.00%	0.0018
CUSTOMER DEPOSITS							
ACTIVE	74,036	0	(1,043)	72,993	0.0230	8.23%	0.0019
INACTIVE	525	0	(7)	518	0.0002	0.00%	0.0000
DEFERRED TAXES	391,231	3,605	0	394,836	0.1243	0.00%	0.0000
INVESTMENT TAX CREDITS			0				
3%	815	(3)	0	812	0.0003	0.00%	0.0000
POST 1970 - EQUITY	56,551	(234)	0	56,317	0.0177	10.94%	0.0019
POST 1970 - DEBT	44,722	(185)	0	44,537	0.0140	8.08%	0.0011
TOTAL	3,211,239	3,183	(38,292)	3,176,130	1.0000		0.0818

THE OVERALL WEIGHTED AVERAGE COST OF CAPITAL TO BE USED FOR RATEMAKING PURPOSES
FOR THE TEST YEAR ENDING 12/31/93 IS 8.18%.

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE NET OPERATING INCOME **Public Counsel did not express an opinion concerning the 1993 test year since their recommendation was to disallow it.

SCHEDULE 10
10-Sep-92
03:36 PM

LINE NO.	CO. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
1			REVENUE FROM SALES OF ELECTRICITY		951,042								
2			5167 SEBRING DISTRIBUTION SYS.			(7,158)		(7,158)		0			
3													
4													
5													
6			Total sales of electricity	0	951,042	(7,158)	943,884	(7,158)	943,884	0	951,042	0	951,042
7													
8													
9			OTHER OPERATING REVENUES		46,252								
10			5167 SEBRING DISTRIBUTION SYS.			(613)		(613)		0			
11													
12													
13			Total other operating revenues	0	46,252	(613)	45,639	(613)	45,639	0	46,252	0	46,252
14													
15													
16			Total operating revenues	0	997,294	(7,771)	989,523	(7,771)	989,523	0	997,294	0	997,294
17													
18													
19			OPERATING EXPENSES:										
20			OPERATION & MAINTENANCE		435,083								
21	38		ADVERTISING EXPENSE			(11)		(465)		0			
22	40		INDUSTRY ASSOCIATION DUES			0		(526)		0			
23	43		SALARIES & WAGES			0		(1,072)		0			
24	45		FAS 106 ACCRUAL			(4,945)		(5,875)		0			
25	47		PENSION EXPENSE			(1,498)		(2,464)		0			
26	48		PENSION ASSET AMORTIZATION			0		(927)		0			
27	51		STORM DAMAGE			0		(266)		0			
28	55		RATE CASE EXPENSE			0		(13)		0			
29	59		NUCLEAR O&M			0		0		0			
30	60		NUC.O&M-INCREASED PERSONNEL			0		0		0			
31	62		NUC.O&M-VALVE TESTING SYSTEM			0		0		0			
32	63		NUC.O&M-LONG TERM MAINT. PLAN			0		0		0			
33	64		NUC.O&M-OPERATOR TRAINING SIMULATOR			0		0		0			
34	72		NUC.O&M-VALVE RELIABILITY PROG.			0		0		0			
35	75		FOSSIL O&M-SCHEDULED OUTAGES			0		0		0			
36	90		SALES EXPENSES					(2,560)		0			
37			5167 SEBRING DISTRIBUTION SYS.			(6,203)		(512)		0			
38			5181 MEMBERSHIP DUES			0		(6,203)		0			
39			5194 REVERSAL OF RESERVE TRANSFERS			1,132		(75)		0			
40								1,132		0			
41													
42													
43													
44													
45													
46													
47													
48													

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE NET OPERATING INCOME **Public Counsel did not express an opinion concerning the 1993 test year since their recommendation was to disallow it.

SCHEDULE 10
10-Sep-92
03:36 PM

LINE NO.	CO. NO.	ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
					SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
49														
50														
51														
52														
53														
54														
55														
56														
57														
58														
59														
60														
61														
62														
63														
64														
65														
66														
67														
68														
69														
70														
71														
72				Total operation & maintenance	0	435,083	(11,575)	423,508	(19,826)	415,257	0	435,083	0	435,083
73														
74														
75				DEPRECIATION AND AMORTIZATION		226,109								
76				5 AIRCRAFT			0		(223)		0			
77				98 FOSSIL FUEL DISMANTLEMENT			0		2,750		0			
78				S167 SEBRING DISTRIBUTION SYS.			(848)		(848)		0			
79				S194 REVERSAL OF RESERVE TRANSFERS			(2,987)		(2,987)		0			
80				R195 NUCLEAR DECOMM. ACCRUAL			(4,090)		(4,090)		0			
81														
82														
83				Total depreciation and amortization	0	226,109	(7,925)	218,184	(5,398)	220,711	0	226,109	0	226,109
84														
85														
86				TAXES OTHER THAN INCOME		72,911								
87				43 SALARIES & WAGES			0		(60)		0			
88				101 REGULATORY ASSESS. FEE			0		(845)		0			
89				S167 SEBRING DISTRIBUTION SYS.			(279)		(233)		0			
90														
91				Total taxes other than income	0	72,911	(279)	72,632	(1,138)	71,773	0	72,911	0	72,911
92														
93														

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-EI
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE NET OPERATING INCOME **Public Counsel did not express an opinion concerning the 1993 test year since their recommendation was to disallow it.

SCHEDULE 10
10-Sep-92
03:36 PM

LINE NO.	CO. ADJ. NO.	ISSUE NO.	DESCRIPTION	COMPANY FILING		COMPANY AS REVISED		STAFF RECOMMENDATION		PUBLIC COUNSEL		NOT USED	
				SYSTEM PER BOOKS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED	ADJUSTMENTS	JURISDICTIONAL ADJUSTED
94			INCOME TAXES CURRENTLY PAYABLE	0	84,644			140		0			
95			S167 SEBRING DISTRIBUTION SYS.			140							
96						46		5,396		0			
97			N/A Interest expense reconciliation			4,160		2,923		0			
98			N/A Effect of other adjustments										
99				0	84,644	4,346	88,990	8,459	93,103	0	84,644	0	84,644
100			Total income taxes - current										
101													
102				0	(28,160)			(104)		0			
103			DEFERRED INCOME TAXES (NET)			(104)							
104			S167 SEBRING DISTRIBUTION SYS.			522		4,241		0			
105													
106			N/A Effect of other adjustments			418	(27,742)	4,137	(24,023)	0	(28,160)	0	(28,160)
107			Total deferred income taxes (net)	0	(28,160)								
108													
109					(7,168)			8		0			
110			INVESTMENT TAX CREDIT (NET)			8		(223)		0			
111			S167 SEBRING DISTRIBUTION SYS.			(223)							
112			N/A Effect of other adjustments				(7,383)	(215)	(7,383)	0	(7,168)	0	(7,168)
113			Total investment tax credit (net)	0	(7,168)	(215)							
114													
115					(65)			(1)		0			
116			REGULATORY PRACTICES RECONC.		(204)	(1)							
117													
118			(GAIN)/LOSS ON SALE			(1)	(270)	(1)	(270)	0	(269)	0	(269)
119			REGULATORY PRACTICES RECONC.										
120				0	(269)								
121			Total (gain)/loss on sale & Regulatory Practices Reconc.										
122													
123				0	783,150	(15,231)	767,919	(13,982)	769,168	0	783,150	0	783,150
124			Total operating expenses										
125													
126				0	214,144	7,460	221,604	6,211	220,355	0	0 **		214,144
127			Net operating income										
128													
129													

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
O & M BENCHMARK VARIANCE BY FUNCTION
1993

SCHEDULE 11
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10-Sep-92

	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Other Adjustments (000)	Total (000)
1992 FPSC Allowed O&M-System	\$98,055	\$97,819	\$1,692	\$13,981	\$52,635	\$36,269	\$7,474	\$430	\$100,633	\$9,310	\$418,298
1992-1993 Compound Multiplier	1.0380	1.0380	1.0664	1.0664	1.0664	1.0664	1.0664	1.0664	1.0664	0	
1993 O&M Benchmark - System	101,781	101,536	1,804	14,909	56,130	38,677	7,970	459	107,315	9,310	439,892
1993 Adj. O&M - System	114,336	101,779	1,934	14,862	64,560	38,528	8,462	981	114,881	8,272 *	468,595
Benchmark Variance	12,555	243	130	(47)	8,430	(149)	492	522	7,566	(1,038)	28,703
Staff Adjustments-System	(2,823)	0	0	0	(6,964)	0	(465)	(512)	(10,834)	0	(21,598)
Adjustments to all Functions										31	31
Adjusted Variance-System	9,732	243	130	(47)	1,466	(149)	27	10	(3,268)	(1,007)	7,136
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
1993 O&M Benchmark - System	100,163	99,160	1,804	14,909	57,792	38,677	7,915	978	107,315	9,310	438,024
Juris. Separation Factors	0.8824	0.9370	0.8387	0.7493	0.9918	0.9971	1.0000	1.0000	0.9349	0.8696	
1993 Benchmark - Juris.	88,384	92,913	1,513	11,171	57,318	38,565	7,915	978	100,329	8,096	407,182
1993 Adj. O&M - Juris.	100,496	95,326	1,622	11,136	64,028	38,414	8,462	981	107,447	7,170 **	435,082
Juris. Benchmark Variance	12,112	2,413	109	(35)	6,710	(151)	547	3	7,118	(926)	27,900
Staff Adjustments-Juris.	(2,560)	0	0	0	(6,203)	0	(465)	(512)	(10,146)	0	(19,886)
Adjustments to all Functions										60	60
Adjusted Variance-Juris.	\$9,552	\$2,413	\$109	(\$35)	\$507	(\$151)	\$82	(\$509)	(\$3,028)	(\$866)	\$8,074
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
Includes: Interest on Tax Deficiency		*System \$1,308	**Jurisd. \$1,167								
Sebring Acquisition		6,964	6,003								
		\$8,272	\$7,170								
		=====	=====								

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
1993 O & M BENCHMARK VARIANCE BY FUNCTION (JURISDICTIONAL)

SCHEDULE 11
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	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
38 ADVERTISING EXPENSE							(465)		(526)	(465) (526)
40 INDUSTRY ASSOC. DUES										(1,072)*
43 SALARIES & WAGES									(5,875)	(5,875)
46 FAS 106 ACCRUAL									(2,464)	(2,464)
47 PENSION EXPENSE									(927)	(927)
48 PENSION ASSET AMORT.									(266)	(266)
51 STORM DAMAGE									(13)	(13)
55 RATE CASE EXPENSE		0								0
60 INCREASED PERSONNEL		0								0
62 VALVE TESTING PROG.		0								0
63 LONG TERM MAINT. PLAN		0								0
64 OPERATOR TRAIN. SIMULATOR		0								0
72 VALVE RELIABILITY PROG.		0								(2,560)
75 SCHEDULED OUTAGES	(2,560)							(512)		(512)
90 SALES EXPENSE					(6,203)					(6,203)
S167 SEBRING DISTR. SYS.									(75)	(75)
S181 MEMBERSHIP DUES										1,132 *
S194 REVERSAL OF RES. TRANSFERS										
TOTAL SYSTEM	(2,560)	0	0	0	(6,203)	0	(465)	(512)	(10,146)	(19,826)

*THESE ADJUSTMENTS RELATE TO ALL FUNCTIONS

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
1993 O & M BENCHMARK VARIANCE BY FUNCTION (SYSTEM)

SCHEDULE 11
Page 3 of 4
10-Sep-92

	Fossil Production (000)	Nuclear Production (000)	Other Power Supply (000)	Trans- mission (000)	Distribution (000)	Customer Accounts (000)	Customer Service (000)	Sales (000)	Admin. & General (000)	Total (000)
							(465)		(551)	(465) (551)
39 ADVERTISING EXPENSE										(1,145)*
40 INDUSTRY ASSOC. DUES									(6,277)	(6,277)
43 SALARIES & WAGES									(2,632)	(2,632)
46 FAS 106 ACCRUAL									(992)	(992)
47 PENSION EXPENSE									(289)	(289)
48 PENSION ASSET AMORT.									(13)	(13)
51 STORM DAMAGE										0
55 RATE CASE EXPENSE		0								0
60 INCREASED PERSONNEL		0								0
62 VALVE TESTING PROG.		0								0
63 LONG TERM MAINT. PLAN		0								0
64 OPERATOR TRAIN. SIMULATOR		0								(2,823)
72 VALVE RELIABILITY PROG.		0						(512)		(512)
75 SCHEDULED OUTAGES	(2,823)									(6,964)
90 SALES EXPENSE					(6,964)				(80)	(80)
S167 SEBRING DISTR. SYS.										1,176 *
S181 MEMBERSHIP DUES										
S194 REVERSAL OF RES. TRANSFERS										
TOTAL SYSTEM	(2,823)	0	0	0	(6,964)	0	(465)	(512)	(10,834)	(21,567)

*THESE ADJUSTMENTS RELATE TO ALL FUNCTIONS

FLORIDA POWER COMPANY
DOCKET NO. 910890-EI

Schedule 11
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O & M COMPOUND MULTIPLIERS

Year	Total Customers			Average CPI-U (1982-1984=100)			Inflation and Growth Compound Multiplier
	Amount	%Increase	Compound Multiplier	Amount	& Increase	Compound Multiplier	
1987	1,023,222		1.0000	113.6		1.0000	1.0000
1988	1,060,971	3.69%	1.0369	118.3	4.10%	1.0410	1.0794
1989	1,101,817	3.85%	1.0768	124.0	4.80%	1.0910	1.1748
1990	1,135,499	3.06%	1.1098	130.7	5.40%	1.1499	1.2762
1991	1,159,538	2.12%	1.1333	136.2	4.20%	1.1982	1.3579
1992	1,184,915	2.19%	1.1581	141.2	3.70%	1.2425	1.4389
1993	1,217,404	2.74%	1.1898	146.6	3.80%	1.2897	1.5345
1993 USING 1992 AS BASE YR.	1,217,404	2.74%	1.0274	146.6	3.80%	1.0380	1.0664

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-E1
TEST YEAR: DECEMBER 31, 1993

COMPARISON OF
REVENUE EXPANSION FACTORS

SCHEDULE 12
09-Sep-92
12:14 PM

LINE NO.	DESCRIPTION	COMPANY	STAFF	PUBLIC COUNSEL
1	Revenue Requirement	100.000000	100.000000	0.000000
2		0.000000	0.000000	0.000000
3	Gross Receipts Tax	(0.083300)	(0.083300)	0.000000
4	Regulatory Assessment Rate	(0.154500)	(0.154500)	0.000000
5	Uncollectible Accounts	99.762200	99.762200	0.000000
6	Net Before Income Taxes	5.5000%	5.5000%	5.5000%
7	State Income Tax Rate	5.486921	5.486921	0.000000
8	State Income Tax	94.275279	94.275279	0.000000
9	Net Before Federal Income Taxes	34.0000%	34.0000%	34.0000%
10	Federal Tax Rate	32.053595	32.053595	0.000000
11	Federal Income Tax	62.221684	62.221684	0.000000
12	Revenue Expansion Factor	=====	=====	=====
13	Net Operating Income Multiplier	1.607157	1.607157	ERR
14		=====	=====	=====

COMPANY: FLORIDA POWER CORPORATION
DOCKET NO.: 910890-EI
TEST YEAR: DECEMBER 31, 1993

COMPARATIVE REVENUE REQUIREMENTS

SCHEDULE 13
10-Sep-92
03:36 PM

LINE NO.	DESCRIPTION [1]	COMPANY AS REVISED [2]	STAFF RECOMMENDATION [3]	PUBLIC COUNSEL [4]	NOT USED [5]
		\$3,198,798	\$3,176,130	\$0	\$0
1	Adjusted Jurisdictional Rate Base	9.30%	8.18%	0.00%	ERR
2					
3	Required Rate of Return				
4		297,488	259,807	0	ERR
5	Required Net Operating Income				
6		221,604	220,355	0	214,144
7	Adjusted Achieved Test Year				
8	Jurisdictional Net Operating Income	75,884	39,452	0	ERR
9					
10	Jurisdictional NOI Deficiency	1.607157	1.607157	0.000000	
11					
12	Revenue Expansion Factor	121,958	63,406	0	ERR
13		9,990	3,062	0	
14	Revenue Increase				
15	PERFORMANCE REWARD-1993	131,948	66,468	0	
16		(81,329)	(26,647)	0	
17	TOTAL REVENUE INCREASE	(9,669)	(2,841)		
18	Less 1992 Revenue Increase				
19	Less Performance Reward-1992	40,950	36,980		
20		(15,513)	(14,403)		
21					
22	Less April 1993 Increase	25,437	22,577	0	ERR
23					
24	NOVEMBER 1993 STEP INCREASE				
25					
26					

Schedule 14

Revenue Allocation to Rate Classes
(To be filed Monday, September 14, 1992)

Schedule 15

Proposed Rates
(To be filed Monday, September 14, 1992)

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
RECOMMENDED REVENUE INCREASE BY CLASS
BASED ON COMPANY'S 12 CP AND 1/13TH COST OF SERVICE STUDY
SUMMARY OF CLASS ROR'S AND % INCREASE (000 DOLLARS)

1992

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
RATE CODE	PROPOSED RATE BASE	1992 NOI PRESENT RATES	PRESENT ROR/ INDEX	PROPOSED INCREASE SERVICE CHARGES	PROPOSED INCREASE SALES OF ELECTRICITY	TOTAL PROPOSED INCREASED REVENUE	REQUIRED NOI	PROPOSED ROR/ INDEX	% INCREASE IN REV FROM SALES OF ELEC =====	
									W/ADJ	BASE
RS	\$1,898,839	\$138,102	7.27% / 0.95							
GS	\$197,824	\$23,422	11.84% / 1.55							
RS-GS	\$2,096,663	\$161,524	7.70% / 1.01	\$1,443	\$12,435	\$13,878	\$170,159	8.12% / 0.99	1.09%	1.71%
GSD	\$419,982	\$38,376	9.14% / 1.20							
GSLD	\$245,338	\$16,389	6.68% / 0.88							
GSD-GSLD	\$665,320	\$54,765	8.23% / 1.08	\$382	\$0	\$382	\$55,003	8.27% / 1.01	0.00%	0.00%
GS-2	\$2,862	\$341	11.90% / 1.56	\$0	(\$160)	(\$160)	\$241	8.42% / 1.03	-6.85%	-11.49%
IS	\$89,119	(\$1,624)	-1.82% / -0.24	\$27	\$14,218	\$14,245	\$7,239	8.12% / 0.99	4.42%	8.17%
OL-SL	\$69,083	\$8,140	11.78% / 1.55	\$0	(\$2,200)	(\$2,200)	\$6,771	9.80% / 1.20	-29.51%	-69.42%
CS	\$22,844	\$1,344	5.88% / 0.77	\$0	\$822	\$822	\$1,855	8.12% / 0.99	1.87%	4.04%
								8.19% / 1.00	1.46%	2.47%
TOT.RET	\$2,945,891	\$224,489	7.62% / 1.00	\$1,852	\$25,115	\$26,967	\$241,268			

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
RECOMMENDED REVENUE INCREASE BY CLASS
BASED ON COMPANY'S 12 CP AND 1/13TH COST OF SERVICE STUDY
SUMMARY OF CLASS ROR'S AND % INCREASE (000 DOLLARS)
April 1993

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
RATE CODE	PROPOSED RATE BASE	1993 NOI PRESENT RATES	PRESENT ROR/ INDEX	PROPOSED INCREASE SERVICE CHARGES	PROPOSED INCREASE SALES OF ELECTRICITY	TOTAL PROPOSED INCREASED REVENUE	REQUIRED NOI	PROPOSED ROR / INDEX	% INCREASE IN REV FROM SALES OF ELEC =====	
									W/ADJ	BASE
RS	\$1,945,380	\$136,249	7.00% / 0.95							
GS	\$202,673	\$23,108	11.40% / 1.55							
RS-GS	\$2,148,053	\$159,357	7.42% / 1.01	\$1,443	\$24,125	\$25,568	\$175,266	8.16% / 1.00	2.05%	3.23%
GSD	\$430,276	\$37,861	8.80% / 1.20							
GSLD	\$251,352	\$16,169	6.43% / 0.88							
GSD-GSLD	\$681,628	\$54,030	7.93% / 1.08	\$382	\$2,300	\$2,682	\$55,699	8.17% / 1.00	0.44%	0.86%
GS-2	\$2,932	\$336	11.46% / 1.56	\$0	(\$156)	(\$156)	\$239	8.15% / 1.00	-6.39%	-10.71%
IS	\$91,303	(\$1,602)	-1.76% / -0.24	\$27	\$15,439	\$15,466	\$8,021	8.79% / 1.07	23.88%	44.07%
OL-SL	\$70,776	\$8,030	11.35% / 1.55	\$0	(\$3,200)	(\$3,200)	\$6,039	8.53% / 1.04	-40.94%	-95.69%
CS	\$23,404	\$1,326	5.66% / 0.77	0	\$1,010	\$1,010	\$1,954	8.35% / 1.02	5.28%	11.41%
TOT.RET	3018096	221477	7.34% / 1.00	1852	\$39,518 39518	\$41,370	\$247,218	8.19% / 1.00	2.20%	3.72%

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
RECOMMENDED REVENUE INCREASE BY CLASS
BASED ON COMPANY'S 12 CP AND 1/13TH COST OF SERVICE STUDY
SUMMARY OF CLASS ROR'S AND % INCREASE (000 DOLLARS)
November 1993

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
RATE CODE	PROPOSED RATE BASE	1993 NOI PRESENT RATES	PRESENT ROR/ INDEX	PROPOSED INCREASE SERVICE CHARGES	PROPOSED INCREASE SALES OF ELECTRICITY	TOTAL PROPOSED INCREASED REVENUE	REQUIRED NOI	PROPOSED ROR/ INDEX	% INCREASE IN REV FROM SALES OF ELEC =====	
									W/ADJ	BASE
RS	\$2,042,601	\$134,646	6.59% / 0.95							
GS	\$213,462	\$23,675	11.09% / 1.60							
RS-GS	\$2,256,063	\$158,321	7.02% / 1.01	\$1,443	\$40,607	\$42,050	\$184,485	8.18% / 1.00	3.55%	5.36%
GSD	\$456,256	\$38,179	8.37% / 1.21							
GSLO	\$265,890	\$15,880	5.97% / 0.86							
GSD-GSLO	\$722,146	\$54,059	7.49% / 1.08	\$382	\$7,651	\$8,033	\$59,057	8.18% / 1.00	1.51%	2.74%
GS-2	\$3,075	\$338	10.99% / 1.59	\$0	(\$139)	(\$139)	\$252	8.20% / 1.00	-5.90%	-9.41%
IS	\$96,571	(\$2,117)	-2.19% / -0.32	\$27	\$16,065	\$16,092	\$7,896	8.18% / 1.00	26.33%	44.68%
OL-SL	\$73,540	\$8,210	11.16% / 1.61	\$0	(\$3,401)	(\$3,401)	\$6,094	8.29% / 1.01	-46.12%	-100.62%
CS	\$24,736	\$1,283	5.19% / 0.75	0	\$1,191	\$1,191	\$2,024	8.18% / 1.00	6.56%	13.15%
TOT.RET	\$3,176,131	\$220,094	6.93% / 1.00	\$1,852	\$61,974	\$63,826	\$259,808	8.18% / 1.00	3.57%	5.71%

RATE COMPARISON
1992

Schedule 15
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	<u>Current Rates</u>	<u>FPC Proposed</u>	<u>Staff Proposed</u>
Residential			
Customer charge			
Standard	\$5.32	\$8.50	\$8.50
TOU			
Company owned	\$8.36	\$16.00	\$16.00
Customer owned	\$5.32	\$8.50	\$8.50
KWH Charge (Cents/KWH)			
Standard	3.964	4.138	3.758
TOU			
On-peak	11.118	11.875	10.624
Off-peak	0.597	0.580	0.580
General Service			
Customer Charge			
Standard			
Secondary	\$5.32	\$11.50	\$11.50
Primary		\$145.00	\$145.00
Transmission		\$720.00	\$720.00
Unmetered	\$2.61	\$6.25	\$6.25
TOU			
Secondary single phase			
Company owned	\$8.36	\$19.00	\$19.00
Customer owned	\$5.32	\$11.50	\$11.50
Secondary Three phase	\$9.83	\$25.00	\$25.00
Primary (cust. own)	\$15.46	\$145.00	\$145.00
Primary (co. own)	\$19.98	\$152.00	\$152.00
KWH Charge (cents/KWH)			
Standard	3.964	4.138	3.758
TOU			
On-peak	10.707	11.875	10.624
Off-peak	0.597	0.580	0.580
General Service Demand			
Customer Charge			
Standard			
Secondary	\$15.46	\$11.50	\$11.50
Primary	\$15.46	\$145.00	\$145.00
Transmission	\$720.00	\$720.00	\$720.00
TOU			
Secondary single phase			
Company owned	\$15.46	\$19.00	\$19.00
Customer owned	\$15.46	\$11.50	\$11.50
Primary (cust. own)	\$15.46	\$145.00	\$145.00
Primary (co. own)	\$19.98	\$152.00	\$152.00
KWH Charge			
Standard	1.307	1.702	1.544
TOU			
On-peak	1.396	4.396	4.289
Off-peak	0.595	0.580	0.580
KW Demand charge			
Standard	\$5.45	\$3.50	\$3.50
TOU			
On-peak	\$5.45	\$2.59	\$2.59
Maximum demand		\$0.91	\$0.91

RATE COMPARISON
1992

GS-2			
Customer Charge			
Metered	\$2.61	\$6.25	\$6.25
Unmetered	\$5.32	\$11.50	\$11.50
KWH Charge (cents/KWH)	3.003	2.150	1.517
Curtable			
Customer Charge			
Standard			
Secondary	\$152.49	\$210.00	\$76.50
Primary	\$152.49	\$210.00	\$210.00
Transmission	\$152.49	\$785.00	\$785.00
TOU			
Primary (co. own)	\$152.49	\$210.00	\$210.00
Transmission(co.own)	\$152.49	\$785.00	\$785.00
KWH Charge (cents/KWH)			
Standard	1.105	1.031	0.892
TOU			
On-peak	2.068	2.342	1.983
Off-peak	0.587	0.580	0.580
KW Demand charge			
Standard	\$5.45	\$5.53	\$5.53
TOU			
On-peak	\$5.45	\$5.14	\$5.14
Maximum demand	na	\$0.93	\$0.93
Curtable credit	\$1.91	\$2.33	\$2.33
Interruptible			
Customer Charge			
Standard			
Primary	\$413.91	\$415.00	\$415.00
Primary/Transmission	\$413.91	\$415.00	\$415.00
Transmission	\$413.91	\$990.00	\$990.00
TOU			
Primary	\$413.91	\$415.00	\$415.00
Primary/Transmission	\$413.91	\$415.00	\$415.00
Transmission	\$413.91	\$990.00	\$990.00
KWH Charge (cents/KWH)			
Standard	0.869	0.733	0.777
TOU			
On-peak	1.497	1.239	1.402
Off-peak	0.584	0.580	0.580
KW Demand charge			
Standard	\$1.09	\$5.14	\$5.14
TOU			
On-peak	\$1.09	\$4.51	\$4.51
Maximum demand		\$0.80	\$0.80
Credit per stipulation		\$3.37	\$3.37

RATE COMPARISON
April 1993

	<u>Current Rates</u>	<u>FPC Proposed</u>	<u>Staff Proposed</u>
Residential			
Customer charge			
Standard	\$5.32	\$8.85	\$8.85
TOU			
Company owned			
Customer owned	\$8.36	\$16.35	\$16.35
KWH Charge (Cents/KWH)	\$5.32	\$8.85	\$8.85
Standard			
TOU	3.964	4.154	3.813
On-peak			
Off-peak	11.118	11.926	10.744
	0.597	0.580	0.580
General Service			
Customer Charge			
Standard			
Secondary	\$5.32	\$11.70	\$11.70
Primary		\$148.00	\$148.00
Transmission		\$730.00	\$730.00
Unmetered		\$6.60	\$6.60
TOU	\$2.61		
Secondary single phase			
Company owned			
Customer owned	\$8.36	\$19.20	\$19.20
Secondary Three phase	\$5.32	\$11.70	\$11.70
Primary (cust. own)	\$9.83	\$25.20	\$25.20
Primary (co. own)	\$15.46	\$148.00	\$148.00
KWH Charge (cents/KWH)	\$19.98	\$155.00	\$155.00
Standard			
TOU	3.964	4.154	3.813
On-peak			
Off-peak	10.707	11.926	10.744
	0.597	0.580	0.580
General Service Demand			
Customer Charge			
Standard			
Secondary	\$15.46	\$11.70	\$11.70
Primary	\$15.46	\$148.00	\$148.00
Transmission		\$730.00	\$730.00
TOU			
Secondary single phase			
Company owned			
Customer owned	\$15.46	\$19.20	\$19.20
Primary (cust. own)	\$15.46	\$11.70	\$11.70
Primary (co. own)	\$15.46	\$148.00	\$148.00
KWH Charge (cents/KWH)	\$19.98	\$155.00	\$155.00
Standard			
TOU	1.307	1.702	1.571
On-peak			
Off-peak	1.396	4.396	4.355
KW Demand charge	0.595	0.580	0.580
Standard			
TOU	\$5.45	\$3.54	\$3.54
On-peak			
Maximum demand	\$5.45	\$2.63	\$2.63
		\$0.91	\$0.91

RATE COMPARISON
April 1993

GS-2			
Customer Charge			
Metered	\$2.61		
Unmetered	\$5.32	\$6.60	\$6.60
KWH Charge (cents/KWH)	3.003	\$11.70 2.150	\$11.70 1.519
Curtailable			
Customer Charge			
Standard			
Secondary			
Primary			
Transmission	\$152.49	\$213.00	\$213.50
TOU	\$152.49	\$213.00	\$213.00
Primary (co. own)	\$152.49	\$795.00	\$795.00
Transmission (co. own)			
KWH Charge (cents/KWH)	\$152.49	\$213.00	\$213.00
Standard	\$152.49	\$795.00	\$795.00
TOU			
On-peak	1.105	1.031	0.923
Off-peak			
KW Demand charge	2.068	2.342	2.008
Standard	0.587	0.580	0.580
TOU			
On-peak	\$5.45	\$5.87	\$5.87
Maximum demand	\$5.45	\$5.15	\$5.15
Curtailable credit	na	\$0.97	\$0.97
	\$1.91	\$2.33	\$2.33
Interruptible			
Customer Charge			
Standard			
Primary			
Primary/Transmission	\$413.91	\$418.00	\$418.00
Transmission	\$413.91	\$418.00	\$418.00
TOU	\$413.91	\$1000.00	\$1000.00
Primary			
Primary/Transmission	\$413.91	\$418.00	\$418.00
Transmission	\$413.91	\$418.00	\$418.00
KWH Charge (cents/KWH)	\$413.91	\$1000.00	\$1000.00
Standard			
TOU			
On-peak	0.869	0.733	0.655
Off-peak			
KW Demand charge	1.497	1.239	1.478
Standard	0.584	0.580	0.580
TOU			
On-peak	\$1.09	\$5.23	\$5.23
Maximum demand	\$1.09	\$4.53	\$4.53
Credit per stipulation		\$0.84	\$0.84
		\$3.37	\$3.37

RATE COMPARISON
November 1993

	<u>Current Rates</u>	<u>FPC Proposed</u>	<u>Staff Proposed</u>
Residential			
Customer charge			
Standard	\$5.32	\$8.85	\$8.85
TOU			
Company owned	\$8.36	\$16.35	\$16.35
Customer owned	\$5.32	\$8.85	\$8.85
KWH Charge (Cents/KWH)			
Standard	3.964	4.396	3.927
TOU			
On-peak	11.118	12.272	11.086
Off-peak	0.597	0.580	0.580
General Service			
Customer Charge			
Standard			
Secondary	\$5.32	\$11.70	\$11.70
Primary		\$148.00	\$148.00
Transmission		\$730.00	\$730.00
Unmetered	\$2.61	\$6.60	\$6.60
TOU			
Secondary single phase			
Company owned	\$8.36	\$19.20	\$19.20
Customer owned	\$5.32	\$11.70	\$11.70
Secondary Three phase	\$9.83	\$25.20	\$25.20
Primary (cust. own)	\$15.46	\$148.00	\$148.00
Primary (co. own)	\$19.98	\$155.00	\$155.00
KWH Charge (cents/KWH)			
Standard	3.964	4.396	3.927
TOU			
On-peak	10.707	12.272	11.086
Off-peak	0.597	0.580	0.580
General Service Demand			
Customer Charge			
Standard			
Secondary	\$15.46	\$11.70	\$11.70
Primary	\$15.46	\$148.00	\$148.00
Transmission		\$730.00	\$730.00
TOU			
Secondary single phase			
Company owned	\$15.46	\$19.20	\$19.20
Customer owned	\$15.46	\$11.70	\$11.70
Primary (cust. own)	\$15.46	\$148.00	\$148.00
Primary (co. own)	\$19.98	\$155.00	\$155.00
KWH Charge (cents/KWH)			
Standard	1.307	1.702	1.566
TOU			
On-peak	1.396	4.396	4.336
Off-peak	0.595	0.580	0.580
KW Demand charge			
Standard	\$5.45	\$3.80	\$3.80
TOU			
On-peak	\$5.45	\$2.81	\$2.81
Maximum demand		\$1.00	\$1.00

RATE COMPARISON
November 1993

GS-2			
Customer Charge			
Metered	\$2.61	\$6.60	\$6.60
Unmetered	\$5.32	\$11.70	\$11.70
KWH Charge (cents/KWH)	3.003	2.206	1.566
Curtaillable			
Customer Charge			
Standard			
Secondary	\$152.49	\$213.00	\$213.50
Primary	\$152.49	\$213.00	\$213.00
Transmission	\$152.49	\$795.00	\$795.00
TOU			
Primary (co. own)	\$152.49	\$213.00	\$213.00
Transmission(co.own)	\$152.49	\$795.00	\$795.00
KWH Charge (cents/KWH)			
Standard	1.105	1.031	0.916
TOU			
On-peak	2.068	2.342	2.096
Off-peak	0.587	0.580	0.580
KW Demand charge			
Standard	\$5.45	\$6.13	\$6.13
TOU			
On-peak	\$5.45	\$5.23	\$5.23
Maximum demand	na	\$0.97	\$0.97
Curtaillable credit	\$1.91	\$2.33	\$2.33
Interruptible			
Customer Charge			
Standard			
Primary	\$413.91	\$418.00	\$418.00
Primary/Transmission	\$413.91	\$418.00	\$418.00
Transmission	\$413.91	\$1000.00	\$1000.00
TOU			
Primary	\$413.91	\$418.00	\$418.00
Primary/Transmission	\$413.91	\$418.00	\$418.00
Transmission	\$413.91	\$1000.00	\$1000.00
KWH Charge (cents/KWH)			
Standard	0.869	0.733	0.709
TOU			
On-peak	1.497	1.239	1.642
Off-peak	0.584	0.580	0.580
KW Demand charge			
Standard	\$1.09	\$5.23	\$5.23
TOU			
On-peak	\$1.09	\$4.53	\$4.53
Maximum demand		\$0.84	\$0.84
Credit per stipulation		\$3.37	\$3.37

**FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1992 STAFF RECOMMENDED CHARGES**

Schedule 15
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NON-FUEL ENERGY CHARGE: **\$0.01640 PER KWH**

CUSTOMER CHARGES

UNMETERED **\$1.13 PER LINE OF BILLING**
METERED: **\$3.38 PER LINE OF BILLING**

MONTHLY FIXED CARRYING CHARGES

FIXTURES: **1.67% OF INSTALLED COST**
POLES AND OTHER DIST. EQUIP.: **1.57% OF INSTALLED COST**

BILLING NO.	TYPE OF FACILITY	LUMENS	EST. KWH	FIXTURE CHARGE	MAINT. CHARGE	ENERGY CHARGE	TOTAL CHARGE
<u>INCANDESCENT</u>							
110	ROADWAY	1,000	32	\$1.01	\$3.29	\$0.52	\$4.82
115	ROADWAY	2,500	66	\$1.58	\$3.33	\$1.08	\$5.99
<u>MERCURY VAPOR</u>							
205	OPEN BOTTOM	4,000	44	\$2.50	\$0.93	\$0.72	\$4.15
210	ROADWAY	4,000	44	\$2.90	\$0.93	\$0.72	\$4.55
215	POST TOP	4,000	44	\$3.41	\$0.93	\$0.72	\$5.06
220	ROADWAY	8,000	71	\$3.28	\$0.92	\$1.16	\$5.36
235	ROADWAY	21,000	158	\$3.96	\$0.95	\$2.59	\$7.50
240	ROADWAY	62,000	386	\$5.20	\$1.10	\$6.33	\$12.63
245	FLOOD	21,000	158	\$5.20	\$0.95	\$2.59	\$8.74
250	FLOOD	62,000	386	\$6.08	\$1.10	\$6.33	\$13.51
<u>SODIUM VAPOR</u>							
305	OPEN BOTTOM	4,000	21	\$2.26	\$1.28	\$0.34	\$3.88
310	ROADWAY	4,000	21	\$2.75	\$1.28	\$0.34	\$4.37
315	P.T. COL/CONT'P	4,000	21	\$4.07	\$1.28	\$0.34	\$5.69
320	ROADWAY	9,500	42	\$2.76	\$1.28	\$0.69	\$4.73
325	ROADWAY	16,000	65	\$2.94	\$1.30	\$1.07	\$5.31
330	ROADWAY	22,000	87	\$3.23	\$1.32	\$1.43	\$5.98
335	ROADWAY	27,500	104	\$3.22	\$1.32	\$1.71	\$6.25
340	ROADWAY	50,000	169	\$3.84	\$1.33	\$2.77	\$7.94
345	FLOOD	27,500	103	\$4.13	\$1.32	\$1.69	\$7.14
350	FLOOD	50,000	170	\$4.29	\$1.33	\$2.79	\$8.41
360	DECO ROADWAY RECT.	9,500	47	\$9.30	\$1.28	\$0.77	\$11.35
365	DECO ROADWAY RECT.	27,500	108	\$9.30	\$1.32	\$1.77	\$12.39
370	DECO ROADWAY RND.	27,500	108	\$11.44	\$1.32	\$1.77	\$14.53
375	DECO ROADWAY RND.	50,000	168	\$11.46	\$1.33	\$2.76	\$15.55
380	DECO P.T. ACORN	9,500	49	\$6.52	\$1.28	\$0.80	\$8.60
385	DECO P.T. SALEM	9,500	49	\$6.15	\$1.28	\$0.80	\$8.23

**FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1992 STAFF RECOMMENDED CHARGES**

Schedule 15
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POLES

DESCRIPTION	MONTHLY CHARGE
425 Wood, 14' Laminated	\$1.56
420 Wood, 30/35'	\$1.56
480 Wood, 40/45'	\$3.38
415 Concrete, Curved	\$4.17
450 Concrete, 1/2 Special	\$1.56
410 Concrete, 15'	\$2.05
405 Concrete, 30/35'	\$3.10
485 Concrete, 40/45'	\$8.33
435 Aluminum, Type A	\$5.75
440 Aluminum, Type B	\$6.39
445 Aluminum, Type C	\$12.44
455 Steel, Type A	\$3.61
460 Steel, Type B	\$3.86
465 Steel, Type C	\$5.38
430 Fiberglass, 14' Black	\$1.56
437 Fiberglass, 16' Black, Fluted, Dual Mount	\$18.98
449 Deco Fiberglass, 16' Black, Fluted, AB	\$15.00
436 Deco Fiberglass, 16' Black, Fluted	\$16.86
438 Deco Fiberglass, 20' Black	\$5.06
434 Deco Fiberglass, 20' Black, Deco Base	\$10.59
446 Deco Fiberglass, 35' Bronze	\$10.00
433 Deco Fiberglass, 35' Bronze	\$9.61
432 Deco Fiberglass, 35' Bronze, Anchor Base	\$23.69
428 Deco Fiberglass, 35' Bronze, Reinforced	\$16.52
447 Deco Fiberglass, 35' Silver, Anchor Base	\$18.51
431 Deco Fiberglass, 40' Bronze	\$12.93
429 Deco Fiberglass, 40' Bronze, Reinforced	\$18.94
448 Deco Fiberglass, 41' Silver, Anchor Base	\$15.55

FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1993 FIRST STEP STAFF RECOMMENDED CHARGES

Schedule 15
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NON-FUEL ENERGY CHARGE: **\$0.01653 PER KWH**

CUSTOMER CHARGES

UNMETERED

\$1.20 PER LINE OF BILLING

METERED:

\$3.45 PER LINE OF BILLING

MONTHLY FIXED CARRYING CHARGES

FIXTURES:

1.67% OF INSTALLED COST

POLES AND OTHER DIST. EQUIP.:

1.59% OF INSTALLED COST

BILLING NO.	TYPE OF FACILITY	LUMENS	EST. KWH	FIXTURE CHARGE	MAINT. CHARGE	ENERGY CHARGE	TOTAL CHARGE
INCANDESCENT							
	110 ROADWAY	1,000	32	\$0.89	\$3.29	\$0.53	\$4.71
	115 ROADWAY	2,500	66	\$1.40	\$3.33	\$1.09	\$5.82
MERCURY VAPOR							
	205 OPEN BOTTOM	4,000	44	\$2.21	\$0.93	\$0.73	\$3.87
	210 ROADWAY	4,000	44	\$2.56	\$0.93	\$0.73	\$4.22
	215 POST TOP	4,000	44	\$3.01	\$0.93	\$0.73	\$4.67
	220 ROADWAY	8,000	71	\$2.90	\$0.92	\$1.17	\$4.99
	235 ROADWAY	21,000	158	\$3.50	\$0.95	\$2.61	\$7.06
	240 ROADWAY	62,000	386	\$4.60	\$1.10	\$6.38	\$12.08
	245 FLOOD	21,000	158	\$4.60	\$0.95	\$2.61	\$8.16
	250 FLOOD	62,000	386	\$5.37	\$1.10	\$6.38	\$12.85
SODIUM VAPOR							
	305 OPEN BOTTOM	4,000	21	\$2.00	\$1.28	\$0.35	\$3.63
	310 ROADWAY	4,000	21	\$2.43	\$1.28	\$0.35	\$4.06
	315 P.T. COL/CONTP	4,000	21	\$3.60	\$1.28	\$0.35	\$5.23
	320 ROADWAY	9,500	42	\$2.44	\$1.28	\$0.69	\$4.41
	325 ROADWAY	16,000	65	\$2.60	\$1.30	\$1.07	\$4.97
	330 ROADWAY	22,000	87	\$2.86	\$1.32	\$1.44	\$5.62
	335 ROADWAY	27,500	104	\$2.85	\$1.32	\$1.72	\$5.89
	340 ROADWAY	50,000	169	\$3.39	\$1.33	\$2.79	\$7.51
	345 FLOOD	27,500	103	\$3.65	\$1.32	\$1.70	\$6.67
	350 FLOOD	50,000	170	\$3.79	\$1.33	\$2.81	\$7.93
	360 DECO ROADWAY RECT.	9,500	47	\$8.22	\$1.28	\$0.78	\$10.28
	365 DECO ROADWAY RECT.	27,500	108	\$8.22	\$1.32	\$1.79	\$11.33
	370 DECO ROADWAY RND.	27,500	108	\$10.11	\$1.32	\$1.79	\$13.22
	375 DECO ROADWAY RND.	50,000	168	\$10.13	\$1.33	\$2.78	\$14.24
	380 DECO P.T. ACORN	9,500	49	\$5.76	\$1.28	\$0.81	\$7.85
	385 DECO P.T. SALEM	9,500	49	\$5.44	\$1.28	\$0.81	\$7.53

FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1993 FIRST STEP STAFF RECOMMENDED CHARGES

Schedule 15
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POLES

DESCRIPTION	MONTHLY CHARGE
425 Wood, 14' Laminated	\$1.63
420 Wood, 30/35'	\$1.63
480 Wood, 40/45'	\$3.54
415 Concrete, Curved	\$4.37
450 Concrete, 1/2 Special	\$1.63
410 Concrete, 15'	\$2.15
405 Concrete, 30/35'	\$3.25
485 Concrete, 40/45'	\$8.73
435 Aluminum, Type A	\$6.02
440 Aluminum, Type B	\$6.69
445 Aluminum, Type C	\$13.03
455 Steel, Type A	\$3.78
460 Steel, Type B	\$4.04
465 Steel, Type C	\$5.64
430 Fiberglass, 14' Black	\$1.63
437 Fiberglass, 16' Black, Fluted, Dual Mount	\$19.89
449 Deco Fiberglass, 16' Black, Fluted, AB	\$15.72
436 Deco Fiberglass, 16' Black, Fluted	\$17.66
438 Deco Fiberglass, 20' Black	\$5.30
434 Deco Fiberglass, 20' Black, Deco Base	\$11.10
446 Deco Fiberglass, 35' Bronze	\$10.48
433 Deco Fiberglass, 35' Bronze	\$10.07
432 Deco Fiberglass, 35' Bronze, Anchor Base	\$24.82
428 Deco Fiberglass, 35' Bronze, Reinforced	\$17.31
447 Deco Fiberglass, 35' Silver, Anchor Base	\$19.39
431 Deco Fiberglass, 40' Bronze	\$13.55
429 Deco Fiberglass, 40' Bronze, Reinforced	\$19.84
448 Deco Fiberglass, 41' Silver, Anchor Base	\$16.29

**FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1993 FINAL STAFF RECOMMENDED CHARGES**

Schedule 15
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NON-FUEL ENERGY CHARGE: **\$0.01675 PER KWH**

CUSTOMER CHARGES

UNMETERED **\$1.20 PER LINE OF BILLING**
METERED: **\$3.45 PER LINE OF BILLING**

MONTHLY FIXED CARRYING CHARGES

FIXTURES: **1.67% OF INSTALLED COST**
POLES AND OTHER DIST. EQUIP.: **1.57% OF INSTALLED COST**

BILLING NO.	TYPE OF FACILITY	LUMENS	EST. KWH	FIXTURE CHARGE	MAINT. CHARGE	ENERGY CHARGE	TOTAL CHARGE
<u>INCANDESCENT</u>							
110	ROADWAY	1,000	32	\$0.87	\$3.29	\$0.54	\$4.70
115	ROADWAY	2,500	66	\$1.36	\$3.33	\$1.11	\$5.80
<u>MERCURY VAPOR</u>							
205	OPEN BOTTOM	4,000	44	\$2.15	\$0.93	\$0.74	\$3.82
210	ROADWAY	4,000	44	\$2.49	\$0.93	\$0.74	\$4.16
215	POST TOP	4,000	44	\$2.93	\$0.93	\$0.74	\$4.60
220	ROADWAY	8,000	71	\$2.82	\$0.92	\$1.19	\$4.93
235	ROADWAY	21,000	158	\$3.41	\$0.95	\$2.65	\$7.01
240	ROADWAY	62,000	386	\$4.48	\$1.10	\$6.47	\$12.05
245	FLOOD	21,000	158	\$4.48	\$0.95	\$2.65	\$8.08
250	FLOOD	62,000	386	\$5.23	\$1.10	\$6.47	\$12.80
<u>SODIUM VAPOR</u>							
305	OPEN BOTTOM	4,000	21	\$1.95	\$1.28	\$0.35	\$3.58
310	ROADWAY	4,000	21	\$2.37	\$1.28	\$0.35	\$4.00
315	P.T. COL/CONTP	4,000	21	\$3.50	\$1.28	\$0.35	\$5.13
320	ROADWAY	9,500	42	\$2.38	\$1.28	\$0.70	\$4.36
325	ROADWAY	16,000	65	\$2.53	\$1.30	\$1.09	\$4.92
330	ROADWAY	22,000	87	\$2.78	\$1.32	\$1.46	\$5.56
335	ROADWAY	27,500	104	\$2.77	\$1.32	\$1.74	\$5.83
340	ROADWAY	50,000	169	\$3.30	\$1.33	\$2.83	\$7.46
345	FLOOD	27,500	103	\$3.55	\$1.32	\$1.73	\$6.60
350	FLOOD	50,000	170	\$3.69	\$1.33	\$2.85	\$7.87
360	DECO ROADWAY RECT.	9,500	47	\$8.00	\$1.28	\$0.79	\$10.07
365	DECO ROADWAY RECT.	27,500	108	\$8.00	\$1.32	\$1.81	\$11.13
370	DECO ROADWAY RND.	27,500	108	\$9.84	\$1.32	\$1.81	\$12.97
375	DECO ROADWAY RND.	50,000	168	\$9.86	\$1.33	\$2.81	\$14.00
380	DECO P.T. ACORN	9,500	49	\$5.61	\$1.28	\$0.82	\$7.71
385	DECO P.T. SALEM	9,500	49	\$5.30	\$1.28	\$0.82	\$7.40

**FLORIDA POWER CORPORATION
RATE SCHEDULE LS-1 LIGHTING SERVICE
1993 FINAL STAFF RECOMMENDED CHARGES**

Schedule 15
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